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Reference: A New Tax System (Luxury Car Tax Imposition—Customs) Amendment Bill 2008; A New Tax System (Luxury Car Tax Imposition—Excise) Amendment Bill 2008; A New Tax System (Luxury Car Tax Imposition—General) Amendment Bill 2008; Tax Laws Amendment (Luxury Car Tax) Bill 2008

THURSDAY, 31 JULY 2008

SYDNEY

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**SENATE STANDING COMMITTEE ON
ECONOMICS**

Thursday, 31 July 2008

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Bushby, Cameron, Furner, Joyce and Pratt

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Heffernan, Hogg, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Abetz, Mark Bishop, Bushby, Cameron, Eggleston, Hurley and Joyce

Terms of reference for the inquiry:

To inquire into and report on:

- A New Tax System (Luxury Car Tax Imposition—Customs) Amendment Bill 2008;
- A New Tax System (Luxury Car Tax Imposition—Excise) Amendment Bill 2008;
- A New Tax System (Luxury Car Tax Imposition—General) Amendment Bill 2008;
- Tax Laws Amendment (Luxury Car Tax) Bill 2008

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Committee met at 8.59 am**BRINCK, Mr Allan, Dealer Principal, Audi Retail Operations****BURGDORF, Miss Anna, General Manager, Corporate Communications, Audi Australia****HOFMANN, Mr Joerg, Managing Director, Audi Australia****SOULAKELLIS, Mrs Rhonda, General Manager, Finance and Distribution, Audi Australia**

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics Inquiry into the Tax Laws Amendment (Luxury Car Tax) Bill 2008. On 18 June 2008 the Senate referred the bill to this committee for report not before 26 August 2008. This bill amends the luxury car tax legislation to increase the luxury car tax rate from 25 per cent to 33 per cent from 1 July 2008. The inquiry will examine the incidence of the luxury car tax and the effect of the proposed increase in the LCT rate on rural and regional communities, small business, families and tourism operators and the effect of the LCT increase on the price of vehicles, the affordability of motor vehicles, the cost of living and the consumer price index and other matters.

This is the second public hearing for this inquiry. These are public proceedings although the committee may request to have evidence in-camera or may determine that certain evidence should be heard in-camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist upon an answer having regard to the ground which is claimed. If the committee determines to insist upon an answer, a witness may request that the answer be given in-camera, such a request may, of course, also be made at any other time. A witness called to answer a question for the first time should state their full name and the capacity in which they appear. Witnesses should speak clearly and into the microphones to assist Hansard to record proceedings. Mobile phones should be switched off. I welcome Mr Joerg Hofman, managing director of Audi Australia. Mr Hofman, do you wish to make an opening statement?

Mr Hofmann—Yes. Thank you for the opportunity to present to the committee today. I have been in Australia now for almost four years and am enjoying living here and running this exciting business. I can also say the country has had a big impact on my family already; our first boy was born in Sydney two years ago and the second boy is on the way and should arrive within the next two to three days.

Senator Abetz interjecting—

Mr Hofmann—No, I was excluded, but I think it is an enjoyable time. We have prepared a paper copy which everybody should have in front of them. I understand the format is that I give you a short introduction and then I may refer to your questions and to charts. Audi is a brand with a history of more than 100 years. It is a German based brand; our head office is in a town called Ingolstadt, south of Munich. Audi is based in Germany but it is a global company operating in more than 100 countries. We employ something like 56,000 people all over the world. The company is active and has operators in 105 countries all over the world. We call ourselves and certainly see ourselves as a manufacturer of premium vehicles.

Audi Australia is a fully owned subsidiary of our German head office; 100 per cent of the shares owned by our parent company in Germany. My company directly employs 100 people at the head office in Sydney and a bit more than 1,000 employees in our dealer network all over Australia. We have 30 dealers in every state and this contributes to the 1,000 employees in the dealer network. Let me also point out that Audi Australia is a very true and serious corporate citizen. Basically all of my staff is Australian; I am one of two Germans in the company. Of the 1,100 staff, 96 per cent are Australian and there is a number of staff from other nationalities.

As a good corporate citizen we also see it as being important that we contribute to social welfare and institutions in Australia. We are the major sponsor of the Sydney Theatre Company so culture is extremely important for Audi. We are a major sponsor of charity; we are the main sponsor of the National Breast Cancer Foundation, the Starlight Children's Foundation Australia and, with me being a member of the Rotary Club of Sydney, we are also engaged in a lot of charity work through various Rotary clubs all over Australia.

Our company invests heavily in Australia and we are extremely successful, as you can see in the presentation. We have been able to double our sales volume over the last three to four years since I came on board and this is based on a clear long-term commitment from Audi to Australia. We are planning to invest

\$50 million in a new corporate headquarters here in Sydney on South Dowling Street. This construction called Victoria Park is on the way to the airport. This is where we plan to open our new \$50 million national head office investment. It is the biggest, single overseas investment from our company anywhere in the world, which shows how important Audi considers the Australian market.

Audi Australia is investing about \$40 million annually in marketing and sponsorship activities and the company pays in the region of \$15 million in salaries and administration every year. I believe these numbers show that we are a serious player and contributor to the Australian economy. On top of that, our network is also investing. We have planned dealer investments of almost \$120 million by 2010. The plan over the next three years is for our whole dealer network to be completely rebuilt for the growth that we are planning. In order to cope with this growth we are planning to hire another 280 employees.

My message to you, dear Senators, is our company takes Australia extremely seriously. We are very committed and would be more than happy to keep our commitment to Australia.

We are very concerned about the proposed luxury car tax increase. We believe it will certainly have four major negative impacts. We believe it will have a negative impact on the economy; it will have a negative impact on environmental and safety issues and even on innovation. After the news about the proposed luxury car tax increase was announced, there was huge uncertainty in the market. You will see at the end of this month that it was maybe one of the worst months in the automotive industry in Australia. We expect there will be a loss, compared to previous months, of minus 25 per cent. If you look at this month's result, which we expect to receive by the end of today, and compare it with previous months, we expect it to be down by about 25 per cent. Speaking to our competitors and other automotive companies, some of them expect to be minus 40 per cent and others are even talking about minus 70 per cent. We will see the final numbers tonight but we can all expect this to be one of the worst sales months in the automotive industry so far.

This is of course concerning, especially to a brand like Audi which wants to invest in Australia, as 73 per cent of our cars are above the current luxury car tax threshold of \$57,180. We did some calculations on what the long-term impact might be. We do not assume a 25 per cent decrease over the next couple of years but we believe, based upon our internal assumptions of price elasticity, that we will have a 20 per cent drop of cars above the luxury car threshold. Based on our volume assumptions long term, this means we would lose about 6,695 cars, which will certainly have a big impact. We have done calculations on the amount of money the government will miss out on due to that volume reduction. Taking into account a 20 per cent loss just from Audi, we believe over the next four years this tax will mean that the government will receive \$123.8 million less in tax income from GST, LCT and stamp duty, and this is just from Audi. I can assure you that the impact of the other brands may be even bigger and this will definitely result in big tax losses for the government.

On the other hand I have to state very clearly that it will have a big impact on my company. Based on the anticipated volume loss, we believe our company will lose about \$120 million profit and of course, being an economic thinking person, if you lose \$120 million from your profit, this will have an impact. Already I am preparing for questions from my head office on the justification of a \$50 million head office in Australia and a \$120 million dealer investment if there is going to be a reduction of \$127 million in expected profit over the next four years. These are numbers we have to run over the next weeks and months and then we will have to see the exact impact of these on our planned investment.

I can already make the point clearly now if this tendency gets confirmed, certainly we may have to revise our investment plans with negative consequences on the additional jobs we are planning to create and on the construction industry because we certainly wanted to keep a few people busy in the construction industry. There will certainly be a lot of negative impacts which clearly I want to point out.

On the other hand, we also believe it will have a negative impact on the environment. Over the last 30 years, Audi as a company has considered itself to be a leader in green technology. We know that the government has a strong green agenda, which we appreciate and we believe this will cause it to go in the wrong direction. Green technology is very expensive to produce. We spend a lot of money on engineering, research and development into clean technology. Clean technology is more expensive than more fuel consumption or less advanced technology. For example, Audi has developed a turbo diesel engine; we are the inventor of a concept called Audi Space Frame, which certainly leads to fuel consumption savings. You may find it interesting to know that in 1990, Audi was the first company ever to produce a working hybrid. We had the first hybrid in the world but as we did not believe too much in the concept and there was no demand for it at that time, we walked away from it. The point I really want to make is that we invest a lot of money in environmentally friendly technology and most of these products will be above the current LCT threshold. We

believe that some people may not be either able or willing to spend the money in the future on this green technology. The long impact will be that Australia, unfortunately, may not get the latest green and environmentally friendly technology.

The same thing applies to safety; all Audi cars have electronic stability control and eight airbags as a standard. These are features which we believe have to be standard for a premium brand. But, if a price sensitive market reacts to a luxury car tax increase, we will have to consider what we do. We expect that customers will not order things like a rear view camera on an SUV any more. Audi itself may decide not to offer eight airbags any more but only offer four in order to bring the price down below the luxury car tax threshold. These are all serious implications which we certainly do not want. But, we have to react to the market. If the market forces us to be more price sensitive, we will certainly need effort to fall below the current proposed threshold.

Let me also point out another concern that we have which is, as I think you are well aware, the aging car fleet in Australia. Your country has one of the oldest car fleets in the western world and this can be seen every day on the road. It based on facts: 40 per cent of the cars on Australian streets are between 11 and 20 years old. This is a really old car fleet. The total car fleet in Australia is 13 millions cars on the road and 5.5 per cent of them are older than 11 years with some up to 20 years. None of these cars have environmentally friendly technology involved. None of these cars have eight airbags, electronic stability control nor the latest assistance systems on board, and this is a big concern. By pushing the luxury car tax even higher people will not be encouraged to invest in new environmentally friendly and safe cars.

In conclusion, dear Senators, we would ask you to consider our following recommendations. Our first recommendation would be to remove the luxury car tax completely. We believe a country which is competing in a global environment should not have a luxury car tax. It is a very unique thing globally; Australia is one of very few countries in the world which has something like the luxury car tax. We believe the definition of a luxury car is not relevant any more and it has not been updated enough over past years. A car costing above \$57,180 is certainly not a luxury car any more these days. On top of that, we believe it is really unfair that it seems that the automobile industry is the only major goods in Australia which is taxed at that level. We did some calculations which show that the total taxes—LCT, stamp duty, import tax of 10 per cent and GST of 10 per cent—adds 25 to 30 per cent to the price of an average Audi car. My message to Australian consumers is that if the tax were not that high you could buy the latest German Audi technology for 30 per cent less. Unfortunately the car is taxed more than any other goods and we believe it is unfair and is not supporting a society that is heavily dependent on transportation. You know better than anyone else that Australia has rural areas and farms and people have to commute and rely on their car. Coming from a European country, I cannot really understand why automobiles are taxed so high. We would suggest removing the LCT completely.

Our second recommendation would be to at least increase the luxury car tax threshold. As pointed out very clearly in the previous hearing, a threshold of \$57,180 definitely no longer follows the development of the price of cars over the last 20 to 30 years. Andrew McKellar, chief executive of the Federal Chamber of Automotive Industries, made all those statements about CPI and the AWE concept. Certainly we believe in applying the AWE indexation and to increase the threshold at least to \$95,500 as being more appropriate today for a so-called luxury car.

The other alternative would be to maintain the current legislation. As I pointed out, we believe the impact for the government will be very negative and therefore keeping the current legislation of 25 per cent would be another option.

I would like to point out two more options before I conclude my opening statement. We are very concerned about the retrospective proposal which has been discussed. This is hurting the industry and I believe a lot of the uncertainty in the market is derived from that statement. People do not know how to deal with such a threat. We have a representative of our dealer network here, Allan Brinck, who is a dealer principal from the Audi Centre in Sydney. He can give you information on customer response. Customers are feeling extremely insecure and uncertain at the moment. Speaking to Allan and the other 30 dealers around the country, they do not know what to do. The dealer is obliged to collect the tax from the customer and pass it on to the tax office. But, if you speak to a customer, and our customers are normally well educated, they all know that the current legislation is 25 per cent. We say to them, 'Hey, you have to pay me eight per cent more. I will put it in a fund if you want, and if the legislation doesn't happen I will refund it to you.' Ladies and gentlemen, I have some big difficulties with that argument. It is operationally unworkable. Let me make a few points. First of all, the customer is unwilling to pay because the law is 25 per cent and even I would not pay another eight per cent,

just in case, and people will not do it. If you pay it into a fund, how do you handle the interest rates? What do you do? If later on the law gets changed and legislation is different, what do I do? Who keeps the interest rates, the dealer, do you pass it on to the tax office or do you give it back to the customer? That is one question. Secondly, what happens if the final legislation comes in and we have to change all lease and finance contracts, and 90 per cent of our cars are leased or financed? I am not sure if anybody has ever considered the operational implications. I really would encourage you and the government to carry out consultation with the industry before putting forward these kinds of proposals, it really hurts. What we are suggesting is that, at the very least, if the tax is decided in a certain way sooner or later and finally we have a legal basis and legislation for our actions, it should be prospective not retrospective so that it does not penalise and hurt customers who have already bought a car. Physically it is not possible for you, Allan, to handle reimbursement and the transfer of money for a couple of hundred customers within two months. This will not work.

Finally, ladies and gentlemen, a big concern for us is really the price protection of existing orders. This is another matter where we would have greatly appreciated it if the government had consulted with the industry. I read it in Andrew McKellar's statement and he is exactly right that buying an automobile is different from buying a carton of milk or a can of soup. Our cars are ordered nine months in advance. Some of our customers even order their cars 12 months in advance. You place an order at the end of last year, you enter into a contract which is a legally binding document and all of a sudden, the tax is increased, so what should we do? That person bought a car with a certain price assumption and all of a sudden Allan and the dealers have to go back and say, 'Now, Mr Miller, it is now eight per cent more expensive and you have to give me more money.'

This is having a disastrous impact. Already people are trying to walk away from their deposit, they are asking, 'Can I get my money back? I cannot pay another eight per cent.' This is having a disastrous impact and is leading to bad results in the automobile industry in the next couple of months. We would request and ask you, senators, to reconsider this proposal and at least make massive modifications to the proposed law. The way it is suggested that it will work at the moment will have serious implications and I am afraid that our company, Audi, may have to reconsider certain investments that we are planning to put into Australia. Thank you.

CHAIR—Thank you, Mr Hofmann. Questions, Senator Abetz?

Senator ABETZ—Thank you, Chair. Thank you very much for the presentation. I have a number of questions. First of all, with the innovation, Audi is recognised as an innovative car company. I was reading the Qantas in-flight magazine as one does on a regular basis. I usually do not get past the front cover and that is all I had to do for this as there was an Audi advertisement in the July edition. It tells us about such things as Audi side assist blind spot illumination and Audi adaptive cruise control. Then we are told further down the page that it comes at cost of \$1,250 extra and the cruise control at \$2,600 extra. Those optional extras would also be subjected to the luxury car tax. Those things that actually add to the safety of a motor vehicle which are very innovative would they be subject to the tax?

Mr Hofmann—That is very true, Senator Abetz. The options that you mentioned are, we believe, key options. Remember you all go on a motorway once in a while and you try to change lanes, you look at the rear view mirror, you do not see anything but there is a car in the blind spot which you cannot see. You just change lanes and you almost create an accident. We know that many accidents on Australian roads are caused exactly by such incidents. What we offer here as an option in side assist is exactly that; you have sensors which are checking the blind spot. If you have a car in the blind spot which you cannot see in the mirror, an indicator starts flashing and there is even a sound which means you cannot miss something in your blind spot. This is superior technology and of course all accessories will be taxed with a further eight per cent, of course.

Senator ABETZ—This is really about safety and avoiding accidents not only for the Audi consumer but also the person that is next to the Audi consumer on Australian roads. This initiative by the government will be adding an extra tax burden on such a road safety feature.

Mr Hofmann—This can be confirmed 100 per cent. Further, technology like side assistance and adaptive cruise control which is now available in Audi, Mercedes Benz or BMW, will take about five years to work into a Holden Commodore or Ford Falcon. The way it works is premium companies or leading technology brands have the innovation, they implement it but sooner or later it will be distributed and put into every car. Technology gets cheaper and people start copying it in a couple of years once the patent has ceased. Remember, twenty years ago an airbag was an exclusive feature in so-called luxury cars, now they are everywhere and Audi has eight airbags. If we penalise these technologies now this will lead to the slow down of their distribution. We are happy to introduce it now and sooner or later, hopefully, it will be available even

in the volume segment. If people do not order it now, we may not even bring it to Australia any more. These are things which certainly will make Australia fall behind.

Senator ABETZ—Just to be clear on the tariff, that is applied before the luxury car tax is applied?

Mr Hofmann—Yes.

Senator ABETZ—In general terms, if I were to buy a motor vehicle from overseas for about \$52,000 then it would be subjected to a 10 per cent tariff.

Mr Hofmann—A hundred per cent.

Senator ABETZ—Which would then just push it over and then make it subject to the luxury car tax as well?

Mr Hofmann—This is 100 per cent correct.

Senator ABETZ—First of all before I go to the dealers, can I ask you, Mr Hofmann, do Audis retail for the same price all around Australia or is there an extra delivery charge to different parts of Australia?

Mr Hofmann—First of all we have a recommended retail price, but of course there are delivery charges which vary from state to state. To more clearly answer your question, Senator Abetz, if I may refer you to page 24 in our presentation. This outlines in black and white the best way to answer your question. It really shows how cars are taxed and what the tax burden is on the car. As I told you before, an Audi A6 could be 27 per cent cheaper if all the taxes did not apply. It starts with five or 10 per cent import duties, then there is 10 per cent GST and 25 per cent LCT, hopefully there will not now be another eight per cent. Then there is stamp duty which varies from state to state, so it is a huge burden.

Senator ABETZ—The point I am trying to explore with you is this: let us say a ship arrives in Sydney with all the Audis on it, by the time the Audi gets delivered to my home city of Hobart, one would imagine it might cost more in Hobart because of the delivery costs. I am just wondering if that is the case or not or is it the same price all around Australia?

Mr Hofmann—No, we have a recommended retail price and there are logistics charges. Certainly you do not have to pay—

Senator ABETZ—But they are absorbed?

Mr Hofmann—You do not have to pay more in Tasmania, that would not be fair.

Senator ABETZ—All right, well that obviates that line of questions. It is good to hear that people in Hobart can buy an Audi for exactly the same price as people in Sydney. Can I then move onto the dealerships, Mr Brinck. First of all, I acknowledge that Audi kindly has agreed to absorb any increase in the luxury car tax that might apply up until I think 26 August 2008. You refer to this senate committee in your advertisements, so it is nice to get that recognition. What do you do though on your stamp duty declarations and sales figures for the state governments around the country? Are you selling your vehicles at a price plus the 25 per cent luxury car tax or are you declaring 33 per cent luxury car tax, because that will impact on the amount of stamp duty you pay? Have you had any legal advice as to what you should be doing?

Mr Brink—I am Allan Brinck, dealer principal of Audi Centre, Sydney. Audi have made the decision that they will absorb the tax, at this stage, and pay it on behalf of the dealerships but it has created a lot of confusion in how to properly manage the process. If we were to say to a customer on the showroom floor, 'We are going to collect the tax from you,' and if it comes through, as Joerg has already spoken about, how you collect that extra tax, how do you justify it? Because a customer is going to say, 'Look, I'm not willing to pay that.' If the tax does come through we then have to account for it. The luxury car tax affects the price of stamp duty so the stamp duty is going to have to go up and we will have to re-issue registration papers. If you speak to the RTA, they cannot give you a straight answer as to whether the car needs to go and get a blue slip again or whether they can just re-do the registration papers. Finance contracts will have to be re-done as well as the deal contracts. Everything has to be re-done because in five years time if we are hauled up in front of someone we have to have the correct paperwork. It has also put in jeopardy our order bank. We currently have an order bank of about 120 cars that are coming over the next few months and people are phoning every day saying, 'What's going to happen? What's going to happen?'

Senator ABETZ—Given Mr Hofmann's evidence that people order about nine to 12 months in advance, that applies to people possibly who have ordered a motor vehicle let us say on 1 July 2007, thinking that all the

figures were clear in their mind. Then when they get their car about 12 months later, they are subjected to an extra eight per cent luxury car tax?

Mr Brink—That is correct.

Senator EGGLESTON—Mr Brinck, I would just like to ask you some questions also.

Mr Brink—Certainly.

Senator EGGLESTON—It seems to me one of the secondary impacts of this tax may be that you in the industry would need less people to (a) sell cars and (b) service cars. Would you like to comment on that; if in fact you have fewer cars is there going to be a secondary effect on employment and servicing?

Mr Brink—If it results in a downturn in sales, which we have certainly seen in July and that continues, then, yes we will downsize. Audi Australia took over Audi Centre Sydney on 1 January 2008 so we have owned that facility for six months now. In that six months we have increased the staff by I would say ten extra people. We have also grown in the area by 65 per cent I think it is in new car sales. Now, if we start to go back then we are going to have to let all those people go.

Senator EGGLESTON—Sixty-five per cent, that is a big percentage.

Mr Brink—Yes.

Senator EGGLESTON—Sorry to interrupt you.

Mr Brink—No, that is all right. It also jeopardises our plans for the future for this new facility that we are building around the corner. It is an eight-level dealership and head office and we are going to be employing a lot of people in that facility. We have plans to sell 1,500 new cars a year in 2015. If this comes out, then we are going to have some serious problems.

Senator EGGLESTON—Yes, justifying that. Thank you very much, Mr Brinck. Going back to you, Mr Hofmann, I would just like to ask you about some international comparisons. Are there other countries that have a luxury car tax, Germany, for example?

Mr Hofmann—No, certainly not, Senator Eggleston. I may not be entitled to speak about the rest of the world, but our head office did some research and we are not aware of a luxury car tax in any European country. In a global market, the overwhelming element of the industry is that it has to be competitive. Bringing up new trade barriers instead of just encouraging free trade may be risky.

Senator EGGLESTON—That last point is something which I think is quite interesting. I notice that in *The Sydney Morning Herald* on 20 May 2008, there was an article by Mark Davis, political correspondent. He raised the question of whether this car tax is really, 'a discriminatory, non-tariff trade barrier which delivered disguised assistance to Australian car makers.' Would that be a view generally held in the European Union?

Mr Hofmann—We had some consultations with our so-called political department back in the head office and with our European Union representative. It is certainly a strong opinion in that direction. I am not a politician; I am a business manager and that is good, but I certainly believe you could interpret it in that way. There are few things in Australia, let me say, which are pretty unusual. A 10 per cent car import tax is quite unusual; I personally believe it is discriminatory. All the other taxes that you put on top of this are pretty unique in the world. I would rather you try to strengthen the local industry by making them really competitive against the rest of the world and not protect them with hundreds of millions or billions of dollars of subsidies which you get by taxes which are not applied elsewhere globally. I think we have enough examples in history and in other markets of the world that protecting weak industries will not make them survive in the long term. They will just die more slowly. I would rather say encourage free trade and give the automobile a chance to be bought at a reasonable price in Australia. We would be more than happy to offer our leading technology on safety, innovation and the environment at a cheaper price to Australian customers and not to rich people. I believe at \$57,000 you are certainly in the bracket of the so-called working families. We would be more than happy to supply these Australian people with the latest technology.

CHAIR—Senator Joyce. We do not have much time.

Senator EGGLESTON—Just one quick question in relation to that. Most of the so-called luxury cars in Australia are Australian made are they not?

Mr Hofmann—Yes, of course. As you may know, senators, the most popular so-called luxury car at the moment is a Toyota LandCruiser, which is really a rough workhorse but it is certainly not a luxury car. This is

really very questionable; how can you put a threshold up to \$57,000? That is why we really strongly request you, senators, to give serious consideration to lifting the threshold.

Senator EGGLESTON—The luxury passenger cars are mostly Ford and Holden, are they not?

Mr Hofmann—Yes. As I said you Holden Commodore, Ford Falcon, all the Australian manufacturers have a good number of their models above that ratio which shows that it is not a luxury car tax.

CHAIR—Senator Joyce?

Senator JOYCE—Thank you very much. I will be honest that I am not entirely convinced about the argument regarding the great benefits to Australia from Audi. I acknowledge you are a great company and good luck, but it goes beyond that; it goes down to this whole concept of luxury and why we should be taxing luxury which I find is a peculiarity. In the history of the so-called luxury car tax, have you found in your investigations a differentiation between the standard car price and the apparent luxury car taxes getting closer and closer?

Mr Hofmann—Yes. The luxury car tax was introduced in 1979. We can refer to chart 29 in our presentation. In those days I guess the purpose was achieved. As you say, it is questionable whether it is a good or bad concept to tax so-called luxury. This has a political opinion and philosophy behind it. But, even if you agree with the opinion, at that time I would have to say if 2½ per cent of the cars were above the threshold, then somehow the goal was achieved, if you believe in the concept. These days, 11 per cent are above the threshold and I think Andrew McKellar made the statement very well, that by 2030, 50 per cent will be above the threshold which shows how ridiculous the whole concept is.

Senator JOYCE—It is, it is ridiculous. Slightly above standard is luxury under a Labor government. Are there other items that you have heard of in Australia that have a luxury tax on them? Do you know of any other items in the Australian economy that have this so-called luxury tax on them?

Mr Hofmann—We did a lot of investigation into this because I really could not believe that cars are taxed and taxed and taxed on top and on top again. There is obviously nothing like that available. Really, consequently, if you try to go for the concept of penalising so-called luxury, I do not want to jump on my colleagues in other industries, but I certainly have to ask the question, what about all these private planes or boats, the helicopters and luxury yachts for \$20 million per piece?

Senator JOYCE—They might be treated—

Mr Hofmann—Nothing at all.

Senator JOYCE—Has anybody ever presented you with a cogent argument about why one industry, alone, has a certain peculiar tax which no other industry has and how this certain statement of what apparently is luxury is becoming closer and closer and closer to what is apparently now standard, the standard price I imagine being around about \$35,000 for a standard car? We have a luxury car tax now at about \$57,000. If it was the Falcon it would have been \$7,000 to \$18,000 I think the luxury car tax was then. Has anybody come into your office and given you the dignity, since they have foisted this upon you, to explain what their concept of luxury is and why you are the only industry in it?

Mr Hofmann—Unfortunately not. This is one of our biggest concerns, let me say. I have worked in the US, Japan, Europe, Singapore and I have seen a bit. I have seen a lot of governments come and go. I have seen Labor governments, Liberals, which is Conservatives in Germany, everything. We have been involved in plenty of government decisions, talks and consultations. But whatever happened, so far, there was always a certain level of consultation from the government at least with the industry body, which in our case is the FCAI, in order to get some feedback regarding how does the car ordering process work, what is the lead time, what is the delivery time, what would be the impact. I believe you need to do your homework before you put forward these proposals. In this case, I have to say, unfortunately we were completely struck by surprise and this is why the impact is so dramatic at the moment.

Senator JOYCE—There was actually a review process in place which this has jumped ahead of as well.

Mr Hofmann—Okay, so we were not aware of it.

Senator EGGLESTON—Exactly.

Senator CAMERON—Thank you, Mr Hofmann. I am very interested in your argument that Australian manufacturing should be left to survive without any government assistance and that would be free trade. Does Audi receive any government or support or assistance in any of the countries in which you manufacture?

Mr Hofmann—No, certainly not. What happens normally is if you establish a production facility, certain states all over the world try to get your investment on board. Unfortunately no; maybe we should have tried to get something when we decided on Sydney for our head office location with an investment of \$50 million. Maybe we just—

Senator Abetz interjecting—

Senator CAMERON—You do not receive any government support whatsoever? There is no research and development support? There is no support to set up any Audi operations in any overseas countries, no tax breaks, nothing?

Mr Hofmann—No.

Senator CAMERON—Audi does it completely on its own?

Mr Hofmann—Yes. We are a publicly listed company and we are responsible to our shareholders. Our profit and revenues gets reinvested in our R&D activities. They are certainly no subsidies and no support. This is how the economy works and this is why our company is very strong and healthy and in a position to be successful in global competition. Again, if you protect weak industries they will just die more slowly, that is my personal opinion, but I certainly have to make that point quite clear.

Senator CAMERON—How many cars did Audi sell in Australia in 2007?

Mr Hofmann—In 2007, last year, we sold seven thousand two hundred something cars. The history is quite interesting. If I may refer to chart 12, this actually shows our growth path. It also shows how our commitment was actually paid back. In 2004 was the year, Senator Cameron, when our company in Germany decided to take over the operation in Australia and to really heavily invest. You see how this investment paid off. We started on a low basis of 3,700 cars a year. Last year we almost doubled the volume and this year we are going for 9,000 and, as Mr Brinck mentioned before, our internal growth plan is we want to sell up to 15,000 cars a year in the next four years.

Senator CAMERON—Yes, that is fine. I missed that, I was late. I was caught in the traffic and there was an Audi in front of me I could not get past. You paint real doom and gloom with this tax. I must say I thought there were some polemics in your argument. I can not understand why Audi would say that there are severe effects on the green nature and safety of your cars because of this tax. When you say there are optional extras, well optional extras mean they are optional, they come above the standard. I am sure that because of this tax Audi would not be putting any cars on the Australian roads that are unsafe. Would that be the case?

Mr Hofmann—Your point is not 100 per cent right. Not all these high tech features are options. We made a decision two years ago when we introduced our new Q7 four wheel drive.

Senator CAMERON—No, Mr Hofmann, you did indicate some aspect were optional extras; if you do not have those optional extras on an Audi car, the Audi car would be safe and would meet all of the standards?

Mr Hofmann—Of course it would.

Senator CAMERON—And your customers could buy them without saying, ‘I am unsafe.’

Mr Hofmann—One hundred per cent, but if you had these features on board they would be safer and you would have less accidents. Of course our cars are safe. They are safer than a lot of locally produced cars, unfortunately. Let me make the point again, our Q7 has a rear view camera as standard. It is a very important safety feature and this was possible because we believe it is necessary in order to make sure that when it goes into reverse a car does not hurt a child or whatever. Our cars are 100 per cent safe. This was the right decision and I believe we would not walk away from that one because it is such an essential thing and I would not like to see our cars involved in terrible accidents, that is for sure. But, there are other things which we certainly would not introduce at the moment. Our cars are 100 per cent safe, we have eight airbags but you can—

Senator CAMERON—I am really running out of time here and I just wanted to put another couple of questions. I am happy that you have said that your cars are safe; I did not expect any other proposition. The issue of the effect of this tax on your sales; I would like to get some idea how this tax would compare in a league ladder of other issues that are affecting the industry at the moment. Has the subprime market crisis and the downturn in say the merchant banking industry, the IT industry that is happening all over, including Australia, had an effect on your market?

Mr Hofmann—I still believe Australia is in good economic shape. You know better than I that the GDP is still growing and that there is still a lot of investment going on. Of course the overall global development has

an impact but my biggest worry would be the share market development. That is maybe the biggest worry because people lose money there and get burned. Overall, I would still consider the economy to be in good shape. I still have to say we were really almost shocked when we saw the customer inquiries this month. There is a dramatic impact from this proposed law in our market. I had dealers calling me yesterday saying, 'God if this goes on, we need some measures, we need to do something. I can not complete my new facility.' I have to say, that this is right, because as Mr Brinck says, an investment of \$50 million or a dealer investment of \$10 million has a business plan behind it. There is a business plan behind it which assumes certain sales volumes, certain profit numbers and whatever. If all of a sudden, Senator Cameron, the volume would only break down by 10 per cent, this has a massive impact on your profit expectations. In the end it may lead to either delay or cancellation of the investment.

Senator CAMERON—Again, can you explain your modelling for the job losses. Was this an econometric model that was done or was this an in-house model?

Mr Hofmann—I do not have the calculation with me but I can certainly submit it as a kind of phone back or whatever to you afterwards. The plan is if we have all our facilities refurbished in order to cope with the additional growth that we need in order to build all these facilities, we expect to create an additional 280 jobs. This does not reflect at all what happens if the numbers go backwards. If the numbers go backwards, of course you will not have these 280 additional jobs but you also may have job cuts and people dismissed. This has not been calculated as we did not wish to go that far yet.

Senator CAMERON—I would be interested in that. Last question from me: if Audi had the option of the luxury car tax staying in place or an upturn in the share market with a continued strong Australian dollar, what would be the best thing for the company?

Mr Hofmann—I would still be against the luxury car tax because I just believe the tax is wrong and unfair.

Senator CAMERON—That is not what I am asking you because you do not have control over some of these things. I am simply asking you, if you had an option of the share market recovering, the Australian dollar staying strong, which is a big competitive advantage for Audi, or a luxury car tax, what would be the best for the company?

Mr Hofmann—My answer is still the same. We are not in favour of the concept of a luxury car tax. These elements and systems should be abolished or revised or threshold—

Senator CAMERON—Whether you are in favour of it or not, I am trying to get the concept of what would be more beneficial for the company. Would it be to have the share market booming or going along well and a strong Australian dollar, or the luxury tax? In terms of the effect on the company, what has the biggest effect?

Mr Hofmann—Certainly it is the luxury car tax because most of our customers are not millionaires on the share market. Of course some of the top end people make their money on the share market and are happy winning but are also concerned at losing money but most of our customers are not these millionaires, billionaires, whatever. They are not the people who play around with shares and stocks. They are really a lot of as you call them always, working families who buy a car for their kids, for their families. Again, \$57,180 is something which is concerning—

Senator CAMERON—Just give me an idea, what is the price of your standard mainstream model and your top model?

Mr Hofmann—Our range starts at almost \$40,000, that is an A3 base model. Our best selling car is an A4. Most of our As are midrange models that is slightly above the threshold at about \$57,900 or \$58,000. This is basically our main model. Our top of the range model is a \$270,000 R8 sports car, which of course has a \$12,000 impact due to the proposed tax. That is a different story, and to be very frank, I am not overly worried about the \$260,000-\$270,000 customer, because this is a person who makes millions on the share market and who is still able to afford the car.

Senator CAMERON—How much is the tax increase on your A4 model?

Mr Hofmann—For the A4 model, it is an average \$900. This is a segment where we are very price sensitive. In that segment we are working with the Holden Commodores, Ford Falcons and we are dealing with fleet companies who also sell Holdens and Fords. This is where the volume lies and this is where they are really concerned. This is what really hits us. My biggest worry at the moment is the luxury car tax and not the share market because the share market only has an impact on the very top level of our customers, but not on the base of our customers.

Mr Brink—Can I make a point there, it is \$900 based on the base price and then any option that the customer wants put onto the car—metallic paint, sunroof—also attracts the tax.

Senator CAMERON—But that is not specific to Audi, that is going to happen to your competitors.

Mr Brink—It happens to everybody, that is correct.

Senator CAMERON—You would not be disadvantaged competitively against any other car in that price range in Australia, would you?

Senator BUSHBY—Thank you. Given that we are already over time, I have been told I cannot ask a lot of questions, so I will be very quick. What percentage of cars is ordered in advance? You mentioned that a lot of your customers do, but others would just walk in and buy at the showroom, presumably.

Mr Hofmann—I would say maybe almost 40 per cent of the cars are ordered in advance, because they are individually specified and the customer has certain requirement for colour, equipment and options. Therefore about 40 per cent are actually prespecified and preordered.

Senator BUSHBY—A reasonable percentage of that 40 per cent who have ordered in recent months would be facing the current uncertainty?

Mr Hofmann—Actually most of them because we just had a tremendous sales development and that means all the orders came in actually recently, so we would have a huge exposure which we have calculated. That is an issue for us.

Senator BUSHBY—Finally, in terms of the effect of the increase on your sales, presumably, on common with any business, you would be pricing your product at a price which you think will maximise your return. If you go too high, you will actually lose sales and I imagine that if you could, you would probably add eight per cent to the price of your cars if you thought it was going to actually maximise your return. You would have done your own calculations and worked out that by increasing price, you actually are going to lose sales, so presumably the same thing will happen with tax?

Mr Hofmann—That is 100 per cent right, Senator Bushby. We have what I believe hopefully a sophisticated system in place regarding how to calculate price sensitivity. The lessons that we have certainly learnt in Australia is that it is a price sensitive market. Again, there are plenty of working families around who are very price sensitive and who cannot afford a \$260,000 car, but they can just afford a \$58,000 Audi A4 with eight airbags, with stability control and all these very important safety features. It is extremely price sensitive here, and based on that underlying formula, we believe really, if the trend continues, the volume may go down by 20 per cent.

CHAIR—Thank you Mr Hofmann. I am sorry but we are well over time, Senator Abetz.

Senator ABETZ—Yes, I know we are but—

CHAIR—Mr Hofmann and Audi Australia—

Senator ABETZ—If I may, I do have one extra question which I think is very important. It is a short one, if I may?

CHAIR—All right.

Senator CAMERON—Can I have a short one as well?

CHAIR—Yes, exactly.

Senator ABETZ—That is fine. Where do you think price inelasticity cuts in with the Audi range? I think you were quite honest with us that if you are in the market for a \$260,000 car, chances are that an extra \$12,000 will not impact. Where do you think price inelasticity cuts in, in relation to the automotive industry generally? We have been given a figure of \$120,000. I would be interested in what is your view.

Mr Hofmann—There are different models, but certainly a market above \$100,000 gets a bit less sensitive. It still has an impact, but it is a different game.

Senator ABETZ—All right, thank you. That is all I needed, thanks.

CHAIR—Mr Hofmann, thank you.

[9.56 am]

BORG, Mr Steve, President, Motor Traders Association of New South Wales

SMITH, Mr David John, Senior Manager, Divisional Services, Motor Traders Association of New South Wales

CHAIR—Welcome. If you wish to make an opening statement, please go ahead.

Mr Smith—My primary role is to assist the motor dealer members of the association, of which we have approximately 900, both new and used motor dealers. My role includes providing advice, be it contracts, consumers, dealing with complaints, legislation such as the luxury car tax and general business advice on managing their businesses. With me today, I have Mr Stephen Borg, the president of our association and Steve may wish to speak for himself.

Mr Borg—Thank you, David. Thank you very much for this hearing, senators. It is much appreciated. My name is Stephen Borg. I am the president of the Motor Traders Association of New South Wales. We are a non-profit organisation. We are the voice of the industry. We represent a range of people in the industry from motor vehicles to smash repairers right through to farm machinery. We probably employ over 50,000 directly related to our industry but affiliated with that, being spare parts and so on, probably another 50,000 on top of that, which is quite a number of people who are employed in the motor industry. My role is an honorary role. I am part of the industry. I am a consultant to the brake industry, so I do talks around New South Wales and Australia on braking systems on motor vehicles. I am very concerned about what happens in our industry, not only in new car vehicles, but in all facets of our industry.

Not long ago, the Motor Traders Association fought against a major insurance company for our smash repairers. As I mentioned earlier on, we are a non-profit organisation. We survive on subscriptions from our members and all that money, all those funds, go back into the industry through employment relations, advice and going back and lobbying the government and so on. I will hand you back over to David. Thank you very much.

Mr Smith—Thank you, Steve. The Motor Traders Association, as you will see from our submission—and I will essentially run through the submission—believes that the luxury car tax should be abolished and that the applicable rate of GST of 10 per cent should be applied to the vehicles. In the absence of this occurring, we believe that the threshold with which the luxury car tax applies should be significantly increased. The reason for that is because over the years, many vehicles that were not captured by the threshold have now crept into this taxation. We are now finding that vehicles that certainly could not be defined as being luxury or luxurious are actually captured by this tax. If the threshold were to be retained and increased to perhaps \$100,000, that would be much more of a luxurious vehicle as opposed to the high end Toyota Taragos, Toyota LandCruisers and other four wheel drives which some rural purchasers can only purchase; they do not have a choice.

I appreciate that many options and accessories are items such as tinted windows, sunroofs and things like that that are fitted to vehicles, but it also covers airbags, curtain airbags on some vehicles and reversing cameras, which is another safety feature. The manufacturers like to keep their recommended prices down; that is the nature of the industry. There are only 30 brands in Australia and it is in their interests to keep the recommended retail price lower and apply the additional items as those options. Anything that is put on the vehicle at the time of sale is taxed at a rate of 25 per cent, the current rate, if the price of the vehicle is over the threshold of \$57,180. The proposed increase to 33 per cent is proposed to apply retrospectively.

The LCT also creates an administrative burden for motor dealers. They are dealing with two types of taxation rates. Where they have the price of the vehicle and the price for the customer, for instance, the calculation must include the two different rates. There are computer systems which will type in the figures and it will give the price at the end however many of them work off a manual options list. When they are manually pricing using calculators and things like that, it does require a degree of accuracy. If they miss that accuracy by a couple of hundred dollars it erodes the only profit that really exists in vehicles at the moment. I can think of two accounting firms that have done studies for several years on motor vehicle dealerships that show that their profit margins are running very low. Many at the moment are running at less than one per cent profit margin. I know some that are virtually going backwards because they are just not making money in the market the way it is at the present time. That is a summary of our position.

I would like to just refer to our written submission regarding consumer behaviour. As I said, I accept that some items are not anything to do with safety, however approximately 10 to 15 years ago, airbags for instance,

were an option on motor vehicles, and that was on the Ford Falcon, Statesman, Calais and locally manufactured vehicles. That option may have been \$500 for an airbag. There may have also been an ABS option which was, I think from memory, \$1,000 back in the early days. Not so long after that, within the next model range for instance, those items became standard. If we go 20 years ago, airbags were only seen on the top end of vehicles such as BMWs, Mercedes, and the like, some of which we can certainly say are luxury vehicles.

Mr Borg—If I can just add something there as well, David. In 1972, Mercedes Benz introduced ABS and it was an accessory item. Today, I do not think you can buy a normal car without ABS being fitted to the vehicle. That is the way it has been advanced over the years. Over the years, it becomes the norm.

Mr Smith—That is right. Options create problems on the production line because some vehicles are getting those options and some are not. It is far easier for the manufacturer to make them a standard item. However, when the technology is very new, they tend to put them and price them as options until that filters down into the rest of the market.

Airbags are quite common, very common, and standard on a lot of vehicles now under \$20,000, and that is an example of the more that people buy in the early days of those types of options, they become standard over the range. I will refer back to things like window tinting and the like which are not a factory thing. That is nothing that the factories probably want to do. We do have privacy glass and items like that that are fitted as factory standard, and they will continue to remain so. Those are not really the issues we are seeing within the dealer network.

Mr Borg—Can I just add to that? Again, being a brake person, it is something close to my heart. If you go out and buy a brand new V8 Commodore or Falcon, you get the same braking system as you would if you bought a six cylinder Falcon or Holden. The power ratio difference between a six cylinder and a V8 is much greater, as we all know. Vehicle manufacturers use the Australian standards design rule, and the six cylinder brakes certainly do pass, but in today's world—we have read all the news about the street racing going on—people are aware that they need better braking systems. To upgrade a braking system on a Falcon or a Commodore could cost you up to \$10,000. That is included in this luxury car tax. I do not know if anyone here would say that a Holden utility would be a luxury car, yet adding the braking system, the wheels, the pollution system and the exhaust would take it way over the threshold.

Mr Smith—Thank you, Steve. Another item that I would like to raise is that there is no other item in Australia, that we are aware of, that has a luxury taxation on it, including art, jewellery and Rolex watches, for instance. The exemplar I have used in my submission is that somebody with a Toyota Tarago for instance could not be viewed in the same light as someone who has got a \$200,000 Rolex on their arm, and yet that Rolex watch does not attract anything additional, but is purely a luxury item. My wife even said the other day—and she would know and I hope she never gets one—that you can get handbags for \$15,000. Why, I do not know.

Senator ABETZ—How would she know?

Mr Smith—That is what I am worried about, believe me.

CHAIR—It increases the technology of the next design.

Mr Smith—That highlights the point that for people who are wealthy and do have the money to go and splurge is probably one word, waste might be another, on these items, there is no additional taxation, yet people who are buying vehicles that are not, certainly by a lot of definitions luxurious, are captured with an additional tax. That is where we feel that the threshold at which it is applied is certainly far too low.

That has come about for several reasons, but one is that the threshold has barely changed in the last several years. When I first started in this role several years ago it was \$57,009 and the recent increase on 1 July this year was to \$57,180. In that time, vehicles have been increasing at a far greater rate than the increase in the LCT, so we are seeing vehicles move into the threshold that previously were not in that threshold.

Something that is close to my heart, because I see it, is the administrative burden on the businesses. Motor dealers, to be frank, put up with a lot. Cars are seen as a great way of raising taxes. There could be no valid argument that we should do away with taxation, however cars seem to cop it more than the ordinary item. The vehicles have a GST up until the threshold, then we have LCT, stamp duty and registration charges which we could probably say are a duty. All of those things are combined into the price of the vehicle. The dealers must work through so many pitfalls in collecting and remitting the luxury car tax, for instance, when there are inter-dealer trades. The luxury car tax is not like GST where it is progressive; the luxury car tax is applied to the end

user. If a business is entitled to quotes, so for instance, if I am a dealer in Sydney and a dealer in Coffs Harbour requires that particular vehicle that I have in stock, then that dealer is entitled to a quote, then I do not apply luxury car tax to that dealer. When that dealer sells the vehicle to the end user, then they apply it. Some people, rightly or wrongly, claim that they are entitled to quote and not pay the luxury car tax. The motor dealer must then conduct investigations and determine whether in fact that person is entitled to quote or not, because the liability rests with the dealer. If that person presents and says, 'I'm entitled to quote, don't charge me,' and the tax office determines in an audit that this dealer has not remitted the correct amount of luxury car tax, then the dealer that sold the vehicle must remit the tax. There are pitfalls like that that dealers must contend with daily.

There is another example to which I have referred in the submission. There are some exemptions which certainly are wonderful; emergency vehicles are one exemption and vehicles modified for say wheelchair access are another. We have a couple of members who actually do modifications for wheelchair access. The level of administration that they must go through to ensure that the various taxes are remitted and calculated correctly is unbelievable. I quite often have trouble even advising them. In turn, those businesses require specialist taxation advice, which your ordinary accountant on the street, with the greatest respect to them, does not know or is not aware, must go and research, simply to apply the various taxes at the correct rate. If the luxury car tax did not apply at all and it was simply a GST calculation, that would reduce the cost to the business which would in turn reduce the cost to the end user, and that is very common. We have some dealers who are continually claiming back or are in credit with their GST because of the way that the vehicles are modified. Also there are various state regulations in terms of vehicle regulations, registration regulations and obtaining engineer certificates; that is a little bit off the track. Certainly from a dealer's point of view, the administration is quite large.

I know that currently we have a bit of animosity as to how the LCT will apply; that will come and go and it will be resolved. Dealers are not happy about it and manufacturers are not happy about it. We have advice from the ACCC; we have had advice from the tax office, although that has changed a couple of times. That will be resolved, so I am not going to highlight that too much, however I would just like to state that that is an issue at the moment.

I have referred to one other item in my submission that I have not seen appear. When a business that is registered for GST purchases a motor vehicle, they are entitled to claim the GST amount of \$5,198. When that business disposes of that very same vehicle—and it could be the next day, it could be a year later, it could be six months later—they must remit one eleventh of the price to the ATO. When we are talking about high valued vehicles sold to businesses, not consumers, the effect is that that business must recover the money, so that business is going to recover the money by increasing their prices. That is where the luxury car tax is very disproportionate in how motor vehicles are treated in the acquisition and disposal of assets.

Something else that I did skip over, and I apologise, is something for which issues appear or that our used car members and our new car dealers have quite a lot of trouble with. The luxury car tax is applicable for a period of two years from the date the vehicle is built or from when it was complied if it is an imported vehicle after 2000. If a dealer acquires a vehicle that is say 12 months old and then they on-sell it, they should ascertain how much luxury car tax has been paid on the vehicle. If the vehicle sells for a higher price, they have to remit an additional luxury car tax to the Australian Taxation Office. I know about some previous cases that I would not like to be quoted on, but my information was that the Australian Taxation Office issued private rulings. The Australian Tax Office said, 'We would like you to remit the additional luxury car tax on these vehicles.' The dealer said, 'Well, we don't know and we are unable to find out how much luxury car tax has been paid on them to date, could you as the Australian Taxation Office please tell us?' The tax office could not establish how much had been paid on the vehicle. That is another administrative burden that the dealers are faced with as well.

Collectively, all of those things cause great stress and they cause difficulties with accounting and remittance. In that instance, the dealer must not only see how much luxury car tax was paid but how much was remitted on the vehicle. There are issues there. That summarises our submission that I have provided to senators. As a summary, we as the association believe that the tax should be abolished and in the absence of it being abolished, the threshold should be significantly increased to reflect its actual name. If it is called a luxury car tax, it should apply to luxury vehicles.

CHAIR—Thank you, Mr Smith. In Adelaide in a recent inquiry we had evidence that the median price of a Holden was around \$30,000, and I guess this would apply to the Fords as well which are the largest selling

vehicles in Australia and probably most of your members would be involved with those two models. To those people buying a new \$30,000 car, which is a smallish proportion of the Australian population, a car of around \$57,000 would seem like a luxury. How would you define luxurious?

Mr Smith—I appreciate we are working on averages, but the price on the Commodore and Falcon is getting up around the \$40,000 mark plus. I would define luxury cars as cars that are acquired more for status symbols if you like, and that is a very common thing. For example, sports cars which have no other purpose—they may have only two seats, they may have only two doors—could be defined as a luxury car. Vehicles such as a Ford Explorer or a Toyota Tarago I certainly would not view those as luxurious. For some people they are a necessity, because once you require more than five seats or to be able to seat more than five people, you really have to—

CHAIR—But you can buy cars with five seats or indeed you can buy four wheel drives to drive in the country for under the luxury car tax rate, can you not?

Mr Smith—Certainly, we appreciate that, yes, that is true.

Senator EGGLESTON—I would like to ask you a question in relation to rural and remote areas. I used to live up in the Pilbara for 22 years and I know that you have an outback in New South Wales. What you see up there and in remote areas like that is a lot of four wheel drives. What you do not see are four wheel drives like the Porsche Cayenne which costs I believe \$265,000. You do not see cars like the Mercedes Benz M Class four wheel drive costing \$167,245 or the Lexus LX UJ201R 570 sports luxury auto, which is a SUV costing \$157,000. What you do see however are cars like the Mitsubishi Pajero costing \$58,290, the Nissan Patrol costing \$58,000 and the Toyota LandCruiser costing \$59,000. Both of those price ranges are within the luxury car range and the lower list of prices I gave you are the cars you typically see in rural Australia.

Do you have a comment about the fairness and reasonableness of including commonly used four wheel drives, which are clearly not of the luxury variety that you might see around Double Bay in Sydney, being included as luxury cars and for people in regional and remote areas having to pay a luxury car tax on cars or vehicles that they use as every day vehicles?

Mr Smith—Certainly, I would like to make a couple of comments on that. Firstly, I do not know any dealers in the outback region who actually even sell those upper vehicles such as the Lexus and the Porsche. You would have to come to the city areas to buy them. Personally, if I was going around Australia or into Australia, I do not think that would be my choice of vehicle. Thirdly, they probably would not even be able to handle some of the conditions, certainly as well as some of the other vehicles. You are quite correct; those types of vehicles belong in Double Bay and the like. Several years ago, I remember a news report where people were paying to have mud sprayed on their vehicles so it looked like they had actually been out four wheel driving in them. How true that was, I do not know.

The other point that I would like to raise with that—

Senator CAMERON—Must have been in Tasmania.

Senator ABETZ—No, you do not have to in Tasmania, it just happens.

Mr Smith—I would like to raise another point with that. I have not got the price list with me or even in my head, so I will just give a general statement. In a Toyota LandCruiser, for instance, if you went to a diesel engine, you would be paying more for a turbo diesel engine, and certainly if I was going into or driving regularly in those areas of Australia, I would want a diesel engine as opposed to a petrol engine. There are various reasons for that, the two main ones being longevity and reliability. We could go off and say that the diesel engine is more fuel efficient and has greater benefits in that respect, but once you start optioning up those vehicles, you are looking certainly in the range of \$5,000 to \$10,000. Once you are over the threshold, then you are at 25 per cent. If the price of the vehicle allowed for how much came from the factory before applying the higher rate, then the options like the tinted windows and the like would attract the tax. So be it; that is not really where our concern lies.

Senator EGGLESTON—Really this tax does discriminate against people in regional and remote areas who commonly use four wheel drives; would you agree with that?

Mr Smith—I would agree with that. I will not say that I came from the centre of Australia; I grew up on a farm. Certainly people in those areas do not have a choice; they have to have those strong vehicles with the wider wheel bases and reliability is certainly something that they look at. The Lexus four wheel drive, no

disrespect to Lexus, as I said, I do not think I would like to be taking one into the middle of Australia and hoping it is going to bring me back out again.

Mr Borg—Can I just make a comment here through my knowledge of the industry. There are reps out there on the road that travel many kilometres. When I was on the road, I was doing almost 80,000 kilometres a year. The duty of care by their company is to make sure that you have all safety and luxury items. Your road is your office, so major companies who have got these people doing these things make sure they have the airbags, the braking equipment and the air conditioning. It is not so much a luxury vehicle, but gives their personnel the respect that is due because that is where they are living and they are spending a lot of time in their vehicles. I think that is an issue as well.

Senator BUSHBY—I would just like to follow up on a question from Senator Hurley who mentioned that to her recollection, the median price of cars was \$30,000. I just had a quick look on the internet, and the price for a new base model Falcon is \$36,490. Does that sound right to you? That does not include curtain airbags; apparently you have to actually pay extra to get curtain airbags.

Mr Borg—Correct—

Senator BUSHBY—It becomes pretty basic, even by today's standards which is far better specifications than—

Mr Borg—We might class tinting as an accessory though, but if you are out there in the bush driving along the road in extreme conditions and you are in and out of the car, tinting is quite a valuable asset to a vehicle. When you are parked out there talking to a client for an hour and your car is parked out on the farm, and then you have to jump back into the car and drive another 30 or 40 kilometres, it is no longer an accessory, it is actually a vital item to the vehicle.

Senator BUSHBY—The point you are making there is that most cars have a long list of options and accessories that you can fit to them, some of which would could be classed as a luxury item to some, but to other people, depending on the circumstances for which they are using them, they are quite necessary?

Mr Borg—They are vital, yes.

Senator BUSHBY—I do not have any more questions.

Mr Smith—If I may continue on and provide some more information on that. I mentioned earlier that the market in Australia is extremely competitive. It is in the manufacturer's interests—and I am certainly not here to speak for manufacturers—to see a cheaper recommended retail price on your base model. There is the list price and then of course we have to put everything on there anyway such as on-road costs, et cetera, which I know that is not what we are here for.

Senator BUSHBY—On that, is the LCT calculated on the RRP plus the cost of options, or does it include on-road costs as well?

Mr Smith—I would like to go from memory here and I am certainly happy to provide the committee with a lock solid answer, but it is not calculated on compulsory third party insurance, which is in New South Wales your green slip. It is not calculated on stamp duty, which is a state government charge. I believe it is not on registration as well, but I would be happy to email something through on that.

Senator ABETZ—But all the options are—

Mr Smith—It is on any item that is purchased with the vehicle. I could quite confidently say I do not think there is any vehicle sold in Australia that does not have at least one option on it, be it an \$18,000 car or a \$15,990 car. It may be floor mats, head light protectors, mud flaps or something like that. I just cannot think of any that people would just jump in and drive away. Certainly, that is not our advice anyway.

Senator ABETZ—Thank you.

CHAIR—Senator Cameron?

Senator CAMERON—Thank you. Just as an aside, I am sure some of my former colleagues would be keen to explore this concept of luxury being a duty of care with the MTA next time when negotiating an agreement. I must say, I have never heard that coming from the MTA before.

I just want to go back a little bit to 1 July 2000 when the wholesales sales tax was removed from the sale of cars and the GST introduced, and also a luxury car tax was introduced at the same time. What did the MTA say to government at that time?

Mr Smith—I would like to take that on notice. I had been with the association for two weeks when that occurred and my role was not with motor dealers. When the GST and luxury car tax was applied, wholesale sales tax was removed and there was also—I might misquote this—luxury car wholesale tax, that was applicable from about 1992, I think. Once again, that information would be available.

My memory tells me that the rate was increased for vehicles, but in that eight years now, there has been quite a lot of price movement. I would have to take that on notice, Senator, and I would be more than happy to provide you with the information.

Senator CAMERON—You do not remember any panic in the industry? Maybe Mr Borg can comment on this; he may have been around at the time?

Mr Borg—I was not with the MTA then. I was working for Disc Brakes Australia, which is an Australian manufacturer then. I was not involved, so I cannot comment.

Senator CAMERON—I would like to see whether the MTA actually approached the then Treasurer and sought relief from luxury car tax and whether the MTA put any submissions to the then Howard government about the panic and the detriment that this tax would create, because you do understand, this was introduced by the Howard government?

Mr Smith—Certainly.

Senator ABETZ—Replacing the Hawke government's luxury car wholesales tax.

Mr Smith—I understand where you are coming from, Senator, and I would be more than happy and willing to find out. I will go back, but if you can appreciate, I was not in this role at that time and I had only been with the association for two weeks, but we will have that by the end of the day.

Senator CAMERON—You also indicated you would like the tax to go completely?

Mr Smith—Yes.

Senator CAMERON—You indicated that you felt that the car industry was probably taxed more than its fair share?

Mr Smith—Yes.

Senator CAMERON—The car industry does create some special opportunities but problems for government.

Mr Smith—Certainly—

Senator CAMERON—Pollution, roads, accidents, all put a great cost on government, and some car accidents cost huge amounts for government to deal with in the public health system. Is it not then fair enough that there is some recognition of this by the industry and they make a contribution to these impediments?

Mr Smith—Certainly, as I said earlier, no one could raise the valid argument that we do not need taxation. It just does not exist, you would be a fool. However, in my comment that the motor industry is heavily taxed, the vehicles have state stamp duty each time it is transferred. By the time a vehicle has changed hands three or four times, the state government has collected an amount of money, and that is determined on the price of the vehicle.

Petrol has a tax of 38½c in the dollar I think it is, plus GST. We have the GST on the vehicles, and I appreciate what you are saying, but equally I believe that the amount of taxation raised by motor vehicles collectively would outweigh the cost to society. I have not got the calculation in front of me, but I would be happy to do some calculations. Equally, the motor industry would have to be if not the top or second, it would be the third biggest employer in the country. The number of jobs generated and retained by this industry is great. I am actually a motor mechanic and I moved from the country to Sydney at 15 years old to seek my fortune. I love the industry. I think it is brilliant. It has provided me with a job, my wife works in the industry as do many of my friends and many of my colleagues. I think that in fairness, we must look as well at the amount of jobs and also manufacturing. We have all the suppliers. I cannot remember their name actually but you may very well remember the nuts and bolts factory that went—

Senator ABETZ—Ajax.

Mr Smith—That is correct; they were supplying the manufacturers. The manufacturers in Australia are under a great deal of threat; that is a fact. Motor dealers that employ a large number of people are under threat.

Some of our guys are going backwards; they are really doing it tough. They are going into the next six months wondering what is going to happen. The luxury car tax only forms one part of that.

Some of our bigger guys employ hundreds of people. I believe the benefits like the number of jobs that the industry has created such as in roads would certainly be far greater than what the taxation gives it credit for, so to speak.

Mr Borg—If I could just add a comment to that. Your comment on road infrastructure costing the government in terms of the accidents and so on, are you trying to say that cars of only \$35,000 are not adding to those problems as well?

Senator ABETZ—It is only the Audi.

Mr Borg—The majority of cars out there are \$35,000. They are using the roads, the fuel, they are adding to the pollution and the environment, they are having the accidents as well, so it is all added problems.

Senator CAMERON—Now that Senator Abetz has mentioned Audi it has jogged my memory. Audi gave evidence here to say that they would probably sell a vehicle in Australia that is not to the same standard as other vehicles in terms of its greenhouse gas emissions and safety features such as the number of airbags. From your perspective—

Senator ABETZ—What? That was not given in evidence?

Senator EGGLESTON—Not that I heard.

Senator CAMERON—They said that they may not put eight airbags in, they would put four airbags in.

Senator BUSHBY—They might not fully specify a car for the market in Australia.

Senator CAMERON—If that was the case, from your experience in these things happening, would this not be a significant detriment to them in terms of customers viewing that they are not getting what is available elsewhere?

Mr Borg—Can I just add to that? Some years ago—and I think it may have even been in this room—I gave a presentation to the industry of world mechanical engineers on brakes. There was some person from Holden who actually exploded an airbag saying how it would save a person in an accident, and another person from Sweden was talking about safety belts and how they save people. My reaction to that was, if we can get the cars made safe and stop in the first place, we may be able to avoid the accident in the first place, and we might not need all these other things.

Safety items are great, airbags are fantastic and they are needed in the case of an accident, but the likes of safety items such as brakes, suspension may be on a standard car, but if we are travelling large kilometres or driving long distances, it may be something that we really require, and it is added to this luxury car tax. It is something we need to pay for because we feel that we need them.

CHAIR—Senator Joyce?

Senator JOYCE—Senator Cameron brought up a good point about pollution mitigation and the development of pollution mitigation. Would you anticipate that the development of such technology, if we want to inspire it even through the Australian car manufacturing industry, is more likely to start at the top end of the market or the bottom end of the market?

Mr Smith—That would certainly start at the top end of the market and filter down. The best thing that could happen to Australia in regard to pollution at the moment is if something was devised to get a lot of the old cars off the road.

Senator JOYCE—Something that could put an impediment on really just above the average end of the market would actually be an impediment against the sort of technological development that you want to bring in such things as E85 motor vehicles and a higher reduction of particulate matter which can come from the sort of technology you are looking for. If you put a disincentive on the sale of cars above the average, you are actually putting a disincentive against the development of the technology that mitigates against pollution.

Mr Smith—The very first vehicle produced that had no pollution would be the most expensive one. After that, you are just cutting into—

Senator JOYCE—All these things like airbags, even braking systems, all start at the top and then they work their way down to become standard features of everything else.

Mr Smith—Sorry to interrupt you there, Senator, but the cost of putting those items on the vehicle is significantly higher. It is a numbers game. The more you get those items, the cheaper they become, the more they become the norm.

Senator JOYCE—We found out that other countries do not have this luxury car tax, so we have actually given an incentive for other companies to develop this technology overseas rather than develop it in Australia and support our own car industry.

Mr Smith—Something I remember quite clearly from the old luxury car wholesale tax was there was a Mercedes Benz 180, I think the model was, back in 1993-94. The radio became an option on that vehicle to keep it under the threshold. The radio! It had nothing to do with safety, nothing to do with anything but creature comforts, but that is an example of what—

Senator CAMERON—It depends what is playing on the radio.

Mr Smith—That is an example of the course of action of one particular manufacturer to keep a vehicle under the threshold. I do not know whether it was to do with import duties—it was a combination of it, but I know it was specifically to keep it under the threshold at the time.

Senator JOYCE—Let us go to the other end of the market. We know that at this point in time, India is developing a standard car that is going to be out there for \$7,000 or something like that. If it finds its way to Australia, that is going to be an immense competition at the bottom end of the market. Where is the more particular place that Australia will have the capacity to develop a vehicle that actually has a market? Is it going to be competing against the Indian vehicles or is it going to try and find itself more at the top end of the market, to find an area, a niche, where it can actually have the structure and capacity to build into it, like luxury cars such as the ute?

CHAIR—With a \$10,000 braking system.

Mr Smith—I may not be able to answer that one, not being a manufacturer, but certainly with local manufacturing, they are making the vehicles to a specific market. The Ford, the Holden, the utes are part of Australian culture. I could not answer from a manufacturing point of view, but certainly if those vehicles were to come in, they are going to really change things.

Senator JOYCE—Basically, they are going to force the area of the market that you are going to have to participate in. You will not want to be competing against Indian labour, Indian wages and an Indian car. That market will just be absorbed by a new vehicle. Your marketing structure is going to take you higher up into a market which our own government has put an impediment against.

CHAIR—Senator Joyce, is this a question?

Senator JOYCE—I have two more left. I will be more specific; will the advent of cheaper cars really squeeze the margins on Australia producing cheaper vehicles ourselves?

Mr Smith—It would have to.

Senator JOYCE—Okay. I am going to talk to people out west, because I actually live out west; I am the senator furthest from the coast than everyone else. Our family and our vehicle drive 7,000 kilometres a month. We have to seat six. We need diesel because we need reliability, because we need long range, and we also need a vehicle to deal with impacts from animals; we hit kangaroos constantly, probably say once a fortnight. What sort of vehicle are you going to recommend our family to buy, because this is stock standard for people out there?

CHAIR—Maybe you should slow down.

Mr Smith—You hit a kangaroo once a fortnight?

Senator JOYCE—Yes.

Mr Smith—In your car?

Senator JOYCE—Not at a hundred mile an hour.

CHAIR—May I point out to the committee that we are well behind time.

Senator JOYCE—To be fair, the last one I hit was about a fortnight ago—

Senator MARK BISHOP—That is 26 kangaroos a year?

Senator JOYCE—Easy, more.

CHAIR—Senator Joyce and Senator Bishop, I will adjourn the committee now if we are just going to have a discussion amongst ourselves.

Senator JOYCE—What sort of vehicle would you recommend that we buy?

Mr Smith—Senator, we would recommend something strong, something for which parts are reasonably available. If you are driving around in your Porsche out in the middle of nowhere and something was to break, you would be stuck there for however long. We are not here to represent a particular manufacturer, but I would say that your LandCruiser, Patrol, Pajero, something in those ranges because they are a wider wheel base. The longer wheel base gives you the additional seating capacity and they are certainly strong, and as I say, parts are readily available. I think most outback places would have—

Senator JOYCE—It is hardly luxury; more essential?

Mr Smith—In that situation, definitely.

Senator JOYCE—The final thing is, Mr Bracks is currently going to a review. In your view, would it have made more sense to have waited for all these increases in taxes until after he actually completed his review?

Mr Smith—Yes, certainly that is the view of the association.

Senator JOYCE—The purpose of Mr Bracks' review is to talk about the viability of the Australian car industry amongst other things. Would it not stand to reason to be actually given the dignity of finishing his report before you force a new tax on the car industry?

Mr Smith—The association would have liked to have seen the review before we saw any changes, yes.

Senator JOYCE—Thank you very much.

CHAIR—Senator Bishop?

Senator MARK BISHOP—Thank you, Chair. Just to return to discussions initiated by Senator Cameron and pursued by Senator Joyce. Can you tell me how a luxury car tax is going to stop Audi developing safety products like airbags?

Mr Smith—You would have to speak to Audi about that. I think just going back to some earlier comments; it is in the manufacturer's interests to keep the recommended retail price of the vehicle down. Those items are factory fitted. You cannot fit them after market, or there is none that I am aware of anyway. I suspect that it may have something to do with they would only want to bring over certain vehicles into the country, but I could not speak for Audi.

Senator MARK BISHOP—Are you aware of any manufacturers that do not produce safety products for luxury car sales in this country? I find that rather startling.

Mr Smith—I would hesitate in answering that and say that there may be some manufacturers that—

Senator MARK BISHOP—Are you aware of any? Who are they?

Mr Smith—I could not put a name on it, no. As a worldwide thing, there are different spec models for different countries, so I can only presume that Australia is no different to that.

Senator MARK BISHOP—Are you aware generally of cars that are produced on the international market where luxury car taxes or high rates of tax inhibit the presence of safety products in cars in this country?

Mr Smith—I could not answer that on the spot—

Senator MARK BISHOP—Are you aware of any?

Mr Smith—I am not aware of any, but—

Senator MARK BISHOP—Are you aware of any, Mr Borg?

Mr Borg—I think the only thing that Mr Cameron is eluding to, and I did not hear the full Audi presentation, but from what I can gather, Audi do produce a car with eight airbags, I think you said, and they are bringing one with four. Four is still very safe, but the option for eight is safer. You can go for a swim without eating, you still might survive. You eat, and it is not as safe. It is simple.

Senator MARK BISHOP—Have your members brought to your attention any international manufacturers who retail their cars in this country that do not have available the normal suite of safety products?

Mr Borg—I think they would not be allowed into the country due to the Australian design rule.

Senator MARK BISHOP—No, so you do not think the luxury car tax would have any impact on that issue itself?

Mr Borg—As far as bringing them into the country, no, I do not think so. Would I be correct in saying that?

Mr Smith—I am two faced on this. I think I can understand where you are coming from.

Senator MARK BISHOP—I would like to know which of these importers of cars from overseas that are made for the international market are discriminating against consumers in this country.

Mr Smith—What would they be is a different spec vehicle. An example of that is, in America for instance—and I am not relating everything back to America, but in this instance it is appropriate—it is not common to wear seatbelts. The airbags have different deployment because of the fact that the occupants are not wearing seatbelts. There are different spec vehicles, and that would happen for around the world. There are different design rules—

Senator MARK BISHOP—Yes, there are different spec vehicles and there are different vehicles for different markets. We are talking about the impact of a luxury car tax on safety products on cars retailed in this country.

Mr Smith—That is right, and what the result may be, and I cannot specify a specific manufacturer, is that the vehicles supplied to Australia may have only four airbags, not the eight airbags that are available in Germany, for instance.

Senator MARK BISHOP—Can you specify any manufacturer?

Mr Smith—I cannot, no, not off the top of my head. I am summarising that as knowledge of the industry. I would be more than happy to do some research into it for you, Senator, but I cannot lock in a manufacturer, no. That may well be where Audi was coming from.

CHAIR—Thank you Mr Smith and Mr Borg.

Proceedings suspended from 10.44 am to 10.55 am

HARRIS, Mr Mike, Executive Director, Australian Automobile Association

CHAIR—Welcome, Mr Harris. Do you have an opening statement that you wish to make?

Mr Harris—Yes, if I may, some very brief comments about the areas in which we think the committee should take some interest. We did provide a submission to the committee so I will not go through that in detail but I am obviously happy to answer whatever questions. We are the federal secretariat representing the motoring clubs in each state and territory in Australia. As a consequence, we represent the interests of just over six million members of motoring clubs across the country. In this particular case, we believe the luxury car tax issue ought to be reconsidered for these reasons: safety, environmental performance, the failure of the threshold at which the tax is set to keep pace with movements in car prices and quality; and the desirability for consistency in the application of a common GST rate rather than a fixed GST rate and a variable sales tax rate. All of those are matters that I would be happy to explore in more detail with the committee.

CHAIR—Mr Harris, we have heard that the luxury car tax applies before registration and so on, it also applies before GST, does it not?

Mr Harris—That is correct, yes. GST is excluded from the calculations.

CHAIR—When you are talking about a listed you would be talking about slightly less. We heard evidence in Adelaide I think from Claridge Holden that the medium price of their car sales was about \$28,000 so most people are driving a car at around that price. Can you just explore for me again why you think the luxury car tax is too high at around \$57,000?

Mr Harris—In itself, that figure may not be too high. The issue we have is that the indexation model that is applied to the setting of the threshold is such that the threshold has not been adjusted upwards for I think quite some time. Since about 1996, the threshold has actually been adjusted upwards probably only once because of the indexation factor that is applied to that threshold point. In the same time period, of course the price of all cars has increased. Indeed, the index itself discounts for issues of safety and quality and is effectively calculated on the assumption of a standard car which does not change in configuration, either for safety, quality, environmental performance or any other performance. We do not think that that is an acceptable way of indexing the threshold. I do not have a particular issue with the threshold itself, it is the way in which it is calculated and the way in which it ought to be adjusted to take account of variation in quality and performance.

CHAIR—You were talking about the price of a Falcon and saying it was approaching the threshold and in fact—

Mr Harris—I was not.

CHAIR—I am sorry, in the submission?

Mr Harris—In the submission yes, I beg your pardon.

CHAIR—Does that not take account of the change in the way that Falcon has been in the Ford stable and the use of increasing luxuries in that kind of model of car? Does that not really show that the motor car market has been very buoyant in Australia, people are demanding better features and it is pushing that end of the car market up? In terms of them keeping a lid on inflation, putting an extra impost on a luxury car tax is perhaps not such a bad thing?

Mr Harris—The index itself does not take account of those changes in quality that have pushed the car price up; that is the point that we are trying to make. That standard Falcon, at whatever price it is, would have a range of features in it which the same standard Falcon in 1996 did not have. Yet the variations in price caused by those changes are not taken account of.

CHAIR—My point is that it is very good that people can buy better quality cars with more features in them but that does not necessarily mean that they are not luxury cars.

Mr Harris—Absolutely true, and indeed in many respects, regrettably, the higher priced cars have by far and away the higher levels of safety, environmental performance and engine technology than lower priced cars. From our perspective, we would like to see a removal of tariffs and sales tax altogether to encourage the flow of those features down into lower priced cars.

CHAIR—Some of the lower priced cars have really got quite a lot of features that were leading edge in some of the other models. Some of the new cars that have been coming on the market, the really cheap cars such as Kias and so on, have got quite good features; you would not call them unsafe cars.

Mr Harris—No, I certainly would not call them unsafe cars and I am not suggesting for a minute that they are unsafe cars. But, I would suggest to you that the evolution of those features into the lower priced cars is flowing down from the top of the range vehicles. The more volume you have available to you for those features, the cheaper are those features. We certainly, publicly on the record, encourage those safety features to be in every car in the Australian market. Things like side curtain airbags and electronic stability control in our view should be available as standard features on every car sold in this country.

CHAIR—Then why would you not be arguing that they be included in Australian standards and then they would filter through to the definition of the standard car?

Mr Harris—We have been arguing that for a long time. We would go further and say that you could even change the way in which the Australian standards are set in order to embrace some of the very strong standards that come out of the European Union, for example, as far as engine technology is concerned. This would drive much cleaner cars and much more fuel efficient cars in this country and would also provide a wider availability of models in this country.

CHAIR—The impact of a luxury car tax on that is going to be very minimal is it not, because most of the luxury cars that you are talking about that do have those very leading edge safety features are built overseas, and they are building for their market and not a small market here in Australia?

Mr Harris—They are building for a world market in fact, they are not just building for a European market. The major manufacturers these days are building for worldwide distribution.

CHAIR—But, Australia is a very small percentage of that worldwide market, very small.

Mr Harris—Of course it is. One of the difficulties that becomes apparent is that at particular pricing points, the models that are available in Australia have different specification configurations to the models that might be available in other parts of the world. For example, we know that at particular pricing points, and the luxury car tax threshold is a classic example of that pricing point, manufacturers may well respecify a car in Australia slightly differently in order to make sure that its price point is below the threshold.

CHAIR—You are saying they will change their model specifications back in Germany or Italy to meet Australian—

Mr Harris—What I am saying is that the same model car sold in Europe or Japan or somewhere else as sold here would have a different specification in the European or the Japanese market.

CHAIR—Which model cars?

Mr Harris—There have been a number. Ford Focus is an example where the standard car sold in New Zealand was different to the configuration of the standard car sold here. The things that were different were optional extras in Australia whereas they came as standard in New Zealand.

CHAIR—Of course that is not a luxury car. We are talking about sort of leading edge features that will not be available?

Mr Harris—There are examples where the number of airbags available in a car in a European market, for example, is different to the number of airbags that are available for the same car in Australia.

CHAIR—You are saying that they do not have that model available for the European market?

Mr Harris—It purports to be the same model; it just has a different specification when it is sold in Australia.

CHAIR—Which model is that?

Mr Harris—I do not have that information at my fingertips but I could certainly get our research people to do some work for you if you like.

CHAIR—Thank you. Any questions, Senator Abetz?

Senator ABETZ—Just a few areas in relation to the luxury car tax and the segment of the community we are talking about. Is it not the reality that in 1979, when the luxury car tax threshold for taxation purposes was first introduced, we were talking about 2.5 per cent of the car market whereas today that same luxury car analysis now applies to four times plus the number of vehicles, namely about 11 per cent of the market?

Mr Harris—It certainly catches a larger number of vehicles now. I do not have the precise statistics that you just quoted so I cannot comment on that, but certainly it captures a larger number of vehicles than it ever used to before.

Senator ABETZ—Can I ask you to comment on where your organisation believes the threshold is for price inelasticity? In your submission to us, you tell us on the second page, the third dot point, ‘The consumer behaviour for automotive vehicle purchases over \$120,000 tends to be price inelastic, and therefore the increase in the LCT will have less impact on these sales.’ I would happen to agree with you on that.

Mr Harris—You are reading from a page that I do not have, Senator.

Senator JOYCE—That is the Motor Trades Association of Queensland.

Senator ABETZ—Sorry, that is the Motor Trades of Queensland. You are on notice because what I am trying to sort out is the AAA says on page four of its submission the third dot point that the greatest impact will be on vehicles costing between \$57,000 and \$105,000.

Mr Harris—I am not sure that that is my submission either, Senator.

Senator ABETZ—That is also MTA, thank you for telling that. Can you tell us where you believe the price inelasticity would apply or start applying?

Mr Harris—In our submission we recommend the abolition of the tax completely so that would give you an indication of our view.

Senator ABETZ—If we were not to do that and we were looking for a threshold that in fact would not be impacting on the market, where would you draw the line?

Mr Harris—Given my earlier comments on the indexation issue, our view would be that if the indexation model was more appropriate, then wherever that number came out we would be happy to live with. If there has to be such a tax, then I think the first step is to get the indexation model right so that you are in fact capturing luxury and not average or slightly around average motor vehicles. Regarding the Ford Falcon that the chair mentioned earlier on, back in 1979-80 the price of that standard Falcon was 44 per cent of the threshold for the luxury tax calculation; it is now 63 per cent. What is happening is that all vehicles are getting closer and closer to that threshold which just reinforces your earlier point that the capture rate now is much larger than it used to be.

CHAIR—Would a fair threshold be based on the CPI, on the average weekly earnings or say you capture 2.5 per cent of the car sales market? You disagree with the threshold, that is understood, but where would you set it if it was not going to be abolished?

Mr Harris—That is a fair question and the straight answer is that we have not done that calculation.

CHAIR—Alright, that is fine.

Mr Harris—But, if I was to speculate, which is never a sensible thing to do in front of a parliamentary committee, but nevertheless I will.

Senator ABETZ—We never indulge in speculation, of course.

Mr Harris—Presumably the original threshold was set by some sort of Treasury analysis, and as an ex-Treasury officer I am happy to accept that they got that right. If therefore the indexation model was also to be adjusted accordingly, then the application of that indexation model, as I said before, would probably throw up a threshold that we would be happy to live with.

Senator ABETZ—You might be able to assist me on that, but when the threshold was determined, the Australian dollar was about US65c or thereabouts?

Mr Harris—The long-term average is about US70c.

Senator ABETZ—All right, US70c, let us say.

Mr Harris—It has been as low as US48c.

Senator ABETZ—Now it is about US96c, what is it 90 something, substantially different. The luxury car tax concept in fact impacted more heavily on people buying a car from overseas than it does today because the Australian dollar is worth more. Yes, luxury cars are now cheaper—

Mr Harris—Relatively speaking.

Senator ABETZ—therefore more likely to slip under the threshold. Interestingly enough, that does not apply to the Australian made vehicle which is more likely now to fall over the threshold because of those differentiations and therefore is perversely impacting, I would suggest, on the Australian made automotive sector, especially at the high end of the sector which seems to be the innovative area where Australia, I think, has the future capacity to compete on world markets. I take Senator Joyce's comment that I doubt that we will be competing with car manufacturers out of Korea, China and India in the years to come, but hopefully we will have innovative good technology and environmental controls, et cetera. Indeed, the Ford Motor Company is now a bit of a hub for the Ford worldwide operation for innovation. It would just be tragic if, because of some bizarre class concept of luxury and increasing that, we were to price the local automotive industry out of the market.

Mr Harris—There are a couple of comments I would make. Firstly, just to reinforce, the innovation that comes through the industry in terms of safety and environmental performance generally starts at the high end of the industry, frequently at the Formula One end of the industry and eventually flows its way through into the broader market place; the more that can be encouraged, obviously the better. The second point I would make is that it is extremely difficult to make one on one comparisons between the vehicles in the marketplace today and the vehicles that were in the marketplace in the sixties, seventies, eighties even the early nineties. The advances in vehicle technology, in onboard computer technology, in safety related technology—airbags, ESC, ABS, radar warnings, lane divergent warnings and a whole bunch of other things—mean the comparisons are difficult to make. Also, the pricing policies are affected accordingly. It was a lot easier to price the standard Holden in 1965 than perhaps it is in 2005 and 2010. Those comparisons are not comparing like with like and the impact on price as those innovations flow through the industry are sometimes quite strange.

Senator ABETZ—Thank you.

CHAIR—Senator Bishop?

Senator MARK BISHOP—On the same point, as Senator Abetz was alluding to, terms of trade have turned around dramatically in the last three or four years: the dollar is now approaching parity with the US dollar, imported goods are becoming significantly cheaper and they are taking market share in a whole range of industries because they are much more price competitive. Consequently, a lot of domestic manufacturers in import competing industries are finding it very, very difficult. If our dollar was to go up by a further seven, eight or nine per cent, which is not unremarkable, over the next 12 months, up to say US\$1.03, US\$1.05, US\$1.06—

Senator ABETZ—A huge prediction.

Senator MARK BISHOP—I said if, I said if. It has gone up from US80c to US95c in the last 18 months. If it did go up by a further say from circa US95c to circa US\$1.03 or US\$1.04, seven or eight per cent, that would have a complete effect of negating the impact of the seven per cent increase in the LCT, would it not?

Mr Harris—It depends from where you are sourcing the product. The relevant exchange rate is not us to the US dollar; it is us to the Euro. If you take the change in the value between the Euro and the US dollar over the last even 12 months but say the last three years, the strength of the Euro will have the same effect and has had the same effect on the Euro/Australian dollar exchange rate as it has had on the Euro/US dollar exchange rate.

Senator MARK BISHOP—Sourcing in Euro dollar contracts would have a different effect to sourcing in American dollar contracts or British pound contracts.

Mr Harris—The British pound contracts would probably be even harder than the Euro contracts at the present time. I do not know the financing arrangements of the manufacturers.

Senator MARK BISHOP—But it is a germane consideration, is it not?

Mr Harris—I would be surprised if Daimler Chrysler were selling product into Australia in US dollar contracts.

Senator MARK BISHOP—We do not know what is the basis of that.

Mr Harris—No, I do not either.

Senator MARK BISHOP—Because you cannot assume because the company of origin has its headquarters in France or Germany, that its manufacturing is done in that country.

Mr Harris—No, and I am not assuming.

Senator MARK BISHOP—The manufacturing could be done in India, Brazil and China and all sorts of awful cheap places and contracts are written in different financial structures.

Mr Harris—Absolutely. I am simply pointing out that the strength of the exchange rate between the Euro and the Australian dollar is a different mathematical relationship than the relationship between the Australian dollar and the US dollar. Simply because we improve against the US dollar does not necessarily make our industry vis-à-vis the European industry more or less competitive.

Senator MARK BISHOP—But it does for American sourced luxury cars that are imported into this country in American dollars, does it not?

Mr Harris—Absolutely.

Senator MARK BISHOP—It makes them much more competitive.

Mr Harris—Absolutely.

Senator JOYCE—I might just follow on a point there from Senator Bishop, but this is economics and maybe you do not want to comment on it. As opposed to other goods which may be inflationary, the dollar works within a range and major technical issues start happening when the dollar gets to a certain point. If it was to go up eight or nine per cent, there would be major technical issues that would start happening on the export of so many of our other resources which would become uncompetitive, which would likewise force the dollar down. Do you foresee the dollar going up by eight percent?

Senator MARK BISHOP—Is there a question there?

Mr Harris—I will simply answer that, Senator, by saying I did study economics at university but that was an awfully long time ago.

CHAIR—Senator Joyce, do you have any questions?

Senator JOYCE—Yes I do, thank you. Going back to the elasticity of sales for vehicles because I think this is a very important point. I will premise my point by asking: are you aware that there will soon be a release of other very low cost vehicles onto the Australian market?

Mr Harris—I am aware of the production of extremely low cost vehicles, whether or not they will get to the Australian market I think is a question yet to be answered, not least from—

Senator JOYCE—China, India.

Mr Harris—And from India. They need to pass some fairly stringent tests before they get on the roads in this country.

Senator MARK BISHOP—Let us say that at the current prices—they are talking about \$7,000 for the Indian vehicle and I know China has got a couple that they are ready to try and launch in Australia—would you think it would be good advice to say to the Australian manufacturers, ‘I think you should compete in that sector of the market against Chinese wages and Indian wages,’ or do you think we should find another sector of the market in which we are more likely to survive?

Mr Harris—My only comment would be to the consumer and that would be, ‘Buy the safest car you can possibly buy for the amount of money you have got available to you,’ and that is more likely to be an Australian made car than a cheap Indian or Chinese car.

Senator MARK BISHOP—That is good. You used the word cheap which means that you are looking for a car that is going to be more expensive than cheap. If you want the Australian manufacturing industries to survive it is going to deal with the cars that are not cheap.

Mr Harris—We come from a point of view of pushing safety in motor vehicles. In our view, every car that is on the road in this country should have a minimum number of airbags, it should have electronic stability control as a mandatory standard feature and a couple of other things as well. If cars cannot provide that level of safety, in our view, they should not be allowed on the roads in this country.

Senator JOYCE—It has been put to us by the Motor Traders Association of Queensland where they discuss on page three of their report that the price becomes inelastic at around about \$120,000. We know for a fact that luxury car tax kicks in at \$57,123. The whole concept of elasticity means that if you are going to put an increase in price in the bracket between \$57,123 and say \$120,000, give or take, then there will definitely

be an effect on demand; demand will be reduced because it is price responsive in that bracket. Do you know of any Australian vehicles that are produced that cost more than \$57,123 or \$57,180?

Senator ABETZ—It is \$57,180 now.

Senator JOYCE—Do you know of any Australian produced vehicles that are on the market that cost more than \$57,180?

Mr Harris—I have not checked the price lists in recent times. Off the top of my head I cannot answer that question.

Senator MARK BISHOP—I think there are.

Senator JOYCE—Ford Territory.

Mr Harris—I would be surprised if there were many.

Senator JOYCE—FS Falcon utes, a whole range of them. There is a whole range of vehicles that are Australian produced, that are in that responsive bracket, that, because of this tax, will be purchased for less and therefore we will be putting pressure on our Australian car manufacturing industry. That would be a fair statement, would it not?

Mr Harris—Yes, that would be a fair statement.

Senator JOYCE—Are you aware of the report that Mr Bracks is endeavouring to bring down?

Mr Harris—Yes, I am, Senator, and indeed our submission to this committee is an extract from our submission to that inquiry.

Senator JOYCE—Even though Mr Bracks, coming from Victoria, would have a great interest in the future of the manufacturing industry in Victoria. Do you think that it would have been wise or prudent to have waited for Mr Bracks to actually bring down his report before we engaged in something that Mr Bracks might have some serious concerns about?

Mr Harris—I think it would have been even more prudent to wait for the secretary of the Treasury to bring down his tax reform report.

Senator JOYCE—My final question is just a query. You do believe strongly that a price signal changes the demand concept of what vehicles people purchase?

Mr Harris—Absolutely, there is no question about that.

CHAIR—Senator Cameron?

Senator CAMERON—Thanks very much, Mr Harris. Could I ask you the same question I asked the previous witness? Back in 2000 I think it was when the luxury car tax was introduced, are you aware that it was introduced by the Howard government?

Mr Harris—Yes.

Senator CAMERON—And that it was the Howard government who brought this, as Senator Abetz describes it, a class concept of luxury. It was the Howard government who brought this in.

Senator ABETZ—That is wrong.

CHAIR—Senator Cameron has the question.

Mr Harris—The government brought it in, Senator, from my perspective.

Senator CAMERON—I want to go to this concept of luxury, not that I have been used to too much of that. It was a car that had a couple of airbags, ABS brakes, state of the art transmission, reversing camera—

Mr Harris—Electronic stability control.

Senator CAMERON—Leather seats, electric adjustment on the seats, GPS, iPod, Bluetooth—

Senator EGGLESTON—Sounds like a cop car.

Senator CAMERON—Parking sensors and five disc changer. For most Australians would that be pretty luxurious?

Mr Harris—I would not mind one of those, yes, that would be nice.

Senator CAMERON—Would it surprise you that that was describing the Falcon G6E with some extras that still leave it under the threshold?

Mr Harris—No, it would not surprise me at all. I come back to my opening statement that the people we represent are consumers. I reinforce the point I have made several times that we have a very strong focus on safety—safe drivers, safe roads and safe cars. In terms of the luxury car tax, in our view, anything that adds an impost to the price of a vehicle which might make either the manufacturer change the specification of the vehicle for pricing reasons or may make that vehicle less available to a consumer, is not a good thing.

Senator CAMERON—That is not what I am asking you; I am just asking you about this concept of luxury that has been raised by Senator Abetz. I am asking you if that configuration in a car for most working families would be quite luxurious?

Mr Harris—It may well be but luxury is in the eye of the beholder and—

Senator CAMERON—Maybe not for a merchant banker.

Mr Harris—To an 18 year old, a sports car that has got a really good sound system is luxury and it might not have any other features in it at all.

Senator CAMERON—You did say in your submission that you would like to get rid of that tax but the tax is there and, in itself, the figure may not be too high.

Mr Harris—No, what we said was that we think the way in which it is indexed is inappropriate because it is not reflecting the changing value of luxury cars.

Senator CAMERON—So, in the broad, you could live with—

Mr Harris—I should make the point I think our submission actually makes the point that we think it is too low.

Senator CAMERON—Too low?

Mr Harris—Because it is increasingly capturing a broader range of vehicles than it was originally intended to or that it did when it was first brought in.

Senator CAMERON—You are saying you can live with the concept, it is the level. The concept is not—

Mr Harris—It is up to governments to determine whether they are going to have a tax or whether they are not. We would say a couple of things. We think a luxury tax is an anomaly, be it at 25 per cent or 33 per cent, because when the GST was brought in it was meant to replace a variety of sales tax and other taxes. To retain a luxury tax as well as a GST tax seems to us to be not consistent with the philosophy of GST in the first place. Secondly, we would say that the choice of index has meant that the threshold has not changed materially since 1996. In fact, it has been going backwards; there have not been any increases to the threshold. For something that was meant to be indexed not to change its value in the space of 12 or 13 years seems to me to be somewhat anomalous.

Senator MARK BISHOP—Why do you say it was meant to be increased?

Senator CAMERON—Can I just finish this last question?

CHAIR—Senator Cameron?

Senator CAMERON—Given your concerns, did you raise these concerns with Treasurer Costello when it became part of the GST model?

Mr Harris—I was not with the organisation at that time. I would be surprised if we did not but I could check for you.

Senator CAMERON—That would be good, thanks.

CHAIR—Senator Bushby?

Senator BUSHBY—Thank you. Just coming back to the issue of requiring safety and environmental advances to be included in Australian standards, one of its impacts would be the cost of cars to consumers, presumably?

Mr Harris—I do not believe it would make a material difference if you had sufficient volume across which to amortise the cost. Given sufficient volume, most of these safety features are relatively small in price. It is not the case when they are extras; they tend to be much more expensive when they are additional.

Senator JOYCE—Okay. Most of these have fairly high developmental costs and it would be fair to say, would it not, that usually it is the premium car makers that invest in developing new technology of that type with a view, primarily, to give them a market edge as a premium brand? It is only as they are proven and

accepted by the market at the top end that then they get considered for the mass market. Would that be a fair statement?

Mr Harris—Yes, that is a reasonable statement. However, whilst they are expensive to develop, no question about that, we have right now across the world very well developed mature technology for airbags, for electronic stability control, for ABS braking and for environmental performance. Modern European diesel engines are extremely efficient as far as fuel economy is concerned and they are extremely good performers environmentally.

Senator BUSHBY—I do not argue against any of that, but just to pick one of those out, say ABS brakes. We heard earlier that they were introduced on the Mercedes S Class in 1972. If Australia had then said in 1973, ‘We mandate that ABS must be included on every Australian car,’ the cost at that point would have been ridiculous. It needed to filter through. It needed to have the volume elsewhere in the world before we could possibly do it here.

Mr Harris—That is correct, absolutely. We do not have a difficulty with the filtering process; where we have a difficulty—

Senator BUSHBY—No, that is right. The filtering process needs to occur because we could actually mandate that technologies are required to be fitted to all cars in Australia.

Mr Harris—What I am saying to you, Senator, is if we provide sufficient volume and if there is sufficient volume across the world then why cannot that filtering process happen more quickly; that is the first point. Secondly, any price adjustment upwards that puts an impediment in the way of that filtering or puts an impediment in the way of the broader market accessing that technology, we think is not a good thing.

Senator BUSHBY—Okay, that leads me into my next question which was following on from something we have also discussed and that is international car makers and the specifications of cars that they might choose to put on in different markets. It is fair to say, is it not, that international car makers do actually look at the markets where they are going to sell their cars and they tailor specifications of the cars that they are going to sell in those markets to those markets?

Mr Harris—It is certainly true that they have a very keen sense of the price points in the various marketplaces that they sell and, as a consequence, from time to time they change the configuration of the vehicle depending upon which market they are selling it in. That is not to say that any manufacturer that I know of does not provide a vehicle for the market that it is in which is not consistent with the rules and regulations of the market that they are selling in.

Senator BUSHBY—That is the first point, you need to meet the rules and regulations.

Mr Harris—Yes.

Senator BUSHBY—But then they also will tailor the car and what they put in it to the market. The other interesting thing is if you are a German car maker and you are going to sell a car in Australia you would not just take a car off the general production line and send it to Australia; you would actually produce it for Australia because you would need to make sure that it does meet the Australian design rules, et cetera.

Mr Harris—Well, no; it would go through the normal production process but you would take some of the things out of it before it comes here.

Senator BUSHBY—Okay, but in general, in terms of producing cars, they would be aware along that production line that this lot of cars is going to be going to Australia or to a group of markets if they had common features and they would meet the appropriate requirements in those places.

Mr Harris—I do not know. I have no expertise in how they put their production lines together. I would personally be surprised if, as the production line was going along, they knew where each precise vehicle was going to go. They may well do but I do not know.

Senator BUSHBY—Yes, I have an idea on that but if you do not know then I will not pursue that particular point with you. Coming back to the price point that you mentioned, they do manufacture cars to a price on the basis of the research that they have done in the target market at which they believe they could sell the cars to maximise their return. That is the second point as to how this luxury car tax may affect it. We have heard evidence that—and this has happened in the past with Mercedes where they took the radio out and made it an option so that they could get it under the threshold—they will actually tailor their specifications above the threshold in order to get the car to the price point after taking into account that the customer also has to pay the luxury car tax. If they want to sell a car at \$65,000 because that is where they think that they can maximise

their return and there is an increase in the luxury car tax, they may need to reduce some of the options in the car so that they can continue to sell it at \$65,000 to actually get the sales volume that they need.

Mr Harris—Possibly, although the higher up in price bracket you get, probably, the greater the propensity to pass on the full impact of the tax.

Senator BUSHBY—That is right. We have heard some evidence today about inelasticity above a certain point. Just above that threshold, where there is a fair degree of competition and a lot of the sales occur above the luxury car tax threshold market, there is potential pressure on them at that point to remove options, remove specifications or de-spec the car so that they can actually still be competitive in that price range.

Mr Harris—There are two factors at play, one is the competitive nature of the business that you and others have referred to, and it is a very competitive business, there is no question about that. The second factor at play is that whenever you put a price threshold in, at the margin, there will be difficulty both below it and above it. I do not know how far past the threshold you have to go before the margin of where you may push it over or you may push it under applies. I would not have thought it was that high but I do not know. Those two factors come into play. If an increase from 25 per cent to 33 per cent meant an extra \$5,000 in tax then in the range between \$52,000 and \$62,000 they may play with the configuration of the vehicle in order to either bring themselves under the threshold or to keep themselves competitive in a particular price bracket. It would depend on the model and on a whole variety of factors, the knowledge of which I have very little.

Senator BUSHBY—Okay, thank you.

Mr Harris—Thank you. Thank you, Mr Harris, for your evidence this morning.

Mr Harris—Thank you.

[11.37 am]

BLUMS, Mr Aivars, Group Chief Executive, Motor Trades Association of Queensland

DEWAR, Ms Kellie, General Manager, Member Services and Support, Motor Trades Association of Queensland

GANNON, Mr Robert, Group Manager, Government Relations, Motor Trades Association of Queensland

CHAIR—Welcome. Do you have an opening statement?

Mr Blums—We do, Madam Chair.

CHAIR—Please go ahead.

Mr Blums—Firstly by way of information to the senators, the Motor Trades Association of Queensland is an industrial union of 2,500 employers across the motor industry value chain of Queensland. Of those, approximately 270 are franchised car dealers, new car dealers. Most of these dealers have one or more model that attracts luxury car tax. The Motor Traders Associations of Queensland requests that the Senate Standing Committee on Economics consider the following matters in its deliberation on the proposal to amend an increase in the luxury car tax.

The first issue we would like the committee to take into consideration is the contextual issue of this tax. The industry as such, and the end we represent, is a value chain and it has a symbiotic relationship. There is a relationship right through from the manufacturer to the franchise dealer. The non-technical term for this, Madam Chair, is pushing tin and the name of the game is to push tin. This issue then comes down to a very, very sensitive industry sector at this particular time for Australia and for the Australian economy. We are requesting you to consider that any change along that value chain by statutory impost, tax or other costs has a ripple effect along that value chain.

It would appear relevant to us, and we have been listening to the deliberations of the committee and the advice that has been given and the questions, that it would indeed have been appropriate that any evaluation of the luxury car tax be taken in the context of the present Bracks inquiry. I understand today is the reporting day. It would seem somewhat incongruous to us to consider an increase in luxury tax when we were requested by Mr Bracks, on behalf of his committee, to comment on issues such as the level of tariffs and whether they should be reduced, on government support programs and other things. We actually think that this tax is a strategic issue and should be considered in that strategic context. We are suggesting that the committee may benefit from taking it in that context or the government should consider it in that context.

We would particularly also like to point out the fact that, as presented to this committee, the Australian new car market represents a very modest market by world standards. Last year was a record year; they got to one million cars. That is very modest, particularly for the Australian manufacturers when you consider that Ford probably holds less than ten per cent of the market now, that is less than 100,000 cars; GMH probably holds less than 150,000 cars in that market; and Toyota is probably leading at this stage holding somewhere in the order of 230,000 or maybe 240,000 cars. They are very modest figures considering the economies of scale for a manufacturer to be sustainable are somewhere between 200,000 and 300,000 units.

Manufacturers and dealers are operating in a very challenging market. They are experiencing some fairly significant structural changes. The cost of fuel and the imposition of new environmental norms or parameters, which we do not disagree with, put pressure on this market and create dynamics that favour smaller, four cylinder cars and very highly efficient diesel operations. Probably the other structural event that is occurring is that the Chinese cars are here. They came to see us yesterday. Their representatives had a talk to us. I can assure you the first of the Chinese cars are intended to be launched at the Toowoomba ag show in about eight weeks time. They will be in two tranches; firstly those that are commercial vehicles, utes as we call them—there will be some four wheel drive utes and some two wheel utes—and they are going to come under the nom de plume from the organisation called the Great Wall automotive manufacturing company. What else would you call it, the Great Wall?

Senator BUSHBY—I have actually been driven in one.

Mr Blums—Have you?

Senator BUSHBY—Yes.

Mr Blums—The first thing everyone asks is, ‘Did you see photos of them? What do they look like?’ Beauty is in the eye of the beholder, as someone said before. The second tranche will be a sedan that will be in the economy class and they are going to be called the Cherry, and they are going to have two models of those. I do not think either will breach the luxury car tax, Madam Chair and the committee. I think that they have a fair bit of safety margin on that as such. But, they will cause some structural issues for the economy. There is one other thing I would like to bring up. I have only been in this position for two and a half years and once you are inside the industry and can see how the dealers operate, it is somewhat different to being on the outside. The margins that dealers operate on in the cheaper cars are very, very modest. Volume is very important not because of margin but because of contribution to overheads or the division of overheads by the number of units that you are actually handling. This is important right along the value chain; the number of units for the manufacture is important right through. One of the things we are submitting to this committee is that maintaining the size of the market is important.

Therefore, much of our submission will be dealing with the elasticity of demand that was put there, and coming to a level. If the government decides and is of the view that there should be a luxury tax, we are suggesting that in fact this should be imposed in such a way that it does not diminish the market, because any diminution of the market does have quite profound effects along the value chain, because overheads then start to escalate quite dramatically. We would also point out that there appears some incongruity. Luxury boats and private jets do not appear to have luxury taxes. I am not saying it is a very profound point, but it is an interesting point. If we actually look at the LCT threshold, there are a few matters to consider. When we realised this inquiry was under way, we spoke with dealers to try to ascertain at what level did taxes start to impact, or where the inelasticity came in as economists say, and it was quite interesting. Senator Cameron, can I assure you that the Lamborghini man said it is of no consequence in his market whatsoever.

Senator CAMERON—I cannot even say it, never mind buy it.

Mr Blums—I had a look at one, and walked away.

Senator JOYCE—You cannot even fit in it.

Mr Blums—It had a price tag on it that was pretty frightening. What we found out anecdotally, checking with dealers and speaking with them about where things start to react, it would appear to us that inelasticity comes in somewhere roughly between \$110,000 and \$120,000. Somewhere in that range it appears that the tax does not impact on the decision to buy the car. We thought that that was an appropriate definition for luxury. To us it appeared that, if you would buy it anyway, whether or not it has the tax on it, that constituted beyond a luxurious situation. We would also make the point that was made previously that we understand that the luxury car tax captured about 2.5 per cent of the new car market. From the latest data that is available to us, it would appear that it probably captures in excess of 10 per cent now. If we look at escalating the threshold, probably the most appropriate escalation has been done by the FCAI in its calculations where it actually used what is called F6I, and I presume they have raised that with you in any submissions. That would indicate that, if we took a standard family six produced in Australia, a look at the pricing index number since the inception of the tax, probably the luxury car tax should have escalated to somewhere in the order of \$88,000. That seems to be a reasonable sort of position on the calculations they had done. I presume they have submitted their calculation to you?

Senator ABETZ—Yes, they have.

Mr Blums—It does not seem to be unfair, because it is probably a reasonably unbiased number to come up with. The other issue that we think constitutes a difficult position, mainly for our dealers, is that the intention is to apply this tax retrospectively. That causes some concerns. The franchise dealers are put in a somewhat invidious position by this: should they collect a tax for which there is no legislative authority? If they do not, they could be held liable for the tax because they are liable for the collection of the luxury car tax as an adjunct to GST. There are some requirements under the Trade Practices Act where a dealer should advise the buyer of the final price of the product, and this is somewhat difficult in retrospective circumstances. We would suggest that, even if it does not transgress the TPA, there are some issues where it probably transgresses the spirit of consumer protection frameworks as such.

Madam Chair and senators, in conclusion, we would say that the automotive value chain is sensitive to any change in government charges or taxes, whether they are state or federal, anywhere along the value chain. We think the threshold should be considered by you as being an issue that is important in this area, both in terms of industry policy as well as a matter of equity. Then we think the issue of retrospectivity is one that should receive fairly serious consideration by this committee because it does create some issues of obligation of

resources and compliance cost at the end of the day. That concludes our statement. We will be pleased to answer any questions.

Senator JOYCE—You have told us about the Chinese coming up with these new cars, the Great Wall and the Cherry, and we know that India is coming out with vehicles as well, obviously going to the lower end of the market. Do you believe that that is an unlikely place for the Australian car industry to compete?

Mr Blums—I think Mr Bracks made an interesting statement in considering the information before him for his report in which he said that it would be extremely doubtful that the Australian automotive industry could compete in the four cylinder market as such. From what I have seen from dealers, I would doubt that Australia could do that. It would be in the global automotive industry's interest to supply a four cylinder market from global production.

Senator JOYCE—Just by reason of the elasticity and the comments you made on page three of your report, if I include the front page as page one, where you say, 'Over \$120,000, there is an inelastic nature to the market; therefore, by reason, there is also not a great number of cars sold in that market.' It would be unlikely for us to try to produce a car that is in the over \$120,000 section of the market and expect to keep our production numbers up with the domestic market we have in Australia?

Mr Blums—That is right. Australia is not a producer in the \$120,000 range. It produces across a range that goes from the economy groups into the Statesman and Caprice models, those areas at the top end, but it does capture a few other cars in there.

Senator JOYCE—So, we are not in the budget market, and we are not in the top market. Really, the future of the Australian car industry relies on a certain specific section of the market which, by reason of being below \$120,000, is elastic, and therefore is responsive to price?

Mr Blums—Yes, well, I think Mr Gannon might care to advise that our industry can exist in the family six cylinder area.

Mr Gannon—The Australian industry has survived on a niche product of six cylinder right hand drive vehicles that are not ably supplied by global manufacturers from elsewhere. The impact of a luxury car tax will only affect the upper range of that production, but the effect of any diminution in that production is to affect the whole of the unit costs across the production chain, and their contribution to the overhead.

Senator JOYCE—So just—

CHAIR—Sorry, Senator Joyce, can I just point out that we have our next session starting at 12.30, so we really will need to wrap it up by 12.

Senator JOYCE—Okay. Just like a tariff in the past became a price impediment to stop people buying imported vehicles, this tax is a price impediment to stop them buying by reason the most likely section of Australia's future car manufacturing production and also a section for which we are producing cars right at this very moment?

Mr Gannon—Imported vehicles that were caught up in the original luxury car tax now fall outside of that range, and there are now Australian produced vehicles that are caught by the luxury tax.

Senator JOYCE—So, we are putting a tax on Australian vehicles. Just following—

CHAIR—Senator Bishop?

Senator MARK BISHOP—I have two brief questions. The luxury car tax threshold is indexed to the CPI motor vehicle index and has been for a significant number of years. It was set by the previous government, as I recall, and that index has in fact been in negative territory for the best part of the last 10 years. That being the case, what is the justification for an increase in the threshold from \$57,000 at the moment up to, I think you said, \$85,000 or \$88,000, when the actual index as set by the previous government has been in negative territory?

Mr Gannon—The index as set has adjustments in it that discount heavily issues, and they put in quality coefficients and others, that reduce the real impact of the index. They have an index number which I think is distorted, and that is why we are not getting any increase in the index as such. That is why I said the F6I would be an appropriate number, because all it does is take a family six base range car and work out how its price is increased without any accoutrements, and does not do any of the changes or adjustments for quality and other statistical gymnastics that have been applied to artificially keep this threshold at a low level.

Senator MARK BISHOP—But you have lived, and your industry at the upper end has grown, with that as you allege distorted index for the last 10 years. What is the change now that warrants an increase?

Mr Blums—We just think that it should be set at a realistic situation. If you are going to review this, we are just suggesting that you review the whole thing and have a look at its appropriateness because we think there are distortions in there, and I think the committee has an opportunity to review those things to see if a distortion does exist, and if it does, to correct it.

Senator MARK BISHOP—You allege there have been distortions but you have lived with them for the last 10 years?

Mr Blums—Yes.

Senator MARK BISHOP—Secondly, if the price inelasticity swings in at around \$110,000 or \$120,000, that just means there will be a shift by the purchaser to an alternate brand. The price increase will be something in the order of seven, eight or \$9,000 if it is applied fully from 25 to 33 per cent. There would just be a shift to an alternate luxury car product of a different brand, would there not?

Mr Blums—No. All we are saying is that once you start to change people's decisions, it does not appear appropriate as a luxury if it impacts on them in such a way, and in some cases, it might be a circumstance where they need a particular vehicle because of family size and they have to in fact change from their preferred vehicle to a less preferred vehicle.

Senator MARK BISHOP—But if they have only \$125,000 to spend, and the price on a particular vehicle has gone from \$120,000 to \$129,000, for example, because of the increase in the tax, they still have the ability to get an alternate luxury car for their maximum price of \$125,000 if it is offered, do they not?

Mr Blums—But why should they not have the car that they prefer?

Senator MARK BISHOP—Well—

CHAIR—Thank you. Senator Bushby?

Senator BUSHBY—Thank you. Just following up on a comment made by Mr Gannon, about a reduction in volume of top end Australian made cars on the overall return available, I guess, to the Australian manufacturers, I have heard previously, not from evidence given to this committee, that a lot of car manufacturers and also retailers get the fat in their business out of the more expensive models so they can then sell their more base models at a very keen price.

Mr Gannon—That is the case. On base line models, the margin for a dealer on a new car sale is usually well below \$1,000 and in some cases it is only a couple of hundred dollars. The return from the transaction on the higher value cars certainly contributes disproportionately to the income of the dealership and the overheads.

Senator BUSHBY—So, a disproportionate drop in sales at the top end could have a disproportionate effect on their overall return and their viability?

Mr Gannon—That is correct.

Senator BUSHBY—That would be the same for retailers and also presumably for manufacturers as well?

Mr Gannon—That is correct.

Senator BUSHBY—Okay, thank you.

CHAIR—Thank you.

Committee adjourned at 12.00 pm