Long term vehicle production in Australia – what is needed

"This is an industry which is just too important, too valuable and too strategic to let go..."

This is a sector often referred to as the "foundation" of manufacturing, leading the sector in research, industrial design and styling, engineering and product development, testing and validation, tooling and manufacture, lean production, logistics and supply chain management.....and the list goes on.

Given the relatively high wages, open policies and small domestic market, it is highly unlikely that anyone would ever plan an Australian Automotive Industry today if we didn't already have one..... ***but we do***, and despite its shrinking in the past five years, it's still a very large employer (~45,000 direct employees and circa 250,000 if indirect employees are included), generating the largest investments in R&D within the manufacturing sector and is still one of the Nation's largest exporters. Narrow thinking will likely see this lost forever.

It is under severe threat and its survival is far from certain without clever, competitive and reciprocal commitments between both Government and Industry. In an environment cultivated correctly, successful directional change toward a well thought through long term vision that plays to Australia's competitive advantages can be achieved. It can again thrive.

Background

- The business environment is finely balanced
- The economic health of the world is not yet improving, thus confidence is still low which translates to conservatism by business and by consumers in purchases
- Consumer trends continue to shift and are very diversified
- In the last few years, about 1 million cars per year have been sold in Australia.
- In 2011/2 Australia only produced ~14% of all 1 million cars sold in this country.
- 5 years ago, this was ~20%, 10 years ago was ~30% and 20 years ago this was ~53%?
- What has changed?.....some suggest we are not making the right cars that people want.
- NOT TRUE….in fact the models built in Australia (Commodore, Cruze, Falcon, Territory and Camry), are regularly in the top 10 selling cars
- If you add up the volume of the top 10 selling cars in 2012 it equates to only 295,212 vehicles. So even if we build every one of these top 10 in Australia, we would still only be at 29% domestically produced as a ratio to total sales.
- We produce a meagre 14% of all vehicles sold here, but if we include all export production as well, we made ~212,000 cars in total in 2012 (140k domestically produced & sold + 80k for export) - so Australian total production to total sales ratio of ~20%.
- Of the 1 million cars sold here, 86% are imported, with almost all (95%) coming from just 4 countries. Japan accounts for 44%, Thailand 21%, Korea 20% and Germany 10%.
- Let's compare our 22% production to sales ratio to these 4 countries.
- In Japan, sales of 4.4m vehicles versus production of 8.4m vehicles (190%)
- In Thailand, sales of 800,000 vehicles versus production of 1.5m vehicles (188%)
- In South Korea, sales of 1.5m vehicles versus production of 4.7m vehicles (318%)
- In Germany, sales of 3.2m vehicles versus production of 5.9m vehicles (185%)
- So why are we at 20%? Why has it come down from 53% 20 years ago? What do we have to do to get it right like these four countries - and many others as well - from my research, almost every other car making country has a ratio > 50% and the majority are in triple digits!

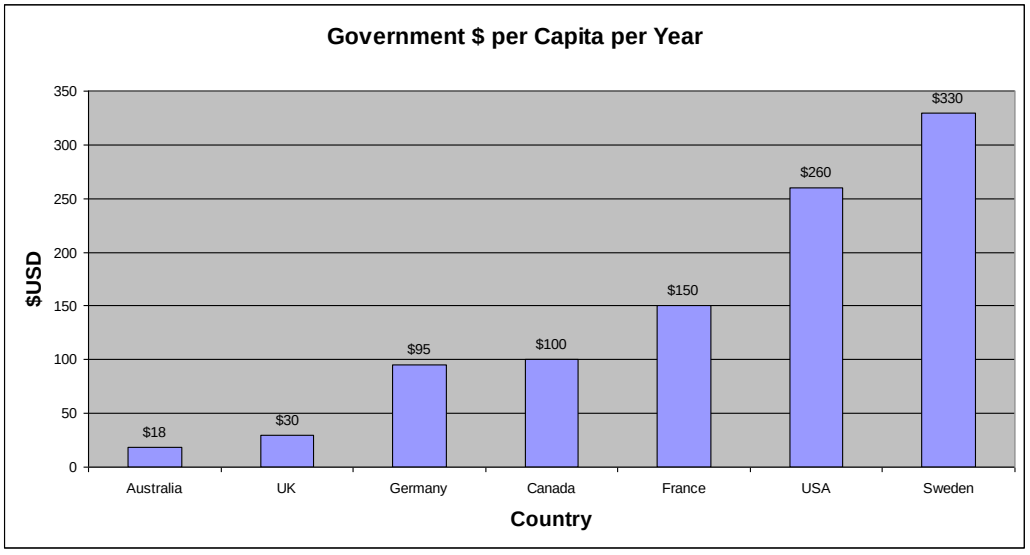
Support provided to the industry is no longer globally competitive

Exchange rates

- Exchange rates have a very significant impact on both vehicle exports and imports, both of which impact domestic production volumes
  - in 2000 AUD$1 = USD$0.55
  - in 2008/9 AUD$1 = USD$0.75
  - in 2011 AUD$1 = USD$1.05
  - in 2013 AUD$1 = USD$0.98 (average YTD)
- This means that exports have become ~30-40% less competitive, whilst imports have become 20-30% more competitive – a huge gap!
- ***THIS IS THE SINGLE BIGGEST ISSUE*** impacting on the health and viability of the Australian Automotive Sector.
- When comparing to historic norms of AUD$1 = USD$0.72, for a $30,000 imported vehicle, this is a ~$10,000 improvement in imported competitiveness versus a domestically produced product. Even if you argue that the domestically produced product has 30-50% imported component content, it is still a **$5000 - $7000** benefit in competiveness.

Co-investment

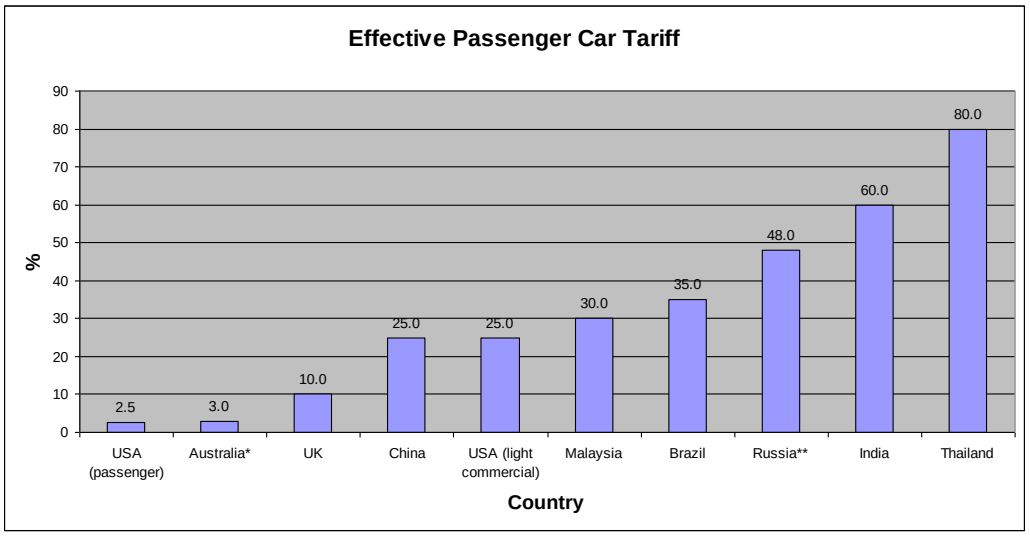
- The most recent OECD survey (Nov 14 2010) and the Sapere Research Group both concluded the following:
- To support local automotive industries, all other automotive producing countries have co-investment or tariffs or (largely) both
- The Australian automotive industry received $573.3 million in assistance from the Australian Government in 2008/9
- Based on 22 million people, this equates to $26 per person per annum (the Sapere paper indicated $18 however this was at an exchange rate at the time close to USD0.70), and compares with
  - Sweden $330 per person p.a.
  - USA $260 per person p.a.
  - France $150 per person p.a.
  - Canada $100 per person p.a.
  - Germany $95 per person p.a.
  - UK $30 per person p.a.
- Australia $26 per person p.a. ($18 based on 2008/2009 exchange rate)Graphically this is represented:



- In other words, Australia receives one of the lowest financial assistance per capita of any major vehicle producing nation, whilst having a higher proportion of direct employment in the industry of the total population, for example
  - USA 674,000 employed = 0.22% of total population
  - UK 156,200 employed = 0.25% of total population
  - Australia 60,000 employed (at that time) = 0.26% of total population

Tariffs

- Australia's tariff on imported passenger vehicles was reduced from 10% to 5% on 1st January 2010 – on an average $30,000 vehicle; this is a competitive improvement for an imported vehicle of $1,500.
- As a result of many FTAs, the effective average tariff is actually ~3%.
- Compare the following countries (from which many of Australia's imported vehicles are from) if Australia exports a vehicle to them:
  - Thailand 80%
  - India 60%
  - Brazil 35%
  - Russia 30%
  - Malaysia 30%
  - China 25%
  - Korea 10%
  - Germany 10%
  - UK 10%
  - USA 2.5% or 25% (e.g. on specific vehicles such as pick-up trucks / utes)
- Note these exclude many non-tariff barriers additionally applied, notwithstanding WTO obligations in many cases.
- Graphically this is represented:



Notes: *Australian tariff of 5% is effectively reduced to an average of ~3% due to Thailand and other free trade agreements. **Russian tariff of 30% + 18% VAT. In addition, many countries also impose other non-tariff barriers such as excises, municipal taxes, additional registration or VAT charges etc.

It is an industry that still very much matters to Australia

- We have an automotive heritage that dates back to the early 1900's, and we have had mass vehicle production in Australia since 1925 (Ford) and 1948 (Holden).
- We have recognised strengths in:
  - Styling
  - Computer Aided Engineering (CAE)
  - Product engineering
  - Testing and development
  - Manufacturing engineering
  - Purchasing, Supply chain management & Distribution etc.
- We also have lean manufacturing techniques, much of which is now being applied to process redesign outside of factories, even in areas such as banking. Skills development is leading edge in the automotive sector, driven by the relentless drive for improved competitiveness.
- Global captains of industry have come from within the Australian automotive industry – prime examples are the senior most positions in Rio Tinto and BHP.
- The global automotive industry is a bit like New York, in that if you can make it here you can make it anywhere… It is so competitive that only the very best survive. This means the skills in styling, CAE, product engineering, testing and development, manufacturing engineering, purchasing, supply chain management, distribution, etc, are leading edge. These skills get distributed across Australia as people's careers move on – into mining, defence, banking, research, retail, government, etc.
- It is why those countries which have an automotive industry fight so hard to keep it, and those smart ones without it are fighting for one…
- The automotive industry in Australia is still large:
  - Circa 45,000) direct Australian jobs (with circa 5,000 in the first tier of suppliers)
  - Circa 250,000 indirect jobs ~ (5:1 ratio)
  - Circa $3.6 billion in exports
  - Circa $450,000 of product generated per industry employee
  - Circa $4.5 billion spent in research and development between 2007-2010
  - Circa $3 billion in wages and salaries in 2008/9
- Based on the average weekly wage at $1,352 (ABS rel. date 17/11/2011) and from 2011/12 tax tables, this equates to $307 per week being withheld. $307 x 52 weeks is $15,964, multiplied by 45,000 people in the industry equates to $720 million in annual income taxes collected from the industry.
- If indirect employment as a result of the automotive industry is also considered at the ratio of 5, then this equates to ~$3.6 billion in annual taxes raised from PAYG from the industry and associated companies. Note this excludes additional contributions to Government from the industry such as:
  - Company taxes from the companies these employees are employed by
  - Company payroll tax
  - GST that these employees contribute to the economy as a whole
- Australia is one of only 13 countries globally that can develop cars from 'cradle to grave' or from concept through to the showroom.
- The New Car Plan for a Greener Future was originally established as a $6.2 billion fund, which based on the abolition of the Green Car Fund was reduced to $5.4 billion fund, over an 11 year period, which equates to circa $500 million in co-investment support per annum through to 2020.
- While this plan was determined as both competitive and appropriate in its establishment prior to the Global Financial Crisis, it has been overshadowed by the strengthening Australian dollar, the upholding of high Tariffs in offshore markets and the significantly increased co-investment made by Governments in support of other automotive production countries as a result of the GFC.

We have been kicking into the breeze for a while now, but the wind has picked up and the competition is running harder and faster…

What is needed to secure the future of the Australian automotive industry

- **The Need**
  - To secure long term intent from Government (both sides of politics)
  - Solid (but flexible to react) policy
  - Level playing field
  - Risk management through a diversified economy – when the tide of the mining boom goes out, we could be in trouble as an economy as a whole
- We must find a way to build more cars for the local market and for export…..the target should be a minimum of **300,000** vehicles produced in Australia, for domestics and export markets
- We need to not just incentivise research and development, but also incentivise manufacturing and incentivise export, not necessarily by direct financial support but by cultivating an environment through clever and appropriate policy for the industry to prosper whilst playing to the strategic strengths of our Country.
- Government programs be developed **'end to end'** – that is, taking into account the complete life-cycle of the Automobile, from Research and Design, through to Manufacture and Production, Sales for domestic and export markets and the end of life Recyclability. They must play to the strategic strengths available in Australia.
  - There is no point developing and investing in specific technologies if there is no consumer demand at this point.
  - There needs to be holistic programs put in place that span the behaviour change desired from design right through to manufacture and consumption
- Lead times for investment plans are typically 4 – 5 years in advance and many model cycles are required to re-coup investments.
- Therefore visibility and certainty is essential to enable such investments – perhaps not of micro policy but macro intent must be in place.
- It also must be competitive with the rest of the world.

- ***We therefore need consistent and competitive government policy, cultivating an environment that will yield directional change toward a well thought through long term vision that plays to Australia's competitive advantages.***

Things need to change…..where to begin

Our own controlled 'back-yard'….Government fleets

- Federal, State and Local Governments and fully funded Government bodies purchased 54,121 vehicles in 2012
  - Of these 54,121 vehicles, only 17,751 were Australian made (32.8%)
- In analysing the data further, Federal Government procured 47.6% local vehicles; the Victorian and South Australian State Governments do a reasonable job (at ~70%.....I understand that the 98% recently quoted by Victorian Government was of the large passenger car segment only, not the whole fleet). NSW, QLD and WA are poor at 32%, 20% and 17% respectively. Local Councils take the (poor) cake at 18.1%.
- No longer can it be argued that Australian cars are too expensive or do not meet the Green requirements
- It costs no more to purchase a Holden Cruze than a Hyundai i30 or a Mazda 3……or to purchase a Falcon EcoLPG or Toyota Camry or Holden Commodore than a Honda Accord or a Hyundai Sonata……it is not price.
- And local products are now just as 'Green' as any imported car - we now make an LPG Falcon and Commodore, diesel Cruze and Territory, Hybrid Camry, 4 cylinder Falcon…..there is NO 'Green' excuse not to buy Australian for Government fleets.
- There are some special purpose vehicles that we don't make here - for example, the Police in the Northern Territory need full FWD capable vehicles - but let me be generous and say these special purpose cars may make up 25% of the 54,121 total procured……so ~40,600 vehicles (minimum) of the annual 54,121 purchased should be local made products.
- At 212,000 vehicles produced here, an increase in Government fleet purchase from 17,751 cars to 40,600 cars (23,000 volume improvement) is an 11% improvement to our Australian production total……our industry would kill for that!
- Also, an 11% improvement in volume would create thousands of jobs!
- It is WTO compliant to mandate locally produced vehicles for Government purpose.
- ***This should be mandated***.

Safety

- Of the 1.1 million cars sold here in 2012, ~300,000 did not meet the 5-Star ANCAP safety rating.
- Every Australian made car meets the 5-Star ANCAP safety rating.
- It should be MANDATORY to advertise the vehicle ANCAP rating.
- The cost of all road accidents in Australia is estimated (by the department of infrastructure) at $18 billion/year
- So, put a penalty on new cars that don't meet 5 Star - say $2,500 for each star below 5…..so a 3-Star vehicle would attract a $5,000 levy.
- This would discourage purchases of less safe vehicles.
- And just a 5% improvement in the accident costs (through prevention and/or minimising injury with readily available technology) would mean almost $1 billion per year would be saved, not to mention the revenue generated from the levy.
- It would also have the potential effect of shrinking the number of brands and model variants - with people moving to safer (and perhaps local) models.

Gaseous Fuels

- Australia is a net importer of Petrol / Oil.
- Despite our very high dollar, making importing cheaper, and the price per barrel of oil being relatively low at present, Petrol is costing between ~$1.50 - $1.60 per litre
- Many experts are projecting by 2020, petrol in Australia could be around $6/litre.
- Australia is sitting on the 12th largest natural gas reserve in the world.
- If we converted every mode of transport to run on compressed or liquified natural gas (CNG/LNG) in Australia, we would have enough of our own (current known) reserves to last >90 years.

- The current equivalent per litre cost of CNG is between 19 - 26 cents!
- Compared to a Petrol engine, CNG delivers 40% less CO2, 80% less CO and 90% less NO.
- It leads to lower maintenance, is quieter and safer
- In 1996, there were 1 million CNG cars in the world. In 2011 there are 14.8 million.....so the global market of CNG is growing.
- Many buses in Sydney already use CNG. Cars and Taxi's in India, Brazil, Argentina, China, Iran etc are using CNG. Trains in the Napa Valley in the USA are using CNG.
- But we can't just flick a switch and move to CNG.
- We need to get people in Australia used to using gaseous fuels….the technology has come a very long way - in fact the Falcon LPG vehicle is more powerful than its Petrol brother and we would defy anyone to pick the difference in smoothness or refinement - it also costs less to run than many small 4 cylinder cars……so let's offer sizeable incentives for gaseous fuel cars.
- It should be justified under the banner of 'Green', as even LPG is far cleaner than Petrol.
- The incentive should be twofold (1) a rebate, say $5000 from Government for dedicated factory fit Gaseous fuel vehicles and (2) they be FBT exempt……the net effect of these two things would provide a dramatic shift toward Gaseous Fuel vehicles.
- A further benefit beyond the 'clean/green' story is that of the 60+ brands and 360+ models currently sold in Australia, the only dedicated factory fit Gaseous fuel are the LPG Falcon and the LPG Commodore…..Aussie made, so we get more production volume, create more jobs, and we get a greener outcome.
- This could also be extended to Hybrid / Electric cars, thereby picking up the locally produced Hybrid Camry
- The relatively minor cost impost to Government could be covered by the revenue generated by the safety levy and/or a tariffs initiative described below.
- We then need to shift future Government research funds toward CNG/LNG technology. Given our natural reserves, why not become a *global leader in CNG/LNG technology* and a *niche global export producer of CNG/LNG vehicles* - the export markets would be large.
- ***We have to build industries and business not just around the skills and passion of the people, but around strategic benefits we have as a Country - and we are sitting on one in Natural Gas.***

FBT

- The Toyota Hilux regularly tops the sales volumes in Australia for all motor vehicles (despite not currently being 5 star ANCAP rated for safety)
- The Nissan Navara, Mitsubishi Triton and Ford Ranger all hold positions in the Australian sales top 10.
- Using as an example, the Toyota Hilux SR5 4x$ Double cab is $57,817 and has many of the features (and price) of many upper level luxury vehicles. These are no longer pure Commercial vehicles. These are no longer just bought by people as tools of trade. They are purchased as **recreational vehicles**.
- Yet, as they are still classified as Commercial vehicles, they are all FBT exempt.
- It is the FBT exemption and the fact that these traditional Commercial vehicles have changed over the past 5 years to become 4 door luxury SUV – just with a "tray" on the back - that is driving the recreational buyer to this type of vehicle.
- This was not the intent of the FBT exemption. It was for pure tool of trade Commercial vehicles. This is now getting abused.
- In addition, ALL of the vehicles mentioned above are produced in Thailand and are sent here with zero tariff or duty.
- The FBT exemption could be either removed completely (requiring 'real' commercial operators to fill out the log book for 12 weeks every 5 years to justify exemptions), OR it could restricted to just 2-Door Commercial vehicles – as these are more likely to be utilised as pure Commercial trade vehicles.
- Recreational users of these vehicles would then either fill out a log book (as other vehicle users with Novated leases have to do) OR use the blanket 20% method when applying FBT.

- An FBT exemption could be utilised to stimulate other more desirable outcomes - such as environmental improvement
  - Hybrid vehicles - of which Toyota make the Camry Hybrid locally, so a secondary positive outcome to the lower emissions is a likely stimulated local sales / jobs
  - Factory fit gaseous fuels - with much lower Co2 emissions than petrol cars - of which the Commodore and the Falcon are the only factory fitted brands in our market at present - again, supporting lower emissions also supports a likely increase in locally produced sales / jobs.

So, should we just raise Tariff's?

- No, but **RECIPROCITY** with our Auto trading partners (although most of the trade is one-way) would level the playing field.
- With the exception of cutting some slack for genuinely emerging countries (China producing 20 million cars and Thailand producing 2.4 million cars are hardly emerging automotive markets!), in a very small manufacturing market like Australia, tariffs should at least be reciprocated.
- That is, there is no problem scaling down to zero - as long as everyone else is doing the same. But clearly they are not.
- With the onset of the GFC, many nations chose to freeze their tariff positions, and in fact some (like Brazil), actually raised them to offset the effect of their high currency.
- Reciprocity (except for genuine emerging countries) - you can't get any fairer than that.
- Let's have FTA's – not Free Trade Agreements **BUT** Fair Trade Agreements!
- One argument is that this just raises the price of cars for Australians
- NO it doesn't - if you buy an Aussie made car !
- YES it does - if you buy an imported car.
- However, a 5% increase in Tariff (back to say 10% like Germany and South Korea) on a $30k car is a $1,500 increase…….and this pales into insignificance when compared to the $10,000 saving that we should be getting from the Aussie dollar appreciating 30-40% in the last 5 years!
- If we then continue to buy 950,000 imported cars, an average 5% increase in Tariff (back to a 10% average like almost all other mature Auto making countries) on an average $30,000 car, would raise Government revenue by ~$1.425 billion.

Some other ideas to cultivate a successful environment

Rebates

- Direct rebates can be utilised as a consumer incentive also. In California, a US$7,500 is available for any purchase of an Electric car (which has an added benefit of stimulating the sales of Tesla, who produce Electric vehicles in California)

Stamp duty

- As above, stamp duty is another lever to adjust consumer behaviour.

Variable Registration

- Reduced or increased registration costs depending on ANCAP safety rating or Gaseous fuels - state controlled.

Payroll Tax

- This is another State lever to possibly assist local OEM and Component producers while conditions are difficult – it could be waived to zero when the Australian dollar is say > USD$0.90 and then a sliding scale to reintroduce it back to say full levels when the dollar is at USD$0.75

GST

- As above, GST is another lever to adjust consumer behaviour - it is rebated on domestically produced vehicles in some other Countries (VAT rebates).

Environmental Tax

- Why should an imported vehicle, that has a higher emissions footprint to the Planet due its shipping routes to get here, be exempt from any Emissions cost penalties applied to Australian manufactured products? Perhaps a levy of $200-$400 can be imposed and then reduced on a pro-rata basis if the Country of origin has some means of a price on carbon production?

Vehicle Inspections

- Mandatory roadworthy inspection every year after the car is beyond three years old - will reduce the age of the fleet on our roads and take unsafe cars off the roads OR
- Voluntary roadworthy but a reduced registration cost if a voluntary RWC is supplied.

Luxury Car Tax

- Is set at ~$60,000
- In 2007, 1% of passenger cars and 8% of SUV's fell into the LCT category
- In 2010, this was 9% and 27% respectively
- The trigger point needs to be raised to better align with what is considered 'luxury'.
- This should be positioned in the favour of Australian produced vehicles (say $5000 beyond the most costly vehicle, the Caprice) at around $75,000.
- Again, this will help stimulate local sales of the higher cost Australian passenger cars and SUV's.
- It may also incentivise future production of locally made luxury vehicles

Depreciation

- As an incentive to business:
  - Accelerated depreciation on Australian manufactured vehicles
  - Accelerated depreciation on Australian manufactured vehicles using gaseous fuels

New Model vehicles - Attraction & Tooling

- Development costs of new vehicles now is in the $billions.
- For this reason, most vehicle OEM's build the same platform in multiple locations around the world.
- A framework is needed to entice next generation models to be built in Australia.
- This needs to be a combination of:
  - All of the above points (that should stimulate local production to levels beyond today)

- tax attraction packages for new investment (similar to Thai and Chinese investment bureaus who help through the red-tape but also offer tax friendly deals based on the nature and scale of the investment)
- direct co-investment with the vehicle producers.

Tooling

- Once new global vehicle models are determined for local manufacture, an impediment for the supplier community has been the costs of tooling for the local volume. With this cost amortised into what is typically a lower volume when compared to an overseas competitor that is making the same part for a higher volume Asian market, local sell prices are not competitive.
- Assistance via ATS of 15% then modulated down usually does not offset the cost when amortised into the lower volume.
- Assistance in the up-front one off tooling costs could often mean the Australian supplier is then competitive with the overseas supplier - thereby creating local content and jobs on the global platform for at least one and often two model cycles (up to 10 years).

R&D

- Aim to be a Global leader in the field of gaseous fuels
- Align the existing R&D incentives towards this desired outcome, so that we strategically align our R&D, manufacturing and consumer incentives towards our countries natural advantages.
- This could be done by lifting the R&D incentive for this specific research and development from 50% to a higher number, say 75%, whilst the current 50% assistance rate for 'other' R&D should be maintained.

And finally…….

ATS Policy

- Whilst there is room for improvement, overall I think ACIS / ATS has done very good job in developing the R&D and skills development within the Australian Automotive sector.
- Some key suggested amendments are:
  - Utilising Revenue from some of the Revenue generating proposals mentioned above, increase the planned funding of $200 million per year from 2015-20 to $400 million, as it was in the early years of ACIS. That is an increase from $1 billion to $2 billion from 2015-20.
  - Extend this plan with $1.5b of funding from 2020-2025 to encapsulate the platform life of the impending new models that the OEM's will produce to allow for certainty through the model life
  - In return for this increased pool of funds and the enhanced domestic environment from the other initiatives mentioned in the points above, mandate for OEM's that for every domestically produced vehicle sold into the domestic market, 0.5 times (minimum) this volume MUST be exported e.g. If an OEM produces 60,000 vehicles that are sold domestically, a further 30,000 minimum must be produced for overseas exports.
  - Also, amend the OEM's application for ATS funds to be based on the value of vehicles produced LESS THE IMPORTED CONTENT, thereby only applying tax payer funds to the real depth of value add (and the jobs multiplier effect) in Australia.
  - As it will take some time to move toward more local content, allow the OEM's some sliding (reducing) multiplier on the new formula, to ensure in the early years of this new rule application, the OEM is not worse off – however, the multiplier should reduce over time, incentivising the behaviour of more local content.

- Remove the 55/45 split between OEM's and Suppliers, rather, have just one pool where quarterly applications are made on their merits and modulation is applied – this will rectify the potential situation where one side of the split pool is modulated whilst the other may be under-subscribed.

In Summary

With ~45,000 direct jobs (and a further ~200,000 indirect jobs) in the Australian automotive industry and as the foundation of manufacturing, it is too important, strategic and vital to the economic well-being of Australia not to react to the trends over the last five years.

If Automotive ceases in Australia, with its long leads times, high capital investment, and most importantly the expert knowledge base required, it would be virtually impossible to rebuild it.

Without radical positive change, it would be very naive to think the current trend won't just continue.

I commend the Government on this initiative and certainly look forward to being a part of planning future solutions if and when required.

Best Regards

Mark De Wit
Managing Director

on behalf of

Futuris Automotive Group

Please find attached a brief introduction to Futuris and some examples of the key benefits that have been created from the Australian Automotive Sector.

Australian Automotive Component Supplier

- **Examples of global growth stemming from Australian platforms; R&D performed in Melbourne as a result of global awards; Support from Ford and GM to grow globally**
- **Examples of Diversification into the Rail Sector**

Background on Futuris Group:

Futuris Group ("**Futuris**") is a leading global innovator of automotive and transport seating and interior systems. Its major products and services include:

- **Seating** - full seating systems, seat hardware, seat trim
- **Interiors** - door trim assemblies, headliners, floor carpets, NVH systems
- **Controls** - steering, pedals, assemblies
- **Aftermarket** – various accessories
- **Manufacturing solutions** - focusing on Cleantech applications
- **Infrastructure** - transport and communications solutions

Futuris has a strong track record of success as supply partner that designs, engineers and manufactures automotive seating and interior systems in select high growth markets for leading global automotive vehicle manufacturers.

Futuris is transitioning from a largely domestic (Australian) supplier, into a leading international automotive solutions provider, now with eleven strategically located, 'state of the art' manufacturing facilities in Australia (2), China (6), Thailand (2) and USA (1); each located either on-site or close to its customer's facilities.

Futuris also operates three technical facilities in Australia, China and USA; providing full product design and development capabilities to its customers. The Futuris Technical Centre in Melbourne, Australia, is responsible for all core engineering for the entire Futuris Group and is the lead centre for all its intellectual property development.

Futuris employs a total of ~2,200 employees globally, with a staff of ~750 employed within Australia (150 in technical roles) and a further ~1,450 employed outside of Australia.

Futuris was acquired in September 2013, by Clearlake Capital Partners, a boutique private equity firm, headquartered in Los Angeles in USA. Clearlake has long-term growth plans for Futuris and is seeking to invest further in the global growth and business expansion of Futuris. The Futuris management team has a clear and well defined growth strategy, which includes:

- Being a leading seating and interior solutions provider of choice in Futuris' target markets
- Expanding its global platform strategy in high growth and large automotive markets
- Extending its Chinese and Thailand businesses to penetrate further into selected global OEMs
- Focusing on competing for lower volume, higher complexity programs for large, global North American OEMs (as an entry point to later undertaking larger volumes)

- Continuing to grow in the premium, 'new energy' segment of the North American market
- Leveraging its strong Australian design, development and delivery capabilities, as a major contributor to its global business growth
- Entering the Indian market with a reputable and aligned joint venture partner, targeting Ford, GM, Volkswagen and others
- Diversifying its portfolio into other industry sectors in Australia, including bus, truck and rail

Of critical importance to Futuris' revenue streams and international growth, over the past decade has been new business secured with the three major vehicle manufacturers in Australia, in GM-Holden, Ford Australia and to a lesser extent Toyota Australia. Ford and GM-Holden in particular, have facilitated opportunities for Futuris to participate in regional sourcing activities with their multi-national parents.

Futuris has been successful in winning programs with both Ford and GM in both Australia and Thailand and from 2015, will also supply a Ford venture in China. This has led to winning programs with other vehicle producers in overseas markets, including business with Tesla Motors (USA), Chery Automobile (China) and AutoAlliance (Thailand).

In response to diminishing automotive production volumes in Australia and a desire to retain the technical skills and manufacturing capabilities developed in this market, Futuris made the decision in 2009, to diversify its business into other industry sectors, culminating in new business opportunities in the rail, infrastructure and Cleantech sectors.

Global Growth Stemming from Australian Platforms

Futuris recognised that there was an opportunity to build on its strong Australian ties with both Ford and GM and identified a number of supply opportunities in the Thailand market. Futuris worked closely with the purchasing teams of Ford and GM in Australia and regionally to secure the ability to quote for programs in the Thailand market.

Futuris committed to the establishment of a manufacturing footprint in Thailand and subsequently secured supply contracts on global platforms:

- **Ford 'Focus' sedan**: Interior products to Ford Thailand from April 2012
- **Ford 'Ranger' pick-up:** Interior component to AAT (Ford venture with Mazda) from March 2012
- **GM Chevrolet 'Trailblazer' SUV**: Assembly of 2nd and 3rd row seats, commenced in June 2012 (and is to be sold in 50 countries)

Multiple new opportunities in Thailand are now in progress with both Ford and GM, with a further Ford interiors program in development for start of production in 2014 and a Ford seat structures program from 2015 already in development.

- **Ford 'Ecosport' SUV**: Interior components
- **Ford 'Everest' SUV**: 2nd and 3rd row seats structures

Futuris now has a total of ~950 staff employed at its Thailand operations and this will increase further with the introduction of the new programs in development.

R&D Performed in Australia as a Result of Global Awards

Australia serves as a highly innovative, engineering focused "design" centre for Asian and global manufacturing for Futuris. The development in Australia of strong design & development expertise and full life cycle capabilities has enabled Futuris to win large, global OEM supplier contracts and bring the product from the design phase through to production in both Australia and other global markets.

Futuris has invested in a comprehensive suite of in-house design and development capabilities to meet its customer needs. The Port Melbourne Technical Centre acts as the primary design and development facility; possessing a full suite of capabilities from concept design, styling through virtual design, engineering and physical testing.

Smaller Technical centres in Shanghai (China) and Long Beach (USA) exist to support local application D&D requirements, as it is normal for Futuris to regularly embed engineering resources inside its customers' design process to ensure early alignment of design and speed to market.

The Futuris engineering team in Australia has undertaken a number of design & development programs for off-shore production including programs for the Thailand, China and North American markets. The team has recently completed work on new programs with Ford (Thailand), Tesla Motors (USA) and SAIC (China).

The long-term future of core engineering activity and R&D by Futuris in the Australian market is highly reliant on the continuation of local vehicle production in the Australia. The continued developed of engineering skills and manufacturing process expertise is reliant on Futuris engineering staff having direct access to the assembly facilities of its key customers, particularly during vehicle pre-production builds and program launch. The lessons learnt by the engineering team in Australia are regularly used for product development and launch in the international operations of Futuris.

Support from Ford and GM to Grow Globally

Both Ford Australia and GM-Holden have taken an active role in promoting Futuris as a potential supplier for programs with their regional purchasing teams and North American headquarters. This has resulted in Futuris bidding on and winning a number of new programs in the Asian region, with both companies.

The successful securing of contracts with Ford and GM outside Australia has also created interest in Futuris by other vehicle producers in the region and has led to award and/or quotation bids with other car-makers including AutoAlliance, Mitsubishi, Volkswagen, SAIC and Tesla Motors.

Diversification into the Rail Sector

Due to falling automotive volumes in the Australian market, Futuris has implemented a non-automotive strategy which is primarily focused on diversification in the Australian region and can be separated into two segments:

- **Cleantech**: Innovative manufacturing and assembly of Cleantech (environmentally friendly) products
- **Infrastructure**: Focused on "whole of life" infrastructure and service solutions in the rail and social infrastructure sector

Futuris participates only in non-automotive contracts that can leverage its automotive best practices of high product quality, project management and delivery reliability combined with financial discipline. Manufacturing is performed at existing Futuris sites and under agreed contractual arrangements.

Examples of Global Growth and Diversification

Below are six examples of where Futuris has utilised the capabilities and skills developed in the Australian automotive sector to grow its business internationally and to diversify into other industry sectors.

Example One: Ford 'Focus' Program in Thailand

Futuris is the current incumbent supplier to Ford Australia for the seating system and a range of interior components for both the Ford 'Falcon' and Ford 'Territory' vehicles. Interior products supplied to Ford Australia include the complete carpet systems, headliner assemblies, trunk trim and NVH components.

Given Futuris' plans to expand into other regional markets and the establishment of a manufacturing footprint in Thailand, it was given the opportunity to quote for the Ford 'Focus' interiors package in Thailand. This program was secured in competition with a range of global and local suppliers in the Thailand market.

Futuris was successful in securing contracts for a total of 39 interior components for the Ford 'Focus' model produced in Thailand, including carpets; truck trim; parcel shelves; insulation and NVH components. Production of these components commenced at a new purpose-built Futuris facility in Rayong, Thailand from April 2012.

Applications engineering and manufacturing process engineering support for the 'Focus' interior products were sourced from the Futuris Technical Centre in Port Melbourne, Australia.

Ford Thailand is planning to ramp up its 'Focus' volumes over time in Thailand and this is the first vehicle produced from Ford's new 250,000 p.a. plant located in Rayong. Futuris is well positioned to secure a large portion of this future work.

Example Two: GM 'Trailblazer' Program in Thailand

Futuris is the current incumbent supplier to GM-Holden for the seating system and a range of interior components for both the Holden 'Commodore' and Holden 'Cruze' vehicles. Products supplied to GM-Holden in Australia include complete seat assemblies, door trim assemblies, carpet systems, headliner assemblies, trunk trim and NVH components.

Given Futuris' plans to expand into other regional markets and the establishment of a manufacturing footprint in Thailand, it was given the opportunity to quote for the supply of the rear seat assemblies for the GM Thailand 'Trailblazer' SUV program. This program was secured in competition with a range of global suppliers including Johnson Controls and Lear Corporation (both US based multi-nationals).

Futuris was successful in securing the development and assembly contract for the 2nd and 3rd row rear seats for the 'Trailblazer' model produced in Thailand and assembly of the seat system commenced at the Futuris facility in Rayong, Thailand from mid-2012.

This program also includes the export of assemblies and components to a number of other markets including Vietnam and Brazil.

Design and development engineering for the 'Trailblazer' seating project and manufacturing process engineering support were sourced from the Futuris Technical Centre

in Port Melbourne, Australia.

The program includes the Just-In-Time (JIT) supply of a complete seat assembly for the 2nd and 3rd row seats. Futuris completes this assembly in-house, along with the welding of the seat structures and the cutting and sewing of the seat trim covers.

GM Thailand is planning to ramp-up its 'Trailblazer' volumes in Thailand over time. This vehicle is being exported to a number of international markets.

Example Three: Ford 'Everest' program for Thailand, China and Other Markets

Futuris is currently developing a new rear seat system at its Port Melbourne technical Centre, for the next-generation Ford 'Everest' SUV, which will be produced by Ford globally in Thailand, China, India, Vietnam and Brazil.

Futuris has already secured contracts with Ford to develop and produce the following systems and components for the new 'Everest' vehicle:

- Carpet and various interior trim components for the Thailand production volumes
- The 2nd and 3rd row seat frame structures for the entire global 'Everest' program

Start of production for the 'Everest' vehicle will commence in early 2015 and Ford is planning to produce and sell this vehicle globally.

Futuris will support the manufacturing of rear seat frames from two production locations in Rayong in Thailand and from Wuxi in China.

Capital investment for these programs is currently being purchased and installed to support customer timing plans.

The 'Everest' project represents the first global program ever secured by Futuris and the successful execution of this program will cement a place for Futuris with Ford, as a Regional Commodity Supplier for seating and will allow Futuris the opportunity to quote for other regional seat programs with Ford.

Example Four: Tesla –Model S' Program in the USA

Futuris initially set up a regional office in Troy, Michigan in 2006 gain access into the major North American automotive producers, particularly to its major customers in Ford and GM. The facility was also used as a technology development hub for Futuris' PET enviroTUF carpet.

In 2010, Futuris was successful in securing the development and supply contract for the complete seat system with Tesla Motors, a premium electric vehicle manufacturer, for Tesla's very first US production vehicle, the 'Model S' sedan. Successful production of the 'Model S' seat system by Futuris in the USA, commenced in 2012.

Tesla Motors is currently producing ~25,000 vehicles p.a. at its California assembly plant, for both the US and export markets, with production planned to ramp-up significantly in 2014, due to the strong sales of the 'Model S' vehicle globally.

The design and development work for the 'Model S' was predominantly undertaken by the Futuris engineering team in Australia, with application engineering and customer liaison engineering from the Futuris engineering office, located in Longbeach, California.

A significant growth opportunity for Futuris exists through supply to Tesla Motors, particularly when Tesla executes its growth strategy, with the development of an SUV derivative from 2015 and a new lower cost 'standard' EV sedan from 2017.

Example Five: Access to Global Programs

As well as currently in the development phase for a number of programs already secured with Ford, GM, Tesla Motors, SAIC and other, Futuris is also in the quotation phase for a number of additional programs that will secure its long term future as a regional automotive systems provider. These include:

- Supply of JIT assemblies for a new Ford SUV for Thailand, China and possibly India
- Supply of seat structures and JIT seat assemblies for new GM programs, for production in Thailand and potentially Australia
- Supply of rear seat system for a new SUV model for Tesla Motors in the USA
- Supply of the complete seat system for a new lower cost electric sedan for Tesla Motors in the USA
- Supply of the complete seat system for a new low cost sedan for a Sino-European OEM in China
- Supply of the 2nd and 3rd row seat assemblies for a Japanese OEM in Thailand
- Supply of truck seats and cabin interior components for a global truck manufacturer in Thailand
- Supply of interior components for a large new sedan program with Ford in Thailand

All of the above programs will require significant engineering support from the Futuris Technical Centre in Port Melbourne and will further utilise the engineering and manufacturing process skills and expertise developed by Futuris in Australia.

Example Six: Programs with Bombardier and Queensland Rail

Futuris has recently expanded its industry sector reach into the provision of domestic passenger rail and commuter tram seating, interiors and advanced component assembly.

From a transport industry perspective Futuris, is currently supplying seating products to Queensland Rail in Australia and interior components to Bombardier for the Melbourne light rail system in Australia.

Futuris was able to utilise the learnings/designs/components supply from its automotive business and transfer these into the rail sector.

Futuris has implemented an integrated supply solution to support both Bombardier and Queensland Rail in Australia, which includes:

- Utilising its Technical Centres in Melbourne and China to develop the technical solutions
- Utilising its manufacturing capabilities derived from the automotive sector
- Buying/building components and/or sub-assemblies in China to optimise cost
- Completing final assembly in our Australian operations optimise delivery logistics

Futuris is now in the process of seeking additional rail industry opportunities both in Australia and internationally, based on the product development activities undertaken in Australia for Bombardier and Queensland Rail.

Futuris has also diversified into a range of other non-automotive activities including Cleantech manufacturing solutions. Current contracts include:

MicroHeat: Exclusive assembly of continuous flow water heating units designed for the commercial and industrial segment

eWood: waste to resource timber replacement product

Futuris utilises its current Australian manufacturing footprint and skill sets to manufacture and support all its non-automotive product applications.