

MTM Submission to the Automotive Manufacturing Industry Inquiry

November 2013

Who is MTM?

MTM is a private company that commenced in 1965. It has been involved with the automotive industry from inception and has developed into a global player in manufacturing automatic gearshift assemblies and door checks (the device that holds your door open in various positions). We have won numerous industry awards including Fords Gold supplier Award, shortlisted on the FCAI Supplier of the Year and inducted in to the Victorian Manufacturing Hall of Fame.

MTM employs 100 people and have exported since 1997. MTM exports to 10 countries including China and India. An additional 3 countries will be added to this list in the next 3 years. It is not widely known but every US Cadillac car produced has an MTM doorcheck! MTM exports greater than 30% of current manufacturing. With new programs planning to come on stream next year this percentage is planned to increase to greater than 40%.

Our customers are global and not in our back yard, our competition is global and works on much larger economies of scale. We fight to win all business, be it for the local or global market based on international competitive pricing. To be a supplier in the automotive industry today you have to be doing something right.

To assist the process of becoming a niche global player, MTM has formed formal and informal relationships with different countries and companies. This has allowed MTM to have a local presence and transfer knowledge via technical agreements and Joint Ventures.

MTM moved into finding non automotive business approximately 8 years ago and is seeing success in 3 key products of Tomcar (www.tomcar.com.au), Steelsafe (www.steelsafe.com.au), H2O PurePlus (www.h2opureplus.com) and Hella.

We have the rare capability of being able to receive a sketch, key mounting points and required outputs and design a product to a price. We then use all of our skills and capabilities naturally assumed within the automotive industry to plan, design and manufacture the product to a zero defect quality level on volumes from less than 1,000 units a year to up to 4 million units a year.

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Executive Summary

Now is not the right time to decide that the automotive industry is no longer needed. The key economic fundamental (exchange rate) is beyond our control and has moved to heights rarely seen before. This is a natural impediment to the success of our industry and a longer term view should be taken to give the industry a chance of future success to repay the economy for the benefits it has received to date.

There is no level playing field and when Free Trade Agreements are discussed with other countries it appears that manufacturing is continually the industry that is sacrificed.

Tariffs should be standardised across the board for all imported vehicles.

Future policies should ensure that the automotive industry is not hollowed out to become only an assembly industry.

Government related businesses could support the automotive industry by purchasing locally produced vehicles.

The loss of vehicle production in Australia would see the total abandonment of all vehicle related component production from Australia.

MTM has been able transfer our local skills to the international stage and now to the non-automotive market. A longer term policy time frame would allow local suppliers to apply this knowledge to those same markets with; I am sure, the same level of success.

Facts assumed to be known.

I will assume that the other reports and the independent research of the group have identified that;

1. The Australian market has more car brands per head of population than any other country in the world.
2. Australian vehicle exports in 2008 (just before the GFC) were \$4.03 billion and in 2012 was \$2.14 billion. A decrease of 46%
3. During this same period of time the Australian dollar, in comparison to the US dollar, moved from 0.67 (Dec 2008) to 1.04 (Dec2012). An unfavourable 55% movement.
4. In 2012 Australia sold 1.1million vehicles and the highest selling vehicle was the Mazda 3 with 44,000 units.
5. The largest selling market segment in 2012 was not the small car market but the SUV market. The majority of all of these vehicles arrive duty free.
6. The inquiry understands the level of benefit received by the automotive industry compared to other industries.
7. Australia imports 80% of its vehicles from 4 countries and each of these countries have tariffs that exceeds Australia's tariff.

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There is no level playing field

Virtually all the automotive producing economies have tariffs that are higher than Australia. MTM is continually competing with tariffs of other countries that make our product uncompetitive.

Examples of this are already well known but for the sake of repeating;

- EU & UK 10%
- China 25%
- India 60%
- Malaysia 30%
- Thailand 80%
- USA 25% (on light commercial vehicles)
- Brazil 40%

Over and above this burden, Australia is not seen as a manufacturing economy and therefore the manufacturing industry is affected by the significant movements of the Australian dollar to the US dollar.

Today, Australia is seen as a high cost economy. Should the exchange rate move back to reasonable levels (say Aust 0.75 to the US\$) then this would see our cost of production dramatically shift downward and make us a more viable economy from which to export from.

In the medium to longer term, economic forecasters are predicting a reduction of the Australian dollar to the US dollar. Based on this eventuality, the current difficulties in exporting, due to the high Australian dollar will evaporate and levels of production as previously seen by our industry will return.

The automotive industry has always needed long term policy stability to make the investment decisions required for future models due to the long lead time of design and manufacturing. It would appear irrational to make a decision to not support the industry because of short term economic factors outside of our control.

I would also like to add that any Australian company that is exporting has had to face barriers that are not identified in economic modelling. The company that places an order for your product has to overcome a number of hurdles to feel comfortable in even placing an order. Some of these hurdles are:

- No risk – stick with local suppliers who you know.
- Tyranny of distance – what is the cost of a design change based on the amount of stock in the system?
- The cost of quality – If a problem occurs how long will it take to rectify?
- The Buyer, engineer, quality and production people want to pick up the phone and talk to a local person.
- Parochialism – something rarely encountered in Australia.

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Finally the policy makers are sending mixed signal with what vehicles receive tariffs. Some are at 5% and some are not. ***Why not have 5% across the board to stop sending incorrect signals to the market.*** Indeed I would suggest that the tariff should be higher than the current 5% but I doubt that it would be politically achievable.

We need a complete automotive industry.

The automotive industry is going through a major rationalisation of costs. Some of this has been brought about by the global financial crisis and some because it makes good economic sense to do so.

A key cost driver is to design and manufacture the press and mould dies, once. The days for an individual car designed for an individual market is almost gone, unless economic volumes justify. This sees the rolling out of global car designs, with global suppliers supporting the supply of components in each global location the vehicle is built.

This therefore means that the next Holden and Camry vehicles will not be designed in Australia. Some parts or components of the car will be designed or localised here, but significantly less than has been the case in previous years.

What are the opportunities for Australian suppliers to supply parts on to these future vehicles? Significantly less than now, that is sure. The main components that will be manufactured in Australia are the large or bulky items that are too costly to import. The opportunity to replace individual components with Australian made parts at a similar price will not be allowed under the global design and manufacturing rules.

This naturally assumes therefore, that there will be a rationalisation of the Australian supply base without anyone having to do anything. The Australian content of each vehicle will diminish even further than where it is today, as it has continued to diminish since the introduction of the Button Car Plan.

What makes the Australian automotive industry so special is that it can take a product from sketches and output performance requirements, design these parts and then produce a high quality product at internationally competitive pricing and quality. We are a 'one stop shop' or a 'turn-key' industry.

The natural conclusion to our Australian OE customer's requirement to accept international vehicles designs is that we will become an automotive assembly nation. Our manufacturing skills will be hollowed out and we will be a shell of what we once were. I do not think this is acceptable. Ceding on manufacturing jobs to other countries isn't just losing manufacturing jobs today. We will lose on tomorrow's jobs by losing the high-tech, innovative capability that the automotive industry

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contributes. Moreover, manufacturing more than any other sector creates downstream jobs outside its own sector. It is estimated that in every automotive job there are 4 to 6 in supporting industries.

So any policy going forward needs to consider the supplier base and maintain the skill sets that exist today. To MTM this would be seen as our Australian customer's openly supporting internationally capable Australian suppliers on the international stage. Some of this has started, but only recently.

This should not merely be lip service and trade missions to various countries. Surely it would be a simple measure to see how many Australian suppliers win business overseas based on local customer support?

Visit Customer Design Centres not Customer Manufacturing Centres.

Australia continually takes trade missions overseas. ***Automotive trade missions need to visit the automotive design capitals of the world.*** We need to be having our designs considered up front where ever possible. This is assuming that suppliers are also internationally capable.

This may require specific short term government support at those design centres to support the Australian supplier industry until initial business can be won.

The Automotive Industry is a Volume Game.

There is varying evidence of what volumes constitutes an efficient manufacturing facility or more importantly, what volumes are required to sustain automotive manufacturing in Australia. One thing is clear, the current sales of Australian produced cars is low.

This may be partly because of vehicles that are in the same category as the large car, the SUV, has a different tariff policy to passenger cars. So this anomaly needs to be corrected.

Local car sales could be improved by government organisations supporting and encouraging the purchase of Australian made vehicles. As locally produced Australian cars now meet almost all category requirements, I cannot see why this policy cannot be supported.

The local OE manufacturers must have difficulty in deciding what is the next car they assemble in Australia? Due to the large number of players in our market it has become extremely fragmented with the largest sales vehicle in 2012 being approximately 40,000 units. I imagine it would be difficult for any assembler to survive on these volumes. This means that O.E's now need to find export markets, or build multiple vehicles from the same platform, or different size vehicles from different platforms.

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The simple answer is an export focus but with the high Australian dollar this is extremely difficult unless they too (OE manufacturers) take a longer term view of where the Australian dollar should be in comparison to the US dollar.

The situation is complex. An opportunity may exist with increased funding support in the short term that varies according to where the Australian dollar sits compared with the US dollar. Funding can be increased or decreased based upon the exchange rate.

Unfortunately the destiny of the OE's is not determined by Australia but by their overseas parents. If we give the parent company no reason to take the longer term view, then they too may exit Australia.

I am quite sure that if Australia loses another OE manufacturer then the opportunity to build automotive components in Australia and export them all around the world, as MTM do now, will not be possible. The concept to a buyer, of purchasing product from a country that does not manufacture vehicles will be even more foreign than purchasing product from Australia. Also it would be highly unlikely that the production of one assembler could sustain the industry of any significant scale.

I would therefore argue that the loss of vehicle production in Australia would mean the abandonment of all large scale manufacturing from Australia, forever. I certainly don't wish to see this happen.

Benefits to Australia from Automotive Manufacturing

The skills that MTM has learnt from the supply of local automotive product has allowed us to explore and grow into overseas markets and now into the manufacture of local non-automotive products.

It is the systems and processes of the automotive industry that make it valuable to Australia, rather than the hardware of capital equipment. It is the thinking that the automotive industry has passed on, that makes it so important.

I will try and cite some examples if I may. MTM now assembles a vehicle called a **Tomcar**. A Tomcar is an all terrain vehicle that can go virtually anywhere, is based on a system of simplicity and is ideally suited to the Australian environment. There is no other all terrain vehicle that comes close to what this car can do and do safely.

Currently the Tomcar is made in Israel, USA and Australia. Tomcar Australia has the capability to change the design as to what suits the market environment; they are in control of their own destiny. What makes the Australian Tomcar different is our dedication to detail; our focus on zero defects,

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our use of automotive systems and principles to improve the product to the next level, our use of IT systems to assist production and our focus on streamline production techniques.

MTM has assisted Tomcar Australia change the vehicle from a batch production to a mass production vehicle. It can be expanded and or contracted as required to build the volumes that are required. Had MTM not been involved with automotive we would not have been able to bring this thinking to the table. Tomcar Australia is now able to sell the vehicle with the confidence that the quality levels of the car are much higher today than those previously imported.

MTM has been able to utilise our logistics and supply chain knowledge to source over 1000 components. This has been a huge logistical challenge and has been successful. We are currently focussed on increased localisation of components and have been able to achieve 50% locally sourced components.

Steelsafe sells a product that allows a truck to be slowed down to stop and or locked so that it cannot be driven off. The unit can be controlled remotely from a monitoring centre and gives increased security to the driver, transport company and owner of the goods as well as the insurance company. Since the GFC theft in countries such as Mexico, Canada, USA and South Arica have increased by at least 25%. The Steelsafe Unit means that the goods are trackable and safe whilst a Steelsafe unit is installed.

MTM supported Steelsafe in improving the design so that it was production capable as well as supported the testing regime to meet real world requirements.

H2O Pure Plus is a water filtration system that is able to transform black water to potable water that can then be used on the gardens. MTM was involved in the design of the panels to be manufactured in plastic, as light weight as possible yet able to withstand the pressures of a tank filled with media, to the Australian standards. We also assisted in supporting the manufacture of these panels via our international logistics supply chain.

All of the above are examples of a positive transfer of automotive knowledge to fields outside of our industry. My fear is that if automotive skills are lost, some of these business opportunities will never be realised in Australia. Rather they will be sold to overseas markets or worse, never have their true potential realised at all.

Mark Albert
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