



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, 10 DECEMBER 2013, AT 8.28 AM

Continued from 3/12/13

INDEX

	<u>Page</u>
GM HOLDEN LTD: MICHAEL DEVEREUX MATT HOBBS	196-217

MR WOODS: Ladies and gentlemen, welcome to the Melbourne public hearings for 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 in this inquiry by Commissioner Philip Weickhardt.

The commission has been requested to undertake an inquiry into public support for Australia's automotive manufacturing industry, including passenger motor vehicles 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 the quantitative analysis for this inquiry 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 in a debate about the future of automotive manufacturing in Australia. Given the 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 this inquiry. I would like to also acknowledge the courtesy extended to us in our visits and deliberations so far and for the thoughtful contributions that 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 these hearings are being conducted in accordance with the provisions of the Productivity Commission Act. A full transcript is being taken and will be publicly available. I remind all observers that they should allow those giving evidence to do so without interruption. At the end of the scheduled hearings any person present may make an unscheduled presentation, should they wish to do so. I advise people that in the event of an emergency requiring the evacuation of this building all present 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.

I would like to welcome to hearing the chairman and managing director of GM Holden Ltd, Mr Mike Devereux and the head of public relations and public policy, Mr Matt Hobbs. Shortly, Mr Devereux, I'll be asking you to make an opening address to this inquiry. That concludes my opening statement. If the cameras could withdraw, please.

MR WOODS: Thank you, and again welcome to this inquiry. Thank you for the submission that you have already made to us and for the information that it contains and for the opportunity to have informal stakeholder discussions prior to these formal

hearings. Do you have an opening statement that you wish to make?

MR DEVEREUX (GMH): Not really. I know there's been a lot of speculation in the news about the future of the Australian automotive industry. I've been long an advocate that this industry is an important part of the economy in this country and hopefully through my testimony today I can continue to make that case.

MR WOODS: Thank you. We will be drawing on your submissions. Mr Hobbs, if you are also giving testimony, can you please state your name, position and organisation you are representing.

MR HOBBS (GMH): Sure. Matt Hobbs, vice-president government relations and public policy, consolidated international operations, General Motors.

MR WOODS: Excellent, thank you very much. Thank you for attending. I would wish to ask at the outset for the record, has General Motors made a decision regarding the future of its Holden operations in Australia?

MR DEVEREUX (GMH): No decision has been made.

MR WOODS: Thank you. Do you know a time frame for such a decision?

MR DEVEREUX (GMH): I wouldn't speculate on it in this forum.

MR WOODS: Thank you. Would decisions be made separately regarding the car manufacturing plant at Elizabeth, the V6 engine plant at Port Melbourne and the design and engineering centres or would you envisage that any such decision would embrace all three?

MR DEVEREUX (GMH): I think that would be information that we would take as an input for our own internal decision-making but again in respect to the submission that we've made I don't believe that that was part of the submission.

MR WOODS: Thank you. What factors would be decisive in General Motors making a decision on the future of the Holden operations in Australia?

MR DEVEREUX (GMH): It's interesting, GM where possible and where feasible the general philosophy of our company is to build where we sell. So there are a number of natural reasons why that's a good thing to do where it makes sense and where it is economically feasible. There's a natural currency hedge that certainly comes into play with the volatility of many currencies in this part of the world, not just the Australian currency, that does have some benefits.

But the factors that go into it from our standpoint is the relativity of doing

things in this country versus other places and having some certainty as to what a business case might look like and then GM has always and probably will always continue to both have combinations of imports and local production wherever it makes sense to do that and we've been trying to make the case to continue to do that in this country.

MR WOODS: Thank you. Your submission draws heavily on a figure of \$3750 more to build cars in Australia compared to some other GM plants.

MR DEVEREUX (GMH): Sure.

MR WOODS: Which other plants were used as a benchmark in that figure?

MR DEVEREUX (GMH): Yes, we would generally say our Asian footprint. The European footprint and the American footprint would have a less of an advantage over a plant like Australia but it would be our South-East Asian footprint and the Asia-Pacific plants that we've got.

MR WOODS: So South-East Asia rather than Asia more generally because presumably Japan would fit into the same category as - - -

MR DEVEREUX (GMH): We don't make things in Japan. We make things in South Korea, we make things in China, we make things in Thailand, we make things in India, we have a CKD plant in Vietnam, we have plant in South Africa, we have a plant in Egypt, we have a plant in Uzbekistan. That would be the area that I would probably be talking about.

MR WOODS: So those are your lower-cost producers but at varying cost structures?

MR DEVEREUX (GMH): Certainly.

MR WOODS: Indeed. Thank you for that. What scale of production would you have assumed under that figure because clearly how you spread your overheads is an important feature of manufacturing.

MR DEVEREUX (GMH): It's based on our current situation in this country right now and I think roughly right - and many of my colleagues can help me - we build 70 to 75 thousand cars a year. That's what our production is, I believe, this year. You can check the numbers. But the answer to your question specifically is that it would be based on our current operations.

MR WOODS: I think last year it was something like 50,000 Commodores and 30,000 Cruze.

MR DEVEREUX (GMH): Yes.

MR WOODS: So in the 70 to 80 thousand.

MR DEVEREUX (GMH): That's whatever our current production figures would be.

MR WOODS: Another obviously important factor in making those comparisons is the exchange range. Do you have a benchmark exchange rate that you plan to for production in Australia?

MR DEVEREUX (GMH): You know, Mike, the notion of exchange I think is - and I don't mean to patronise anybody in the room - extremely complex because a headline exchange rate which is generally what you hear in the news and what people would generally track is the exchange pair between the Aussie dollar and the US dollar. But when you look at the trade weight of our industry and you consider the percentage of either component parts coming into the supply chain for Ford, Toyota and General Motors from Europe plus all of the full imported vehicles coming from Europe and that same equation from Thailand - actually from India on the component part side - China, Korea, Japan, you have a basket of currencies, every single one of which has quite a bit to do with the economic equation.

I think sometimes we get very focused on that one - I think it was 91 and a half cents today - people who have their XE currency app - but that is a headline factor but not the thing that actually drives the cost to do something in this country. So it is a complex answer and they're all relative to one another and, as you know, Mike, to the trade weight coming into the country.

MR WOODS: Yes. As you point out there are components coming in from other countries as well as your attempts to export to other countries and the like. We do understand the complexity of that particular issue. There has recently been announced a Korea Australia so-called free trade agreement. Would that have the effect of further impacting on the competitiveness of production in Australia and would the same effect occur with free trade agreements with Japan and China?

MR DEVEREUX (GMH): Again, I'd say - and I'm not making any news here by saying this - if the landed cost of something into a country, be it a pen or a car or whatever is lowered by some external factor, generally speaking the propensity for things to increase in price from that country is not very high. So another thing that is a big factor generally on prices from countries that might have a free trade agreement is what is happening to their currency. So, for example, if you had a Korean free trade agreement and the free trade agreement eliminated a 5 per cent tariff on imported parts and vehicles from Korea yet their currency devalued or appreciated

by X or Y, you have no idea what the impact would be.

So if their currency devalued and you had a free trade agreement, that's one outcome. If their currency appreciated by 20 per cent and you had a free trade agreement that took 5 per cent away, their prices still might go up. So you can't predict what the outcome will be because you can't predict their currency, you can't predict the sourcing footprints that might come in or out, so all I can tell you is that it would take away 5 per cent of the cost of an imported car or part from Korea but I also haven't read the draft legislation. I don't know if it's a public document yet. I haven't see that.

MR WOODS: Yes, it's a matter of taking these various aspects individually but then looking at the complexity of the whole of the factors which you point out.

MR WEICKHARDT: Mike, in your submission you refer to the need for adequate levels of ongoing assistance if GM are to continue and reinvest in Australia. If we, for a moment, assume that the ATS scheme continues exactly as legislated and put to one side any savings that have been talked about in regard to that ATS, but let's assume the ATS just continues as legislated.

MR DEVEREUX (GMH): As legislated?

MR WEICKHARDT: As legislated.

MR DEVEREUX (GMH): With the half a million dollars, billion dollar saving.

MR WEICKHARDT: No, without the half a million dollar saving.

MR DEVEREUX (GMH): Billion.

MR WEICKHARDT: Billion, sorry. And if we assume that you get the additional \$215 million of capital grants that you refer to in your submission and I think both the South Australian government and the Victorian government have indicated that there will be some other assistance, although I don't think that has been publicly disclosed, what additional support do you believe GM need over and above the ATS as legislated, that \$215 million and the South Australian and Victorian government support? What additional support does GM need before you make your reinvestment decision?

MR DEVEREUX (GMH): I'd say a couple of different things: first of all, the business case for our next gen products which would have GM invest a billion dollars into global architectures to be built in this country beginning some time in 2016 for our first model and then some time towards the end of 2017 for the second model, continuing towards productions out until 2022 and 2023 respectively. That

business case was submitted to the prior government and I had a meeting on 2 October with Minister Macfarlane, along with Senator Birmingham, Premier Weatherill in the conference room at Holden where I made that business case known to the government. Those are commercial-in-confidence, as you might expect, you know quite commercially sensitive information in business cases but there is no question in my mind that the government has the information it needs to answer your question but I don't think it appropriate to disclose our internal business cases in this type of a forum.

The other thing that I would say about ongoing assistance - and, Mike, it's something that either you or Philip said I think after the first round of these hearings last week, if I'm not mistaken - is the notion of relativity and that this equation in the same way that it is myopic to consider one currency pair in answering a question on a headline currency rate, it is also logical to assume that the world doesn't stand still and that at any given point in time business cases are having to be evaluated against other options that every company has in every place that they do something. So we have continued over the years to make the case to our parent that we want to continue to build things in this country and from a commercial sales standpoint quite successfully too.

I do get somewhat perplexed when people say that we don't build cars that Australians want to buy and that if Holden could just possibly build a small car, then all of our problems would go away. Well, we do build a small car and it's the number 5 selling passenger in this country last month. We also sell a big car which people say Australians don't like that happens to be the number 4 selling car in this country. So would that we sell the number 1 and 2 and 3 and 4 selling car, but we think we're doing pretty good with the two cars that we choose to build there.

But those business cases are ever evolving against a basket of currencies, against a basket of wage rates around the world, against a basket of government policies that shift and change in every cycle as new governments come into power in Brazil or in Russia or in Korea or in Thailand. So I certainly don't mean to be evasive in the answer, Philip, but as you both know it is an extremely complex equation.

MR WEICKHARDT: It is but in terms of trying to put forward policy recommendations to government - and that's all we do, we only recommend - it's difficult to try and think of a policy that is going to work for the industry and provide certainty for the industry and yet provide certainty for the government too in that very dynamic environment.

Just in terms of the history of GM's operations in Australia, appendix A in your submission shows the financial and business performance of GM over a 12-year period and since 2001 you show profits in six of those years and losses in six of those

years with an average annual profit of \$50 million per annum which I suspect on the capital invested probably didn't meet GM's return on investment hurdles. But you then look at the average assistance that has been received of \$153 million per annum over that period of time which suggests without the assistance you would have shown an average loss of \$100 million per annum over that time.

Our terms of reference ask us about a sustainable and viable automotive industry in Australia and over that 12-year period the dollar has been in different realms from about 50 cents to parity.

MR DEVEREUX (GMH): That would be the definition of "different", yes. Having your costs double is a difficult thing for any business to grasp.

MR WEICKHARDT: Sure. But the tariff has changed too and yet over that period of 12 years there has been - I would think from a capitalist point of view, a shareholder's point of view - a pretty unsatisfactory overall financial performance and particularly if you stripped away the government assistance. Can you give us some sort of vision of how Holden could be sustainable and viable - and I think those words imply without government support? Are there any circumstances you see that ever happening?

MR DEVEREUX (GMH): Let me rewind to the first part of your question if I could because you had, I think, two or three different comments. The set of conditions over which you describe I would like expand upon just a little bit for the folks listening here. You've taken a duty rate from 15 per cent to 5 per cent to potentially zero if free trade agreements with Thailand, Korea, pending trade agreements potentially with Japan and China go into effect. So we have one of the, if not the most unprotected markets on the planet. We do have a wide and open market in this country, yes, we do.

So as tariffs basically come down to almost nothing, as the currency almost doubles in value, yes, as a manager of a business that is a very difficult environment in which to operate. In that 12-year period that you describe, Holden's average profit was \$50 million and we received an average of \$180 million of support in various forms from the Australian government and all of you taxpayers which we take very, very seriously. In that same period of time in looking at the return - there are two return on investments that I would like to talk about here. One of them is General Motors' return on capital employed which obviously isn't as good as we would like it to be, but the other one is the return to this economy. So for that \$50 million a year over 12 years, \$1.8 billion of assistance in total, the economic activity of us making things in this country - not our dealerships, not the SUP imports, not the transportation of those imports, it's \$33 billion of economic activity to the Australian economy over that same period of time, an 18 times multiplier.

It includes the paying of wages, it includes the buying of bits that we put into cars, yes, and the movement of those bits. It includes the R and D and a couple of hundred million bucks a year of R and D, capital employed, \$32.7 billion dollars of economic activity which I believe is a very good return for the economy of the country that should we not make things here must be replaced by something else. It also include \$127 million per year of PAYG tax. So those are the numbers. I wouldn't comment on whether or not General Motors thinks that that 50 million is acceptable, but those are the numbers in terms of return to the Australian economy over that 12-year period and I wouldn't speculate as to what the conditions need to be to turn that around in the future because I can't tell you what the Australian dollar will be five years from now against a five to six currency trade-weighted basket and I can't tell you how many free trade agreements might be signed by the government to be able to know what impact that might have on my ability to price and to competitively sell our products.

So those are the facts as I see them and we're trying to do our best by building cars that people want, by being as productive in the use of labour that we possibly can be, given the context of Australia which I think we have demonstrated over the past four or five months that we are willing to go after and do and do everything in our power to be as efficient and effective as possible in the operation of our activities here in the three and a half years that I have been here.

Philip, we have been fighting that fight and I agree with the substance of your question but I can't predict what that future would look like and I know you have a tough job in advising on whether or not that word "sustainable" is possible against that complexity of inputs. It's a very difficult thing to be able to predict.

MR WEICKHARDT: One point of clarification. Do those numbers in appendix A include the 50 per cent of cars that you import and resell?

MR DEVEREUX (GMH): No, there's a couple of things that are really important for people to understand about that. Not only do they not include anything to do with any cars that we build in other GM plants and import into this country, they also don't include any of the multiplier effects of maybe someone who has a hairdressing salon down the street from the plant, a restaurant, a clothing store maybe and a shop, someone who might have a stand that sells juices and waters to the people that go into the plant, it also includes none of that.

This is direct economic activity from the human beings that we employ to do that work, the parts that we buy from suppliers, the movement and logistics of those parts, nothing to do with the importation or the debated widely spillover effects that we know exist but that are, I know, hard to put a dollar value on.

MR WOODS: Before we deal with the labour side which you just mentioned, can I

pick up a couple of points on your 1:18 ratio of economic activity to government assistance. In the first case you only refer in your submission to Australian government assistance. Has there been any state or local government assistance over that period 2001-2012 that you were referring and, if so, how much has that been?

MR DEVEREUX (GMH): We received - and Fiona you could help me here, and I will just make sure that the grant that we received for the engine plant would not have been in these figures. Correct? So we received a grant in 2003 from the Victorian government to establish an engine plant at the time of the brand new engine facility in Port Melbourne that builds - and I'll need help - 100,000 engines a year roughly - right - most of them for export - - -

MR HOBBS (GMH): Yes.

MR DEVEREUX (GMH): - - - and that was a 10-year covenant which is generally - we're at the end of that now but it's been a good investment for the state. It has underpinned hundreds and hundreds of jobs but, yes, that would be a grant that would be added. This table is ACIS/ATS government payments, so I suppose if you wanted to add that - Fiona, what was the amount that we got from the Victorian government?

MR HOBBS (GMH): Just on that one, that grant is actually confidential and we can't talk about it at this forum.

MR WOODS: I guess my point that in addition to the Australian government assistance there have been amounts or at least an amount from state governments and that would, of course, then affect that ratio as well if you took into account total government assistance, not just Australian government assistance.

MR DEVEREUX (GMH): Yes. Where we can we will have every single - we put this out, just for the folks in the room, long before the Productivity Commission was commissioned to look into auto industry assistance. We made this a public document because I was somewhat perplexed as to how much interest there was in it, so I said to my team, "Give everybody that wants to know everything that we're allowed to disclose all of the information and let them draw their own conclusions."

MR HOBBS (GMH): I also think, commissioner, it's fair to say that the Australian government has the lion's share of assistance to the industry and the state assistance, while important, is small relative to the industry. But we're able to provide you those figures.

MR DEVEREUX (GMH): I think your point was this multiplier, was it inclusive of every single dollar.

MR WOODS: All government assistance. The answer is no but it would not significantly change that ratio, is that the point you're trying to make, Mr Hobbs?

MR DEVEREUX (GMH): It would not make it anything other than maybe 15 - I don't know what it would be but something less than the 18.

MR WOODS: Would you agree that firms which operate in the economy, pay wages and taxes, purchase supplies from local businesses, undertake capital investment and the like, but do so without industry-specific assistance, would be making an even greater proportional contribution to the local economy?

MR DEVEREUX (GMH): I'm not sure I understand the question.

MR WOODS: The point is that there are many firms operating in the economy without industry-specific assistance but they also pay wages - - -

MR DEVEREUX (GMH): Like a restaurant, for example?

MR WOODS: Whatever it might be and they also pay wages, taxes, they might make capital investments, but they do this without specific industry assistance and so their contribution doesn't have the burden on the taxpayer of industry assistance.

MR DEVEREUX (GMH): Yes, I think that the business case for having an auto industry is something that is understood all around the world because of, not just the multiplier effect that we talked about in terms of ROI to that assistance, but probably I think in your own - I think it was 2.9 quoted by either your folks or government folks but we believe that there is a three to six-person - three to six X multiplier - for every direct job that we employ into the wider economy. So one of the things that differentiates the industry, although the auto industry is certainly not the only industry in this country to receive assistance. I would tell you that the three billion a year that goes into the diesel fuel rebates for mining companies - I think mining is very important to Australia and I'm not criticising the fact that there is \$3 billion per year diesel fuel rebate or the \$5 billion in subsidies for negative gearing which obviously drives a lot of people's decisions on how they manage their own personal portfolios - you know the budgetary cost of losing this industry would dwarf the cost of keeping it is my answer to that question.

MR WOODS: Thank you. Can we move then to the issue of labour costs.

MR DEVEREUX (GMH): Sure.

MR WOODS: As part of that figure of \$3750 to build a car, you identified a premium of \$2000 per vehicle in what you describe as manufacturing costs, predominantly labour costs; that's how you state it in the submission.

MR DEVEREUX (GMH): Yes.

MR WOODS: Again, where you put a subtext to that and saying that local manufacturing is twice as expensive as Europe, again you're referring to the plant such as Uzbekistan rather than Germany, in that sort of broad categorisation of Europe.

MR DEVEREUX (GMH): We would be referring to plants that in general I discussed earlier in my remarks, compared to our plants in the western countries of Europe, yes.

MR WOODS: When you again refer to it as four times as expensive as Asia, again the same qualification would apply?

MR DEVEREUX (GMH): Yes, but I would not characterise - not being critical - your specific use of the word "Uzbekistan".

MR WOODS: It's just one - - -

MR DEVEREUX (GMH): I understand. I just want to make sure that the press in the room understand what the actual comparator is. When I listed Uzbekistan as a plant that we assemble in, my goal in that passage of testimony was to merely describe all of the footprint of General Motors in Asia and of course what we are taking is our lower cost places and options to build things and believe 18 per cent of all the vehicles sold in this country come from Thailand, around 50 per cent come from Japan, another 12 per cent come from Korea. We happen to manufacture in Korea and in Thailand and I just listed other places. So not to be pedantic about it, I just want to make sure that people understand the comparison.

MR WOODS: Thank you for that clarification; similarly, I was not trying to draw attention to a particular country but to illustrate that where you refer to Europe, it was to a subset of Europe and where you refer to Asia, it was a subset of Asia, if we can put it in those terms.

MR DEVEREUX (GMH): Yes.

MR HOBBS (GMH): But it's also fair to say that a plant in England is much cheaper than Australia.

MR WOODS: Thank you. You refer to labour quantity and quality in various terms in your submission. You refer to Holden being globally competitive at the build rate of 8.8 direct hours per vehicle. You refer to Holden's line operators being among the most productive automotive workers anywhere in the world and you refer

to Holden being consistently among the top three performing GM plants for build quality for the Cruze. So that paints a picture in relation to labour quantity and labour quality. That then leaves the question of wages and other benefits. So is it wages and other benefits therefore that predominantly account for the labour component of that \$2000?

MR DEVEREUX (GMH): Yes, labour and other benefits is 80 per cent roughly. Is that right, David? Sometimes I'm going to ask the folks that I have with me because it's hard to remember every single number in this submission.

MR WOODS: We're happy for that, as long as you then recirculate it back through the public record.

MR DEVEREUX (GMH): Of course. So 80 per cent of the cost of the manufacturing of a vehicle is actually human input costs, labour costs. One of the things that I was quite proud of and I am proud of is when we talk about the productive use of labour in this country, every 60 seconds a vehicle rolls down our assembly line. If you look at the Cruze, for example, the small car, Cruze, the number 5 selling passenger car in the country, the people making cars in Adelaide not only have to deal with a significant amount of complexity as each car comes past them much more than many and most other GM plants - so they will build a couple of Cruzes, they will build a Commodore, a sport wagon, a Caprice, another Cruze. I mean, a different car and a different job comes at these people every 60 seconds, and on Cruze, they are loaded to 56 seconds out of that 60-second cycle time, balanced across hundreds of people on that assembly line. It's the highest loading in GM plants anywhere that build the Cruze.

So forget the cost of labour for a moment and say, "Are we employing the talented labour that we have in a productive way?" and my answer is unequivocally "yes". Now, is the cost of labour higher in Australia than it is in Asia? Of course it is. We have a very good standard of living here and I don't think I'd be making anybody surprised when I would say that people in Australia make more than they do in many other places in the world. That's one of the challenges that we have to overcome but it is not the only driver of the difference between the cost to make things here and the cost to make it in other countries.

As it relates to the cost of labour, I was extremely proud of the manner in which our labour force and our union partners came together over the third quarter and came up with what I think is a landmark agreement to vary an existing enterprise bargaining agreement with a result as follows: a three-year agreement to a wage freeze, 16 minutes of extra productive time every single day, agreements on things like overtime and all sorts of flexibilities that, yes, you could argue we should have had in agreements long ago, but I've been here for three and a half years and over the last seven or eight months, I think we have made a huge attempt to try to begin to get

our facility as efficient and effective and the application of resources in this country to the context of this country that is humanly possible. So I'm very proud of that and I'm proud of our workers.

MR WOODS: Commissioner, do you want to pick up on the labour issue?

MR WEICKHARDT: If you do the arithmetic on 1700 employees and \$2000 a vehicle and around 70,000 vehicles made, it suggests to me - and I haven't got the figure in front of me but I've done that maths before - that people would have to be paid virtually nothing to get down to close that \$2000 a car gap.

MR DEVEREUX (GMH): I'm sorry, what was the question?

MR WEICKHARDT: You've got 1700 employees on the line and you're making about 70,000 cars.

MR DEVEREUX (GMH): Yes.

MR WEICKHARDT: And you want to close a gap of \$2000 per vehicle in manufacturing costs.

MR DEVEREUX (GMH): I think what we've stated for the record is that we believe that between Australia and other plants that we have in the region that there is a \$3750 cost difference. I don't know to suggest that we're sitting here saying that we need to close that gap to zero. We do need to close the gap, yes.

MR WEICKHARDT: Okay. So you're not suggesting you've got to close the entirety of it?

MR DEVEREUX (GMH): The government submission that we have made with the business case for our next-gen products clearly states GM's thresholds for those business cases. Yes, as we made this submission, we have stated that this gap exists but that is one statement that stands by itself. A second part of the mere fact that that gap exists is a business case to build two vehicles in this country which we have made to the government and I don't suggest that we are asking to close that gap to zero.

MR WOODS: Are you able for the public record at this hearing to identify broadly the nature of the gap that you do consider that you would need to close to remain operating in Australia?

MR DEVEREUX (GMH): The government has all of the information it needs in that regard and I think I would leave that confidential; I hope you can appreciate that.

MR WEIKHARDT: We had a discussion with the AMWU in both South Australian and also in Victoria and discussed the new arrangements and as you say, it looks like all sorts of good progress was made in terms of those arrangements.

MR DEVEREUX (GMH): The arrangements you're speaking to are the EBA variations?

MR WOODS: EBA arrangements.

MR DEVEREUX (GMH): The variation to our existing enterprise bargaining - - -

MR WEIKHARDT: Yes, as you've documented in your submission. I think somewhere at those hearings a figure of that being worth around \$15 million per annum was discussed which is of the order of \$200 a vehicle.

MR DEVEREUX (GMH): Yes.

MR WEIKHARDT: I was putting to them that if the gap is \$2000 - "You've made all sorts of sacrifices. You've still got \$1800 to go."

MR DEVEREUX (GMH): More work to do.

MR WEIKHARDT: There's still a big gap. Where is the gap closure going to come from?

MR DEVEREUX (GMH): There is more work to do on every part of the ecosystem, from how many light bulbs we use, how many gloves we hand out, whether we recycle those gloves; the movement of every single trolley that goes into that plant; making sure of the logistics moves where we have an empty truck that's gone back to a plant, never let that truck go back empty; whether it is the usage, where appropriate, of intercoastal shipping in this country of which I think certainly there are taxes and things that make it maybe sometimes economically beneficial, sometimes not. Every single part of our ecosystem, we have to fight to reduce our costs. It also included a realisation that we have to have one of the highest loaded plants in a 60-second takt time, and that is just the cycle time of cars that come in front of an operator, that we have to be absolutely world class in that, and we are.

So there isn't a piece of the ecosystem that is left alone in our ability to try to go after this, but at some point you get to the point where you obviously will still have a gap, and that is the business case that we have put to both the Labor government previously to the election, and obviously we had that same conversation with the current government. There is a gap. I don't suggest that that gap is needing to be closed to zero, because as I stated in my opening remarks, it is GM's desire where it's feasible to build where we sell, and that's what I've been making a case for

pretty much since I got here three and a half years ago.

MR WEICKHARDT: This may be going where you don't want to go but the previous industry minister has been in the press recently saying that he is aware of the size of the gap and it's less than \$150 million per annum. Is that a reasonable figure that we should think is in the ballpark?

MR DEVEREUX (GMH): I wouldn't comment on - I've made confidential submissions to both governments. I would say that both the previous and current industry ministers, along with the previous and current treasurer, Prime Minister, cabinet, all know exactly what those numbers are.

MR WOODS: Another of your cost components relates to what you describe as a supplier premium of \$1500 per vehicle; that's for componentry and the like. Has Holden, in trying to close that gap, reduced the level of component supply for the Cruze relative to the Commodore as a way of trying to reduce that premium? What are the local component levels for those two vehicles?

MR DEVEREUX (GMH): The Commodore, in total value, around 50 per cent roughly, and Cruze around 25 to 30 per cent. Cruze is a global platform and we get a number of parts from all over the GM world for that. There are two components to the supplier premium. The premium that you have to build a car in this country, one of those components is just the cost to buy that widget from a company in this country, and in that \$3750 gap to that roughly right Asian source, \$1500 of that would be the buying of things in that country over that opportunity cost of buying it somewhere else. Around \$250 would be the logistics premium for bringing in those bits that you choose to buy from Europe, from Korea, from the United States in some cases. So there's a logistics premium because of the tyranny of distance that Australia has always struggled with, and then there's an actual cost premium to actually source those parts at obviously higher cost rates, electricity rates, labour rates, or making them in Moorabbin or somewhere in South Australia.

We make, I say, strategic supply decisions. We understand the ecosystem of our supply base in this country and that in order for us to be a thriving ongoing concern, we need to have enough scale in our supply base to be able to have them also be healthy. Sometimes that involves price increases, sometimes that involves us getting involved more deeply in the management and finance of some of those companies, but we certainly make decisions both based on the pure economic facts and definitely on the strategic need to have a scale for supply in this country that underpins an ongoing auto company.

MR WOODS: Just focusing then on the local suppliers - and I do understand your logistics premium but if we could put that to the side for one moment - you identify a number of case studies in your submission of your relationship with suppliers, but to

further close that gap, you have an approach to assisting suppliers to become more efficient and therefore to be able to produce at a lower cost for you. Do you have a view on whether the rationalisation that has already occurred in the supply chain needs to go further?

MR DEVEREUX (GMH): Yes, I'd say a couple of things about suppliers. There are a few cases in which suppliers that we have are actually globally recognised, so I think it is inaccurate to say that Australian suppliers can't compete globally. They actually do. One of the case studies would be from Mett Pty. They have been awarded GM's supplier of the year for eight years. This is not a local award, this is a global award from General Motors' purchasing organisation in Detroit. There are more than 10,000 suppliers to General Motors throughout the world and we're very proud to say that Mett was one of the very few that was awarded a supplier of the year.

Mett, because of the fact that they have been a supplier to us - and this is a model that would certainly need to be expanded more to have a sustainable industry and a sustainable supply chain - Mett also supplies vehicle parts to the Camaro program in Oshawa, Ontario. We build a sports car called the Chevrolet Camaro - I think it was the best-selling sports car in North America last year - in our plant in Oshawa, and Mett supplies engine covers to both here and to another plant that is actually twice the size of the plant that we have in Australia. The only reason that they're able to do that is because they're globally competitive. They make a higher-tech product than other alternatives and they were also working with us on our local Zeta platform.

Diver Consolidated Industries is another supplier that is a world-class supplier and doesn't just shift parts from their operations here to us at Holden. We have a little supplier down in Dandenong that also does things like acoustic material, wheel welders, that helps to keep the car quiet. They supply to plants to China, to Chinese auto makers, and they also shift parts to BMW in Germany because their particular application of technology for recycled bottles and plastics to use in this very, very secret source type of fabric is world class. It's environmentally sustainable, it's low cost and it's world class. So where you have those ingredients, not only is it a good idea to try to plug into volumes outside of this country but also a very good idea to plug into other types of products and other types of vehicles.

The scale that that local supplier - I think it's called ICI - has with those sound shields, also allowed them to diversify into making panels for people's home theatres in their basements. Because they're good at making these acoustic materials, now they make big square panels for people's movie theatres in their basements. So there are spillover benefits. Suppliers can be world class in this country and there are many examples of suppliers that are and I would also say, as there is in every auto ecosystem in the world, there are also suppliers that need help to get better or they will not make it. That's the balancing act that we have to play literally every year.

MR WOODS: In that respect, would the replacement for the Commodore be on a global platform and if so, what impact will that have on the local supplier base?

MR DEVEREUX (GMH): We've been relatively public with the fact that we're going to be putting two new global architectures into our plant if we were to move forward with our next-gen products. So the answer on the record has previously been yes, and it continues to be yes. I would say that the general notion is that you would see localisation levels for suppliers more in line with what you have today on the Cruze, but you also then have the ability, if you are world class, to bid on volume that is made in five, six, seven, eight, nine, 10 - depending on how many plants that global architecture is made in. In the case of Mett that I talked about, the heat shield for the engines, they really were only able to bid on one extra piece of business with the Camaro in Oshawa because the Zeta platform is only made here and in Oshawa. If we made the Zeta platform in seven or eight different places or if we were currently building a vehicle that was a global vehicle, it is not a stretch to say that Mett might be a global supplier of that widget for every single plant that builds that. So that's the game in the future.

MR WEICKHARDT: Going back to the sort of challenge of closing the gap, whatever it is, our terms of reference ask us whether there are any legislative industrial relations or tax issues that unnecessarily impede or hold back the industry. It's not a simple question, clearly. Thinking about the environment that the auto industry went through after the global financial crisis, for example, in your home country - - -

MR DEVEREUX (GMH): Which home country? A man without a home.

MR WEICKHARDT: The USA, where clearly there was a lot of blood on the floor, GM went into effectively chapter 11 and in that environment, all sorts of concessions appear to have been made. My question is: is there anything - because if we read all the tea leaves we also have a crunch point here - in the local environment that stops GM sitting down with all its stakeholders, its employees and its suppliers in some sort of radical reset that you haven't already done that you're impeded from doing because of the local environment? Is there anything we can draw from the experience in the US that you would like to do here but you haven't been able to do here?

MR DEVEREUX (GMH): I'd say a couple of things. First of all, I think that the decision by the Bush and Obama administrations to provide assistance to General Motors in the United States and in Canada during the GFC has proven to be a very, very good one. I think the net of cost to the US taxpayer when the Treasury exits this year is something around \$10 billion - I don't know what the exact figure is - for a savings of over \$100 billion of other types of costs that the economy might have

borne. So it seems like a very good thing to have happened in general because you see a thriving US auto industry right now, a resurgent General Motors, both in share, profits, product development, awards. We seem to collect quite a lot of awards for our products. So it was a difficult time for the company. I think GM has come roaring back. We are hiring people, we are winning awards, we are increasing sales and increasing profits. So by any measure, I think it was an intelligent decision.

In terms of the context that we have here and maybe even when people talk about industrial relations, in my mind, industrial relations is all about having an ongoing, honest, frank dialogue with your labour partners and that's what we did over the Q2, Q3 period and I think we began to make really, really strong progress because we sat down and just had a face-to-face conversation about, "Yes, we have this agreement. Yes, it has certain things in it but those things aren't things that we can live with as a team and be able to look each other in the eye and know that we've done everything that we can do to try to reduce the cost of the enterprise here." So I can't tell you how proud I am of the approach that the unions and the company and its workers took to what was a difficult challenge. I think they met that challenge head on; as I said, three-year wage freezes, 16 extra minutes per day of productive time. A lot of the things that people would criticise for not being things that you should have in an industry or a situation that is as difficult to make a go of it as we have here, those things were stared down and a great process began to go after them, which I would assume would continue. So I don't think we've addressed every part of that ecosystem. I'm proud of where we started with the labour part of the equation. But as Dave Oliver has said in the past, and I agree with Dave, labour is one part of the equation; nor am I sitting here suggesting that you need to reduce a \$3750 gap to zero.

We have a business case that involves something that says, "There is some level of assistance that needs to be there in order for General Motors to have a business case that is viable based on other places we can make the vehicles." As you said last week, it is always going to be relative. These things are not static and that's why sometimes the questions are more difficult to answer because they don't stay the same over a three or four-year period. You can't set it and forget it. If the currency doubled in value again between now and 2020 - and I don't know whether it will - the question set that we might have thought was our economic equation would be dramatically different if our cost base doubled again. That's part of the difficulty and the rollercoaster of currency that we sometimes face in this country.

Our approach has been to be as forthright around what we can do ourselves - and we talked about a three-legged stool months and months ago. The first one was that we had to look everybody in the eye and say, "We build cars Australians want to buy." We had to tick that box, and by God, we ticked that box. It may sound like a broken record, but we're the number 2 brand in this country. We sell over 110,000 cars a year. We have over 225 dealers all across the country selling great cars with

great repeat purchases. In a plant that we happen to have in this country, we build two of the top 5 passenger cars; whether it be 3 and 4 or 1 and 2, we'll work on that. But Australians love the VF Commodore. It's a finalist for Wheels Car of the Year. I don't know if we're going to win that. I think we're down to two or three vehicles for that. We've already won a few different awards. Josh, you could probably quote the awards better than I. But this is a world class car designed and engineered in this country and Australians love it. Anybody who says otherwise isn't listening to or reading the sales results. So build cars that people want, we tick the box. Do everything that we possibly can against the context that this country has to use our labour force and our productive capital as efficiently and effectively as we possibly can given the context. We tick that box.

Then third one, the one that gets the news, the one that gets the attention, is that we need a public private partnership over the long term to be able to be relatively competitive and to have GM be able to do what it wants to do which is to build where we sell, where it is economically feasible. That wasn't meant to be a summation but it is 9.30 and unless you guys have more questions, I need to move.

MR WOODS: Just a couple of brief ones. One, and you just ended then on your note of your - - -

MR DEVEREUX (GMH): That was my close.

MR WOODS: I understand. It was terrific. I get that joy. To pick up your point about ongoing assistance, could that be characterised as something like an annual rental then to have the industry present in Australia? Is that how you're characterising it?

MR DEVEREUX (GMH): Those are your words, not mine. I wouldn't characterise it like that.

MR WOODS: I'm just asking is that how you would characterise it.

MR DEVEREUX (GMH): No, wouldn't.

MR WOODS: You'd characterise it as a requirement for ongoing public support?

MR DEVEREUX (GMH): I would characterise it as a requirement for a public private partnership, just like those partnerships that exist in every one of the 19 G20 countries that make cars.

MR WOODS: Our challenge is to work out whether that's in the public interest for Australia.

MR DEVEREUX (GMH): It is a difficult challenge but that is the challenge.

MR WOODS: Yes.

MR HOBBS (GMH): Commissioner, it's not just cash payments that other countries. I travel around the region, I travel around the world talking to other governments and you do things - non-tariff barriers, tax incentives, tariffs, financial grants, there are many ways that many countries compete and fight for this industry and I think the figures that we have presented in the submission show why countries fight for this because of the return to the community.

MR WOODS: Yes. We do understand the vast range of ways in which governments provide support, some of which are transparent and some of which are less so. This country does place great importance on transparency of public support. In that space though - and you did talk about a range of issues that are quite volatile - would you envisage therefore, because this is important for our own crafting of policy recommendations to government, that this would be an annual negotiation or would you envisage that you would do a set for a particular model cycle and then a reset at a subsequent period?

MR DEVEREUX (GMH): Probably the latter.

MR WOODS: Very good, thank you. Two brief questions and they may be on the record but if you could come back to me with information it would be helpful. One is you make reference to a duty of \$300 per vehicle for the import of components which, if they actually come in on a built vehicle that duty is not paid. If somebody in your organisation was able to pull apart that \$300 in terms of how much of it is paid for components where there is no local supplier compared to where there is a possible competitor.

The other item, just briefly again on page 11 of your submission, you refer to carbon tax of \$45 for the Cruze which is significantly less than other figures that are in the public arena. Again, if you could clarify perhaps at a later date whether that includes the carbon taxes that relate to the supply change or whether that - - -

MR HOBBS (GMH): It doesn't.

MR WOODS: So it is purely - - -

MR DEVEREUX (GMH): We can try to do that. I know that others in their submissions have done a broader characterisation. All we did was what we knew specifically it cost, yes. But on those two angles, the impact of - I don't know if I'd say the impact of a carbon tax but of higher charges per kilowatt hour of input cost of electricity, we can get back to you on that. Our value is just for our operations.

MR WOODS: That's fine.

MR DEVEREUX (GMH): Then the \$300 we can list for you - Alex Menta can do that - what the components are, whether or not there was a local supplier for that component and then perhaps the impost that we differentially pay versus an imported full unit.

MR WEICKHARDT: One last one from me and then I will shut up too.

MR DEVEREUX (GMH): I did not ask you to do that.

MR WEICKHARDT: We had Goran Roos along to the hearings in South Australia and there has been a lot of discussion in various parts of the media about a report that he has published.

MR WOODS: That he has prepared, not published.

MR WEICKHARDT: He has prepared, sorry.

MR DEVEREUX (GMH): I don't believe he has published it.

MR WEICKHARDT: Thank you.

MR DEVEREUX (GMH): I am familiar with the report to which I believe you are referring.

MR WEICKHARDT: The South Australian government said it's not theirs, the federal government have told us it's not theirs. I think we had it clarified by Goran and also the AMWU that the joint owners of this are Holden and the AMWU. The question we put to the AMWU and we'd like to put to you is, are you prepared, with suitable redactions of anything that is confidential, are you prepared to release that report to us as part of this inquiry?

MR DEVEREUX (GMH): We'll take it under advisement.

MR WEICKHARDT: Thank you. I think the AMWU indicated that provided you were comfortable with that and there was a mutual agreement about what was redacted that they would be - - -

MR DEVEREUX (GMH): Redacting is important, yes. Sometimes we haven't always been good at that.

MR WEICKHARDT: Okay. Well, as long as not every page was redacted then

we would be interested to see some of it.

MR DEVEREUX (GMH): We will take that under advisement. I appreciate the question.

MR WEICKHARDT: Thank you very much indeed.

MR WOODS: Do you have a closing statement you wish to make?

MR DEVEREUX (GMH): I made it about five minutes ago. I appreciate the time. I understand the interests in this particular subject as it relates to our company but more widely the industry. I think the country faces difficult times in terms of the ability of all sorts of industries to make things in this country. We have been consistent in our view that we would prefer to continue to do so and I hope that the testimony here today continues to make the case that we want to be able to do that in the future. I appreciate your time.

MR WOODS: Thank you very much. Is there any other person present who wishes to make an unscheduled statement? That being the case, I close today's hearings.

MR DEVEREUX (GMH): Thank you.

AT 9.36 AM THE INQUIRY WAS ADJOURNED ACCORDINGLY