MTAA RESPONSE TO:

The Productivity Commission inquiry into barriers to business dynamism

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MOTOR TRADES ASSOCIATION OF AUSTRALIA

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1. Introduction

The Motor Trades Association of Australia (MTAA) welcomes the opportunity to share its views and expertise to inform the Productivity Commission (the Commission) in its inquiry into barriers to business dynamism.

MTAA is the leading advocate for the automotive retail, service and repair sector, representing a broad range of small and medium-sized enterprises (SMEs). This includes mechanical workshops, body repairers, car dealers, dismantlers, recyclers and towing and recovery operators. These businesses operate in all jurisdictions and are embedded in local economies across Australia.

SMEs are central to business dynamism. They play a key role in enabling market entry, supporting competition, and creating employment pathways. These firms also provide apprenticeship opportunities and practical skills training, particularly in trade-based occupations.

The Commission's inquiry focuses on barriers to firm entry, expansion and exit. These issues are highly relevant to the automotive sector. Businesses in this sector frequently interact with regulatory frameworks governing employment, workplace safety, licensing, and training. In practice, these systems do not operate in isolation.

Our submission therefore focuses on how multiple, overlapping regulatory systems interact to influence business decisions. We examine how the structure and interaction of workforce-related regulatory systems affect labour market participation and firm decision-making. We also consider how these pressures extend into the skills and training system, including their impact on apprenticeship participation and workforce development.

2. Multiple, overlapping regulatory systems

Automotive businesses are required to comply with a wide range of regulatory obligations, many of which are administered across federal, state and local government levels. These include:

- employment law and wage compliance
- workplace safety obligations
- workers' compensation schemes
- training and skills frameworks.

In practice, these obligations overlap and interact. Businesses must navigate multiple regulators, separate reporting systems and differing compliance expectations. The Australian Business Licence and Information Service illustrates the breadth of licences, approvals and compliance requirements that can apply to a single business activity.[1]

The Commission has previously found regulatory requirements can in some cases make entry into business "unnecessarily complex or costly".[2] This remains highly relevant, particularly where regulatory systems are not coordinated.

[1] See Australian Business Licence and Information Service (ABLIS) website https://ablis.business.gov.au/

[2] Productivity Commission 2015, Business Set-up, Transfer and Closure, Final Report 75, Canberra, p.2

The cumulative effect of these overlapping systems can influence business behaviour. In the automotive sector, our members report that regulatory complexity affects decisions to enter new markets, expand operations or invest in additional capacity. For example, establishing or expanding a workshop requires approvals relating to:

- business registration and taxation
- local planning and zoning
- environmental and waste management requirements
- workplace compliance systems.

These processes are often not integrated. As a result, businesses must manage them separately, increasing both time and cost.

MTAA members operating across state and territory borders report that inconsistent adoption of regulatory requirements, including vehicle standards, licensing and compliance rules, creates conflicting expectations, increased administrative burden, and operational confusion. Where rules are adopted at different times or with different provisions across jurisdictions, businesses must manage parallel compliance processes, adding cost and complexity that discourages expansion beyond a single state.

In practical terms, the result is an increase in the fixed costs of running a business. For new entrants, this raises the threshold required to establish a viable business. For existing businesses, it limits the scale at which they can operate. This not only creates a barrier to entry, but limits business expansion across jurisdictions.

Regulatory and commercial complexity also affects business exit. Where businesses face unilateral changes to their operating arrangements, the costs of responding can be prohibitive.

MTAA member case study

A vehicle manufacturer's transition to an agency model led to the termination of a significant portion of its dealer network mid-agreement. One dealer who pursued legal action incurred approximately $1.8 million in legal costs over two years of proceedings. The scale of these costs discouraged other affected dealers from pursuing similar claims. This illustrates how the costs and risks associated with regulatory and commercial frameworks can deter both business entry, due to the risk of unilateral changes, and orderly exit.

3. Workforce regulation and compliance

Workforce regulation is a critical component of business operations. It also plays a central role in determining whether businesses are able to expand and create jobs.

A consistent issue for our members is that compliance risk often arises from interpretation and administrative complexity, rather than deliberate non-compliance. Businesses are required to interpret detailed regulatory requirements and apply them correctly across multiple systems. This can lead to significant financial pressures, even where the underlying issue is technical in nature.

Compliance pressures are compounded where businesses also face cost recovery challenges in their commercial relationships.

MTAA member case studies

A franchise dealer reported being instructed to claim 0.3 hours for diagnostic and repair work that took 1.59 hours to complete. The dealer stated: "We have followed the diagnosis as attached, checking voltages, Ohms & DTC codes. This does not come close to the time we spent on this car." In a separate case, a manufacturer paid for two and a half hours to replace a gearbox when the work took four and a half hours. These shortfalls accumulate across multiple jobs over a 12-month period, directly reducing the capacity of the business to invest in hiring and training.

This type of outcome reflects the practical impact of compliance complexity. It affects hiring decisions and reduces the willingness of businesses to expand their workforce.

MTAA survey evidence reinforces these findings with 87 per cent of respondents experiencing unfair or unreasonable conduct by a larger counterparty and 58 per cent reporting direct financial loss. The downstream effects on business dynamism were significant: 39 per cent of affected businesses reduced their willingness to expand, 30 per cent reduced staffing or hiring, and 20 per cent reduced apprenticeships or training. Members consistently reported reluctance to enforce their rights due to concern that the counterparty would reduce allocations, terminate agreements, or otherwise disadvantage the business.[3]

Workplace safety and workers' compensation systems also influence business decisions. While they are essential to business operations, differences between systems can lead to cost variability and compliance uncertainty.

Uncertainty is created, where business costs are difficult to predict or not clearly linked to business behaviour. Businesses respond by reducing investment and limiting expansion, which in turn affects hiring decisions and workforce growth.

4. Workers' compensation scheme effectiveness and regulatory balance

The effectiveness and long-term sustainability of workers' compensation schemes is an increasingly material issue for automotive SMEs. While these schemes play a critical role in providing protection and support for injured workers, there is growing evidence that current cost trajectories and administrative settings are imposing increasing economic pressures on businesses, with flow-on effects for investment, hiring and firm expansion.

A key driver of these pressures is the rising incidence and cost of psychological injury claims. These claims typically involve longer durations, higher average costs, and more complex return-to-work pathways than physical injuries. As a result, they represent a disproportionate share of total scheme liabilities relative to their frequency.

From an economic perspective, psychological injury claims present particular challenges in risk assessment and pricing. Compared with many physical injuries, psychological injury claims can involve more complex

[3] *MTAA, Unfair Trading Practices in the Automotive Industry: Member Survey Results, June 2026 (unpublished)*

questions of diagnosis, causation and work-related contribution. This can make claims assessment, risk attribution and return-to-work planning more difficult for insurers, scheme administrators, employers and workers.

There are also concerns that system settings can place greater emphasis on downstream claims management rather than upstream risk prevention. This limits the extent to which resources are directed towards early intervention, hazard reduction and practical workplace safety improvements – the areas that are most effective in reducing injury incidence over time.

Taken together, these factors point to a misalignment between scheme design, cost outcomes and behavioural incentives. Rising and less predictable costs, combined with challenges in risk attribution and regulatory balance, contribute to a more constrained operating environment for SMEs. These pressures interact with broader regulatory complexity to dampen business dynamism, including by discouraging hiring, investment and expansion.

5. Skills, training and apprenticeship participation

The automotive sector relies heavily on apprenticeships and trade-based training, with SMEs playing a central role in delivering these pathways.

Participation in training systems is influenced by a range of regulatory and administrative requirements, including supervision obligations, compliance processes and training administration. For many SMEs, these requirements are complex and time-intensive and difficult to manage alongside core business operations.

From an economic perspective, participation in apprenticeship systems is highly sensitive to cost, risk and administrative burden.

Where regulatory requirements increase the fixed cost of training or introduce uncertainty around obligations, SMEs are more likely to reduce or forego engagement. Unlike larger firms, SMEs have limited capacity to absorb these costs or manage complex compliance processes. As a result, training participation becomes pro-cyclical – declining at the very time labour shortages intensify – thereby reinforcing constraints on firm growth and labour market entry.

Current policy settings place significant emphasis on increasing the attractiveness of apprenticeships to prospective entrants. While important, this focus does not fully address the demand side of the training system – namely, the willingness and capacity of employers to engage apprentices. For SMEs, decisions to take on apprentices are driven by cost, compliance burden, supervision requirements and risk. Where these factors are unfavourable, increasing the supply of willing apprentices is unlikely to translate into additional training places.

This creates a structural imbalance in the training system, where supply-side policy measures are not matched by sufficient demand-side participation. As a result, overall system effectiveness is constrained, and skills shortages persist despite policy interventions.

Employer apprenticeship support has been reduced from up to $37,000 per apprentice under previous government programs (including a 50 per cent wage subsidy in year one of up to $28,000 per annum) to approximately $4,000 under the current system. Small repair businesses that previously increased apprenticeship recruitment under the earlier programs now report that the current incentive level is insufficient to offset supervision, training, and lost productivity costs. Members consistently report that the claims process is excessively bureaucratic, often resulting in delays or abandoned claims, particularly for small businesses with limited administrative capacity.

At the same time, the automotive sector is experiencing significant skills shortages. MTAA analysis indicates ongoing shortages across key occupations.[4]

Skills shortages directly constrain the capacity of firms to expand. Even where demand exists, businesses may be unable to recruit appropriately skilled workers.

MTAA automotive survey data from April 2026 indicates a vacancy fill rate of 48 per cent which is materially below the 67 per cent threshold that Jobs and Skills Australia considers indicative of a balanced labour market. Over 90 per cent of automotive businesses report recruitment is "difficult" or "very difficult," with 75 per cent reporting it is harder than three years ago. Key occupations have critically low fill rates: agricultural mechanics at 31 per cent, parts interpreters at 39 per cent, and motor vehicle salespersons at 44 per cent. A total of 68 per cent of employers expect shortages to worsen in the next 12 months.[5]

MTAA member case study

An MTAA industry survey of 230 businesses found that 43 per cent reported training pathways are not producing suitable workers, while only 10 per cent believe current pathways are adequate. A further 34 per cent of businesses have reduced apprentice hiring or do not employ apprentices. Employer feedback included: "Even when we get applicants, they are not job-ready" and "We are competing with mining and construction for the same workers." Applicant volumes have declined from 8.2 per vacancy in 2024 to just 3 per vacancy in 2026, reflecting a structural weakness in the workforce pipeline.

Reduced participation and skills shortages can mean a vicious cycle for automotive skills and apprenticeships in which:

- reduced training participation limits labour supply
- constrained labour supply limits business growth
- reduced growth further reduces training opportunities.

This reflects the broader issue identified in this submission: where regulatory systems governing employment, workplace safety and training are not well aligned, their combined effect can discourage workforce participation and undermine long-term labour supply.

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[4] Deloitte Access Economics and Motor Trades Association of Australia 2024, Skills shortages in the Australian automotive industry, 1 March 2024, pp. 11-16. The Deloitte and MTAA survey found the average fill rate in the automotive industry was 39 per cent in 2023, which significantly below Jobs Skills Australia’s critical threshold of 67 per cent.

[5] Motor Trades Association of Australia, *Submission to Jobs and Skills Australia: 2026 ABS and OSCA Consultation*, 29 April 2026.

Further, automotive workshops require upfront capital investment of over $100,000 per workshop to transition to EV servicing, including high-voltage isolation equipment, battery lifts, insulated tools, fire-resistant storage, and specialised diagnostic equipment. Small businesses operating on tight margins cannot absorb this investment ahead of demand. At the same time, only 50 per cent of apprentices complete their trade nationally, meaning the workforce pipeline to service these new technologies is also constrained. This creates a dual barrier: businesses cannot invest in equipment without skilled staff and cannot attract skilled staff without the equipment and technology.

This illustrates how barriers in the training system interact with investment constraints to limit the sector's capacity to adapt to technological change.

6. Recommendations

Considering the issues outlined, MTAA recommends that the Commission focus on improving the interaction between regulatory systems. Priority areas for reform include:

1. **Addressing cumulative regulatory impacts**

Policy design should consider the combined effect of multiple regulatory systems. Introducing mechanisms to assess cumulative burden would improve overall system efficiency.

2. **Improving predictability of business costs**

Greater transparency and stability in cost structures, particularly in areas such as compliance and insurance, would support investment and expansion decisions.

3. **Improving coherence across regulatory systems**

There is a need to better align obligations across employment, workplace safety and training frameworks. This includes reducing duplication and improving clarity in definitions and requirements.

4. **Supporting workforce participation and training**

Reducing administrative barriers to apprenticeships and improving alignment between training systems and industry needs would support labour market dynamism.

7. Conclusion

The central issue identified in this submission is the combined impact of multiple regulatory systems on business behaviour. When these systems operate largely in isolation, without sufficient coordination, they can increase cost, complexity and uncertainty.

For SMEs, these effects are particularly pronounced. Businesses respond by limiting hiring, reducing training engagement and deferring expansion decisions. This directly affects business dynamism. It reduces new business entry, constrains growth and limits the scale of operations.

Addressing these issues will require reforms which improve coordination, reduce duplication and support rather than hinder business decision making.

MTAA appreciates the opportunity to contribute to this inquiry. We would welcome further engagement with the Productivity Commission as the inquiry progresses. This includes participation in stakeholder consultations and providing further input on the interim report.

8. Afterword

MTAA accepts the scope of the Commission's inquiry is limited by the terms of reference it received from the Australian Government. Our observations and insights are therefore framed on the implementation of existing regulatory frameworks, rather than their underlying design.

In practice, however, the distinction between regulatory design and implementation is difficult to sustain. Where regulatory settings create structural uncertainty, compliance risk or unintended behavioural incentives, improvements in administration alone are unlikely to materially improve outcomes. In such cases, the regulation itself warrants review.

With this in mind, MTAA considers that several recent or proposed regulatory developments raise broader issues for business dynamism and merit further consideration in future policy work:

Criminalisation of underpayments

Recent reforms introducing criminal penalties and increased civil penalties for certain wage underpayment breaches materially alter the risk profile associated with employment. In particular, the potential for criminal sanction in circumstances involving one-off, late or under- payments – including where such underpayments are subsequently identified and rectified – creates a heightened level of perceived risk for employers.

From an economic perspective, this shifts the expected cost of compliance failure in a manner that may not be proportionate to the underlying conduct. For SMEs operating within complex award systems, where errors can arise despite genuine attempts to comply, this can discourage hiring and increase reliance on more risk-averse workforce models.

This risk is compounded in the automotive sector where manufacturers routinely underpay warranty work, paying for 2.5 hours when work takes 4.5 hours, dealers absorb the financial loss. If a dealer then makes a technical error in award compliance while managing these financial pressures, the criminalisation of underpayments framework could apply criminal sanctions. This interaction between manufacturer conduct, financial pressure, and compliance risk illustrates how regulatory settings can compound in unintended ways, increasing the perceived risk of employment and discouraging hiring.

Sham contracting – Divergence from common law tests

Sham contracting provisions continue to expand beyond traditional common law principles used to distinguish between employees and independent contractors. This creates uncertainty where statutory definitions diverge from well-established legal tests.

In practice, these provisions may not adequately account for the commercial reality that, in some cases, independent contracting arrangements are initiated or preferred by the worker themselves, including for perceived taxation or flexibility benefits. Where regulatory settings do not sufficiently recognise this dynamic, they may reduce the ability of businesses to engage specialised or flexible labour, even where such arrangements reflect mutual preference.

This divergence weakens clarity in labour classification and increases compliance risk, particularly for SMEs without access to extensive legal resources.

Constraints on non-compete clauses

Recent reforms restricting the enforceability of non-compete clauses aim to improve labour mobility. However, they do not appear to recognise the limited availability of alternative, practical enforcement mechanisms to protect business interests such as intellectual property, confidential information and customer relationships.

For SMEs, particularly in technical and trade-based industries, these protections are often embedded within employment relationships rather than formal IP frameworks. Where non-compete clauses are constrained without a credible substitute, this may reduce incentives to invest in employee training, skills development and business innovation, as the ability to safeguard that investment is diminished.

Workplace flexibility and control over work location

Proposed reforms, including expanded rights to work from home, introduce additional complexities for small businesses. In particular, arrangements that limit an employer's ability to determine where work is performed – combined with expectations that employers fund employee home office setup and related expenses – represent a shift in cost allocation and operational control.

For many automotive businesses, work is inherently site-based and cannot be performed remotely. However, broader regulatory expectations in this area may still create compliance obligations, dispute risks, and administrative burdens. More generally, reducing employer control over the location and conditions under which work is performed – while increasing associated cost obligations – can affect productivity, supervision, and service delivery.

Overall, these developments illustrate a broader trend toward increased complexity, reduced predictability, and shifting risk allocation within workplace regulation. Collectively, they contribute to a more cautious operating environment for SMEs, where the perceived costs and risks associated with employing staff are increasing.

MTAA considers that expanding the scope of the Commission's inquiry to examine these regulatory settings would support a more comprehensive assessment of barriers to business dynamism. This would enable consideration not only of how regulations are implemented, but whether their design appropriately balances worker protections with the need to support viable, productive and growing businesses.

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