



**PRODUCTIVITY COMMISSION**

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

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

**TRANSCRIPT OF PROCEEDINGS**

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## INDEX

	<u>Page</u>
<b>CHRISTOPHER MERRIDEW</b>	<b>221-226</b>
<b>McLEAN MANAGEMENT CONSULTANTS</b>	
<b>MICHAEL WILLIAM McLEAN</b>	<b>227-232</b>
<b>AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION</b>	
<b>IAN FIELD</b>	
<b>PATRICK TESSIER</b>	
<b>MICHAEL DEED</b>	<b>233-241</b>
<b>FEDERATION OF AUTOMOTIVE PRODUCTS</b>	
<b>MANUFACTURERS</b>	
<b>RICHARD REILLY</b>	
<b>JIM GRIFFIN</b>	
<b>MARK DE WIT</b>	
<b>GLENN PAINE</b>	<b>242-256</b>
<b>AUSTRALIAN FLEET LESSORS ASSOCIATION</b>	
<b>JOHN BILLS</b>	
<b>ABE TOMAS</b>	<b>257-263</b>
<b>METALSA AUSTRALIA</b>	
<b>MURAT KIREMITCIYAN</b>	
<b>JOHN AUSTIN</b>	<b>264-271</b>
<b>FRANK WILL</b>	<b>272-275</b>
<b>DOCKLANDS SCIENCE PARK</b>	
<b>TONY SMITH</b>	<b>276-280</b>
<b>PROFESSIONALS AUSTRALIA</b>	
<b>CHRIS WALTON</b>	
<b>SCOTT GIBBINS</b>	
<b>JACK HERBERT</b>	<b>281-289</b>

**MR WOODS:** Welcome to the Melbourne public hearings of the Productivity Commission inquiry into the Australian automotive manufacturing industry. I'm Mike Woods, I'm the Presiding Commissioner for this inquiry and I'm assisted by colleague, 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. So far, the Commission has released a preliminary findings report on 20 December last year and a position paper with draft findings on 31 January this year. The Commission is undertaking economic modelling for the final report that will consider the economywide and regional effects of adjustment in the industry. A roundtable on quantitative analysis will be held on 4 March and we will release the results of the analysis after it has been considered by the workshop and has been peer reviewed. We will be at this stage submitting our final report to the Australian Government on 31 March.

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 has imposed on the ability to engage stakeholders and the general community on a debate about the future of automotive manufacturing in Australia. Given that timeframe, 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 and I would like to acknowledge the courtesy extended to us in our visits and deliberations so far and for the thoughtful contributions so many have already made during the course of this inquiry.

I would like these hearings to be conducted in a reasonably informal manner, but remind participants that a full transcript will be taken and is available to all interested parties. At the end of the scheduled hearings today any persons present may make an unscheduled presentation should they wish to do so.

In accordance with the Commonwealth Occupational Health and Safety legislation, in the unlikely event of an emergency please follow the green exit signs to the nearest stairwell, follow instructions of floor wardens. If you feel that you are unable to walk to the nearest stairs, please let the wardens know and the assembly point is at Enterprize Park at the end of William Street on the banks of the Yarra.

I would like to welcome to the hearing our first participant, Christopher Merridew, participating by teleconference. For the record could you please, Mr Merridew, state your name and that of any organisation that you are representing, together with the position you hold in that organisation.

**MR MERRIDEW:** Thank you, Commissioner, and thank you for the welcome. Yes, my name is Christopher Merridew from Hobart. I have been in the motor industry now for - just completed my 53rd year and I am a consultant to a dealership in Hobart which actually is Mercedes, Volvo and Porsche. But my background is I've had 40 years in the retail, fleet and government sales with a Holden dealership. The last 10 of those were in conjunction with BMW and the last 12 years with Mercedes and Subaru. So now in my 54th year I hope I speak with some authority on the retail side of the car industry. That covers your introduction, sir?

**MR WOODS:** Thank you. Do you have an opening statement you wish to make? We do have the benefit of your submission but if you want to briefly make an opening statement.

**MR MERRIDEW:** Would it be appropriate to expand upon the submission?

**MR WOODS:** Yes. I'm conscious that we have 15 minutes so if there was five minutes or so of you drawing our attention to the key points, that would be helpful.

**MR MERRIDEW:** As I said, I had 40 years in the retail, fleet and government sales market where Commodore wagon and Commodore sedan represented some 30 per cent of our dealership sales to retail fleet, Cadbury's and the major companies Australia-wide who all bought Holden as the standard company car. We also supplied vehicles to governments, both state governments, councils, schools, all those people bought on government price for principally the Holden Commodore as the office car, the departmental vehicle and whoever travelled for a government department had a Holden. The federal government, of course, what's known as the white car fleet or the Comm car fleet, that again was an exclusively Holden and Ford domain.

So approximately 60 per cent of our sales were either government or fleet. Now, what has happened following fringe benefits tax which came in, I think, Prime Minister Hawke and Mr Keating in about the mid-80s, there was a major rethink by anybody who was supplying a company car or a person who either took home a vehicle that might have a government/council logo on the door, there was a fringe benefits tax applied to that. Now, when the fringe benefits tax was implemented, it was a taxation on a perk. Yes, you had a company car with your job but you're able to take that car home at night, you're allowed to drop the kids off to school in the morning on the way in and you may use it weekends. For that privilege the employer is taxed at the rate of about \$2700 a year if the employee goes home in something to the value of a Commodore station wagon.

Now, what has happened as a result of that is that you can imagine over a four-year run of a vehicle in a fleet, the FBT is calculated on the day one price, not reducing balance, the employer pays \$10,000 to the ATO because that employee has

deemed as some private use of that car. If the employer, as discovered in the ATO interpretation, gave the employee a four-door Hilux utility or Holden Rodeo utility or Mitsubishi Triton utility, any of those four-door utilities, there was no fringe benefits tax component applied. So you can imagine the employers suddenly got very excited about putting employees into four-door utes but the four-door utes in the mid-80s were pretty basic, they had room for about three-year-old children in the back and no much else in the way of legroom.

Now if you look at a four-door ute they advertise you can put three adults in the back seat. The marketing companies promote it as being a very generous cabin vehicle. So that is where the Holden and Falcon and Camry and, in the old days, the Mitsubishi wagons which were always deemed as "the company cars" market has gone, and as your members of the panel are aware, anywhere you drive you will see dozens of these four-door type utes, quite often with company names on the side and dad drops the children off to school and mum to work on the way in, it does very well as a company car and the employer is not up for FBT. They're not cheap. I saw one advertised the other day; it was \$55,000. That's the price of a Holden Calais.

So the poor old loyal Australian fleet buyer, the guy who wants to buy a Holden Commodore or a Falcon or a Camry, he pays FBT. If he buys a fully-imported utility from Thailand, there is no FBT payable on that when supplied to the employee. I think we have an FTA with Thailand, which probably is a very low degree of import duty, and of course being a business vehicle, the GST is rebatable back to the business after the vehicle has been purchased. Of course the GST rebate would apply to a passenger car as well, but, principally, there was a lot of incentive for the employer to buy those utes.

As a result, there were some 300,000 sold in Australia in the year 2013. Now, of the million-plus units sold, that's 30 per cent of the market. Now, who had 30 per cent of the market in fleet before it? It was Holden and Ford and Toyota. So you can understand my argument with the FBT. The only person who gets a job in the production of those 300,000 four-door utilities is the Australian who drives it off the ship, and obviously workshop, pre-delivery, and sales department are the same, whether it's Australian made or imported. So there's a lot of vehicles coming into the country, out of which there is virtually no employment and virtually no revenue for the government.

Now, my recommendations, as you saw from the prompt sheet, are that if a recommendation was considered to remove Fringe Benefits Tax immediately, payable on an Australian-manufactured passenger vehicle, this would create a more level playing field. Now, the Australian-manufactured passenger vehicles are the Commodore and derivatives, the Camry, the CKD Adelaide-assembled Holden Cruze, and of course that excellent SUV, the Ford Territory. Now, what happens there, it may mean say that there's 100,000 less four-door utilities fully imported

from Thailand sold and 100,000 Australian-made assembled vehicles sold and that's probably pretty good for Australia, if you think about it.

Now, the FBT taken off those passenger vehicles means that you sell an Australian-made passenger vehicle. You don't earn any FBT, but if you didn't sell the Australian-made passenger vehicle you would be buying a Thailand-made four-door ute, which you wouldn't pay FBT on anyhow. So the FBT situation is technically neutral, except for the perhaps 10 or 15 thousand cars that are Australian made and are sold under FBT interpretations, if you follow my argument, is not too insensitive, because, as I said, we're replacing one imported vehicle with one Australian-made vehicle and it's almost an FBT-neutral position.

Now, I was recently invited to attend the launch of the latest Commodore - and, sadly, it may be the last Commodore - and having been a Mercedes-Benz salesman for 12 years, I'm very, very safety aware and I have to say - and I said to the Holden dealer at the time of the event, "I am impressed with the degree of safety engineering that is now in the Australian-made product. Attention-seeking devices if you get drowsy and you drift off the side lane, the Mercedes steering-wheel vibrates in relation to that. The Commodore has got the same thing; it's got the blind-spot mirrors. It's a remarkably advanced vehicle in comparative world-class technology, for which Australia can be proud. You're getting that level of technology in a \$35,000 motorcar, as opposed to a V6 Commodore-sized Mercedes at \$135,000. Admittedly, there is the 33 per cent luxury tax in that Mercedes price.

But what I'm saying is, in terms of - Holden has built, is building and has design issues going forward into the future of a world-class car, and it would be an interesting concept if there is somebody out there in the industry - not necessarily just within Australia - who may want to take on the bones of a very good company with a very good product and a very good - what we call "car parc", that is, a number of Holdens out there in the marketplace. This has happened, of course, as you know, Jaguar, a small manufacturer in the United Kingdom, is now owned by Tata from India. Those cars are still produced in the United Kingdom, but you've got a very, very large company behind it. Likewise, Volvo, that's now Chinese owned, but all Volvos that are exported into export territories of Europe and where we are still built in Sweden, but obviously they've got a factory in China building a vast amount of Volvos for the vast Chinese market, so that gives economy a scale.

That's what's wrecked life for Holden and other Australian manufacturers, because if we were supplying parts and there were, say, 300,000 Holden, Fords and Camrys sold, the manufacturer was making 300,000 seat frames a year. When Ford - when it went to 200,000 and now Holden went down to 100,000 so obviously the viability of that sort of scale is what of course has killed the process.

The last two points I raise - and I'm conscious of the time - was that having

been with Mercedes, trading European cars, I'm finding the parts pricing for anything in terms of used car airconditioning is tremendously expensive, four times the price of a similar Holden, Ford or Toyota type of part. Brakes, brake linings, airconditioning pumps, the maintenance things that fail and have to be done. That means that if Australians could only buy fully-imported cars, yes, we get a lot of car with our dollar but the cost of ownership, especially as they become second-hand cars - and that's a huge market out there it is far more expensive than what we become used to driving the good old, almost bulletproof Commodores and Falcons.

In terms of fuel economy, we have a Commodore in the family in Melbourne. It travels from South Yarra to the Yarra Valley and back every day. That car has averaged 9.2 litres per hundred over the last 50,000 kilometres. That is 30 miles to the gallon in old language. If you drove a Subaru two-litre four-cylinder car, you wouldn't get that sort of economy and that sort of running. So the gas-guzzler image of Holden is not necessarily a fair criticism.

**MR WOODS:** If I ask you to wind up, please.

**MR MERRIDEW:** I am now. Thank you and your staff for taking the time to organise this, for noting my initial submission back there in November and for today and I wish you the best with your deliberations and shall look forward to your findings.

**MR WOODS:** Thank you. Can I ask a couple of questions while we have you.

**MR MERRIDEW:** Yes, if you have the time, yes.

**MR WOODS:** Yes. The first one is drawing to our attention the distortion amongst the different forms of vehicles as a consequence of the ATO ruling on what constitutes a vehicle primarily designed to carry goods, and I think that's a broader issue of distortion than just the issue that we have before us, that we take note of that. But the one thing which is not directly related to your submission - and I thank you for it - but I wouldn't mind your opinion on, given your background in the industry you were in, is what would be the consequences on new and used vehicle prices in Australia if the second-hand vehicle import industry were opened more significantly than it currently is?

**MR MERRIDEW:** What we refer to as the grey import - - -

**MR WOODS:** Some people would call it that, yes.

**MR MERRIDEW:** They're called grey - that's sort of an industry anachronism for them. It's destroyed the car industry in New Zealand, as you know. That's 20 years ago. The issue is that if I have a client who wants to bring in a Mercedes-Benz from

Hong Kong and he says, "Chris, should I do this?" and I say, "Well, you can, you can go through the processes of a private import or come in under the special limit of 25 of a model not available in Australia," but those vehicles enjoy little resale value in Australia. The Australian car industry has a very strict compliance requirement. Our Australian compliance requirements are far higher than the rest of the right-hand drive world in what the Australian government requires in safety features, thickness of windscreen glasses, all sorts of things specific to the Australian Design Rules.

A car that comes from Hong Kong doesn't have all the equipment the Australian Government requires, and it is treated in the used car industry as a leper. In other words, if it's not Australian compliant and it is not built to Australian regulations, its value is probably 60 per cent less than the equivalent weight-for-age compliance vehicle.

**MR WOODS:** I can understand that in the second round sales, so if you've got a used vehicle and you're wanting to onsell it then I could understand why that price differential would occur. But it strikes me there may also be a business opportunity for those who are selling it as first sold in Australia, even though it's a second-hand vehicle, being able to sell it significantly cheaper than what would be the case for an Australian sold new registered - - -

**MR MERRIDEW:** Yes, what's called an Australian compliance plate vehicle.

**MR WOODS:** Yes.

**MR MERRIDEW:** Every car, as soon as it comes through Customs brand new, gets a compliance plate saying it complies with all the Australian Design Rules because it's built to Australian spec. It is quite a stringently tighter spec than, say, an English right-hand drive Mercedes or Jaguar, whatever it would be. I would say that it then goes on to create issues of spare part sourcing because again the windscreens for Australia are different from those for Hong Kong. It does open a fairly difficult situation for the industry to handle and I just know that if I've got two five-year-old cars, one's an Australian car and one's an import, the import is maybe 30 per cent of the value of the Australian car weight for age and I don't know who would actually buy it. But that's because we're conditioned in Australia "don't touch the grey imports".

**MR WOODS:** Thank you. One final question from my colleague.

**MR WEICKHARDT:** My final question, Chris, is your point 3 recommendation when you say, "Investigate the pricing as spare parts for European vehicles are up to five times the price of the same part acquired through the USA." Clearly that's outside our terms of reference, but just out of interest, why don't people import the parts from the USA?



**MR MERRIDEW:** Well, people who understand spare parts numbering network and have someone in the USA who they can trust that it is going to be the right part - I have known them do it and that's how I became aware of the differential in price. But coming back to the ADR — Australian Design Rule — issue, let us say that as a Mercedes-Benz there are 4000 of a particular model in Australia, so you carry a parts inventory to cover that 4000 of that generation. In the United States there's probably 144,000 of that vehicle, so therefore the parts industry warehousing with the volume that's going through servicing 144,000 is obviously a greater volume of scale and, of course, that reduces your price of handling per item.

But if we're going to be totally in the fully imported car market in the future, I think there needs to be a bit of overwatch as to how the spare parts thing is going to be - and I'm saying sort of five years out from now when everything's imported what is happening to the spare parts support and prices relative to what they are in other markets. It's not gouging, it's simply that it's very small volume in Australian terms as everything we do is small volume and the cost of warehousing, stocking, ordering - it's quite a costly business. But obviously when you sell more of the things, cost per unit is, of course, is much less. I hope that answers your question broadly.

**MR WOODS:** Thank you very much and we appreciate the time you've taken to both put a submission to us and to be present today, so thank you very much.

**MR MERRIDEW:** Thank your staff for their efforts to let that happen. It's much appreciated.

**MR WOODS:** Thank you.

**MR MERRIDEW:** Good morning.

**MR WOODS:** Michael McLean, is it?

**MR McLEAN (MMC):** Yes, that's right.

**MR WOODS:** Thank you. My name is Mike Woods, I'm Presiding Commissioner, and I have with me my colleague, Philip Weickhardt, who is also a Commissioner on this inquiry.

**MR WEICKHARDT:** Good morning.

**MR WOODS:** Could you please, for the record, state your name, the organisation you are representing and the position you hold.

**MR McLEAN (MMC):** My name is Michael William McLean. I'm the Managing Director of McLean Management Consultants, established in 1988.

**MR WOODS:** Thank you very much. You have provided us with a submission and thank you for doing that. Are there some brief opening comments that you wish to make?

**MR McLEAN (MMC):** Yes. You have both of my submissions.

**MR WOODS:** Yes.

**MR McLEAN (MMC):** Although it was focused on what was the public narrative around the costs in the automotive industry which I think is a little bit different from what the public press has seen, the IBIS World reports have been very illuminating in saying where the labour costs are in the industry and also the peer suppliers, and I think that's quite clear to everybody that it's a little bit different from what is being spoken about.

What I wanted to just talk about is (indistinct) immediate opportunities for the Australian automotive suppliers, be it tier 1 to possibly 3, that as I said in my submission the opportunity for those automotive companies and other associated manufacturers to seek opportunities not in the European or the UK or United States markets but in our closest neighbours which is the ASEAN market. To that end my colleagues at the AMSAT International in Canberra, they were previously commissioned by AusAID through Cardno ACIL to develop the ASEAN AusAID Automotive Supply Development Program. I was selected as the AusAID ASEAN automotive technical specialist for Australia through AMSAT International and I worked with a colleague in Thailand as the ASEAN automotive technical specialist.

The reason that I have mentioned that, in the AMSAT discussion yesterday with AusAID DFAT they have pushed out their ASEAN DFAT economic community and integration support from 2015 to 2019, as the ASEAN secretariat had discussion with AMSAT International yesterday and they will be up in Indonesia shortly. The reason for mentioning here at the Commission hearing is that there were opportunities for AusAID DFAT and ASEAN to work together to quickly find opportunities for the Australian suppliers to tap into the ASEAN market, not just Indonesia and Malaysia. To that end, the FAPM CEO Richard Reilly and some suppliers here in Australia are going up to Indonesia and Malaysia next week, which is very timely, but I wish to give a positive view that there are opportunities for the Australian automotive suppliers to participate in the ASEAN integration by 2015.

What I've also done is in the submission, on behalf of AusAID we have produced a report for AusAID which was to show our research here in Australia across all the automotive supply chain, and in that we interviewed the four car companies at the time, with Mitsubishi, Ford, Toyota, and obviously General Motors Holden. We spoke to the manufacturing directors of all those OEMs and the overarching theme coming from the OEMs was, "We would like to have sourced from Australian suppliers and that is our preferred option." We sourced all the suppliers, just like Toyota required, that all suppliers be internationally affiliated and have a licence for the latest technology around the world so they could provide it to those four companies in Australia. But, overarchingly, they would like to have the local suppliers be innovative and creative to be part of the worldwide platform. That is still the case and the opportunities immediately suggest, as Richard Reilly rightly says, the volume and the velocity for the local suppliers is to go into ASEAN, I think.

So we wrote a report for this ASEAN Automotive Supplier Development Program. We have a benchmarking survey which we conducted. That survey was set across 11 suppliers we interviewed in Australia and the four OEM companies, that supplier group. That was also conducted across 127 ASEAN automotive suppliers and a number of the OEMs in ASEAN. That survey was very similar to the Enterprise Connect, which is a Department of Industry entity which conducts business excellence and manufacturing excellence assessments against the UK and European Foundation of Quality Management Business Excellence Model. We would propose - as we said in our submission - that the Department of Industry and Enterprise Connect provide that assessment, which is a free service, to all the Australian suppliers building upon the Automotive Supplier Excellence Australasia Program, but to provide an international benchmark of those companies that would like to continue to supply the automotive industry and, as we said in our report to AusAID and ASEAN, that provides them the opportunity to do diversification. Diversification is obviously the key to this for the automotive suppliers right now and there are opportunities - the FAPM is running diversification workshops, which I'm sure Richard Reilly proposed and has alluded to.

So to that end, the people from AusAID have contacted AMSAT International. AMSAT International will be in ASEAN in early March. They will be having discussions. The ASEAN secretariat has quite a bit of funding left in their ASEAN Economic Community Integration Fund. As I just got a phone call this morning, they will be most happy to discuss these opportunities with the Australian automotive suppliers, and continue just to help them with AusAID and ASEAN to work together to provide some vision that there is a possibility of working with our ASEAN neighbours. That was my opening statement.

**MR WOODS:** Thank you very much and I notice that we've got some FAPM members in the audience and they were listening to that and they will be presenting evidence later this morning. So I guess one question that comes to my mind is, you're drawing your submission on the various quality assurance-related programs that occur in Australia amongst suppliers and what you refer to as "best practice". Have there been any impediments to date in the adoption of best practice activity-based quality management systems and the like that are sort of the areas that policy could have some impact on, or is this just a progressive adoption by suppliers of trends and innovations that are progressively occurring both in ASEAN but also more broadly?

**MR McLEAN (MMC):** The automotive companies, the OEMs, have been supporting Australian key suppliers to improve their management systems. The basis of all this is quality, cost and delivery and, as I said in the presentation, which is the public's view and quality, cost and delivery, is substantial. But the first thing that most of them actually look at is obviously price, delivery, then quality. To that end, the Keiretsu program identifies that, and the last two big ASEA programs identified that management and leadership were very much needed and manufacturing and quality were the second. So they make up almost 65 to 70 per cent of the requirements for the automotive suppliers to lift their game.

To that end, the Enterprise Connect did have the opportunity for the automotive suppliers and other manufacturers in Australia to participate in the Leadership 21 program in Melbourne. But that said my work with the Department of Industry then, under the Automotive Supplier Development Program here in Australia.

**MR WOODS:** What's this?

**MR McLEAN:** Well, the three car companies - to work with their suppliers to improve their performance across quality management systems based on the automotive industry action group in the United States, in our view, some of the suppliers and most of the suppliers that are still around in the FAPM, mostly had quality problems. This created difficulty for the Australian OEMs. To that end, we were conducting reviews and audits of suppliers in regards to various Core Tools, if I

may, preparing to be technical. Sometimes in their design stage it may be detected normally in their production process stage it may be detected upstream a lot of measurement system analysis which enabled them to clearly see their different processes. Those processes under TS 16949 should be documented in their policy manual by the headings of their business processes.

Sadly, for the most part, many automotive suppliers - I wouldn't say all, but many of them have business management systems which were certified to TS 16949 and if you were tier 2 or tier 3, for those that are tier 1 suppliers to ISO 9001 most of those management systems too are documented under the headings of the various standards, which just delivers no value for the automotive suppliers. The Enterprise Connect totals for the Suppliers Continuous Improvement Programs 1 and 2 relies on people doing Lean manufacturing or Continuous Improvement and the basis of those is process management.

So, sadly, there was a constraint, as you've just asked the question, an inbuilt inhibitor within a number of the automotive suppliers to embrace some of the benefits of process management and to be an integral part of the so-called global platform because they didn't have appropriate process view of their business. So if they wanted to make cost reductions or to improve quality, it was done in a functional, segmented and silo way and not necessarily by their business processes. To that end, we've made a submission that there are - the American Productivity and Quality Organisation had a Process Classification Framework. This process classification framework is actually free. They have automotive process apps, which is actually used throughout the world. Australian automotive suppliers didn't always embrace this processing thinking.

By way of experience, McLean Management Consultants and Bywater McLean, we built the quality management systems for General Motors Holden. But would it be nice to know that from our research in the United Kingdom and Europe and, as we said, in the United States, it would have been easy for the automotive suppliers to have their process based management systems, not by ISO 9001 or TS 16949 clause based management systems to embrace business excellence that also have, just like General Motors and Toyota have - they have a process view of their business. Therefore it would have been easily a docking integration for the suppliers to then make that link into the automotive OEM supply chain.

**MR WOODS:** Okay. Can I hold at that point. We've got short time and I did notice that management and leadership, and manufacturing and quality, were the two areas of great opportunity. But I would've thought that self-interest and self-motivation on the part of businesses was what was required for those issues to be overcome, more so than governments and taxpayers contributing to that end. But I'll hand over to my colleague.

**MR WEICKHARDT:** Okay. I've just got one question, Mike. You say in your submission that ATS funding makes Australian engineering as cost-effective as Shanghai. I mean, that implies to me that our engineering is not cost-effective and it needs a subsidy to become cost-effective. I'm interested in your comments on that, because Shanghai is not a low-cost city. In fact, the English-speaking residents and even Chinese residents are extraordinarily expensive to employ in Shanghai, from my experience. So why can't Australia engineering in this area be cost-competitive without the ATS?

**MR McLEAN (MMC):** It's a difficult one, because across a range of universities that I'm associated with, engineering has decreased and also some universities don't actually have manufacturing, industrial engineering or operations management courses, only research. So with that as a background, most of the product engineering in the automotive companies is very well staffed. The opportunity to be part of global platforms is the area whereby the Australian engineers and product engineering people could participate. As we saw with the Ford Motor Company and their modifications of the Ford Ranger, which has been getting a rave review, we can supply good product engineering for some aspects of automotive vehicles.

The product engineering is also not just in the automotive side with regards to vehicles, but we still make up - I work with Volvo Mack Trucks up in Queensland, we still have Iveco, we still have a range of truck and bus companies working in Australia, and those product engineers, product process engineers, and production engineers came from the OEMs from all over the world. Now, they are doing these things that - I'm just saying, they can be cost-competitive compared to Shanghai. Yes, I understand Shanghai is getting just as expensive as Australia now, but it was just an opportunity that - not so much that the Automotive Transformation Scheme was needed to fund it, but I think that it just gives them a bit of a leg up, so that they can actually be part of the worldwide chain.

It is true that some of the automotive - just like Volvo Mack Trucks and other bus companies, they are funded by the federal government in regards to federal government support for training, under Competitive Systems and Practices AQF course, they also get clean technology funding, and they do get environmental training. So a lot of the funding that is in regard to the Automotive Transformation Scheme means that the product engineers are capable of doing it, but the number of product engineers connected to the car companies has been decreasing. And it's a sad case, because we are part of, necessarily, a new product or new system or module that is going to be around the world as much as we'd like, and we are losing some of those product engineers, and so our R&D capability is being kind of constrained.

**MR WOODS:** Okay. Thank you very much. I appreciate the effort you've gone to in providing us with the information and with appearing today, so thanks very much.

**MR McLEAN (MMC):** Thanks very much for the opportunity. Cheerio.

**MR WOODS:** Bye.

**MR WOODS:** Can I call our next participants, from the Australian Automotive Dealer Association. Could each of you separately, please, for the record, state your name, the organisation you represent, and the position you hold.

**MR FIELD (AADA):** I'm Ian Field. I'm the Chairman of the Australian Automotive Dealer Association.

**MR WOODS:** Thank you.

**MR TESSIER (AADA):** Hello, my name is Patrick Tessier. I'm the Chief Executive Officer of the Australian Automotive Dealer Association.

**MR WOODS:** Thank you.

**MR DEED (AADA):** My name is Michael Deed, I'm the Policy Director of the Australian Automotive Dealer Association.

**MR WOODS:** Excellent. Mr Field, you have an opening comment you wish to make?

**MR FIELD (AADA):** Yes, please. Thank you for the opportunity. My organisation that I'm representing here today is the retail automotive industry in Australia. We're the car dealers that sell the products that the Australian fleet is made up of. We are not afraid of competition. And I'm not a paid bureaucrat, I am a car dealer, I've been in the car industry for 52 years, I've run my own business for the past 34 of those years. We are a major Ford dealer in this country. We sell about two and a half thousand cars a year, new, and we sell about 1500 used cars a year. But we sell - we sell 1500 used cars a year at retail, but we sell about 4000 used cars a year wholesale and retail. The reason we don't sell the others at retail is they're just not good enough.

We are very concerned as an industry. My colleagues in the new car industry are concerned that a relaxation of the rules in regard to the importation of end-of-line vehicles, which is what most of them are from other jurisdictions, will open the door to more of the end-of-the-market that we don't deal in. We - my other company - and I'm talking to that - will not sell a car that we can't guarantee its history. We need to know what its history is, otherwise we won't sell it at retail. The Australian industry, the Australian government, does not have uniform rules across the country in regard to annual inspections, and so we don't have the same situation that New Zealand does, that does enforce some sort of standard on the vehicles that are brought in. And half of their market, half of their total car park, is comprised of used-car imports, which is an amazing situation in a first-world country to be taking from Japan so many vehicles of their fleet.



Our submission puts our case clearly. We are not afraid of changes to the rules. We live with competition. Our margins are incredibly small to start with. Whatever the rules are, we will find a way of operating within those rules. What we're concerned about are the unintended consequences, that by opening the door to the large-scale importation of dubious second-hand vehicles, we will open up the door for the nonfranchise end of the business to start getting involved in selling cars.

Our first-hand experience - this is not hearsay, this is my own experience. I went to Japan about 15 years ago to look at importing used cars for wrecking purposes. And we actually did start the business, but one of the interesting things that was said to us when we first got there was, "What speedo reading would you like on the car?" A colleague of mine who was in New Zealand and a major importer of cars said it was amazing when you go to yards there, that all of the diesel-engine vehicles were coming in with 200,000 kilometres on them and when they got to New Zealand they were less than 50,000 kilometres.

This is not a legitimate industry. In Japan it's the end of life of these vehicles. They have a strict regime of testing and when a car gets to about five years, it gets very expensive to bring it up to the standards that are required in Japan. If we are going to become the dumping ground - and that's what it is. They exported last year close to 750,000 end-of-life vehicles to other jurisdictions. 750,000: about a quarter of their end-of-life vehicles. Scrapping about 2.9 million cars a year, a quarter of them now are being exported. I think we need to be very careful of what the rules are about bringing them in. We need to be - to absolutely enforce the same standards on the importation of second-hand cars that we enforce on the original manufacturer, the OEM, of the new car. And I'm not sure how we do that when we don't have a structure inside Australia that tests cars as rigorously as the Europeans and the Japanese do. Thank you.

**MR WOODS:** Thank you. And certainly your submission is exceedingly clear and practical and provided a lot of useful evidence, so congratulations on whoever constructed it.

**MR TESSIER (AADA):** It was mine.

**MR WOODS:** Well, it's a very well-written submission and we appreciate the clarity of it. We'll get to that key point, but just while I have you here, and your colleagues may also wish to comment. Based on your experience in the industry, with the closure of the assemblers here in Australia, looking at your broader business base, what impact do you expect that to have, if anything, of significance?

**MR FIELD (AADA):** It will be very significant to me as a Ford dealer.

**MR WOODS:** True.

**MR FIELD (AADA):** We've had some short-term pain since Ford announced their removal from manufacturing. To the public, that seemed to mean for a while that Ford were removing themselves from the country. They didn't get the point that it was manufacturing.

**MR WOODS:** Falcon does not equal Ford, yes.

**MR FIELD (AADA):** But that, in the public's mind, seems to get lost. So we've had the worst year we've ever had in terms of profitability in that interim period. It's changing now that the public have recognised that it also applies to Holden and Toyota. My personal view is this will be good for our local industry. We were not capable of producing cars in this country for the world market. The top-selling cars in this country sell about a quarter of what's necessary to run a production line. It therefore doesn't make sense if the top-selling car can only sell it but we can maintain a manufacturing base for motor vehicles in this country. I totally support that. So what does that mean to me? It means that instead of Ford spending \$400 million a year in subsidising their production, they'll be able to spend some of that money marketing their products that they will import, some of the best products in the world in our view, and those cars will be able to be sold more effectively because they will have the budget to do that.

At the moment, a lot of what they do is to keep driving a production line, which forces dealers to take cars they don't really want, to sell them at lower and lower prices to maintain a production line that no-one really cares about. We are very pleased that it's over. Now, I'm talking as a car dealer. I'm happy.

**MR WOODS:** That's why I thought I'd raise these issues while you are here. So there's obviously - and we're only talking about your industry, we'll deal with the concerns of the suppliers and that in a minute - a transition issue, and, as you say, if you're a Ford dealer at the moment, that's not the happiest place to be. That will adjust, but overall, you will still be collectively as an industry selling 1.1 million new cars a year. A point that you raise which has not been raised with us to any great extent previously is the focus of the assemblers here in terms of moving their own locally produced product to keep sales up, as distinct from looking across their total product range and working out where the priorities and the opportunities are.

**MR FIELD (AADA):** In Australia we've distorted the real market situation by creating artificial barriers. The Australian Design Rules in large part, in my view, were designed to protect the local industry. One of the reasons we couldn't get into importing second-hand parts from Japan was they didn't comply with the Australian Design Rules. They didn't have side intrusion bars and by the time you've wrecked the car and you fit a side intrusion bar, it becomes uneconomical to do it. So Australian Design Rules supposedly for safety reasons do actually add cost to cars

that get delivered in Australia. Now, I'm not arguing and I don't think my colleagues are arguing that we want continuation of Australian Design Rules specific to Australia. An international high standard, whatever the high standard is, should be acceptable. In fact, if you vary that standard to something specific to our market with such a small production run, it adds enormous cost to the cost of the vehicle. It therefore should be something you consider in terms of consumer benefit that we keep the price as low as possible.

We operate within the margin we're allowed to take. We don't create the price. We are price takers, not price creators. So if the cars are cheaper, there will perhaps be more sold. So I'm quite happy for anything that brings prices down. What I'm concerned about and the reason I'm here today and passionate about, I don't want to be competing with people pretending to be selling cars that I'm selling with mileage that's not correct, that has no history, no record. We have to have a way, if we're going to open the doors - and I don't argue at all that we have international obligations under our trade rules and we must reduce these artificial barriers - but let's be careful we don't create unintended consequences that will add ramifications to the problem.

**MR WOODS:** Did you want to pick that side of it up?

**MR WEICKHARDT:** Yes, if I may. Thank you for your input. Just one point of clarification before I come to the main issue of my questions. You mentioned in your submission, and I think you referred to it again in your presentation, that a dealer typically makes a margin in the order of 1.5 per cent.

**MR FIELD (AADA):** It's less than that if you're a Ford dealer at the moment.

**MR WEICKHARDT:** Okay. Now, can I just clarify, is that a margin of profit after tax? Is it a gross margin?

**MR FIELD (AADA):** No, that's a profit before tax and that is the net based on turnover.

**MR WEICKHARDT:** So it's the net profit before tax on turnover. Is that segmenting the sale of a car only or is that - - -

**MR FIELD (AADA):** No, it's the total.

**MR WEICKHARDT:** The total business.

**MR FIELD (AADA):** If you look at our new car business by itself within the four areas that we operate, we lose money in the new car area but we make money in the other three areas. If you take finance and insurance as another aspect and another

business, that's potentially where the most profit comes, from dealerships.

**MR WEICKHARDT:** Yes.

**MR FIELD (AADA):** The profit has been squeezed right out of new car selling. The Internet makes it impossible to retain gross in cars because we all discount down to zero. That's the way it is. But we make money by selling other things - - -

**MR WEICKHARDT:** Maintenance and spares and - - -

**MR FIELD (AADA):** All of those things.

**MR WEICKHARDT:** Okay, thank you. That was the point I wanted to clarify. So from that point of view, given the fact that some of that service, repair and parts business goes on, the sale of the new vehicle itself, you're suggesting, is not the lifeblood of a dealer.

**MR FIELD (AADA):** It's what gives us the ability to capture a segment of the market so the brand that we are involved in - the more brands we've got, the bigger the segments - we need that as the reason to be able to capture a segment of the market. But the profit doesn't come from the sale of the vehicle, the profit comes from - - -

**MR WEICKHARDT:** Okay.

**MR FIELD (AADA):** If I could just add one point to that, because it's a point that I think gets lost: the franchise dealers of Australia have nearly \$13 billion worth of facility engaged in selling the product, 13 billion. They have at any point in time close to \$40 billion worth of stock that they carry.

**MR WEICKHARDT:** Sure.

**MR FIELD (AADA):** It's bigger than the OEMs' commitment in many ways and we carry that contingent liability and any change to the rules reflects instantly on our ability to make profit within that massive cost structure.

**MR WEICKHARDT:** Okay. This is a hotly contested area and I doubt even by the end of our inquiry we're going to have peeled the onion entirely, because there's a lot of "he says, she says" here and we've recently received a submission from Peter Smith - it's on our website now - where he computes that Australian consumers pay \$2.6 billion more for new cars compared to overseas consumers, and he's got a whole series of documentation. Now, other people will contest the data and they will talk about how many options are on cars and things of that sort. But if I ask you a hypothetical question and that is: let's say the Australian government said, "We will

open imports to second-hand cars which are less than three months old - - -"

**MR WOODS:** Three years?

**MR WEICKHARDT:** No.

**MR WOODS:** Three months, okay.

**MR WEICKHARDT:** No - "less than three months old that are purchased from Europe, Japan, where there is a right-hand drive equivalent that meets a European or a Japanese international standard." I find it difficult to see that that is going to create the havoc that people describe in some of the submissions we've received in terms of lowering the average of the cars in the Australian fleet or indeed probably going to cause too many environmental or safety issues. So if that hypothetically happened, other people talk about the flood of imports - well, if there's a flood of imports, it suggests to me the Australian dealers are overpricing their cars. If there were no flood of imports, then it suggests the Australian dealers are selling cars competitively. So why wouldn't you say, "Let the market sort that out, let there be the opportunity for a parallel import because that will put to rest this issue that's hotly contested as to whether or not Australian consumers are being disadvantaged by the pricing policies of the international car manufacturers?"

**MR FIELD (AADA):** Well, you raise points that we didn't argue. You're talking about other people's arguments. I certainly don't come here to argue those cases. I don't make those points. Australia is a unique destination, unique market in that we are spread over - you know as well as I do, we're spread out over an enormous continent. To provide parts and service and the warranty backup and all of the bits and pieces in this country - I think the earlier commentator made this point, amongst other things he said, "You cannot" - you asked the question about the European parts costing maybe five times more than Australia. There's a reason why parts are cheaper in big markets and that is the market is compressed, the supply lines aren't as expensive. In Australia we have to provide parts in central Queensland that takes two days to get parts to one of our operations out there near the mining operation. The mines have to go for three or four hundred miles to get to the nearest service facility. That's not the case in the European jurisdictions or in other places.

Opening the market to near-new cars under three months, I have no problems with that, except it will destroy the franchise system as we know it. Now - - -

**MR WEICKHARDT:** Why should it destroy the franchise system?

**MR FIELD (AADA):** Well, because we'll have to change the model. Now, I'm not afraid of that. From my perspective I have continually been a one-franchise operator. We've got others but Ford is a main franchise. We haven't got the five or six or

seven brands all costing five or six or seven million dollars to put in place. If I can just go to the Europe and buy them, as we could without a barrier, I could go and - I like Jaguars particularly, I drive one. If I could go and buy my Jaguar in the UK I could buy it for half the price that I can buy it here as a dealer through a dealer in this country. Now, the dealer is not making that money.

**MR WEICKHARDT:** No, and the dealer would probably service the car when you brought it in and charge you - - -

**MR FIELD (AADA):** Well, there's an assumption there that the warranty - - -

**MR WEICKHARDT:** The warrant would be foregone obviously. You probably wouldn't get a warranty if you bought it second-hand.

**MR FIELD (AADA):** There's also the problem of recalls. Once it drops off the computer system in a particular country there's no rules that say that the OEMs have to track that vehicle wherever it finishes up. It's not as simple as just a price equation. It's about the supplying of all the things that come after the sale of the vehicle, the warranty, the backup for recalls. The major OEMs - all the OEMs - chase their cars to make sure that if there is a service fault that becomes apparent in service that they have a methodology of fixing it. That doesn't happen if it doesn't come through their channels, it drops off the radar.

**MR WEICKHARDT:** But in other products this does happen. I had the experience of having a problem with a well-known purveyor of iPads and went into a store in the United States and they changed it free of charge. They said, "We can see where you bought it, that's fine." So I don't think these problems are insuperable with the right sort of controls that protect people's consumer rights and the opportunity to buy, understanding the conditions under which they buy.

**MR FIELD (AADA):** I came in here to argue the used-car case because I think that's quite different.

**MR WEICKHARDT:** Yes.

**MR FIELD (AADA):** The consumer issues there are clear in my mind and we don't want to get into that business.

**MR WEICKHARDT:** It's more complicated the older the car gets. I understand that.

**MR FIELD (AADA):** Absolutely. You said under three months and that is the issue I'm talking about. I have no problems with cheaper cars in Australia. I will still make my margins somewhere along the line. But at the moment we have a

system that's grown up over the years, \$12.5 billion worth of real estate is in place as a consequence of that system. The dealers have signed agreements with the OEMs to provide those facilities for a finite length of time. If the rules have suddenly changed and the cars can just come in from any source and the OEMs lose control of that process, then it might appear that Australian consumers will buy the car cheaper but will they be able to get the parts under the warranty and the service and the backup that the OEMs need to supply for the rest of the car's life?

That's the balancing act and I accept what you said but in the world that I operate it will have massive dislocation if the doors just burst wide open. If we move into that, let's have a transitional time to adjust to those changes.

**MR WOODS:** You have noticed from our questions that we actually take on face value your submission, so we haven't needed to ask you about your submission because it's perfectly clear and we understand your viewpoints. But certainly from our perspective, we do fully appreciate the need for transition of any significant policy change because people have invested on the basis of rules as they are and transition can often be best done over a period of time where expectations and business models and investments can adjust in a more seemly manner.

We're also very conscious of the related issues of safety and falsification of odometer readings and a lack of history et cetera. So in our deliberations we would want to make recommendations that trade off between costs and benefits to preserve those to the extent possible. But your views are clearly set out there so we've taken the opportunity to chase a few other issues with you. If you have any concluding point you wish to make, please do so.

**MR FIELD (AADA):** Commissioner, thank you for that. The concluding points I would make are that the luxury car tax is another form of barrier. I think if we're looking at removing barriers we have to look at all of those issues. It is a revenue raising part of the Australian Government's budget, they raise about \$400 million a year. In the current situation I don't think they'll want to particularly get rid of \$400 million. It's supposed to be a luxury car tax, but we don't apply a luxury tax on all the real luxury goods. Many of those vehicles at the moment are certainly not used for luxury purposes but they cross a threshold and therefore they pay the tax. Those things should be part of this deliberation if we are serious about removing barriers to trade. So I would ask that - - -

**MR WOODS:** We understand your arguments quite clearly, why tax this particular luxury and not other luxuries?

**MR FIELD (AADA):** Yes.

**MR WEICKHARDT:** You say in your submission that the abolition of the LCT

has been well established and accepted by Treasury. I think it was put forward as part of the Henry tax review.

**MR FIELD (AADA):** Yes.

**MR WEICKHARDT:** I don't think that had necessarily the tick that all Treasury endorsed.

**MR FIELD (AADA):** I bow to your knowledge.

**MR WOODS:** But we do know where that support came from in the Henry tax review and they make the very valid point, "Why would you tax one form of luxury differentially to others?"

**MR FIELD (AADA):** A \$10,000 watch is certainly something you don't need. I mean, you can tell the time with a \$10 watch. Why not tax that at the luxury level? I mean, that is a luxury. But an \$80,000 Range Rover being used out in west Queensland, that's hardly a luxury vehicle, it's a requirement of the job but it gets taxed as a luxury product.

**MR WOODS:** We fully understand that from personal experience, amongst other things. But my non-luxury watch says that we have run out of time. Thank you very much for your contributions and we appreciate the work that you have done.

**MR FIELD (AADA):** Thank you, Commissioner.



**MR WOODS:** Can I call next participants, FAPM. Thank you. Can each of you, for the record, separately state your name, the organisation you are representing and the position you hold.

**MR PAINE (FAPM):** My name is Glenn Paine. I'm a director of ZF Holdings Australia and also the Southern Region President of FAPM.

**MR GRIFFIN (FAPM):** Jim Griffin, National President of the Federation of Automotive Products Manufacturers and the Chief Executive Officer of Diver Consolidated Industries.

**MR REILLY (FAPM):** Richard Reilly, Chief Executive, FAPM.

**MR DE WIT (FAPM):** Mark De Wit, National Vice-President of FAPM and Managing Director of Futuris Automotive.

**MR WOODS:** Thank you, gentlemen. Can I put on the record yet again our appreciation for the strong contributions that you have been making to this inquiry and for the time you have given us and for your next submission to us. Life has changed a little since we last met, a week and a day or two ago, and we appreciate that in such a short space of time, you were able to reflect on that and be able to present evidence today. Can I say at the outset also, that with the changed circumstance following Toyota's announcement but also following that of General Motors- Holden, that this inquiry will be focusing in its final report quite heavily on the issues facing the component manufacturers and on the workforces of both the assemblers and the component manufacturers, and as a follow-up to that, some of the regions that will be particularly affected. So it will naturally lead to a reorientation of our final report to focus on those issues, and of course you play a very central role in being able to provide policy advice to us and analysis of issues. So it's very important and we're very grateful to have you here today and for your submissions. Do you have an opening statement that you wish to make?

**MR REILLY (FAPM):** Yes, we do. I'd like to make a brief one, if I can. Good morning, on behalf of the FAPM board members, I'd like to thank you for the opportunity of appearing before you today. The Federation of Automotive Products Manufacturers is the peak industry body representing the Australian automotive component sector. The federation was formed in 1958 and has around 85 member companies employing many thousands of people. Our organisation has members in all sizes of companies, from multinational companies to large Australian companies to many small and medium-sized enterprises. We are the only body that totally and only represents manufacturers.

Since we appeared before you on 3 December last year, two vehicle

manufacturers have announced their intention to cease vehicle manufacturing in the years ahead. December's decision by GM Holden and last week's decision by Toyota Australia on top of the Ford announcement in May 2013 to cease manufacture have created an enormous degree of uncertainty and distress within the automotive supply chain. I think you can imagine our outlook at this time, given that our recommendations were not favourably looked upon in the Commission's position paper.

We are of the firm belief that the manufacturing sector is in danger of disappearing. This is not just an automotive issue now, it's an issue that impacts on the broader manufacturing community. The game has inexorably altered and our original submission has been overtaken by events to an extent. We believe the Productivity Commission analysis must shift towards examining practical ways to best manage the economic adversity in a way that minimises the short- and long-term impacts on the automotive supply chain and the Australian economy and community.

As you would have read from our latest submission, we believe that with the future withdrawal of our domestic vehicle manufacturers, our thinking needs to change from one that focuses on car plants manufacturing 300,000 units per annum to be viable, to a scenario that focuses on the emergence of a new approach to the production of motor vehicles, particularly in regard to niche models. FAPM considers that the Australian automotive industry is well positioned to be a global centre of automotive new manufacturing, as outlined in our submission. However, urgent steps need to be taken while the local supply chain and associated infrastructure is still largely intact. We need to determine the actual state of our supply chain and work with it to assess what changes companies can make in regard to diversification or export activity to become sustainable, determining whether any alliances, in the form of a merger or acquisition activity, can create the required scale to drive success, and given the status of our companies at the present time, understanding the detail of their legal and commercial obligations. I would argue that this work is vital to ensure an orderly transition to an environment with no large-scale vehicle manufacturing in this country.

FAPM strongly recommends that government support for diversification activities by automotive suppliers should continue as a key industry strategy. The benefits of automotive suppliers diversifying into new markets for non-automotive products include minimising the adverse impacts of adjustment on the community, particularly the loss of high-value jobs, retaining key automotive capabilities in Australia, disseminating automotive industry technologies and expertise into other advanced manufacturing and service sectors.

The decisions by the vehicle manufacturers to cease manufacturing by 2017 make it even more imperative that the government accelerate its support for automotive suppliers to diversify their activities into new markets and innovative

products. As you have read, we have presented a number of views on how the Automotive Transformation Scheme might be altered to best cater for the diversification, investment and research and development plans of supply chain companies in the coming years.

FAPM believes that it is imperative that the ATS program must continue through to 2020 as planned. As can be discussed by my colleagues this morning, work is currently being sought in global supply chains but the uncertainty surrounding the longevity or otherwise of key government programs makes quoting for business problematic to say the least. Notwithstanding the Commission's view that the proposed ATS savings would be of benefit to the Australian community, we agree with the Commission that the identified ATS saving of \$500 million in a MYEFO has a very uneven profile. Monies are being taken from the scheme in the years when there are three vehicle manufacturers making cars. This profile doesn't make sense.

The lowest ATS pool of funds will be in 2015 when all of GMH, Ford and Toyota and all of the suppliers are still operating and in action. It then goes up when Ford leaves in 2016 and then increases again in 2018 when Toyota and Holden have left. I would ask: wouldn't it be better to have more funds in the years when all three vehicle manufacturers are still around in 2015 and the gradually reduce as the car companies and the component suppliers potentially leave?

We reiterate again our view that the Automotive New Markets Program has been an important initiative in supporting the automotive supply chain with 23 suppliers to date undertaking projects to diversify their businesses. FAPM considers that the ANMP should continue even after the scheduled closure of the vehicle manufacturers as the remaining automotive suppliers adapt their operations to a business environment that will have changed dramatically within a short period of time. Post 2017, some automotive suppliers may potentially be providing components to local niche businesses or contract manufacturers. It is also envisaged that with the support of the ANMP and other programs, more local automotive businesses will be accessing global export markets. 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.

A number of Australian-based component manufacturers have already recognised that their business viability depends on them becoming integrated into global automotive markets and/or diversifying into non-automotive business sectors. Finally, we would urge the Commission to ask government to look at making industry consolidation as practical and as smooth as possible. We call on government to play a constructive role in facilitating the consolidation process in light of the recent decisions by Holden and Toyota. We have also made a comment on redundancy liabilities which are expanded upon in our submission. We're happy

to take questions of course. Thank you.

**MR WOODS:** Thank you for that. Just in terms of the most useful things that we can discuss today, perhaps we can get rid of a couple of them, for instance, the 5 per cent sales tax cap. We understand your point there and we understand how it didn't used to have significant impact but now it does with lower volumes. We will put our mind to whether it's possible to redefine what constitutes sales or some other variation to deal with that issue. So we understand your point, we understand the issue, so we can put that to one side, if that's all right with you. I want to pursue with you the automotive new markets initiative as part of our discussion this morning. But as a preface to that, your previous submission in November very helpfully included a whole range of case studies. I think there were 21 and what impressed me at the time and is now even, I think, more in focus is the number who already had undertaken diversification activities. You refer to a case study of Mett Pty Ltd, manufacturers of advanced technology for die casting cells et cetera, in which only 15 per cent of sales were now generated by the local market, with SRM rear view mirrors for passenger motor vehicles earning 75 per cent of revenue from export sales. The next one, MTM, they had a robust export strategy and that it was dealing with door checks for cars in other markets.

So there was already a number of very impressive case studies that you brought to bear. Does that suggest that amongst the vast range of suppliers that constitute your industry and your membership that there is, for a number of them, a reasonably sound base to work from to survive into the future?

**MR GRIFFIN (FAPM):** I would suggest that what we're seeing with the exiting of the three OEMs that that base is going to be concerningly undermined and I think that even if you're looking at, in the case of Mett that was quote, a 15 per cent dependency on the local car industry, I think that even with the demise of that local car industry and with the lack of activity with regard to local liaison into the global via the local representatives of the car industry I think that that's going to seriously impede everybody's ability to continue to work in a global area, not only from a cost base but more so from a technological base and an engineering liaison base. I think that's a major concern given that really we're only - at the moment Ford have indicated their intention to stay with an engineering base. Toyota are deliberating and we understand Holden are not.

So I think whilst there are one or two examples where people have got some good export ratios relative to local production, the other thing that should be considered too is that what you're seeing in those numbers is that the percentage of exports has been inflated with the gradual reduction of local volumes and that ultimately - - -

**MR WOODS:** Yes, so exports become larger only by relative numbers.

**MR GRIFFIN (FAPM):** By default, correct.

**MR WOODS:** I was just reading directly from your case studies. I wasn't trying to interpret anything beyond those. I guess that raises a point that Mr De Wit raised in our previous discussions which was always set in mind, that if the underlying trunk of the activity and the cash flow and the volume is generated by the local OEMs then diversification on top won't have a sufficiently robust character to sustain in its own right. Is that still the characterisation of your view, particularly say for your own company?

**MR DE WIT (FAPM):** Yes, absolutely it is given what's transpired over the last couple of months. It's now cemented the inevitable in place of a closure of what we do in this country, despite the fact that we have diversified and 10 per cent of our revenue comes from other activities with Bombardier and Queensland Rail and Telstra. Without that underlying carriage of automotive activity here, its viability just isn't there. So to that end, and I know it's part of Richard's submission, consolidation of those activities through a sale to another entity that makes sense to keep those things going is something that then needs to be considered but for our business it won't make sense to continue.

**MR WOODS:** Two points on that: in terms of the future of your business (I mean, you're owned by an external entity anyway but nonetheless for your future in Australia), even your R&D provided it's embedded in product that you are exporting, is eligible at the moment. I think one of the newspapers may have misinterpreted what you were saying in that respect. So if you continued your R&D under the ATS and it was embedded in exported product, that would be eligible, but not if it was embedded in Futuris Thailand or whatever is the other company.

**MR DE WIT (FAPM):** Yes, that's correct. The reality is with the products we make, they're large products so we don't export product. We export very little product from here. We produce product next door to the car companies. At the moment the way the ATS rules are written you have to have demonstrable benefit of any R&D that you do in this country back into the production in Australia and we might be doing R&D on a US program that will be produced in the US but provided we can show that it had demonstrable benefit at some point in time in the future into Australian vehicles then that was still claimable R&D if the R&D was done here. Clearly with no production here after 2017, in the absence of a rule change, we won't meet that criteria and then the 5 per cent cap which you have touched on already as well is another issue.

**MR WOODS:** You raised the point that currently you're doing some work for Bombardier and others. Now, that work will still need to be done, whether it's done via an overseas firm or a local firm is an open question and it's up to the relevant parties to make that decision. But if that work is being done competently here and

Futuris decides to no longer operate in Australia then there is an opportunity for that bit of work to be onsold if it's profitable and competent and somebody else can do it. But the submission and Richard's opening statements keep coming back to this point of the public policy support for consolidation and integration in the industry. Apart from issues of how the FEG scheme operates and redundancy payments and the like, where does the public element come into this? Why aren't these private deals done between interested parties, one of whom has got a product they may no longer want, and other firms potentially who see a business opportunity by picking up that product and continuing to produce it?

Where do you see the need for public policy to play a role here? I understand the point about, "Let's make it as easy as possible," but in practical terms, apart from issues of how FEG operates and redundancy payments are made, where's the public policy space?

**MR GRIFFIN (FAPM):** Ideologically we either want to keep manufacturing in this country or we don't, purely and simply. We either need to set in place public policy settings which encourage entrepreneurs and investors to continue to operate in manufacturing or we don't. We're dealing with competitive nations that have adopted very different attitudes towards the need to maintain manufacturing as a core part of their economy compared to what we are doing today. We seem to be on a bent to do everything we can to destroy our manufacturing activities and that is where the public policy settings needs to be reappraised because I have asked the question and continue to ask the question, unless we provide economic stimulus, unless we provide business opportunities for these ex-automotive companies to diversity into, there is not going to be the work for them to do and I am extremely concerned about the realistic opportunities that are going to exist for automotive export of components from this country when you don't have a domestic industry particularly - - -

**MR WEICKHARDT:** Can I just clarify a point here, Jim. Given the fact that 95 per cent of manufacturing in Australia is outside automotive, I understand entirely the concept that perhaps people who have now been burnt by supplying the automotive industry in Australia might not want to rebuild their total business supplying the automotive industry outside Australia. But if the government were to assist the local, current automotive component industry to diversify into other manufacturing in Australia, how would you feel if you were one of the other manufacturers in the area that has received, traditionally, no assistance whatsoever, now competing against an automotive or an ex-automotive component supplier that is receiving a whole lot of government assistance to compete in your patch?

**MR GRIFFIN (FAPM):** I think we need to quantify what we understand as being "a whole lot of". I mean, we're not talking claims and assistance which is going to be over the top. I think what we need to keep is a very realistic appreciation of what is

at risk here if we don't sustain the businesses and what the net effect to the public purse is going to be if all of a sudden you've got upwards of 33,000 or whatever - 44,000, whatever the number ultimately ends up being - people that are displaced, unemployed, and are being paid by the public purse anyway to do nothing, or have moved into less productive roles with less wages, you know.

**MR WEICKHARDT:** No, I understand the idea. But I'm just trying to look at the thing from the other side of the telescope.

**MR GRIFFIN (FAPM):** So therefore, why not encourage automotive industries maybe to invest in non-automotive business and start to propagate that diversion and that spread of automotive based technologies, and know-how, and R&D mentality. You know, we know that automotive industry is the greatest group, as far as R&D is concerned, within manufacturing within Australia, so why don't we shift that into the other areas to make the other areas stronger.

**MR WEICKHARDT:** Yes.

**MR GRIFFIN (FAPM):** I can understand that, you know, we have been supported as an industry and other industries have not. But what I'm saying is that if, you know, we're seeing that doubt about the support for our industry has ultimately led to its demise, we don't want to apply the same stick to all the people that haven't had the assistance that have continued. Because I fear that with the currency where it is and with the competitiveness of this nation as a manufacturing company, relative to, let me say, policy and government-imposed cost, that we don't want to be polluting the other areas. We want to try and learn from our mistakes in the auto and make sure we don't do it with the 95 per cent of the other people you speak with.

**MR DE WIT (FAPM):** Could I answer that question as well, if I could?

**MR WEICKHARDT:** Yes.

**MR DE WIT (FAPM):** I think you would clearly be aggrieved if you would be one of the 95 per cent and someone from automotive is getting some assistance, any assistance, albeit small, in trying to enter that space that could take away your market share. I think the focus needs to be on those manufactured components that are imported, so that the net benefit is still to Australia, rather than those that are already produced here. And there are a hell of a lot of components for infrastructure projects, et cetera, that come from offshore. So design the policy - - -

**MR WEICKHARDT:** Non-automotive components?

**MR DE WIT (FAPM):** Non-automotive components coming in from offshore.

**MR WEICKHARDT:** Yes.

**MR DE WIT (FAPM):** So there can be some design of the scheme and system to assist diversification towards displacing imported manufactured goods as opposed to domestically produced manufactured goods. And then you avoid that issue that you speak of completely.

**MR WOODS:** I guess that raises the point, why would you want to reframe these programs within the umbrella of the ATS when it has been in fact sort of - trapped within the auto industry - that's led to the vulnerability that you now have? I mean, it's been very helpful and supportive to this point, but in a sense, moving forward, you really don't want to stay trapped into an ATS auto-support mentality; you want to be in the manufacturing of product, the engineering, the R&D, the various capabilities that you offer to the economy. So one could in fact argue that you are better off, at least post-2017, where you are talking about the Automotive New Markets Initiative, to look at the essence of that but to reformulate it in a broader market context as a transition measure, as distinct from keeping it within an auto perspective.

**MR GRIFFIN (FAPM):** Do I feel that in 2025 we, as ex-automotive manufacturers, should be still obtaining a benefit from an ATS-type system, because 10 years ago we used to make car parts? Absolutely not. What we're talking about is a transitional arrangement in order to give the industry sufficient time to move into new areas. The plan, whether it's ATS or ANMI, all we're saying is, let's keep this in place, because it has been considered a transitional plan, it has been timed for a period of time. Let's not detract from it. Let's give the automotive industry time to transition.

And I'll take Diver Consolidated, our company, as an example. We've moved from a 100 per cent effective dependency on the Australian car industry to 70 per cent, in five years; I've got to go from 70 to zero in three, and I've now just been joined by a whole bunch of other companies that are now vying for the same business. So as I mentioned before, it's about a transitional arrangement. We're not saying it needs to go on for perpetuity; it needs to be carefully constructed and, as Mark added to my comment, what we need to do is think about what is the economic activity, what is the stimulus, what demand are we going to create in order for not only our businesses but other manufacturing business to vie for. We seem to have spent quite some focus in the last 10 years, I think, on the input side, in supporting our industry, on R&D, and product development. But what we haven't kept focus on is the demand side, and that's what we need to focus on.

**MR WEICKHARDT:** Can I just continue on that theme for a moment. I'm interested in some comments that you might be able to elaborate on, on the success of the Automotive New Markets program to date. I mean, there are always



arguments in these programs about additionality, like what would have happened if no assistance was there. But just like the cry to the physician, "First, do no harm," if government programs do no harm and you can see some good, then that's at least a starting point, because some government programs possibly have done harm. I mean, the design of the ATS in the component area that requires a certain percentage of volume to be in the automotive area may have actually discouraged some of the component manufacturers from diversifying to date. I don't know how important that is in your mind, but I'd be interested in any comments you've got on that too.

So two questions, really. One is, you know, is there good evidence that some people who had received money under the New Markets Program have actually been successful in diversifying? And secondly, is the ATS at the moment actually inhibiting people, as designed, from diversifying?

**MR REILLY (FAPM):** I think I can make a comment on the programs. I think the additionality argument, I think, is a perpetual one, whether they've - I think generally, though, government programs at the grant level fund marginal projects, maybe ones that just wouldn't have got up if they had - in fact, that's one of the requirements. The government insists that, "Could you have funded the actual program yourself or do you need government funds?" That's an argument that generally companies have to make to be eligible in the eligibility criteria.

You know, there are successes. I think, I haven't got them in front of me, but the 23 that we looked at from the ANMI who have tried to enter new markets or develop new products specifically under that program. So I mean, we'd argue that that's inherently a positive for both the company, particularly if it was a marginal project that perhaps wouldn't have got up under the companies own steam. So you know, I think - - -

**MR WOODS:** We'd certainly be interested to pick up that point on what were the key design features of the scheme that your member companies found particularly positive and helpful, as distinct from others which they found were onerous or burdensome - without giving away free taxpayer money. If we're talking about redesigning that scheme, are there things that you would do a bit differently that, from the taxpayer's point of view, would be a net positive? Whether you answer it today or send us a supplementary note.

**MR GRIFFIN (FAPM):** We can send you a supplementary note. There's a couple of points I can make that - we have done some work on that already. One of the initial things was the vagaries around the number of rounds and the frequency of rounds.

**MR WOODS:** Yes.

**MR GRIFFIN (FAPM):** Given that if people are vying for new business and looking for a grant to support them with that new business, they need to have some visibility on the decision-making process and timetable moving forward. That was very vague with ANMI. Then the decision-making process, once our submissions go in, the time lag in order to get a direction as to whether or not you're going to be successful was (a) a little uncertain, and (b) quite lengthy. So business opportunities are going to come and go. I think it's an important - - -

**MR WEICKHARDT:** I'd also be interested, given Richard's comment, about whether or not the attempt to try to demonstrate additionality actually ended up with the most loony ideas being funded, because that's sometimes, in my own perception, a risk when governments try to say, "Well, what we want to do is fund additionality." It's only the really dopey programs that get funded.

**MR REILLY (FAPM):** Yes. Well, the counter to that, though, straightaway, Commissioner, is half the money is coming in from the company, so rational business people aren't going to tip in half their money to fund a dopey project.

**MR WEICKHARDT:** All right. Well, provided it didn't create that sort of effect, I'm happy. But if there are any other, you know, sort of design features that you wanted to revisit, that's an important issue.

**MR REILLY (FAPM):** Yes, for sure.

**MR GRIFFIN (FAPM):** Putting my Australian taxpayer's hat on - - -

**MR REILLY (FAPM):** Don't do that.

**MR WEICKHARDT:** Thank you. It's our money.

**MR GRIFFIN (FAPM):** - - - one is conscious that obtaining grants for a business proposal or project, which a business would have done anyway because it was a good business decision, is a little counter-intuitive, I accept that. So therefore, should the focus not be maybe more so on the activities in order to generate new business opportunities, find new business opportunities, research new opportunities and be prepared to make companies better able to make good business decisions and go for new projects under their own steam, rather than have this thing. So I think there's a blend of the two that needs to be considered and I think ANMI and some of the assistance packages that we've had can also look at some of the up-front assistance and skills that are required, I think.

**MR WOODS:** So capacity building - - -

**MR GRIFFIN (FAPM):** Marketing - - -

**MR WOODS:** - - - and the foundation work is fundamental and then let the individual projects come and go according to their viability and - - -

**MR GRIFFIN (FAPM):** Potentially as an augmentation to it. Some of that activity is not covered under ANMI. I'll give you just a quick example. There was the Green Technology Fund - I think it's now defunct - but one good thing about that activity was that the pre-auditing activity where a company would go through and do all of their power and energy consumption auditing in order to determine whether or not a project was good to proceed with, if they got to that point and then put their grant application in, that all of that pre-auditing work was retrospectively claimable under the scheme. Under our scheme, that stuff is not, and I think that needs to be considered.

**MR WOODS:** I don't know if you had finished Phil's other questions, Richard. Is there anything - a combination - - -

**MR WEICKHARDT:** Well, just whether or not the design of the ATS with this sort of percentage automotive limit is actually - has historically and could in the future sort of actually be a subversive sort of motivation not to diversify.

**MR DE WIT (FAPM):** I don't believe so. I would suggest - it hasn't inhibited anyone from getting into diversified activities. It hasn't assisted either.

**MR WEICKHARDT:** So the 50 per cent automotive doesn't create sort of an inhibiting sort of factor?

**MR DE WIT (FAPM):** It hasn't in the past but clearly now as volumes are scaling back at a rapid rate of knots, it will in the future, I think, but in the past it hasn't been a roadblock, at least for any company that I could think of.

**MR WOODS:** Because it's been a growing market on top of the base, whereas now the base is diminishing - - -

**MR DE WIT (FAPM):** Correct.

**MR WOODS:** - - - and then it comes to a lighter percentage.

**MR GRIFFIN (FAPM):** Can I actually just quickly diverge to a new point, if that's all right, Commissioner - - -

**MR WOODS:** Please.

**MR GRIFFIN (FAPM):** - - - given looking at the time. Looking forward, one of

the topics we've been talking about is industry consolidation and it's imperative that this industry either blossoms and goes off in new areas or comes to a soft landing, without everyone piling into the dirt. We are able to do a lot more work in this industry with better profiling, better collective knowledge, pooling all the information that the car companies and supplier groups, whether it be Automotive Supplier Excellence Australia or FAPM. There is a need to profile this industry very, very quickly. A global view of this industry has been impeded because of concerns around ACCC compliance.

We would ask that, as a priority, that the federal government reviews what needs to be done in order to clear the way for this industry to do that self-assessment without any fear of contravening any ACCC laws because we need to scope, we need to understand who's who in the zoo at tier 1, tier 2, tier 3, tier 4, down to tier 5 level so we can (a) identify those firms that may present a failure risk, which could bring the whole thing down quickly; (b) those firms that are going to be exiting with the OEMs, therefore are going to be part of that industry transition in that format; and (c) those firms which stand a chance of being able to diversify and move into the future. We need to know that, but at the moment there are restrictions to us pooling that knowledge and I refer to the Premier of Victoria's roundtable and a subcommittee that has been formed from that in order to do just that. One of the first things we have to address is clearing the way through the ACCC, so that everyone is comfortable and able to do that work thoroughly and I would - - -

**MR WOODS:** Is that particularly focused on the behaviour and potential abuse of power by the OEMs, as distinct from your own members collectively choosing to share that information?

**MR GRIFFIN (FAPM):** I'm not sure what the origins of the concerns were, Commissioner.

**MR WOODS:** That was my understanding - - -

**MR GRIFFIN (FAPM):** Yes, it would have been.

**MR WOODS:** - - - but we will chase it through.

**MR GRIFFIN (FAPM):** But I think we're now at a point, given where we are, where really all bets are off, we've got to do what we can.

**MR WOODS:** And there's collective support amongst your membership that they are willing to share that level of information?

**MR GRIFFIN (FAPM):** I believe there is, yes.

**MR PAINE (FAPM):** Can I just add to that point as well. With those sorts of things that Jim is talking about, there's an immediacy for those things to be put in place. Travelling here this morning, listening to the radio, I heard the Industry Minister, I heard the Lord Mayor of Melbourne, and they were talking about Alcoa and the immediacy of what's required there, given they're closing in July, and we certainly sympathise with the people who are affected by that announcement.

But there was a suggestion that there was no urgency in the automotive industry because it's not closing till 2016-2017. That is itself an assumption at this stage. In the supply base which provides the vast majority of the people affected, and probably the least covered in terms of their entitlements, these things are happening right now. There are people affected right now. So I don't think that the Commission - and I'm not suggesting you are - should follow suit with what I heard this morning and assume that we have two or three years to sort this out because we don't.

**MR WOODS:** You can be assured that the Commission has always taken the view that a transition period that starts as soon as knowledge is had is much better than a sudden disruptive behaviour at the end of the process that could have been otherwise avoided, so we share with you the importance of getting this work done.

**MR DE WIT:** May I make a suggestion perhaps - - -

**MR WOODS:** Please.

**MR DE WIT:** - - - as to how to assist with that. So Glenn's point on closure costs and doing it in an orderly way is a huge issue and a little fictitious example - perhaps let's call this company Fictitious Automotive, who has three sites around Australia supplying the three OEMs and has 700 employees, each with - - -

**MR WOODS:** A lot of people with low skill.

**MR DE WIT:** It sounds very familiar to me - and each has about a \$40,000 entitlement between annual leave, long service leave and redundancy costs, times 700 is \$28 million, plus the closure of three sites, make good, lease breaks, et cetera, it's about another \$7 million. So a \$35 million bill coming for Fictitious Automotive over the next three years. In a circumstance where the cash flow, because of diminishing volumes, is diminishing at a rate of knots, so one equation doesn't equal the other. One assistance that could be provided to those suppliers, such as Fictitious Automotive, is their ATS receivable. The way ATS works, for every dollar that you claim, you get paid that dollar over the next 11 rolling quarters, 33 months. So that past receivable, the past three years' worth of funds that are sitting there that's owed to Fictitious Automotive could be paid in more of a lump sum. Rather than it blending out between 2017 in theory it would go on for another 33 months, 11

rolling quarters of payments to that company. They need the money now to assist them in an orderly wind down of this fictitious business.

**MR WOODS:** I understand at the start up of the start-up of the ATS some rollover from ACIS that was beneficial but I understand your point about that might have been nice then and you banked it, but you don't particularly want to suffer the consequences of that at the back end.

**MR DE WIT (FAPM):** At the end, correct.

**MR WOODS:** Yes. You also need to be pushing the last bit of product of whatever this company does through the fence for the last car which has its own logistical challenges.

**MR DE WIT (FAPM):** Correct.

**MR WOODS:** We have run out of time but is there any absolutely burning question that you want to pick up that we can't chase FAPM later?

**MR WEICKHARDT:** In your submission, if I can just clarify one point, you quote an article in the *Age* about the potential liabilities under the FEG scheme of \$1.3 billion. Do you know where that number came from and do you have any - you might want to send us your own - estimate and how you derived that.

**MR REILLY (FAPM):** Yeah, that was a quote from another submission, PPB Advisory, so that's on the public record.

**MR WOODS:** Do you have a view on that number?

**MR REILLY (FAPM):** That's the example that they gave. It's extrapolated out but, you know, I think the argument still - regardless of the number, although I think it is large, that's their figure - is that ultimately if we can assist firms to restructure without going into liquidation you're going to save a lot of money.

**MR WOODS:** I understand the general principle, we were just curious as to where - - -

**MR REILLY (FAPM):** It's straight out of - - -

**MR WOODS:** Yes, I understand its source but how it was calculated.

**MR GRIFFIN (FAPM):** It's information such as that which is part of the profiling that we want to do, that's why it's important.

**MR WOODS:** Completely agree.

**MR WEICKHARDT:** Okay.

**MR WOODS:** That profiling would assist policy makers as equally as it would the industry in the understanding what they have to do.

**MR GRIFFIN (FAPM):** Yes, absolutely.

**MR WEICKHARDT:** Clearly the profiling requires the cooperation of people in the industry and a degree of openness. Do you see any of your members having resistance to that sort of openness?

**MR GRIFFIN (FAPM):** I don't believe so, Commissioner.

**MR WOODS:** Even though the consequences for some might be they're the ones who are taken over, not the takeoverers.

**MR GRIFFIN (FAPM):** It depends on what we uncover. The biggest risk is that the industry stops before 2016 in Ford's case and 2017 in Holden and Toyota's case. The suppliers need the time and they need the cash. They need that transition period.

**MR WOODS:** We do have to move on but again can I emphasise our gratitude to you for the time you have invested with us. I understand you might be going to Malaysia and Indonesia in the near future to chase opportunities.

**MR GRIFFIN (FAPM):** Next week.

**MR WOODS:** Go for it and good luck.

**MR GRIFFIN (FAPM):** Thank you.

**MR DE WIT (FAPM):** Thank you very much.

**MR WOODS:** Can I ask our next participants, Australian Fleet Lessors, to come forward. I welcome our next participants, Australian Fleet Lessors Association. Can each of you separately please state your name, the organisation you represent and the position you hold.

**MR BILLS (AFLA):** John Bills, Executive Officer, Australian Fleet Lessors Association.

**MR TOMAS (AFLA):** Abe Tomas, outgoing Chairman, Australian Fleet Lessors Association.

**MR WOODS:** Very good, thank you and thank you for your submission. You're focussing particularly on the issue of second-hand vehicles. Do you have an opening statement you wish to make?

**MR BILLS (AFLA):** Yes, thank you. Firstly, we very much appreciate the opportunity to make a submission and a statement to the Commission today. Members of the Australian Fleet Lessors Association, AFLA, are the major fleet leasing companies in Australia. Our members fund some 360,000 vehicles. These are vehicles that are leased by AFLA members to their customers who range from small to large businesses and governments across Australia. Of this funded portfolio, 220,000, or pretty close to two-thirds, are operating leases. The distinction being that under an operating lease the lessor, that's our member, bears the risk in relation to the value of the asset at the end of the lease. So there's quite a big distinction between an operating lease and a finance lease.

AFLA members manage a further 180,000 vehicles. These managed vehicles are either owned by their customer or financed through other parties. So the total portfolio is around about 540,000 vehicles. These numbers illustrate the significant investment AFLA members have made under the current regulatory regime. As you noted, our comments today and in our submission focus on the position paper's draft finding 3.2 that the policy rationale for large scale importation of second-hand vehicles into Australia is weak.

We acknowledge prima facie that some benefits would flow from opening up used vehicle imports. But the cost of doing so need to be thoroughly evaluated prior to an informed recommendation being made. Although this is not possible to do nearly as thoroughly as required in the time frame for response to this draft finding, our submission discusses some of the issues we believe are critical within this assessment process.

We would firstly like to emphasise that, as we understand, the rationale for the current restrictions is multifaceted. In part it does relate to the maintenance of a local



auto manufacturing industry. However, in part it importantly relates to a range of other fundamental issues outside of the local manufacturing industry. Our submission identifies these other considerations as those relating to safety, the environment, consumer protection, including odometer and other fraud, stolen vehicles, repairs and maintenance, regulatory costs, impacts on state and Commonwealth tax revenues and impacts on other sectors of the economy. Of course, we are concerned about the impact on lessors.

While it could be expected that we would raise these sort of concerns, our submission provides insights from a number of independent parties as well as our views, and are focused on ensuring the potential merits and costs of such reform are meaningfully considered in the overall context of the Australian community, our economy, businesses within the sector and of individual consumers. We suggest that the objectives of the Motor Vehicle Standards Act include the strong public policy intent of reducing fatalities and injuries on Australian roads. But at the same time we recognise the \$12,000 special tariff on imported used vehicles has a clear objective of the maintenance of the local automotive manufacturing industry.

Essential, we believe, to this discussion is the impact of lifting restrictions on the age of the Australian fleet. We suggest that vehicle age is a good basis for determining safety and environmental impacts and the New Zealand Ministry of Transport statistics show an increase in the fleet age in New Zealand following the lifting of restrictions on used car imports and a materially older fleet in New Zealand compared to Australia. Of course, AFLA members are not experts on safety matters. Accordingly, we have referred to the submission by the independent Australian New Car Assessment Program, ANCAP, last year to the Department of Infrastructure and Transport's consultation paper on the Motor Vehicle Standards Act. In response to the question of whether there should be no or fewer or restrictions on the importation of used vehicles, ANCAP responded categorically that at the very least current restrictions should remain on the importation of used vehicles. We have similarly referred to statistics relating to vehicle emissions demonstrating the lower emissions of newer vehicles. The Productivity Commission will have the opportunity to review submissions by parties with safety, environmental, and similar expertise. Our contention is that these are legitimate policy considerations which require significant further analysis before a recommendation can be made. We suggest that consumer protection concerns relating to stolen vehicles, odometer and similar fraud, cost of insurance and repairs, the availability of finance and so on, are also legitimate ones requiring comprehensive assessment.

Other issues discussed in our submission relate to fiscal concerns. It would be helpful to have the benefit of modelling to illuminate the impact on state and Commonwealth revenues. An analysis of the costs of establishing appropriate revenue structures to address safety, environment, and other issues. In this regard, various state registration authorities have passed comment on the disproportionate

amount of their resources currently devoted to imported used vehicles, despite their small volume. This would obviously increase materially if restrictions were eased.

Turning to our area, the financing and leasing of cars in Australia, this is a significant commercial undertaking with competition in this market supported by the fact that a car is an attractive asset to finance. With the quality of the security being an important determinant of the interest rate, a lowering of asset quality of the vehicle portfolio, resulting from both a higher concentration of used imports and weaker used vehicle prices generally, will have consequences for losses and, in turn, the cost of financing vehicles.

But it is in relation to operating leases that a lowering of second-hand vehicle prices will have a significant impact. For AFLA members alone, losses on the 220,000 operating lease portfolio could potentially amount to hundreds of millions of dollars. In saying this, we acknowledge that the extent of any change in value of second-hand cars generally will be difficult to predict, but potentially realisable values would be lower than the residual carrying values that were predicated on the basis of the regulatory environment prevailing at the time the investment was made, and Mr Tomas would like to shortly elaborate in that regard.

In relation to transitional arrangements, it is pleasing that the Position Paper has acknowledged the necessity of allowing a lag between any announcement of the policy changes and implementation. And from our research, we think that New Zealand, if it had its time again, would have adopted such an approach. Furthermore, the recognition in the Position paper of the impact of large-scale importation of second-hand vehicles, particularly as it would impact on lessors and financiers, is commendable. Addressing these impacts will be crucial to the operation of a fleet leasing company.

In summary, I guess, we see that the potential gains from removing restrictions on used vehicle imports are perhaps more obvious than the costs. This highlights the need for rigorous cost-benefit analysis. We contend there are legitimate and extensive policy grounds for retaining restrictions, and these grounds remain irrespective of the existence of a local auto manufacturing sector. We submit, in the time available to the Commission to finalise this report to government, it is not possible to undertake the necessary analysis in this regard. Rather we feel that the current review of the Motor Vehicle Standards Act, as announced by the minister in January, may be an appropriate forum to conduct at least some of the necessary analysis and consultation.

Finally, we stress the importance of the Commission's view on the need for appropriate transitional arrangements and, again, thanks for the Commission's recognition of the particular needs of financiers and lessor in this regard. And Mr Tomas would just like to make a few points.

**MR WOODS:** Yes. Can it be brief, given the time?

**MR BILLS (AFLA):** Sure.

**MR WOODS:** Thanks.

**MR TOMAS (AFLA):** Look, first I'd like to concur with the many comments made by Mr Bills. And what I'd like to do is elaborate on the financial impact that the lowering of the second-hand vehicle values will have on an operating lease portfolio, which we think is an important aspect. Firstly, the monthly lease rate in an operating lease is inextricably linked to the predictability of the expected future resale value of a motor vehicle. Operating lessors not only consider the age and kilometres travelled, but we are expected to consider a range of economic factors, such as: interest rates; foreign exchange rates; supply and availability of vehicles, including substitutes; and the regulatory environment.

For us, a stable regulatory environment is fundamental to operating lessor investing in motor vehicles, and AFLA members, over an extended period of time, have made significant financial investments to establish business models to support business in Australia, managing the fleets of Commonwealth and state governments, managing the fleets of an extensive number of large, medium, and small businesses, and creating hundreds of jobs at the same time. In order to continue to invest in the critical role of financing and managing company car fleets, regulatory certainty is vital and changes to regulatory environments can have significant financial implications to our members as well as their ability to continue to provide the relevant services.

A known environment does enable continued investments to be made to improve how we deliver services and how we assist customers to lower operating costs on their vehicle fleets. We would also like to point out that the introduction of the goods and services tax had major potential financial impacts to operating lessor and the government of that day worked with AFLA to ensure that the unintended financial consequences were mitigated, so that operating lessors could continue to finance and manage business and government fleets and continue to invest to improve the efficiencies of their operations. Thank you.

**MR WOODS:** Thank you very much. And as you point out, and quite rightly so, you had very short time to put this together, but we were impressed with the quality of the submission in the time you had. I think you can take it as read the points you make in your submission on the safety considerations, the pedigree issues, et cetera - are things that we all fully understand and are acquainted with, so we won't need to rehearse those in the few moments that we have left.

But I do note in particular your point about some level of certainty in developing your businesses and that you predicate investment decisions on those, and hence our concern also about having a degree of transition that is signalled ahead, that there is consultation to avoid unintended consequences and the like. It would also suggest caution in the degree and the manner in which such a market was opened up, so that you may want to open up a limited market, and whether that's based on a very short time frame of age of vehicle or however done initially to assess its impact before you then move forward.

But the other point I just wanted to draw attention to was the way that, you know, you have acknowledged that this is a cost-benefit game; that there are undoubtedly costs - benefits in terms of the potential for reduction in car prices, perhaps new as well as, certainly, second-hand, and that that consumer benefit needs to be offset against some of the costs. Do you have a view, and if so, whether today or in a subsequent note to us, of how you would design a transition? I know it's not your desired end point to have such an opening of a scheme, but nonetheless, if it is to be considered, are there particular features or ways of phasing in that support not only your business interests, and I understand them being paramount, but the broader interests of ensuring safe vehicles, getting to understand the dynamics of the market, getting to understand the price effects and the like.

**MR WEICKHARDT:** Perhaps I can piggyback on that point. It seems to me, without knowing very much about your business at all, but based on my memory of fleet car purchases going back a long time ago, that operating leases weren't a big deal and finance leases were a much bigger deal. Given the sort of uncertainties that this sort of change might introduce to second-hand car prices, how big would the consequence be on your members if, for a period of time, the leasing market simply said, "We're not prepared to take the risk on the resale value of the second-hand car, so what we'll do is we'll swing back to 100 per cent finance leases"? Would that end your world? Would it be terrible?

**MR TOMAS (AFLA):** Look, I'm not certain that leasing companies would actually go back to a finance lease because customers employ us to manage the overall whole-of-life cost of the vehicle, so they have asked us to take over all the relevant risks of running a motor car fleet which not only is a residual future value but it also includes the maintenance of the car, the fitment of tyres, the purchasing life cycle. So there is a whole bunch of items that are associated with it that couldn't just be delinked, if you like, and business out there would find that very difficult. I think as professional businesses, it's not something we'd like to go back to because we have created, if you like, over a period of time, an environment where we do save costs and business does get the benefit of the initiatives that we bring to the table. I'm speaking for myself rather than all of our members but I'd be very surprised, having developed the industry in terms of the fleet side over 30 years plus, that there would be a return to the beginnings of that.

I think the other question raised around transition arrangements, operating leases are generally four to five-year time frames, so what we would like to see is that any outcome takes into account the fact that we do have an ongoing exposure for four or five years and that any outcome does take into account that the New Zealand experience, which I've seen from Australia, is not a very pleasant one for that country because it did mean a sudden influx of cars of all ages, all descriptions and it did create a significant immediate impact to that new and used car industry. So having a limitation on the numbers of imported cars coming in over a period of time is a very logical thing that we would certainly entertain. But certainly the first thing is that we do feel there is a time frame required before it starts so that we can adjust our way of doing business, as well as our customers' way of doing business, to take that into account because they are going to experience higher costs as a result, so their businesses are going to experience the higher cost. They won't invest in second-hand imported cars because there is a risk of a potential duty of care they owe their employees, so unknown quantities.

**MR WEICKHARDT:** It may create, I would say, higher costs. But if it had the effect of pulling down the price of a new car - which we've got other submissions suggesting for the premium end of the market - just the threat of the imports could have the impact of pulling down the premium that the expensive cars are extracting in the market right now.

**MR TOMAS (AFLA):** I certainly agree with that on the expensive side but I'd also point out that our members are running bread and butter cars for sales reps and technicians and they don't fall within that ambit. Probably less than 3 per cent of the vehicles that we manage through AFLA come into that category that you were mentioning.

**MR WEICKHARDT:** Okay. Less than 3 per cent?

**MR TOMAS (AFLA):** It's a very, very small amount for operating leases. So we are predominantly financing your small, medium and Commodore-sized cars that are much more traditional cars where you are potentially going to have an impact and there may be some reduction in the price of the new cars, but until we have a bit more understanding, it may not equate, so there is that risk that there will be potentially higher business costs.

**MR WOODS:** We have run out of time and we do have other participants waiting patiently. I note your point about the ongoing review of the Motor Vehicle Standards Act and we have been speaking to the relevant department who's doing that review, so we understand your point. But whatever position we get to here can also be carried through into that review which no doubt you're participating in one way or another.

**MR TOMAS (AFLA):** Yes.

**MR WOODS:** So thank you very much for your time and for your very speedy but comprehensive submission and for coming forward today, and any further information you may wish to send to us would be welcome.

**MR TOMAS (AFLA):** Thank you.

**MR WOODS:** Can I call Metalsa Australia, please. Gentlemen, apologies for keeping you waiting beyond your scheduled time. Could you please separately for the record state your names, the organisation you represent and the position you hold.

**MR KIREMITCIYAN (MA):** My name is Murat Kiremitciyan. I'm Director and Plant Manager of Metalsa Australia.

**MR AUSTIN (MA):** My name is John Austin. I work for Metalsa Australia and I'm Business Development Manager.

**MR WOODS:** Thank you. Thank you for two submissions now to our inquiry. Things have changed as the inquiry has progressed and that will also be impacting on your business. Now, I think you probably wrote most of your second submission before last Tuesday or Monday.

**MR KIREMITCIYAN (MA):** I did, and my apologies for that.

**MR WOODS:** No, that's all right.

**MR KIREMITCIYAN (MA):** I still felt the need and compelled to come and discuss - - -

**MR WOODS:** Absolutely.

**MR KIREMITCIYAN (MA):** We've discussed it and changed some - - -

**MR WOODS:** Yes. Perhaps if you can take us from where you've been in your submissions to where you are currently, that would be helpful.

**MR KIREMITCIYAN (MA):** In my submission, the first argument now is somewhat irrelevant but I've tried to paint a picture of an argument - rather than spillover and multiplier effects, an argument based on the export dollars and took into consideration in the first inquiry your comments because I sat here for eight hours listening intently to you about what's in the best interests for the community of Australia, not what they do in the US or Germany but what's in it for us.

My second point was obviously if Toyota specifically - and I've targeted Toyota specifically as the last man standing, the supply base with them. Contrary to what other people may say, and I'm presenting on behalf of a raw up-front frontline manufacturer to the automotive industry - we have 151 people working for us at the moment over two sites. We're a \$42 million business out of Cheltenham and Clayton. There would be talk that Toyota won't be able to go it alone. I beg to differ.

Most of the suppliers that Toyota have are reliant upon Toyota as we are with 80 to 85 per cent of our business and the other 15 per cent being Ford and then there's the dribs and drabs. We would have been able to go it alone as a major supplier, and I'm talking the largest supplier of components to the Camry by volume in Australia, we're talking 12 million parts per year.

My third point was I couldn't really work out why we would recommend or propose to not buy Australian, and my argument there was basically some evidence from the ICN. The argument for was on unrestricted importing of used cars and that was just for my beliefs about flooding this country with cheap imports and that's just another example of one. But Mr Porter there corrected me on that one because I get him to proofread everything that I do and he said the safety side of things - and I wouldn't want my kids to drive an unsafe car if that's what's to eventuate at the end of the day. I spent a few nights going back about how to justify this 9.4 per cent and I went to every trades and assistance paper from 1988, or whatever it was there, and took down the records and made that chart and graph to show that, you know, really, the automotive industry has had the largest impact. Well, maybe that's justified reason for having the largest amount of money as well, or assistance.

But I'm going to start and paint a picture with words about Metalsa Australia. I'm going to paint this picture of where we were and where we are, and then I'm going to summarise what it is that we would request of yourselves, humbly. In 2011 we ventured into a diversification and innovation scheme, maybe a bit late, previous management not maybe taking the initiative. I was appointed in 2011 and we've changed this company around. Since then we've, you know, put on John and had associations, unlike before, with industry bodies.

You know, Andy Balmain from ICN; Bruno Bello from AMTIL; Enterprise Connect; South Eastern Manufacturing with Sandra George; South Eastern Business Networks; (indistinct) with Lindsay and Peter Taylor, great guys; AutoCRC, Ian Christensen and the girls that work there; and then Albert Geller comes out of leftwing, with manufacturing precincts where Julia wanted to split up Victoria into manufacturing precincts and have industry support industry. The concept there was that big industry would give quotes to little industry and we'd keep work within Australia and not have the need to import; he's still around. Our brothers at the DSDBI, Department of Business, Gary Bourne and whatnot; and Mr Phil Bourke.

All these people, great people, all admirable intentions of trying to help us. But at the end of the day, without work and without a request for quote, there's nothing there. With, you know, 5S, TPS, and any other lean analogy you can think of, our business to the nth degree. We run our plant so well. We have Mexicans because we're a Mexican based organisation. Previously we were BTR, then Dana, and then Metalsa, but the people there are the same people, just the name changes.



They're sending people from overseas to see how meticulously we run our plant and how we control our expenses, because of the pure need to survive.

**MR WOODS:** It's a wonderful incentive.

**MR KIREMITCIYAN (MA):** We've gone to, you know, Dunbier Trailers, we've gone to caravans, we've gone trucks, Ivecos, the Jaycos, Volgrens, the Bombardiers, Mono Pumps, we've gone to defence. We've sat in an MRO defence industry meeting the other day, but that was if you had a product, and because we're customer-driven, made to print, we don't actually have a product. Solar, marine, aerospace, you name it, over these past two or three years.

We've put up stands at the Grand Prix, we're one of only a few. We've paid for the Manufacturing Machinery Expo last year, \$3000, one of only two or - if you go to that expo shed, manufacturing is only this quarter or one tenth of it, the rest are all imported machinery from overseas, Taiwan and China. It's a bit of a joke. Taylor was the only one there. We've been on the Victorian Government Trade Mission. You know, we're spreading those tentacles out as much as we possibly can, all in search of new work and new business within the country.

We became experts and educated ourselves trying to get more feathers in the hat with high-strength steels, aluminium. We actually press one part for Boston Engineering in Western Australia. Stainless steel components for Bombardier. Pressing plastic with new technology from Metalsa in Germany. And fibreglass, which we see as possibly a market we can go into in the future.

To remain at the forefront of technological developments, we have alliances at Deakin University on our, what's it called, tool - - -

**MR AUSTIN (MA):** Well, we're doing a toolware study.

**MR KIREMITCIYAN (MA):** - - - toolware study with the VCAN we've got two projects, one we have to sign nondisclosure statements and the other one is - - -

**MR AUSTIN (MA):** They're both nondisclosures.

**MR KIREMITCIYAN (MA):** They're nondisclosures, but there's manipulating of light-weighting steel. So you know, we're getting involved. We have the latest presses, one of the largest presses outside of the OEMs. It's a \$13-million press, it's only five years old, and the other one's 1000-tonne press, fully automated, and we rely upon them for the future. Advanced robotics, some of the most advanced robotics you can get. We spend - we sell 12 million parts to Toyota per year with a defect rate of zero. A PPM of zero, unheard of.

We were recognised by Toyota last year, winning one award and being elected for another two in TPS excellence. Best value innovation award, outstanding improvements, we were accredited to TS 16949 Q1, highest number of points; ISO14001 and ISO9001. We are that good, we could catch a flying bird without teeth. That's how good we are. There's a second part to that, but I won't mention it because John said it's a bit rude. It's catching a fish with certain anatomy of your body.

**MR WOODS:** Worked it out.

**MR KIREMITCIYAN (MA):** But with all this effort over the past few years, we've only been able to generate \$300,000 worth of sales on a \$42-million business. And we get asked the question, "Diversify." Sure, into what? That's the \$64 question. We are geared up for high-volume, fast-paced manufacturing, as a lot of the other suppliers are. We look like a typical supplier to the auto industry, but we haven't been able to find a like and/or similar industry in Australia that requires our capabilities, or there isn't anything that isn't imported from China. And when we go to products or something that we want to manufacture, "We get them from China for cheaper. Can you match that price?" We sometimes can't even match the material price that they get it for. So with the exit of the OEMs, we're going to have this void. How do we fill that void in as a supplier? There's no way we're going to be employing another 150 people.

**MR WOODS:** So at that point, do you also compete with Metalsa's other plants? You mentioned Germany, I know you're a Mexican-owned conglomerate.

**MR KIREMITCIYAN (MA):** There's 12,000 people and they're in every country, but we're independent in Australia.

**MR WOODS:** Independent in one sense, but in terms of potential exports?

**MR KIREMITCIYAN (MA):** We're not competing against one another. No, we don't.

**MR AUSTIN (MA):** We don't compete against one another within the company.

**MR WOODS:** No, but does that also mean that you don't have export opportunities because your affiliates are - - -

**MR KIREMITCIYAN (MA):** No, in the areas that we want to export, they're not there and we are going to be the first to initiate that.

**MR AUSTIN (MA):** We have the opportunity.

**MR KIREMITCIYAN (MA):** We have the first opportunity.

**MR WOODS:** Thank you.

**MR KIREMITCIYAN (MA):** And thank God they're not there, so that we can get in first, or they would have said, "No, we already have a branch there, sorry. You're on your own."

**MR WOODS:** Well, there are many other firms who are in that situation - - -

**MR KIREMITCIYAN (MA):** Correct.

**MR WOODS:** - - - of having competition amongst their affiliates.

**MR KIREMITCIYAN (MA):** Yes. So we realise now that we need to follow - chase - the automotive industry. We have a portfolio of diversification, we've got a few customers, but it will take time, it will take time, because there aren't those industries here in Australia. In coming back to why we're here, giving you a typical example of what a typical supplier would do.

**MR WOODS:** Yes, it's very helpful.

**MR KIREMITCIYAN (MA):** So therefore we ask you to consider these two propositions. One is to create the conditions by government for us to export successfully. How are we going to do that, that's the question. But we need to export successfully or have the ability or have the conditions created to do so.

**MR WOODS:** Tell us your second, but then we'll come back to that.

**MR KIREMITCIYAN (MA):** The second is the continuation of the ATS, and I don't recommend till 2020, I recommend to 2025. We'll need a good - another 10 years after this event. Not everyone has started off the starting blocks at the same time: some are at their infancy, some are well advanced. But we'll need that extra time as well and - also, while I'm here, this 2015 or 2017 unlevel - I got this from the Ford submission. There's a trough and then there's peaks in 2017.

**MR WOODS:** Yes.

**MR KIREMITCIYAN (MA):** So a more linear type of approach to provide stability to those companies, they know that, you know, with the research, development, and looking for new opportunities, that they'll have that source of income that will see them through, and then it petering off probably in the 2023. That should give enough time. If you haven't done it by then, mate, well, get out of the kitchen.

**MR WOODS:** Picking up that second line, we do understand the issues of the current profile of funding and the consequences they have.

**MR KIREMITCIYAN (MA):** Sure.

**MR WOODS:** There's a related issue which your FAPM colleagues in the audience have made sure we're aware of and that's the 5 per cent cap figure on sales.

**MR KIREMITCIYAN (MA):** Yes, that as well.

**MR WOODS:** So that side we understand and I won't pursue in the time we have here because we're across those issues. The "create conditions for export", both the federal government and state governments do have various programs at the moment and you mentioned Enterprise Connect, but in terms of the exports and EFIC and Australian trade programs, are you saying that they're insufficient or that you just haven't got into those yet? That's part of the question, but before you answer it, related is whether you are thinking exports in terms of automotive parts to other OEMs in other countries - - -

**MR KIREMITCIYAN (MA):** Yes.

**MR WOODS:** - - - whether that's Indonesia or Thailand or wherever, or are you thinking of diversified products?

**MR KIREMITCIYAN (MA):** Automotive into other countries where we can utilise those high-volume, fast-pressed equipment to our advantage. It will mean a downsizing dramatically of the workforce but because we have that capital-intensive equipment there, we would and we have demonstrated to Asian markets that we are competitive. Unfortunately the cost of transportation is something that really kills us on the piece price and also when we assemble product together, the airspace in the container makes it unfeasible as well. So packing pressings together and packing them into as much as we can of the 20 tonnes delivered on a 40-foot container costs 3000 to send it to Thailand, for example.

**MR WOODS:** I don't want to breach any of your commercial confidentialities but given that you have been a supplier primarily to Toyota and they have very large plants in places like Thailand, does that give you a recognition within their supply chains having had that exposure here?

**MR KIREMITCIYAN (MA):** It does, but 90 per cent of the decisions come from Japan in their keiretsu club that they have and getting in there is going to be difficult. Now, the advantage that Metalsa Australia has is that we are going to use our worldwide relationship with Toyota and we've got an office in Japan. But what do

the other SMEs in Australia do, the mum and dad organisations who don't have that little bit of advantage?

**MR WOODS:** I understand those, but just while you're here, given again your Mexico headquarters and Toyota's presence in southern US et cetera, there is a relationship at the company level as much as at the local Australian level.

**MR KIREMITCIYAN (MA):** Correct. We will still need to have someone in the face of the customer overseas.

**MR WOODS:** Absolutely.

**MR KIREMITCIYAN (MA):** The export markets new market scheme will assist in the costs of marketing which is something; it's better than nothing.

**MR WOODS:** And of course there's been the Automotive New Markets Initiative. Have you found that that's - - -

**MR KIREMITCIYAN (MA):** No, you need a project to be able to be eligible and to be eligible, you need a project. Without the project, you can't be eligible. So it's a catch-22 situation. There's been, as my colleague said, 23 companies but there's not 120-odd. Where do they stand? So the ATS helps with helping those businesses as best they can. There's got to be consolidation and market forces are going to happen and that's going to be natural attrition as time goes by. That's just the way it is. That's business. But unfortunately, like I said before in my submission, the automotive industry has been hit the hardest and that's, in my view, a justified reason to continue assistance in that area. Basically that's what we've come to say. We're going to go and see Mr Macfarlane now - - -

**MR WOODS:** You have a very good line . I'm sure he will listen very closely.

**MR KIREMITCIYAN (MA):** - - - and discuss the same type of thing as the ATS continuation and helping us with exports of businesses like us.

**MR WOODS:** You might want to contemplate whether you continue to do it under the umbrella of the ATS in your presentations to government or whether you talk about a transition scheme that meets - - -

**MR KIREMITCIYAN (MA):** We were discussing that it's either ATS - call it whatever you want to call it - - -

**MR WOODS:** Well, that might be - - -

**MR KIREMITCIYAN (MA):** - - - but a type of transitional program.

**MR WOODS:** Yes. So if you talked about the generic support that you need and why - - -

**MR KIREMITCIYAN (MA):** A generic program.

**MR WOODS:** - - - that might be helpful.

**MR KIREMITCIYAN (MA):** Noted.

**MR WOODS:** Thank you for your time here and for your submissions. It is very good to always get down to the level of individual firms, what they're doing, how they're doing it.

**MR KIREMITCIYAN (MA):** Thank you for your consideration.

**MR WEICKHARDT:** Thank you.

**MR WOODS:** Appreciate that.

**MR KIREMITCIYAN (MA):** Thank you.

**MR WOODS:** Could you please state your name for the record and whether you are representing anybody, which I suspect not.

**DR WILL:** Yes. My name is Frank Will. I'm a senior lecturer at Deakin University. I'm CEO of Ino8, a little start-up company that's commercialising a couple of automotive inventions and I'm also a director of the Society of Automotive Engineers Australasia but it's my private view that I'll be submitting and I will share today with you today as well.

**MR WOODS:** Thank you very much and thank you for the various submissions that you have made and your contribution to the inquiry to date. Please proceed.

**DR WILL:** Yes. Look, I don't want to repeat any of the things that I have written there, so I'll make it short, but the key point from the first submission is that every year, about 1.3 million people die on the world's roads, many of them on two-wheelers like motorbikes and scooters and the number is actually increasing every year, not only in the Asian countries but also in the European and western worlds and in Australia as well. The reason why I'm so passionate about it is I was almost one of them. I was ridden over by a car on a bike. I had two further near-death experiences on little mopeds or motorcycles, if you like. I had over 10 operations on knees, foot, shoulders. But I was quite lucky, I'm still relatively fit. I can walk around here. Some of the people that I know weren't so lucky. I've got a neighbour; he was decapitated riding a bike by hitting a guardrail post. I've got a friend who broke his neck. So I think the only reason why I'm still here is that I need to do something about it.

I'm not here chasing grants or anything like that, even though it is kind of one of the main jobs of a university researcher. Some of my colleagues spend about 40 per cent of their time to do that, but I want to help people. I want to help also the people that will be made redundant to give them new opportunity. The previous presenters were asking what new opportunity might be available. I also want to give something back to the country that gave me a lot. As you know, I'm from Germany but I will leave that - that's my intention.

It would be easy to get some money from Europe, for example, at the moment. I mentioned that in one of my last submissions. The European Union under the Horizon 2020 program just announced 159 million Euros for research of green vehicles and radically new mobility concepts for urban transportation is one of the key seven initiatives there. Additional to that, there's another 558.5 million Euros for related research and projects related to mobility for growth, for example, including tackling urban road congestion. So that's basically a summary of what I'd like to say today. If you've got any questions regarding any of my submissions I'm happy to answer them, of course.

**MR WOODS:** Yes. You have been pursuing your leaning car technology et cetera for some time. What interest are you getting amongst investors in this space? Is it progressing? Are the benefits being recognised?

**DR WILL:** Yes, sure. After we had the first discussion in the first hearing I took your recommendations and talked to CSIRO and they're very passionate about the idea as well, so they want to be part of such a consortium and I have contacted many other organisations. So far the tally stands at 22 Australian organisations that want to be part of such a consortium to develop, build and commercialise such a vehicle.

Another 12 companies that I've contacted haven't made a decision yet, that is outstanding. So I'm getting a lot of traction that is increasing continuously. There are several car makers from Europe that have interest in such a vehicle that have concrete production plans. Obviously I can't talk about any details because that's confidential. But there's certainly a lot of increased traction there and if you look at other companies that looked at a new niche market, Tesla Motors is quite successful.

**MR WOODS:** Indeed.

**DR WILL:** Even though they tackled something that none of the existing car manufacturers were even close to: make such an electric vehicle in a profitable way and with only 10 years from when the company was started. The focus on the niche - you know, the batteries, the power train and all of that together. They were able to become not only profitable but become a \$25 billion company, worth half as much as General Motors which is around for 100 years.

So I think the same can be repeated with finding a new niche and leaning vehicles is a new niche. They are not available commercially made. Toyota is probably the closest. They announced they will make a hundred of these vehicles for fleet trials this year to be available in Toyota City and in Geneva. This is really a new kind of growth market that will grow quite significantly in the future and we have the chance to be part of that if we want.

**MR WOODS:** You mentioned Tesla and in fact some of the component manufacturers in Australia are contributing to that. So are you finding interest amongst the component manufacturers who, of course, at the moment are looking to diversify their businesses? Is this a potential avenue for them?

**DR WILL:** Yes, absolutely. As I said, so far 22 organisations expressed interest - - -

**MR WOODS:** I just wasn't sure how many of them are component manufacturers versus others.



**DR WILL:** The majority, 70 per cent roughly. I mean, I haven't counted the numbers to be true but I've drawn a picture with an image of the vehicle with the kind of different component manufacturers, about what they could contribute.

**MR WOODS:** Okay.

**DR WILL:** So about 70 per cent roughly, yes. A good mixture between global organisations, Australian-owned manufacturers and SMEs with all sorts of capabilities.

**MR WEICKHARDT :** Given Toyota's interest in this area and their plan to make a hundred vehicles to trial this, is your intellectual property something that they would be interested in or have you spoken to them?

**DR WILL:** Yes, I've spoken to Toyota a few years ago. I flew to Japan, had a good meeting there and they agreed with all my analysis that I have done. They had a couple of questions there and the plan was to sign a confidentiality agreement and have further discussions and perhaps move into a project. Unfortunately, after I returned back - basically when I was in the air the tsunami hit them and a lot of things have changed, as you can imagine. Some people were shuffled around there and lost a fair bit of momentum there. Obviously they had their own ideas as well with the Toyota i-Road that they've developed and built which is going in a similar direction but obviously significantly different to what I'm proposing. I think from what I know technically it has rear-view steering and steer by wire which is not allowed in most countries from a regulatory view.

So I'm still in discussion with them, also here in Australia to investigate whether Toyota Australia would be interested in participating in such a consortium as well but they haven't decided yet.

**MR WEICKHARDT:** All right, thank you.

**MR WOODS:** Is the i-Road one of the closer models to what you are envisaging?

**DR WILL:** Yes. It's probably the closest to what - - -

**MR WOODS:** That is a single-seater, from memory?

**DR WILL:** I think it's a two-seater. I'm not a hundred per cent sure.

**MR WOODS:** It's a while ago.

**DR WILL:** It's got two front wheels, one rear wheel but rear-wheel steering. I think

the key issue is because they use rear-wheel steering it becomes quite unstable when you drive faster, so the top speed is limited to 45 kilometres per hour I think in Europe. In Japan it might be a bit quicker, but not much. So you won't be able to drive on the motorway or something like with a hundred, 120. I think it will become unstable and this is probably one of the critical issues with the concept. It might be good for cities, so it might be a good alternative, a more safe alternative to scooters, that's for sure.

**MR WOODS:** All right. I think we know where you're at and we wish your well in your discussions and thank you for keeping us up to date.

**DR WILL:** My pleasure and if you've got any further recommendations I would be happy to take them and if you want me to take part in the roundtable discussions, I'm happy to do so as well.

**MR WEICKHARDT:** Okay, thank you.

**MR WOODS:** Thank you very much.

**DR WILL (MA):** Thank you.

**MR WOODS:** We will adjourn until 1.30.

(Luncheon adjournment)

**MR WOODS:** Thank you very much. I'd like to commence this afternoon's proceedings, and welcome, on behalf of Docklands Science Park, Tony Smith. Could you please, for the record, give your name, the organisation you represent and the position you hold.

**MR SMITH (DSP):** Yes. I'm Tony Smith. I'm a director of Docklands Science Pty Ltd and a director of the associated company, LPG-Liquid-Inject Ltd.

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

**MR SMITH (DSP):** Not a long one but I need to apologise for John Martin, who's our Chief Executive, not being able to be here. He's recuperating from significant surgery so he asked me come along at relatively short notice. I've been with him in some of this area for a long time so I do have a pretty good grasp, but I will be bringing a slightly different perspective to what I've seen that he's put in the submissions.

**MR WOODS:** Please, speak for yourself.

**MR SMITH (DSP):** My own background is much in big-picture stuff, systems-level stuff and whole systems and I have a few involvements, including kind of things like being on the Brimbank City Council's advisory committee on transport and economic development, and that's the kind of level of perspective I bring to the table. My basic concern is that a lot of the issues for the productivity of the automotive industry going forward are tied to other sectors, and they can't be really totally addressed in isolation and the one we need to focus on really is the performance of the finance and financial services sector to some degree because we don't have a climate in Australia which facilitates the kind of entrepreneurial funding that is kind of normal in Silicon Valley and I've had a fair bit of association over the years through other channels with Silicon Valley projects.

So there is a lack of that because of the strong but semi-monopolistic banking structure here too, to actually have that kind of capital. So the capital itself does not perform well with respect to the necessary risk taking and up scaling and the projects we put in front of you via our submissions, the ones with respect to graphene, pulse combustion and others, are very much at the stage where we need to know how we fund scaling-up trials to get them to levels where they become economic, so that's kind of our issue, is funding that. Now, John might come along and say, "Well, can you please give us the money." I come along and say, "Well, can we make some changes to the system that make it easier to access that money."

**MR WOODS:** Yes, I notice that the submission had a plea there for 100 per cent loan funding, which raised a few questions. One is, why isn't somebody putting

equity into what they think is a good idea? And why if these have commercial value or potential commercial value - I assume that they're at the pre-proving stage - but if they have potential, where are the venture capital markets that can develop this? But perhaps if you could expand a little on your views on the limitations of the finance sector, because that's where a lot of this does boil down to. You've got the technology ideas, you've got various proposals, but you're looking - - -

**MR SMITH (DSP):** As technology has become deeper and deeper and better - I worked briefly at Ford as a quite young adult in their designing and computer systems for their engineering, bill-of-materials type thing, so I understand where the depth was then and where it is now and we are looking at a much deeper complex process of supply. Then the problem is that the humans who are sitting in positions in the chain of having to make decisions, don't adjust well to that extra depth of the supply problem. So proving the investment in graphene that may ultimately make an enormous difference to a whole lot of things down the track, you kind of talk - trying to talk to a commercial partner, you're a long way short of where they are, because they need to - they've got shorter time horizons and things like that.

Now, I don't have a suggestion for how you overcome that, that's kind of your job in a sense, but it's kind of - where we are is trying to make the case to potential backers. Now, some people get excited about these kind of things and do get interested and there is some venture - and there's been a lot of capital gone through some of our projects over the years and a reasonable amount of government tax incentives have enabled us to keep going forward in some areas. As the people who are trying to do the technology and put the technology together, you finish up spending almost too much of your own effort on organising the finance. You kind of get drawn away from doing the work to doing the finance and while in an ideal world you'll have a chief financial officer and so on, unless you're a big organisation it sometimes falls on the same shoulders.

So to try and start up - and I've a bit involved with the graphene more so than the pulse combustion end - but I've also been involved with our work with LPG. We have commercialised some of that and it's produced commercial returns but the first round of patents have now expired and the next round of patents we're in the process of bringing to market. Ultimately, the capital of founders runs out, you've got to bring some more people in and everybody gets older.

**MR WEICKHARDT:** Well, I suspect that this is a case of, "as it was in the beginning, is now, and evermore shall be" for entrepreneurs. I don't think there are many stories of successful entrepreneurs who have just knocked on the first door and pushed it open and been showered with money. It's always been tough and it always will be tough because there's a very high risk of failure. Sort of one in a hundred of these things, or one in a thousand of these things, come off and, yes, Silicon Valley has got a much deeper venture capital market. But if you talk to the venture

capitalists there, of the number of propositions they accept and last time I did that, they'd say probably one in a thousand of the propositions that came past their door they'll actually fund.

**MR SMITH (DSP):** Yes. Look, it's the ramp-up situation and also it's scaling, proving - and some things to actually prove them technology, you need to spend single-digit millions. You can't do that proving on your credit card. There's a lot of stuff done on credit cards and house mortgages and things, but they expire at a certain level. It is that next level that is the problem and where you're still not offering - you don't even want to put a proposal on venture capitals on return because it's not the point in the market and that's where we need to find other players and it's where capital ultimately - because our discourse is not particularly good at handling risk and dealing with risk - and sure, you can look statistically but ultimately the returns are only there to those who take risks and we don't do a very good job in that area systemically beyond the automotive industry.

The automotive industry, like anything else, there's no reason as a vendor and a technology supplier into the automotive industry that we can't be part of the international market. There's no particular deterrent. But it's always useful when you can actually get things to critical scale in the home market and that's obviously going to be more difficult going forward and that question is there as well.

**MR WOODS:** To what extent do you currently get support from government? I recall the Docklands Science Park sort of came out of the cooperative initiative with the Victorian Government. Are they still backing it in some ways?

**MR SMITH (DSP):** I haven't had any dealings with the current Victorian Government; it's primarily the Tax Office and the tax formula that's in place on R&D at this stage.

**MR WOODS:** So you do pick up the R&D benefits?

**MR SMITH (DSP):** Yes, we wouldn't be here if we didn't, so we're not going to complain about them.

**MR WOODS:** But they won't take you to that next stage of finding some capital to support - - -

**MR SMITH (DSP):** No, they won't give you the lift. It's that next lift to prove some of these things at scale.

**MR WOODS:** You have reasonably exhausted the domestic venture capital market or - - -

**MR SMITH (DSP):** Never have, but it's the cost of finding and isolating the communications channels. Again, it's not easy. While you're dealing with in a sense automotive, and your brief is automotive in isolation, you really have to, I think personally, look at how it connects to other areas where the performance is potentially not as good. I think all the data is that labour productivity in manufacturing is pretty good in Australia and the capital productivity is pretty bad. That's the capital sector that's failing. It's not the people who are working in the industry who are failing.

**MR WEICKHARDT:** I think that's a more complex subject. But my own guess is that you're not going to get anything out of the banks for something at this level of risk. Even though there are some wealthy families who have got some high-risk investments, I suspect for people to have enough technical understanding to be able to take a punt on this, you're going to have to go to the venture capital markets, sophisticated, and that's probably not in Australia.

**MR SMITH (DSP):** Yes. I think that's where we kind of are at this point.

**MR WEICKHARDT:** Yes, you're knocking on some doors where, in Europe and the United States, probably - - -

**MR SMITH (DSP):** Yes, probably east Asia as much as any - - -

**MR WEICKHARDT:** Maybe.

**MR WOODS:** Whether they're at the front end of - well, parts of them are, obviously.

**MR WEICKHARDT:** Yes, the Japanese might well be, but I doubt whether the rest of that market is sufficiently deep yet.

**MR SMITH (DSP):** Korea is interested.

**MR WEICKHARDT:** Okay.

**MR SMITH (DSP):** We have discussions in those areas. It's a case of how they do it. It becomes control issues at that point and whether people like to have - it's Australian tyranny at 51 per cent but it's kind of worse than that dealing in Asia sometimes.

**MR WEICKHARDT:** Venture capitalists demand a fair share of the reward if they are going to take the risk, so I'm afraid we don't have any solution to that.

**MR WOODS:** Anyway, we thank you for - - -

**MR SMITH (DSP):** If I could make one last remark.

**MR WOODS:** Yes, sure.

**MR SMITH (DSP):** It's just that I don't believe building inner-city freeways helps the productivity of the automotive industry in any way or the wider economy. I'm just saying that for the record.

**MR WOODS:** The record will show your statement. Thank you very much.

**MR WEICKHARDT:** Thanks for coming in.

**MR WOODS:** If we could ask Professionals Australia to come forward. Gentlemen, can you please each for the record separately identify yourselves by your name, the organisation you represent and the position you hold.

**MR WALTON (PA):** Chris Walton, Professionals Australia Chief Executive.

**MR GIBBINS (PA):** Scott Gibbins from General Motors Holden here on behalf of members of Professionals Australia.

**MR HERBERT (PA):** And Jack Herbert from Professionals Australia in a communications and policy role.

**MR WOODS:** Thank you very much. You've now provided us with two submissions. You were quite forthright in your second one in particular. You have the opportunity to make an opening statement if you wish.

**MR WALTON (PA):** Sure. I appreciate the Commission was under some time constraints with its reports, so I preface with that. We're very interested in the Commission's view on engineering and design. The research and product development activities undertaken by local auto companies; there seemed to be very little mentioned about it in the report, despite it being a very important part of the sector. At the moment there's currently 1100 engineers and related staff at Ford in their design, product development and proving ground. As you're probably aware, it's a centre of excellence for Ford; that is, even though the production is closing, they are looking to continue the engineering and design - doing products that are never produced here such as the Ranger model they developed; highly successful, highly regarded.

In Holden, we have around 700 people involved in engineering and design. Holden has announced they will keep the design centre but not the engineering. I think the Commission may have got that wrong in its report. Just to clarify - - -

**MR WOODS:** We're happy to be clarified.

**MR WALTON (PA):** So the design is the sort of moulding, shape, look, feel, as opposed to the engineering. We currently have a proposal before General Motors that the engineers have put together to argue to maintain the engineering here like Ford does but particularly to have an advanced engineering R&D centre. The current person in GM who is responsible for this, Mark Reuss, used to work here, knows the capability and knows particularly the very advanced linkages to the universities - for example, CSIRO, with its advanced manufacturing and electrical areas; Deakin University with the carbon fibre area, Monash has got world-class wind tunnel facilities, aerodynamics - so there's already mature linkages there and so we're trying



to argue to GM that it's silly to lose the mature skilled engineers and mature relationships.

The other area is Toyota's technical center; there are around 200 technical professionals there. Its future is still unknown. They do a lot of Asia-Pacific work as well as local work. The numbers aren't clear yet; around 25 per cent is local work, so again there is an argument there. That is a couple of thousand people in the sector. Futuris also has its own R&D centre. So we put to the Commission, respectfully, that your report didn't look at that area at all and we think it's critical you do.

Why is it so critical? First, it's a source of professional services export income for this country, so although the design is done for overseas countries (that's like engineering services, architectural and other services) as a future knowledge economy, that's the sort of area we could well advance in. The vehicle industry is not declining in the world, it's growing. It's a question about whether we can get a niche there as a centre of excellence in engineering and design and we'd ask the Commission to put its mind to that.

**MR WEICKHARDT:** Can I ask you to address the issue of why government needs to be involved in that at all?

**MR WALTON (PA):** I'm happy to do that. I think the second area, (we already invest in universities and R&D centres, so there is linkage) if you look at the US, a lot of R&D happens in companies rather than in the public sector as happens here. This is an example where the private sector is working with the universities to get innovation. That innovation, if we can become a centre of excellence here, provides massive flow-on effects.

For example, you're probably familiar with Boeing in this country. It's an extraordinary story. It is the second-largest manufacturing centre outside North America. Why? Because the Boeing research and technology area worked with Deakin University, who the vehicle industry was also working with them, to nail resin and fused carbon fibre and out of that innovation we've got a success story. So we would argue that if we can at least capture R&D here, there will be flow-on innovation effects, because usually if the universities and the corporates are working together on that, they then have to bring that back to their own company, but that innovation can flow across the country.

So I think there is a strong case - a similar case to why does government invest in university? Why does it invest in research? Why does it have R&D tax incentives? It's a very, very similar argument. Now, there are some unique aspects of that investment at the moment through the ATS scheme but it's not dissimilar to a general principle of supporting R&D and the flow-on effects. I hope that answers your question and we'd ask the Commission to turn its mind to that, to note that its own

report is deficient in that and ask the Commission to address that. Now, for that to work we'll require the Commission, I think, to put some recommendations on the ATS scheme for its ongoing support of R&D and generally to encourage government to support efforts on Australia being a centre of excellence in R&D.

The second point I'd make is this: the Commission has played, over Australia's history in various guises, a very important role. It's chartered to help government make policy decisions and help us do well as an economy and community. But I fear on this occasion the Commission has very much let us down and we are likely to effectively, for a range of reasons, end up in a recession in two states and I think narrow rather than diversify our economy. There is plenty of debate about what the level of subsidy should be for industry and all that. They're legitimate debates but I think what we're facing at the moment is unprecedented - in my lifetime I can't recall quite a restructure of a whole sector to such a degree and the level of jobs and economic carnage from this, I think, is unprecedented.

I tried to recall and you think of BHP leaving Newcastle and other events. Probably the tariff cuts in the 70s, the Whitlam Government. It's of that magnitude. So we are in fairly uncharted territory and that's going to create some significant challenges in transition as the Commission has alluded to in its own report. There are a couple of errors that we think the Commission should address: one, completely squibbing the analysis of other countries' subsidy programs. Squibbing it.

**MR WOODS:** So you're not aware of the appendix we wrote on it?

**MR WALTON (PA):** I saw the appendix on that and your own thing - you said you didn't have time to properly analyse it and it was too hard.

**MR WOODS:** We'll debate the words in a minute.

**MR WALTON (PA):** A country like Germany, for example, has a high wage, thriving manufacturing sector and yet it subsidises far more than Australia does because it recognises the flow-on effects of the industry. The other thing that you haven't done is a transparent cost benefit analysis. Now, it's rumoured that Holden required around about \$70 million to remain here. Who knows what the facts are there. I don't know if you were able to discern that. But if it was \$70 million, surely a cost benefit against the lost payroll tax, the unemployment benefits, you know, at its extreme \$590 million for 50,000 for one year, and the huge cost of local jobs programs and social programs that are going to arise out of this jobs carnage. I didn't see in the report an honest assessment of the costs of those types of things versus the costs of keeping the company.

Thirdly, as I've mentioned, I don't think you considered the R&D innovation aspects and worse, because this Commission has played a tremendous role in

Australia's economic history. I'm a great supporter of this institution. I believe this Commission has left itself open to ridicule by suggesting to government that if a car is the same cost and the same quality and we don't get into WTO problems, that the Australian governments should use taxpayers' money to buy other than Australian vehicles is incomprehensible. Incomprehensible.

I don't think anyone in the street could even start to fathom why you would recommend such a thing and, therefore, you damage the whole credibility of the Commission with such an absurd, ludicrous proposition. Ludicrous. If it's the same cost, same quality, why wouldn't you use Australian taxpayers' money to purchase Australian vehicles? It's just mad.

**MR WEICKHARDT:** Can I ask you whether you read the section in the report - - -

**MR WALTON (PA):** I did.

**MR WEICKHARDT:** - - - which actually said that the Treasury guidelines and the Department of Finance guidelines prohibit price being used as a factor for the government in deciding whether or not to buy an Australian car.

**MR WALTON (PA):** Then why didn't you just recommend that? You recommended that you cease the requirement.

**MR WEICKHARDT:** Because at the stage we were writing that report there was potentially one car company left and putting in place protocols and provisions to ensure the sole manufacturer did not exploit that situation in terms of cost just looked ludicrous in terms of the cost benefit analysis. So, forgive me, I totally reject the fact that we didn't consider this factor.

**MR WALTON (PA):** If there's one manufacturer left employing Australians and their car is the same quality and the same price as an overseas car, I still don't see why you would recommend anything other than the purchasing of Australian cars. So what if there's only one. If that car meets quality standards and meets the test of costs and doesn't get us in WTO issues, I don't think anyone in the street would understand your recommendation and that, therefore, damages your whole report.

**MR WEICKHARDT:** If you think about the processes required to put in place all those protocols and procedures compared to leaving it to somebody making a purchase decision as a normal consumer and saying, "This car meets my cost benefit analysis and therefore I'll buy it," and I point out that at the moment even those government departments that have no purchasing agreement buy something like 30 per cent of their cars from Australian producers. So we did contemplate all the issues you've talked about and we reached a different judgment to the one you've

reached.

**MR WALTON (PA):** I'm pleased. With respect, Commissioner, to the paperwork to do that versus the paperwork of the social programs that are going to be needed with the level of unemployment we're about to face, let alone the human cost, I'm sorry if I don't have sympathy for a bit of paperwork for a government department. If there's that carnage versus someone's personal taste of what car they want, I'm sorry I don't share your view.

**MR WEICKHARDT:** Okay.

**MR WALTON (PA):**

So our final view is this: I believe we still can save the engineers. I really do call on the Commission to admit that it hasn't looked at the R&D aspects. It's not too late. I appreciate the timeframes you had with this report, they were very short. So it's not too late to look at that. Our aim is that we save engineering R&D.

If we can't, if we can't save those engineers, we have put in our submission some recommendations on transition programs so that we don't lose the skills and the talent. They're a challenge. Of course it's understandable the Commission and others have a focus on the production workers in the transition. I accept that. There are some unique aspects with the engineers. I won't take your time now to go through, they're in our submissions.

I think we can save the brain drain if we put a bit of thought into this but it's going to need tailored thought and we're happy to work with the Commission or the government on that tailored thought and with other organisations. For example, would you believe, General Motors at the moment, while looking at our current proposition, is seeking around a hundred of the existing engineers to go over to Detroit. Obviously they respect their talent and capability; unfortunately, markets don't work in just and efficient way. Why might they do that rather than keep a centre here? I wish it was just rational minds that we as economists assume, but unfortunately there's politics, there's other governments who put requirements on companies, that in return for their subsidies they bring - the US government is openly trying to get more R&D and high-skill work into the US economy, so it's a challenge, but we hope with your support we can get there and avoid the brain drain. If we can't, we'll lose more overseas and some will end up driving taxis or whatever and I think we can do better than that with a few tailored programs.

The essence of it is this, Commissioner: an engineer has a series of underpinning skills that employers should recognise, but guess what, employers usually just look at the resume, see "auto industry" and go, "Well, hang on". Underpinning this is high level skills in electronics or carbon fibre or whatever, and we may need some assistance to get the underpinning knowledge there recognised by other industries. Other industries worry about the transition time before that person,

although they've got the skills, that person often needs, particularly in engineering, local understanding of standards, et cetera, and so there's a period of low productivity until the person is able to use their underpinning skills in a different context. So there are some challenges there.

Is the education system able to do that? We suspect it will be challenged, the education system. If you want to put an apprentice on or someone, well, there are all sorts of programs. If you want to do this for someone like an engineer as a graduate, the system just doesn't work. It's not designed to allow transition of highly-skilled workers, but we would argue that, Commissioner, although we've got enormous capabilities - we should focus on production like this. This type of group is highly important for the country's innovative future.

So I've been very frank, partly because we're passionate about the importance of this country's future, as I know you are, Commissioners. We just think that high a value innovative future is so important for this country. We can't just be a sand pit for China and a farm for Asia as our only future and so we'd really appreciate your consideration of those issues.

**MR WOODS:** We are talking about 5 per cent of manufacturing when we talk auto and related areas, and you do talk about having a skilled workforce. Now, as you say, any engineer will develop a particular specialty in their particular field of employment and that's totally understandable. Where are the particular limitations in the retraining? You've said that it's not set up to do that, but what specific public policy changes need to be made to allow those who have specialised in something that relates to auto to be able to migrate to other parts of a much broader manufacturing industry?

I won't engage in the rhetoric and dispute the carnage, et cetera, given that we are talking about 5 per cent of manufacturing, which itself is 8 per cent of the economy, but let's get down to practical levels. Where would you see change in public policy that would address this re-skilling issue, because I think that's a very practical one?

**MR WEICKHARDT:** And just allied to that, you might sort of like to elaborate on why this area is a problem. You talked in your first submission about the fact that the engineers in the automotive industry are highly skilled, they've got sort of qualifications and experience which is craved by the rest of the industry. Given those circumstances, why is it these people are going to have problems finding jobs, whether they're in Australia or whether they're overseas? So far as the individual is concerned, if they find a job in their speciality overseas, I don't think the government necessarily should moan about that. The likelihood is that a lot of those people will eventually return. But why does the government need to have some special program if these are highly-desired people?

**MR WALTON (PA):** The overseas point I take. There is advantage sometimes in some work going overseas and bringing it back to Australia – this is a legitimate point. Obviously my point was, on a whole, if we could keep an R&D centre for Holden here, rather than those hundred go over to the US, on the whole there's a flow-on innovation benefit, which will also mean our investment in universities will thrive - will get extra value. But I think your question - Scott Gibbins, as an engineer, may want to directly comment. I think the challenge is, our system struggles. We don't have a sort of nice, neat, little competency-based assessment process to map people and their underpinning skills as we do in trade areas - - -

**MR WOODS:** Yes, the VET sector.

**MR WALTON (PA):** - - - and the VET sector. So we've looked at that for some time and I don't think it's beyond being done but there's a difficulty in easily transferring what is an underpinning skill and a piece of competency to another sector. So it doesn't mean the individual can't present themselves in a specific way, but there's no systemic way to do that at the moment. Once that mapping is done, there will be more logical chances for government intervention. Whether it's a particular technical gap that they have for another sector, that there can be a course - a formal education aspect - or whether there's just a time barrier there, there may need to be some unique support. There needs to be a better understanding of these underpinning standards so they can be either applied formally or applied through that will help employees reach a particular standard.

I wish I could be clearer with you. That's our view at this stage. We think there needs to be more work done on it but it's not as though overall there's a mixed bag with engineering at the moment. Not long ago there was a great shortage in this country of engineers, a real significant shortage. We've got, I think, still an underpinning shortage in this country. We've been relying on a very high level of 457 visas and a very high level of migration to match - we've done a whole submission of this, I could bore you with the facts, but, yes, there's been clearly a shortage and I believe there still is an underpinning shortage and therefore they should technically be in a good position. At the moment, worst possible timing. By the way, the engineers won't get to 2017; you're probably aware of that. The nature of their work, they're working way in advance, so our engineers in Adelaide, who are retooling for the next generation, they'll be gone in the next month or so. We expect half of Holden to be gone by the end of this year, et cetera, et cetera.

**MR WOODS:** They're at the front end of the - - -

**MR WALTON (PA):** Correct. But the timing of that has a challenge for us and that is, at the moment in the labour market, because of the cooling-off of the resources sector and a few other factors that have come at once, at the moment

there's an over supply of engineers in a range of areas. That's a temporary thing. So we've put in our submission some ideas on that. I don't think it's a big job. I think there's plenty of expertise around there to pull this together but it's going to require a unique solution and I suspect the engineers are often forgotten in these scenarios.

**MR WOODS:** Did your colleague want to make a comment?

**MR GIBBINS (PA):** I think Chris has covered it fairly well. I suppose for the majority of engineers in the industry, their biggest concern is where do they transfer to, because there is no longer an automotive industry in Australia as a manufacturing base, but it's a bit different. When you train - or particularly for a lot of us who spent a lot of time at Holden and Ford and Toyota, we know the automotive systems as an engineer and another employer would expect you to straight in and know their systems and that's where we're going to struggle, because we won't have the ability, without some form of training, to walk straight into other industries because we just don't have the knowledge base.

**MR WALTON:** It's become very specialised.

**MR WEICKHARDT:** Yes. I mean, I accept that and I certainly accept the fact that, if you like, the normal government support mechanisms for people who are unemployed aren't necessarily tailored to specialist professional people. I mean, if you look at where engineering graduates go now from universities, a hell of a lot of them go into areas in management consulting and banking and things of that sort because the skills that engineers have are generally well regarded by a whole variety of employers and it's not because they necessarily walk in immediately with all the skills and professional know-how for that particular industry, it's because they are capable of thinking in a logical way, managing projects and things of that sort. So I understand, and I have been a professional in an industry that was going through lots of restructuring and occasionally I lay awake at night thinking, "How is anyone ever going to employ me if the worst comes to the worst?" But the facts of life are that people who come with those sorts of skills are generally pretty highly regarded and if you came from one of those big 3 companies with all the professional background they entail, I suspect that there aren't going to be as many horrendous problems as you envisage. I am not suggesting that people aren't worried. They will be worried, of course they will, but the question is can government help effectively in this area?

**MR WALTON (PA):** I appreciate your optimism and I am optimistic as well, Commissioner, slightly challenged by the number if they do come on the market at the same time, but our challenge, Commissioner, I think is to say, "Look, don't be lazy, government, because there's some unique workers out there - think about your systems to just ensure another employer understands those underpinning them". I mean, these are the people who drive lean production quality systems. Their skill sets are fabulous and other employers should jump at them. So we just have a challenge

to encourage government to not be lazy on how you might develop some unique, sensible programs, for these people. I think we can get there and I'm optimistic - I share your optimism - if we just help to find some of those unique aspects and help the people get in front of employers in the other sectors.

**MR WEICKHARDT:** Of course the people coming from the larger OEMs are going to be well catered for (a) because, as you say, perhaps those OEMs will try to poach some of those people for international jobs but, secondly, because they come with the endorsement of having worked for one of those companies. I suspect that people who are a sole engineer who may not have had the professional development and I guess counterparts to continue to learn from, and engage with, those may be in more difficulty in the component industry. But the people in the big 3 OEMs, I would have thought would be snapped up by many employers.

**MR WALTON (PA):** And you don't need me to say to the Commission, I'm sure you're turning your mind to it, 2017 is very optimistic. Where we're so worried about is the component industry - if I'm a director sitting on one of those companies and I've got my liabilities and I'm asked, "Are we an ongoing concern?" I'm obligated not to trade insolvent. Our reading of it and our members' advice is unless we can find some way, it's going to pull up stumps long before 2017.

**MR WOODS:** And we are actively engaged in discussions with the component manufacturers because they are now clearly an important focus for this inquiry, as are the general workforce and the professional workforce.

**MR WALTON (PA):** We appreciate that, Commissioner.

**MR WOODS:** We have run well over time but thank you for your two submissions and your forthright contributions.

**MR WALTON (PA):** Thank you very much.

**MR WOODS:** It's my duty at this point to ask is there anybody present who wishes to make an unscheduled presentation to the Commission? That being the case, I will adjourn until tomorrow morning in Adelaide. Thank you.

AT 2.14 PM THE INQUIRY WAS ADJOURNED UNTIL  
THURSDAY, 20 FEBRUARY 2014