



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON ECONOMICS

**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**

WEDNESDAY, 6 AUGUST 2008

MELBOURNE

BY AUTHORITY OF THE SENATE



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**SENATE STANDING COMMITTEE ON  
ECONOMICS**

**Wednesday, 6 August 2008**

**Members:** Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Bishop, Bushby, Joyce, McEwen and Webber

**Participating members:** Senators Abetz, Adams, Allison, Barnett, Bartlett, Bernardi, Birmingham, Boswell, Boyce, Brandis, Bob Brown, Campbell, Carol Brown, Chapman, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Heffernan, Hogg, Humphries, Hutchins, Johnston, Kemp, Kirk, Lightfoot, Lundy, Ian Macdonald, Sandy Macdonald, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Murray, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Polley, Ronaldson, Scullion, Siewert, Stephens, Sterle, Stott Despoja, Troeth, Trood, Watson and Wortley

**Senators in attendance:** Senators Abetz, Bushby, Cameron, Eggleston, Fielding, Furner and Hurley

**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 11.33 am**

**CHAIR (Senator Hurley)**—I declare open this meeting of the Senate Economics Committee’s 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. This is the third public hearing for this inquiry. These are public proceedings, although the committee may agree to a request to have evidence heard in Canberra or may determine that certain evidence should be heard in Canberra. I remind all witnesses in giving evidence to the committee that 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 contempt. It is also 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 on an answer having regard to the ground which is claimed. If the committee determines to insist on 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.

[11.33 am]

**GRIFFIN, Mr Peter Gerard, Corporate Manager, Corporate Affairs, Toyota Motor Corporation Australia**

**KATIC, Ms Vesna, Manager, Government Affairs and Trade Policy, Toyota Motor Corporation Australia**

I welcome Mr Peter Griffin and Ms Vesna Katic of Toyota Australia. Do you wish to make an opening statement?

**Mr Griffin**—Yes, thank you very much. Good morning, senators. Thank you for the opportunity. I would like to run through a statement which includes some attachments that you would have copies of in front of you. That will take a few minutes and then we will be open for questions on the topic. Toyota Australia is Australia's leading manufacturer and importer of motor vehicles, and in 2007 we produced around 149,000 cars which accounted for 45 per cent of locally made cars in Australia, and sold almost 245,000 vehicles, both locally made and imported vehicles. Toyota Australia currently has about a 24 per cent market share for new car sales across Toyota and Lexus brands.

We welcome the opportunity to attend this hearing. Our basic position is that we are concerned with this tax. We believe it is an unnecessary tax, and our preference would be for it to be abolished. This position is based on our view that, simply, there is no rationale for taxing a good in this way. To our knowledge, there is no other good in Australia subject to a separate tax simply because its price exceeds an arbitrary threshold. We consider that LCT represents a distortion to the market in a number of ways. Also, it may impact the take-up of safer or more environmentally friendly technologies. In this regard, if the LCT is retained, we would prefer hybrid vehicles to be exempt from the LCT.

We would like to discuss some facts that we think the Senate should be mindful of in its deliberations on the LCT bill, including LCT incidence and Toyota vehicles, safety and environmental technology impact and market distortion, and the impact of retrospective LCT increase. Regarding LCT incidence, we are concerned that over time the LCT has captured a significantly greater proportion of vehicles because its threshold is linked to the motor vehicle CPI. Please refer to item one for a simplistic representation of the way that the motor vehicle CPI is adjusted downwards for quality or specification improvements. That is to say, despite vehicles in a very competitive auto market having increased specifications, quality and prices, the CPIMV adjusts the price down for these very improvements, therefore resulting in an arguably artificially low threshold for LCT purposes that is not reflective of the prices actually paid by the customer. The FCAI, Federal Chamber of Automotive Industries, has already shown you at a previous hearing that this would not be the case if any number of alternative methods were used for setting the threshold such as average weekly earnings. Actually, if average weekly earnings were used instead of motor vehicle CPI, the LCT threshold could be closer to \$100,000 rather than the current \$57,000. LCT threshold tied to MVCPI is arguably the reason LCT incidence has increased from 2.5 per cent of vehicles sold in 1979 to more than 11 per cent in 2000, a reach that is arguably beyond what was intended when the tax was first introduced. Toyota experiences an even greater impact than the industry average, with conservatively 12 per cent of Toyota's total sales now attracting LCT.

Item 2 in your pack provides an estimate of Toyota and Lexus vehicles attracting LCT. You can see the range there through Toyota vehicles and Lexus vehicles, total sales that we believe are subject to LCT relative to total sales at a percentage of 12 per cent. Currently more Toyota LandCruiser wagons than any other vehicle attract the LCT. That is, more LandCruisers than Lexus, BMWs, Mercedes or Volvo branded vehicles attracted LCT.

So, let us consider who buys the LandCruiser and for what purpose. Just to understand what we are talking about, please find attached there also a photograph of the LandCruiser 200 GXL turbo diesel. The LC200 GXL turbo diesel is the highest volume vehicle in the LandCruiser 70 or 200 range. Let us consider the cost of this vehicle to a purchaser in item four in the next page of your flipchart. That shows the recommended retail price for the vehicle and estimate of the dealer delivery charge, which can vary depending on the dealer, total base price, then the additional taxes and charges that come with the vehicle, and the total outgoing purchase of \$95,596. By the time you have taken delivery of this turbo diesel LandCruiser, you have paid over \$15,000 to the federal government and almost \$5,000 to the state government, including paying 33 per cent LCT on a



dealer delivery charge which can be up to \$2,500 depending on the dealer location, and a further LCT on any optional extras you choose to buy if you get them at the same time you buy the vehicle.

There may be a perception among some that the \$81,328 recommended retail price is a lot of money, and that anyone purchasing it can well afford to spare almost \$8,000 on LCT. It is worth considering which Australians are buying the LandCruiser and what do they use the vehicle for. In terms of the source of our data, we maintain a database of customer surveys completed by customers when they purchase our vehicles. This provides the best and most accurate data we have on the demographics and use of the vehicles. The last page in your flipcharts, item five, summarises our market data for the whole LandCruiser 70 series and 200 series.

We note that it does not distinguish between variants, but as LC200 GXL turbo diesel in the pricing example is the high volume selling LandCruiser in the 200 series, we believe that the data is relevant. If you look at item five, these statistics are based on 2006 and 2007 calendar year sale surveys of the LC70 and LC200 vehicles. We point out the following: first, Queensland and Western Australia account for the majority of sales despite not being the high population states. Secondly, the majority of purchases are in rural provincial areas as opposed to metropolitan or urban areas. Thirdly, significant business mixed use is indicated as opposed to private only use. Fourthly, a significant proportion are used for carrying loads including machinery or appliances, construction materials, metal goods and hardware, agricultural and marine products, et cetera. Fifthly, about half of these vehicles are used other than for city, shopping or just straight recreational purposes. This includes weekly driving on highways, in the bush, on unsealed roads, on steep uphill roads, on sandy roads, on desert, riverbeds, muddy or swamp conditions and for farm work.

Quite simply, for many people, these vehicles are essential for their livelihood or are necessary due to the driving conditions they face. They are essential as a tool of trade for many people is the key point we want to make there, and they are essential for their livelihood. In terms of safety and environmental features and market distortion, new environmentally friendly technologies and safety features may add to the cost of a passenger car and lead to an LCT penalty for customers opting for a safer or more environmentally friendly vehicle. Toyota's long-term goals include the concept of sustainable mobility, and we believe that hybrid technology is a step in this direction. Accordingly, we think that the uptake of hybrid technology could be assisted if hybrid vehicles were exempt from LCT if this tax were to remain. Traditionally new safety features are introduced through the upper end of the market and the LCT disadvantages those who choose to be early adopters of safety features which ultimately can flow down to more mainstream vehicles.

We have identified that, for Lexus, approximately 1,400 vehicles per year would become subject to LCT, that is, exceed the LCT threshold, if an enhancement pack, including the safety feature of reverse park assist was purchased—that is the reversing camera. This is 1,400 Australian customers per year who may be forgoing some safety feature to avoid LCT. On the issue of market distortion, options on vehicles attracting LCT themselves attract LCT, therefore incur 33 per cent more than options or accessories on vehicles under the threshold or options that are purchased other than at the same time the vehicle is purchased. In particular, it should be noted that work related vehicles such as LandCruisers purchased by farmers, construction workers or miners are often fitted with additional safety features and job related optional extras which attract LCT creating a business impost.

As to the impact of retrospective LCT increase, since the announcement there has been significant uncertainty to the industry and now a new administrative burden for dealers. Since 1 July dealers have had to decide whether to (a) collect only 25 per cent LCT and, if the Senate passes the bill in its current form, figure out how to get the rest of the eight per cent from customers at a later time; (b) collect 33 per cent LCT from customers, although there is no legal basis upon which to do this because the law says the LCT is currently 25 per cent; or (c) hold the extra eight per cent LCT in some trust account and work out how to balance things out later with the ATO when the law is passed or send it back to the customer if the law is not passed. We have around 1,035 customers who purchased cars in good faith prior to the announcement on 14 May thinking LCT was 25 per cent but who did not receive their vehicle prior to 1 July and who must now pay 33 per cent if the law is passed in its current form.

For these reasons, we strongly urge for the retrospectivity of the proposed bill to be reconsidered and a starting date be set for a future point in time which takes into account the often long cycle time from order to delivery.

In summary, we would ask the Senate to remember, first, the reach of luxury car tax is arguably much greater than was intended at the time it was first introduced. Secondly, luxury car tax applies to a significant

number of vehicles used wholly or in part for business or employment purposes by rural and provincially based Australians often necessarily purchased to cope with difficult driving conditions. Thirdly, retrospective application of any LCT increase should be reconsidered for many reasons, but particularly because of the vast number of customers who purchased vehicles in good faith prior to the announcement who thought LCT was 25 per cent but will be forced to pay 33 per cent if this bill is passed in its current form. Thank you for your time.

**CHAIR**—Thank you, Mr Griffin. Toyota's sales figures apparently were a record for the month of June, and ahead of the July sales figures your marketing director said that sports utility vehicles, which are the kind of four-wheel drives you are talking about, were very strong, at 13.2 per cent for the year but presumably also for that month after the announcement of the luxury car tax increase. So, it does not seem to be affecting that segment of the market?

**Mr Griffin**—There has been strength in that market, but also those sales can reflect the issues that we have raised here in terms of the need for some customers, particularly in regional Australia, to purchase the vehicle which may have to be done regardless of the timing. It is just a business decision in terms of when they make the decision to purchase or replace existing vehicles.

**CHAIR**—A business decision would presumably include the total cost of the vehicle and whether it was worth it to that business? I mean, there are vehicles in the four-wheel drive category that are well below the kind of comfort that you get in the kind of LandCruiser you are talking about?

**Mr Griffin**—That is why we deliberately chose the mid-range vehicle, to try to not distort it by picking the absolute luxury vehicle and choose a mid-range type of vehicle that customers both in metropolitan and regional areas could be driving.

**CHAIR**—But if businesses think that it is not worth their while in business terms to buy that kind of vehicle, you and others do have four-wheel drives that are below the cost of the luxury car tax?

**Mr Griffin**—There is a range of vehicles in the range. When we get into the LandCruiser or LandCruiser 70 area, they are around the threshold point, so it will have some impact.

**Ms Katic**—We actually do not have any of the LandCruiser 200 series that are below the threshold. The lowest starting RRP is \$70,735, but the one we discussed, the turbo diesel, is the highest volume selling one in the range and is at that mid-point of prices.

**CHAIR**—But, given the strength of your sales, it appears that customers are not too worried about their luxury car tax though?

**Mr Griffin**—The exact impact of the tax itself will probably take some time play out, but what we are hearing through the dealers is that there is potentially some impact for this in future purchasing decisions.

**Senator ABETZ**—Are the sales figures in relation to July actual sales figures or order figures?

**Mr Griffin**—Sales figures.

**Senator ABETZ**—Right. What is the waiting time for one of these vehicles from time of order to delivery?

**Mr Griffin**—It can be anywhere from three to six months depending on the options that are chosen at that time.

**Senator ABETZ**—Right, so the chances are that, for the sales figures of these vehicles in July, they were ordered in May or before the announcement was made?

**Mr Griffin**—I would say it would be certain that the orders were placed well ahead.

**Senator ABETZ**—For the figures still coming through in July, the customers are bound because, as I understand it, most of the sales agreements have in them including any tax that may be due or payable. or a phrase to that intent is in the sales agreement, is that right?

**Ms Katic**—We would assume they would have covered that, yes.

**Mr Griffin**—Yes, with the purchase contract, yes.

**Senator ABETZ**—Toyota runs a very effective worldwide network, and well done on that, but from that worldwide perspective, are you aware of any other country that thinks that cars are worthy of a luxury tax especially at this punitive level of 33 per cent?

**Ms Katic**—We did have a look around. We focused particularly on the big five European nations and the United States. In Germany, Italy, the UK and the US, countries that we would compare ourselves as a developed nation, there is no luxury car tax.

**Senator ABETZ**—If we look hard enough we can find something in the Philippines.

**Ms Katic**—We found one in the Philippines, that is right. I do not remember the rate but there was one in the Philippines.

**Senator ABETZ**—Alright, but comparable western countries that you have studied do not have this tax on motor vehicles?

**Mr Griffin**—It would be the exception rather than the rule, certainly.

**Senator ABETZ**—Alright.

**Mr Griffin**—If I can add to that, in conjunction with the FCAI position on that, we are not aware of any other luxury good that attracts such a tax.

**Senator ABETZ**—Yes, which is a point that was very well made by the FCAI. How much do you think this luxury car tax will cost Toyota in Australia? Have you made any assessments as to what you think it might cost you with fewer sales, et cetera?

**Ms Katic**—It is very difficult to judge at this point. It is hard to know the timing impacts, how many sales were brought forward before 1 July and delivered, or how many people are waiting to see what happens after July. Also, we have to be mindful that all of our competitors are facing the same increase, so it is difficult to answer that question. We have not come up with any amount.

**Senator ABETZ**—Fair enough. You have asked for an exemption for the hybrid electric vehicles as an incentive for promoting, encouraging and taking up fuel efficient and environmentally friendly technology. Would you agree to that also being applied, let us say, to the BMW clean diesel and other types of technology, other than just the hybrid vehicle?

**Mr Griffin**—I think that would be a matter for the committee to review and for other manufacturers to make their case. In Toyota's case, we use the term here 'sustainable mobility'. Hybrid is a core part of that technology. As the committee is probably aware, we will commence local manufacturing of hybrid in Australia in about two years' time. We see that as the future, but what appears to be the case with environmental or safety equipment, it often starts at the higher end and filters down through higher volume and ultimately reduced cost for customers down the track. In this case a number of Lexus models subject to LCT are hybrid vehicles, and in our view they should be exempt from LCT.

**Senator ABETZ**—Chances are the \$35 million that Kevin Rudd and Kim Carr gave you might be taken out of your other pocket, courtesy of the increase in the LCT, but we will wait and see on that. I know that Toyota made a submission to the Bracks review, but did you do so in relation to the luxury car tax?

**Mr Griffin**—We did refer to LCT in our submission. It was a brief reference, and certainly not to the detail that we went into with this presentation or in our submission. Our view there is consistent with what the committee has heard today.

**Senator ABETZ**—Thank you for that. Chair, given that response, I was wondering if it would be appropriate for the committee to ask the minister to in fact release the Bracks review, especially that component of it that undoubtedly will be dealing with a luxury car tax? We have a situation where the government is sitting on the review and that you, in fact, as chair, might be in an embarrassing position bringing down a report that says something about the luxury car tax that is completely opposite to that which Mr Bracks finds, and I would have thought whatever learnings Mr Bracks had from his review would be very helpful and beneficial to our committee to take into account—

**CHAIR**—Senator Abetz, is that a question to me or to the witness?

**Senator ABETZ**—For the committee to consider, because I think—

**CHAIR**—Do you have a question for the witness? Our time, you might note, is quite short.

**Senator ABETZ**—Yes, it is very short but, given that this is the last day of hearings on this issue, and given that Mr Bracks has now given his report to the government, I would have thought you at least would have said yes to that suggestion and that we could have moved on. But—

**CHAIR**—Do you have any other questions for the witness?

**Senator ABETZ**—If you are not going to answer that, yes I do. It is an unfortunate reflection that the committee chair does not want to be informed by the Bracks—

**CHAIR**—The committee chair does not want to be questioned while we have witnesses, Senator Abetz. If you want to discuss this—

**Senator ABETZ**—I am not questioning, I am asking.

**CHAIR**—In a private meeting afterwards, then certainly I will deal with it. But Senator Cameron, I think, has some questions.

**Senator ABETZ**—The submission—

**Senator CAMERON**—I think I have the call.

**Senator ABETZ**—I was asked if I had any questions and I said yes. I am about to ask—

**CHAIR**—Senator Cameron.

**Senator CAMERON**—Yes, thank you. Mr Griffin, you have given us a list of the LandCruiser that you say is your mid-range LandCruiser. As to some of the inclusions in that LandCruiser, does it have leather seats?

**Mr Griffin**—In terms of the precise specifications, I would have to take that on notice. A sales person will know that detail. But certainly that would be an option. Any of those points would be an option for the vehicle.

**Senator CAMERON**—I must say I find quite bizarre this argument that has been put forward that safety will somehow be compromised and that people will opt out of safety because of this modest increase in the luxury car tax. You have said that you cannot tell me, but it seems to me that the LandCruiser you have put forward may have a five disc CD changer, it may have Bluetooth, it may be iPod integrated, and it may have leather seats. It could be quite a luxury model for a car. Would not these be what people would look at if safety is the issue?

**Mr Griffin**—I think the issue here, regardless of the features that are specifically on the car itself, comes back to our basic premises that we believe the tax should be abolished and there should not be any discrimination on where customers choose to spend their money regardless of the features that may be there or the safety features that they may choose to take on board with the vehicle.

**Senator CAMERON**—How many times have you approached government over the last 12 years to seek the removal of the luxury car tax, and have you had specific discussions with the previous Howard Government about the removal of the luxury car tax?

**Mr Griffin**—I cannot give you specific occasions when that has occurred, but I know it has been an issue for some time for the industry.

**Ms Katic**—We have requested it in writing, yes.

**Senator CAMERON**—The standard Prius, I understand, retails for about \$37,000.

**Ms Katic**—Correct.

**Senator CAMERON**—The new Camry hybrid in 2010 would, in comparative terms, be either a little bit above or a little bit below that price margin. Why would this luxury car tax be a problem for the Prius or the Camry hybrid? It will go nowhere near the Prius or the hybrid.

**Mr Griffin**—I understand that it will not, but then again a buyer who chooses to purchase a vehicle such as a Lexus with a hybrid synergy drive has that choice. Why should they be paying an additional tax compared to someone who is purchasing a vehicle below the threshold? Also, as hybrid technology advances, again we will see a case where new hybrid technology most likely will be introduced at the higher end of the range and then filter down through the rest of the range.

**Senator CAMERON**—Is not that a bit of a nonsense argument? Do you seriously put to this committee that the modest increase in a tax that has been there for almost 30 years will have an effect on Toyota's research and development, innovation and safety? Is that a serious proposition you are putting to us?

**Mr Griffin**—Throughout the whole submission, we believe that the tax is an unnecessary tax.

**Senator CAMERON**—That is not what I am asking.

**Mr Griffin**—Regardless of where it is positioned to what vehicle, we believe that the tax should be abolished.

**Senator CAMERON**—But that is not what I am asking. I asked specifically if this would compromise your research and development, and your safety, in the development of your cars? Are you seriously putting that as a proposition to this committee?

**Mr Griffin**—The tax would not impact on Toyota's global research and development activity. I believe it would be a great shame, though, if Australia was not the recipient of this type of technology in the longer term. If customers were taken away from buying this type of vehicle it becomes more expensive and customers choose not to take it on board.

**Senator CAMERON**—What type of safety technology do you see this modest increase in the luxury tax denying Toyota consumers in Australia? Secondly, would you sell an inferior model of car in Australia because of the luxury car tax?

**Mr Griffin**—To the second question, absolutely not. We will always aim for our continuing high standards on safety for our customers. As I say, I expect that the impact on Toyota's global research and development program through this tax would be negligible. Again it would be a shame if the market responded in such a way with increased prices for these vehicles that there would not be the take up of this technology in Australia.

**Senator CAMERON**—Should someone who buys a standard model Toyota be fearful that their safety is compromised against one of your higher end car buyers? Is it a more dangerous proposition for a consumer in Australia to buy a standard Toyota and drive it out there compared to one of your higher end cars?

**Mr Griffin**—Absolutely not.

**CHAIR**—Thank you, gentlemen. Unfortunately we have a very short amount of time. Thank you for coming in and I will now call Ford to the witness table.

[12.01 pm]

**HAUG, Ms Elly, Government Liaison Manager, Ford Motor Company of Australia Limited**

**SCoulAR, Mr Russell Gray, Government Affairs Manager, Ford Motor Company of Australia Limited**

**CHAIR**—Welcome to the committee. Do you wish to make an opening statement?

**Mr Scoular**—Thanks for the invitation to meet with you today. We appreciate the opportunity. Ford Australia is one of this country's largest manufacturing organisations. It directly employs some 5,000 people. Its core products are the Ford Falcon and the Ford Territory, both of which are fully designed, engineered and manufactured in Australia. Ford Australia has contributed to and is supportive of submissions to this review by the Federal Chamber of Automotive Industries. We have also made our own submission, and we trust that our appearance today will provide an opportunity to complement the points that we raised in that submission. Conceptually we do not support the luxury car tax. However, we are also pragmatists and acknowledge that governments over many years have kept this tax in place. Given this environment, we have elected to focus our comments on the mechanics of the tax, namely, the threshold level at which it is applied and the adjustment mechanisms that are also employed.

The issues here are in fact wider than luxury tax. As you are aware, the tax threshold also doubles as the depreciation limit, and many companies and commercial organisations in establishing their own corporate and organisational vehicle fleet purchasing policies use that as a ceiling as regards per vehicle purchases.

We believe that the threshold of \$57,180 is too low and in need of revision. We believe that a threshold in the order of \$65,000 to \$70,000 would be more appropriate. We also believe that the adjustment mechanism needs revision. At present the luxury tax threshold is adjusted annually provided there is an increase in the motor vehicle subgroup of the consumer price index. In recent years there has been little movement in this index primarily due to new low price market entrants in the smaller car categories, significant vehicle feature content upgrades and widespread marketing promotions. In fact, since 2002 the threshold has moved by only some \$171 or 0.3 per cent, whilst in the same period the consumer price index itself has moved by approximately 16 to 17 per cent. There was in fact no adjustment to the threshold over the four years 2002 to 2006, and the latest threshold adjustment at \$171 in six years has put pressure on the industry and on the local manufacturing industry. It has done this by contributing to a pricing log jam in the \$50,000 to \$55,000 bracket. It has disrupted the orderly pricing in new car market and constrained the ability of model ranges in the medium to larger size of vehicles, including domestic model ranges, to be logically and sequentially priced in a step-up manner.

Senators, a new car model range can be considered in very much the same way as an aircraft seating plan. Airlines call it economy, business and first class. Everybody travels on the same plane but pays according to the feature comforts and amenities of their class. Numerically most of the seats on an aeroplane are at the back. However, whilst I am not an expert on the aviation industry, it is my understanding that it is the seats up front that make a greater contribution to the profitability of any flight. In the automotive industry it is a similar analogy regarding a new model range. In the case of the Ford Falcon, for example, the range of pricing in that vehicle across the various derivatives, excluding the high performance derivatives, is in the order of approximately \$38,000 through to \$54,000 or \$55,000. What may have started life as a tax on first class travellers in effect has over time spread to business class and is now down to even what we perhaps could call premium economy. We believe that the situation needs to be corrected, and would suggest that the committee may care recommending a one-off adjustment to the threshold and then on an ongoing basis adjustments based upon the CPI as a whole as opposed to the CPI motor vehicle subgroup. Thank you.

**Senator ABETZ**—You have told us about Ford designing, engineering and manufacturing vehicles in Australia. The technology, the work done in innovation, as you have just indicated, usually starts at the top end of the market and then trickles down into the other models. From that perspective, what percentage of Ford's vehicle sales would be over the luxury car threshold?

**Mr Scoular**—Based upon last year's sales, it was approximately six to seven per cent.

**Senator ABETZ**—Without giving away too many trade secrets, and keeping your analogy going of business class seats, that is where Ford's profitability is likely to be made rather than in the economy seats?

**Mr Scoular**—We seek to make profits across all our models and across all our derivatives. I think it is fair to say, as a rule of thumb, that the contribution to the profitability of a higher series vehicle or derivative would tend to be greater than a lower series.

**Senator ABETZ**—In a period where the Australian dollar is particularly high, I assume that imports are therefore somewhat comparatively cheaper than the locally made Australian motor vehicle which is above the luxury car threshold?

**Mr Scoular**—The currency appreciation of the Australian dollar in recent years has certainly been a contributor to the competitive challenge that the industry is confronted by.

**Senator ABETZ**—Would it be fair to say that, in general terms, the automotive manufacturing sector in Australia has not been doing it easy now for a considerable period of time?

**Mr Scoular**—It is certainly facing significant competitive challenges.

**Senator ABETZ**—How are your dealerships dealing with this aspect of a retrospective tax? Has Ford headquarters told them all to collect the 33 per cent up front and put the eight per cent in a trust fund? How are they dealing with the finance agreements? How are they dealing with the stamp duty payable on the purchases? Is that being calculated on the 25 per cent luxury car tax or on the 33 per cent luxury car tax?

**Mr Scoular**—Ford Motor Company of Australia actually does not own any of the Ford dealerships in Australia. They are all independently owned and managed and operated businesses. In that context, it is up to those businesses as independent businesses to seek their own counsel and advice and to implement their policy decisions accordingly. We can and have made them aware of the advice that has been given by the taxation office and by government in this area.

**Senator ABETZ**—Have you had any feedback from your dealerships as to difficulties being encountered as to how to deal with this retrospective element that is, and remains, so uncertain?

**Mr Scoular**—I think there is confusion out there in the market place at the present time.

**Senator CAMERON**—First I would like to ask you the same questions you heard me asking Toyota, because it is all relevant. I think your top model is now going to be the G6E turbo?

**Mr Scoular**—That is the top model of the Falcon range, yes, Senator.

**Senator CAMERON**—Underneath that is a G6E which would come under the threshold?

**Mr Scoular**—Yes.

**Senator CAMERON**—The G6E standard has leather seats, reverse parking camera. You can upgrade to say an iPod; you can put in GPS, and you would probably still come under that threshold, as I understand it?

**Mr Scoular**—If you were to put in a feature of satellite navigation and some of those features, you would probably get very, very close to the threshold. You may get over.

**Senator CAMERON**—Very close, but it would be marginal. I am sure you understand that the tax only applies over the threshold. Even if you did it, the extra tax would be minimal, is that correct?

**Mr Scoular**—If it was only the tax that we were talking about, yes.

**Senator CAMERON**—That is what we are talking about here.

**Mr Scoular**—I understand but also I made the point in my opening comment, Senator, that the tax threshold in many corporate cases has become the ceiling, if you like, for company vehicle purchases.

**Senator CAMERON**—Which would still allow access to your second to top, if not top, model which is quite a luxurious car without any tax impost, is that correct?

**Mr Scoular**—To the extent that it was below the threshold, yes.

**Senator CAMERON**—That is right. So basically your top model is under the threshold. Would you argue that if someone buys your standard Falcon and someone buys the G6E turbo that there would be any difference in terms of their safety on the road?

**Mr Scoular**—No. In fact I would argue that both cars are very, very safe cars. An XT Falcon and a G6E derivative are very safe. In fact, you may be interested to know, as we talk, the company is announcing that the new FG Falcon has just received the first five-star safety rating from ANCAP of any Australian made car.

**Senator CAMERON**—That was a dorothy dixer; I got your ad in there, do you see? As to this argument that suddenly safety will be compromised because of this modest tax, you have come here and you have

argued that you are going to take a pragmatic position on this. You do not come arguing those extreme positions, do you?

**Mr Scoular**—I do not know if I would call them extreme. We have elected to focus our comments on, let us call them, the mechanics of the tax rather than the tax per se. Perhaps we are being pragmatic in that approach.

**Senator CAMERON**—I think you should get a better analogy than the airlines, but I think—

**Mr Scoular**—I struggled to find an analogy. If you have a better one to help me, I would be pleased to receive it.

**Senator CAMERON**—You are going to continue your production in Australian and your technological innovation within Australia?

**Mr Scoular**—We have significant investments in both areas of our activities, yes.

**Senator CAMERON**—And that will include safety?

**Mr Scoular**—Safety, environment—all those factors are a very integral part of vehicle design.

**Senator CAMERON**—Has there been any discussions at the board level in Toyota Australia to say that this tax will require a minimising of the safety of Ford cars within Australia?

**Mr Scoular**—No.

**Senator CAMERON**—Has Ford had any discussions over the last 12 years with any government minister, Senator Abetz or any of the then government senators on the issue of the luxury car tax?

**Mr Scoular**—Over time in various forums, including most recently the Bracks review, we have made comment on the luxury tax as an issue. We have also contributed over that period of time to comments made by the Federal Chamber of Automotive Industries.

**Senator CAMERON**—Over the last 12 years you have not had any government minister or any government Senator saying to you this luxury car tax, as Senator Abetz described it—what did he describe it as? Basically—

**Senator ABETZ**—Make up the words; you usually do.

**Senator CAMERON**—No, you make up the words; I just repeat them. Sorry, I will come back to that. Do you believe that there is going to be a huge impost on Ford? The argument I have seen is that the European car manufacturers are saying it would give the local high end producers a significant advantage.

**Mr Scoular**—We see the impact on our company, Senator, through where the actual ceiling level itself is at \$57,000 and the fact that it has hardly moved for a large number of years. You pointed earlier to a couple of Ford derivatives of the Falcon range and where they were priced just under the threshold. The point I made in my opening comments was that, if you were to do an analysis across the entire industry of the large number of vehicles and models in the industry, there has over time become a significant log jam of cars that are parked, if you like, just below that threshold. As a result of that the competitive intensity of the industry at that point is a lot higher and the market place itself is more fragmented than it probably would be if the threshold itself was either at a higher level or did not exist.

**Senator CAMERON**—Senator Abetz describes the tax as being at a punitive level. Given that it has been a moderate increase in the amount and the tax has not risen for some period of time and that the tax only applies after a threshold and would be of minimum consequences to the bulk of your fleet sales, would you describe it as punitive?

**Mr Scoular**—I would describe the position of the threshold, Senator, as being at an inappropriate level to today's market place and the fact that where the threshold itself is is causing harm on the domestic industry.

**Senator BUSHBY**—You mentioned that six to seven per cent of total sales would be over the LCT threshold. Is that total sales of Fords or total sales of Australian made Fords?

**Mr Scoular**—Total sales of Ford.

**Senator BUSHBY**—Would it be fair to say that most of the cars that fall over that threshold would actually be Ford Territory or Falcon derivatives?

**Mr Scoular**—Yes.



**Senator BUSHBY**—So the percentage of Fords sold over the threshold that are Australian made would be higher than six to seven per cent?

**Mr Scoular**—Yes. The make-up of the six to seven per cent of our total volume would almost entirely be from the Falcon and Territory family of vehicles.

**Senator BUSHBY**—And as a percentage of the Australian made Fords that then would be a higher percentage than six to seven per cent?

**Mr Scoular**—Correct.

**Senator EGGLESTON**—I believe that about one million cars were made in Australia last year, is that correct?

**Mr Scoular**—No, 1,047,000 were sold.

**Senator EGGLESTON**—I understand that the local production of luxury cars was around 100,000 vehicles, is that correct?

**Mr Scoular**—The local production?

**Senator EGGLESTON**—Yes?

**Mr Scoular**—The local market share last year was approximately 250,000 to 300,000 vehicles. I would be surprised if 100,000 of those were over the threshold, but I could take that question on notice.

**Senator EGGLESTON**—I understand that approximately 57,000 imported vehicles fell into the luxury category, is that correct?

**Mr Scoular**—I would have to take that question on notice.

**Senator EGGLESTON**—It is a figure I obtained from some research that was provided to me. The Australian car industry faces some challenges, does it not, with the \$7,000 Indian car on the horizon, for example? It may be that this will be a significant competitive challenge to domestic production?

**Mr Scoular**—The industry has faced significant competitive challenge in recent years. That challenge has come from a wide variety of areas. We alluded to currency appreciation earlier, but we could talk about commodity price hikes, fuel price hikes, and we could go on. I would put the luxury tax and the issue of where the threshold is today as just being another challenge that the industry has to confront, and in isolation, each of those issues may be manageable. But it is the accumulative effect of them that is causing significant harm to the industry.

**Senator EGGLESTON**—You did say that more profit comes from the sale of luxury category vehicles, did you not?

**Mr Scoular**—I did say that, as a rule of thumb, if you like, further up the chain you are in the derivatives that you are selling, they tend to be on a per unit basis more profitable. That comes about for a number of reasons, including the fact that at the lower end of the derivatives or at the entry level a lot of your vehicles are sold to fleet and rental companies.

**Senator EGGLESTON**—But that sort of profit margin is probably very important to the Australian car industry, I presume.

**Mr Scoular**—It is.

**Senator EGGLESTON**—I would like to refer you to an article which appeared in the *Sydney Morning Herald* on 20 May where the European Unions Ambassador to Australian, Bruno Julien, told the Bracks review into the automotive industry that he regarded the tax rise as a discriminatory, non-tariff, trade barrier which delivered disguised assistance to the Australian car industry. Would you care to comment on that? Would you say that this tax is really a form of assistance being provided by this government to the Australian car industry?

**Mr Scoular**—I would not concur with his views.

**Senator FURNER**—Mr Scoular, I imagine you would not have been in the position you are now back when this tax was introduced back in the 1970s, as I understand it. How did your company deal with the tax at that point in time? Did you pass it on to the consumer or did you take things such as stereo items out of the vehicle? How did you deal with the inception of the tax then?

**Mr Scoular**—You are correct, Senator, I was not in my position at the time the tax was originally introduced. It is my understanding that, when it was first introduced, there were very, very few locally

manufactured cars that incurred the tax at that point. At that point in history almost all Ford Motor Company's vehicles sold in Australia were domestically manufactured. Our share of imported vehicles was a lot lower than it is today. I do not think that we, as a company, were directly faced with that type of challenge.

**Senator FURNER**—Nevertheless the tax would have had to be incurred and then flowed on. How would the company have dealt with that? Once again, would you have passed that on to your consumers?

**Mr Scoular**—Yes, we would have.

**Senator FURNER**—Therefore, in this case with an increase from 25 to 33 that is being proposed, I imagine the same position would be taken by the company?

**Mr Scoular**—Yes.

**CHAIR**—Mr Scoular, could you just go over again how you would see the threshold being increased? I understand you were talking about indexation but are you asking for a jump now before the indexation starts?

**Mr Scoular**—Yes. We are suggesting that the committee may care to recommend that the \$57,000 threshold that exists today is too low and inappropriate, and that it be adjusted to a new level, perhaps in the region of \$70,000, and then from an ongoing basis future adjustments be a reflection of the CPI as a whole as opposed to just the motor vehicle subgroup.

**CHAIR**—What do you base the increase now on?

**Mr Scoular**—The threshold today is adjusted based solely on the motor vehicle subgroup of the CPI.

**CHAIR**—Right. But I think you said you now want to see it jump to \$70,000?

**Mr Scoular**—Yes, of that order.

**CHAIR**—Why?

**Mr Scoular**—Again, I think we are being pragmatists. As I said in my opening comments, conceptually we would prefer that there was not a tax. There is a tax. Governments over time have elected to keep the tax in place. Recognising that, we think the issues to be addressed going forward are really about what we would call the mechanics of the tax. If we are going to have one, let us align it at what we believe is an appropriate threshold and more appropriately than today reflects a luxury vehicle, and then have an adjustment mechanism going forward that over time will not cause, if you like, a recreation of today's problems.

**CHAIR**—Given that there seems to be an economic slow down and there may not be the same appetite for luxury vehicles, do you believe that standard vehicles will continue to add luxury items?

**Mr Scoular**—If you look at the motor vehicle industry over recent years, all vehicles right from entry level vehicles through have seen a significant increase in their feature content.

**CHAIR**—Do you think that, in the case of Ford, that is as a result of the luxury end adding those features or pressure coming from below from cheaper imports such as Kia, Hyundai and others?

**Mr Scoular**—I think it would be coming from the market per se as opposed to one sector of it.

**CHAIR**—A particular area?

**Mr Scoular**—Yes.

**Senator FIELDING**—Are there any cars that would be hit by this tax where the consumer would not have an alternative for their job or their work, for example? I mean, if I were a farmer and had to get around my property all the time, is there any alternative? We heard from the previous witnesses that, for example, a four-wheel drive vehicle, and the Territory is a four-wheel drive—

**Mr Scoular**—It can be, yes.

**Senator FIELDING**—The Ford Territory in the four-wheel drive mode, which would be used for farming, does that come into this tax? I cannot remember where it fits in there.

**Mr Scoular**—The all-wheel drive Ford Territory Ghia does come into the tax. Some derivatives of the Territory are caught by the tax. To the extent that a farmer felt it appropriate and needed to use an all-wheel drive vehicle for transportation in the bush and on their property, they incur the tax today if they elect those vehicles.

**Senator FIELDING**—Right. How many of your customers would be hit by this tax?

**Mr Scoular**—Last year approximately six per cent of our sales were hit by it. An approximate number would be about 7,000 to 8,000 customers.

**CHAIR**—Thank you to Ford for appearing here today.

**Mr Scoular**—Thank you very much for the opportunity.

[12.28 pm]

**BYRNE, Mr John, Chairman, Australian Automobile Dealers Association**

**STILWELL, Mr Christopher, Member, Australian Automobile Dealers Association**

**PURCHASE, Mr David, Executive Director, Victorian Automobile Chamber of Commerce**

**RUSSELL, Mr David, Senior Manager, Government and Public Affairs, Victorian Automobile Chamber of Commerce**

**SAVAGE, Mr Brian, Manager, Australian Automobile Dealers Association (Victoria) and Used Car Traders Division, Victorian Automobile Chamber of Commerce**

**CHAIR**—Welcome. Would you like to make an opening statement?

**Mr Purchase**—Yes. Thank you very much, Madam Chair. To you and to the members of the committee, thank you very much for the opportunity to appear before you today. VACC represents nearly 5,500 member businesses in the retail automotive industry in both Victoria and Tasmania, and within the VACC structure sits the Australian Automobile Dealers Association (AADA Victoria) that has over 350 new car dealers. Would it help if I circulated a copy of this statement? Perhaps if we do that now, I will just flag some of the highlights rather than going through it in great detail.

**CHAIR**—That would be good, Mr Purchase, we have a very short amount of time unfortunately.

**Mr Purchase**—We note in this submission that we have made submissions to this committee and also to the Bracks inquiry into the automotive industry. We have also made our views known to the government, the opposition and the independents. In brief, our position is as follows—and I will quickly go through six key points. As an organisation representing car dealers we are opposed to the luxury car tax per se and indeed the proposed increase. In our view, the tax should be abolished. We think it singles out luxury items while no other goods that we are aware of attract a luxury tax. To that extent it is discriminatory. However, if this tax is to remain on the statute books, our view is that the threshold must be increased to at least \$75,000 and preferably to something like \$100,000. Any amendments to the tax should be applied prospectively, in our view, in accordance with what we understand to be commonly accepted taxation principles. Consumers who sign a contract to purchase a motor vehicle prior to any increase in the luxury car tax becoming law should, in our view, be exempt. We are concerned in all of this that we are becoming almost the government's tax collector, and requiring dealers to anticipate the tax or alternatively expose themselves to financial loss should they not do so places them in a very awkward position.

That is a summary of our position. I will just go through a number of the headings and, as I said, flag perhaps the highlights. As I have said, we do believe it is a discriminatory tax. We are not aware of any other luxury goods that attract this sort of tax. Importantly we think that the bracket creep, and I am sure you all understand what I mean by that, has in fact undermined the threshold. In 2007 the luxury car tax captured something like 11 per cent of all new vehicles sold, whereas as in 1979 that figure was 2½ per cent. In 1979 that luxury car tax took the form of the wholesale sales tax. But you can see as a consequence of bracket creep just now many more cars have fallen into the net. Essentially that bracket creep has undermined the threshold.

We believe there is an adverse effect on local manufacturing. For instance, sales of the Holden Commodore in the \$35,000 to \$45,000 price bracket have fallen from 60,650 in 2005 to 41,331 in 2007, whilst the sale of models above \$55,000, that is where you are getting to the threshold, have doubled from 6,000 to nearly 12,000 in 2007. There is an example of a local market that could very well be affected by an increase. If you look at Ford, the same sort of thing except sales in the \$55,000 bracket has remained fairly constant. What we are saying there is that this tax hits a segment of the local vehicle manufacturing industry that has been growing, in the case of Holden, or maintaining sales in the case of Ford, while sales in other segments have been falling, and any increase in this tax will simply exacerbate that situation.

We are also concerned about the adverse effect on the spread of technology. It is in the so-called luxury cars that we see a lot of technology and safety innovation initiated, and we need to be cautious, in our view, that we do nothing to stifle that development and its flow through to the other segments of the car fleet. I guess we want to ensure that we do not dumb down, in a sense, the technology to keep cars below the threshold, and maybe Chris might say a little bit more about that when I am finished. We are concerned also that there may well be falls in not only sales of luxury vehicles but also tax revenue, and figures that we have seen would indicate that sales of luxury cars need only fall by about 12,000 units for the expected tax revenue gains to be

lost, and it would seem to us that the federal government has failed to factor in any loss of sales within this price segment in its revenue calculations. Of course, lost sales will also mean declining GST revenues.

I am sure you have heard that quite a deal of market place confusion has been created by the proposed retrospectivity. We think that the proposal to backdate the increase really flies in the face of generally accepted taxation principles, and what is so urgent or what is so special about the luxury car tax that the usual norms of taxation are discarded? In our view there should be no retrospectivity whatsoever. Any increase should operate from the date the law is actually passed. I guess that that dealer confusion is added to by consumer anger, particularly by those who have placed orders for these cars prior to 1 July 2008. We do have, in certain respect, quite chaotic market conditions and we do not think that dealers ought to be placed in this awkward, awkward position. Again, we will come back and expand on that. Perhaps John Byrne can expand on that, being a dealer on the floor.

The time of supply is something that we also wanted to talk to you about. I understand that we have we tabled that opinion. Essentially, I could summarise their advice this way. I will with GST because of the connection of LCT with GST. The GST legislation prescribes that GST is payable when any part of the consideration or the good is received or on the issuing of an invoice. Luxury Car Tax legislation, says that LCT is attributable to the same tax period that the GST on that sale is attributable, so the two are connected by way of attribution. Therefore, by attribution, the ATO has indicated that, in its view, and supported by we understand legal advice to which we have not been given access, a taxable supply of a luxury car is made when the vehicle is delivered such that the higher rate or the proposed rate of 33 per cent will in the ATO's view apply to the sale of all luxury cars delivered on or after 1 July. The reason we were moved to seek some legal advice is because of the advice we had received from the ATO that they were in fact basing their position on a legal opinion. We considered how that could be tested, and we felt the best way was to seek some legal advice ourselves.

Freehills solicitors say that while the ATO's view is a reasonable one, it is not the only reasonable interpretation. They refer to the case of *Brady King Pty Ltd v Commissioner of Taxation* in which the federal court, when considering the application of GST to a property interest, ruled that equitable and other rights created in Brady King upon entry into the contract, even though it was uncompleted, were sufficient for the company to have said to have acquired an interest in the property. Freehills solicitors add that, by extension, if the federal court considered that Brady King acquired or held the property upon entry into the contract, it is possible to argue that for GST purposes and therefore also for LCT purposes by attribution the time of acquisition or supply of the luxury car could be taken to be the time at which contractual and other rights are created in the purchaser, that is, upon entry into the contract. Freehills solicitors conclude that, 'While the commissioner's time of delivery approach has clear merit as a matter of interpretation, we consider that the time of contract approach also has merit. Should the matter be litigated, the approach that would ultimately be adopted by a court is not clear or at least not as clear as the commissioner suggests.'

In summary, as I said in opening, we are opposed to this tax because of its discriminatory aspects. We are therefore implacably opposed to any increase. However, we say if it is to remain on the statute books and if there is to be an increase in the tax, then we think that the threshold should be increased to at least \$75,000 if not to \$100,000 to guard against the unintended consequences of bracket creep. That is all we want to say by way of opening, and I think you have all of the documentation that we brought this morning. I would welcome the opportunity to ask Chris Stillwell to just perhaps comment a little further on the aspect of technology and the adverse affect on the spread thereof if this tax is increased, and perhaps after that, ask John if he would just expand on what I have termed the awkward situation in which dealers find themselves now having to deal with this matter.

**CHAIR**—Thank you, Mr Purchase, and certainly Mr Stillwell will have an opportunity. I should point out that we will then only have about 15 minutes for questions. So, if you could keep it brief, that would be good.

**Mr Stillwell**—Thank you, Madam Chair, and I will be brief. We are dealers for BMW, Volvo, Ford and Nissan, with nine dealerships in Melbourne employing about 550 employees in Melbourne. We are a family company celebrating our 60th anniversary next year. I personally, and other members of our organisation executive team, work with manufacturers on a number of committees. Specifically to this I will refer my comments to pricing and equipment decisions that we have in committee and consultation with manufacturers. The LCT tax has in itself created an artificial bar that, for a variety of reasons I will not elaborate on because of the time, it has created a consumer market just below that LCT bar where consumers are not perceived to be buying a luxury car or companies are not perceived by shareholders to be assisting their employees to buy a

luxury car. We have this artificial market just below the LCT threshold. As dealers and manufacturers we work very hard to make sure that we have competitive product available to consumers underneath this threshold.

Practically, some of the decisions that we have to make relate to safety features, fuel usage features or emissions features. As an example in safety features, I have actually sat down in committee with manufacturers and we have despecified off European items not for the Australian market because it takes the car through the LCT threshold. Light technology is an example. I am sure we all occasionally struggle to see things at night where the road is not appropriately lit. There is lighting technology that we have despecified for the Australian market. It is legal and compliant with the Australian market but it is not the best of what is on offer. I refer also to BLIS, or blind spot information system. I am sure we have all changed lanes and nearly tipped somebody over.

Technology is available today and has been for some years that again is another safety aid to warn the driver that there is somebody there or to warn the person that is there that you are about to change lanes. I have sat there and despecified BLIS on vehicles to keep them under the luxury car tax threshold, and I can go on and on but I will not. From a fuel usage point of view, the answer to the use of fossil fuels is down to engineering solutions, and engineering solutions cost money. BMW recently announced that its suite of solutions to environmental concerns is costing it A\$2,000 per vehicle manufactured. If you consider what the costs the Australian consumer, we are actually fining the Australian consumer an additional 33 per cent tax on those technology solutions when, in my view as an individual, we should be encouraging consumers to buy technology that reduces fuel consumption or reduces CO emissions.

With respect to fuel usage, the heavier the car the more power it needs to be acceptable to the consumer, and the more fuel it uses. The first solution is low weight, and low weight is expensive materials that add cost. Because we have this artificial LCT threshold, we are dealing with issues that add costs into the car to improve fuel usage but cost has got to come out to keep it below some artificial threshold that a system has created. From an emissions point of view, the solutions to the emissions issues that confront consumers, manufacturers and governments certainly for the next 10 to 15 years are there with the current engine technology, which is fossil fuel driven, but adding more electronics and more sophisticated mechanicals, and those two systems interacting. That technology adds cost, and again I have sat in meetings where we have despecified or not included some of the most environmentally leading edge options that are available simply because it puts vehicles through the LCT threshold and then puts the vehicle at risk in the volume that is needed to justify its existence in the market place. That is all I was going to add unless there are any questions later.

**CHAIR**—Thank you. I have a question now. Mr Purchase was saying that it was in the luxury end of the car tax that Holden, for example, was getting the greatest sales. It is already above the threshold, and you are saying that people will not buy in that range. You cannot have it both ways, can you?

**Mr Stillwell**—I probably have not communicated correctly or fully. The LCT threshold creates a push in the market just below that threshold. If the LCT threshold was not there or if the LCT threshold was much higher, I believe we would see a stronger market demand in that \$60,000 to \$65,000 or \$70,000 mark than we currently see today. There is a significant amount of volume immediately below the threshold that is driven because the threshold exists.

**CHAIR**—And most of those cars would be imported cars?

**Mr Stillwell**—There would be certainly a lot of imported content in there, albeit that we are a significant Ford dealer as well, and the opportunity for Ford going forwards is clearly in the high specification, locally manufactured units, and that is where we are seeing retail demand for their products, and it is right in that and above that luxury car tax threshold.

**Senator ABETZ**—I think Mr Byrne wanted to make an opening statement as well, Chair.

**Mr Byrne**—I think it is up to you. It might be appropriate to finish this topic first. Mine talks more about the dealer relationship with the customer.

**CHAIR**—No, please go ahead, Mr Byrne.

**Mr Byrne**—Despite there being an urban myth out there about dealers being potentially shifty charlatans and whatever else, that is an urban myth. We are a very professional organisation. I am very proud to represent a very professional organisation in my role as national chair and chair of Victoria. One of the things that the retrospectivity of this regime will create and is creating is a step with the client who has ordered a car in June and then comes to purchase the car in July and is asked for another eight per cent increase on the luxury car tax. It is hard enough for the dealers to grapple with in the short window of time we have had for this to have

been managed, but to explain to a customer when they come in to buy the car that all of a sudden there is an increase and/or in this window before you make the judgment that we may yet put it in escrow and give it back to you, and we may or may not put it in escrow and give it back to you, it does make it look like the industry is actually playing with your money. It is not palpable to an industry that prides itself on customer service and professionalism, and it really does impugn the reputation of dealers and/or the relationship with customers.

**Senator CAMERON**—Mr Purchase, I just had a quick look at your additional submission dated 6 August. I take you to page two of that submission. In the third to last paragraph that starts ‘Similarly while Ford’, it goes on to say that the luxury car tax would be a double blow to its Australian design and manufacturing operations. We have just had Ford represented at this committee hearing. They did not raise those issues. They were asked questions about what it would do to their research and development and to their innovation and their safety, and they did not raise any of this with us. Why is there a difference between your submission and the submission Ford gave on their own behalf this morning?

**Mr Purchase**—I am not sure that I can answer that because I do not know why Ford would not say similar things. They may have their reasons for not doing so. I do not know why they did not say that.

**Senator CAMERON**—Did you inform Ford about this submission?

**Mr Purchase**—We consulted with our members who are Ford dealers. VACC does not represent the vehicle manufacturers. They are not members of our organisation. They are members of the Federated Chamber of Automotive Industries, FCAI. We do not liaise directly with them. We liaise with and represent the dealers who sell their motor vehicles, and the advice that we have from our dealers is that this is correct. So why Ford would not say similar things, I do not know. You would need to ask them. But I do make the point, and I am just simply repeating myself, that we do not represent them directly. We represent the dealers.

**Senator CAMERON**—Ford indicated to us that the G6E was under the threshold.

**Mr Russell**—Just.

**Senator CAMERON**—Yes, under the threshold.

**Mr Russell**—Only just.

**Mr Byrne**—Only just. But if you specify it—and that is the issue. That is what Chris was alluding to earlier. Manufacturers will build cars to keep them just under that threshold, and then when you specify you want a technology pack or whatever pack on it, then it goes above the threshold and it kicks into it, and that is what the dealers struggle with.

**Senator ABETZ**—With a roof rack and a tow bar, all of a sudden you are into a luxury market?

**Mr Purchase**—Senator, it gets worse than that. The point is that when you option the vehicle up, in many cases that optioning up takes it over the threshold, and it might not be optioning up to put a bull bar or whatever on, it might be optioning it up to put some safety feature on it, and that is the point about technology.

**Senator CAMERON**—What would the safety feature be, do you think?

**Mr Purchase**—I would ask my dealer members, but—

**Senator ABETZ**—A bullbar—

**CHAIR**—Sorry.

**Senator CAMERON**—Have I got the call, because I keep hearing this voice down the other side cutting in to my question time which I do not do to him. From what I understand, the G6E has leather seats, is a state of the art car, with the highest Australian safety standard ever in a car. For most Australians it would be considered quite a luxurious car, would it not, and it comes under the threshold?

**Mr Purchase**—But if you option it up, it will be over the threshold.

**Senator CAMERON**—Well, what options? You say it is just under. How far under?

**Mr Byrne**—Hundreds.

**Senator CAMERON**—That is not my information. Can you give me the details of the pricing and the options? I have had a look at it recently. Ford themselves did not make this point when they came today, and I am surprised that you guys are making the point on behalf of Ford who do not see that as the issue.

**Senator ABETZ**—A point of order, Chair. Ford made it absolutely clear—

**CHAIR**—Not, that is not a point of order, Senator Abetz.

**Senator ABETZ**—It is. You have not even heard me.

**CHAIR**—Senator Abetz, you are answering the question, I think.

**Senator ABETZ**—No, you have not even heard me.

**CHAIR**—A point of order is about the procedure of the committee.

**Senator ABETZ**—Ford made it perfectly clear that they had no dealerships that they represented. They were all independently—

**CHAIR**—That is not a point of order, sorry. Senator Cameron.

**Senator CAMERON**—Last question on this. We have asked—

**Mr Purchase**—We will provide you with that information.

**Mr Byrne**—We do not have it with us here today, but we will provide the information.

**CHAIR**—Senator Abetz.

**Senator ABETZ**—Thanks Chair. The legal advice that you have provided us is very interesting and you have mentioned the difficulties that you confront. Has the sector been consulted by the government or have you had any meaningful consultations with a government since the announcement as to how we might be able to overcome the problem of the difference between the delivery of the vehicle and contracting or signing up for the vehicle? That is the punitive, retrospective aspect of this tax, that somebody signs up for something believing they have a sum certain and then the government says ‘Well, we know you are contracted to do something but we are going to whack another eight per cent on you’.

**Mr Purchase**—Senator, I think that is one of the issues or one of our concerns, that we have not been consulted as much as we would have hoped, and I do not say that to be critical. I know, along with other motor trades bodies, we felt that if we had been consulted a little more, some of the difficult issues that we are now confronting in the field may have been better addressed. The retrospectivity aspect is very concerning to us for the reasons that John Byrne outlined. It is very difficult to convince customers that we are telling the truth and we are not trying to pull their leg. A little bit more consultation might have helped. There have been some meetings with the tax office that my colleague, David Russell, attended, along with Brian Savage. Perhaps I might just ask them to let you know what happened at those meetings.

**Mr Russell**—The ATR did not consult us when this was first announced. The government did not consult us when it was first announced by the Treasurer on 12 May just before the Bracks inquiry information was to be delivered. It was not at all on the horizon. When we approached the government and asked them what was going to happen, they said there were no transitional arrangements which meant, in other words, apply it from the day retrospective back to whenever. When there was a meeting, the ATO said that they had considered it and they had a legal opinion that said that supply meant when the vehicle was delivered. Dealers have then had to act upon that and there has been no further consultation on that matter.

**Senator ABETZ**—In the event that the increase is not to be applied retrospectively by virtue of a Senate vote, for example, what would your dealers be doing, Mr Byrne, with the money that may be held in escrow, as you refer to it? More importantly, what are you doing in relation to the purchase amount for state government stamp duty purposes? Are you saying that the person has purchased it with 25 per cent or with 33 per cent, and will the stamp duty transaction have to be revisited depending on which way the Senate might go on this issue?

**Mr Byrne**—There is clear confusion amongst the dealer bodies as to how to handle it despite the information provided, because the information provided says you can do one or the other. You can choose to do a side agreement with a client on the one side saying ‘I will sell you the car today with the 25 per cent on the basis that, if it is legislated that it becomes 33 per cent, we will come back to you and ask for the other eight per cent’—and that would be a wonderful conversation to have with somebody two months down the road, so you can sign that one off—or you take it up front and you are actually paying stamps at that point and then you will have to recalculate the stamps at the other end of it, which is the other point. Most dealers are swinging that way. There are dealers choosing to sign the side agreement.

**Senator ABETZ**—Have the state governments indicated, for example, that they are willing to refund if you are paying your stamp duty in anticipation of the 33 per cent? If the 33 per cent does not get through or the threshold is lifted or for a particular vehicle it will not apply, have the state governments indicated that they will refund the excess stamp duty that was paid?



**Mr Byrne**—We have not had that conversation.

**Mr Russell**—I have an understanding with the state revenue office, and people who deal with the state revenue office know it is very difficult to get a refund out of them. Once you have paid them, you have to have a very good reason. It is going to make life hard. It is increasing the complexity of the whole transaction. It is hard enough already, you are right.

**Senator ABETZ**—You have submitted to the Bracks inquiry on the LCT, and you undoubtedly submitted in good faith prior to the announcement on 12 May. Were you then surprised to find that the government, in seeking your view on the LCT, was going to ignore all the hard work you and your members had put into your submission and increase the LCT without informing itself as to the findings of the Bracks review?

**Mr Purchase**—Yes, we were surprised. We envisaged that we would have that report before we would be dealing with any proposed increase in luxury car tax. I suppose, in summary, we would probably make three main points. We are genuinely very concerned about the very awkward position that dealers are in in the field in dealing with customers with the issue of retrospectivity. That has created a real awkwardness that we are finding difficult to manage. The other point we make is that the threshold is an artificial ceiling and it is causing all sorts of funny things to be done. It is in fact, as Chris Stilwell said before, leading to despecifying in order to come in under the threshold, and that has safety and environmental implications. That is the second point, an artificial ceiling that is causing all silly things to be done. Thirdly is the issue of technology spread. We do not want to be doing things that will effectively dumb down technology and have people buying cheaper cars and cars that are not as safe or as environmental as they might be because of an artificial ceiling. I guess they are the three very genuine concerns that we have about this proposal.

**Senator FURNER**—I share your concerns as well in terms of this concept of the belief that we are going to all of a sudden have on our roads unsafe vehicles. Surely it is not the case that that will occur as a result of this tax.

**Mr Purchase**—No, and I would not want to create that impression. We are not suggesting that, if we get an increase in the tax, we will have a whole lot of unsafe cars on the road. That is not the impression that I want to create.

**Senator FURNER**—Most of the things we have in vehicles these days are stock standard things like retractable seat belts, airbags and those sorts of things. In fact, many of the vehicles that no doubt your dealerships and clients would have are stock standard?

**Mr Purchase**—Yes. Having said that, I am not suggesting there will be a whole lot of unsafe cars as a consequence, but there could be safer cars, more environmentally friendly cars if we do not do anything to dumb down technology. But, Senator, could I just say in passing that we have a tremendous number of unsafe vehicles on our roads now, many more than the senators here would understand, and we need to address that in other ways. There are lots and lots of vehicles on the roads in every state that are unroadworthy because we cannot get state governments to introduce some form of testing. I know that is another issue.

**CHAIR**—Thank you. I am afraid our time has expired. Thank you for coming in today.

**Mr Byrne**—I have a point of order from my side of table, I was quoting prices on the G6E turbo, not G6E.

**CHAIR**—Right, thank you.

[1.05 pm]

**McCARTHY, Mr David John, Corporate Communications Manager, Mercedes-Benz**

**SCHREMPP, Mr Wolfgang D, President and CEO, Mercedes-Benz Australia/Pacific Pty Ltd**

**Von SANDEN, Mr Horst, Managing Director, Mercedes-Benz Australia/Pacific Pty Ltd**

**CHAIR**—Welcome here this afternoon, gentleman. Would you like to make an opening statement?

**Mr Schrempp**—Yes. I will read from this statement, and there are three. I beg for pardon; my English is probably not the best but I hope you can understand me. I feel much more than an Australian than you can you feel it out of my language. I think I would like to give you at first, and you have probably heard a lot of arguments good and probably not as good arguments in the last days and weeks. I would like to give you a special kind of a flavour, a very short one, a brief one, about our company.

We heard earlier about the company that was 60 years old. Our company turns 250. Mercedes-Benz Australia has its 50th anniversary on 30 July, and we are very proud that we are as long in that country. We are as well proud that we are since many, many years the preferred supplier to the Australian Defence Force, and we are just in front of a new possibility to deliver the Australian Defence Force 1,100 Gelandewagen coming from our factory in Gratz in Austria. Then we are as well a supplier for the Australia Post, and it is easy to understand that when you have a look on that iconic red mail vans, you can easily understand what is quality on the van side of Mercedes-Benz. Yes, we are producing premium automobiles, heavy trucks, buses, coaches, light commercials and, yes, we are based in Stuttgart with our headquarter but we are meanwhile in 115 markets outside of Germany, and we are very proud that we can say that our company invented the car and the truck in 1886.

Direct employed in the moment more or less 250,000 people worldwide and our sales should be hopefully in that year 2.1 million vehicles. What about our company here to come a little bit closer to that point? I think inside of our activity in sales and servicing cars and having a good relationship with customers, I think aside of that we feel and we act as a good Australian corporate citizen. We are really involved in culture support, in charity, and in environmental topics. I do not want to read everything. I think you have that in front of you. Probably you can feel a little bit that aside of our feeling that we have to deal and wheel and, of course, we have to make money, I think we feel as well responsible for a lot of other topics as a company here in Australia.

When we have a deeper look in our company we have at the moment 1,053 people employed in Mercedes-Benz Australia Pacific. In our dealer network are an additional 1,118 and for our logistics support we need in addition more or less 500. We can say 2,600 Australian families rely on Mercedes-Benz and our dealer partners for their livelihood. I think this is a very strong statement as well in that country. What comes in addition, we have at the moment roughly 100 apprentices. We have roughly 20 IBLs and I think one of my most important statements I would like to make this afternoon is our company is 99.6 per cent Australian employees. I am really an exception in that company, and I think we feel like an Australian company. Yes, besides that we have a Swabian or German mother but this is, for us, not the most important point. This is only why we have to receive our products. In total, what can I say?

What comes in addition, our prognosis for investments in 2009 is, at the moment, \$A110 million, and this will additionally generate 300 jobs. We already spent between 2007 and 2008 \$89 million. Our dealers as well will invest \$80 million in 2009, and they have already invest \$121 million in the last two years. There will again be an additional 180 jobs. My last point is that we are running a very nice and highly sophisticated training centre in our company that shows that we as well take very much care in to our future as well on the product side and, of course, on the people side.

**Mr Von Sanden**—Maybe if I can take over here as the manager responsible for Mercedes-Benz passenger cars. We want to clearly make the point that we think the increase of luxury car tax is a disincentive for our customers to buy more fuel efficient cars, and you have heard that probably many times, but we just list the same arguments. We are very leading in environmental technology and research and development, and just to give you an impression, our company per day invests \$A18 million in research and development for environmental technology, and this all costs money. That is also one of the reasons why our luxury cars have the price tags they do have. It is not purely the profit we cash in. The emissions are constantly reduced and, if I can give you an example, our E-class, which is one of our main models from 1992 to today, has been reduced 70 per cent in emission and I think that is quite an incredible achievement.

**Senator ABETZ**—Sorry, was that 70?

**Mr Von Sanden**—Seventy per cent, 70, yes.

**Senator ABETZ**—Right, because in your submission I think you have 50 per cent over the last 30 years.

**Mr McCarthy**—Yes, 50 per cent when you go back 30 years. But in the last 20 or so years, it is—

**Senator ABETZ**—The last 20 it is 70 per cent?

**Mr McCarthy**—Yes.

**Senator ABETZ**—All right, sorry; thank you.

**Mr Von Sanden**—Also we continue to reinvent the car in both the area of safety and environmental technology. We will shortly start the production of electric smart vehicles for two starting in September 2009. We will start with a series production of a hydrogen fuel cell car in 2010 and this is just what we do, day in, day out. We understand the need to tax vehicles but we would rather see a taxation of carbon emission. We would rather suggest a carbon tax than a luxury car tax.

As to higher transaction prices—and the previous witnesses talked about that as well—it really contributes to an ageing car pool in Australia. I will give you an example. The car pool on average in Germany is roughly eight years of age and in Australia we are around the 20 to 21 years. Clearly a new car pool means new technology, both in safety and environmental technology, and that should be improved. Also our company is the first company that has received this TUV certificate for environmentally friendly cars with our C-class, both the sedan, estate and the S-class, and these cars are both subject to LCT as well. If we look at the other aspect which is important to our company's safety, less than one-third of the cars below the threshold in total are fitted with lifesaving technology like, for example, ESP. At Mercedes-Benz we do not compromise on these lifesaving technologies regardless of what happens in the future. We equip every vehicle with ESP, airbags and other standard safety equipment, and we are very proud to say that we are actually the inventor of most of the lifesaving technologies over the years, and further down the track have then passed these inventions onto our competition in making the patents available to them because we do not think we have the right to keep life saving technology to ourselves.

Mainly this technology is developed on the most expensive vehicles like S-class because this where we have the main investment in development and technology. If we increase the luxury car tax we will certainly delay, in some regards, the implementation of the latest lifesaving technology in Australia because, in certain very innovative fields, we can only do that with the very expensive cars which then flows down the food chain further down the track.

On top of that, we certainly feel the responsibility to reinvest some of our money into training. Technology is one side but also we feel that driver education is a very important thing and we invest heavily in young drivers' education. We just rolled out a program and we also invest in our truck field in driver education to make sure that the drivers are safe drivers and also environmentally conscious drivers. If we look at the environmental impact, it is incredibly impactful for us because 88 per cent of the cars we sell are actually above the threshold.

We are probably one of the companies that are mostly impacted by the change because we sell most of the expensive cars. If we look at the projection for the next five years, according to our business plan, we expected to sell 120,000 motor vehicles. Over the last month we saw a drop in order intake between 40 and 50 per cent, and if you look at an estimate which was done by us together with our competitor colleagues of maybe 20 per cent of business, then this is a dramatic financial impact for us and for our business. You would understand that our business plan for the future was based on certain assumptions, 10 per cent GST and 25 per cent luxury car tax. Now if we basically find ourselves in that situation where we are missing out on sales, we certainly have to have another look at our business plan for the coming years. That is basically the summary I would like to give. It is always to criticise but we also thought what could be an alternative, what could be a recommendation from our side maybe, because we understand the revenue implications for the government. I would like maybe David McCarthy to come up with a proposal how we think this could be done.

**Mr McCarthy**—Thank you, Senators. I realise what I am about to present to you is probably not going to be hugely popular with my colleagues in the industry. Some of them may or may not agree. We understand that the government, whatever its persuasion, has a need for revenue, and that the parliament has recognised the need to reduce emissions. Our free trade credentials in Australia are very precious to all of us. It has been an important driver of our economic growth and we feel it is important to maintain that. It would be no

surprise to any of the senators that the European commission takes, if I can be diplomatic, a very dim view of the luxury car tax, as do we.

However, what we propose as an example of how perhaps the committee, the government, the opposition or independent senators might like to think is that you consider first that the increase to 33 per cent will have very disastrous effects on investment. It will not have helpful effects on employment. It will be inflationary. It lacks equity and there is, dare I say, a lack of logic in it in that it is the only luxury item that is currently taxed. We believe that the eight per cent increase cannot be justified.

However, moving forward from that, we believe that from 1 July next year, in order to maintain our free trade credentials and to reduce greenhouse emissions, a hybrid tax, a luxury car tax and a carbon tax be introduced. From 1 July next year introduce a luxury car tax at a threshold that obviously the committee, the government and the parliament deems appropriate at 20 per cent and a carbon tax that applies to all vehicles, with a sliding scale in terms of the emission of that vehicle where that tax is rebated. Then, each year after that, the luxury car tax reduces by five per cent and the carbon tax goes up by five per cent. The revenue for the government obviously is a gross figure of 25 per cent.

The attraction of the carbon tax is that it discourages against high emissions; it taxes them. It encourages low emissions. The money that is raised from that will completely fund the green vehicle fund to the same amount that it is now every year, and it will also provide additional revenue for the government to provide incentives to those members of the Australian public who want to dispose of an old vehicle that is polluting and acquire a new vehicle that is polluting.

I anticipate a question in terms of the impact that this would have on the local industry. I might say I was a motoring journalist for eight years. I love the local industry. My father was an engineer in the industry. He employed many apprentices. I am passionate about the local industry and the employment and the skills that it provides, and the reputation it provides to our country. The parent companies of Ford, General Motors and Toyota will be producing in Europe and in Asia vehicles that can well meet these emission targets in the size of vehicles that Australians want to buy in the timeframe that is here. What they do need, obviously, is some assistance from the government which is the role ACIS and the green car fund plays, but funding that will be difficult. I believe that this is a good reason to consider this plan in that it provides a framework to reduce emissions and to encourage innovation, and it removes a tax on an item that is almost unique in the world, and it removes, dare I say it, the politics from the issue. It actually provides a good public policy outcome that I think the committee would do well to consider in the parliament also needs to have a long hard think about.

**Senator ABETZ**—If Senator Cameron were to order a Mercedes today, how long would it be before it could be delivered to him? What is the time period?

**Mr McCarthy**—If the vehicle is actually in stock in Australia, it would be virtually straight away, depending on where the vehicle is.

**Senator ABETZ**—How much stock do you have? The point I am getting at is how many Mercedes buyers would have been caught by the retrospective nature of this? Assuming people would have ordered a Mercedes before 12 May, and no matter what you did, and no matter what they did, it would not have been able to have been delivered before 1 July as a result of which they would be caught by this retrospectivity. What I am trying to get a handle on is what percentage of your customers, of your orders, would have been caught by this retrospectivity?

**Mr Von Sanden**—We sold 1,100 cars in the month of July. We were unable to deliver prior to this date because everyone tried to get their car delivered prior to that. It is basically the 1,100 cars so far, and it goes on.

**Mr McCarthy**—With the long pipeline, Senator, depending on the model, you would probably add potentially another 1,000, so perhaps a total of 2,000 cars.

**Senator ABETZ**—In your statement to us, you said daily sale rates dropped 50 per cent in July over the last six months average. In fairness, should you not be comparing July with July?

**Mr McCarthy**—Yes.

**Senator ABETZ**—So, what about July 2007?

**Mr McCarthy**—We could. One of the issues there is the new C-class sedan was introduced in July last year, and basically there was a lack of stock and buyers were not ordering vehicles.

**Senator ABETZ**—That would have distorted your figures?

**Mr Von Sanden**—Yes.

**Mr McCarthy**—It distorted it. That is why we did not quote it, but the 50 per cent drop off in the daily sales order rate is the figure. Registrations are not the best indication. Also wholesale figures are not the best indication. It is the actual daily order rate that drives our business.

**Senator ABETZ**—And that is what has dropped considerably. In ordering in Mercedes from overseas for your purchases, do you from time to time despecify certain items of technology to get them under the luxury car tax threshold?

**Mr Schrempp**—No.

**Senator ABETZ**—You do not, right.

**Mr Von Sanden**—We do not because this is our core value of our brand and we are very aggressive and have been over the last years to bring down the pricing as best as we can but we never take any technology, whether it is safety or environmental technology, out of our cars.

**Mr Schrempp**—Safety and durability is our core element, and we are doing that not only with passenger cars but also with heavy trucks and vans. When you buy a van from our brand you have also ABS as standard.

**Senator ABETZ**—Yes. Mercedes goes from the range below the luxury car threshold through it and, I understand, substantially above it. Would it be fair to say that if somebody is in the market place for a \$150,000 or a \$180,000 Mercedes, the imposition of a bit of an extra tax will not have much of an impact on demand, whereas if you are in, let us say, the \$60,000 price bracket an eight per cent increase on the luxury car tax might have a greater impact; would that be your sales experience or not?

**Mr Schrempp**—I think we have to be careful especially with those persons who can afford \$180,000 cars. They are very sensitive when they are looking on pictures and numbers, and that is why they can afford such kind of cars because they are very successful in the past and they can calculate. I think this is not really the point. Yes, of course, eight per cent for a substantial car below that threshold is a different one for somebody who is a total different range but the feeling is the same.

The feeling is definitely the same and the passion is the acceptance. Can that kind of customer really accept that now the car is immediately eight per cent more expensive? Besides that I would like to point out we have already a luxury car tax and it is not that we now install one with eight per cent. We already have 25 per cent. This comes in addition, and the other side I think it is just fair to say that when you are going for a beautiful house or for some nice luxury goods, there is no luxury car tax. The question is where is the value?

**Senator ABETZ**—The point I am trying to get at here is if we were to increase the threshold, where would be a sensible place to lift that threshold to? In my ideal world, I suppose, there would be no taxes at all. The reality is, in my ideal world chances are there would not be death either. But, we are confronted by both, and therefore the question is to try to make the taxation system as fair and reasonable as possible. So I am trying to grapple with this issue of the threshold.

**Mr Von Sanden**—We looked at it and if we just applied CPI we got to a figure which is \$71,000 roughly. But, if we then apply average weekly earnings and the overall change of income, we end up at a figure of \$95,000.

**Senator ABETZ**—Thanks.

**Mr McCarthy**—We do not accept the luxury car tax but we understand the political reality. The government sets a figure, for example, for solar panels in terms of household income. It sets a figure for Medicare levy in terms of household income. We think it is reasonable if you say that \$100,000 or \$150,000 is classified as rich, therefore you are going to be buying a luxury item, you can then work out in those households the amount of money that they would spend or are able to spend on a motor vehicle, and we think it unfair to tax them simply on that motor vehicle as opposed to other items. We believe that the average weekly earnings figure is reasonable. Obviously the revenue implications for the government are difficult there. The \$95,000 figure has credibility with me and also with the public. Our feedback is that \$57,000 is a lot of money but it is not out of the reach of a lot of Australians, an overwhelming majority of Australians, and to say that that is a luxury item and we are going to tax it as such lacks logic.

**Senator CAMERON**—Thanks very much for your submission. It has been very interesting. I think there are a couple of points that I want to try to examine a bit more. First, you have been in Australia for 50 years. This luxury car tax has been in place for almost 30 years in one form or another. In the last 12 years has any

government minister or government member raised concerns with Mercedes about the luxury car tax? Have you had any proactive moves from politicians to say it should be go?

**Mr Schrempf**—Sure, we did. We just started. I am here 20 months in that beautiful country and we just started to rediscuss that 25 per cent. Also, we have to understand that we are not alone. We are a beautiful big island but we are not alone in the world and there is, of course, an exchange between, for example, the European community and Australia. That is why we started an activity with the European community and we started some activities as well in Australia to give that understanding that we mentioned before, that a company who is of course earning money is investing that money again in technology and in environmental specialities. We tried to bring that luxury car tax from 25 per cent a little bit more down probably in steps by steps.

**Senator CAMERON**—Who did you raise this with?

**Mr McCarthy**—I first raised it a couple of years ago with Minister Macfarlane at the time, and I have raised it another times with Senator Carr. It has been an issue that has been part of the EU's discussions with Australia in terms of the trade negotiations at Doha. It has been an ongoing issue. I suppose it has not really been top of the list, but certainly to my knowledge it has been a discussion point between Trade Commissioner Mandelson and Simon Crean, and it was a discussion with the previous government. It has been there but certainly not at the level.

**Senator CAMERON**—And the previous government did not say 'Oh, we think this is a punitive tax and we are going to remove it'?

**Mr McCarthy**—I was actually at an FCAI meeting two years ago in parliament house where Minister Macfarlane admitted that it was there purely to protect the local industry and it was not sustainable.

**Senator CAMERON**—I am interested in the proposals that you put forward. You talk about the free trade credentials. Is this not in reality your submission a clever way to say basically that this is a tariff? Even though it applies to domestically produced goods, this is a tariff and it should go, and that the carbon tax that you propose is a very, very powerful commercial advantage to Mercedes-Benz? Is that not the reality of your submission?

**Mr McCarthy**—How do you see it as a powerful commercial advantage, Senator?

**Senator CAMERON**—Because to move to what you are proposing and what is happening in Europe is predominantly diesel engines, and diesel engines are not produced in Australia. So I think people need to understand what lies behind Mercedes' proposals here. It would mean a major retooling of the Australian car industry and it would give you a significant competitive advantage. I am not making any position on it. I am simply saying clever commercial advantage and that is where I see your submission.

**Mr McCarthy**—If I might respond. Clever is interesting. I would think innovative is better. Yes, the majority of vehicles we produce are diesel. However, our petrol engine vehicles will meet this as will those of our competitors and every European and Asian manufacturer meet these standards. It does not give us commercial advantage. The reality is the five per cent carbon tax will actually apply to a significant number of our vehicles that are not subject to the LCT. We have done this because we believe it is good public policy. It is easy to say this is to our advantage. It actually is not. We do not have the ability to sell in terms of the production we can get from the factory and what the market is for our vehicles, which is probably many more vehicles than we do now. We are proposing this because we believe it is good public policy and we do not believe the LCT is. It is a tariff. It is a false tariff. The government knows that. The opposition knows that. The EU knows that. The public knows that. It is time that we actually made some sensible structured decisions on reducing emissions and not ruining our free trade reputation which is so important to this country. We mean that seriously.

**CHAIR**—Thank you for your submission here this afternoon, gentlemen.

**Committee adjourned at 1.33 pm**