18 November 2013.

Re: Submission to the Productivity Commission inquiry into public support for Australia's automotive manufacturing industry.

Dear Sir/Madam.

Metalsa Australia Pty Ltd is a press and weld manufacturer of steel structural components and underbody chassis frames for the Australian Automotive Industry.

We have been supplying steel car parts to Australian automotive industry for the past 40 years; at its peak in 2005 we employed some 400+ people.

As of today we are first tier suppliers to Toyota (Altona) and Ford (Campbellfield) only, employing some 160 people between our Cheltenham and Clayton facilities in the state of Victoria.

As Plant Manager of these facilities, I fully support the existence of an automotive manufacturing industry in Australia, including passenger motor vehicle and automotive component production.

This submission will contain my response to matters raised in the issues paper and it will include suggestions/recommendations on action items pertaining to the Australian automotive manufacturing industry.

1. <u>Manufacturing is the engine of growth for GDP.</u>
   Manufacturing is defined as the making of a product from raw materials on a mass scale using machinery.

   Primary industry is concerned with providing natural raw resources.

   Secondary industry (the manufacturing industry) is concerned with converting those raw materials into consumer products.

   The financial benefits of manufacturing outweigh those of the resources sector in terms of processing and consuming raw materials, then value adding through technology, people, machinery and equipment to produce a product that can be sold for profit on a grand scale.
   The manufacture of automobiles fully satisfies the definition of true manufacturing.
   It consumes vast amounts of glass, plastic and metallic materials.
   It employs hundreds if not thousands of people across the supply chain and spear heads the advancement of technology and machinery such as robotics through automated systems and process.

   The Australian automotive industry contributes significantly to our nation's Gross Domestic Product (GDP), predominantly due to offshore earnings.
   It is important for our nation to maintain manufacturing for the purposes of financial gain especially when the end product can be sold offshore.

   Toyota Australia is by far the major contributor to offshore earnings via its export program to the Middle East.

   I take this opportunity to draw your attention to the three laws stated by the Cambridge economist Nicolas Kaldor in his model for economic growth as:

   I. The growth of the GDP is positively related to the growth of the manufacturing sector.
   II. The productivity of the manufacturing sector is positively related the growth of the manufacturing sector (this is also known as Verdoorn's Law).
   III. The productivity of the non-manufacturing sector is positively related to the growth of the manufacturing sector.

   Kaldor's first law assumes GDP growth through exporting manufactured product(s).
   Toyota Motor Corporation Australia (TMCA) adds to Australia's GDP directly via its export program and in other instances indirectly through its supplier base.
   Its companies like TMCA that need our governments' full support.

Simply put, a prosperous TMCA means a prosperous Australia.
Excluding Ford Australia from this conversation, GMH in Australia does not have the same type of exporting program as TMCA. My suggestions and comments on Holden's export program will be detailed further on in this submission.

Kaldor's second law suggests that manufacturing improvements are directly related to productivity improvements.
The automotive industry is one of the most productive industries in Australia.
Using the Toyota Production System (TPS) as an example, manufacturers outside of the auto industry are envious of TPS; they continually seek Toyota's manufacturing knowledge in an attempt to replicate/learn the principles and philosophies of Lean Manufacturing.

It is not a lack in productivity that is making the Australian automotive industry uncompetitive, its external factors such as tariffs, government policy, the Australian dollar, high payroll taxes and the higher costs of living.

According to Kaldor's third law, the productivity of the non-manufacturing sector(s) such as mining, agriculture and forestry, should affect manufacturing growth positively.
In other words when resources are moved out (sold domestically or internationally) from non-manufacturing sectors, the average productivity of those that remain will rise.
For example, the Mining Industry has large economic impacts with considerable improvements in productivity. Productivity gains that should have resulted in better performances and efficiencies which in turn should have resulted in lower costs translating into cheaper prices for raw materials.
Yet there has been no considerable reduction in steel prices (in Australia) to help manufacturers reduce their production costs, especially in the automotive industry.

There are three conclusions that can be drawn from this discussion as to why automotive manufacturing is not growing in Australia:

a) The Australian economy is suffering from the Dutch Disease. The Mining industry is generating massive amounts of income, to the point where it causes the Australian dollar to appreciate to levels that adversely affect exporting and therefore manufacturing.
b) Free Trade Agreements and lower tariffs have removed the protection for the manufacturing sector, thereby flooding the market with cheap imports to the point where local manufacturing is suffering.
c) The cost of processing iron ore in Australia is too high due factors such as the carbon tax, higher wages bill and cost of power.

Suggestions/Recommendations:

Disperse the income from the Mining Industry to other industries in manufacturing that are suffering.

The Automotive Transformation Scheme is a mechanism that has been working and needs to remain in place so as to distribute funds into sectors of the economy thereby "levelling out the playing field".

Free Trade Agreements should be more equal and should not abandon Australian industries when those of other signatory countries remain protected. Protection to the automotive manufacturing industry should be introduced, matching that of other vehicle-making countries.

The Australian automotive industry is reliant upon sheet metal in the form of steel coils to make cars.
It is a crying shame that iron ore (mined from Australian soil) can be shipped to other countries, processed in steel mills into sheet metal and sold back to Australian manufacturers at prices below those of Australian steelmakers.

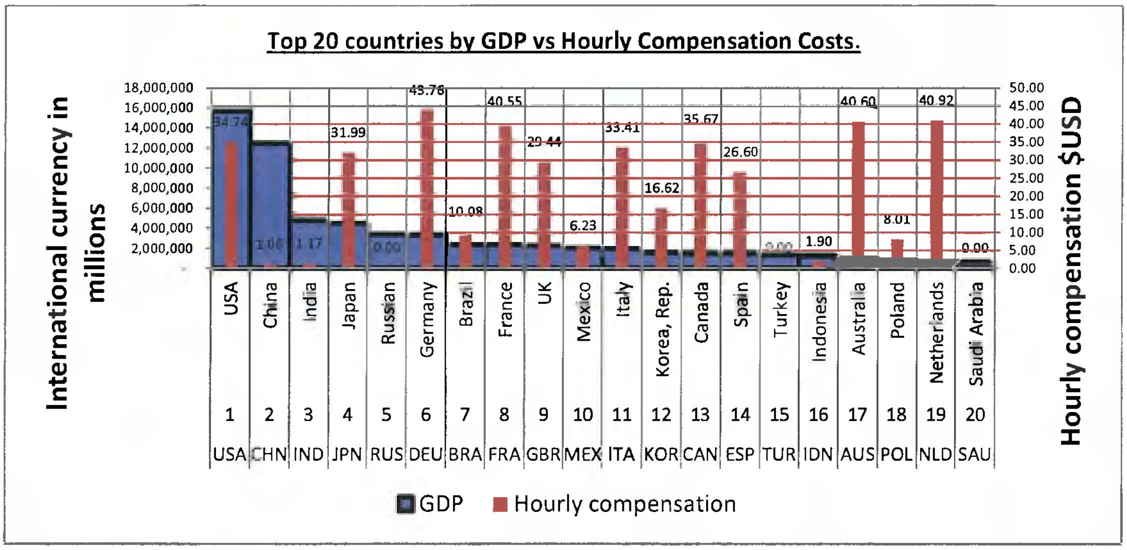
Metalsa Australia has conducted extensive research into worldwide steel prices and found that it is cheaper to buy mother coil from China and Korea than it is to buy from Bluescope.
Reasons being:

- Higher wages at the foundry and mill.
- Higher transportation costs.
- Higher cost of power (gas and electricity) to smelt.

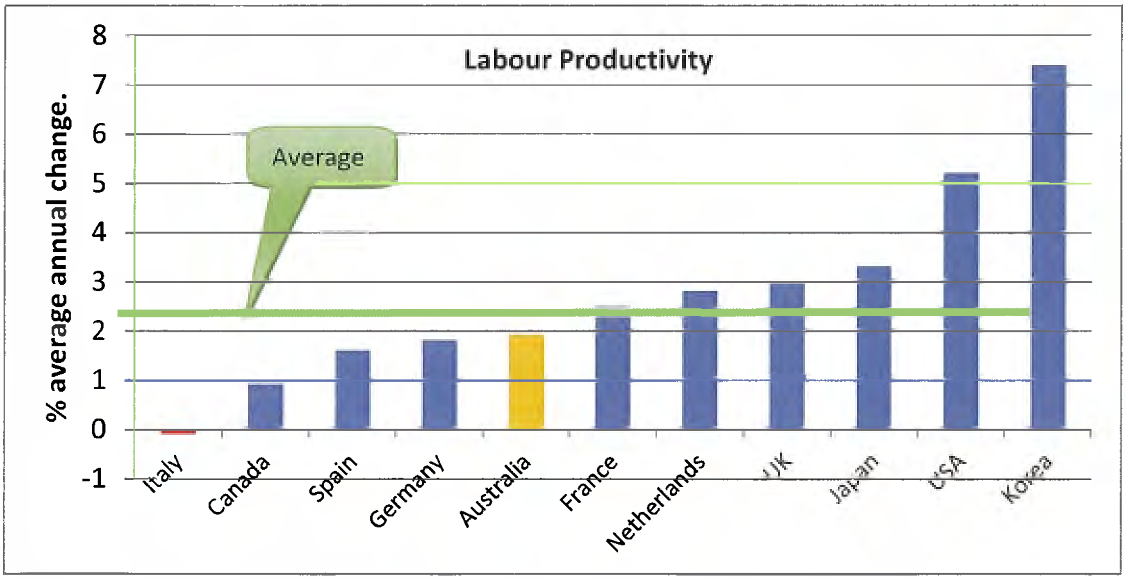
Note: it is not only steel but plastic and glass products also require raw materials and reductions in processing costs will aid those sectors produce more competitively priced product.

2. Automotive industries around the world and Australia's competitiveness.

It is well known that without government support automotive manufacturing will cease to exist in Australia. Reigniting an automotive manufacturing industry in Australia in the future will be near impossible, at least not without substantial co-investment (again). All the more reason as to why we need support the automotive manufacturing industry now rather than possibly in the future.



GDP based on PPP through the Worldbank data network as of 1/7/2013 and United States Department of Labour, Bureau of Labour statistics 2010)



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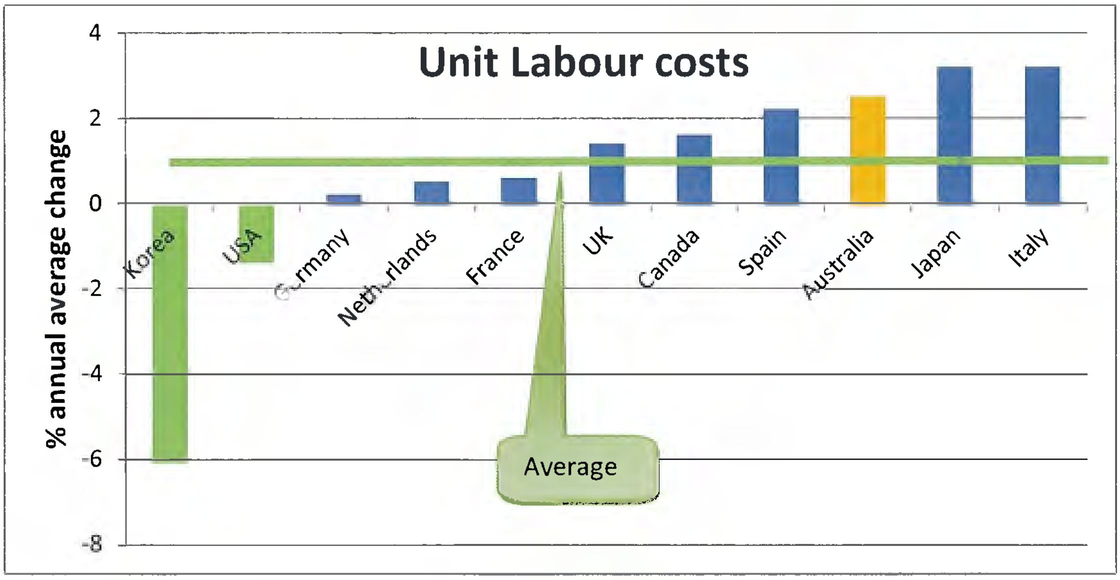
Labour productivity is defined as the amount of goods or services that a worker produces in a given amount of time. In other words it measures the efficiency of an employee in producing a given quantity over a given time. The greater the productivity figure the better is the worker's efficiency.



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Unit Labour Cost is defined as the cost of employing labour per unit of output or production. In other words the higher the number the less competitive you are when compared against countries such as Korea and USA.

The three charts shown above indicate that as a nation we are:

- Not as productive as other countries.
- Not as competitive in terms of wages as well.

The automotive industry stands out as one of the most productive industries in Australia, as stated earlier, it is the envy of most manufacturers outside of the industry.

As for wage compensation, Holden and Toyota are in talks with unions as of now.

Car companies have the ability to negotiate with unions on a grand scale.
Smaller suppliers will find it difficult to negotiate with unions on conditions such as wage freezes because of their relative size and "pull" within industry.

Suggestions/Recommendations:
Reduce the burden on wages for small business by reducing the payroll tax (a State tax).
Reduce the burden on expenses for small business by repealing the carbon tax.
Continue government grants for small business to be more productive through the acquisition of new plant and equipment: i.e. New technology and automation.
Help with the burden of compulsory increases to superannuation.

3. <u>The export model.</u>

If the Australian automotive industry is to be self sustaining then it must have an export program. Reliance upon local sales of locally produced vehicles is not going to provide sufficient volume for the industry to be viable.

The current low production levels are the result of the removal of virtually all tariffs and the big rise in the value of the Australian dollar; the Dutch Disease.

TMCA have a worthwhile export program that is generating jobs, income and wealth for Australia.

Although there is a loss made with each exported TMCA vehicle, the Australian government should maintain and continue to support TMCA through programs like the Automotive Transformation Scheme or similar programs.
With assistance, the company will still be in operation when the Australian dollar comes down in value some time in the future.
Exports will become profitable when the dollar comes down in value.
It is imperative that Australian government continue to support the automotive industry because **Exporting vehicles is in the best interests of Australia and its GDP.**

First, second and third tier suppliers to TMCA benefit from their export program, employing a considerable number of people in the state of Victoria.
Resources in the form of steel, glass and plastic are sold to generate incomes for people and industry.

<u>**Holden in Adelaide needs to follow an export model similar to the TMCA program. Holden should be manufacturing a vehicle that is exportable, period.**</u>

<u>Suggestions/Recommendations:</u>
The Australian government should co-invest with Holden in Adelaide at <u>**whatever the cost**</u> to manufacture a vehicle that is exportable.
Australian manufacturing will benefit in the long and the industry will remain sustainable.
Local content of a minimum of 50% should remain.
It will be hard to convince Holden to transfer the manufacture of an exportable vehicle from its global production to Australia as there would be not as much profit to be made. This is where ATS and subsidies come into action; for at the end of the day the benefits will far outweigh the cost for Australia and its people.
In the best interests of our nation, it would be better to subsidise the sale of an exportable vehicle than to subsidise only local sales.

4. Stimulating sales of locally produced vehicles.
   At a conference during automotive week this year, I was disappointed to hear that the Sydney City Council had bought 10 Nissan Leaf cars – fully electric vehicles that saved a proportion of carbon emissions compared to a petrol-powered car.

   Suggestions/Recommendations:
   a. Any government employee who draws a government wage and is entitled to a government vehicle should be required to buy an Australian made car.
   b. Scrap the registration administration fee (not the third party insurance premium) and reduce the cost to register a vehicle that is Australian made.

Conclusion:
We are an uncompetitive country for vehicle manufacturing, but it is important to retain the industry because it drives the development and adoption of new technologies, materials, services and other aspects of industry across the manufacturing sector.

If we are to have automotive manufacturing industry in Australia, then car manufacturers must have an export program so that we can justify supporting them with taxpayer dollars.

Australia will need at least two car companies to sustain the supplier base.

Toyota, Holden and their supplier base should be supported with taxpayer funding in any method seen fit, such as the Australian Transformation Scheme.

Holden needs to come to the party with an exportable vehicle and we should invest heavily to help them commit to manufacturing in Australia.

Murat Kiremitciyan, MEng (Mfg), Grad Dip (Mfg), BTech (Mfg), Ass Dip (Eng).

This submission is based on my opinion only and it based on current industry issues regarding the Australian automotive industry and has no bearing on Metalsa International or its affiliates.