



Australian Automotive Dealer Association Ltd.

ACN: 167 598 085

The Sir Jack Brabham Automotive Centre of Excellence

8/2728 Logan Road, Eight Mile Plains, Brisbane Queensland 4113

28 August 2015

Senator Sean Edwards
Chair
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Senator

AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION LTD (AADA) TREASURY LEGISLATION AMENDMENT (SMALL BUSINESS AND UNFAIR CONTRACT TERMS) BILL 2015 [PROVISIONS] (UCT BILL)

We note with interest that on 13 August 2015 the UCT Bill was referred to the Senate Economics Legislation Committee for inquiry and report by 14 September 2015. AADA responded with written comments on 1 August 2014 and 12 May 2015 to the Treasury consultation paper and exposure draft legislation, copies of which are attached for your consideration.

AADA agrees with the policy objective to provide a level playing field for small businesses (SMEs) when interacting with other businesses through standard form contracts and noted that there was very little reference in the consultation paper to franchisees and the general reluctance of franchisees to address unfair contract terms and unjust contracts for fear of reprisal, non renewal of contract and access to justice being too slow, too expensive and too adversarial.

While the Bill has AADA's support we submit the UCT protections could be enhanced for business generally by extending the provisions to include contracts between franchisors and franchisees regardless of the definition in the proposed legislation of a small business contract. We drew attention to the myriad definitions of SMEs based on different thresholds giving rise to inconsistency and complexity in Commonwealth, State and Territory statutes.

In this context the *Motor Vehicle Dealers and Repairers Act 2013* (NSW) regulates the relationship between NSW motor vehicle dealers and motor vehicle manufacturers concerning unfair contracts and unjust contracts. There is no threshold on the size of a motor vehicle

CEO - Bruce McDonald

P.O. Box 4530 Eight Mile Plains QLD 4113

0400 366 535

bmcDonald@aada.asn.au

Policy Director

Michael Deed

0417 742 956

mdeed@aada.asn.au

Directors

Chairman & NSW - Terry Keating

0418 668 277

terry.keating@jfossey.com.au

VIC - Leigh Smith

0411 266 977

leighsmith@gws.com.au

QLD - Ian Field

0419 729 763

ifield@aada.asn.au

WA - Lou DiVirgilio

0417 755 200

lou.divirgilio@dvg.com.au

SA - Richard Collins

0419 992 224

rtcollins77@hotmail.com

TAS - Marcus Birrell

0407 872 052

marcusb@motors.com.au

ACT - Richard Rolfe OAM

0411 189 714

richard.rolfe@audicc.com.au

Appointed - Martin Ward

0418 855 455

mward@apeagers.com.au

Appointed - Geoff Pickering

0417 197 655

geoff@pickering.com.au

Appointed - Paul Warren

0418 233 332

paul.warren@peterwarren.com.au

Appointed - Anthony Altomonte

02 9418 5588

aaltomonte@alto.com.au

Appointed - Chad Davies

0418 420 789

cdavies@nsw.ahg.com.au

Secretary - Vinesh George

0404 077 078

vinesh@vsgeorge.com.au

Legal Advisers - HWL Ebsworth

estents@hwle.com.au

Business Advisers - BDO Australia

mark.ward@bdo.com.au

dealership. We submit that the Committee give consideration to a concept based on the relative size of the parties evidenced by the franchise agreement and extend the UCT protections to all franchisees.

If you require further information please contact me on mobile 0400 366 535, email bmcdonald@aada.asn.au or Policy Director Michael Deed mobile 0417 742 956 email mdeed@aada.asn.au

Yours sincerely

A handwritten signature in black ink, appearing to read "B. J. McDonald", is placed over a light grey rectangular background.

Bruce McDonald
Chief Executive Officer



CEO - Patrick Tessier
P.O. Box 4072 McKinnon Victoria 3204
+61 3 9576 9944
0412 685 857
ptessier@aada.asn.au

Strategic Operations Director
Steve Ghost
0411 244 315
sghost@aada.asn.au

Policy Director
Michael Deed
07 3237 8711
mdeed@aada.asn.au

Directors

Chairman & QLD - Ian Field
0419 729 763
ifield@aada.asn.au

NSW - Terry Keating
0418 668 277
terry.keating@tjfossey.com.au

VIC - Leigh Smith
0411 266 977
leighsmith@gws.com.au

WA - Colin Lane
0407 903 016
colin@thelanegroup.com.au

SA - Hillar Puvi
0418 803 691
hpuvi@formulamp.com.au

TAS - Marcus Birrell
0407 872 052
marcusbirrell@motors.com.au

ACT - Richard Rolfe OAM
0411 189 714
richard.rolfe@audicc.com.au

NT - Dave Russell
0417 926 337
daver@bridgetoyota.com.au

Appointed - Martin Ward
0418 855 455
mward@apeagers.com.au

Appointed - Geoff Pickering
0417 197 655
geoff@pickering.com.au

Appointed - Mike Claridge
0402 131 660
mclaridge@claridgeholden.com.au

Appointed - Paul Warren
0418 233 332
paul.warren@peterwarren.com.au

Appointed - Anthony Altomonte
02 9418 5588
aaltomonte@alto.com.au

Appointed - Lou DiVirgilio
0417 755 200
lou.divirgilio@dvlg.com.au

Secretary - Paul Moni
0419 681 000
paul@monisolutions.com

Legal Advisers - HWL Ebsworth
estents@hwle.com.au

Business Advisers - BDO Australia
mark.ward@bdo.com.au

1 August 2014

Unfair Contract Terms and Small Business Consultation Paper
Small Business, Competition and Consumer Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Lodge online: www.treasury.gov.au/ConsultationsandReviews/Consultations

Dear Manager

EXTENDING UNFAIR CONTRACT TERM PROTECTIONS (UCT) TO SMALL BUSINESSES -
TREASURY CONSULTATION PAPER MAY 2014
AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION LTD (AADA)
ACN 167 598 085

AADA supports the Government's consideration of extension of UCT protections that apply to consumers to small businesses (SMEs) and lodges this submission in response to the Treasury Consultation Paper dated May 2014. In particular, we note the policy objective is to help provide a level playing field for SMEs when interacting with other businesses through standard form contracts and in this regard AADA has already touched on some of these issues in its formal submissions to Government on the proposed amendments to the *Franchising Code of Conduct (Code)*, appointment of Small Business Ombudsman and Competition Policy Review.

We note that there is very little reference in the consultation paper to franchisees as SMEs and draw your attention to the 73,000 odd franchising units in Australia and the general reluctance of a franchisee to address unfair contract terms and unjust conduct for fear of reprisal, non-renewal of contract and access to justice being too slow, too expensive and too adversarial.

AADA was registered under the *Corporations Act 2001 (Corporations Act)* in Queensland on 17 January 2014 to represent franchised new car dealers in Australia. There are over 1500 new car dealers in Australia that operate something in the order of 2600 new vehicle outlets. Dealerships range from family-owned small businesses in the regions to larger businesses and public companies operating in the regions, capital cities and across the States and Territories.

CONSIDERATION

We note that the policy objective is to provide a level playing field for small businesses when interacting with other businesses through standard form contracts and a number of options have been identified. Option 3 – Legislative amendment to extend existing UCT provisions to small business contracts is the Government's preferred option and feedback is being sought on the design of such an extension, particularly how small business contracts would be defined and whether the provisions should apply to both the acquisition and supply of goods and services.

AADA's submission is focused on this policy objective and the commercial and contractual relationship that exists between a franchised new car dealer resident in Australia and a global non-resident motor vehicle manufacturer (OEM) operating through multiple subsidiary companies or other entities in this country. AADA members are operating in a highly competitive industry that is undergoing significant structural change and rationalisation as a result of the impending cessation of motor vehicle manufacturing in Australia.

For the purposes of this consultation our submission provides an overview of the retail environment in which dealers operate, and concerns raised by members on key design aspects of Option 3 including:

- Standard Form Contracts and the Code;
- Definition of SME;
- Scope of UCT Provisions; and
- Unfair Terms.

Overview of Retail Environment

Australia's retail new car market is highly contestable and sub-optimal by global standards with sales on new vehicles just over 1.1 million units in 2013 or 1.4 per cent of 82 million passenger and commercial vehicles globally. Currently, 90 per cent of all new vehicles in Australia are imported. There are 66 brands in Australia competing for market share compared to 51 million in the United States which has a market of around 13 million units annually. The Australian market is characterised by low margins which average in the order of 1.5 per cent.

The industry generates revenue of \$72 billion and consists of 4100 odd franchised businesses including two public companies – Automotive Holdings Group Limited and AP Eagers Limited. A characteristic of the industry is the high number of smaller businesses and IBIS World estimates that the largest cost for the industry is purchases around 81.5 per cent the most significant being the actual motor vehicles.

Standard Form Contracts and the Code

The Code applies to a motor vehicle dealership agreement between an OEM and a motor vehicle dealer and proposed amendments to the Code were announced by the Hon Bruce Billson MP, Minister for Small Business in April this year. The amendments include a statutory obligation for both parties to act in good faith. A party to a franchise agreement can act in good faith if it is acting in its legitimate commercial interests. "Legitimate commercial interests" is not defined for the purposes of the Code and it leaves

scope for UCTs as defined in section 24 of the *Australian Consumer Law (ACL)* to be included under the guise of acting in legitimate commercial interests.

A motor vehicle dealership agreement has all the characteristics of, and for all intents and purposes, is a standard form contract by reference to section 27 of the ACL. That is, a motor vehicle dealer is a “consumer” under a standard form contract in respect of the acquisition of goods and services being predominately new motor vehicles and service and repair technical information.

The Wein review of the Code in 2013 identified approximately 73,000 franchising units in Australia and around 2,045,375 SMEs. To exclude a franchisee from extension of UCT protections either on the basis that a franchise agreement is not a standard form contract or a franchisee is not a “consumer” would not be fair and equitable.

Definition of Small Business

In AADA’s submission dated 23 May 2014 to the Treasury concerning the appointment of a Small Business and Family Enterprise Ombudsman we stated that we did not believe any useful policy purpose would be served by restricting the a key responsibility of the Ombudsman as a Commonwealth-wide advocate for small businesses and family enterprises to a “definition” of small business and family enterprise. We noted the myriad definitions of SMEs based on thresholds and concessions found in income tax law and other legislation both in Australia and overseas. The inconsistency and complexity of definitions arising from past policy decisions should not limit UCT protections to a franchisee being a motor vehicle dealer. By its very nature a motor vehicle dealership agreement is a standard form contract implying a significance imbalance of market and bargaining power.

AADA submits that the key concept should be relative size of the parties evidenced by the use of a standard form contract and therefore extension of UCT protections should apply to all franchisees. A retail motor vehicle dealer in Australia is small in comparison to a global vehicle manufacturer.

AADA strongly recommends the adoption of Option A.1: Apply to all business-to-business standard form contracts with an exception a publicly listed company as defined in the ACL cannot rely on the provisions.

Motor Vehicle Dealers and Repairers Act 2013 (NSW) (MVDR Act)

On 27 November 2013 the NSW Parliament passed the MVDR Act which introduced new provisions regulating the relationships between NSW motor vehicle dealers and motor vehicle manufacturers. Part 6 of the Act – Unfair contracts and unjust conduct affecting motor dealers, created new rights for dealers in respect of unfair contracts and unjust conduct of a manufacturer.

A motor vehicle dealer means a person who carries on the business in dealing in motor vehicles as a retailer or on a wholesale basis. The NSW Government recognised and understood the need to extend UCT protections under the Act to a motor vehicle dealer irrespective of size. Motor vehicle dealers in NSW welcomed the passing of this legislation and AADA sees it as a first step towards the adoption of similar legislation in other States and Territories and ultimately at a national level.

A key aspect of this legislation is the ability for an approved industry body to represent a motor vehicle dealer in dealing with a dispute with a manufacturer concerning unfair contracts and unjust conduct.

AADA submits that the Treasury carefully consider the legislative framework of MVDR Act as a very good example of UCT protections.

Scope of UCT Provisions

AADA would support the adoption of Option B.1 to extend the UCT provisions to provide protection for franchisees and other SMEs when they both acquire and supply goods and services.

The extension of the UCT provisions to capture small business to small business contracts (b2b) will be dependent on the definition of small business ultimately adopted. We strongly support extension of the UCT provisions to contracts between a franchisor and franchisee. That is, a franchise agreement being a motor vehicle dealership agreement is standard form contract and a motor vehicle dealer should be accorded the same degree of protection as extended to other SMEs.

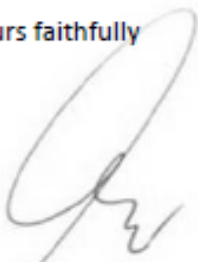
Unfair Terms

The consultation paper asks for examples of terms businesses are encountering that might be considered unfair. AADA members have identified a number of operational concerns including:

- Dealers are required to take damaged or late delivered stock with no right of appeal;
- Objectives set with no consultation and are often unachievable;
- Cost shifting to dealer when substantial unforeseen warranty recalls/costs arise;
- OEM invoicing stock to dealers where the dealer has either not ordered stock or agreed to delivery;
- Dealer agreements that link dealer bonuses/incentives to finance arrangements with specified third party or manufacturer financiers; and
- Margins adjusted based on consumer satisfaction scores with no right of appeal.

AADA would welcome the opportunity to contribute further to this consultation and if you require additional information or clarification of any matter please do not hesitate to contact me on 03 9576 9944.

Yours faithfully



Patrick Tessier
Chief Executive Officer



Australian Automotive Dealer Association Ltd.

ACN: 167 598 065

The Sir Jack Brabham Automotive Centre of Excellence

8/2728 Logan Road, Eight Mile Plains, Brisbane Queensland 4113

12 May 2015

Consumer Policy Framework Unit
Small Business Competition and Consumer Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: AustralianConsumerLaw@treasury.gov.au

Dear Manager

AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION LTD (AADA) EXPOSURE DRAFT LEGISLATION – EXTENDING UNFAIR CONTRACT TERM (UCT) PROTECTIONS TO SMALL BUSINESS

AADA welcomes the release of exposure draft legislation and explanatory materials for an extension of unfair contract term protections currently available to consumers to low-value contracts involving small businesses. You have asked for comments on the draft legislation following our submission of 1 August 2014 in response to the Treasury consultation paper.

We note the extension of unfair contract term protections to cover small businesses will allow unfair contract terms to be declared void and understand the proposed legislative protection can apply to franchise agreements. The protection is to apply to an unfair contract term in a “small business contract”.

A contract is a small business contract if, at the time it is entered into, at least one party is a small business, and the upfront price payable under the contract does not exceed either, \$100,000, or \$250,000 if its duration is more than 12 months. A business is taken to be a small business if it employs fewer than 20 persons, excluding casual employees not employed on a regular or systematic basis.

While AADA supports the extension of UCT protections to small businesses our original submission put forward the concept of relative size of the parties - an Australian motor vehicle dealer compared to a global vehicle manufacturer – and made reference to the UCT protections provided to NSW motor vehicle dealers under the *Motor Vehicle Dealers and Repairers Act 2013* (NSW). We ask that the matters raised by us be considered in any further review of extension of UCT protections.

CEO - Patrick Bascow
P.O. Box 4072 McKinnon Victoria 3204
+61 3 9578 9944
0612 685 851
pbascow@aada.asn.au

Strategic Operations Director
Steve Grant
0611 265 915
sgrant@aada.asn.au

Policy Director
Michael Deed
07 327 8711
mdeed@aada.asn.au

Secretary
Vivian George
0604 077 078
vivian@vivian-george.com.au

Directors

Chairman & QLD - Ian Field
0619 729 760
ifield@aada.asn.au

NSW - Terry Keating
0610 649 277
terry.keating@pfeiffer.com.au

VIC - Leigh Smith
0611 265 977
leighsmith@aada.asn.au

SA - Peter Pyle
0478 803 691
ppyle@pymulamp.com.au

TAS - Marjorie Bernal
0407 672 852
marjorie@bernal.com.au

ACT - Richard Noffs 0611
0411 189 714
richard@noffs@aada.asn.au

WA - Lou DiWiggle
0411 755 200
lou@diwiggle@aada.asn.au

A.P. Eagers - Martin Ward
0418 920 450
mward@aapeagers.com.au

AHD - Chad Davico
0478 430 799
chad@chadavico.com.au

Appointed - Geoff Pickering
0411 197 658
geoff@pickering.com.au

Appointed - Mike Duridge
0403 131 610
mikeduridge@duridgeandson.com.au

Appointed - Paul Warren
0418 223 332
paul.warren@peterwarren.com.au

Appointed - Anthony Atzeri
02 918 0558
anthony@atzeri.com.au

HDG Appointed - Tony Salerno
0407 184 438
tsalerno@aada.asn.au

A.P. Eagers Appointed - Keith Thornton
0479 412 142
kthornton@aapeagers.com.au

Legal Advisors - (WA) Elizabeth
elizabeth@eliza.com.au

Business Advisors - BDO Australia
mark.ward@bdo.com.au



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ACN: 167 598 085

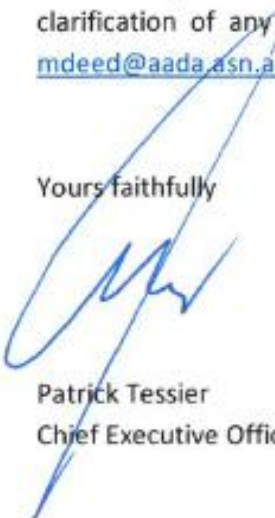
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8/2726 Logan Road, Eight Mile Plains, Brisbane Queensland 4113

AADA suggests that a review of the legislation be carried out no later than two years from its commencement to determine if further amendments or extensions are required.

We thank you for the opportunity to provide further comment and if you require additional information or clarification of any matters please contact Policy Director, Michael Deed telephone 07 3237 8711, email mdeed@aada.asn.au or me on telephone 03 9576 9944 email ptessier@aada.asn.au.

Yours faithfully



Patrick Tessier
Chief Executive Officer