DIVER
CONSOLIDATED
INDUSTRIES

Submission to the Productivity Commission review into the Australian Automotive Manufacturing Industry.

Nov. 26th 2013

0. Introduction.

Diver Consolidated Industries (DCI) is a privately owned Melbourne based metals manufacturing firm with origins dating back to 1932. Still owned by the Diver family, DCI has been a supplier to the Australian and global automotive industries since 1948.

Today DCI employs nearly one hundred (100) people in two plants in the northern Melbourne suburbs of Thomastown and Reservoir. Exports account for approximately 20% of revenue and non OE automotive work now makes up nearly 10% of our sales. DCI procures approximately 75% of its input materials and services from local Australian suppliers.

Whilst our strategic efforts in recent years have seen our dependency on the local vehicle production industry reduce from 99% in 2004 to ~72% today, the harsh reality remains that if the Australian automotive industry does not secure continued Government co-investment support for the future we believe the industry could "die" within 4-years, taking with it a large number of supplier companies, threatening as many as 200,000 jobs across Australia.

Should this occur this nation will lose forever key manufacturing skills and infrastructure, significant research and development activity and stimulating, enriched and safe jobs for on-going generations.

But rather than a focus on predicting how big the hole will be in the economy if the car industry goes, let's dare to imagine how much stronger we would be if we had appropriate policy settings and globally competitive programs in place to grow our automotive industry in accordance with a strategic vision for the future of the sector.

Let us think how strong we would, or could be if the Australian automotive industry was supported to a level competitive with other nations around the world? The Thai's have made that call. As have the South Korean's, the Malaysian's, the American's, the German's, the British.

Today Australia makes 220,000 cars per year. Let's develop a plan for 300,000 or more with a clear strategy to 2025.

"The Australian Automotive Manufacturing Industry is Too Important, Too Valuable and Too Strategic to let go."

As a member of the Federation of Automotive Products Manufacturers (FAPM), DCI fully supports the submission the association has prepared for the Productivity Commission. The following DCI contribution to the review serves to convey our view of the present state of the industry including some historical narrative as to the design and development of the current support programs and their efficacy.

1. Current support programs for the Australian automotive industry.

As is widely stated, Australia is one of only 13 countries globally that is able to design, develop, manufacture and sell a car from concept to showroom; to go from "art to part". Of the G20 nations only one does not have an automotive industry, Saudi Arabia. For more than a century all countries that have aspired to build a developed manufacturing capability have considered an automotive industry to be the hub around which this vision turns. This is why automotive manufacturing is supported by governments globally; why public money is co-invested with private sector funds to maintain and grow this corner stone industry.

Such co-investments are usually in the form of a dollar of public support for a multiple of dollars from industry. The ratio of one to the other determines how competitive the level of assistance is, country to country. It is not a "donation"; it is not "industrial welfare". And the reason why this occurs? Because, automotive industries employ a vast number of people in highly trained and productive jobs that add a great deal of value to a nation's economy; to Australia's economy. It propagates investment, it nurtures research and development and it feeds innovation. Yet relatively speaking, Australia's automotive industry is one of, if not the least supported in the world.

This fact was high-lighted in a 2011 Sapere Research Group Limited report, commissioned by the Federal Chamber of Automotive Industries (FCAI) to consider *"the veracity of observations made by the Organisation for Economic Co-operation and Development (OECD) (2010, PP.67-69) in its most recent economic survey of Australia.....on the level of budgetary industry assistance provided to the Australian automotive industry".*

The broad conclusion made by Sapere was that the claims regarding assistance to the Australian automotive industry made in the OECD report were *"based on a misinterpretation of the data"* and that of the nations examined, (Australia, Sweden, the USA, France, Canada, Germany and the U.K.), Australia was shown to provide the lowest level of assistance to its automotive industry.

Country	Per capita assistance $US*
Sweden	$334.18
United States	$264.82
France	$147.38
Canada	$96.39
Germany	$90.37
United Kingdom	$27.99
Australia	**$17.80**

*$US 2007 (purchasing power parity), 2008-09

Domestically, if you consider the relative amount of assistance provided to other industry sectors within Australia, automotive is also at the lower end of the scale.

Industry	$millions / yr
Primary production	$1,440
Electricity, gas & water services	$1,100
Financial & insurance services	$915
Mining	$700
Motor vehicles and parts	**$620**
Property & professional services	$613

Source: Productivity Commission, June 2013

In addition to the above, in FY12 the mining industry in Australia received more than A$2b in fuel tax credits. This alone is more than twice the annual funds co-invested into auto.

Contrary to much of the negative press about our industry, we believe these figures high-light that support to the Australian automotive industry is meagre by international standards and comparatively modest here at home. Yet, the funding assistance is being put to good use and has been critically important to DCI over the past decade.

2. The origins of current automotive industry assistance in Australia.

The support arrangements for the Australian automotive industry, (presently under review), were established with 2008's "New Car Plan for a Greener Future". Announced by then Prime Minister Rudd on November 10th of that year, this was to be a *"$6.2 billion plan to make the automotive industry more economically and environmentally sustainable by 2020"*. The plan included the $3.4b "Automotive Transformation Scheme" (ATS) to run from 2011 to 2020 along with a number of other programs, the largest of which was the $1.3b "Green Car Innovation Fund", the GCIF.

As stated by the government at the time, the $6.2b plan was *"expected to generate $16 billion in investment in the Australian automotive industry"* over its life. That's nearly 3:1; hardly a donation and we must high-light, not yet expended (the program runs to 2020). Further, the amount of assistance offered under the program was significantly reduced without warning or consultation by first the trimming and then axing by Prime Minister Gillard of the Green Car Innovation Fund by January 2011. This took $800m out of the program for *"Queensland flood relief"*; a worthy recipient provided that's where it went.

But it was the origin and quantum of the existing plan that deserves consideration now as we address its efficacy and the future of continued support for the Australian automotive sector.

Having been commissioned by the Rudd Government to conduct a review of the Australian automotive industry, the Hon. Steve Bracks' report on the sector was released in August 2008. Simplistically this report, put together by Bracks with the assistance of an expert panel, was the primary tool used by the Government in the development of the "New Car Plan for a Greener Future". It contemplated and predicted the state of the industry based on then known economic conditions; exchange rates etc, and put forward a series of recommendations with quantified on-going assistance levels and timeframes for delivery to the industry.

In 2008 the Australian dollar's average exchange rate was ~US$0.853.

When the "New Car Plan for a Greener Future" was announced in November 2008, it was promoted as a response to the Global Financial Crisis (GFC). This was not why and how it was constructed. It was a plan issued by the Government with industry support levels that did not contemplate the looming GFC, did not foreshadow a sustained A$ at parity with the US$ and which would ultimately be reduced by $800m for flood relief.

Simply put, the world and its market conditions have changed radically since the "New Car Plan for a Greener Future" was launched and it has not been adjusted to compensate, only reduced.

On this point we would request that whatever form automotive industry programs take in the future that they include a review and adjustment facility in order to maintain their market relevance and efficacy.

3. The currency effect on the Australian industry.

Today, the greatest factors impacting the Australian automotive industry remain linked to the high A$ leading to the comparative loss of competitiveness of Australian made products versus imports.

The impact of the sustained high A$ has served to make Australian vehicles and components up to 30% less competitive on the world stage over the past decade. At the same time imports into this country have become more competitive for the same reason and by the same quantum. That's (up to) a 60% hit on competitiveness. No matter how much we continue to improve efficiency, trim structures and strive to become the "smarter country", that gap will not be closed without the A$ devaluing. The challenge is not to have critical industries like auto wither and die in the meantime.

Therefore, we believe that whilst the $A remains at such high levels special consideration must be given to support mechanisms to preserve key industries such as automotive manufacturing.

4. Volume – Exports and Imports.

Imports today make up nearly 86% of all car sales in Australia. The rise in the level of imports over time is due primarily to the currency effect and then, to our open market policies; with tariffs at world leading (leading?) levels.

Australia has effectively the worlds' lowest levels of tariff protection. Our choice rich but very small car market of ~1.12 million units per annum is populated with nearly 70 brands and some 350+ models. This equates to less than 16,000 units sold per brand compared to the USA where this number is more than 250,000. Some say "this is a good thing"; a free and open consumers market however, it comes at a cost. Our market is too proliferated; economies of scale to support local production are being eroded, risking its viability. Even if a local vehicle manufacturer were to produce and sell all of the top ten selling cars in Australia, this would equate to less than 300,000 units.

Restoring volume to local vehicle production, whether by increased exports and/or increases to the domestic consumption of locally made cars must be THE focus of a future auto industry plan.

Exports of locally made cars:

With our local market so open and exposed, exporting provides a critical opportunity for Australia's car producers to attain much needed volumes. This in turn flows to the component makers. The most effective way for components to be exported from Australia is as part of a fully built up vehicle. To do this our Motor Vehicle Producers (MVP's) need real and unhindered access to foreign markets. Yet sadly, we believe this industry has and continues to be continually let down by our Government's negotiators of Free Trade Agreements.

We note that ~95% of vehicles imported into Australia are sourced from just four nations, Japan, Thailand, South Korea and Germany. Four nations into which Australia effectively exports zero cars. Four nations that either maintain tariff barriers higher than Australia's or have complex and ingrained non-tariff barriers to entry.

In the case of Ford Australia, a potential Right Hand Drive export market in Thailand was lost due to that country's decision to alter excise taxes based on engine capacity above 3.0 litres after the establishment of the Thailand-Australia Free Trade Agreement in 2005, effectively killings off Ford's export plans for the locally made Territory. In the years since, the Thai-Australia FTA has fostered automotive trading conditions which today see nearly 200,000 Thai built cars entering Australia and effectively nil going the other way.

But have we learned from that experience? We fear not. The recently struck Free Trade Agreement with Malaysia too offers little opportunity for Australian exports as non-tariff related factors will likely result in zero Australian made cars entering that market also, despite Malaysia's (state owned) vehicle producer Proton's products being given near free access to the Australian market.

Free trade should be fair trade with reciprocity. Would it not be fair to apply reciprocal tariff and market entry measures? If a country exporting cars to Australia maintains an import tariff of 10% on cars entering their boarders then we should reciprocate, 10% for 10%. Surely free trade ideology works best when all parties to the agreements are bound by the same rules? Sadly, we are losing this battle.

We call for a reappraisal of and adjustment to how Australia negotiates FTA's relative to the automotive sector and a revisit of the conditions of the existing agreements.

Increased domestic consumption of locally made vehicles and components is vital.

Over the course of the past 10-years the share of the Australian car market made up by locally produced models has steadily declined to the point where today Australian made cars make up only ~14% of all cars purchased, down from ~30% a decade ago.

As mentioned earlier, this decline in market share has been predominately driven by factors such as the high $A, the proliferation of products on sale here and other, more subtle factors such as the exemption from Fringe Benefit Tax applied to some light commercial vehicles and tax advantages associated with novated leasing leading to a depletion in fleet sales.

It is also the case that Australian governments and government agencies, at all levels across the country, now procure significantly less (proportionally) locally made cars than were purchased 10 years ago.

As the need to increase local production volumes is of vital importance to the survival of the Australian car industry, we call for an on-going focus on initiatives that increase the sales of domestically made vehicles. Some examples are:

- Any vehicles* purchased with or purchases supported by public money (novated leasing) must be Australian made.

- A review be conducted on the exemption from Fringe Benefit Taxes applied to "work" vehicles that are not true work vehicles, i.e. 4-door pick-up trucks and utilities, effectively passenger car substitutes.

- A Fringe Benefit Tax exemption be applied to vehicles powered by clean technology drive-trains, such as factory fitted LPG or hybrid electric cars.

In addition to stimulating the sales of locally made cars we also believe future assistance programs offered to the vehicle manufacturing industry in Australia should encourage and produce higher levels of local value added content.

*Unless a fit for purpose capability is required.

5. The global supply chain – Australia can participate.

Today DCI remains as proof that given the right circumstances a local component supplier can participate in the global supply chains of the automotive industry.

Of critical importance to DCI's revenue stream over the past four (4) years has been export business attained due to our relationships with local vehicle manufacturers GM-Holden and Ford. With these domestic customers facilitating opportunities for DCI to participate in the global procurement activities of their multi-national parents, DCI has won export contracts that have and continue for products to countries such as Canada, China, South Africa and Brazil for use in the construction of motor vehicles in those countries.

We firmly believe that on-going support to the industry must be contingent upon continued facilitation of global supply chain opportunities by the MVP's operating in Australia.

The following examples serve to explain the critical role played by two (2) local vehicle builders in assisting DCI to gain export business. Should vehicle production cease in Australia such opportunities would be lost to local parts producers.

A brief explanation: Global Vehicle Architectures and Global Cars

Put simply, whereas Ford Australia's Falcon and Territory are completely "indigenous" designs, made in and for the Australian market only, GM-Holden's "VE" Commodore was designed on a "global vehicle architecture", or platform, developed by General Motors as the basis for several large rear-wheel drive cars built at numerous locations around the world. Called the "Zeta Platform" it has been the basis for Australia's local Commodore and exported Pontiac G8, the Chevrolet Camaro in Canada and the Buick Park Avenue in China.

"Global cars" however are those where a complete vehicle design is built (near identically) in several locations around the world. Toyota's Camry is one such car being built in Australia, Russia, Thailand, the United States, China and Vietnam with very little variation.

It is imperative for Australian parts suppliers that the local content of any new vehicles made in Australia be as high as possible and that we are provided with the opportunity to bid for global requirements beyond our shores.

GM-Holden's Zeta based "VE" Commodore – Door Hinges and other parts.

Significant for GM-Holden in the early 2000's was their parent company's decision to make the Melbourne based Holden engineering facility the "home-room" or base for all Zeta Platform derivative vehicles. In 2002, having established a global technology relationship with a Canadian firm, DCI began working with GM-Holden on the re-design of door hinges for the new Zeta based VE Commodore.

Ultimately launched into production in 2006, these hinges were also designated for use by Shanghai-GM (S-GM) for the Buick Park Avenue to be produced in Shanghai, China. As DCI had tooled up the hinges for the higher Australian VE usage it was determined that S-GM would procure their hinges from DCI for the 3-year model run, (now concluded). Domestically the hinges have continued onto the 2013 VF Commodore and derivative Chevrolet SS made by GM-Holden for export to the U.S.

VE / VF / Buick Park Avenue Door Hinge

Zeta platform based Chevrolet Camaro – Transmission Tunnel Insulator.

Another Zeta based vehicle is the Chevrolet Camaro. This flagship GM vehicle, whilst built in Canada, was designed by the team at Holden in Melbourne's Fisherman's Bend. As a direct result of GM-Holden having this design/engineering role, local Australian suppliers had the opportunity to have their products and technologies considered for inclusion in the car during the design phase.

For the VE Commodore, DCI had developed a new combined sound insulator / heat shield to fit above the transmission to prevent noise and heat entering the passenger space. So successful was this product on 2006's Holden VE Commodore, DCI was given the opportunity to bid to have a version of this "tunnel insulator" included on the Camaro. In this we were successful, beginning a now 4+ year supply contract that has seen nearly 400,000 insulators travel across the globe from Thomastown in Melbourne to Oshawa, Ontario.

Typical Transmission Tunnel Insulator and Intermediate Heat Shield

Ford's T6 Ranger - Cargo Tie-down Cleats.

In a scenario very similar to the GM example above, 2010 saw Ford Australia being presented by their parent company with the responsibility to become the design home room for the T6 pick-up truck, the replacement for the "Ranger". At this time DCI was supplying cast aluminium cargo tie-down cleats to Ford's Broadmeadows plant for the domestic Falcon Ute.

Given that DCI was already acknowledged within Ford's Global Procurement "registry" as a supplier of such parts, when the time came for tie-down cleats to be designed for T6, Ford approached DCI to quote for the new T6 product. Upon assessing the T6 design and having such close proximity to the global design team based at Ford Australia, DCI was able to successfully suggest that Ford instead adopt the Falcon Ute tie-down cleats and engineer those into T6 rather than "re-invent the wheel".

This approach was accepted as being cost effective and DCI now supplies the very same parts as are used on Falcon Utes to Ford in China and South Africa for the T6 Ranger program.

Cargo Tie-down Cleat used for both Ford Falcon Ute and T6 Ranger

Despite the fact that Ford will cease vehicle production in Australia in 2016, they will maintain an engineering presence in Melbourne and, it is hoped, a continued conduit into global program opportunities for local suppliers.

6. Diversification – Auto skills and technology in other markets.

Having accumulated more than 80 years of manufacturing experience predominately from the automotive industry, DCI, like most auto component producers, has the capability to engineer and make products for many other markets. Automotive forged skills and capabilities are directly transferrable into many other sectors including Defence, Mining, Medical and Aerospace.

In answering the simple question "what is it we DO?", we have concluded that we do not merely "make auto components" but in fact are in the business of metals based manufacturing and can therefore make anything within the capabilities of our installed (and increasingly underutilised) plant and equipment. With automotive as our base, we are looking to other sectors to help strengthen our future prospects.

The following are examples of DCI's diversification efforts, using our automotive honed skills and capabilities.

<u>Heat shielding products – New markets, new applications.</u>

Since 1996, DCI has been developing materials, products and processes to manufacture and supply heat shielding products for motor vehicles; shields that protect components within cars from damaging exposure to severe heat sources (exhaust systems) or prevent excess heat from entering the cabin area.

The expertise accumulated during this period is now being put to use in the design, manufacture and supply of radiant heat curtains used inside the cabins of fire trucks to prevent the harmful effects of radiant heat impacting on fire crews should they be forced to shelter within the cabin in the case of a burn over during a bushfire.

Working with a specialist emergency vehicle manufacturer in regional Victoria, DCI continues to develop its range of superior and locally made radiant heat protection curtains for fitment to new fire fighting vehicles and other applications.

Fire Truck in "Burn Over" – The cabin becomes a haven.

Fabrication of Wood working appliances – The Triton Work Centre Range.

One of the first diversification projects embarked upon by DCI (in 2008) was to take on the manufacture of the iconic Australian designed Triton Work Centre range of woodworking appliances.

At the time it was identified that most processes required to produce the complex Triton machines could be undertaken within DCI's facilities by our existing skilled workforce in a fashion complimentary to our core auto component producing activities. Today DCI continues to make the Triton products on contract to the brand owners. The range is distributed throughout Australia and now exported to the U.K., South Africa, Japan and South Korea.

The famous Triton Work Centre – made by DCI.

Retract-a-Steps – Safety driven products for the transport industry.

Following a minor work place incident involving one of our employees alighting from our truck, DCI discovered the Australian invented "Retract-a-Steps" range of vehicle access products. A relationship between the companies developed with DCI working to assist Retract-a-Steps with the refinement of the units' design and improvements to manufacture. Today, DCI owns the Retract-a-Steps business which is fast becoming one of our key diversification opportunities.

DCI's Retract-a-Step

A final word.....

In 2004 DCI's dependency on the Australian automotive industry was in the order of 99%. With our diversification and new business development efforts this has reduced to ~72% today. That change has taken 9 years.

Looking forward into an "uncertain automotive future" just 3-4 years ahead, with the high A$ still restricting opportunities, we fear our rate of diversification may not be fast enough and the volume of potential alternative business not sufficient to replace the automotive business we have. Nor will it support the number of companies presently involved in the sector.

We believe a continuing Australian automotive manufacturing industry remains essential to Australia if wider scale manufacturing is to be sustained.