



1512 Hume Highway
Campbellfield VIC 3061
P: +61 3 9355 5500 F: +61 3 9355 5511

**Submission to Australia's Automotive Manufacturing Industry public inquiry.
Harry Hickling, Managing Director Australian Performance Vehicles Pty Ltd.
November 18th, 2013**

Background to Australian Performance Vehicles Pty Ltd.

Australian Performance Vehicles Pty Ltd (APV) is an Australian owned testing and manufacturing company with two subsidiaries: APV Engineering and Testing Services Pty Ltd and APV Safety Products Pty LTD. These companies, forming the APV Group, respectively manage and operate an Australian Industrial Testing Centre and an aftermarket Seat Belt manufacturing business that manufactures seat belts and harnesses for the Industrial, Coach and Bus, Defence and Automotive Aftermarket industry segments. We are a Medium Size Australian company with 54 employees and annual revenues in excess of \$10 million. See www.apvcorporation.com

The APV group retains several Australian Automotive Component Suppliers in our supply chain and has had to deal with the collapse of one major Automotive Component Manufacturer, CMI Ltd.

APV Engineering and Testing Services, continues to support the Automotive OE Manufacturers in specialised development and testing work, along with vehicle crash and occupant safety system testing.

The Australia Automotive Manufacturing segment is much broader than just OE passenger vehicle manufacturing as defined by the eligibility for financial support under the Automotive Transition Scheme (ATS). A much wider industry exists, including Automotive Aftermarket, Services organisations, and companies such as APV Safety Products who manufacture Original Equipment (OE) product for closely aligned industries such as Industrial, Bus and Coach. This closely aligned industry segment, whilst not directly receiving financial support through schemes such as ATS certainly does benefit from a vibrant Automotive Industry within Australia.

This submission builds on a theme that the Australian OE passenger vehicle manufacturing segment is one tier in a broader Automotive related industry and that an industry response can be developed that strengths this broader industry and the Australian automotive component manufacturing sector.

Introduction.

This submission postulates that maintaining a status-quo or do nothing industry plan will not halt the current industry decline resulting in the closure of the industry and that an industry blueprint is required. It is proposed that the current level of industry support is maintained at no less than current total gross levels in real terms and that an industry policy framework is established that:

- 1) Creates an environment for production of at least 300,000 vehicles per annum across the two remaining car manufacturers.
- 2) Establishes a Vision for a high value and diversified Automotive Industry that incorporates a newly defined industry segment with a wider definition of a more sustainable future industry.
- 3) Direct action taken by Governments to increase demand for Australian designed and manufactured product across a newly defined industry segment.
- 4) Establish industry policy to reduce the cost base for Australian Manufacturers.
- 5) Provide additional support to Australian Automotive Component manufacturers to support diversification activity and to link them into the supply chains of a newly targeted industry segment.
- 6) Broaden the support package to include organisations and activities contributing to core capabilities, such as R&D, Product Development and Testing, Skills and Capability Development within the newly defined high value Automotive Segment
- 7) Retain industry support levels at no less than their current levels in real terms, recognising that by 2016 there will be one less car manufacturer and fewer industry participants within the old Automotive Industry framework and additional participants that directly contribute to a new future industry vision for a vibrant and diversified industry segment.
- 8) Industry support given to the car companies must include elements of mutual obligation for their support of Component Suppliers as well as meeting Government KPIs for investment, capability development and export activities.

Industry Decline.

The Australian Automotive Manufacturing industry in Australia has been in steady decline since the Global Financial Crisis (GFC) in 2008 and during this period has also seen further reductions in Tariff barriers. A strong Australian dollar has had an equally detrimental impact on all export exposed

manufacturing industries.

The announcement by Ford of their intention to exit Australian OE Automotive manufacturing in 2016 and the fact that many Australian based component manufacturing operations have already closed or moved off shore demonstrate the level of decline in the industry since the GFC. Of further consideration is that several Australia Automotive Component companies are in administration, including ACL, Autodom, CMI and several others whom are likely to be closed by 2016 in line with the closure of Ford, such as ACL (Receivers and Managers Appointed) whose Receivers, Grant Thornton, have confirmed their intention to close the operations.

Future Vision for the Industry.

Based on the "current state" of the industry it seems inevitable that the industry will continue to decline, and it is certainly operating below any globally competitive benchmark at this time. It is also a reality that a new Policy framework must contemplate the possibility of one of the remaining car manufacturers also closing manufacturing operations in the future.

Proposition One - A status quo plan is not viable.

It is the postulation of this submission that any Industry Plan for the Automotive Sector must not be a status quo plan as this will inevitably only lead to the continued decline of the industry and its likely closure.

Whilst it is the ultimate decision of the Car Companies, whether it is economically viable for them to remain in Australia or not, the Federal Government and the productivity commission should not accept the closure of the industry as a "fait accompli" nor should they set an industry policy that allows the industry to remain in its current state of decline. A status quo, do nothing, response to the industry will inevitably be a waste of tax payers money.

Proposition Two - the problems facing the Automotive Sector are common across Australian Manufacturing.

The second proposition that I believe needs to be recognised, is that the Automotive Industry sector is not alone in the challenges that besets the whole Australian Manufacturing environment, and now showing similar signs

across other industry sectors.

Therefore, a Manufacturing Industry Policy is equally important for the Federal Government to embrace as an Automotive Industry policy.

Value of Industry Assistance to the Industry.

A simple misconception in the public arena is that Government Assistance to the Automotive Industry is seen as a non value added subsidy or hand out.

This is simply not the case. The majority of all industry funding that is received by the Australian Automotive Components sector is a co-investment based on actual R&D, capital equipment investment, process improvement or other investments made by the industry prior to receiving financial support. In this regard ATS can really be seen as a co-investment contribution. The level of financial contribution or support is calculated based on a set formula of actual past investment and it is this contribution that is made by the Government. (It is outside the scope of this submission to comment on the nature of financial support historically received by the car companies themselves - however it is reasonable to assume that again the majority of this funding has been provided for capital and capability investment purposes).

Very simply, based on a normal economic multiplier effect, it is reasonable to expect that the value generated from this co-investment by the Commonwealth Government / Australian Taxpayers far outweighs the cost of the investment itself. The productivity commission is far better placed to model this, than I am, but this investment flows right through the supply chain and supplier base including non OE companies, and companies such as ourselves who are not eligible for ATS funding. In our particular case, as a simple example, the level of revenue generated by APV Engineering and Testing Services from services to the Australian OE Customers does support Australian employment, capability and further investment despite us not receiving funding for these activities from the ATS scheme. Similarly, the value of Australian Skills development and industry capability development from the Australian Automotive industry also provides a large multiplier effect throughout the economy.

Provided Government Assistance to the industry remains a contribution to capital and capability investment based on actual historical investment then by definition a large multiplier effect will exist that will represent a positive business case to the Government. It is reasonable to believe that industry

itself would not make such investments unless a positive business case existed.

Future Vision for the Industry

The Automotive Industry and the Productivity Commission inquiry need to consider what is the target industry environment for the Australian Automotive Industry. The fundamental choice for Australia is either to stand behind the industry with a clear vision of creating a high value and sustainable industry segment or continue down the current path of decline with the inevitable outcome of closure. The inquiry and Government should recognise that this real world reality is also faced across a wide range of Australian manufacturing, and that in my view requires an industry wide response to facilitate the creation of a high value Australian manufacturing industry.

This submission proposes that the following strategies be adopted as part of a broad ranging approach to facilitating the establishment of a high value diversified industry segment. Several of these strategies should be considered as industry wide strategies to support Australian Manufacturing:

Industry Plan Proposition One - A future Automotive Industry must be built on production volumes closer to 400,000 vehicles per annum.

On May 14th, 2008, APV made a submission to the Federal Government regarding the then ACIS Automotive industry assistance scheme. Many of the observations and recommendations in this submission hold true today.

The underlying proposition in the submission made by APV at that time was the observation that the minimum economic volume to achieve competitiveness within the industry is 200,000 vehicles off a single vehicle platform. The source of this assessment was the UK Centre for Competitiveness and Innovation Research in 2005 after the collapse of MG Rover. This benchmark for minimum production volume would have undoubtedly risen since this time as global competitive pressures have increased. In response to this however, Toyota and now GMH have or are already moving to global platforms that allow development costs to be shared across a larger geographic manufacturing base and may allow the plants in Australia to operate at a lower level of production.

In 2008 total vehicle manufacture in Australia was 322,000 units, since 2009

vehicle manufacture has averaged 226,000 units. Since 2011 the industry has only been producing 220,000 units per annum. This represents a decline of over 30% prior to the closure of Ford in 2016. The Ford closure will represent a further 10 to 15% drop in production volumes at current levels.

Therefore, a future industry plan, must foster and advance the industry back above 300,000 vehicles per annum with a growth projection to 400,000 beyond this. GMH and Toyota can of course quantify these numbers more accurately, however it is very clear that any future Industry Plan has to demonstrate the ability to establish an environment of recovery to pre GFC levels and growth.

Industry Proposition Two - A Vision is required for a high value diversified Automotive Industry Segment.

It is insufficient for the industry to simply build cars. An Industry Policy and Vision is required that brings together Automotive OE and a newly targeted industry capability that maximises the strength of the existing industry base.

This newly defined industry segment should include a related high value complimentary industry such as Industrial, Truck, and Coach/Bus markets together into a clear industrial policy framework. Consideration could be given to a breakthrough strategy of adopting an emerging future high technology based industry such as can be found with Renewable Energy.

Outside of Asia and low cost manufacturing countries it will be impossible for countries, such as Australia, to maintain car manufacturing industries without heavy government subsidisation. Producing cars based on passenger vehicle production alone is therefore not a roadmap to the future.

We need to establish a high value capability, much as Germany has, that leads us to being at the top of the global game in targeted points of excellence. Mercedes Benz, Audi, Porsche and others have all demonstrated this. Ford's recent development of The Ford Ranger 4WD platform is perhaps an excellent example of what we are good at, similarly Australia has been a world leader with the launch of the VF commodore with a rear wheel drive platform.

Similarly though, it may equally be high value Mining, Agricultural and other Automotive related equipment that we should develop a strong Development and Manufacturing capability around. It will be important that the existing industry base and supply chains that are largely centered in Victoria and

South Australia are linked into this new industry capability.

With only two remaining vehicle manufacturers, Australia must now be on the brink of losing critical mass and capability. The definition of a new high value and diversified industry segment is required that retains these capabilities and provides a future for the Australian Component manufacturers and industry base. This will allow for a roadmap for growth along with a lower risk environment through greater diversification.

A newly established industry framework should consider both existing aligned industries already established within Australia as well as attracting a large international Industrial Equipment, Agricultural or Truck Manufacturer into Australia that with the support of FAPM and AAAA industry participants with critical capabilities can be developed to full-fill this vision of a newly defined and diversify industry segment.

Whilst, it is unlikely that Government could facilitate a new entrant into the Market Place, serious consideration should be given to working with Ford to attract either a new participant into Ford's existing facilities or a newly targeted industry within the newly define industry segment that can utilise the existing Component Sector supply chain capabilities. The public debate around the Automotive industry should recognise that all of the Car Companies owe the initial establishment in Australia to individuals and companies that came before them, progressively establishing the capabilities and facilities we have today. We should certainly attempt to facilitate a similar outcome with Ford Australia's closure of its facilities at Campbellfield and Geelong.

By way of example, Futuris, the APV Group and a number of component manufacturers and services organisations core business is the design, development, testing and manufacture of passenger safety systems (Airbags, Seatbelts, Seats). These systems, for example seats with seat belts, are not only produced for passenger cars. A whole market exists in Coach and Bus, Truck, Industrial, Aviation and Defence. By including a broader definition of the industry segment it is possible to strengthen the operations of the existing OE Passenger Vehicle component suppliers and in turn the operations of the two remaining car manufacturers. Of note is that this particular supply chain has a significant export component to its operations – highlighting the importance of supporting the Australian Vehicle Producers in Australia as they provide the underlying revenue streams for this supply chain.

By choosing a high value Australian manufacturing base that is closely aligned with Automotive, under this example lets say as a hypothetical that a

Coach Manufacturer and an Australian based Defence Vehicle manufacturer were brought into the industry segment as Vehicle Producers at the top of the supply chain. Such Vehicle Producers, require seats, seat belts or harnesses, gaskets, filters, metal pressings, sub-assemblies, plastic injection moulding components, the list goes on. The systems on these vehicles are also continuously becoming more sophisticated and will drive further development into the newly defined industry segment supply chain capabilities.

This submission proposes that resultant supply chain would be included and eligible to participate within the existing industry programs and thereby will provide the opportunity for an "exciting, vibrant and growing" new industry segment. A new industry segment that is of lower risk and enjoys the greater benefits of diversification.

Industry Plan Proposition Three - focus on the Demand side of the equation.

With the advent of Free Trade Agreements, progressive governments have established an environment that is conducive to imports and provides little protection for industry. Similarly, consumers have walked away from Australian Made product and have enjoyed an increased freedom of choice that has dissipated demand across a wide range of vehicle brands and types. The impact of this has been further heightened by the strong Australian Dollar.

No other country in the world really operates in such an open competitive market.

To counter this an active policy should be considered by The Federal and State Government's to consider possible levers on the demand side of the equation to support Australian industry (Not just Automotive). Many simple changes could be made:

- Australian Lease arrangements should provide a two tiered scheme to favour Australian Manufactured vehicles and product (Including Accessories). This still provides freedom of choice, but encourages fleets, government and businesses to buy Australian made.
- Federal and State Government vehicle fleets should be mandated as Australian made unless a unique requirement or business case warrants an imported vehicle. Again, this should include accessories, or special vehicle builds or configurations completed in Australia.
- Export facilitation and capability development should be a key component of the Demand generation strategy. These programs have been underway for

some time and should be retained for the newly defined industry segment.

- The luxury car tax, should not apply to Australian made vehicles, nor for that matter to second hand vehicles.
- In my view the Government did not need to reduce the Tariff barrier from 10% to 5% in 2010 after the GFC. The Federal Government should strongly consider reinstating it at 10% to assist the long-term viability of the industry through periods of downturn, such as the current decline seen since the GFC and the high Australian dollar.
- The Federal Government reinstating the prior FBT Tax regime, is also a good example of assistance that can be given on Demand generation for the industry.

As an example in the non direct OE passenger vehicle manufacturing industry APV Safety Products exports approximately 35% of its revenue overseas on annual sales of \$7 to \$8 million. A further 15% of our revenue is supplying seat belts to Australian Coach and Bus Seat manufacturers. This highlights the importance of the Australian OE component industry as well as its follow on impact on export revenue. An industry policy by Federal and State Governments that encourages the Demand Side of the purchase decisions made by Federal and State Government's not only on the OE Passenger Vehicle Segment but also for the Australian industry component manufacturers with Industrial, Coach, Bus, Vehicle Build and Fleet contracts is an important Demand Lever for fostering a vibrant and growing Automotive and related services and aftermarket industry.

Industry Proposition Four - Develop and industry policy to cut the cost base and increase industry restructuring flexibility.

It is now clearly documented that Australian is one of the most expensive countries in the world for manufacturing. This means that Australian industry is at a huge disadvantage against the rest of the world. In this global market, if we do not develop industry policies to allow the cost base to be reduced we will continue to see industry move off shore. If this is not addressed then there will come a day that the standard of living in Australia will be adversely impacted by this course of action - and then whether we like it or not our cost base will be forced to decline.

Industry needs the flexibility to adapt to producing higher value, low volume specialised product.

Together, this means that the Federal Government must tackle the cost drivers of industry, including issues of associated with the Employment Cost

Structure and associated taxes. It is not the take home pay of the employee that is in issue here. It is the on-costs, taxes, superannuation levies, entitlements, workers compensation insurances and associated costs that are a issue. Together, they simply take the base cost of employment and make it uncompetitive globally for manufacturing wages and salaries. Similarly, the industrial relations regime in Australia and workplace laws need to be made more flexible to allow companies to reduce the total cost of employment and to support restructuring.

Industry Proposition Five - Australian Component Suppliers restructuring support.

We have seen the trend now for some time and indeed it is inevitable that the Car Companies will be forced to consolidate their supply chains around global suppliers and components. This industry adjustment will need to continue and it is therefore critical for the component suppliers to diversify their businesses away from strictly OE passenger vehicle manufacturer.

Industry Proposition Six - R&D, Product development, Testing, and Capability Development.

For a viable long term manufacturing industry to grow in Australia we need a strong uniquely Australian developed and owned Research and Development, Industrial Testing, Skill Development, Intellectual Property development and Deployment capabilities to be fostered and retained by Australian industry.

Industry Policy is required to support this and the Automotive Industry assistance package should be expanded to targeted areas to enable this. This means that the ATS and industry assistance packages should also include within their ambit organisations and institutions that can meet pre-determined criteria that support Automotive and newly targeted industry capabilities in these areas. This would include services organisations such as Design, Development and Testing services organisations and also the ICNs, CSIRO and University based Manufacturing Industry programs that can be demonstrated to provide a direct linkage to future industry capability.

The ATS funding package should also be expanded to include the other capabilities identified in the future industry vision. A clear example of this, would be to allow Ford to maintain its Research and Development, and Product Development and Testing capabilities for 4WDs such as the Ford Ranger.

Industry Proposition Seven - At least maintain the current level of industry support in real terms.

It is recommended that higher levels of support are provided to the Component Sector that is tied to restructuring and diversification, with the objective of hastening their diversification into new industry segments.

Whilst Australia cannot and should not establish an Industry Support regime at any cost to retain the two remaining car companies, it is certainly important that an industry support regime is established that meets their needs. As long as this does not result in a direct operational subsidy but is investment based, as previously described, then Australia and industry should see a positive return on investment from this - and this should strongly be considered.

Industry Proposition Eight - Industry Support given to the car companies must include elements of mutual obligation of their support to Component Suppliers as well as Government KPIs for investment, capability development and export activities. This will provide the glue that binds the car companies, potentially a new diversified OE Vehicle Producer or other industry participant and the supply chain participants defined within the newly defined and diversified industry segment.

Industry Support Package.

The premise of this submission is that the issues associated with creating a more vibrant Automotive Industry segment are common across the entire Australian manufacturing base. The Government response should consider industry wide responses to address the key issues of Demand, Manufacturing Cost Structures, along with targeted support to Australian Component sector.

In this submission it is maintained that the level of Government support via the ATS scheme should be at least maintained at the current level. An increase in co-investment activities could be considered where a business case was clearly warranted. The eligibility guidelines should be broadened to support targeted core capabilities for R&D, product development and testing to support a future industry vision and activities such as the Ford development centre for continued Ford Ranger development and testing.

The actual level of ATS / Subsidies required for the industry to maintain its presence in Australia is outside the scope of this submission, other than to say that with less recipients now within the ATS regime and even fewer after 2016 that in effect with the current level of support being maintained then that the total dollar value commitment available actual means there is a larger subsidy in effect being available to the remaining car companies and component supplier operations in Australia. It is the proposal of this submission that these additional available funds are allocated to new industry participants to generate a more diversified and vibrant industry segment.

If you have any questions pertaining to this submission please feel to contact me

Yours Sincerely

Harry Hickling
Managing Director
Australian Performance Vehicles Pty Ltd