



PRODUCTIVITY COMMISSION

**INQUIRY INTO AUSTRALIA'S AUTOMOTIVE MANUFACTURING
INDUSTRY**

MR M. WOODS, Deputy Chairman
MR P. WEICKHARDT, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON TUESDAY, 3 DECEMBER 2013, AT 9.35 AM

Continued from 2/12/13 in Adelaide

INDEX

| | <u>Page</u> |
|--|-------------|
| AUSTRALIAN INDUSTRY GROUP: INNES WILLOX JULIE TOTH | 72-82 |
| PALM PRODUCTS: ROBERT WILSON | 83-89 |
| BUYAUSTRALIANMADE: STEPHEN GATELY | 90-94 |
| FEDERATION OF AUTOMOTIVE PRODUCTS MANUFACTURERS: GLENN PAINE RICHARD REILLY JIM GRIFFIN MARK DE WIT | 95-112 |
| DIVER CONSOLIDATED INDUSTRIES: JIM GRIFFIN | 113-117 |
| MTM PTY LTD and TOMCAR AUSTRALIA: MARK ALBERT | 118-128 |
| AUSTRALIAN PRODUCTIVITY COUNCIL: CRAIG MILNE ROSS McDONALD | 129-134 |
| SOCIETY OF AUTOMOTIVE ENGINEERS AUSTRALASIA: HARRY WATSON ANDREW ST LAWRENCE | 135-140 |
| AUSTRALIAN MANUFACTURING WORKERS UNION: DAVE SMITH TOM SKLADZIEN | 141-151 |
| FEDERAL CHAMBER OF AUTOMOTIVE INDUSTRIES: ROBERT GRAZIANO TONY WEBER | 152-160 |

| | |
|--|---------|
| TOYOTA AUSTRALIA: ANDREW WILLIS MICHAEL RAUSA | 161-173 |
| FRANK WILL | 174-180 |
| AUSTRALASIAN FLEET MANAGEMENT ASSOCIATION: KEN THOMPSON | 181-187 |
| POLYPACIFIC PTY LTD: LINDSAY HOGG | 188-193 |

MR WOODS: Ladies and gentlemen, we will commence the hearings for today. Welcome to the Melbourne public hearings of the Productivity Commission inquiry into the Australian automotive manufacturing industry. I'm Mike Woods. I'm the deputy chairman of the Productivity Commission and presiding commissioner for this inquiry. I'm assisted by my colleague Commissioner Philip Weickhardt. I might pause briefly so that the cameras can sort themselves out.

The commission has been requested to undertake an inquiry into public support for Australia's automotive manufacturing industry, including passenger motor vehicle and automotive component production. The commission is required to produce a preliminary findings report, and this will be released on 20 December. The commission will also be releasing its draft recommendations in a position paper on 31 January and will hold a roundtable on quantitative analysis on 4 March. The commission will submit its final report to the Australian government on 31 March 2014.

Stakeholders to this inquiry and the commission are all acutely aware of the very short deadlines given to the commission for this inquiry and the limitations that this imposes on the ability to engage stakeholders and the general community on a debate about the future of automotive manufacturing in Australia.

Given that time frame, I would like to express our thanks and those of the staff for the promptness of stakeholders in being able to meet with us and make submissions to the inquiry. I'd like to also acknowledge the courtesy extended to us in our visits and deliberations so far by all parties and for the thoughtful contributions so many have already made in the course of this inquiry.

I would like these hearings to be conducted in a reasonably informal matter but remind participants that a full transcript will be taken and made available to all interested parties. I also remind all observers that they should allow those giving evidence to do so without interruption. There is, however, at the end of the scheduled hearings today ability for any persons present to make an unscheduled presentation should they wish to do so.

You're advised that in the event of an emergency requiring the evacuation of this building you should follow the green exit signs to the nearest stairwell. Lifts should not be used. Please follow the instructions of floor wardens at all times. The assembly point for the commission in Melbourne is at Enterprise Park, situated at the end of William Street on the banks of the Yarra River.

I would like to welcome to the hearings our first participants from the Australian Industry Group. Could you please for the record state your name, the organisation you are representing and the position you hold.

MR WILLOX (AIG): Thank you, commissioners. My name is Innes Willox. I'm the chief executive of the Australian Industry Group and I'm joined by Julie Toth, who's the senior economist of the Australian Industry Group.

MR WOODS: Thank you. I'll just wait for the cameras to retire. Do you have an opening statement you wish to make?

MR WILLOX (AIG): I do, commissioners, and thank you for giving me the opportunity to present it on behalf of the Australian Industry Group. Our submission is made on behalf of the many thousands of Australian Industry Group member businesses across Australia, who come from an expanding range of sectors, including manufacturing, engineering, construction, automotive, food, transport, information technology, telecommunications, call centres, labour hire, printing, defence, mining equipment suppliers, airlines and other industries.

Given that diversity of our membership, our interest in supporting and promoting the automotive industry runs deeper than just our very strong manufacturing base. A surprising number and variety of our member businesses are touched by the automotive chain or have an interest in it in some way.

Some of these interests are easily identifiable because they are tier 1, 2 or 3 businesses in the automotive supply chain and get picked up in the statistics around the sector. For example, they are part of the estimated 50,000 people directly employed in the automotive manufacturing supply chain or part of the services businesses that keep that whole supply chain running smoothly.

Other businesses, however, tell us about the benefits they have gained from the auto sector that are less tangible and less easy to quantify because they may not actually have a direct business relationship with the auto sector. These are the hard-to-pin-down spillover benefits that everyone speaks about when talking about the sector.

Across our large and diverse national business membership base there is a fairly widespread agreement that automotive manufacturing makes a valuable and worthwhile contribution to the Australian economy, particularly in regard to skills, training, R and D and innovation. In this vein we regularly hear about the high value placed on skilled personnel who have specific training and experience from the auto sector that they then take with them to other sectors.

We also hear about the role of the auto sector in introducing and popularising valuable production and management techniques in Australia, which are then picked up elsewhere. We also hear about the focal point provided by the auto sector for

developing technical skills and R and D. These activities, quite frankly, may not occur here in Australia without the auto players. We do, however, acknowledge that there is a much more diverse range of opinion on the prognosis for the automotive industry and the role of government support for it.

Before taking questions I'd like to finally and very briefly outline the factors guiding our thinking on policy questions that this review is looking at. First, as a matter of principle, the Australian Industry Group favours industry policies that enhance business growth and productivity and that are open to all businesses regardless of the sectors in which they operate, their size and their place in the supply chain.

Second, when we look at the government programs that are specific to the automotive sector, we believe the funding already proposed under the New Car Plan should be allowed to run its course through to 2020. This is in the interests of providing trust and certainty in all government industry policy and not just in the auto sector. We note, however, that policy certainty is especially crucial in programs that are aimed at fostering long-term investment and innovation and in industries that have very long lead times in their investment decision-making cycles.

Australian businesses across the automotive supply chain have made their plans based on commitments in the current funding model, which include around \$500 million that is now being reconsidered by the government. Their investment and employment outlook is seriously jeopardised when industry policy is amended or when crucial funding is axed on the run. Such policies and funding commitments need to be predictable and, above all, stable and we believe the \$500 million commitment should be honoured.

The detail of the plan could, however, be open to revision should that prove appropriate due to changed circumstances. Australian Industry Group members hold a wide range of views on the best way forward on any such revisions and we are still exploring these options.

Thirdly, we ask that this review look very closely at the macroeconomic environment when examining the suitability or timing of any changes to automotive assistance arrangements. We note that there is a very limited likelihood of increases in manufacturing employment and investment in the immediate outlook period. This means that further shocks to the domestic manufacturing sector due to changes in policy could do more damage than they would if they were implemented at a time when manufacturing and the broader economy were more resilient. In this fragile economic environment governments should be wary of inadvertently exacerbating the tough trading conditions faced by businesses across many of our key industrial sectors.

This is our first submission to you, and there will be a second one, but in this submission we've endeavoured to provide a snapshot of the diversity of views within our membership, and that is reflected in the submission that we put forward. However, given, as you've noted, the very compressed time frames for submissions, we're still in the process of gathering further information from members, which we'll include in our second submission to the review in February next year. Thank you, and Julie and I are happy to answer any questions.

MR WOODS: Thank you. Ms Toth, could you please just state your own name and position for the record.

MS TOTH (AIG): Julie Toth, Australian Industry Group chief economist.

MR WOODS: Thank you very much and thank you for the submission, particularly in the time frame that you had to put it together. It is very helpful and especially helpful are those principles that you put out at the front and that you also referred to in your opening comments. It's very helpful having yourselves here, because that allows a bit of exploration of manufacturing in general in which then we can put automotive in context.

Please correct me if I'm wrong, but my understanding is that value added in manufacturing grew very strongly in the 1990s and in the more recent decade, which you've described in terms of "fragile" and "difficult conditions", et cetera, but even during that time value added has not fallen. It has in fact stayed relatively flat, and I think the latest statistics that have come out put value added for manufacturing a little higher now than it was at the turn of the century. So there's no cliff that manufacturing has fallen off. Its value added, even in these very difficult times, has been maintained.

Employment as productivity increases has always reduced, but investment has been over the long term quite strong in manufacturing. So people with capital are voting with their dollars and putting it into manufacturing. Is that your understanding of manufacturing as well, that in fact it has a strong role to play in Australia, that it has remained quite a strong contributor to the economy? Whereas other sectors might be growing faster and therefore proportionally manufacturing might be declining, that's not the true story?

MR WILLOX (AIG): I'll let Julie talk as well, but that was one of the key points of our submission that we tried to get across. It was that manufacturing still remains a very resilient component part of the Australian economy. It is the fourth-largest sector - a broad sector - of the economy, contributing about 8 and a half per cent of GDP, but that also doesn't take into account a lot of these spillover effects that come

from manufacturing that we talk about. We talk about a multiplier in employment, we talk about a multiplier in growth as a result of having that strong manufacturing base.

It's true that the sector has gone through quite a significant structural shift. There have been a whole range of factors that I don't need to go through with you here today, but you look at the impact of the dollar, you look at import competition on the sector more broadly and just the broader impact of the global financial crisis through the last five or so years. That's obviously had an impact on the sector, but through that it has remained strong through all its component parts.

There have been shifts within the manufacturing pool. You sometimes do get the image that it has fallen off a cliff or that it is dying. The truth is actually to the contrary. You hear and see very significant stories of strong investment, of investment in capability in terms of personnel but also investment in terms of plant and equipment and also particularly investment in R and D and innovative capacity across manufacturing. So this is sort of helping the industry regenerate itself.

All our evidence is that while there is change and churn, which is par for the course, the sector as a whole has remained strong. I think part of what we're trying to get across today is that automotive is part of that strength of the sector more broadly because of not just what it brings on its own but also what it brings to the sector as a whole. I'll let Julie join in.

MS TOTH (AIG): I think you made a very good point about how manufacturing has performed over the whole economic cycle since we last had a recession in Australia in the 1990s, but the performance has been highly variable over that period. You're quite right, the 1990s were a relatively stronger period coming out of the recession. Productivity did improve a little bit and employment output, et cetera, did grow.

Since 2000, though, I think we're really looking at two periods there. From 2000 till about 2008, pretty much before the GFC hit, manufacturing was growing quite strongly. We saw employment stabilise, output was improving, profits and investment increased, and within that mix machinery and equipment, metal products, the transport sector were really at the forefront of that growth. They were the sectors that were driving that growth and they were keeping up with the broader economy rather than falling behind.

Manufacturing at the time was being dragged down by other sectors; for example, the continuing contraction in textiles, clothing and footwear. We also had problems in food manufacturing at the time, because of the long drought, but since 2008 the pattern has changed quite radically, and that really marks the high point in

the last decade for manufacturing output but also for employment and for profits.

The investment story is more interesting, in that investment did actually keep growing after that, and I think that was an attempt by the manufacturers to invest and grow their way out of a difficult period. But as it continued, and really because the dollar was strong over a very extended period of time because local demand was weak for a number of years - the construction cycle, for example, was working against them - we've really seen a contraction quite strongly since 2008. Although over the whole cycle, you're right, manufacturing is stronger now than it was at the beginning of the cycle, it's still down from that recent peak. That's very evident when we look at measures like employment and the profit cycle.

MR WOODS: Sure, and so it's a question of short-term and long-term perspectives.

MS TOTH (AIG): That's right.

MR WOODS: Thank you for that. The next issue I'd like to raise is: you mentioned that various of your members have different views about whether assistance should be generic but in some cases some of your members would be arguing for the specific assistance associated with the automotive manufacturing sector in particular but in others as well.

Automotive manufacturing in fact has three parts rather than two parts. There are the OE assemblers who are there - currently Ford, as well as Toyota and GM - then there are the component suppliers who provide parts predominantly to that sector, and they also get support under the ATS and other schemes. There's also an aftermarket component sector that produces what Australia is good at with its four-wheel drives, it's bull bars, its shock absorbers and things, as well as high-end sporting vehicle equipment and the like.

They operate just in the normal economy, if they can get some generic R and D, et cetera. When you make comments about the automotive manufacturing industry, are you contemplating all three parts of that sector, because they seem to have different characteristics.

MR WILLOX (AIG): They do have different characteristics but they all flow from each other and, from talking to our membership base, there's a strong view that while there are various views about the assistance given to the sector, how it is delivered, where it should be delivered and the like, there is still overwhelmingly strong support for the sector as a whole because of what it brings to the economy.

There are those three constituent parts, as you mention, but they are all strong employment drivers. You still have movement of skills between the three sectors,

you still have movement of people, and the innovative capacity flows between those three sectors and then spills over beyond.

We have many members now who may have formerly been majorly involved in the automotive sector but for a variety of reasons have transitioned into other sectors while maintaining a footing in the automotive sector, and this is something that is quite common. So you quite often hear of people transitioning their skills from the automotive sector to other sectors, be it into defence or rail or cleantech. There are a whole variety of examples that we could give where skills have moved but have originated from that automotive sector.

MR WOODS: Okay.

MR WILLOX (AIG): There are significant innovative capacities within Australia. One of my favourite stories, because of the way I am built, is that radiators for Lamborghini are produced globally on the Gold Coast. That's a market that has been picked up and developed but that skill has been developed within Australia. They also provide 70 per cent of the radiators for Formula 1. That's not just a skill that has been picked up within Australia but it has been picked up internationally because of our automotive capacity here. So there are broad spillovers within industry.

You mentioned different views. Depending on where you sit, which sector you're in, people do say, "Well, automotive gets significant funding," and then you'll get views within that saying, "Well, they should. They deserve it comparatively. Compared to the rest of the world, they don't get that much funding." I'm sure you've heard the arguments about the dollar per capita spent on automotive.

Others say that we should all compete on our own two feet. Others say that if there's assistance being given to one sector it should be open to others to develop, particularly innovation and R and D. So there is a wide range of views, but underpinning that there's pretty much uniformity that the automotive sector provides strong benefits to the broader economy.

MR WOODS: You did briefly mention the assistance per capita. It's also interesting if you look at it per unit of vehicle produced, and of course it produces quite a different pattern. So what your denominator is...

MR WILLOX (AIG): You can deal in statistics.

MR WOODS: - - - is very important. I understand why per capita is used, but it is instructive to look across the range of indicators.

MS TOTH (AIG): We'll leave the statistics to you guys, I think. You can choose

your own denominator,

MR WOODS: We always present a variety, because we're interested in a balanced view - - -

MR WILLOX (AIG): I thought it was interesting this morning, the story in the papers about how the sales of locally produced cars have gone up, and that's perhaps reflective of where the dollar has moved basically. So there are a whole range of factors in play here.

MR WOODS: Just one last brief question from me before my colleague has an opportunity. You made a strong point in your opening statement about the current government's foreshadowing of some reduction to the ATS and you make a point in your submission that the funding proposed under the scheme should be allowed to run its course to 2020.

The legislated amounts under that scheme in fact start to decline after 2016 and wind down to zero by 2021. Does that mean, by supporting that, that you consider that a 10-year transition from 2011 to 2021 is an appropriate transition period for the industry and that at the end of the day that's the scheme that's been foreshadowed for a 10-year period; that the industry should take the opportunity of that 10 years to transform itself to be able to survive with the scheme as planned; ie, zero additional support at that point?

MR WILLOX (AIG): What we're suggesting here is that the funding that has been allocated and planned around should be developed and we also make the point that that should be open to revision should circumstances change, and you could look at a whole variety of circumstances why that could be, but that could also be that there could be revision looking towards further assistance should that be required. That would be a determination that government and industry - not just the OEMs but broader industry - would have to draw to a conclusion themselves, getting towards the end of that assistance period.

I think our point here is that by allocating that funding the government has made a commitment, industry has made plans, it's made investments around that funding, and that should be adhered to. That's not to say that, should we have a change within the industry or a change in terms of global circumstances, that can't be revisited so that that envelope of funding can be reallocated in another way to provide appropriate support through that period, but the principle of maintaining that funding we believe is very important.

As you say, the funding is on a downward trajectory. What happens beyond that would be a matter, I think, for discussion at a later time.

MR WEICKHARDT: We have a very compressed time schedule, I'm afraid - the whole inquiry and for each of the people appearing - but - - -

MR WILLOX (AIG): Just go straight to the hard questions.

MR WEICKHARDT: - - - I wanted to turn to your comments on the industrial relations policy, again an area that's complex and difficult, and of course the commission is expecting to look at the industrial relations area overall. You made a number of comments about some important changes needing to be made to the Fair Work Act. One of them I'd like to ask about specifically, just to get you to clarify that. You talk about the more workable transfer of business laws to ensure businesses are able to restructure and remain competitive, and of course we've heard repetitively about there needing to be rationalisation, particularly in the component area. A few people have suggested to us that there are restrictions being caused by competition and ACCC concerns. Can you just outline what the concern under the Fair Work Act is about the transfer of business arrangements?

MR WILLOX (AIG): Just in a nutshell, if a company was to be bought out by another, then the buying company has to basically take all of the entitlements and liabilities across with them. This is obviously an issue that needs to be worked through. It's an inhibitor for business transfer. It should be part of negotiation, and businesses are reporting to us that they find this an inhibitor in terms of investment. They are then taking on the liabilities rather than the other party being responsible for the liabilities. It's a major issue in terms of the funding that is required for a transfer.

MR WEICKHARDT: I guess if an employee is expecting continuing service with a new employer in more or less the same sort of business, I can understand they would either want to receive some sort of redundancy payment and payout of entitlements or, alternatively, expect to have some access to the previous entitlements in the new role.

MR WILLOX (AIG): As they should, but under the current legislation it's very tight around what a new employer can and can't do essentially to make adjustments.

MR WEICKHARDT: Can you send us, if you've got some more detail on that - - -

MR WILLOX (AIG): Absolutely. I can go right through that but in a compressed time frame.

MS TOTH (AIG): We've got examples already that are outside the auto sector. We've had examples of that in mining services, in particular, and machinery and

equipment suppliers to mining when they're actually moving to a new activity. In the case of auto, it might be the case where businesses are trying to move out of that supply chain and this is inhibiting their ability to move into new activities and new operations. The problem is the employees are not going to be doing the same job; they're moving to an entire new activity. We have seen that, but not in auto, but I will look for some examples for our next submission.

MR WEICKHARDT: Thank you. The other question - again we don't have time for a long answer - both Toyota and General Motors appear to have gone through some pretty tough heart-to-heart conversations with their employees over the last six months or so about the position they find themselves in. It would appear, although this is an ongoing process, that there have been agreements to some changes to their circumstances to try and adjust to the new environment they face. To what degree do you feel, however, that the Fair Work Act has impeded the ability of those sorts of discussions between employers and employees about adjustment and change to make themselves more competitive?

MR WILLOX (AIG): We have the act in place and that obviously puts boundaries around what can and can't be discussed and how they can be discussed. As we outline here, not just in auto but across industry we have concerns around content of bargaining claims, general protections and the like. In the past that has put some restrictions around what the auto manufacturers and others can and can't talk about, and what productivity enhancing changes they can make to their workplace, and can they go fast enough. That's been a frustration with industry as a whole, not just in the automotive sector. That general bundle of what can be discussed and negotiated has put limitations or inflexibilities in the way of business.

One thing that I would point out to you is that many of our members have come back to us and said that across manufacturing, automotive - because of its role in the sector - is sort of a leading indicator or a benchmark across the sector. There are spillovers from what happens in automotive in terms of expectations around what happens in other parts of industry. Because it is an important component of manufacturing, it's perhaps in some ways more vulnerable than other parts of manufacturing. That does spill over into other parts of the industry, so it does set the benchmark in many ways.

MS TOTH (AIG): I think particularly for skilled employees and technical employees, other sectors regard the conditions that are set in auto as a bit of a benchmark for manufacturing as a whole.

MR WEICKHARDT: And do you suggest that they have been a pace setter in terms of lifting those conditions?

MR WILLOX (AIG): Yes.

MR WEICKHARDT: Some of the submissions we've received suggest that the rate of increase of remuneration in Australia in that industry has been faster over the last five years than it has been anywhere else around the world. There have been real decreases in places like Germany and the US.

MR WILLOX (AIG): Then that flows through. I wouldn't say it cascades but sort of works its way through the rest of the sector.

MR WOODS: Thank you. Unfortunately time has run out but we look forward to further material from you on the public record and to you reappearing at our next set of hearings.

MR WILLOX (AIG): We'll provide some extra material as requested and we'll put in a further submission.

MR WEICKHARDT: Thank you.

MR WOODS: And that additional material, if that could be on the public record that would be great.

MR WILLOX (AIG): Absolutely.

MR WOODS: Thank you very much.

MR WOODS: Our next participant is Palm Products. Could you please, sir, for the record state your name, the organisation you are representing and the position you hold.

MR WILSON (PP): My name is Robert Wilson. I have been the owner and managing director of Palm Products for over 20 years. I'm the treasurer of FAPM.

MR WOODS: Thank you very much. Do you have an opening statement you wish to make? I realise that time is somewhat limited.

MR WILSON (PP): Yes, I will be as quick as I can.

MR WOODS: Thank you.

MR WILSON (PP): We're an injection moulder who operates in three markets. Automotive is 40 per cent of our turnover, of which 15 per cent is exported. Building industry is 25 per cent of turnover. Consumer drink and tableware is 35 per cent of turnover and growing strongly. My company is the largest supplier of plastic drinkware to the Australian retail industry. Key customers are David Jones, Coles, Big W and BCF. We export a premium range of drinkware to Europe, North America, Middle East and Hong Kong. This range was developed in collaboration with Marc Newson. It is, I believe, the world's best unbreakable drinkware. It has been awarded an Australian design award. Distributors have been appointed in Sweden, Holland, Norway, France, UK, Germany, Italy, Turkey, UAE, Hong Kong and the USA.

Now to my submission. I understand that your economic model does not take into account skills transfer, both to individuals and companies. To me this is the main benefit of having an automotive industry and should be modelled and considered. In my submission I make three main points: that the automotive industry is a fundamental part of Australia's infrastructure; that exposure to the automotive industry has assisted my business gain the skills, the quality and cost competitiveness to enable me to export Australian-made drinkware to virtually any market in the world; that we must get serious about supporting this industry, not just do the easy things.

Do we need an automotive industry? As a country we have been privileged to have GM, Ford and Toyota locate R and D and assembly operations in Australia. We have the important knowledge part as well as the assembly part. The former, in particular, attracts and trains highly skilled designers, engineers and other professionals. These skills are transferred to other industries and professions as the individuals change jobs throughout their working lives. Any individual who has succeeded in this industry has a toughness and a skill level that stands them in good

stead for the rest of their life, just a like a high-standard education.

Similarly, any company who has succeeded in this industry has a toughness and a skill level that gives it the basis of succeeding in other markets. My business is a good example and there are many others. The automotive industry should be viewed as being part of Australia's basic infrastructure upon which other industries are built. I would urge the commission to view assistance to the automotive industry in two parts, the knowledge part and the assembly part, and put policies in place to create a level playing field in both and to incentivise both. We can do a lot better than ATS.

The move to globalisation of vehicle models means many assemblies will be produced in the short term in low labour cost countries. There is, however, a global trend to onshoring as manufacturing and logistic costs in Asia rise and automation lowers costs at home. Lower exchange rates also can make a significant difference. Two weeks ago I was in France talking to a buyer who supplies Carrefour, one of the world's largest supermarket chains. I was not surprised to find that we can supply commodity drinkware to France for a similar cost to Asia. If I can do it, why not other suppliers to the MVPs? You may care to ask how we do it later.

Motor vehicles and manufacturing will be very different in five, 10 and 15 years' time. Long-term decisions based upon current costs, products, global conditions and exchange rates are bound to be incorrect. I would urge the commission to be cautious and flexible when reaching its conclusions. Once this industry is lost it is unlikely to ever return.

The importance of Palm Products exposure to automotive: Palm Products would not have been successful in consumer drink and tableware without its exposure to the automotive industry. This has been beneficial in the following areas. Technology: Palm Products has made automotive instrument lenses for 20 years. Lesson learnt have enabled the considerable technical issues associated with consumer drinkware to be overcome. Automotive production costs have helped us achieve Asian-competitive manufacturing costs. It has forced us to deliver daily at zero rejects. The exposure and lessons learnt have given us the confidence to commit the necessary financial and human resources to product development, equipment and marketing. To develop a sustainable international business is a daunting task.

Time to get serious: there is a complacency that thinks that this tough industry can survive in Australia without an internationally-competitive playing field. If it becomes unviable it is somehow the industry's fault. The situation this industry now finds itself in is predictable from the policy settings and operating environment. We now have a perfect storm of headwinds. As these change, viability will change. If

this industry is to continue, Australia needs to become serious about implementing the recommendations of FAPM and others. Many of them are without costs. We need to be tough on FTA noncompliance and on antidumping. All states should sign up to local procurement. The best interests of the country must be paramount, not appeasement.

There is a lack of consensus on this industry's importance, what needs to be done and how it is to be done. It is hoped that this Productivity Commission's report will be a necessary circuit-breaker and build this consensus.

MR WOODS: Thank you.

MR WILSON (PP): We're running out of time, are we?

MR WOODS: If you've got a minute or two to conclude - - -

MR WILSON (PP): I would just like to cover the vision for the SME-ACP of the future. Despite the difficulties of being a manufacturer in Australia, Palm Products is committed to local manufacture because our experience has shown that it's possible to be price and quality competitive. Palm Products' strategic vision is to remain a supplier to the automotive industry because of the benefits this exposure brings. To survive as an SME-ACP I believe a different and more dynamic business model will emerge and is emerging. Successful businesses of the future will have a mix of the following: world-competitive core technology, world-competitive cost structure which requires continual investment in equipment and systems, a flexible skilled workforce, diversified markets and products based upon core technology, sales and marketing skills to enable opportunities to be grasped, and strong leadership. The FAPM submission highlights a number of dynamic ACPs who fit this business model.

Finally, would Palm Products survive without automotive? The answer is probably yes, but it would not be as strong and would not employ as many people either directly or through its suppliers. Many suppliers to Palm Products would be weakened and may not survive. My tooling, for example, is currently built by Australian toolmakers who rely heavily on automotive volume. Without skilled supporting companies, doing business becomes harder and more costly. The ripple effect throughout manufacturing would be pervasive.

Survival of SME-ACP manufacturing is dependent on individuals like myself; people who are prepared to fight hard to survive, to work the necessary hours, to commit the necessary funds and to take the risk. There are a lot of very good people in this industry. Without automotive skills, generation and volume, there may come a point where it may be impossible for many businesses to survive, or it's simply not

worth the effort. Thank you for your time.

MR WOODS: Thank you very much. Could we pursue some brief questions in a couple of minutes. First let me congratulate you on your diversification, including such things as linking up with Marc Newson. I read that with interest and I thought there's somebody who, as a manufacture, is looking out to see who else is out there who you can team up with, and I think that's excellent.

Let me also assure you that the Productivity Commission does in its deliberations very strongly recognise skill spillovers and that is a part of the deliberations that we're going through. I certainly wouldn't want this inquiry to degenerate into a battle of the models of economic activity because there are a number of issues that aren't always properly captured in those models. So a model can provide a context but some of these less-tangible issues are very much in our thinking. So please take that message away that it is an important consideration.

You have pursued a diversification strategy and clearly you are being successful at that, and that's the risk of being in the market because some will try and diversify and not be successful. That's just the way the market operates. Do you have a view on how to encourage many others, particularly those who are delivering particular products to specifications set by the OE assemblers, to then look more widely and to see that they've got skills, they've got a trained labour force, they've got some capital behind them - how they too can diversify and develop a strength in the broader market?

MR WILSON (PP): As you said, they do have the skills so I think you've got to isolate what your company is good at and then build on that. I said you have to be world-competitive in your technology. I think if you're going to survive you have to make sure your own house is totally in order. Diversification is not the answer if you're not doing what you should do really well. To me, the basis of diversification is a very good business, good technology, good people, low costs - all those sort of attributes that you have to have. Then you can take that skill and work out where perhaps it can be used in Australia or overseas, and then get on the plane and go and find out.

MR WOODS: Do you use generic programs like the Export Market Development Grants scheme and the like?

MR WILSON (PP): We don't use that. The trouble with that is they pay you after you're successful, not before you're successful. It hasn't been much of a help to us at all.

MR WOODS: Are there any other generic programs, R and D concessions and the

like, given that you operate more out of the ATS umbrella than in it? Are there other schemes that are helpful to you?

MR WILSON (PP): The thing that has been helpful is export development. I'm a member of the Marine Group and they get some government funding to attend trade shows. The Victorian government do the Middle East super thing, whatever they call it. I went on that last year and ended up getting some business out of the Middle East. Those things are really important because someone like me who's developing new products is cash-strapped. You just need that little bit of help to sometimes get you to the places to get in front of people to present your products.

MR WEICKHARDT: I'm interested in your comments about diversification and also exports. A number of people have put to us - and indeed the Australian Automotive Aftermarket Association presented to us in Adelaide and they said in their view a number of the companies making OEM parts or components have been not as creative as they could have been about diversifying. These weren't their words but you get the impression from also the FAPM submission that perhaps the ATS has actually inhibited some people exploring diversification. It's almost been, "Well, here I have support to supply the OEM companies. I lose that support if I diversify into another area, so should I make that step?" It would be interesting to get your comments about the reasons some of the OEM suppliers haven't really moved as rapidly as you have to export and also to diversify into other businesses.

MR WILSON (PP): I think fear is a great motivator. I own the business, I've got to make sure I've got a business in the future, so I started some years ago - probably eight to 10 years ago - on this path. It does take time to really understand where your strengths are and how you can diversify. It's not that simple and you have to build your own expertise to do it. Instead of just going to see the OEMs, you've now got to go and see other people. You need to develop new marketing strategies and get to understand the markets you're trying to access. This all takes time and effort.

I think there's a general realisation now that to be a supplier to the auto industry you do have to have a diversification program because the volumes are not sufficient and the future is not as certain. So those things will drive the move to diversification.

MR WEICKHARDT: And exports of auto components to other countries. At the moment it would appear, if you look at the percentage of components that are local compared to imported, that Australians are losing the battle, if you like. They're not exporting a huge quantity of components. That sort of line looks flat. Yet the imports of components are growing. To what degree have you found the car companies that you've dealt with helpful in terms of making contacts available and helping you get into some of their overseas affiliates and supply them?

MR WILSON (PP): I'm mainly a tier 2 supplier. I have some tier 1 business but my main business is supplying tier 2 and that's not part of the strategy really. If they get the business in Australia then I get the business. We rely on them.

MR WEICKHARDT: Are any of the tier 1 suppliers, that you supply, global companies who you might be able to supply to overseas?

MR WILSON (PP): Yes, most of them are global companies.

MR WEICKHARDT: Right. Have they given you any sort of leads and assistance in that regard?

MR WILSON (PP): No, they haven't.

MR WEICKHARDT: You did invite us to ask you how you are cost competitive in France, so have you got some very high levels of automation? Everyone in their presentation has said to us Australia is a high-cost country to do business in, so how are you cost competitive?

MR WILSON (PP): You've got to have high productivity in your workforce and that's the key.

MR WEICKHARDT: Does that mean a lot of capital investment and automation?

MR WILSON (PP): It does, and it means how you motivate your staff as well. There's a difference of about 20 per cent, I feel - or maybe even a bit more - between motivated staff and staff that aren't motivated. You need to get that 20 per cent. The other thing that's very important is productivity of your capital. You can't run a capital-intensive business on one shift and a lot of companies do. I work in Moorabbin, I drive around the streets, I run around the streets, and a lot of the manufacturers are closed at 6 o'clock. I think you can't do that. If you're going to be competitive and Asian people run 24 hours a day, you have to run 24 hours a day to compete and afford the equipment that you need to make the quality parts and the automation and all of that.

MR WOODS: Do you run two shifts?

MR WILSON (PP): We switch the lights out and it runs itself.

MR WOODS: That's even better.

MR WILSON (PP): We're set up to do that.

MR WOODS: And hope, when you come in in the morning, that it knew what it was doing.

MR WILSON (PP): That's right. That's all part of the skill build-up, you see. You have to have the good equipment, good dyes, good people and all of that, and then you can do that.

MR WOODS: We have run out of time. Thank you, it is very valuable to us having situations such as your own and that evidence. It adds a depth to our understanding of this issue, so thank you very much for the time and for your submission.

MR WILSON (PP): It's been my pleasure.

MR WEICKHARDT: Thank you.

MR WOODS: Thank you. I'll take a brief adjournment until 10.45.

MR WOODS: Thank you, ladies and gentlemen. We will recommence our hearings and call for the next witness, from BuyAustralianMade. Could you please for the record state your name, the organisation you represent and the position you hold.

MR GATELY (BAM): My name is Stephen Gately. The organisation that I'm representing is BuyAustralianMade and I am the founder and managing director.

MR WOODS: Thank you very much, and thank you, we have some material presented here from you. Do you have an opening statement you wish to make?

MR GATELY (BAM): Yes, commissioner. My organisation BuyAustralianMade is a member based organisation and when I told my membership that I had written a submission to the Productivity Commission, they encouraged me to go the next step further and come in and actually talk to the commission.

MR WOODS: Excellent. Good decision.

MR GATELY (BAM): Good decision. I thought I'd just make a start with describing a little bit about BuyAustralianMade.

MR WOODS: Can I draw your attention to the time though, so work through what you want to present, but I'd like a little bit of time for questions, if I could, at the end.

MR GATELY (BAM): Sure, yes. As I mentioned, BuyAustralianMade is a membership organisation with around 400 members. I'm not sure that any actually actively are involved in the car industry. However, many of them have said to me that they benefit from the car industry within Australia. Many of them employ people who have had their education, their skills and development in the car industry, and many of my members have said to me that the importance of the car industry in the future of their business is something that needs to be held in high regard.

The submission that I presented focused on four particular aspects of the automotive industry, one being the so-called level playing field that the Australian automotive industry has to compete with. When my members read the submission, many of them came back to me saying to me that I really need to emphasise, about the playing field, that not only does the automotive industry have to compete with it but my members compete with it as well, and they reminded me that the support comes from many different areas to determine that level playing field. It does not come just from subsidies, it also comes through from lower taxation that maybe the particular country imposes, the reduced energy costs that many of their competitors actually face, and also reduced regulatory requirements. My members wanted me to remind the commission that the level playing field is something that is really a

fallacy and it's something that, although being a fallacy, really does impact very directly on the businesses, automotive as well.

I mentioned earlier about my members benefiting from the flow-on effect with the skills and training that they have employed. There is one in particular called Tindo Solar, who's a solar manufacturer over in South Australia. They have benefited significantly by employing engineers from the automotive sector directly into their business. They are competing with, of course, solar panels being imported offshore, but their focus is producing high-quality, highly innovative products to compete with those coming from offshore.

The skills, infrastructure and capability, and also national security: Australia, being one of only 13 countries that can actually design and build a car, my members said that that capability is very important as a future skill and future ability to actually make vehicles, whether it be passenger vehicles or other vehicles, into the future.

With return on investment, perhaps it's just the price of doing business in this modern world, where governments and taxpayers have to actually subsidise or give incentives for certain types of businesses to remain and be productive in a particular economy. So the return on investment, on the figures that I have read, is something like: for every \$1 spent in the automotive industry by co-investment, the industry figures return around \$31. By any standards, that co-investment return is very high. The classic case there is: maybe the more you spend, the more you make.

If Australia is to remain a first-world country and is to maximise future opportunities, we must retain a vibrant and growing automotive industry in Australia. Not to do so will burden future generations with limited opportunities in employment and business options. My members have reiterated to me many times about the importance of the industry in their ability to be innovative and to develop new products into the future.

There is one other aspect that I would like to add, commissioners, and that's about vision. Back in the late 1800s, one of our men, a man of great words, Banjo Paterson, wrote this:

... we might command the markets of the world for raw material. But is it a fitting destiny for such a nation as ours that we should have no higher objects than to grow wool and reap corn? Are we to have no arts nor manufactures?

Commissioners, I suggest that Banjo Paterson was a man of great wisdom. I only wish that I could have half his way with words. He was looking to the future.

He had a vision for this country. He had a plan. He recognised that short-term circumstances like the high Australian dollar shouldn't derail long-term vision and long-term opportunities. Banjo Paterson was about growing Australia. He actually wrote a poem for it called Australia for the Australians where he detailed a number of different things. What I just read out was part of that.

There is more to making decisions than looking at particular costs at a particular time. It's about having a vision. It's about setting the foundations so that people, businesses in this room, can see the future, can afford to diversify, can afford to be innovative and develop new products.

My final statement, until maybe you ask questions, is: one only has to ask and answer the question, "Why do other countries go out of their way to have a car manufacturing capability within their own borders?" I suggest that we should be doing the same.

MR WOODS: Thank you very much for that, and perhaps that's a useful place to commence a brief discussion. Our task is to determine whether it's in Australia's interests to do so. Other countries from time to time have very high tariff walls, do various things. Australia has always had the approach "Is it good for us to do it?", not "Should we copy what others do?" and so this inquiry, amongst others, is trying to grapple with exactly that question, "What are the net benefits to Australia of having that assistance?" and that should be, to an extent, irrespective of whether others choose to do it in their situation. I thank you for drawing that point to the commission's attention because I think that gets to the heart of what this inquiry is about.

You mentioned vision, and I don't know if you were present when the managing director of Palm Products came forward, but that was a very good example of vision and somebody who was operating both in the auto sector but drawing on the skills of that sector to diversify out from it.

Your membership, as you said, are not necessarily in the auto sector but presumably a number of those with businesses are paying wages, are buying plant and equipment, are adding value. Now, they're doing all that without investment from taxpayers, so their return on the taxpayer dollar is particularly high in that situation, so I commend them as well. Does your membership base have a view on whether the generic programs that are available, whether it's research and development, whether it's skills training, all of those, are working in a manner that is of benefit to them?

MR GATELY (BAM): Commissioner, they fall into two camps basically. One camp is organisations that are at a sufficient size in order to take those opportunities,

and my membership is based, basically, on small to medium enterprises, probably employing around 30-odd people. The majority of my members are so focused on the day-to-day business and surviving that to get involved with those types of projects - and one of the reasons I am here today is because a number of my members wouldn't be able to actually take time off to come and talk, so I'm doing it on their behalf; but they are so focused on their day-to-day survival that to take time out on something, albeit it very important, doesn't seem to be a priority to many of them.

MR WOODS: That's useful.

MR WEICKHARDT: Thank you for your presentation. I'm interested in the experience that you've had and your members have had with the end consumer, and the end consumer's attitude. My own perception and experience is that Australians are happy to buy an Australian-made product all other things being equal, but all other things not being equal, they don't put much premium on an Australian-made product. Would that be your perception?

MR GATELY (BAM): Commissioner, I think you've hit the nail fairly well on the head there. There is a certain group of people who will continue to buy Australian-made products regardless of the additional cost that it might be because they will base it on other reasons: the quality of the product, that they feel that a percentage of the money that they pay goes back into the economy rather than being delivered to a company offshore. So they see all these other benefits, but one of the issues that they have as consumers and shoppers is actually being able to find the Australian-made products to buy. If you go into a large retailer nowadays, to find Australian-made products is very, very difficult. Online and the Internet has made that easier for people to buy, but there needs to be that shift of going into an actual store, and buying online, and then of course once you go onto the Internet you open up a global market as well, so then it becomes another scenario.

MR WEICKHARDT: I can totally understand the desire to make people aware of whether the product has been made in Australia, but my suspicion is that you would be doing your members a disservice if you didn't also urge them to have the best quality and a competitive price and good service and all those sorts of things.

MR GATELY (BAM): Absolutely, and the service does come into it, and the members of mine that are doing very well are the ones that are able to customise, have a short turnaround time and are able to adapt their product to the particular user. The ones who are trying to compete generically can't, but once you start saying, "Well, actually, I don't want it like this. I want it to be twice as big with a different handle," then they're in the game. Then they're able to match that to the particular needs. But it's that matching, getting those people talking together, that's the

challenge, which is what I spend my day doing.

MR WEICKHARDT: All that has relevance to the auto industry, so thank you for your input.

MR WOODS: Yes, thank you very much. We appreciate your time.

MR GATELY (BAM): Thank you.

MR WOODS: Can I call forth the Federation of Automotive Products Manufacturers. Can I ask each of you separately, please, to state your name, the organisation you represent and the position you hold.

MR PAINE (FAPM): My name is Glenn Paine. Today I'm representing the FAPM as the southern region president.

MR REILLY (FAPM): Richard Reilly. I'm the chief executive of the Federation of Automotive Products Manufacturers.

MR GRIFFIN (FAPM): Jim Griffin. I am the national president of the Federation of Automotive Products Manufacturers and the chief executive officer of Diver Consolidated Industries.

MR DE WIT (FAPM): And Mark De Wit. I'm the vice-president of the Federation of Automotive Products Manufacturers and also the managing director of Futuris Automotive.

MR WOODS: Excellent. Thank you. Glenn, did you want to add your other role for the record?

MR PAINE (FAPM): Yes, okay. For the record, I'm director of ZF Holdings Australia, the holdings company for the ZF companies that exist here in Australia.

MR WOODS: Thank you. I thought it would be unfair for you to miss out. Have you got an opening statement you wish to make?

MR REILLY (FAPM): Yes, commissioner, I'll make an opening statement for a few minutes. Thank you. Good morning. On behalf of the FAPM board and members, we would like to thank you for the opportunity to appear before you today. The Federation of Automotive Products Manufacturers is the peak body representing Australia's automotive components sector. The federation was formed in 1958 and has around 100 member companies, employing many thousands of people. We're the only body that totally and only represents manufacturers.

The FAPM and its members play a key role in the automotive sector and wish to work closely with the PC to ensure it develops a comprehensive and considered view of the major issues facing our industry. There is no doubt that our industry is facing the most difficult manufacturing conditions it's ever encountered. Vehicle production volumes are at historical low levels. Ford Australia has announced that it will cease manufacturing vehicles in 2016. The high Australian dollar inhibits our export competitiveness while simultaneously making imported components more competitive. Consumer vehicle preferences have altered and our automotive market is one of the most open markets, if not the most open market, in the world.

We firmly believe that the Australian automotive industry can be viable in the long term and acknowledge that it will look substantially different to how it's looked in the past. Work that we've undertaken with Deloitte Access Economics in preparation for this inquiry shows that with certain policy settings and under certain assumptions the industry can increase Australian real GDP relative to the existing policy scenario. To be clear, this modelling confers a net economic benefit to the Australian economy compared to the cost of the existing policy, and more of this in a minute.

We know that any future policy settings must take into account the changing nature of the global automotive sector. With the right policy settings the Australian automotive industry can be internationally competitive. FAPM recognises that existing automotive policies and programs need to adapt to changing circumstances. The Australian industry, especially the supply chain, has consistently proven its ability to adapt and respond to broader industry changes and global trends.

Suppliers have embraced change, including the massive reduction in tariffs over recent decades, the move to global platforms, supplier consolidation, engagement with export markets, even in the face of a dollar at historic highs, and diversification to other industries. This has established the wherewithal of the supply chain to respond to challenging circumstances and we are ready for the next phase of this process.

The FAPM is looking to a future where the Australian industry is more sustainable, potentially incorporating scenarios including increasing local vehicle volumes to 300,000, through a range of export and local demand stimulus measures. This would generate critical scale economies for the sector, driving greater industry diversification. Many suppliers have initiated efforts in this area, but the FAPM believes that much more can be achieved as suppliers utilise their significant skills and capabilities to drive activities in a range of other industry sectors in attracting a niche market MVP, motor vehicle producer.

The FAPM believes that the changing face of the industry globally creates a key opportunity for Australia to seek to attract new vehicle production activity locally. The FAPM understands that leadership in achieving these goals needs to come from the industry itself, and our members and the broader supply chain have consistently displayed their ability and willingness to undertake this task.

The commercial reality for the sector does include significant government assistance and support programs for our competitors globally and extends to significant barriers to market access for Australian-made automotive products. In this context and in light of assistance delivered to other sectors of the Australian economy, the FAPM is seeking an appropriate long-term policy framework from the

Australian government to give the industry the opportunity to respond to these global challenges.

From a direct economic perspective we have undertaken a modelling exercise with Deloitte Access Economics. This analysis is currently being finalised and we'll make this publicly available to the Productivity Commission presently. FAPM would welcome 30 minutes next Tuesday to discuss the modelling with the commission if it would like us to.

The key highlights of the modelling include that the automotive components manufacturing sector in Australia directly employs 29,000 people and indirectly contributes another 31,000 jobs, bringing the total to around 60,000 first-order jobs nationwide, in contrast to second and third-order multipliers that we're aware of.

The net economic cost of providing government assistance to the industry is estimated at \$795 million in net present value terms. This is the current base case scenario. There is an opportunity to reduce this figure by changing the focus of assistance towards improving productivity. Raising the capital productivity of the poorest-performing 10 per cent of firms in the industry to that of the highest-performing 10 per cent would reduce the net economic cost of industry assistance by \$311 million in net present value terms, and if in addition to productivity improvements the industry raised motor vehicle production levels from 200,000 to 300,000 units annually, the resulting improvement in economies of scale would lower the economic cost of assistance by \$1.027 billion in net present value terms, and this is enough to make a positive contribution to GDP. High average productivity plus scale economies can deliver gains from industry assistance that outweigh their costs.

The automotive sector in Australia is our only global supply chain. With the right policy settings, a concerted effort by all to open new international markets and an industry-wide commitment to increased productivity shows that we can not only pay our own way but contribute to GDP. We argue that we must keep this capability in Australia.

I would briefly like to highlight the key issues that we face as an industry. The significant reduction in volumes of passenger cars produced in Australia since the GFC, the impact of which was subsequently exacerbated by further structural shifts in vehicle consumer demand in Australia, has put enormous pressure on the capacity of automotive supply chain firms to survive. A number of business failures have occurred and some component manufacturers have rationalised or curtailed their automotive-related activities. Passenger car production volume in Australia this calendar year is expected to be around 200,000 vehicles, the lowest in memory - perhaps a bit more.

Holden has announced that vehicles it may assemble after 2016 will be based upon General Motors' then existing global designs, which means the Australian-designed Commodore range of vehicles presently assembled largely using Australian-designed and supplied components will be discontinued. The vehicles then to be assembled in Australia by Holden and Toyota, as has always been the case with Toyota, will be designed entirely overseas and these vehicles will be simultaneously produced for other markets in high-volume overseas assembly plants supplied by existing overseas component manufacturers.

So, taking into account Ford Australia's decision to cease vehicle manufacturing by 2016 and given the highly fragmented nature of Australia's passenger car and light commercial vehicle market, with the widest choice of imported vehicle brands and models available to consumers anywhere in the world, we need to find a stimulus measure that incentivises production of nearly 300,000 vehicles per annum. Under these circumstances it is realistic to anticipate that the rationalisation and diversification process already under way in the automotive supply chain will continue over the coming years.

Whilst the discontinuation of Australian-designed vehicles represents a major challenge to business prospects for Australian component suppliers and while the predicted future volume of locally assembled global platform vehicles is relatively small by world standards, the continued assembly of vehicles in Australia will nevertheless provide an important base upon which those local suppliers who can be internationally competitive against high-volume overseas suppliers or who can offer a technology advantage compared to existing overseas suppliers, have potential to build upon their domestic business and expand into overseas markets.

A number of Australian based component manufacturers have already recognised that their business viability depends upon them becoming integrated into the global supply chain market, global automotive markets and/or diversifying into non-automotive business sectors. Some have won business supplying components to global vehicle platforms which are already in production with overseas car makers and we have executives sitting with me today who can talk about their respective companies' work in this area.

Some have successfully established joint ventures with partners located in automotive-producing markets overseas. Some have developed products and process specialties that are being supplied into non-automotive market segments in Australia and overseas. But let me make it very clear: the main game continues to be the manufacture of automotive components. This is where the volume is, this is where the capabilities and skills are developed and nurtured, and this is where the focus needs to be. Diversification alone will not sustain the current sector.

Learning from these stories, the following elements of the current automotive

industry assistance provided by the Australian government - for example, the ATS scheme, the Automotive New Markets Program, the Business Capability Support Program, the ASEA program - are considered critically important to enable an automotive component manufacturing sector to be sustained in Australia, a sector of sufficient technological scope and scale that will make a valuable contribution to Australia's economy and provide high-skilled jobs for Australian workers.

Our submission contains 20 recommendations. In summary, we recommend incentives for local vehicle assemblers to increase their domestic supply chain spend and to assist their suppliers into global supply chains; mutually reciprocal trading conditions for Australia's automotive sector; develop a new policy and program framework to ensure that vehicle assemblers and therefore the automotive supply chain remain viable businesses in Australia; and policies that promote productivity enhancements throughout our industry.

That completes the opening statement. I would like to introduce the FAPM national president Mr Jim Griffin.

MR GRIFFIN (FAPM): Commissioners, thank you very much for having us. We have a limited amount of time with you today. You have our submission. We want to make ourselves available to answer questions and make this a useful time for you, rather than us go too much further with what we've been up to.

We have three different styles of companies represented here. We have a large, effectively Australian based or grown company, we have a small SME and we have a multinational organisation. Each of them has different characteristics and plays a different role within the business, and we are at your service now to answer any questions that we can help you with or to clarify any points of our submission.

MR WOODS: Thank you very much. Can I say at the front end how grateful we are for the assistance that your organisation collectively and that your member companies individually have given to this inquiry. You've certainly laid out the information in a clear manner. You've made yourselves available to demonstrate particular points, and visits and the like, so we are very grateful for that, and your submission is very clear and thorough.

Can I also congratulate you on not only undertaking some modelling but being prepared to be quite public in what that modelling shows. I think the public debate that we have on this topic is important and therefore your contribution to that debate is noteworthy and it would be good if others adopted your approach of laying it out as it is and then explaining the issues and where the strengths and weaknesses might lie. So thank you for doing that as well, and yes, we do look forward to that coming onto the public record and the opportunity to then examine that. I won't pursue that at this point. I'll wait and see the submission and take it from there.

There are a couple of issues that I'd like to raise. One is, it would appear from your submission that you envisage ongoing subsidies as being necessary, so I think at least until 2025 is the sort of figure that you are identifying. We'd be very grateful to have an understanding from you whether that in itself represents a transition period or whether that's just yet another 10 or 15-year tranche of ongoing public support. Is there ever a time when the industry will be like the other industries in the economy and taking use of the generic programs, whether it's R and D or whether it's export development grants, or whatever it might be, training, et cetera? Is there a vision out through the future that says you become part of the economy that the others operate in or will it always be special?

MR GRIFFIN (FAPM): For the next period of time we are looking at yet another transitional phase with the move to two MVPs rather than three, a move by General Motors to go to global platforms whereas in the past they've effectively had an indigenously designed Australian vehicle which has an amount of Australian design content. So there's certainly a period through which we must travel in the next 10 years or so to be able to contemplate that.

I think the most important point that we make in our submission is that the sooner that we can get the volume back into this business the sooner the Australian industry will become more self-sufficient and be able to pay its way. Will this industry ever be totally able to function without ongoing government support?

MR WOODS: Ongoing specific support.

MR GRIFFIN (FAPM): Ongoing specific support? We take R and D, for one matter. Our company has automotive activity and it has non-automotive activity. R and D that we conduct in the automotive sphere is dealt with under the automotive programs, and R and D that's conducted in the non-automotive spheres is conducted with the existing R and D tax concessions, et cetera. If the support mechanisms for R and D under the automotive industry were to cease, obviously that would mean that all of my R and D activity, whether it be automotive or non-automotive, would be covered by the other programs. So it's not so much a matter that we're being supported specifically because we're automotive. It's just that we've got a choice of two programs, it's one or the other, and if one doesn't exist, we move to the other. There are varying levels of payback, I suppose.

MR WOODS: Yes, one has slightly greater - - -

MR GRIFFIN (FAPM): Slightly, but ultimately there still resides a way of support - - -

MR WOODS: Sure, exactly.

MR GRIFFIN (FAPM): - - - in our industry. So the challenge we see is that the sooner we can stimulate volume in this industry the sooner this industry is going to become more able to stand on its own two feet. No country in the world that has an automotive industry has jettisoned them and has enabled them to stand on their own two feet. That is the harsh reality. It just doesn't happen, because of the onflowing effects, the skills, the engineering support, et cetera. So strategically we believe it's in the national interest that that support continues.

MR WOODS: Just on that point, we do note what other countries do and, in conversation with a previous participant, the point was being made that the focus is on what is good for Australia in itself and therefore you've got to take into account all the spillovers and other things that the automotive industry contributes. Our focus will be: what's the net benefit to Australia as distinct from what other countries may choose to do for their own policy purposes but be cognisant of those.

Before we get onto the volume issue, because that is one I'd like to spend a little bit of time on, perhaps one background question, and you've partly answered it yourself in terms of your own company; that a number of your members do have some level of diversification and operate in either the auto parts aftermarket or in non-auto or marginally related, whether it's trains, trams, buses or whatever.

Is that a trend that is increasing, is one part of the question. The other is, how much does that diversification still rely on a viable base of activity happening out of the auto sector? Is diversification the sort of top layer that you can do because you've got a base operation or can one ultimately substitute for the other?

MR DE WIT (FAPM): To start, I think each of the companies has a slightly different story to tell. From the experience of Futuris, with automotive - and pardon the pun - we've branched into some non-automotive streams off the trunk of the tree of automotive; cut down the trunk and the branch will die. It's that clear.

We have been doing interiors for the Melbourne trams, trains, seats for Queensland Rail and many other non-automotive products. That can only exist off the scale of what we do in automotive. We're continuing to look for more non-automotive activities. The answer right now is no. In the current environment we don't want to take on any more non-automotive products when we don't know what future lies beyond 2016. Once we have some certainty - - -

MR WEICKHARDT: Sorry, can I just clarify: you said you don't want to take on any more non-automotive - - -

MR DE WIT (FAPM): Correct, because they won't be sustainable beyond 2016 if there is no automotive sector here beyond 2016. So we don't want to sign up to

something we cannot deliver beyond 2016.

MR WEICKHARDT: But it's automotive components you're not taking any more of.

MR DE WIT (FAPM): No, non-automotive.

MR WEICKHARDT: Non-automotive?

MR DE WIT (FAPM): Yes, because in the absence of automotive - - -

MR WEICKHARDT: All right.

MR DE WIT (FAPM): - - - we can't give certainty to any companies that we'll be able to service these contracts beyond 2016.

MR WEICKHARDT: Okay.

MR DE WIT (FAPM): So we've put them on pause, on ice. With certainty in the automotive sector, there's no doubt we'd be chasing more non-automotive activities, but we need the automotive base to be there to diversify.

MR GRIFFIN (FAPM): In the context of DCI, our company, we are continuing to diversify wherever possible, with new products and new markets that are aligned with our core capabilities, and we're taking on some new capabilities, but the pace of that diversification we're finding problematic, in that many of the economic restrictions that we face in the automotive industry, particularly around the currency level, exist in other markets.

When we're moving into a non-automotive market, we're still coming up against things like products entering the country duty free, with no tariff protection, with currency giving them a complete free kick. So ultimately those negative aspects of the automotive industry are appearing in other areas. So we're seeing that our pace of diversification is such that, given the time frame of the automotive industry, if we do not have a continued automotive industry, like Mark mentioned with Futuris, we will not be able to stand on the basis of our diversified product.

I've got some time over the next 15 minutes - and we talk about Diver specifically - but we've gone from 99 per cent dependency on the car industry in 2004 to 70 per cent now in 2013. It's taken nine years to make that change in the face of the currency, and that rate is just not sufficient. It's not quick enough for us to survive.

MR PAINE (FAPM): From ZF's point of view, being a multinational company, we

already operate in the non-automotive space of aviation, marine, agriculture, defence, even wind turbines. From the point of view of our operations here, which are pretty much dedicated to automotive, diversification is not as easy for us as it is for the smaller companies. We tend to operate within the guidelines that are set globally, so it's a more difficult proposition for our organisation here.

MR WOODS: You've got to convince head office that there's merit in it.

MR PAINE (FAPM): Yes, and we're a German company, so that's not easy.

MR WOODS: You are on the public record.

MR GRIFFIN (FAPM): Suffice to say, Glenn, if I could go so far as to say that the reason ZF is here, and that operation, is to support the automotive industry first and foremost.

MR WOODS: Absolutely.

MR GRIFFIN (FAPM): If there is no automotive industry, there is no ZF, and their local suppliers suffer accordingly.

MR WOODS: And there are a number of global companies who are here doing local supply for that reason.

MR GRIFFIN (FAPM): Correct.

MR DE WIT (FAPM): Exactly, that's right.

MR WEICKHARDT: Just while we're talking about diversification, if I could just piggyback a bit on this, you in one of your recommendations suggested that the ATS be broadened to allow an automotive component company that diversifies into another area to be able to claim ATS funding to I guess sort of remove the bias that might stop people otherwise looking at diversification, but you suggested that the gate should be shut the other way; that is, that a general company that's making something - widgets - that gets into automotive shouldn't, unless they hit sort of a qualification hurdle, be able to claim it.

I guess I don't understand, if they hit the qualification hurdle, why they shouldn't be able to claim ATS anyway.

MR REILLY (FAPM): Well, they can.

MR WEICKHARDT: They can?

MR GRIFFIN (FAPM): No, we're not saying that we'd close that door.

MR REILLY (FAPM): So if they met the appropriate hurdles in the current legislation, then they have access to ATS. Therefore, they have access to the funding through R and D or through investment as per - - -

MR WEICKHARDT: But are you suggesting that an ATS qualifying component company that diversifies should still get ATS even if they fall below the hurdle?

MR REILLY (FAPM): No.

MR WEICKHARDT: All right. I was confused by your suggestion in your submission that there should be a one-way sort of route here.

MR REILLY (FAPM): Okay. I'll check the recommendation and I can confirm that, but that's certainly not the argument we're making. We're basically arguing or considering the fact that, if an automotive company is claiming ATS and they're diversifying into other areas, we should be looking at whether the R and D or investment undertaking to branch into new markets or into new products, given they have met the initial hurdles of the ATS, can be counted into their five per cent sales cap in the technicality of the ATS.

That's something to be considered, because that then will strengthen these companies to actually do their R and D but also diversify into other markets, which inherently will strengthen them as well. So it's a consideration we think is worth looking at.

MR WEICKHARDT: Will that require more ATS money?

MR REILLY (FAPM): No. It's the same pool of money. We're really focusing on the 2016-2020 \$1 billion that has been committed by the federal government. That's the argument we're making there.

MR GRIFFIN (FAPM): And I think that's an important point. At this stage - the next immediate phase of the ATS program - we're not calling for any changes to the quantum of the money that's involved. We have suggested that for the phase after that, 2017 through as far as 2025, there be an increase, but that is being cognisant of where we need to go as far as stimulating the industry up to that 300,000 level.

I'd like to point out that when A New Car Plan for a Greener Future was released the quantum of that industry assistance was \$6.2 billion out to 2020. It is not the case that that \$6.2 billion has already been given to the car industry. We are drawing that down in line with the plan to 2020, or we have that available to us, and it's always contingent upon us making investments of \$3 to get roughly a \$1 benefit

or \$2 benefit from the Commonwealth.

So it's not that that money has been spent. When you consider what has transpired over the course of the program, we know that there's already been \$800 million removed from that program. So the 6.2 is actually 5.4 and will be consumed under the existing arrangements out to 2020. What we're saying is, that needs to continue and we need to contemplate an increase for the period to take us out to 2025 with a plan that's going to stimulate that volume out to 300,000, which our modelling is starting to indicate could provide a net negative benefit to the country.

MR WOODS: And therefore would the current phase down to 2021 that's legislated at the moment - are you saying, "Phase it down, but more slowly, out to 2025," or are you saying, "Drop it down but then keep an ongoing stream out to 2025."

MR GRIFFIN (FAPM): Yes, there needs to be an ongoing stream. There needs to be certainty of the program moving forward. We also need to contemplate the changes with Ford exiting the country as a motor vehicle producer in 2016. Ford is continuing to be present in Australia from an R and D and engineering and technical development role moving forward, so we also need to contemplate some changes to the system to incorporate their move from being effectively an MVP to being an ACP.

MR WEICKHARDT: Do you have a view on what that means?

MR GRIFFIN (FAPM): We're developing that view at the moment, but that's certainly something that we need to be conscious of as far as making sure that in the new world, with a potentially rationalised supply base because of the global platforms, we're going to have a significant supply drawing from the funds.

MR WOODS: Can I just pursue this global platform issue a little further. You'll know the numbers better than I, but I understand that the Cruze, which is a global platform and is built in a number of plants around the world, has got something like a 25 per cent local componentry base, so it's quite low. The Commodore, as you were making out the point, is sort of Australian developed and local componentry is higher. You also made the point that Toyota does use a global platform but its componentry level for the Camry, if I'm not mistaken, is also sort of similar to Commodore-type levels.

So global platform in itself is not the issue. It's the approach of the OEMs but also the capacity of the local component makers and subsequent tiers behind them to deliver what is required of the manufacturers. Is that a better portrayal of the issue, because it's slightly different from saying once it's global platform everything is up

for rationalisation.

MR GRIFFIN (FAPM): We're not privy to the exact numbers, and it'd be probably incorrect for us to speculate as to what the local content is of the global platform vehicles that are made here, the two, being - - -

MR WOODS: I think I'm only using public record figures, but, yes, anyway.

MR GRIFFIN (FAPM): Okay. Certainly it comes down to the willingness of the MVPs themselves to stimulate their own supply chain. Another significant thing to consider here is also that Australia is a right-hand drive market. That in itself means that you have a lower volume of scale with the vehicles that we consume here relative to where they are around the world.

MR WOODS: Sure, but I understand the Camry assembly line has both right-hand and left-hand running down the assembly line.

MR GRIFFIN (FAPM): Correct, but from a development perspective right-hand drive cars are developed purely and simply for a very, very small number of markets around the world. So really how the individual MVP addresses their supplier community and how they bring global platform commodities to this country is very much a factor of the financial benefit of doing that, the logistical benefit of doing that and the quality benefit of doing that.

I think, given the massive impediment we have with the currency at the moment, from a quality and logistics perspective the supply chain community here in Australia is very capable of holding their own, if only we didn't have the currency aspect. But if we had additional volume and were able to export those components back overseas to give us some more scale, we'd be helped greatly.

MR DE WIT (FAPM): Can I add to that, if I may.

MR WOODS: Sure.

MR DE WIT (FAPM): Firstly, I'd say, as Jim said, we're not privy to the exact numbers of a GM and a Toyota for local content, but I would suggest that we be very careful about analysing those numbers. If the percentages that are suggested are based on the purchase from local tier 1s as 100 per cent Australian content, then that's not correct, because the local tier 1 is often directed to buy a lot of materials from overseas on behalf of the car companies. So one has to be very careful in analysing the true local content inside of those submissions.

I would suggest, though, that global platforms are wonderful for this country and for the local component producers. It's a massive opportunity, not a significant

issue that we should be scared of. It gives the truly competitive and productive local component manufacturers an opportunity to win that work in other countries, either from an export base here or to go and set up in those countries and have other revenue streams in other countries. We are bidding on Cruze in Australia, and we do the Cruze today for seats and headlights and carpets in Thailand and other markets as well.

So the global platform has just all of a sudden opened up new worlds to us of competing in India and Thailand, because we can do the same vehicle here. So we for one are looking forward to the Commodore, should it go ahead, to be on a global platform, because it's all of a sudden opened up markets that would otherwise not be available to us.

MR WOODS: I did notice as I was doing several industry visits that I was having trouble, because there was the OEM name but opposite the fence there was a big Futuris name - seemed to be synonymous - and presumably if I went to Thailand I'd find the same thing.

MR DE WIT (FAPM): You'd see the same thing, yes.

MR PAINE (FAPM): Could I add a little bit more to that.

MR WOODS: Yes, please.

MR PAINE (FAPM): Global platforms in effect probably really aren't new. The Commodore certainly was designed here, but even Zeta architecture was designed as a global platform and it underpinned Camaro and other vehicles in China. For that program, of course, Holden was the lead program.

For the global platforms in the next round Holden is not the lead, and in fact it could be that sourcing has commenced globally before some countries even announce that they're going to run with that platform. So to take advantage of what Mark is talking about really becomes a timing and an awareness issue of being aware that these programs globally are starting to be sourced and to make sure that you are on the bid list.

For me as a multinational company that's not so much of a problem, because I have people in Germany or wherever the sourcing is taking place who are aware of that, but I'd suggest locally that's not always the case and that probably is an area that we can improve in terms of awareness for local supply companies to know when they ought to be out there looking at opportunities on global platforms and not waiting for Holden, et cetera, just to announce what they're doing, because it could be too late in some cases.

So that's an area I think that the OEMs can help the supply base, particularly in that awareness issue, making sure that we know when those sourcings are starting to happen and that companies are able to take advantage of them.

MR WOODS: I think it would be fair to say that the industry has been going through a degree of consolidation and, as productivity improves, labour per dollar of value added will always slowly and progressively decline, particularly in some cases where very high labour-intensive activity is undertaken overseas and then the part product brought back here.

Are there impediments to consolidation? Is there enough understanding amongst not only your members but those who are in the industry that haven't even taken the opportunity of being your members that this must occur? Is government policy helping or hindering this process?

MR GRIFFIN (FAPM): If you look at the population of the component supply sector which is most ripe for consolidation, it tends to be the smaller privately held SMEs. There are quite a number of organisations in that category.

When you've got a declining market, declining volumes, the currency where it is, owners of businesses such as that - businesses that may actually be the family superannuation program - no-one wants to sell on the bottom of the market. I think there has been somewhat of a stalling of any interest in activity in that area because of the uncertainty around the industry.

I think the best way to energise consolidation will be to provide the surety and the certainty for the industry moving forward so that people that may be holding back from merger and acquisition activity can see some future. I think if we can stimulate volume again, with programs that they can see will lead to growth in sales, naturally market forces will reinvigorate that activity.

I think providing artificial stimulus is something that has been tried in the past, as far as structural adjustment programs, and we've been part of that and helped construct those, and we've seen those largely not being that productive. I think we need to look at the more positive ways of stimulating that activity, which has got to be volume and certainty of policy and plans.

MR DE WIT (FAPM): Perhaps if can just add to that, I agree 100 per cent with Jim. We have done three acquisitions in Australia, one in 05, one in 06 and one in 07, and since then have steered away from them because of the lack of certainty of the future. It's not about an (11.42.44 ASAP program or a son of an ASAP program). If there was some certainty out to 2025, it'd be a completely different story. There'd be companies that we would be looking to acquire and I'm sure there'd be companies looking to sell with that certainty.

There's no doubt - I think most companies recognise - that under a global platform regime to be a tier 1 provider to the automotive industry you need to have some economies of scale. That's not to say there isn't a place for smaller tier 2 companies to fit in, but I think natural consolidation will occur if there's certainty in the industry for a reasonable period of time.

MR WOODS: I understand certainty and I think every business I've ever talked to would love to know what their customer base is and their sales projections that they would actually turn into reality, et cetera. So I understand certainty. I also understand risk of capital; that you go into a market because you think you've got a product and you try and sell that and you either can or can't.

But certainty also plays a role for the taxpayer. The taxpayer wants some certainty that, if this is a program that the government on their behalf is committed to, then that's the program that rolls out. But where you're faced with the situation of a large company saying, "Well, what we want is ongoing appropriate support," and that that will vary from year to year depending on what the circumstances are, well, there's not a lot of certainty for the public in committing those funds, and that, I would have thought, becomes problematic in itself.

MR GRIFFIN (FAPM): There's an inverse to that too, because we had a \$6.2 billion car plan which was then changed and cut and reduced and - - -

MR WOODS: Yes, I understand, on both sides.

MR GRIFFIN (FAPM): So it's on both sides.

MR WOODS: It is.

MR GRIFFIN (FAPM): Yes.

MR WEICKHARDT: Can I just go back to this issue about structural adjustments and rationalisations, because a number of people have raised issues, and you have in your own submission - I think you have. Certainly Goran Roos yesterday referred to a constraint that's hindering rationalisation to do with the ACCC. Can you elaborate on that issue, please.

MR REILLY (FAPM): The issue on that is essentially that the three vehicle manufacturers aren't allowed to talk about individual suppliers, as in a group, for the reasons of competition. Obviously they can speak for themselves, but my understanding is that all three vehicle manufacturers obviously certainly know which ones of their suppliers are at various strengths and which ones are in the red zone, for example. They all have those lists. We know that. The issue is, well, they can't talk

about those people in their respective red zones about - - -

MR WEICKHARDT: Among themselves.

MR REILLY (FAPM): Among themselves, no, and that's the constraint that the ACCC puts on them for competition reasons. As you would expect, they're extremely concerned about that, for obvious reasons. I represent the suppliers on the ASEA steering committee, on which the three vehicle manufacturers have representatives, and there's certainly a very strong protocol within the room that everyone signed, essentially, that no individual supplier will be spoken about in person. So that's the issue that they're driving at there.

MR WEICKHARDT: But I can't imagine, on products that could be imported, that the ACCC would have a problem if two of your members who are in the components business, or three of your members, decided to rationalise or acquire each other. Is that correct?

MR REILLY (FAPM): No, I don't think that's a problem.

MR GRIFFIN (FAPM): There's no impediment there at all.

MR REILLY (FAPM): No, that's correct. It's more at the vehicle manufacturing level.

MR WEICKHARDT: All right.

MR REILLY (FAPM): Targeting suppliers. That's the issue there.

MR WEICKHARDT: Okay, thank you. Can I turn to another of your recommendations. You suggested that Australia might be able to attract a niche automotive manufacturer, like a Tesla. I can sort of understand the sort of concept there. I'm not sure about the probabilities, but you also then talk about a contractor like a Magna Steyr or a Valmet.

It's my understanding that those two organisations really only make for another branded company that distributes and markets the product that they assemble, so they're a contract manufacturer - a very good one but a contract manufacturer. In your sort of raising that suggestion, who do you have in mind that they would actually manufacture on behalf of? One of the existing OEMs or a new OEM?

MR REILLY (FAPM): It could be anyone. Where we're coming from there is, essentially we represent a group of manufacturers. We're looking at Ford going in 2016, Holden uncertain at the moment, so I think we need to think creatively as a country and as an industry about where we're actually going. So there are a range of

ideas.

Mahindra Reva, for example, is up in India looking to potentially develop a new manufacturing facility outside of India. We've got a couple of other examples in the submission. The point of that is to try and say, we as a group of component guys, we need to think creatively. Other countries do it, so why can't we do it, is essentially the argument we're making. I'm not saying it's easy. We haven't got through the mechanics and the dollars and the regulations and all those sorts of things, but I think that's the kind of discussion quite frankly we need to have.

MR DE WIT (FAPM): And I think the benefit of one of those companies mentioned - Magna Steyr or Valmet - is that any individual company looking to potentially set up in Australia might only see a volume of 20,000 or 30,000 units, whereas a contract manufacturer can produce 20 or 30 thousand units for three or four different companies to get that economy of scale, and that's what they do overseas. They run multiple products down through these contract manufacturing factories to get that economy of scale.

MR WEICKHARDT: Have you spoken to either of these organisations as FAPM?

MR GRIFFIN (FAPM): There have been conversations, yes.

MR DE WIT (FAPM): I can speak from experience with Tesla. We're a supplier of seating to Tesla in the US. They produce cars just outside of San Francisco - very high cost base, not too dissimilar to Australia - and they're making that niche platform in that high-cost country very viable and work and they've already publicly said that they're looking for other manufacturing sites, because their volumes are starting to go through the roof. They'll only be producing left-hand drives out of that existing facility in the not too distant future and looking for opportunities to manufacture elsewhere.

MR WOODS: We have a number of imported cars that are selling in the volumes of 30 to 40 thousand. So if you picked up a couple of those, you're starting to get towards a sustainable plant.

MR REILLY (FAPM): Those kind of volumes are the top-selling vehicles in the country; so, as we discussed, a very long tail, a very long, fragmented market. So if we can get that sort of additional volume, they're game-changing volumes for the component sector, very much so.

MR GRIFFIN (FAPM): And I'd like to put on record today the fact that we have been very focused on issues such as government procurement policies around the country where, on one hand, the Australian governments - I'll say "governments" - have sought to support the automotive industry, yet on the other hand the take-up of

locally produced cars, we think, is just insufficient and given the complete range of locally built cars now, from an all-wheel drive, to diesel, to hybrid, to the small car, SUV - there's fairly much a complete range available which should satisfy all the requirements of government departments around Australia, notwithstanding the fact there are always going to be bespoke requirements for particular applications, but ultimately I think as a country that's one of the very significant parts of our stimulus, the volume stimulus, that we improve the procurement of locally made cars not only from government but also right through the corporate level.

MR WOODS: All right. We look forward to your modelling public submission and the opportunity to ask questions on that. Again can I just reiterate how grateful we are for the contribution you've made to date and for the ongoing contribution that we so much look forward to over the next few months.

MR GRIFFIN (FAPM): Our pleasure.

MR WOODS: Thank you very much.

MR GRIFFIN (FAPM): Thank you.

MR WOODS: Our next participant is Diver Consolidated Industries. Could you please in this role give your name, the organisation you represent and your position.

MR GRIFFIN (DCI): Certainly. My name is Jim Griffin. I am the chief executive officer of Diver Consolidated Industries.

MR WOODS: Lovely to have you here.

MR GRIFFIN (DCI): Thank you very much.

MR WOODS: Do you have an opening statement you wish to make in relation to your submission?

MR GRIFFIN (DCI): Just briefly. Diver Consolidated Industries is a privately owned Melbourne based metals manufacturing firm with origins dating back to 1932. Still owned by the Diver family, DCI has been a supplier to the Australian and global automotive industries since 1948. We supplied components to the 48215.

Today DCI employs nearly 100 people in two plants in the northern Melbourne suburbs of Thomastown and Reservoir. Exports account for approximately 20 per cent of our revenue, and non-automotive work now makes up about 10 per cent of our sales. DCI procures approximately 75 per cent of our input materials and services from local Australian companies.

Whilst our strategic efforts in recent years have seen our dependency on the local vehicle production industry reduce from 99 per cent in 2004 to approximately 72 per cent today, the harsh reality remains that if the Australian automotive industry does not secure continued government co-investment support for the future, we believe the industry could die within four years, taking with it us and a large number of supplier companies across Australia. Should this occur, this nation will lose forever key manufacturing skills and infrastructure, significant research and development activity and stimulating, enriched and safe jobs for ongoing generations.

But rather than a focus on predicting how big the hole will be in the economy if the car industry goes, we challenge the nation to dare to imagine how much stronger we could be if appropriate policy settings and globally competitive programs are in place to grow our automotive industry in accordance with a strategic plan for the future.

I have submitted a document to the commission. You've got that. I won't go further reading verbatim from it now, but very happy to answer some questions specifically about some of the case studies that we've presented, in that DCI is a local component maker which has had some level of integration into the global supply

chains with the sponsorship effectively of two of the local motor vehicle producers.

MR WOODS: Yes, and thank you for the submission. I guess what interested me in part was the apparent diversity of products, that you produce anything from door hinges to transmission tunnel insulators and the like, so what you're doing is having a body of expertise, having a level of capital and then identifying markets where you can sell appropriate products, so the product gets sort of identified based on your core competencies and - - -

MR GRIFFIN (DCI): Yes, and business structure. It's probably important to note that to be an automotive supplier you have to maintain a third party accredited quality assurance system, you have to maintain a third party accredited environmental management system, you have to maintain occupational health and safety levels that, to be quite frank, are far beyond the competitors that I see when I travel around the world. In order to do that, there is an inherent infrastructure cost of running a business.

When you have large volumes - if I was a supplier of door hinges in the Northern Hemisphere, I could be very happy in supplying 60 million door hinges per annum, as my technical partner does. In Australia we don't have that volume, so therefore you have to use that infrastructure that you've created with your company to build other products and, as a result of that, we are not the only very diversified supplier within the automotive umbrella in Australia. There are many suppliers that supply automotive components in this country which have a very broad product range, purely and simply because of the lack of volume.

MR WOODS: Yes, and I was very pleased to see your involvement in the heat shields for the tankers and others of the fire brigades.

MR GRIFFIN (DCI): Yes.

MR WOODS: Having myself spent time on the Victorian fire grounds through the ACT Rural Fire Service, it is always comforting to know that you can draw those shields down when things turn to custard.

MR GRIFFIN (DCI): Absolutely.

MR WOODS: One thing I'd just briefly comment on, but I suspect you're not the only one, is that you've included an interesting table about per capita assistance in US dollars in your submission.

MR GRIFFIN (DCI): Yes.

MR WOODS: I notice that table seems to exist in a few submissions, but

nonetheless. So when you do things on a per capita, you do get this portrayal of Australia: very low levels of assistance. It's interesting if you also look at some other bases that you can compare Australian assistance with. If you take, for example, per vehicle produced, it actually produces a different picture. Whereas the UK is one and a half times or more supportive on a per capita basis, it's less supportive if you measure it on vehicles use. I just caution that it's useful to have a range of statistics because any one, of course, can be used to portray a picture, but at the commission we like to make sure that we have understood the whole statistical base.

MR GRIFFIN (DCI): Point noted.

MR WOODS: Thank you.

MR WEICKHARDT: The other point we ought to make on that is that it's not that we haven't challenged ourselves to try to add up all the apples, pears and oranges and the different ways governments do help. Governments - federal, state and local - help the automotive industry. I think it's an almost impossible task and you can simply say, yes, governments around the world do it in all sorts of different ways, whether for good reasons or bad, but at the end of the day if we get ourselves into a situation of saying, "Well, we've got to match what every other government does around the world," Australia would go broke, I think, pretty quickly. We don't have the power to outcompete every country in the world on that basis.

MR GRIFFIN (DCI): The primary reason for presenting some of those statistics is, number 1, to quell the perception that Australia's automotive industry is supported to a level far beyond every other industry sector in Australia and far beyond what any other nation around the world does for the automotive industry. That's simply not true. The Australian automotive industry is supported by various government programs, but so are many other industries around the country and ultimately what we want to portray and put forward is the fact that it is valuable, that without it we believe the country will suffer and that, given some tweaks and some changes and some strategy around ongoing policy settings, we can actually reduce the cost of that support to a point where ultimately it could even be revenue-generating.

MR WEICKHARDT: Okay.

MR GRIFFIN (DCI): I think that's the exciting thing we want to highlight.

MR WEICKHARDT: Just on that score, you've made a point in your submission that whatever form the automotive industry programs take in the future, they include a review and adjustment facility.

MR GRIFFIN (DCI): Yes.

MR WEICKHARDT: I understand that, but we've also had people come to us and say the government ought to honour the commitment that was made when the original ATS plan was put in place or the total package of plans was put in place back in 2008. It's very hard to strike a balance between saying, "Well, the industry needs clarity and certainty and it makes investment decisions based on a certain promise, but by the way, we ought to have a review mechanism" - and I suspect from an industry point of view they'd be happy if it was reviewed upwards but not happy if it was reviewed downwards.

MR GRIFFIN (DCI): No. Putting my Diver Consolidated hat on and my Australian taxpayer's hat on, I think it's very appropriate that there is a contingency or a condition on any ongoing assistance that there is a review mechanism. Automotive programs run in six to eight-year cycles and assistance measures for an automotive industry should contemplate the fact that there is a natural cyclical nature of this industry notwithstanding the economic conditions that have existed around the world since 2008. The automotive changes around the world, just from a cyclical perspective, need to be contemplated moving forward, and I hark back to the fact that I mentioned in our submission - and part of that was to maybe educate the public - that the New Car Plan for a Greener Future was set, quantified and rolled out before the GFC.

MR WOODS: You make the point that you're a locally owned SME, although, at almost 100 employees, you're at the M end of the - - -

MR GRIFFIN (DCI): Yes, than the S.

MR WOODS: Than the S end, and congratulations. But you also made the very telling point that this is your capital and your superannuation. I totally understand that. Can you, looking out, see that you could make a breakthrough diversification that did transform the nature of your business, or do you see these things as incremental? You're picking up bits and pieces of making the Triton workbench and things, so there's an international product that you can be the successful producer of in Australia. But do businesses such as yours - and I'm not asking you to reveal your own business strategy, but being in this space, are they on the lookout for that sort of breakthrough diversification and is there anything in our armoury of government policy that could support that?

MR GRIFFIN (DCI): The automotive industry is very good at self-help and self-education. We get a great deal of assistance for the ASEA program, the Automotive Supplier Excellence Australia program. One of the core modules that they have been rolling out across the industry has been the diversification and business planning units in order to bring companies maybe a bit smaller than ours up to speed with how to survive the next five to 10 years. So the industry is capable of

doing that, and the better companies are the ones that are on the front foot and strategising around that. But I hark back to Mark's comment before when he spoke about the tree and the branches. If the trunk goes, there's not much point having a branch if it's on the ground, and that's a very, very important factor.

MR WOODS: Any last comment?

MR GRIFFIN (DCI): No. Thank you very much.

MR WOODS: Thank you again for your contribution individually, as well as your contribution collectively.

MR GRIFFIN (DCI): Thank you.

MR WOODS: Can I ask for MTM Pty Ltd and Tomcar Australia, who are appearing collectively as one. Thank you for appearing. Could you please for the record state your name, the organisation you represent and the position you hold.

MR ALBERT (MTM): Mark Albert, MTM Pty Ltd. I'm the managing director.

MR WOODS: Excellent. Do you have an opening statement you wish to make?

MR ALBERT (MTM): My statement is fairly brief. I think I say everything I need to say from an MTM perspective. If it's appropriate, I'd like to break it up into MTM initially and then Tomcar.

MR WOODS: Yes, please.

MR ALBERT (MTM): MTM: the key point - I think I make it in there - after hearing some of the conversations from this morning is, obviously I want some type of scheme to go forward into the future, but the scheme itself needs to change, otherwise we'll have more of a hollowing-out of the industry than we already have. So that's my opening statement.

MR WOODS: All right. Well, that's very brief.

MR ALBERT (MTM): So it's all up to you now.

MR WOODS: Yes. Entirely happy to, because we were very interested in the submission and where it's happening. My starting point, as you did just briefly mention but you have in your submission here, is that you talk about a longer-term policy time frame to allow local suppliers to adopt knowledge. Since the Button Plan of 88 or somewhere around there - - -

MR ALBERT (MTM): I think it was 85.

MR WOODS: Thank you. You have good knowledge in these areas. We have had many plans and each one of them has been the plan that will transform the industry. We currently have a legislated plan that runs out for another decade, from 2011 to 2020-21. When you talk about a longer time frame, isn't a decade long, or is it just that what's in that decade is the wrong mix of things? Can you elaborate for me what your thinking actually is on that?

MR ALBERT (MTM): Sure. MTM started looking at export markets in 1992. In 1997 we actually started exporting into North America. As I say in there, we then won a wide range of platforms in North America and that took up a large amount of volume, such that we now export approximately 30 to 40 per cent of our current sales.

Back in those days I was involved with the FAPM and we spent a lot of time and effort educating the market and trying to get more people to go into the export area, and a lot of people said to me, "Why are you bothering to export? I'm exporting because Toyota's exporting" or "Holden's exporting" or "Ford's exporting." But I always saw that as being reliant on somebody else rather than your own destiny, so MTM took it upon themselves to do that, with various levels of government support. It's a longer-term focus. It's a different mind-set. I think the realisation is definitely upon more suppliers now that, "Oh, we really should have done something long ago," and I don't think a three-year time frame is enough for them to react to that. That's one point.

The second point is, I think the scheme itself has tried to bucket all suppliers in one category, whereas suppliers are really multinational suppliers or Australian private suppliers, and both adopt different opportunities to move in different ways. The multinationals have their own benefits and they are restricted to a large degree, as we heard just by the previous speakers in the FAPM. Private companies can move differently and move into different areas.

MR WOODS: You do export. Again, you're sort of an SME but at the M end, with 100-odd - - -

MR ALBERT (MTM): Yes. Not overseas I'm not. They see me as a pimple, but locally I'd be M, yes.

MR WOODS: Do they? We might speak of you as an M, not an S.

MR ALBERT (MTM): And it depends if you're talking about the Tax Department or a different government department, but keep going.

MR WOODS: It sounds like a few battles. Your export strategy: you're talking about expanding into other countries.

MR ALBERT (MTM): Yes.

MR WOODS: Is that still your plan and is that predicated on the Australian dollar remaining in the 90-plus cents category, or are you planning for the day when, if, maybe, perhaps, the dollar drops below that?

MR ALBERT (MTM): When I say "plan" in that particular instance, that's actually happening.

MR WOODS: Right.

MR ALBERT (MTM): So it's a plan that's being instigated currently and those markets will be sought into. When we initially quoted that program, the Australian dollar was over one to the US. We have a relatively new manufacturing facility in China and at that particular point in time we decided to quote the business and manufacture those components in China rather than not have any opportunity to manufacture at all, not knowing where the Australian dollar was going. It's a bet. Who knows? So we undertook that and what we've done just recently is made the decision to move a large portion of that business back to Australia, for varying reasons, and the Australian dollar coming down certainly was one of them, otherwise it was not going to be economically competitive to do that.

MR WOODS: So your China production was a joint venture presumably, although component manufacturers don't need to, do they?

MR ALBERT (MTM): It was initially a joint venture and then our partner didn't want to go further in the deal, so we bought them out. So it's 100 per cent MTM-owned.

MR WOODS: And you can do that as a component manufacturer there?

MR ALBERT (MTM): Yes. They're called a WOFE, wholly owned foreign entity.

MR WOODS: Yes. I'm interested then in your strategy of bringing back manufacturing onshore. Is that for quality control or for management supervision or for the skill of the labour force? What were the - putting aside the dollar - - -

MR ALBERT (MTM): "Yes" to all of the above.

MR WOODS: But you have some prioritisation of that? I'm just trying to work out, if the Australian government is to be in the policy space in this area, where are the natural strengths of Australia? Where are areas where there might be some market failure and a government policy might actually be cost-effective?

MR ALBERT (MTM): As I said, "yes" to all three of those. The natural ability that we have is that we are in control from go to whoa. In China, it's distance. They're a learning organisation, they're still very young compared to, and they do not have the skill sets, and from our perspective, someone that has a skill set in Australia who is an engineer has boundaries within which they can move from that, from a concept of being an engineer. In China they are very specific and they are very much allocated - "This is my role and this is my function" - whereas I could grab an engineer and say, "Could you help produce the parts out on the line," and he'll be out there in a shot, he has no qualms. That's not the case in China.

So the flexibility of our employees, management, the turnover of employees, all of those have a very large impact on the capability, which is why a lot of the products that we've looked at for the Australian market - and we've developed other products that I haven't mentioned in our case - we have argued continually that those products should be developed initially in Australia so you can iron out any bugs before you try to take it to China. If you take an R and D development into China, you are going to fall over, and one of my suggestions in there is that that is the benefit of being in Australia, and the capabilities that we've received from the automotive industry.

MR WOODS: I may have missed it, but I got the impression from your submission that you were virtually only focusing on parts for the auto industry, or have I got that wrong?

MR ALBERT (MTM): No. We also delve into three other areas in the non-automotive field. Funnily enough, one is the Tomcar. We manufacture that. I call that non-automotive, but we're manufacturing a car, so let that be on the side. The other issue is a unit called Steelsafe, which is a unit that is able to bring a truck to a stop and in control, and the other unit is H2O water purification.

MR WOODS: That's right.

MR ALBERT (MTM): So we have difficulties in each of those three. Some of them relate to the bureaucracy of the system that's out there. Some of it relates to the issue of having a good idea and being able to bring it to market. Australia wants to spend a lot of money on research and development but they don't seem to be able to spend the same amount of money to market and brand a particular item. Getting a new item into the market that's totally new and innovative is an extremely costly and difficult exercise, and that's not related to the automotive scheme, that's a general scheme that needs to be taken into account.

MR WOODS: So that in itself is something that should be looked at and that we could make reference to?

MR ALBERT (MTM): Yes, most definitely. From my perspective that is one of the biggest difficulties. When we looked at branching out into non-automotive, we did not wish to be a "me too". We did not see the fact that we had a press or a moulding machine as being our skill base. Our skill base was our company, the totality of it and the individual components, and predominantly what we've learnt over the years is it's the software, not the hardware. So it's how we deal with people. It's our systems that we've learnt from the automotive.

Totally different thinking is the way we approach it, and that has allowed us, in the case of Tomcar and Steelsafe - those two in particular, because they're

internationally, globally, focused - we're able to allow them to take a product to the global market. If we didn't have the skill sets that we learnt from automotive, that would not be able to occur. They would have a batch manufacturing mentality. They would have what we were thinking 25 years ago, "She'll be right," and that is not good enough for the global economy.

MR WOODS: Other things on MTM before we move to Tomcar?

MR WEICKHARDT: I noted your comments about the difficulties of starting an exporting business and I nodded my head. I got to the end, about parochialism, something that's rarely encountered in Australia, and I suspect there was a bit of tongue-in-cheek there, but in terms of the difficulty of supplying, say, into the US in the automotive industry, how much stock do you have to guarantee to hold there to have an automotive OEM content to risk their line being stopped if you interrupted supply?

MR ALBERT (MTM): If I can be general, basically you have to have a warehouse there. You must have a minimum of four weeks' stock, so that will be a float that goes down to two and up to six, I would imagine, depending on the quantity of shipments and frequency, and you would have six to eight weeks in the pipeline. Then you have your ordering and supply of raw materials in our pipeline here and the level of lead times associated with that. Some components that we order: an automatic gearshift, which has a PC board, has a lead time of six months. So their forecasting and scheduling and our forecast - it's a huge risk, and someone has to wear it, and guess who in the end wears it?

MR WEICKHARDT: But you've found, even financing that long inventory and orders, that you're able to, on certain products, compete in the US market?

MR ALBERT (MTM): Yes. When we first started selling a door check, which was our first export product into the US market, the price incentives reduced by 40 per cent. That's why I personally believe that the issue for the Australian marketplace and the suppliers is not purely increased volume, because every year we need to give give-backs to our customers, and to get the give-backs you need growth, and the growth to cover your overhead recovery so you get the significant reduction there. So purely an increase in local supply of volumes of 200,000, 300,000, whilst they will assist no doubt, is not the longer-term future of our industry. We need to be in the global pipeline, full stop.

MR WEICKHARDT: All right. Thank you for those comments.

MR ALBERT (MTM): You're welcome.

MR WOODS: You're not part of the structure of Tomcar but you - - -

MR ALBERT (MTM): I am a director of Tomcar.

MR WOODS: You are a director? Okay. I couldn't get that from this sheet, but that's all right.

MR ALBERT (MTM): No, it's not within the document. You'll have to go to public records.

MR WOODS: That's all right, you can tell us. We're on the public record now.

MR ALBERT (MTM): So I'm Mark Albert. I'm also a director of Tomcar Australia, and MTM is the manufacturer of the Tomcar vehicle in Australia.

MR WOODS: That's presumably owned somewhere else, because I noticed from your submission that it was made in the US and Israel and here. Is that an Australian-owned entity that's branched out or is it an overseas product that - - -

MR ALBERT (MTM): It's an Australian-owned entity that has the rights to manufacture in Australia and within the Asia-Pacific region, export the vehicle into that region. We also have a capability of changing the design to any design that we deem suitable, and can then export that globally.

MR WOODS: Okay. If you're producing a look-alike that's already produced say in the US, then they would sell it there through - - -

MR ALBERT (MTM): I would imagine that they would.

MR WOODS: But if you modify it to something that has an appeal globally, you can do that.

MR ALBERT (MTM): Correct.

MR WOODS: Okay, that's very good. Volumes that are produced here? You sort of said that volumes can be quite variable, depending on what's the actual - - -

MR ALBERT (MTM): We're looking at volumes in the first year of about 100 units, in the second year we're looking at three to five hundred units and in the third year a thousand plus. We don't think we're being overly optimistic in those numbers. At the same time we believe we can hit numbers of 5000 units.

MR WOODS: That's based on, obviously, then a significant export program to - - -

MR ALBERT (MTM): Some of that will be export. The percentage is difficult.

We've had a lot of inquiries from Indonesia, Fiji and some of the other islands. We think that it is ideally suited for the mining and agricultural market and so, because of that, we think the large majority will be absorbed into that particular market.

MR WOODS: I noticed in an earlier submission and presentation that we had that Australia also excels in the manufacture of aftermarket four-wheel drive type accessories. Is there some sort of natural synergy? Are you looking at some of those producers to provide related or supportive equipment to build up a sort of four-wheel drive design centre of excellence here in Australia?

MR ALBERT (MTM): I suppose I should start by saying that Tomcar is actually a two-wheel drive vehicle rather than a four-wheel drive vehicle.

MR WOODS: My apologies.

MR ALBERT (MTM): To make a four-wheel drive will add cost but won't add any - - -

MR WOODS: You did say it goes anywhere, it's all-terrain - - -

MR ALBERT (MTM): Yes. It's a misconception within the Australian market place. The design of this vehicle is such that it was designed from the ground up to minimise cost and simplicity. A lot of people have difficulty comprehending where this vehicle can go, but I'll challenge any four-wheel drive to go where it goes.

The concept from our perspective is, we have been having a lot of discussions with first tier, second tier, third tier Australian suppliers and aftermarket. The difficulty we've had with first-tier suppliers is their ability to get their head around some of the volume numbers, but we've been very happy with the aftermarket suppliers that we've been dealing with and their opportunity to see longer term and to use the vehicle as a marketing tool, basically, for their products.

MR WOODS: It's interesting that you raise that sort of cultural difference. We've been contemplating whether the existence of the OEMs, who sort of dictate a lot of, you know, "Please produce this in this quantity to these specifications, and here's an ATS that helps you keep in the business of doing that" - whether that is a different approach than the aftermarket, who are there saying, "Well, I've got a product and I need it to go onto a vehicle and I need to promote my brand, my quality, and I need to be flexible, because if I'm not selling this, well, nobody's helping me, I need to sell something else."

MR ALBERT (MTM): The difficulty that we've been having is that volumes are unclear. We don't have a certain future. The benefit that we have is that we're not selling a vanilla.

MR WOODS: Looking at the photos - - -

MR ALBERT (MTM): There is no other vehicle in the market that does what this vehicle does.

MR WOODS: - - - I totally agree.

MR ALBERT (MTM): That is where we stand out from the crowd. We don't know volumes but we believe there are inherent problems within the current marketing chain of the car companies, and so we have not followed that. In all situations in dealing with suppliers we have taken a very open attitude and said, "This is what we expect to occur. We hope it to occur. This is the price that we need for it to be localised," and also, "Can we work together to try to come up with a product that assists you to meet the price target and assists us to meet our goals and objectives, the functions of the vehicle."

So it's always been an open discussion rather than a one-way street. That's what we've attempted to do. We haven't been successful in all cases, unfortunately, but that is ongoing. Currently we see the vehicle as being Australian made for Australian conditions, so we're looking to localise as much as possible and we're probably pretty close to 50 per cent right now, very proudly too.

MR WOODS: You talk about the - sorry, I guess as a director I can say "you".

MR ALBERT (MTM): Yes, I read the document. It's okay.

MR WOODS: The submission says - let's stick with that formulation - that the loss of vehicle production in Australia would see total abandonment of all vehicle-related component production from Australia.

MR ALBERT (MTM): Yes.

MR WOODS: That seems a statement that at least the aftermarket people would possibly dispute. I don't want to speak on their behalf, but most of what they produce gets fitted onto imported vehicles.

MR ALBERT (MTM): Yes.

MR WOODS: Is this because of the spillovers in the engineering and the skill base and the production management that the auto industry provides?

MR ALBERT (MTM): I appreciate the aftermarket side of the businesses is different, but our great concern going forward is, where we're localising, as to how

much - we don't know the numbers - of the product that the aftermarket is supplying is going on Australian-made vehicles versus non-Australian-made vehicles, and obviously first-tier suppliers, who are here today but will they be here tomorrow if there is no automotive industry?

That is an inherent risk that we're taking on and, due to the volumes, we can't have two or three suppliers from which to choose.

MR WOODS: No.

MR ALBERT (MTM): So for every risk you need to have a counter-proposal as to how to go forward.

MR WOODS: Risk management.

MR ALBERT (MTM): Yes, so that is our big concern on that side.

MR WOODS: Okay.

MR WEICKHARDT: You talked about the fact that you currently don't have Australian Design Rules certification for road use - - -

MR ALBERT (MTM): Correct, yes.

MR WEICKHARDT: - - - but that you're going to go through that process.

MR ALBERT (MTM): Yes.

MR WEICKHARDT: Are you content that the hurdles are appropriate in that area? I mean, there are some that have talked to us about making ADR tougher and the safety rating tougher. How do you feel the balance is at the moment?

MR ALBERT (MTM): We don't see ourselves as an on-road vehicle. Our current vehicle with the current design is not meant to be permanently - you're not going to be driving from Melbourne to Sydney in our vehicle. So our market is different. In overseas markets from the ADR perspective the Tomcar is allowed to be driven on the roads because the roads have different categories. You're not allowed to drive it on a highway but you can drive it on a B-class street, and the B-class street is classified as A, B, C.

MR WEICKHARDT: When you say "overseas" - - -

MR ALBERT (MTM): The United States is a classic example of that.

MR WEICKHARDT: The United States? Okay.

MR ALBERT (MTM): We were initially looking to try to get those changes put through, but again to change the bureaucracy in Australia to look at some of those is extremely difficult. So we have to look at ADRs and we're wondering whether the ADR needs to be reviewed as, "Let's look at the market, let's look at how this vehicle is being used or is intended to be used," and determine what is appropriate based on that rather than assuming all cars are meant for road production.

I had to smile when the FAPM was suggesting that we need to bring in another car manufacturer. Well, that's what we effectively are, but we're not seen as that in the market, because Tomcar is basically a start-up manufacturing business. They haven't brought in the large capital equipment, they haven't got the big factory, they're not in control of the total process. They've taken the approach that any start-up company would and have outsourced some of the key components, and they are really struggling to get anyone to support them, because of their structure.

That again comes back to the point that I made earlier about having a good research and development concept, and bringing that brand of market to the fore into the Australian minds is a very difficult and costly exercise and there is no bucket, if you will, within the government, be it federal or state, that provides anywhere near enough support for that to occur.

MR WOODS: Okay.

MR ALBERT (MTM): We think niche manufacturing is the way to go forward, and the scheme needs to allow for that. Whether that be support from a sales perspective - the Tomcar is currently being reviewed in the University of New South Wales, as are other vehicles - side by sides and quad bikes - to review their class, to do similar to an ANCAP. They'll find that the Tomcar will either meet or exceed everything else that's out there. We will be best in class, no question in our minds. Until the report is public we can't say that officially.

From that perspective and from a health and safety side of things we're saying the support doesn't need to come in a hand-out. If the support was there for the company to grow to become a bigger, better global company, then that's what we're all about. And we want to stand on our own. We don't want to be here as Tomcar asking for money every year. But if there's a specific program, if I could get this vehicle with an ADR, I wouldn't be selling a thousand vehicles next year, I'd be selling five to 10 thousand vehicles next year.

To get a government to actually say, "But I don't have a bucket for you. You don't fit in ATS, you don't fit in this and you don't fit in that, and there's no fund that's large enough to even get you anywhere near getting started," that is a system

that needs to be corrected.

MR WEICKHARDT: What sort of costs hurdle do you anticipate ADR is likely to impose?

MR ALBERT (MTM): Approximately one and a half to two million.

MR WOODS: Substantial.

MR WEICKHARDT: Is that because there are some very expensive crash tests associated - - -

MR ALBERT (MTM): Yes. You have to crash the vehicle up against a wall. We need to change seatbelts, we need to change lights, we have to introduce ABS and those types of things for the vehicle, although again if the streets were rated differently perhaps that would or would not apply, and that would need to be reviewed.

MR WEICKHARDT: Okay.

MR ALBERT (MTM): Plus we then need to look at the vehicle and say, "Okay, these are the engineering changes. What's now the driveability of the vehicle, because now it has transformed the vehicle from what it was to what it is," okay, so we still want to maintain the inherent key focus and good aspects of the vehicle.

MR WEICKHARDT: Okay, thank you.

MR ALBERT (MTM): You're welcome. Thank you.

MR WOODS: Thank you very much for your presentation. I will adjourn now until 1.30.

(Luncheon adjournment)

MR WOODS: Thank you, ladies and gentlemen. I'll recommence our hearings for the afternoon session. Our first participant is the Australian Productivity Council. Could each of you separately please give your name, the organisation you represent and the position you hold.

MR MILNE (APC): I'm Craig Milne. I'm the executive director.

MR McDONALD (APC): I'm Ross McDonald. I'm a consultant with the Australian Productivity Council.

MR WOODS: Thank you very much. We have a submission here where you talk through various issues relating to the industry, together with a few proposals. Do you have an opening statement you wish to make?

MR MILNE (APC): Briefly, if I may.

MR WOODS: Yes, please.

MR MILNE (APC): For those who don't know us, the Productivity Council has no connection to you. We're the descendant of the old Productivity Groups movement which was formed in 1957. From 1969 until 1987 we were funded by the Department of Industry, Technology and Commerce, and by Employment and Training. We've been a privatised organisation since 1987 and these days act as consultants in industry throughout Australia, the UK and New Zealand.

Over the years we've worked in much of the automotive industry - the assemblers, the suppliers, retailers, smash repair, all sorts of things. Today, not so much. In fact our client base today would pretty much reflect the structure of the Australian economy, it's about 90 per cent with the services economy, but we maintain an interest in the manufacturing sector and are great supporters of it. The paper we've presented here in summary is a suggestion that the industry is not doing very well and we adduce what we think are the reasons for that.

We start with, I suppose, a standard device in productivity consulting, and that is to look at the question of what it would look like if it were operating well. It's pretty much whether you're looking at a production cell or an office or a business. You say, "If we're looking good, what would it be like?" The answer we come up with there is that if you looked at that group of nations that are like us - and the cut-off point we chose was a \$30,000 per capita GDP, mature markets that had had cars for a very long time, the markets are fully developed, and had high-level technical skills. We looked at what they're producing and there's about a dozen nations in that group apart from Australia.

When you go through that calculation there in our paper it suggests that our

industry should be making about 900,000 cars a year and it's producing about a fifth of that. Then the rest of the paper really suggests the reasons for that. We don't really conclude with specific recommendations as to what you would do to repair that. Although we thought about that, we're really just coming down to the proposition that the nub of the Australian problem is that we really have never had a horse in the race in this industry. We've always had foreign-owned firms running the industry.

Some of the history, I have to confess, is a sort of leftover from a bit of postgraduate work I was doing years ago in the 1990s at the University of Melbourne on the history of the car industry. It's not the principal industry that you're probably going to look at in the paper but a bit of work has gone into it.

MR WOODS: Absolutely.

MR MILNE (APC): I've used that second-hand from some of that, I have to say. Part of that was to read the entire archive, or at least the published one, of Holdens and Fords over their years in Australia to form some kind of picture of how that industry has developed and why it looks the way it does. There's an implication of how we can deal with that, but that's not really the job of this. This is a public document. It's done to define a problem rather than a solution. That's all I'd like to say.

MR WOODS: Did you have any comment you wished to make?

MR McDONALD (APC): No. I'll respond a bit later if - - -

MR WOODS: Okay, thank you. Although you say you don't offer too many specific recommendations, you do have a direction of logic in your document. And thank you, I caught up on a lot of history as I went through that. There were some gaps in my knowledge that you were able to fill. The flow of logic through your document is that the foreign-owned OEMs will take decisions that reflect the interests of their corporations - and that's not surprising; their shareholders would wish them to do that. Any shareholder would wish the company is doing what's in the company's best interest, so that's unexceptional.

You then proceed to a view about an Australian firm and you sort of have an argument that says if there was an Australian firm who could acquire some or all of the assets of those who are currently here, then there may be a way of changing the current arrangements. Do you want to elaborate a little on just what you mean by that and how that would come into effect? I can take a few questions beyond that but maybe start at that point.

MR MILNE (APC): I don't want to sound like I'm against foreign investment

because I'm not. In most instances it's fine. One can look at if the Americans own a chain of hamburger restaurants and they teach kids the essence of customer service, it's very hard to see any downsides of those sorts of things. I'm not taking a standard leftist view of these dreadful American corporations. I don't take that view at all. They're good corporations and they operate well in the interests of their managers and shareholders. I'm really saying there's just a difference in what they want from the world and what we need.

We're not really the best place to make motor cars. We're a high-cost country and have been since the 1820s really. We're a small domestic market. Our skills are good but they're not the best skills. We're people who can play Rachmaninoff. We know where to put our fingers on the little notes and what the black dots mean, but you wouldn't pay to hear us. It's pretty good to be able to do that, and that's where I see our skills. Our skills in the auto industry are 8 out of 10. People say we're brilliant; we could become very good but we're not quite there. That's the reality I see of the industry.

My view is that a locally headquartered and owned firm - and that would be a certain kind of ownership - could be amenable to the kind of policy interactions that you would need to have with this industry. How would you deal with labour relations issues? What sort of metrics would you impose on the firm as a condition of assistance? One of the benefits of this industry is the metrics are not that complicated. You would want the industry to be profitable, you'd want it to be productive, you'd want it to produce high-quality product, to be on top of the technology and the design. There are about five metrics and I think you could fashion a way of saying, "As a condition of support for this particular firm, you must make progress on those metrics."

Our failure of policy is we've never really imposed metrics on the auto industry. In the 50s and 60s we let anyone come who could. At a time when there was room for one or two firms we had six or seven and the old Tariff Board, your precursor organisation, used to write on these things, quite regularly, the problems of this industry in terms of that. That's how I see it. You need a firm with whom you can deal which isn't part of a grander strategy in which we're a very minor player.

MR WOODS: I'm trying to identify what would be the actual benefits, putting aside the cost and implications of that which we can get to - but we've had evidence put to this inquiry that demonstrates the quality controls, the productivity of the workforce, the ability to have very high run-through rates with very little rejection. All of that seems to me that the workforce and the management in the existing operations are focused on Australia being one of best-in-class on a whole range of metrics anyway and seems to be succeeding.

I just don't know what additional benefit would come from having the

Australian ownership and divorcing ourselves from global trends. The two who will remain here, at least post-Ford - for however long, who knows - one of them out of the Japanese manufacturing environment has very high standards and the other, the American, similarly has their standards.

MR MILNE (APC): Toyota would be the obvious you'd want. If you end up with a two-firm industry, what we're saying is one of the firms should be part of the global network. The obvious candidate would be Toyota for that. They're a superb company. The Australian firm would presumably rise the ashes of either the Ford operations or the Holden operations, if they choose to leave. There's a section I put in there about product development strategy.

MR WOODS: Yes.

MR MILNE (APC): Part of the problem for the Australian industry at the moment is that it makes the wrong product. We've got a 1.1 million units market and we're getting less than 20 per cent of it.

MR WOODS: Perhaps if I can clarify some of the stats on that. My understanding is that the top-selling vehicle is still only selling 40-something thousand units.

MR MILNE (APC): Yes.

MR WOODS: It is imported, but the Australian product is - well, the Camry is top of its mid-size category, and the Cruze and the Commodore are in the top 10. Whether we're totally making the wrong product and whether we're not always making the high-selling product is a slight difference of statistical interpretation.

MR MILNE (APC): Yes. Look, a lot of that is your technical paradigm of how you make cars. This is in many ways a very conservative industry. It's a very well-established one. One of the benefits of being independent is the ability to look at those things with a real mind to innovation and productivity improvement, which is different from how the industry currently runs. There's a view that you've got to make so many hundred thousand units of this. When I was a student the long-run average cost curve for automotive production was supposed to occur at about 700,000 units. That was the days of Rouge and Wolfsburg and the Togliatti plant in Russia and these sorts of things.

Today they're saying it's 200,000 but really it would seem to me that the path for innovation in the industry is to bring those numbers down, to have a good look at how you make motor cars, to innovate around those things. I'm not sure that the large firms have really much of an interest in doing that because the current arrangements suit them fairly well. You have this international division of labour, that this country makes one product and another makes another. It suits their

business models quite well.

You need to bring down volumes. You need to look at fresh ways of making motor cars. To do that I think you need independence to be able to genuinely innovate within your business. You talk to managers in the car companies here and you'll find they're pretty much deprived of that.

MR WEICKHARDT: I too found your history educational, and thank you for that. I understand some of the comments that you make and indeed you're in good company. We had Prof Roos yesterday in Adelaide make some similar sort of comments. I guess the issue of being part of a global company and the degree to which people are focused on the country or the company, as you put it, could weaken a global company and that can have its frustrations and it can have its benefits at times.

There's lots of IP that's come from those global entities, whether it's in manufacturing processes or whether it's in design, or whatever. There's also capital that's come. Indeed, at times this industry that hasn't generated a lot of cash itself and has probably consumed more cash and would have been in terrible shape had it not had the support of a parent company. I'm not sure there would have been many Australian capitalists who would have put a lot of money into it. It's not an industry that's renowned for generating great returns to shareholders.

I understand what you say but we are where we are, and the real issue is now what can the government do - because the government is not going to get into making cars, and nor should it, in my view.

MR MILNE (APC): I agree.

MR WEICKHARDT: So what can the government do that would be beneficial for the industry and for the people who are employed in it today?

MR MILNE (APC): Your point is entirely valid. I'm very aware of all of the incentives and wonderful benefits of being part of these global firms. I haven't gone into that in detail here but the vision, I would suggest, for an independent Australian firm is it's not going to be Volkswagen or Toyota. It's going to be a niche producer. It's going to be more like a Subaru or a Mazda. It's going to be a car factory that has a focus on something and does that extremely well. It won't be a large focus but it would eventually have a global market.

If you're looking at a company like Holden, it seems to me its logical strength is in the rear-wheel-drive sports sedan. That to me would seem logical, and its logical competitor would be BMW in the region. It's not going to produce a full line of vehicles but it's going to produce in that segment and it may, to some degree, have

technical agreements with other firms on powertrain or other things.

One of the aspects that goes against the idea of the grand global integration view is the development of all of the skilled components supply businesses now. So really to say you're going to make a car, what are you doing? You're pressing a body shell. You may be making an engine. You mightn't even be doing that. Jaguar are only just going back to their own engine now, having used Ford engines for the last 25 years. So an Australian car factory is pressing a body, it's building a body, it's buying in powertrain elements from other people and putting them together. That's its whole position but at least it's in charge of its destiny. It's going somewhere. It can have a strategy which in 10 or 20 years from now can offer a fuller line of vehicles.

In the 1960s BMW was making bubble cars, for heaven's sake. Subaru was the remnant of the old Nakajima aircraft factory. It wasn't allowed to make Nakajima dive-bombers again so it made cars. That's the sort of vision. If the business was the remnant of the Ford business, it would probably want to get hold of the Territory nameplate and would probably become a business making great SUVs and off-road vehicles. That may be where it could become a kind of a Range Rover model.

How you would configure an Australian firm: it's modest, it's focused on a particular market niche and it does that and it's determined to do that as well or better than anyone else in the world. That's where the global fit - but it's in charge of its destiny, you see. That's the key to it. You must run it. If you haven't got the captain on the bridge, you can't steer the ship, and that's the basic provision of it, I'd say.

MR WOODS: All right. In fairness to other participants our time has come to an end, but you have provided substantial material, and if you can find a spare few hundred million from an investor who wants to create an Australian branded four-wheel-drive or SUV then it sounds all right.

MR McDONALD (APC): Can I just add that the position put forward for an independent Australian firm would sit comfortably, we think, with your reference in terms of you looking at structure and alternative mechanism for public support. It would be a guiding beacon for Australian manufacturing if in fact part of that option could be seriously considered.

MR WOODS: Thank you very much.

MR WOODS: Thank you, gentlemen. Could you please each separately for the record state your name, the organisation you represent and the position you hold.

PROF WATSON (SAEA): I'm Prof Harry Watson and past president of the Society of Automotive Engineers Australasia and senior vice-president until this year.

MR ST LAWRENCE (SAEA): I'm Andrew St Lawrence. I'm a volunteer with the Society of Automotive Engineers Australasia.

MR WOODS: Good, a volunteer.

PROF WATSON (SAEA): So our presentation represents the input from a task force of seven people, so it's across the spectrum of industry, and because it's so formed, I would just like to pick the highlights out of our presentation.

MR WOODS: Thank you.

PROF WATSON (SAEA): I assume that you can read most of that for yourself.

MR WOODS: We have.

PROF WATSON (SAEA): But I would like to emphasise the points that the task force felt were very important. So if I could go to Great Achievements and begin there, and I'll give you a copy afterwards of my highlighted presentation.

Australia is one of only 15 countries worldwide that are capable of achieving the entire life cycle of design, development and production of a motor vehicle. Australia exports not only tangible items such as vehicles, components and systems but also intangible items such as intellectual property in the form of strategy, design, innovation and test methodologies. Australia can be rightly proud of its long history in vehicle design and engineering, R and D and manufacturing.

Since 2000 the industry has lodged thousands of patents and other forms of intellectual property related to that R and D. There are several tens of achievements that have become used globally. Examples of these are in the submission. More recent world-first examples would be dedicated gaseous fuels, cars and their derivatives. Currently the Australian-designed Holden Zeta forms the structural basis for the iconic modern-day Camaro. The current Ford Ranger and Mazda BT-50 sold globally are designed and engineered in Australia.

Toyota's technical centre in Australia conducts engineering design and development for a range of global programs, often leveraging Australia's unique advantages to add value to the design process and final product. The winner of this

year's young engineers award of our society in 2013, the Automotive Engineering Excellence Award, developed a product and technique that has been part of General Motors' global design process.

Issues to be addressed: barriers to a continued and successful industry, looking at policy certainty. You must have heard this many times. Vehicle platforms are typically considered to have a 14-year life from initial conception and engineering development to the cessation of the production. For businesses to commit to investing in projects of this length, particularly large projects in which they will not see a return on investment for several years, they must have long-term stable and certain policies. So the issue to be addressed is businesses require long-term and stable policies on which to base decisions. I think this is my fourth presentation to this commission or others and I think we would have said that every time and you would understand that.

Energy pricing. According to IEA data, the price of Australia's industrial energy costs is one of the highest in the world despite an abundance of low-cost energy being available. A recent boom in manufacturing in the USA has been driven by cheap energy, a result of US government policy limiting exports of vast quantities of natural gas and oil. So the issue to be addressed: government policies to reduce the cost of energy to businesses.

Tariffs and non-tariff barriers. The non-reciprocal tariff duty rates that exist with our international partners means that in reality there is no level playing field. For example, Australian-made vehicles sold to Thailand have a 50 to 80 per cent duty applied, whilst Thai vehicles sold in Australia have no duty and zero tariff. This discrepancy helps explain why Australia imported 17 per cent of vehicle sales from Thailand and exported zero vehicles in return. The issue to be addressed is non-reciprocal tariff and duty rates with Australia's trading partners, which needs remedy.

Co-investment or government grants. The amount of money provided on a per capita basis to the automotive industry in Australia is far lower than that provided to many other automotive design and manufacturing nations that recognise the strategic importance of their automotive industries. Whilst various offer differing data regarding total funding to the industry, some clarity can be obtained from observing the federal funding in Germany, the USA and Australia, which shows funding per capita in Australia is about one-fifth of that in the US or Germany. The issue to be addressed is government funding for research and design innovation commensurate with the strategic value of the area of knowledge.

MR WOODS: I don't want to stop you in mid-flight but can I just point out on that chart that your provide - and it was a point of congratulations that not only did you do the assistance per capita, which seems to be a very common metric that many

people use, but you very conveniently also included per vehicle produced, which of course gives a very different picture between Australia and Germany. The per capita shows we're one-fifth of Germany but on a vehicle produced it shows that we're almost double.

PROF WATSON (SAEA): If we had more production that would go down, wouldn't it?

MR WEICKHARDT: Absolutely it would.

PROF WATSON (SAEA): Fiscal policies. The USA, Japan and Korea, all key automotive design and manufacturing nations, have held fiscal policies over the past years whereby they have lowered the value of their respective currencies compared to other nations. Despite a strong local economy, Germany is advantaged by the weak euro zone and China sets its own exchange rates to its advantage. As a result of these policies the Australian dollar is artificially high and has been for such a length of time that it has now seriously damaged Australia's competitiveness in all its export industries, including the automotive industry.

So the issue to be addressed is support for Australian export industries during periods where the Australian fiscal policy holds the Australian dollar artificially high. As commissioners you may not be able to influence that but we have some recommendations on how you could.

Fractured policy. Whilst the federal, Victorian and South Australian state governments have "buy Australian vehicle" policies, in reality a large number of their respective vehicle fleets are imports. For example, in 2013 the federal vehicle fleet purchases had only 65 per cent of Australian manufactured vehicles. The interests of the Australian automotive industry are often ranked below those of other Australian industries, particularly agriculture, when free trade agreements are negotiated. As an example, immediately following the recent FTA with Malaysia, Australian cars imported to Malaysia are subject to taxes and duties equal to 145 per cent of the original cost of the vehicle. Meanwhile, Australia has no tariff on cars imported from Malaysia.

Whilst the government, through its Department of Industry, provides financial assistance to the automotive industry with schemes such as the ATS, this support is undermined by other departments such as the trade department as they seek to close off the FTA deal at the expense of other industries that need their support the most. Issue to be addressed: consistency in policy across all government departments.

Now I look at consequences of the automotive industry closing. One estimate of job losses is 16,000 employed directly, 50,000 people by manufacturing suppliers and around 250,000 jobs depending upon the automotive industry throughout

Australia. This brings to mind a figure at our last presentation several years ago of about a six-times multiplier. This is an independent view that that's still about the same.

The impact of the industry closing would be immediate, immense and almost irreparable. Whilst jobs may be created in other sectors of the economy, the strategic loss of capability of engineering design and research and development would not be easily replaced. Illustrating this is that the time constant to restart the process in my estimate is 10 to 15 years.

In terms of capability, self-sustainability and strategic ability, a closure of the automotive industry in Australia would move us to the standard of third world countries. There would be a corresponding lowering of the image internationally, a loss of employment capability for skilled, semi-skilled and low-skilled workers and also for young Australians, with a loss of positions for university graduates from engineering and science degrees through to business degrees. A loss of international students, particularly from Asia, along with related significant loss of overseas income is also projected.

Australia would become a less desirable destination to attend our premium education institutions due to the loss of the connections to high-tech industry networks and the lowering of technological and business image versus institutions in other countries. These losses would extend beyond students in the technological discipline of science and engineering but also include business and commerce.

Up to 0.7 billion of annual investment in automotive research and development would be under threat. Additionally, the loss of such a significant part of Australia's manufacturing sector would be expected to impact on other national manufacturing industries due to the reduction in economies of scale and a reduction in high-tech capabilities and services industries.

High-technology industries, such as automotive and aerospace, attract a large number of high-calibre students; above the average. If the automotive industry is no longer available as a future career choice, it is projected that a large percentage of these high-calibre students will seek alternative career paths, negatively impacting the resources available to the manufacturing sector as a whole.

Now I'd like to discuss the benefits of the Australian automotive industry - - -

MR WOODS: Can I draw your attention to the time. Please, if you could move through that. We do have your full submission here. I'm not sure we're going to have time for questions, but please complete your presentation.

PROF WATSON (SAEA): Okay. To have an independent capability to design,

develop and produce equipment should be a mandatory target for all developed countries. The automotive industry is the leader and driver of technical advancement and capability in manufacturing. The skills and experience of the techniques used in the automotive industry can improve many other endeavours, and this needs to be strategically recognised by the federal government.

I'll skip the introduction on the economy and go to my friend Peter's Monash University Centre of Policy study's estimates of the economic impact of shutting down the motor industry. It's calculated as 7.3 billion by 2018 and overall impact of 21.5 billion in net present value analysis terms. Job losses again were suggested at around 40,000, and the social consequences and the imposts of this step change are not costed in Peter's modelling.

Australia's natural advantage. Australia has a highly capable tertiary education sector with numerous engineering schools in major universities throughout the country, with a reputation for innovation in technology and learning practices closely linked to the automotive industry. Our proximity to the ASEAN region, in which sales are booming and "Australian made" is perceived as a premium and desirable product, provides us with a productivity advantage over many of our competitors, as customers are on our doorstep both in terms of distance and time zones. Our strength with gaseous fuels applications and also from a resources and infrastructure perspective can allow us to become a global leader in this field.

Existing proving grounds, relatively low-cost land for future developments, exceptional temperature and environmental conditions provide complementary testing times to the Northern Hemisphere and good development roads to make Australia an ideal country for vehicle development and research.

So what's required? A strategic measure; Australia must strive to maintain in-country engineering design and research capability in addition to manufacturing; recognise that in terms of policy automotive engineering design and R and D fields can be separated from the production side of the automotive and manufacturing industry; ensure the right policy framework exists to promote and support global home rooms for engineering platform design; make use of Australia's advantages; develop global vehicles here that are desirable in Australia, Asia and the Middle East; capitalise on our natural fuel resources; enable suppliers to invest more readily into research and development; government of all levels should buy more Australian built or designed vehicles; recognise that non-tariff barriers result in unequal playing fields for Australian manufacturers.

A whole-of-government approach is required to both recognise the importance of the automotive industry and enable its continued success. A working group assigned to the automotive industry, with representatives from all parts of government, should be formed to make some suggestions.

In conclusion, the Australian automotive industry is an important part of Australia's industrial sector and the strategic value of its knowledge, design and research and development fields cannot be overstated. Any prudent government will have a vested interest in retaining, promoting and investing in an industry that contributes not only strategically to national security but also to the financial wellbeing of its citizens and the nation as a whole.

MR WOODS: Thank you very much. Given the extensive nature of your opening statement, unfortunately we don't have time for questions. We do have your full submission with us, so we greatly appreciate you coming forward and making that presentation.

PROF WATSON (SAEA): Hopefully, if you do have some questions, you'll be in contact with us.

MR WOODS: Yes, indeed. Thank you very much.

MR WOODS: We are running a little behind time, but rest assured you will have your full quota of time. Can you please each for the record state your name, the organisation that you represent and the position you hold.

MR SMITH (AMWU): Dave Smith. I'm the national secretary of the AMWU vehicle division. I'm also the national chairperson of the Federation of Vehicle Industry Unions.

MR WOODS: Thank you.

MR SKLADZIEN (AMWU): Tom Skladzien. I'm the AMWU national economic and industry adviser.

MR WOODS: Thank you and thank you for your submission, which is very extensive and has got a lot of quite valuable information, particularly in the areas of labour productivity, relative labour costs and those sorts of things, so they're very good metrics that we can draw on. We did have a presentation yesterday focusing on the South Australian situation, but do you have an opening comment you wish to make?

MR SMITH (AMWU): Yes, sure, just a very short opening comment and then I think we'd like to go straight into questions.

MR WOODS: Thank you very much.

MR SMITH (AMWU): Just to open and say that automotive manufacturing in Australia is vital to general manufacturing and it brings skills and innovation to manufacturing in this country, and I think everybody that would have presented to you would have made that point about the industry and the benefit of it. In more recent times we've had Ian Thomas from Boeing and Jac Nasser from BHP - Jac of course the former global CEO of Ford - come out and say as much.

Automotive manufacturing in this country doesn't compete on a level playing field. Other countries implement behind-border protections, even when we have free trade agreements with those countries. They have subsidies, they manipulate currencies and they put in other protections. If you have a look at what Brazil has done in the last couple of years, it actually implemented a 35 per cent tariff to ensure that cars in that nation were built in that nation.

Australia needs to support its automotive industry and it needs to support it because it provides good-quality jobs to workers and their families and the communities that rely on automotive manufacturing, and that just can't be underestimated.

The AMWU believes that there are about 50,000 employees directly employed by the industry and another couple of hundred thousand that rely on the automotive industry in some form or another. We believe that this industry is beyond politics, that we ought to approach it in a bipartisan manner, and we need a vision, not a plan for closure of the industry. It is a great industry and we have great companies here. General Motors, Toyota and Ford: you could mention those names in any country that you went to in the world and the great majority of people would know who those companies were.

We can build cars in this country, and cars for the future, but, as I say, it requires vision and it requires the support of governments at all levels, because once this industry goes it will never come back again. It'll be gone and lost completely.

MR WOODS: Thank you and thank you for getting straight to the point on those issues. One of the things that came through your submission was a labour productivity story. You include in the interests of objectivity and good analysis things like labour costs, and that shows that Australia is one of the highest but is equally not alone in that field. So we do have skilled workers who we pay appropriately for the work that they do, but the productivity story of those workers is not only high relative to other industries in Australia but has been improving in itself.

What have been the sort of key features of what's created that high productivity and focus on improving it even further and where does Australian policy, if at all, fit into that, or is this something that is a recognition by the companies and the workforce that, to survive in the marketplace, this is what's required?

MR SMITH (AMWU): Maybe we can deal with that in two parts.

MR WOODS: Yes. No, I'm happy for however.

MR SMITH (AMWU): I've had the privilege to represent workers in this industry for around 21 years. When I first came into the industry, one of the things that was said to me very clearly by the Ford Motor Co at the time was that we actually need to increase wages and employment conditions within the industry. It was a little bit like a revolving door in those days and they couldn't hang onto good-quality skilled labour.

We have managed to do that, and we make no apologies for the fact that we have well-paid jobs in the industry, but we provide a lot of flexibility in terms of that. Back in the late eighties, early nineties, there were structural efficiency agreements that went to how we would create a more productive industry, and certainly continuous improvement is embedded in the culture of all of the car companies.

It's not something that's pulled out of a drawer once a week or once a month.

It's continuous in every aspect of the operations. I think yesterday there might have been in South Australia some evidence presented by my colleague John Camillo that went to productivity, and that's similar in the Victorian operations of General Motors and Toyota - and Ford, to be quite honest. We constantly strive to be able to build better vehicles at lower cost.

MR SKLADZIEN (AMWU): I'd add, just from a broader point of view, that the testimony that we've heard in the last day and a bit has made it clear that the automotive industry is at the forefront of manufacturing globally and it's this global striving for efficiency and for productivity that's responsible for auto workers being more productive than the general manufacturing worker, and I'd say some of the difference there is a reflection of that reality.

The other thing is, in recent times, as we'll all be aware, there's been a lot of pressure on the industry and how an industry reacts to pressures, especially when they're external, is to search for further efficiencies and further improvements in competitiveness, and that would be responsible for some of it as well.

MR WOODS: Okay. As we look out into the future, would you agree that there is one certainty, and that is that it won't stand still, but there are two broad options. One is, the striving for productivity will continue, but a consequence of that, short of significant changes in volume, will be an ongoing but structured reduction of the workforce, both the assembly and in the supplier, and you might want to differentiate your answer to those two different sectors.

One option is that that will happen and the other option, which we'll discuss briefly later, is whether one or both of the remaining assemblers leave the country. But let's take the sort of current foreseeable option of a progressive improvement in productivity. If there is no significant volume increase, will that lead to inevitable reductions but perhaps a change of skill mix of the labour force?

MR SKLADZIEN (AMWU): I'd say that that's a pretty common phenomenon economically generally in any industry. If you take the context as constant and then you increase labour productivity and you take volumes as constant and you take the rest of it as constant, then the natural implication is that fewer workers are needed to produce those constant levels.

The part that I take issue with is that we don't know what the context will be. It's not necessarily - - -

MR WOODS: It's within those confines.

MR SKLADZIEN (AMWU): Yes. So if we take volumes as constant and say we're going to produce 200,000 cars a year forever, then, yes, we'll need fewer

workers in 100 years from now to produce those 200,000 cars, or in five years or in 50 years.

MR WOODS: But what's the training, what's the skill, what's the ability of that workforce to be able to move out into the broader economy? There is a lot of that anyway. I mean, a number of other companies have said, "Our workers are being sourced from this area because they've got the skills, the training and the capacity."

MR SMITH (AMWU): Just let me comment, because the great majority of my members are semi-skilled workers. Although they've been very highly trained and do go through extensive training, the reality is that there aren't jobs for them to go to. So it doesn't matter how highly skilled you are, if there's no work, there is no work and you don't work.

Certainly my observation, having spoken to a number of people over the years, is that they go from well-paid permanent jobs to sitting around telephones waiting for a call between 6.00 and 7.30 of a night to find out whether they're going to have work the next day, or they get a little bit of part-time work here or a bit of casual work here, but generally speaking a large number of the employees never find or struggle to find full-time permanent jobs again.

If you have a look at, for example, what's happening with workers in Geelong at the moment, those that will leave Ford will, if they can find work, probably find work that pays somewhere between about 18 and 20 dollars an hour. When you include the running costs of being able to get to Melbourne, where the majority of that work will reside - it certainly won't be in Geelong - by the time you take out those travelling expenses, suddenly it's hardly worth working, to be blunt about it. That's just the reality of what will happen to an automotive worker if they use their job in a plant.

MR WOODS: A number of those workers will have got their cert 1 and II - - -

MR SMITH (AMWU): Yes.

MR WOODS: - - - but they won't have made the grade up to cert II or IV, is I guess what you're saying.

MR SMITH (AMWU): In terms of non-trade workers - and they were part of the structural efficiency agreements negotiated all those years ago - there is a certificate II there available for them. Certainly what we have tried to do for workers that have been made redundant is have all of their skills recognised, because there are skills that the company trains them in that are broader and higher than the cert II.

MR WOODS: Yes.

MR SMITH (AMWU): So we try and get their skills recognised at a certificate III. As I say, they are highly skilled workers, but the problem is that there are no jobs for them.

MR WOODS: Do you find differences between the companies in their willingness to participate in the RPL programs so that workers can have official identifiable skill recognition?

MR SMITH (AMWU): Yes.

MR WOODS: Is that something that should be addressed and is that something where public policy can have a role, or is that purely company policy and difficult to deal with?

MR SMITH (AMWU): Let me say it's not somewhere that I really want to go, to be quite honest.

MR WOODS: Okay.

MR SMITH (AMWU): From the context that I see the role of government to support workers and to keep them in work, not to support whether they can get RPL or not, which may or may not help them move on to their next job, your question really goes to putting people out of work, to be quite blunt about it.

MR WOODS: Doesn't it in part, if there is no change in volume, go to the reality that there will always be, as productivity improves, some structural adjustment of the workforce and some reduction of it? Hasn't that been the long-term trend or is that not in your - - -

MR SMITH (AMWU): No, through productivity - and Tom has answered this - you will always see some reduction in the workforce, but it comes about, if you like, in an orderly manner.

MR WOODS: Yes.

MR SMITH (AMWU): Quite often that can coincide with workers' retirements and those sorts of things, so it can be managed. What we would see here, if the industry was to close, would be massive unemployment on a scale probably not seen before, and people going into a jobs market where it's difficult enough now to find a job, let alone when you're competing against 50,000 other people who have been put out of work. It will all happen around the same time and it will be an absolute disaster, in my view.

MR WOODS: Sorry, my conversation was still predicated on the two OEMs staying here but the inevitability of the workforce changing its skills and numbers as productivity changes, unless of course there is a massive new export program or something that changes it. I agree that the consequences of closure are far different. I wasn't at that part of the conversation at this stage.

MR WEICKHARDT: I'd like to turn to a couple of issues that were partly raised in Adelaide but we didn't have complete time to talk about those. John Camillo in Adelaide did talk about the significant discussions that have been held with Holden in terms of changing the enterprise bargaining arrangements there in order to try and accommodate some of the pressures that Holden were under. He referred specifically to the fact that were these to be implemented, they could make a difference of \$15 million per annum. I think by my maths that works out at around \$250 a vehicle, so it's not insignificant.

MR SMITH (AMWU): It's about \$183, I think.

MR WEICKHARDT: Okay.

MR WOODS: Plus or minus 50 cents.

MR WEICKHARDT: It depends on how many vehicles we're talking about, but I guess you've got to put that in context with the figures. Interestingly Ford, Toyota and Holden have sent in submissions to this inquiry and in different ways they've all pointed to a very significant cost differential between manufacturing here in Australia and manufacturing overseas. The figure that Toyota and Holden have quoted is in the order of \$3750 or \$3800 a car, but a manufacturing cost differential that I think Holden have pinpointed at \$2000 a car, which they say is mainly due to differential labour costs.

Whilst I don't want to underestimate the sacrifices and the concessions that have been made, and Holden have outlined all the changes that have been agreed and clearly there's been a lot of discussion there, it still seems there's a huge gap which exists. How do you see that gap being closed?

MR SKLADZIEN (AMWU): The first thing I'd point out is that how you compare the manufacturing costs in different places will depend on how you convert currencies and the exchange rates that we're talking about. Of course, central to the context of this whole review is the fact that the Australian dollar is at record highs and it's been at record highs for a somewhat sustained period of time but, as we all know, currencies do move and they move rather significantly, and we have a pretty good idea of why the Australian dollar is where it is, and we also have a pretty good idea that those reasons aren't permanent.

We can have a comparison of these manufacturing costs based on the currency as it is, but I think it's probably more useful to compare manufacturing costs with a currency that's probably closer to what we would consider its long-run equilibrium level, and now there's a discussion to have as to what that is, but I don't think that a \$1 or 95 US cents comparison necessarily is going to tell us much besides that we have a very high Australian dollar here. The fact that Australian wages or Australian labour costs in this sector do not compare unfavourably with those of countries like Germany and the US indicates to us that it's not the labour cost problem fundamentally that the industry is facing.

MR WEICKHARDT: There's a whole multitude of things.

MR SKLADZIEN (AMWU): There's a whole multitude, that's right.

MR WEICKHARDT: From scale to energy costs - - -

MR SKLADZIEN (AMWU): Scale, energy costs, the dollar, access to markets and all of these things that are central to the issue.

MR WEICKHARDT: Toyota have highlighted the fact that they're determined to try and close these gaps. They said in one of their recommendations that changes to the industrial relations framework should be contemplated to, amongst other things, require industrial laws, including those surrounding bargaining, to be based at least to some degree on productivity and flexibility gains, and to set a more reasonable threshold for the definition of "significant harm" in the context of preventing damaging industrial action.

Our terms of reference included a simple sort of line asking us to have regard to changes to the industrial relations environment or taxation environment which might be relevant to the industry. It's easy to write in one line; very complex subjects in both cases. We have very limited time here but I'm interested in the view from your end of the telescope as to whether or not, in the discussions that have been held with both Holden and Toyota which have resulted in changes - and both companies acknowledge the changes have had a move in the right direction - you feel that the current environment under the Fair Work Act of Australia has had a constraint on the degree to which you have been able to reach a sensible sort of arrangement with either Holden or Toyota?

MR SMITH (AMWU): No, and the comments by Toyota in their submission with regard to significant harm go to the point that if there is a dispute in the industry, Toyota would like to be able to make application to the Fair Work Commission and have the Fair Work Commission basically set aside the bargaining period, which then would make industrial action illegal, et cetera. That's their view of life but the reality is bargaining is bargaining, and you will always get to an outcome some way or

another. Essentially what their submission does is say, "We'd like the unions to have their arms tied behind their backs when we go into bargaining."

Certainly, if you have a look at bargaining at Toyota the last time around - and yes, we did have some difficulties reaching a final outcome, but I recall part of the bargaining, when we did get to that point, was around sick leave and there was flexibility provided there in terms of certificates and those sorts of things. It was one of the things that we bargained to actually get an outcome in the end. So I think it's a little bit more of a wish list from Toyota than an actual factual thing that's going to come about.

What does create good industrial relations is a relationship between the parties and a mutual understanding about where they want to go. If you try and create that then you will get where you want to go. I'd have to say, to be quite honest with you, that sometimes the relationship with Toyota is not as good as it could be and it's, I think, very good with General Motors and it's demonstrated in the fact that last year, when General Motors put a position to the union which required a lot of pain, and which workers didn't want to agree to, to be quite honest - and when I say that, they didn't want to give up any of their conditions of employment but they chose to because the relationship with the company allowed that to occur.

MR WOODS: Do you have coverage of parts of the component suppliers?

MR SMITH (AMWU): Yes.

MR WOODS: Is that a different situation and do you see a need for some rationalising of that industry if it's to survive, even with the OEMs staying here?

MR SKLADZIEN (AMWU): I think that's right. Again, there's always change in industries over time. There's always accelerated change when industries are under pressure. Both our submission and other submissions have made clear that there is certainly room for rationalisation and consolidation and improvement in efficiencies in the supply chain. I think that's probably one of the things that will be necessary if we're to get to an end point where we have an industry that's not under the extreme pressure that it's under that will require reviews like this. So yes, in short.

MR WOODS: Are there any impediments to that rationalising that you can identify where you think a change of government policy would assist, or are you comfortable with the framework within which it happens in probably the appropriate settings?

MR SKLADZIEN (AMWU): I'd say the first thing is the issue that's been raised by others in these hearings, and that's the ACCC issue. We won't go into that but that's one thing that we've certainly heard from various stakeholders.

MR WEICKHARDT: I suspect that issue, insofar as the ACCC wanting to avoid a situation where the three OEMs effectively, by some agreement, finger a components supplier and say, "Well, you're the one to go" - I can't see any resolution of that and indeed I think it would be very unhealthy were it to occur. Okay, it might be a constraint on one hand but it's got a hell of a lot of benefits on another. Wishing that wasn't there - - -

MR SKLADZIEN (AMWU): The question is what exactly is the mechanism or the process by which you imagine this consolidation happens? It's certainly the case that the MVPs have information about their supply chains that they don't share and that nobody outside has, and that information would be useful. Is it useful in the sense of having some type of "consolidation plan for the supply chains"? There's of course a fine line between some type of very directed, very - I don't want to use the word Stalinist but another one doesn't come to mind very easily - type of directed industry consolidation.

MR WOODS: Central planning.

MR SKLADZIEN (AMWU): Central planning, yes. To my mind there should be mechanisms that the parties and the government can come up with that would allow the crucial information that various parties have to be shared; maybe a mechanism where the government steps in as some type of arbitrator and the supply chain itself is taken along through the process. To my mind it's not a binary decision. Either there's some type of coordination of this consolidation or there's no coordination of the consolidation. I think there are options in between which would make the outcome better than no coordination and which wouldn't enter the realm of Stalinism or central planning.

MR WEICKHARDT: It doesn't seem beyond the wit of man that the supplier base might employ a consultant to advise them, and normal consultants would go and see their customers and say, "What's your view of the world?"

MR SKLADZIEN (AMWU): That's right.

MR WEICKHARDT: They might go back to the supplier base and say, "Look, at the end of the day there's going to be blood on the floor here and maybe the industry can find a way of itself agreeing how to rationalise."

MR SKLADZIEN (AMWU): That's right, and so in our mind the most important thing is that everybody is taken along with this process and that it's an ordered process where everybody has a seat at the table, and that includes government, it includes MVPs, suppliers, as well as workers and unions. Our submission in the draft recommendations at the end go to that through establishing some type of automotive industry advisory panel or body. That's really what that recommendation

goes to, as well as the other things.

MR WEICKHARDT: Yes, okay.

MR WOODS: While you've got the floor are there other matters you want to draw our attention to? We've got your submission, we've had today and yesterday but we've also had the benefit of an earlier briefing from you.

MR SKLADZIEN (AMWU): Just a last thing.

MR WOODS: Feel free.

MR SKLADZIEN (AMWU): From our point of view it is extremely important that the commission bear in mind, when making its recommendations, that in our view and I think in the view of most organisations and individuals who have presented evidence, this is not only an industry that is strategically economically vital in the sense that it provides benefits to manufacturing and the economy that no other industry in Australia does, whether it's because it's part of a global supply chain or access to the latest technology, the latest manufacturing processes or the rest, but it's also an industry that for those reasons is not competitive in the normal market sense. It is one that's supported everywhere.

Now, I know that the Productivity Commission makes the point, and the very valid point, that the decision is not whether to provide support because that's what other countries do; it's a question of whether to provide support because that's what's in the interests of the country. I might be naive but to my mind it seems like this is - and pardon a little bit of technical jargon - largely a Nash equilibrium scenario where maybe it would be a better world where no government provided this support to the industry but, for whatever reasons, governments do. So we find ourselves in a Nash equilibrium.

What the government seems to be advocating and what the Productivity Commission seems to be contemplating is moving from that Nash equilibrium strategy and diverting from it in the hope that you're going to get a better outcome, and that isn't the case in the Nash equilibrium. Diversion from that strategy, even though it's not optimal, doesn't lead you to a better place. It leads you to a worse place. So I'd just like to leave it at that.

MR WOODS: Point clearly made.

MR SMITH (AMWU): Yes, and I can't even pronounce that word.

MR WOODS: But we understand the concept behind it.

MR SMITH (AMWU): There is no better outcome from my - - -

MR WEICKHARDT: I will exempt myself from that and get some briefing from my colleagues.

MR WOODS: Thank you very much for your time and your ongoing contribution.

MR WOODS: We welcome the Federal Chamber of Automotive Industries. Could you each please for the record state your name, the organisation you are representing and the position you hold.

MR GRAZIANO (FCAI): Bob Graziano representing as president of the FCAI.

MR WEBER (FCAI): I'm Tony Weber. I'm the chief executive of the Federal Chamber of Automotive industries.

MR WOODS: Excellent. Thank you. Do you have an opening statement you wish to make?

MR WEBER (FCAI): We do. We'll keep it relatively short. Bob joins me today as the president of the FCAI and we speak here on behalf of our members rather than any specific brand.

MR WOODS: Thank you for making that clear.

MR WEBER (FCAI): That's all right. Recent economic analysis by Monash University Centre of Policy Studies showed that the Australian economy would be \$21.5 billion smaller if the automotive manufacturing sector left the country in 2018. Nationally Australia's GDP would be some \$7.3 billion smaller in 2018 and real GDP would remain below pre-closure levels until 2024. This impact would be concentrated in Melbourne and Adelaide. Around 40,000 jobs would be lost and it would take years for employment levels to return in these two cities. This impact is detailed in The Allen Consulting Group report which is an attachment to our submission.

This inquiry comes at an important time, with the industry facing significant challenges, including increased competition in the Australian market, fragmentation of the market, export barriers to foreign markets and a historically high dollar, but despite these challenges the industry has the potential for a bright future. However, it requires long-term support from government.

Government support is not unique. Every imported car on our roads in Australia has some form of assistance from the government of the country where it is produced. In many instances the support is much greater than the level of support currently provided in Australia. This support equates to around \$18 per person, which is low by international standards. It also represents around 0.11 per cent of total Commonwealth expenditure.

The amount of support has significantly decreased in recent years. Government support through funding and other mechanisms, including market access improvements, is an important investment by the nation in a crucial industry.

For it, the country receives returns in the way of direct foreign investment, employment, skills, training, technology transfer, research and innovation.

The \$21.5 million figure does not include significant benefits provided to other parts of the economy; spillovers. These spillovers include technology transfers through research and development and broader innovation, lean management techniques and applications, and advanced labour skills and manufacturing techniques. Such spillovers, while not identified by modelling, benefit the economy in ways that are recognised by industry leaders around the nation. These include the chief executives of leading companies Boeing, Rio Tinto, Coca-Cola Amatil and others, each of whom have directly related the success of their own businesses to the skills and expertise gleaned from the automotive industry in Australia. We also understand the banking industry is employing engineers for their lean management and process techniques.

For Australian automotive manufacturing to continue into the future, government support and investment must be long term. Industry funding cycles cannot be matched to government election or financial cycles. Funding cycles must be in line with at least the industry's investment cycle. This is because the automotive industry has long development lead times and requires long-term certainty from government to support product development. If funding is cut in the middle of the process, companies cannot be expected to invest in new vehicle production or design with confidence.

Policy decisions such as the removal of the FBT statutory formula method, the reduction of the Green Car Innovation Fund and the pending \$500 million cut to the Automotive Transformation Scheme do not provide long-term certainty to the industry. Achieving scale is vital to the industry. The FCAI is strongly of the view that, while Australia has benefited enormously from liberalising the domestic market, we have not gained meaningful access to key overseas markets.

One of Australia's great strengths across each of the three domestic automotive manufacturers rests with their considerable design, engineering and R and D capacities. Currently, Australia is one of a relatively small number of countries in the world with the capability to produce a car from concept to delivery.

The FCAI believes the shutdown of the industry can be avoided, with the right policy settings and financial support from the government, and the ongoing commitment to best practice and efficiency from manufacturers. The manufacturers are doing everything to improve their efficiency. The FCAI seeks federal government support that is clear, consistent and continuous. Thank you.

MR WOODS: Thank you. Mr President, do you have anything you wish to add?

MR GRAZIANO (FCAI): No, I'll leave it with that and go to any questions you may have.

MR WOODS: All right, we'll go to the questions. Thank you, and thank you for the time that you've spent with us in the lead-up to this inquiry and for your submission. When last we spoke, you offered a free invitation for us to pursue the modelling with Allen and co. As long as you're happy for whatever comes through that to go on the public record, but I guess you will have to make those decisions as and when they arise. I don't particularly want to spend today having a modelling debate. I think we can probably do better with your time, if that's all right with you.

MR WEBER (FCAI): That's fine.

MR WOODS: So, all right, we've got an understanding there. The question of policy certainty should presumably go both ways: that the taxpayer on whose behalf the government of the day makes certain policy decisions and program funding would also want to know what the pathway is and whether there's a net benefit, and is there a conclusion at some point in time.

We notice one of your members - and it's on the public record, so it's GM - talk in their submission about requiring adequate levels of ongoing public assistance. I don't know whether certainty comes from that. There's certainty at the moment in that there's a 10-year plan and that's legislated. There's some uncertainty in the sense that the current government has indicated some possible variation to some of that, but how do you plan public policy if the position is, "Well, we will need support ongoing and we can't quantify what that might be"?

MR WEBER (FCAI): The reality is that the industry is a scale based industry and you need volume, and that in turn relies on investment dollars to come to this country, and you need to be competitive in that environment, and it's a complete environment, so it's an environment in terms of the investment decision follows where it makes sense to invest, and unless you have that certainty around this being a quality investment site, you don't have the investment. So part of that is a range of things in terms of the amount of support provided by the government against other options available, what other governments do, and also what the market access regime is in this country compared to other regimes. So it is a complex issue, I agree.

MR WOODS: We agree with that. In formulating our own recommendations to government, we're just trying to create some measure of certainty, at least for a period of time, whether it's a five-year period of time to be reviewed or something. That is posing to be quite a difficult issue at this stage, and so any further reflections on that would help.

You did talk about it being a scale business, and quite clearly that's one of the very significant factors in the industry. At the moment, one of the two who will remain, at least beyond 2016, exports 70 per cent of their product in a high Australian dollar and higher cost base than competing plants elsewhere in the world. Is that sustainable? Is expanding the export market sustainable? What would be required? I think we've saturated the local market, have we not, or are you saying that there's significant scope to increase sales in the domestic market as well?

MR WEBER (FCAI): We think the domestic market will grow, but the domestic market is so splintered. You're not going to get enormous volume out of the domestic market, so you need to actually go through a process by which you get the scale, and the scale can come in two fundamental ways. One is, you can obviously look for export markets, and that is the Toyota model at the moment, in which they export essentially two-thirds of their production, and the point is that Toyota are looking, as Holden are, and Ford are as well, at actually reducing their cost base, hence to make themselves more competitive given where the dollar is, and then to export the volume.

Holden has a slightly different strategy going forward for their next-generation vehicle and that strategy is about producing two cars down the one line to get the volume that way. But obviously the world environment has changed a lot in the last decade and if we sit here, in 10 years' time it could change quite dramatically, and that could mean potentially exports of greater volume in the future. So it's not a static environment in which we operate.

MR WEICKHARDT: Totally understand it's not a static environment. The problem is that it's sometimes very hard to predict exactly how that will change and, as we were discussing in Adelaide, the Australian government don't control a lot of the levers. If international or global companies make significant investment in another country nearby us, that may provide a very attractive competitive source for export markets that Australia had aspirations for.

These situations where other governments, through financial inducement to the auto industry or through investment decisions that are made by a global company, suddenly change the relative attractiveness of Australia's position, make it very hard for our government to understand what the words "sustainable" and "viable" really mean in the context of this industry.

As Mike was saying, it's hard to see how a government can budget for, or plan, or forecast. The industry wants - you call it clear, consistent and continuous support. Well, consistent support maybe the government could understand, but where it's support that is completely indefinite because it changes with the environment all the time, how do you devise that in a way that's fair to both parties?

Some people submitting to the inquiry have talked about the fact that, "Well, the industry should be supported whilst the dollar is strong." Now, none of us know what the dollar is going to be and we sure as hell can't forecast that accurately, but to try and devise an assistance scheme that's fair to both parties that has some formula associated with the dollar is, I think, a mug's game. So how can you put forward something that's, if you like, acceptable to the industry and provides what the industry wants but also provides something that the government can work with?

MR WEBER (FCAI): The investment made by the government provides you with many things. It provides you with, let's call it the \$21.5 billion number that the modelling from the Centre of Policy Studies gives you. It provides you with an active industry that's participating and has those spillover benefits that we're talking about. So it is an investment that makes the economy bigger and stronger, and I accept your point that you don't know what tomorrow brings, but if you have a support process that is undertaken with constant reviews, as we have had in this country for many years as we have moved from the structural adjustment assistance provided from the start of the Button era when we had 57 and a half per cent tariffs and quotas - and we've gone through that and we've transitioned down, but what we need is a level of assistance that provides the industry with investment surety over a period of time that mimics our investment cycle rather than political and budget cycles. In that way, the government gets its return on its investment in terms of maintaining an industry here with all its other benefits.

MR GRAZIANO (FCAI): I think you see in the submissions there are also direct investments that the companies are making here in Australia in return for that co-investment. There are also payments through the supply base. There are returns that are generated for the government's investment in the industry which ultimately benefits the economy. So it isn't really a one-way street, it is a two-way street, and you have to evaluate the returns on those investments, and when you look at the automotive industry, just from a manufacturing and R and D perspective it appears to be a good return on investment.

MR WOODS: Although I do point out that a number of other companies are investing in the economy, and they might be locally based economies or foreign companies who are coming and investing here, and they pay wages, they invest capital, they generate value-added into the economy, and there isn't a dollar other than generic support programs paid, so would you argue therefore that their ratios are even better and that that's where the focus should be? Just the fact that as a result of some co-investment there's activity doesn't deny the fact that in areas where there's no co-investment there is also activity and that therefore gives you a greater ratio of benefit.

MR WEBER (FCAI): I think the answer to the question is it depends upon those spillover benefits. I agree; the \$21 billion number that we quote, other industries

may be able to come up with a similar kind of statistic for that. The reality is that the cost to the taxpayer needs to be offset by that, but there are two benefits. The other benefit is the spillover and it's what it means to advanced manufacturing in this country and what it means to other sectors of the economy, and the example of the banking sector, I think, is a good one, about the way in which the technologies are brought into this country and that the management techniques come out of this industry, because of its unique nature worldwide, and go into other sectors.

MR WOODS: I am resisting responding to your 21.5 because I don't want to get into a modelling debate.

MR WEBER (FCAI): Sure, yes.

MR WOODS: But if I can just foreshadow that we were told this morning from at least one other participant that they are going to present some modelling - not ours, theirs - which would put your number into severe dispute. But let's put that aside for the moment. I'll resist the temptation to - - -

MR WEBER (FCAI): Can I just respond briefly to that?

MR WOODS: Yes.

MR WEBER (FCAI): When we did the modelling, our request was for it to be very conservative in its assumptions, and that's what we were provided.

MR WOODS: Sure. All right, we'll hold it at that point. There are two things that I'd like to discuss. One is R and D from the chamber's perspective, but also the supplier base. We've had various evidence of the diversification of the suppliers, the differential quality, size, scale of suppliers, and there's of course the international companies who are suppliers here but they are only here because they pushed something through a fence, but there are other suppliers here who are focused on the OEMs.

What's your view in terms of the quality of the supplier base and do you think that some rationalisation is needed? Is there any role that government can play in that space? Perhaps somebody who's got direct experience might want to throw a thought in.

MR GRAZIANO (FCAI): Over the years we've looked at opportunities in terms of either consolidation or diversification of the supply base, and I think there has been movement in that regard here in Australia. To look at the whole ecosystem of the supply base here and look at the R and D capability of the automotive manufacturers here as well, you only have to look at the types of vehicles that are designed and developed here that may be sold globally to understand what the core capabilities

could be in Australia and have been in Australia up to this point. I don't know if that's getting to the specific question you have with respect to the supply base but it has been a complete ecosystem, if you will.

MR WEBER (FCAI): Our three domestic manufacturers only operate in the most competitive markets in the world, so therefore they've got to take every opportunity to reduce their cost base - their own point - and obviously that feeds through to the supplier base. So to be effective they need to choose quality cars at competitive prices for every market because they have no fat in the system, unlike others in the world. Therefore, we need to have the supply base at its absolute optimum to actually perform.

MR WOODS: Do you have that at the moment or do you want to see further consolidation, and are there any impediments to that happening?

MR WEBER (FCAI): It's just an ongoing process of efficiency.

MR WOODS: There's not a space where you see government policy needs to change particularly? This is just a natural interaction between suppliers and the OEMs?

MR WEBER (FCAI): I think we're pretty comfortable with the current funding arrangements.

MR WOODS: Okay, and it's not just the funding; it's whether there are associated - but that's fine if there's nothing there. The other one I want to raise is the move by one to move to an R and D and engineering-only operation. That seems to be reasonably unusual, looking around the world, or are there other models of that happening?

MR WEBER (FCAI): Interesting question. I think the world is changing again. I understand the technologies that Ford have in Australia are such that they can link into their three other international design centres they have at the level they have at Broadmeadows. Therefore, what has been in the past, the need to have your R and D facility linked quite closely to your manufacturing facility, may not need to hold into the future. I think we're moving into a new area with the development of IT in that space - and Bob can tell you a lot more about this. It actually helped that process.

MR GRAZIANO (FCAI): If you look at the design and development work that's been done here in Australia - and it's not just by the Ford Motor Company. I think you look at what the other manufacturers have done here, and in many respects it's world-class engineering capabilities and it's designing world-class vehicles that are sold in a number of markets. The ability to continue with research and development here is based around the core capability of the research and development

organisation that the company has in place.

MR WEICKHARDT: Just on research and development, a lot of people have quoted - certainly from the component industry - the amount of R and D that goes on, and you've referred to the R and D that goes on among the OEMs. A lot of what I think this industry refers to as R and D would not actually qualify under the government's definition of R and D for the R and D tax rebate. It tends to be at the design and engineering end rather than the high-risk sort of innovative end of things.

The question really comes down, then, to what are the spillover benefits from that R and D, because that classically is the justification that's given for government support given market failure in the area. I'm particularly interested in the case where design and engineering is done for an offshore entity, in that where do the spillovers to Australia come from with that sort of work? I guess an engineer that works in that business for a while and then goes somewhere else has some skills that they wouldn't have had, but the employer probably doesn't crave to skill up people and then lose them either. So in a situation where the employees have low turnover and are continually happy and well-employed by their employer, where do the spillover benefits to Australia come from?

MR WEBER (FCAI): Quite bizarrely, it jumps to my mind, it's almost like asking the Formula 1 question: why would you support Formula 1? You'd never sell it in a car but that's not - - -

MR WEICKHARDT: I think my answer to that would be I wouldn't.

MR WEBER (FCAI): I might agree with you there. I think the point is you actually develop a product for a foreign market and that foreign market may have unique characteristics. The example that comes to mind is you might be producing a car for the Indian market that might need to be extremely robust, but whilst you implant that knowledge that you gain in that car and sell in a different market, you have that knowledge and the ability to develop that knowledge in-house in Australia. You've got the capacity to transfer that through to other models and it also gives you that spillover - - -

MR WEICKHARDT: But to other overseas models?

MR WEBER (FCAI): To other models that you can produce in Australia for the Australian market.

MR WEICKHARDT: The work is being done by an organisation that doesn't have a manufacturing base in Australia.

MR WEBER (FCAI): Okay, sorry.

MR WEICKHARDT: Where does the spillover occur then?

MR WEBER (FCAI): Well, you have the capacity in Australia to actually understand what it takes to do that and, as you said, that product then goes to market and you have the engineering specialty in Australia that sits there - - -

MR WEICKHARDT: I mean, I can see the benefit of having highly-skilled engineers continually employed and working on challenging work - no dispute about that - and would I rather as an Australian citizen have those sort of people in our society? The answer is yes but it comes down to the question of at what cost, and how do you justify the government continuing to support that? I'd be interested in your views on that.

MR GRAZIANO (FCAI): There is a direct investment in research and development in this market that isn't fully funded by the government. It is a co-investment model. So whether there is direct spillover that you can account for, whether it's all in the form of investment and the development of products here, it really is both in the case of research and development because there is significant infrastructure in the case of research and development that goes into the market here, whether it's a design studio or test facilities, things of that nature, that are direct investments in the economy here in Australia.

MR WOODS: Any final comment for this particular session, gentlemen?

MR WEBER (FCAI): I think we're right.

MR GRAZIANO (FCAI): Thank you.

MR WOODS: Thank you very much.

MR WEICKHARDT: Thank you very much for coming along.

MR WOODS: Gentlemen, thank you very much for coming. Could you please each separately for the record state your name, the organisation you represent and the position you hold.

MR WILLIS (TA): Andrew Willis, manager government affairs and trade policy for Toyota Australia.

MR RAUSA (TA): Good afternoon. Mike Rausa, executive director corporate services for Toyota Australia.

MR WOODS: Thank you very much, and thank you for your assistance to this inquiry to date and for what I might say is a very focused and information-rich submission. It's very helpful. It gets straight to the point, but it contains an immense amount of valuable information, so we're very grateful for that. Do you have an opening statement you wish to make?

MR RAUSA (TA): Yes, I do. If I briefly just go through a little bit of a summary. Thanks for the opportunity to be here and to state our activities. As you know, Toyota Australia has a proud history in Australia. We've been building cars here for the past 50 years. We employ 4200 people, of which 2500 are directly at our Altona manufacturing plant. We are currently building the Camry, the Camry hybrid and Aurion vehicles for both the domestic and export markets and we're on track to build around 106,000 vehicles this year.

MR WOODS: Slightly up on last year? 102,000 last year?

MR RAUSA (TA): Just a little bit up, yes.

MR WOODS: Okay. Thank you.

MR RAUSA (TA): Approximately 70 per cent of the vehicles that we build are exported, primarily to the Middle East. In addition to cars, we also build four-cylinder engines in both petrol and hybrid vehicles and we've also this year commenced exporting those engines to Thailand and Malaysia, and again this year we're on track to build around 108,000 of those engines.

We have a strong export program which has contributed to the automotive sector being amongst the top three manufactured exports from Australia, and it's important to note that when we talk about government support, for every dollar we receive from the government, Toyota spends at least \$20 for that \$1 in connection to manufacturing. Last year Toyota spent \$1.5 billion on local parts and wages directly connected to building cars and we also have significant expenditure in purchasing on local parts in Victoria, South Australia, New South Wales and Queensland.

I think it's important to note that we are facing issues from industry and there are a number of factors beyond our control. This includes an unbalanced trading environment. Unlike other countries, we have an extremely open and fragmented market. Despite having much bigger markets in China, Japan and the US, Australia has the same number of brands competing for that market share.

Our supplier network is also impacted by lower production numbers from local manufacturers. The current free trade agreements have given us limited access to export our vehicles, engines and parts, while others' import vehicles have been given complete access to our market. The current conditions see continuing tariff and non-tariff barriers to our export vehicles and engines.

Finally, the strength of the Australian dollar has made those imports more competitive while our exports are less profitable. So, given that we sell approximately 70,000 vehicles to the Middle East, this has a significant impact on our revenue.

However, TMCA is doing things that it can control, and we have undertaken what we call a transformation activity. So this company-wide transformation is designed to improve our productivity and reduce costs to the vicinity of around \$3800 by 2018. We are doing everything that we can to implement these cost reduction strategies from both the corporate and manufacturing sectors. We are conducting regular problem-solving exercises to minimise inefficiencies. We are working with our people and with suppliers to improve their plant efficiencies as well. This year we have commenced a five-year \$15 million supplier development program that sees dedicated Toyota engineers working with suppliers and assisting them to strengthen their business.

This transformation activity is critical to Toyota Australia to securing the next-generation vehicle and export program. We are competing against other Toyota plants in both Japan and the US, and a decision will be made next year for this model. So, many other countries are aggressively pursuing this investment and they have access to both transparent and non-transparent support mechanisms such as direct financial grants, long-term taxation and import duty exemptions, accelerated depreciation, tariff and non-tariff barriers. If we lose our manufacturing now, we will never get it back, and we will lose the skill and innovation that's required to build the cars from the ground up.

Before I discuss some of the key requests, I would like to also take this opportunity just to correct a number of misconceptions relating to the local automotive manufacturing industry.

The first thing relates to the treatment of the 5 per cent tariff as a direct financial assistance to the industry. This is distorted, because the support to us that

comes from free trade agreements that Australia has in place with other countries, such as Thailand, can result in this tariff going down to zero. Furthermore, when we export vehicles to the Middle East there is a 5 per cent tariff on our vehicles, whereas certain other countries, such as the US, source vehicles into those countries at zero per cent tariff.

The next incorrect notion is that the local industry does not build the cars that people want to buy. In fact, Australian-built cars feature predominantly in the top 10 selling vehicles and, in spite of the deteriorating profit conditions, our locally built Camry has been the best seller in its segment for 19 years in a row. It has a market segment of around 40 per cent at the moment and the Camrys that are sold here are four times more than the other vehicles in that segment.

The third point is around the luxury car tax. Despite different opinions that this forms a form of protection, on the contrary, since it was introduced the market share for locally built vehicles has dropped, so as a company we would support the end of this tax as it is a punitive and inequitable tax and is paid primarily more by Toyota customers than anyone else.

Finally, local government support of our industry is repeatedly questioned and, for the record, government support of Australian industry is modest compared to other countries and reasonable relative to the support of industries in Australia.

Moving to our requests, first and foremost and most importantly, Australia is likewise seeking long-term, consistent and globally competitive policies that are suitable for local manufacturing to attract future investments. We need trade equity and improved market access and this means future free trade agreements must seek to address the current deficiencies and not disadvantage vehicles that we are trying to export; also, non-tariff barriers in free trade agreement partner countries must also be addressed.

Thirdly, we'd like to have access to tariff concession orders on automotive goods. The automotive industry should no longer be excluded from the processes available to other importers seeking tariff concessions for components that are proven to not be able to be made here in Australia.

Finally, we need to review our industrial relations laws around productivity and flexibility and allow a reasonable threshold for the definition of "significant harm" in the context of preventing damaging industrial action.

In conclusion, we believe that these requests will assist the automotive manufacturing industry and our long-term future in Australia. At Toyota we are doing everything that we can to strengthen our business so that we can secure the future of all our employees and their families. Government support is essential for

our future. We hope that we can continue to work with both the government and oppositions to develop a clear and consistent policy that will support the long-term future of manufacturing. Thank you.

MR WOODS: Thank you very much for that. Can I just tidy up a few things first. One is that you make the comment that for every dollar of government support you spend \$20, but for every company that's not in the auto sector that's spending on wages and investment and the like without government support, it's doing even better for the Australian economy. Is that the conclusion I should draw?

MR WILLIS (TA): We don't know what's going on in the other sectors but within our own operation and based on the amount of funding that is provided through, and our cost base, that can be validated.

MR WOODS: You raised the issue of the Australian plant competing against Japan and the US as the two alternate sources of production. Do you have any comment on the Japanese situation? There seems to be a broad social compact by the various car makers to maintain production at about 10 million units. In Japan the domestic demand is five million units and dropping, which suggests that the Japanese plants have got to keep finding newer and bigger and better export markets for their product. Does that have any potential bearing then on the retention of the Australian plant? Presumably Toyota would prefer to maintain its plants in Japan and meet the social compact if it has to keep exporting more and more. Does that have a bearing on the decisions in relation to Australia?

MR RAUSA (TA): It has a bearing because it introduces a tough competitor.

MR WOODS: Absolutely.

MR RAUSA (TA): But it's not competition by an inequitable process, so clearly there's a process that we go through. Australia already having a plant here holds it in good stead to keep that, although it needs to be competitive as well. It's not as if they're going to pull production from all over the world for the sake of it. They're going to pull production where it needs to be, so it's not as though it's a policy or an inequitable way in which they're going to allocate. They just assign appropriate targets, and the targets have been provided to us, and we're doing whatever we can to ensure we meet those targets. We're quite confident that if we do achieve those targets through our transformation process then we will be rewarded with getting the next-generation vehicle in the export markets as well.

MR WEICKHARDT: You mentioned the decision about reinvestment was going to be made sometime next year, yet your glide path - I think you said - to close the \$3800 gap is a journey ending in 2018. So how will the decision be made about reinvestment based on the 2014 snapshot of where you're at?

MR RAUSA (TA): The processes of making decisions for the future is based on what we call planning, so in actual fact we'll need to submit plans of how we will achieve those cost reductions. More importantly, from a production perspective you need to be able to demonstrate that. So from a production and manufacturing perspective we will need to have plans in place and achieve those levels of efficiency and quality now, so we need to be able to demonstrate that. Of course, from a purchasing perspective that comes about with working with the suppliers and getting quotations in and having their plans to us showing they can achieve the target prices - and realistic so it's not a matter of pricing, it's a matter of them having real plans that they can put in place.

So essentially the way that we're doing it now is that we need to submit our plans and have them in place and, I guess, audited by TMC to show that they are realistic plans. Those costs of course will be then generated when the new model comes into place. That's a normal process.

MR WEICKHARDT: So there's some sort of internal review of where you're at but the other component that you talked about is the long-term support commitment from the government. Have you reached a position as to that level of support and for how long it needs to be to get a favourable decision out of Toyota?

MR WILLIS (TA): Firstly to come back in terms of our transformation process, we commenced that at the beginning of last year. In terms of the journey to 2018, we're already part of the way through that and have demonstrated runs on the board, but we must have a clear path moving forward. In terms of mechanisms or areas to consider, it is a changing business environment. We mentioned that tariff isn't the headlined 5 per cent. In our case it's roughly about 3 and a half per cent. That means that there are other factors at play that have some impact on us.

At the same time, within our business and within our submission, we mentioned that there's about \$300 of duty contained within the Camry that we produce. That's a combination of our imported parts and parts which are supported by our supplier base that go into the commodities they provide through to us.

MR WEICKHARDT: Can you park this and come back to it?

MR WILLIS (TA): Yes, sure.

MR WEICKHARDT: I don't know what we were up to but I'd like to understand why you don't get that duty drawback for products you export.

MR WOODS: Yes, I want to chase that in a minute as well.

MR WILLIS (TA): Exports we do, that's covered, but vehicles we sell on the Australian domestic market we need to pay duty at point of importation.

MR WEICKHARDT: Okay.

MR WOODS: We'll pick that up in a second.

MR RAUSA (TA): Look, from the issue of government support, the concept of asking for a clear and concise policy means that it's an ongoing policy. We want to be able to partner with the government to have a policy that shows its support for the automotive industry in Australia. That support can vary and we can discuss the details of that, but really there needs to be a fundamental desire that it wants an automotive industry in Australia. That policy, along with that, I guess is part of it in the way you decide you want something and then you go out and make sure you get it. You do what it takes to achieve that. I think that's what we're looking for when we say we want that clear, concise, consistent policy. It's not a policy that starts at one point in time and then finishes at another point in time. It needs to be consistent and it needs to be ongoing.

MR WEICKHARDT: So forever, basically?

MR RAUSA (TA): Yes.

MR WILLIS (TA): And it needs to be reviewed periodically to revisit the market conditions. So if the headline tariff is not 5 per cent, if it's something else, if there's more competition, then we should consider those factors.

MR WOODS: Okay, but on that, GM have been willing to put in writing in their submission the requirement for adequate levels of ongoing public assistance. Your submission was silent on it but I take it from your evidence today that you would agree that there needs to be adequate levels of ongoing assistance.

MR RAUSA (TA): Yes. At this point in time, as we said, we're doing what we can control. There are things that we can control with our costs structures but there are things that we can't control, such as the Australian dollar the way it is at the moment, some of the trade barriers. They're the types of things where I guess we would look for government support to address those issues that will ensure there's a mutually beneficial way forward for the automotive industry.

MR WOODS: If I can just pick up that little matter of detail on the duty for imported components, and you talk about \$300 per vehicle but presumably that's made up of imported components for which there is no Australian manufacturer and some imported components which would compete with an Australian manufacturer. If we were to differentiate the two, do you have a sense of how much of that \$300

could be set aside immediately because it's not competing with a domestic producer?

MR WILLIS (TA): There are items like transaxles and transmissions for which there's no Australian capability. Yet as an import, if we bring those commodities in from a country that we don't have a free trade agreement with, then we need to pay the duty on it.

MR WEICKHARDT: Why don't you get a by-law exemption in those circumstances?

MR WILLIS (TA): Regulation 185 is the excluded goods schedule, and the automotive industry passenger motor vehicle segment and other segments such as textiles, clothing and footwear are precluded from applying for a tariff concession.

MR WEICKHARDT: Okay.

MR WOODS: We can address that process but are you saying maybe half of that is potentially up for review?

MR WILLIS (TA): Potentially, and it's not just Toyota Australia's imports, as I mentioned there. It's the range of our supplier imports as well.

MR WOODS: But it would be helpful to us if you could just give us a bit of a breakdown of that, of what you think - in broad terms - out of that \$300, for which ones there is clearly no domestic producer.

MR WEICKHARDT: Indeed, if you happen to be conversing with your colleagues in the FCAI, an industry view of how much the industry pays in that area would be helpful.

MR WILLIS (TA): Okay, we'll have to investigate that.

MR RAUSA (TA): We can provide that information.

MR WOODS: That would be very helpful. The other minor point: in your submission you say your \$3800 is based on the assumption of parity with the US dollar, which you have in writing here. Does that mean that the dollar - and one doesn't want to speculate on where it might be into the future; if we did, we wouldn't be here - that if it is going to come down off that level and be sustainably so, that does impact directly on that \$3800?

MR RAUSA (TA): Yes, it does. So our planning is based on achieving what we call a break-even point at that \$3800. Of course, if it comes down from that then I guess that will be a benefit.

MR WOODS: So that's a free kick to the \$3800 savings.

MR RAUSA (TA): Correct.

MR WEICKHARDT: Just in terms of the \$3800 savings, you mentioned in your myth-busting session that the 5 per cent tariff is really not 5 per cent because there are free trade agreements. The current Australian government has talked about the fact that it wants to negotiate more - and for the sake of my colleague I'll call them bilateral trade agreements, but everyone else calls them free trade agreements. If they negotiate such agreements with Japan, with China or with Korea, would that make any further difference or has all the damage been done by the current free trade agreements?

MR WILLIS (TA): It does. For example, even with Japan it would make a Japan-made Camry more price competitive on the Australian market. When we talk about benchmarking from within, it places more pressure on that. Conversely, such as Japan does, we would generate some additional potential saving or benefit through the parts that we did import from there at the moment that are used in our vehicle production process.

MR WEICKHARDT: That leads me to a follow-up question. Would it change the level of government support that Toyota would be looking for if there were free trade agreements with China, Japan and Korea, for example?

MR RAUSA (TA): We would need to model that, so it would depend on what the policies were. But obviously, as Andrew said, there would be benefits for us but the level at which it would - I think we just need to go through the numbers.

MR WEICKHARDT: Again, if you give us some advice on that, that would be helpful.

MR RAUSA (TA): We can look at that.

MR WILLIS (TA): But equally, historically, when trade agreements were implemented, particularly for the auto sector, there's been phasing of the tariff so it's over a period of time rather than immediate impact. That's where it gets more complex to understand what the business condition is going to be.

MR WOODS: In your case, given the model that you produce, the free trade agreement, so-called, with Thailand with zero tariff entry here has a level of impact but not significant. But as you say, if we had an FTA with Japan then there's a direct 5 per cent hit on the relativities of production costs in Australia versus Japan. So it's not a 3 and a half per cent average. It's either a zero in some markets and price

points and it's five in others and their price points.

MR WILLIS (TA): Not necessarily. For example, with the US free trade agreement we import a range of components, of which only about 50 per cent comply with the rules of origin, so therefore we're only receiving benefit of the concession on about half of the parts. So really there are other factors that come into play.

MR WOODS: Okay. Thank you, that's helpful. You talked about the need to bring down your cost base across your operations, and clearly a very large part of your operations is what you purchase from suppliers, some of whom are global, some of whom are locally based. Do you feel that the range of policy instruments that the government currently has is adequate for you to negotiate directly with your suppliers and find ways of improving the productivity and ultimately the cost base for your component suppliers?

MR RAUSA (TA): At the moment, as I mentioned, we've been able to secure support to the tune of about \$5 million to develop our supply base, so that's a start, but I think there have been other schemes and other arrangements that have supported the supply base. I think that would be beneficial as well, particularly in the areas of allowing suppliers to consolidate and to look at opportunities to diversify. Those mechanisms that would promote innovation and diversification into other fields would be beneficial for our supply base and that would make our supplies a lot stronger and I guess help not only the automotive industry but also other industries.

MR WOODS: I notice you said that you're employing something like 10 people who now go and work with your supplier base because you've got some federal government funding. Isn't it in your own interest to do that anyway, and why do you need federal government funding to do that? Why wouldn't you, looking to be as efficient as you can across the whole chain of production, do that automatically?

MR RAUSA (TA): We do, and to that \$5 million we've added \$10 million from a Toyota perspective to make it a \$15 million program. The reason we ask for support is because not only are we improving supplies for Toyota but we're improving supplies for the industry. In Australia we don't have the luxury of having unique Toyota suppliers and therefore the productivity that we provide to one particular supplier - they can use those techniques and the like to help Ford or Holden or even the medical industry or, in the case of other suppliers, the mining industry. So in actual fact the techniques and the skills that we're providing really spill over to other areas of industry. I guess because of that we're able to get the grant.

MR WOODS: Okay, so in this case you're arguing there are direct spillovers from your investment and therefore you won't invest up to the optimal level because others

are getting the benefit, so federal government assistance - - -

MR RAUSA (TA): Clearly there are significant spillovers from what we do to the suppliers to support the suppliers to diversify in other areas outside the automotive industry.

MR WOODS: Is there an active focus on diversification and consolidation amongst component suppliers? We've heard quite varying stories. Some have come forward with stories of moving into products that are totally unrelated to automotive but have been very successful in those and are pursuing those. Others have told us that their view is that unless they can be sure that the underlying volume of production that focuses on the auto industry can be secure, that they're not willing to engage significantly in diversification because it may not be sustainable if you take away their base operations. Do you find that diversity of approach, and is there a hunger amongst suppliers to be efficient, effective and successful in their own right in the marketplace?

MR RAUSA (TA): It's case by case. Every supplier has different skills and different backgrounds. But we're seeing in the whole that suppliers are looking to get business in other areas. Some suppliers are chasing exports; other suppliers are chasing business in other areas outside the automotive industry. I think that process of trying to bring up the volumes, particularly in an environment where the local production volumes have dropped substantially - they would need to do that.

I think associations such as the FAPM and the like are working very hard with the suppliers to ensure that there's that sort of common message throughout.

MR WOODS: Given the very integrated nature of the auto production ecosystem in Japan, what realistic opportunity do you see Australian component suppliers having to be able to successfully break into that? I can think of one or two who, through our own inquiry, have demonstrated that, and Futuris comes to mind immediately as one. Does it make it harder, given that in Japan - the base of a lot of your production - there is this totally integrated ecosystem?

MR RAUSA (TA): Yes. It makes it difficult, because the design and development is done in Japan. So unless the supplier has an innovative design or an innovative product that it can provide, then it would be difficult, but there are Australian suppliers that have done that. Braking systems is one that's been able to get onto our vehicles for the Middle East. Some of those products don't directly need to be exported but, if they get onto our vehicle, we'll export them. So there's sort of a win-win in that area.

MR WILLIS (TA): To give you an example, at the beginning of this year we commenced engine exports in their own right to Malaysia and Thailand. That

required us as an organisation to develop some fairly sophisticated infrastructure and linkage to our other overseas affiliates, and through that and by having those connections we have a local supplier that's been providing a particular commodity through to one of those markets throughout the whole of this year. That opportunity has come about from us developing a new linkage and the infrastructure in place to be able to deliver that.

MR WEICKHARDT: Two questions. One is, you on page 16 of your submission have two bullet points about industrial relations, which is an issue we were asked to comment on in our terms of reference. Does that completely summarise your position, or do you have a longer sort of exposition in that area?

MR WOODS: It seemed to be one of the most minimal parts of your submission.

MR RAUSA (TA): I guess this was our initial submission, so it will be in more detail in there. I think it just makes the point that as part of our transformation journey we need a similar type of transformation to occur in the industrial relations sector and to have a process where we can work with all parties to ensure that there are appropriate levels of productivity and efficiency and moving forward to eliminate outdated conditions and the like.

We need to move forward, and to do so we need to take this process where we move to sort of modern global - our industry really rose up from being a domestic market. We're now a global market exporting and we need to have our industrial relations and our conditions on that global platform.

MR WEICKHARDT: I understand that, and of course this is an area where there are always contested points of view, but if you would like us to understand a more comprehensive version of that, then - - -

MR RAUSA (TA): Of course. We'll flesh that out, no problem.

MR WEICKHARDT: Thank you, that would be helpful.

MR RAUSA (TA): We'll expand on that.

MR WEICKHARDT: The other question I've got is a bit of a hypothetical, but your top-selling brand in Australia is actually not manufactured here - it's a HiLux - and, in addition to the HiLux, I see lots of LandCruisers and other four-wheel drives with the Toyota brand on them driving around. Has Toyota ever considered manufacturing vehicles of that sort in Australia and, if not, why not?

MR RAUSA (TA): We always look at the type of vehicle. Every model cycle will go through a process where we review what's the most optimal vehicle to build. So

we'll keep watching the markets and, if there's a considerable shift in the market and the opportunities for us, then we may make a change. But at the moment the Camry is a global platform car which presents itself an opportunity for export. Clearly what we're looking for is a high level. Even the HiLux has various derivatives of it. There's the twin cab and the single cab, so - - -

MR WOODS: But they all sit on, presumably, a common platform.

MR RAUSA (TA): Correct. So we need to go through all those issues. We'll continue to look at it. One disadvantage that the HiLux would have is the fact that there's a very strong market in Thailand exporting that worldwide, and therefore we would have to break into some of those markets that have already been gained. So the fact that we've been able to retain the Middle East through the Camry is one of the advantages we have.

MR WOODS: I don't know if it's a natural advantage, but given the high preoccupation of a lot of the Australian market with all-wheel drive - not necessarily four-wheel drive - and other all-terrain type vehicles, picking up Phil's point, it seems odd, given Toyota's market share in that space, that they haven't used that natural market as a base for it. In fact, I assume that the LandCruiser was predominantly tested out here back in the old days by Toyota before it released it globally.

MR RAUSA (TA): We do a lot of evaluation on those vehicles, so our R and D does a lot of evaluation for those vehicles to tune them for the Australian market. The current model that we make is the most appropriate model for our market and for our export market, and that's the one we're going with at the moment.

MR WOODS: Sure.

MR WILLIS (TA): In fact, in recent times we've obviously had the Camry and the Aurion and the introduction of the hybrid Camry, so that's more of a natural progression and addition to the line-up of vehicles we have.

MR WOODS: It's your capital. You're making the decisions.

MR WILLIS (TA): Yes.

MR WOODS: Can I just clarify one small point. In relation to the carbon tax, you say that there's been a widely reported figure of \$400 per vehicle but that in Toyota's case \$115 per vehicle was the actual carbon tax. That's the Toyota own contribution, the \$115, but does it also relate to your supplier base? Is it the total supply chain figure?

MR WILLIS (TA): Yes, it includes the pass-through costs that have come from

suppliers through to us as the manufacturer, as well as the costs that we've been incurring directly.

MR WEICKHARDT: But if they haven't passed through any costs, do you count it or not?

MR WILLIS (TA): No. It's only what's been passed through to us.

MR WEICKHARDT: Okay. So they may be absorbing it, in which case it's not quantified.

MR WILLIS (TA): The material side of the values are more things like the refrigerant gas that goes in the airconditioning unit, so it's not too difficult to quantify that, and the purchases from the utility companies, but there are a range of other smaller values that would be at a part-by-part level.

MR WOODS: But this would pick up the majority of it?

MR WILLIS (TA): This will pick it up, yes.

MR WOODS: \$115.

MR WILLIS (TA): Correct.

MR WOODS: Okay, that's very helpful to understand. Gentlemen, any final comment?

MR RAUSA (TA): No. I think we've - - -

MR WOODS: Given you some homework?

MR RAUSA (TA): - - - taken on board some of the homework, and we'll come back with a more detailed submission next time.

MR WOODS: On the public record, so that all parties can - - -

MR RAUSA (TA): Yes, understand.

MR WOODS: - - - understand that. Thank you very much.

MR RAUSA (TA): Thank you.

MR WILLIS (TA): Thank you for the opportunity.

MR WOODS: If I can resume this afternoon's hearings. Can you please state your name and whether you are representing any organisation.

DR WILL: My name is Frank Will. I'm a senior lecturer at Deakin University. I also have a little start-up company named Ino8 that's commercialising some inventions in the automotive industry and I'm a member of the board of the directors of the Society of Automotive Engineers Australasia. However, because that's quite diverse, I'm presenting my private view here today.

MR WOODS: Excellent, and thank you for your submission, including, as I recall, some great little photos of your - - -

DR WILL: They're not my photos, so - - -

MR WOODS: No, no. They were fascinating little vehicles. You provide an executive summary here of your key points, but do you have an opening statement you wish to make?

DR WILL: Yes, sure.

MR WEICKHARDT: Please, by the way, assume we've read this.

DR WILL: Yes, I will.

MR WOODS: Yes. So you don't need to read the whole submission out.

DR WILL: As I mentioned, I'm an engineer. I think a lot of the submissions make some comparisons to the automotive industry in Germany. I worked in Germany in the automotive industry for 14 years, in several positions, and I was a member of several kind of industry working groups and committees. I've been here in Australia for nine years, so I've got a good overview of both areas, but I want to focus on the technical side.

First of all, I'd like to just quickly discuss some key technical challenges, and we've discussed some of those before. One is left-hand or right-hand drive. Australian cars are right-hand drive, so that limits the potential export market if you haven't got the left-hand drive. It's only 25 per cent of the global market.

Secondly is the exhaust emission regulations. Australia typically lags five to seven years behind the leading markets in the rest of world - in Europe, Japan and the US - so if you rule that out, it reduces another 22 per cent or so, so you've got another two or three per cent of the world market left where you can export your cars to.

For fuel consumption it's very similar. You've got basically two opportunities how to address that. One is complication and the other one is simplification. Complication is pretty much what the FAPM suggested. You make sure that the cars that you're producing and developing here are fit for export in meeting those global requirements, and that obviously costs some money but also it doesn't address all the other political, economic and geographic issues, especially our location. We're quite away from the potential export markets. So if something else happens - for example, if the fuel price goes up - then exporting our large cars becomes again less attractive because the transport costs will go up.

The other opportunity is simplification. That seems to be less obvious and sounds easier but is probably a bit more difficult, because it requires more creativity. A simple example is when the wheel was invented. Before, you had basically a big cube that you had to push, with 12 edges and six planes. The wheel only has two edges and three planes and, if you look at a motorbike wheel, it's only got one plane, because it hasn't got any edges, essentially. So in terms of a vehicle for the future, you have to look at ways to simplify it, and I think I've got some examples there as well, which I'll discuss a little bit later.

Then you have other kinds of global issues, not only related to specifics in Australia, which are traffic congestion, parking costs, vehicle safety. 1.3 million people are killed in traffic all around the world, and that number is actually increasing. One of the reasons is the electrification of individual transportation, specifically related to small vehicles like scooters, bicycles and motorbikes. That makes it more attractive for many people to use these vehicles, but they're more dangerous, and that has some effect on fatalities in western countries like Germany, for example.

On the other hand, there are a lot of government initiatives to drive electromobility, with large amounts of support, like the submission from the unions stated.

To address all of these issues my proposal is to establish a consortium to develop, produce and commercialise the world's first global crossover vehicle between a car and a motorbike that really combines the best of both worlds, a bit like the Access Australia programs about 15 years ago that reportedly generated over 700 million in revenue for the Australian automotive industry. But that was only a showcase project and unfortunately stopped after that. They didn't have any intention to commercialise it and to build it. The vehicle that I'm proposing should be built and then exported all around the world. That addresses the four technical export challenges. Left and right-hand drive are not needed because there is only one steering wheel or handlebar in the centre.

Exhaust emission regulations: if you meet one of the toughest exhaust

emission regulations then it's easy to meet all the others as well, because in many countries such a vehicle would actually be classified as a motorbike. Thirdly, CO2 emissions or fuel consumption: obviously for such a vehicle, because of the reduced width and the better aerodynamics and reduced weight, the fuel consumption would be better than any other existing passenger car or motorbike.

Then, looking at the other global challenges of traffic congestion, obviously you can share lanes if it's allowed regulationswise, which it is in some countries - not in Australia, I understand - but parkingwise also you only need half of the space, and vehicle safety - - -

MR WOODS: Some of the countries I have been to do lane-sharing even where it's not authorised.

DR WILL: People do it here on a motorbike, but anyway. Also, related to electromobility, if you want to build an electric vehicle then it makes sense to start with a vehicle that is as small as possible, because it needs a smaller battery and then the on-costs for the battery are less significant compared to a normal car, and this is why electric bicycles are becoming more and more popular all around the world.

It also addresses other challenges, for example the local ownership. We have discussed that here before; we heard that before. The big three current car manufacturers are owned overseas and therefore they don't invest so heavily in research and other things, and I mention that in my submission as well, but if we had a local government, whether that's a Commonwealth or a state government, investing in such a new consortium, they would be an owner and then they would have a strong right in making some sort of decisions for the future, similar to Volkswagen in Germany, where the state of Lower Saxony has 20 per cent of the voting right.

It also minimises the risk of increased cost related to the transportation because such a vehicle is much smaller, it's much lighter, so the transportation costs are much, much smaller compared to a normal car. Also it mitigates the effect of the current non-tariff trade barriers that were discussed before, like the engine size based excise tax in Thailand. If you make such a narrow, small vehicle, obviously the engine size can be very small, so that problem is solved as well.

Now, what's our unfair advantage here in Australia? I think there are a lot of things: first of all the people and, secondly, the country itself. Related to the people, I think the Aussies typically have that can-do attitude, "Let's have a go, let's have a crack," so we can do it. We have a very dense research network, with many universities; just in Melbourne alone, seven different universities that have expertise in many areas. We have a couple of enthusiasts that have expertise regarding such tilting vehicles, and I am only one of them.

Minister Macfarlane last week actually mentioned the creativity of our farmers because they have so much time sitting on the tractor to think about new ideas. Some of the results we know very well with another popular crossover vehicle, which is the ute, which crosses a truck and a car, but also the tank was invented in Australia, a crossover between a caterpillar and a truck, which any army in the world has now. Interestingly also, the flame ionisation detector was invented in Australia, which pretty much enabled emission regulations all around the world.

The Victorian police already expressed a strong interest in such a vehicle for making their police officers safer, and Deakin University, for example, has the world's first Universal Motion Simulator where you can simulate the dynamics of such a vehicle without risk of falling over and getting hurt. There will be the Ford plants becoming available in 2016 to manufacture other vehicles, and we've got open governments with the drive to foster innovation, and they could take a stake in such a new consortium or company without just giving the money away but having that ownership.

And what about the country? Well, many of the comments were made before, but I think the important one is that we've got the toughest and roughest environment to test the stability of any vehicle. For example, we've got gravel roads where you can drive up to 130 kilometres per hour, and when I started working here in Australia, I had two lease cars, Ford Focus, engineered in Europe and made in Europe at that time, and I had eight punctures and at the end actually rolled one over. Luckily I didn't have any kind of injury, so the car was very well engineered and kind of protecting you, but it wasn't engineered for the local conditions, for the local rough roads, as it had very low-profile tyres that could easily capture a puncture, and they were designed for driving as fast as you want on the German autobahn but not here.

Then we've got road trains passing on these gravel roads at about 100 kilometres per hour, we've got continuous wind gusts at the coast, and finally we've got kangaroos jumping right in front of you when you don't expect it. Even the Germans with their autobahns and the Nuerburgring don't have these kinds of facilities.

Finally, what are the risks of such a new proposal? Well, when the Berlin Wall came down in 1989, probably most of you know the famous saying of Gorbachev when he talked to Honecker. He said, "Those who are late will be punished by life itself." So the risks are really that many other car manufacturers all around the world are working on such vehicles but they haven't really figured out how to do it exactly. Toyota presented a concept car, but that's got a limited speed of only 60 kilometres per hour, and many others are working on them as well, and last year the European Union through their Framework Program 7 had actually a line item for research related to future light urban electric vehicles with at least two seats and three wheels,

so that's a citation from their line item worth several million euros. You can imagine that the successor program Horizon 2000 that has got a 40 per cent increased budget of 70 billion euros instead of 50 billion euros. I'm sure that will make more support available for such research.

That pretty much concludes my introduction. Hopefully it wasn't too long. Finally, I was thinking about asking the auditorium whether someone would be interested, but I think it's not appropriate for the hearing, so I don't ask that question and I'll do that in private.

MR WOODS: I'm happy for you to do that in private, but not for the purpose of this.

DR WILL: Yes.

MR WOODS: Thank you. We only have a couple of minutes left of your allotted time. One of the questions I had - I'm sure it was in here - was that you made reference to the Toyota - I think it's called i-Car.

DR WILL: The i-Road, yes.

MR WOODS: The i-Road. Thank you, yes. I remember when I read it that it struck a chord with me. So there are serious international manufacturers looking into this space?

DR WILL: Yes.

MR WOODS: Presumably these things come under the concept of concept vehicle - ie, not in production - but does that suggest that this is a recognised opportunity and that the big end of town is actually working in this space, or do they just do it for promotional value and it's not going to go anywhere?

DR WILL: I think many of them have recognised that this is really kind of a new niche area, as we heard the proposal from the Australian Productivity Council. They propose something similar, to look for a niche, and they recognise that such a niche is not covered at the moment and it has a strong market potential for future vehicles and there's a strong customer demand. At Deakin University we did market research. We conducted seven focus group interviews where we found out that there's a strong interest from the consumer side.

Many of these car manufacturers, as I said, haven't figured out how to make it functional and feasible at an attractive cost. The latest news that I heard about the Toyota i-Road - unfortunately the Toyota people are gone, otherwise they could probably say more about that - was that it will be produced in a low-volume run for

next year. 100 versions I think they are going to make. But I'm also in discussion with many other car manufacturers that have concrete plans, with specific specifications for such a vehicle - unfortunately I can't name them - - -

MR WOODS: No, that's all right.

DR WILL: - - - because it's confidential at this stage - and looking for the best way to control such a vehicle to make it stable. So there are definitely concrete plans available to put it into production.

MR WOODS: You talk about establishing a consortium to develop and produce - and establishing a consortium means taxpayer money being put up and it's risk capital - but if the commercial world is already looking into this space, why wouldn't you just negotiate directly with them and why is there a need for taxpayer capital?

DR WILL: That's a good question. As I said, the car manufacturers have been working on that for, I don't know, 30 or 40 years and haven't found a solution. So there are some technical barriers, obviously, and it's not so easy. So there is still some remaining risk available and - - -

MR WOODS: I'm not sure that taxpayer-funded companies are in the best position to sort of be the break-through entity, but I'm happy to be persuaded to the contrary if you can show me why that would be the case.

DR WILL: If you look at CSIRO, for example, they came up with lots of inventions that at the end have been commercialised. They are not in the business of commercialising them, but they have successfully kind of sold these inventions to other companies, and they also led the Access Australia projects before. I think they received some sort of government funding as well, and I'm sure there were valid reasons for that at the time.

MR WOODS: Have you been discussing this with CSIRO?

DR WILL: I discussed that with some of the CSIRO people quite a while ago, so I haven't discussed the latest updates with them. I discussed that with the previous leader, who I think a few years ago had retired.

MR WOODS: All right. Is there anything else you want to bring to our attention?

DR WILL: No, that's all.

MR WOODS: Thank you very much. We appreciate that.

MR WEICKHARDT: Thanks for coming in.

DR WILL: My pleasure. If you've got any further questions, obviously you've got my contact details.

MR WOODS: That concludes the scheduled presentations for today's hearings. I'm advised of at least two unscheduled presentations, the first being from the Australasian Fleet Management Association. Can you please state your name, the organisation you represent and the position you hold.

MR THOMPSON (AFMA): My name is Ken Thompson from the Australasian Fleet Management Association and I'm the director of research and communications. AFMA is a not-for-profit body that represents the managers of fleet within organisations within Australia. We have over 750 members and those members control and manage over 800,000 vehicles.

What I wish to talk about today actually concerns local manufacturing. Not all the local manufacturers are the same. Toyota is slightly different in its model to Ford and Holden. However, it should be recognised that fleet actually make up more than 50 per cent of all new vehicle registrations per year and it was not too long ago that fleet actually took over 70 per cent of new vehicle passenger production from the local manufacturers Holden and Ford.

MR WOODS: What would be the current volume of purchases from local producers by fleet? Do you have a rough figure, or can you get that - - -

MR THOMPSON (AFMA): No, we haven't got a figure for that, because it's been crashing over the last 10 years. Even on the latest figures by VFACTS - the last month's figures that they had - most of the manufacturers are down double-digit percentages on the previous month and the previous year.

MR WOODS: So is VFACTS the best source for us to use, or do you have better in-house data?

MR THOMPSON (AFMA): VFACTS is the official sales information base, because it comes direct from the manufacturers. We have seen this trend. Each year the association does survey its members and we spotted this trend to move away from large passenger vehicles almost 10 years ago. We tried to relate this to the manufacturers but they really weren't in a listening mode. Consequently, today what was their major customer base has turned its back completely on the product that it's putting into the market.

MR WOODS: Does that apply to the Cruze and the Camry as well?

MR THOMPSON (AFMA): More so to Ford and Holden. Well, Ford is leaving, of course, but the Cruze, according to Holden, is a price-taker, which was their effort to move into the small vehicle category, which means they will take whatever they can get for it rather than it leading the market. What is more troubling - - -

MR WOODS: Isn't that to your advantage?

MR THOMPSON (AFMA): In a sense, it is to our members' advantage, those people who manage and run fleets, but it's not really to Australia's advantage. That's one of the problems that we struggle with. Our presentation and our view really throws up many more questions than it does provide answers.

Holden have said in their submission, as I understand it, that the Cruze is a price-taker, but they see their future being with the Cruze and the large passenger vehicle. The large passenger vehicle is the model they've had for the last 10 years, which has completely failed. I've listened to most of the presentations today and they all talk about volume. What volume are you actually talking about? If you're not producing a vehicle that your major customer base wants, where are you going to get your volume from?

MR WOODS: Presumably there are two or three different models - and I don't particularly need brand names, although that helps sort of conceptualise the issue - but what sort of product are your fleet manager members looking for?

MR THOMPSON (AFMA): They moved away from the large passenger vehicle to the medium and small vehicles. Companies such as Volkswagen have done very well. They're just applying management know-how and logic and sophistication to the way they purchase vehicles. They're looking at what they need the vehicle for - so what are the characteristics you want? - and then they're looking at what we call fit-for-purpose, so what vehicle will meet that. If you're running around the city centre, you do not need a large vehicle. You can save \$15,000 just on the purchase cost and cut your running costs by half.

MR WOODS: Yes.

MR THOMPSON (AFMA): So the client base fleet management is getting much more sophisticated and they're applying sound management principles to the selection of their vehicles.

MR WEICKHARDT: Doesn't the Camry fit into the medium size and the Cruze into the smaller size of vehicle?

MR THOMPSON (AFMA): It does. However, when you throw in the complication of the choice that they have, if you wish to refer to our submission, as I'm sure you will - - -

MR WOODS: Yes, we have. That's submission 41.

MR THOMPSON (AFMA): Yes, and also the ANCAP submission, you'll find

that it would appear that vehicles that are being brought into Australia are being despecified and material and equipment is being removed but only, as the opinion goes, to a level that still places it slightly higher than the equivalent Australian model. This is just my personal opinion, but I think that overseas manufacturers are pricing up to prices in the Australian market. Toyota's ANCAP quite clearly shows in its submission that a standard Toyota in the US will have a whole raft of safety features as standard which are not even available here in Australia. It's quite an indictment.

Also, going back to the issue of where you're going to get your volume from, except for Toyota - which again is in the specific position that most of what it produces here it actually exports and most of what it sells here it actually imports, and it is making what could be classified as a world model.

I don't know of a country that you could sell a Ford or a Holden in because, as the previous speaker stated quite clearly, we are way behind emission standards which are common and standard in the rest of the world. Euro 5 is what we aspire to, which is coming in in 2016. I understand, again just a personal view, that Ford were unable to make an engine that would comply with that, hence that was one of the big reasons why they decided to move out of the space of local manufacturing. By the time we in Australia accept Euro 5, Europe will be into Euro 6, so how can you expect to sell a vehicle into a country which has a higher specification? It's just not going to work.

Fuel mileage is the same. It is a shame to say, and I'm not happy about having to say this or being able to say this, but Australia always seems to be playing catch-up rather than leading in any area whatsoever. I travel to the US every second year at least. 18 months ago I was in the US. They had an automotive fair for fleet managers and I noticed that the large Holden that was being spruiked as being the thing for the Australian police car market was on sale there with a price tag of \$35,000. I think it's a \$60,000-plus vehicle here. So the question pops up; how on earth can this sort of thing happen? Why is the Australian market being subjected to a lesser product than is available as standard in the comparable markets around the world?

MR WOODS: What's your reaction then to the various calls by a number of participants to this inquiry that governments be required to mandate domestically produced vehicles because some of those presumably also are either your members or have a relationship with your members?

MR THOMPSON (AFMA): There's a conflict within federal law and federal desire about certain areas. Take emissions as an example. There are a number of states that have set a minimum emission output for vehicles they will buy. Using the example of Queensland, the current Ford and the current Holden do not meet those

emission standards, so they're not buying them. One of the manufacturers put a four-cylinder engine into one of their large cars but unfortunately it didn't meet the requirements, emission standards, for Queensland.

So who are they listening to? Who's making these decisions? This is not really discussion between government and manufacturers. This should be a discussion between the manufacturers and the marketplace to understand what your marketplace wants; what you can sell into that marketplace. It does not appear, for that to happen - one of my reasons for being here today, and I hold my hands up for two things. One, I feel we're part of the problem because it's our customer base, our membership base that's moved away from buying these vehicles.

The second one is what am I missing that makes what they're talking about feasible from a market perspective and a business perspective? What is it that I don't know that they know that makes this worthwhile to keep building the same vehicles that nobody wants, that are unsaleable in the rest of the world in the mature markets? It sounds a terrible thing to say.

MR WEICKHARDT: I guess they may well have made a business decision that the European market is not a market that they can ever aspire to address. There's a lot of overcapacity in the industry in Europe.

MR THOMPSON (AFMA): Yes.

MR WEICKHARDT: I find it difficult to see how Australia could be very competitive in the European market.

MR THOMPSON (AFMA): It won't be.

MR WEICKHARDT: If that's their decision then I guess the question is, why would they build a car to meet the European standard? I guess that then raises the question of why has Queensland set an emissions standard that's inconsistent with the standard for Australia?

MR THOMPSON (AFMA): Because they could be looking for best practice.

MR WEICKHARDT: Maybe, or maybe their employees didn't want to buy Australian cars and this is a convenient way of achieving it. I don't know.

MR THOMPSON (AFMA): I wouldn't be that cynical when you're thinking - I think the bar was set at 220 grams per kilometre and Europe is looking to mandate 110 at the moment and 95 in a couple of years. If we're being pushed as companies to go for the triple bottom line - you can save money, you can save fuel, you can have a positive impact on the environment - where's the negativeness there? I can

only see that as positiveness.

MR WEICKHARDT: You also raise a question in your submission about the differential pricing of vehicles in the Australian market. A number of people have raised that issue and fleet buyers in particular must be very conscious of the fact that some equivalent models look quite expensive when you look at what they sell for in different markets overseas.

MR THOMPSON (AFMA): Yes.

MR WEICKHARDT: When you talk to the car companies - and I'm not talking necessarily about local manufacturers here now, but I'm talking about companies that merely are in an importing and reselling mode - how do they explain that differential pricing to you?

MR THOMPSON (AFMA): "The market is what the market is" has been the comment. In layman's terms, "We can get away with that." The examples I put in my submission were examples that other people came out with. One of the submissions which is interesting because it was an ex McKinsey manager who was working for the Chop Wood company - and this surprised me - - -

MR WEICKHARDT: I think it's a management consulting company.

MR THOMPSON (AFMA): I think so. But as he quite clearly outlined, this particular A6 model is \$45,000 more expensive in Australia. What makes it very difficult to actually do a direct comparison is that you don't know whether the A6 for sale in Europe is actually the same from a model perspective and what it has as standard features. I do recall when the Cruze came out, it came out for sale here in Australia at \$26,000 or thereabouts, if memory serves me well, or \$23,000 but in the US it was at \$16,000.

My own view again is the best way to describe the Australian market is it's slightly dysfunctional. It has a number of things that are there which create great nuisance and stop the market from developing to be on par with other mature markets around the world. Again, we brought that up in our submission - the Australian Design Rules. If you personally try and bring a vehicle into Australia you've got to take it to a qualified engineer who will assess the vehicle, who will give you a list of things to do before it becomes useable in Australia. But here's a vehicle that's built to the United Nations European Commission regulations, which is what's used in America and what's used in all mature markets.

An example we put in there is child seat restraints. There's a system that was approved 16 years ago in Europe and 11 years ago in the US. It was only this year that they approved it. So if you are a manufacturer wanting to bring a new vehicle

into Australia, you have to modify your production line to put these special anchor bolts in. It's that type of stuff. Again, using the Victorian all-party committee view into vehicle safety and then into ADRs, they say that ADRs in their current state are actually holding the industry back because it's making Australia non-standard, therefore there's lots of new technology that is not able to be brought into the country because it doesn't meet the Australian Design Rules.

MR WEICKHARDT: What about the ANCAP safety rating?

MR THOMPSON (AFMA): Well, a personal view again is that if you - I mean, we're coming close to Christmas and if a product was imported from somewhere that was dangerous in some way or wasn't very safe, it would be banned. Yet you can buy a vehicle in Australia that doesn't have an ANCAP rating. The difference in ANCAP rating is that if you're - the standard test is a 60-kilometre offset crash test. If you're in a four-star ANCAP rating car and you have that crash, you will probably just be very embarrassed and have to exchange details with the other person. If you're involved in such a crash in a two-star rated vehicle, you're almost guaranteed to be very, very seriously injured or dead. Why the government has not mandated that there should be a minimum ANCAP star rating is quite surprising.

MR WOODS: On the one hand you're saying the Australian Design Rules are a bit bizarre because they're out of step with international standards.

MR THOMPSON (AFMA): Yes.

MR WOODS: Yet on another hand you're saying, "Here's a local standard for safety that should be supported." Why does Australia have to have its own safety rating star system rather than using an international one?

MR THOMPSON (AFMA): ANCAP around the world in its various forms has not been adopted by any government, but you can produce a vehicle that meets all the applicable Australian design rules for that particular type of vehicle and it can have a zero crash rating, so ADRs are not connected with safety in any way, shape or form except in the odd section of, "The vehicle must have a seatbelt," "The vehicle must have these anchor bolts for child capsules." So there's not really a relationship between safety and Australian design rules.

MR WOODS: Okay.

MR THOMPSON (AFMA): Other stuff: in the US they had a thing at Holden called OnStar where, if the vehicle crashed, it automatically telephoned the emergency services. That was a feature you paid for. In Europe that's been mandated to have to be in vehicles I think from 2016, so if a vehicle is in a crash, the emergency services are instantly advised. We're not even talking about such stuff

here. The ANCAP submission clearly shows all those active safety features that are standard in vehicles in Europe that are not in those same vehicle models for sale in Australia, yet I would imagine that the price for the Australian model is actually much higher than that for the overseas model.

MR WOODS: I'm conscious that others are waiting to have their turn. Any final matter that we haven't raised?

MR THOMPSON (AFMA): I just make one point. I've listened to all the submissions today and the only word that pops into my mind is: this is tragic, that we've come to such a point for a major industry, that we're talking about stopping it going over the edge. I just find it quite amazing that, whether by design or by accident, groups of people have conspired to bring this industry to this particular point. I just think it's tragic when you hear about all these people that will lose their jobs if the industry disappears. I just find that really tragic.

MR WOODS: Thank you very much. Thank you for your time.

MR THOMPSON (AFMA): Thank you.

MR WOODS: And thank you for your earlier submission.

MR WOODS: Thank you. Could you please state your name, the organisation you represent and the position you hold.

MR HOGG (PPL): My name is Lindsay Hogg. I'm chief executive of a company called PolyPacific.

MR WOODS: Very good. And you're known to one of our commissioners.

MR HOGG (PPL): It seems like it, yes. Well, he is an ex-plastics man, so there you go.

MR WOODS: Yes. They have secret handshakes.

MR HOGG (PPL): Yes.

MR WOODS: Have you got a statement you wish to make?

MR HOGG (PPL): Yes and no. I thank you for the opportunity of elaborating on our written submission.

MR WOODS: Happy to.

MR HOGG (PPL): There have been some very eloquent and well-considered submissions here today and mine is not going to be one of those.

MR WOODS: Well, you have provided us with a submission.

MR HOGG (PPL): I have, a couple of pages. We didn't spend a lot of time on it because there wasn't a lot of time to spend on it, but nonetheless I've enjoyed listening to many of the submissions and both my colleague and I will take a lot away from today.

One of the things that I'd like to say is that throughout the whole day there hasn't been the word "plastics" mentioned. "Moulding", yes, and other things. The truth is that there is a lot of plastics in the cars today, whether the metal men would admit it or not. There is a lot of plastics used and it's on a growth curve worldwide and that won't stop, based on weight and the performance of plastics and what they're doing with it, so it's quite an important commodity.

We're a tier 1 and a tier 2 supplier to the automotive industry here. Our main products are modified polypropylenes and we offer flexibility - our technology. We're a 40, 50-year-old company here in Australia, supplying way, way back 40, 50 years. I can't remember how long it's been - - -

MR WOODS: How long ago was it?

MR HOGG (PPL): It's a long time.

MR WEICKHARDT: Almost that long ago.

MR HOGG (PPL): Yes. And oftentimes it's our local flexibility, the flexibility of our local knowledge. If there's a mistake in the production of cars, where the metal tools are made and you've got the parts made and there have to be adjustments made on where plastic meets metal, it's always the plastic guys that have to make those changes to be able to accommodate that error, so in those cases a local manufacturer is the first port of call that they go to. It doesn't always happen, but it does happen enough for me to make mention of it.

From our submission I'd just like to read a couple of the items. In saying that, our company exports. It's worthwhile saying that as a result of our knowledge and our success and our skills and the people skills, we haven't had an employee leave our business for the last 12 months. I think we've got a record of a minimum of 12 months of no employee turnover. We study those numbers.

You can say, "Well, why is that?" You know, we've got 60-plus people there. Maybe it's because it's very difficult to get a job in the manufacturing industry - because we're in Dandenong - and they're quite happy with the security of the job, or maybe it's because they respect the culture of this business that we have there, and that encourages them to stay with us.

MR WOODS: And that improves productivity?

MR HOGG (PPL): Well, we're continually spending money to stand still, almost. It's a thing that we have to do. We have a lot of silos on our plant for automation. We've got an automatic packaging line through our bagging systems and things like that, disproportionate to the size of our business, but we've done it to be able to stay in front of the demands and the cost demands of our customers.

Out of our operation in Melbourne and Dandenong has spawned our Malaysian business. Our knowledge that we have generated and the skills that we've generated in Australia have been transposed to our plant in Malaysia. We also supply the automotive industry and the electronics industry there, and that's been a very successful transition of all things, and it's been a very successful little business and a growing business over in Malaysia, with markets in China, India, Pakistan, Singapore, Indonesia and many other parts of the world.

Here in Australia we have our export markets. We export to the US, Indonesia, New Zealand of course. We also do some exports into China, virtually following

through with products that we've developed here for the Australian automotive industry.

Fundamentally, if the automotive industry in Australia goes, our little role at being a producer of materials - we'll sort of become a billabong of supply to automotive - it'll just be the end of companies like ours, because unless you've got that connection to automotive and you're already involved in it - as a major player, as an OE supplier, then it's very difficult.

There's been mention about the aftermarket guys. I agree that there is an aftermarket market here, but it's insignificant compared to what the major guys are - in terms of their offtake, say, from an industry like ours, from plastics. We've got customers making aftermarket parts in WA, Queensland, New South Wales and I think to some extent in South Australia, but it's not a major business situation for us.

There are just a couple of points that I've made in the submission which I'd like to characterise. Similarly, export opportunities to replace lost domestic business are not realistic for PolyPacific. The high value of the Australian dollar, which everybody has mentioned - a lot of the things that we've submitted here, people have already gone through and - - -

MR WOODS: But it's useful to know that they apply to you too.

MR HOGG (PPL): They certainly do. The relative geographic isolation from markets and trade barriers, both tariff and non-tariff, in automotive-producing countries weighs very heavily against Australian companies like PolyPacific. Couple these factors with Australia not being an auto-producing country in the future and therefore not being a part of the global supply network, the chances for current Australian manufacturers of automotive industry inputs successfully exporting going forward are at best remote.

The Australian automotive manufacturing industry is clearly under imminent threat of closure. The issues that it faces are varied and without doubt they are very complicated. We accept that. We, like all other participants in the supply chain, want to see it not only survive but prosper. It's an industry that in our view is too important and significant to the national interest to lose. We believe that the industry requires and deserves to have ongoing and meaningful assistance. It requires all parties with a vested interest in the survival of the industry - governments, the remaining auto manufacturers, their employees, suppliers and consumers - to collectively develop solutions that can bring about a long-term sustainable future for the industry.

This is something I've mentioned before in another inquiry. It wasn't a dumping inquiry. It must have been an IAC inquiry into manufacturing in Australia.

During World War II Australia built from scratch fighter aircraft and armoured land vehicles within a couple of miles from here. That's where they were doing it. The value of the Australian dollar at that time was understandably irrelevant. They didn't worry about the dollars then. Once the skill and the manufacturing base has been dismantled and some economists and others, who can't see things like people who make things see things, have had their way, even making a billycart if our backs are against the wall could prove beyond us as a challenge. Last time round Australia was a contributor and a player - that's in a world conflict - and we were respected for that. To some people this was and still remains important.

What can the government do? I just sort of scratched a few notes here before. How can the government help? The word "policy" just came to mind. As much as anything else, Australia should consider not trying to be all things to all car importers all the time. Another way of saying this is to unashamedly state their intent to move towards a true level playing field. Without boring you any more, I suppose that's about it.

MR WOODS: Thank you. You made the point that, if you didn't have the auto base here, all your exports would really have no foundation. Can you ever envisage the day where you have some products that in their own right would create a viable company for you, or not really?

MR HOGG (PPL): No.

MR WOODS: You need that ongoing base of activity. Does that drive through then in terms of the skills of your workers, the innovations of your tooling, the ideas for your products?

MR HOGG (PPL): We're always trying to improve our output and quality and bring down cost, and it's an ongoing thing. I'm involved in a weekly meeting - what we call our projects meeting - and projects is spending money meeting. We have it weekly, sometimes every two weeks if I'm not around, but it's a basic weekly thing, and it's small things all the time that we're doing to be able to improve the quality, improve our cost and improve our output.

We've got all these skills - engineering skills, production skills, even the planning - and we've got 50 silos on our site. Even just managing 50 silos of feedstock, to the raw materials, that's expertise in itself. If your volume goes down because of that, there's no need for that any more. Our place would be basically decimated if the Australian automotive industry disappeared.

MR WOODS: Both OEMs or do you supply mainly to one?

MR HOGG (PPL): We supply to the three of them at the moment.

MR WOODS: Yes, but given that one is - - -

MR HOGG (PPL): As my colleague here knows, I'm hopeful that they'll change their mind.

MR WOODS: Don't send that to your bank manager just yet.

MR HOGG (PPL): I'll say it here, so he might be able to see it if he reads the transcript. Would we survive? There's a point here that we made in the submission which probably answers that question. Since our inception in 1978 the customer base has changed enormously. This business of ours was set up to service the growing demand and evolving requirements for plastic raw materials required by the Australian automotive industry, the whitegoods - washing machines, clothes dryers, refrigerators, et cetera - small domestic appliances - vacuum cleaners, electric toasters, personal heaters, electric jugs, radios, et cetera - and power tools - lawnmowers, garden edgers, drills - to name a few. There's a lot more.

The vast majority of these manufacturers have already disappeared. They've already gone from the Australian economy. There are other industries in Australia that generate demand for our products, but the last one remaining industry of any significant size is automotive manufacture. Consequently, PolyPacific's business is heavily reliant on the Australian automotive industry. It represents the dominant market sector of our country.

MR WOODS: So food and beverage manufacturing doesn't - - -

MR HOGG (PPL): Food and beverage, they just take ex-reactor polymers. They just use a polypropylene or a polyethylene or something like that. Our business is, we're modifying those materials.

MR WOODS: Yes, sure. Anything else, oh, great plastics one?

MR WEICKHARDT: No, I think I understand the picture very well. Thank you.

MR HOGG (PPL): I'm sure you do, Philip, yes.

MR WOODS: Thank you very much for that.

MR HOGG (PPL): Okay. My pleasure. Thanks for having me here too and allowing me this opportunity. I appreciate it.

MR WOODS: Is there any other person present who wishes to make an unscheduled submission? That being the case, I hereby adjourn the hearings until

next Tuesday.

AT 4.49 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 10 DECEMBER 2013