
Toyota Australia

Initial Submission to
Productivity
Commission Review
of the
Automotive
Manufacturing
Industry

November 2013

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Key Points

Toyota Australia facts and statistics	<ul style="list-style-type: none"> • 4,200 direct employees • 2,500 manufacturing employees • 2012 vehicles produced: 101,424 (46% of Australian vehicle production) • 2012 vehicles exported: 74,335 (73% of production) • 2013 engine production planned: 108,000 units. Four cylinder petrol and hybrid engines produced for local built cars as well as engine exports to Malaysia and Thailand commencing January 2013 • Auto exports amongst top three manufactured exports from Australia • For every \$1 of government support, Toyota spends at least \$20 in connection with manufacturing in Australia, primarily in purchasing local parts from suppliers across Victoria, South Australia, New South Wales and Queensland. Last year Toyota spent \$1.5 billion in connection with building cars in Australia
Market factors impacting the industry	<ul style="list-style-type: none"> • Unbalanced trading environment <ul style="list-style-type: none"> ◦ Domestic scale issue – open and fragmented market ◦ Supplier impacts - need for controlled consolidation while accelerating capability development and diversification ◦ Unfair trade agreements - limited access to export markets • Currency impacts: <ul style="list-style-type: none"> ◦ Imports more competitive (downward price pressure on local makes) ◦ Makes exports less profitable (revenue down)
Toyota Australia activities	<ul style="list-style-type: none"> • In 2012, the company embarked on a company-wide transformation to reduce costs of building cars by \$3,800 per unit by 2018 through: <ul style="list-style-type: none"> ◦ Cost reduction strategies ◦ Flexibility and process improvements across all business areas ◦ Accelerating supplier capability development activities to help drive productivity improvement and create diversification opportunities
Investment attraction challenges	<ul style="list-style-type: none"> • Toyota Australia competes with Toyota affiliates in other countries for investment • Many other countries are aggressively pursuing automotive investment through a variety of transparent and non-transparent measures including: <ul style="list-style-type: none"> ◦ Direct financial grants ◦ Long term taxation and import duty exemptions ◦ Accelerated depreciation ◦ Tariff and non-tariff barriers to competition
Correcting the record	<ul style="list-style-type: none"> • The 5 per cent (effectively 3.5 per cent post Free Trade Agreement's) tariff <i>does not</i> provide a form of protection to local manufacturers, as a result of the following: <ul style="list-style-type: none"> ◦ The price setting process in Australia is based on the market price of competing or potentially competing vehicles ◦ The market is extremely price sensitive ◦ Cars from Free Trade Agreement (FTA) partner countries can be offered with increased specification or reduce transaction costs in pursuit of increased volume, forcing <i>down</i> prices of locally built cars ◦ Camry marketing activities during 2012-13: 0% finance offer; \$2,000 free petrol offer; current \$26,990 drive-away offer • Australian built cars feature prominently in the top 10 selling cars proving that the local industry <i>does make cars people want to buy</i>. In spite of deteriorating profit conditions, Camry has been the best seller in its segment <i>19 years in a row</i> and with 40 per cent market share more Camry's are sold than its <i>next four competitors combined</i> • The Luxury Car Tax (LCT) is <i>not</i> a form of protection for local car makers. In fact the market share of locally built cars has dropped significantly since the LCT was introduced. Toyota supports the abolishment of the LCT as it is a punitive and inequitable tax paid by more Toyota customers than anyone else • Carbon tax impact on locally manufactured vehicles has been widely

	<p>reported to be \$400 per vehicle. In Toyota Australia's case, \$115 per vehicle is the actual carbon tax impact on Camry and Aurion taking into account all costs directly incurred as well as supply chain pass-through costs. It should also be noted the carbon tax price has been absorbed by Toyota Australia and not passed through to the end customer</p> <ul style="list-style-type: none"> • Government support of automotive industry is <i>modest</i> compared to other countries and <i>reasonable</i> relative to support of other industries in Australia. Support mechanisms include diesel fuel rebates, bank guarantees, health insurance, negative gearing etc
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Key Requests

1. Auto industry policy	<ul style="list-style-type: none"> • A long term, consistent, globally competitive policy suitable for the Australian context to attract future investment
2. Trade equity and improved market access	<ul style="list-style-type: none"> • Future FTA's must seek to address deficiencies in existing FTA's where possible and ensure similar inequalities do not arise • Renewed focus on progressing the Australia-Gulf Cooperation Council FTA would support GCC exports • Non-tariff barriers in FTA partner countries must be addressed
3. Customs – access to tariff concession orders	<ul style="list-style-type: none"> • The automotive industry should no longer be excluded from the processes available to other importers to seek tariff concessions for components that can be proven to not be available in Australia
4. Industrial relations	<ul style="list-style-type: none"> • Changes to the industrial relations framework should be contemplated to require industrial laws to be based at least to some degree upon productivity and flexibility gains and to set a more reasonable threshold for the definition of 'significant harm' in the context of preventing damaging industrial action

1.0 Background Facts and Statistics

Toyota Motor Corporation Australia Limited (Toyota Australia) has been manufacturing in Australia for 50 years. Australia was one of the first countries (in 1963) outside of Japan in which Toyota established manufacturing facilities and was the first western nation in which Toyota manufactured vehicles.

Toyota Australia has a workforce of approximately 4,200 employees including 2,500 direct manufacturing employees. It also directly supports another 20,000 jobs through its direct supplier base. Toyota Australia's vehicle production (101,424 in 2012 and 105,000 estimated for 2013) accounted for 46% of Australian vehicle production in 2012. In late 2012, Toyota Australia opened its new engine facility (\$330 million investment) which can produce up to 108,000 four cylinder (petrol and hybrid) engines for use with locally built cars and for direct export to Malaysia and Thailand.

In 2012/13, Toyota Australia received \$72 million from Automotive Transformation Scheme (ATS) and government grants in connection with its manufacturing activities. During the same period, Toyota Australia injected around \$1.5 billion into the local economy through its manufacturing presence, including wages, local supplier and taxes. This meant for every \$1 received from the government, Toyota Australia spent more than \$20 in Australia in connection to local manufacturing. If Toyota Australia does not build vehicles in Australia, this money will be spent in other countries.

Toyota Australia's sister company, Toyota Technical Center Asia Pacific Australia Pty Ltd (TTCAU), was established in Australia 10 years ago and is located in Notting Hill, Melbourne. It utilises approximately 200 people in Australia and is one of only five R&D centres in the Toyota world. TTCAU supports Toyota Australia's manufacturing operations by conducting Australia-specific R&D for global Camry vehicles whilst also supporting Toyota Motor Corporation's global R&D function.

An overview of the new car market and Toyota Australia's business is below:

Table: Australian market and Toyota statistics 2006-2012

		2006	2007	2008	2009	2010	2011	2012
Market	Total Market	962,521	1,049,982	1,012,164	937,328	1,035,574	1,008,437	1,112,032
	Locally Made Share of Total Market	21%	19%	17%	16%	14%	14%	13%
	Toyota Sales (incl. Lexus)	213,839	236,647	245,653	206,827	214,718	181,624	218,176
Toyota	Locally Made Domestic Sales	33,000	48,372	42,629	34,756	36,778	28,084	36,304
	Exports	80,000	97,688	101,668 (record)	63,345	82,670	59,949	74,335
	Production	111,610	148,931	141,467	96,817	119,455	93,618	101,424

Automotive exports continue to be amongst the top three manufactured and value added exports from Australia, while being one of the few non-commodity top exports from this country.

Chart: 2012 Manufactured exports (ABS data)

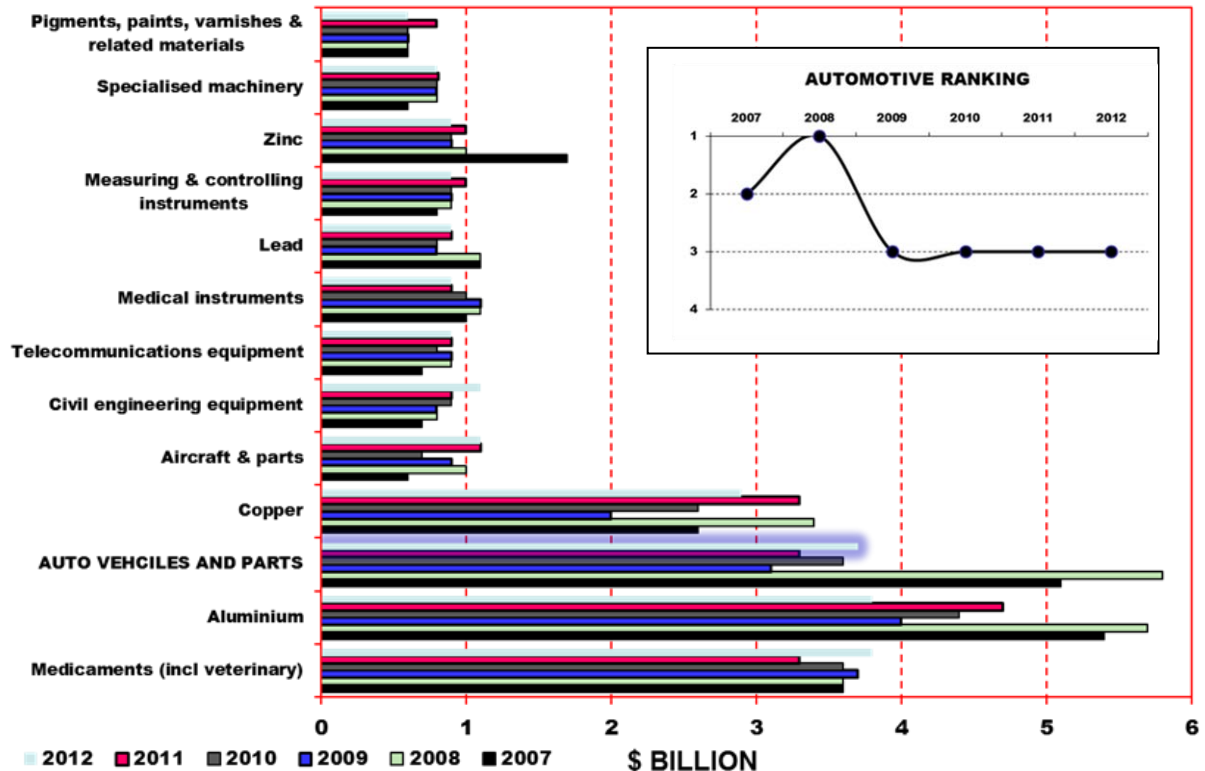
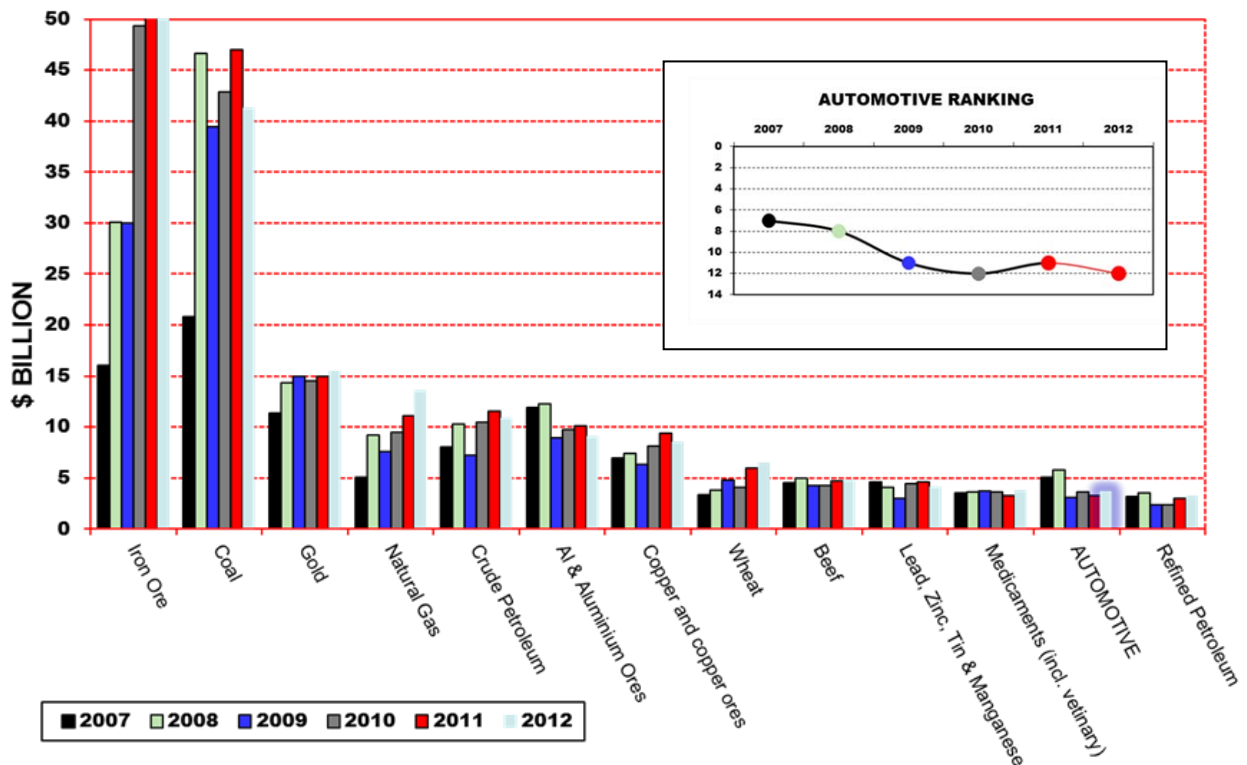


Chart: 2012 All Australian exports (ABS data)



Key points:

- 4,200 direct employees
- 2,500 manufacturing employees
- 2012 vehicles produced: 101,424 (46% of Australian vehicle production)
- 2012 vehicles exported: 74,335 (73% of production)
- 2013 engine production planned: 108,000 units. Four cylinder petrol, ethanol and hybrid engines produced for locally built and export cars as well as stand-alone engines to Malaysia and Thailand
- TTCAU in Melbourne utilises another 200 people and is one of only five such centres globally
- Automotive exports are amongst the top three most value added (manufactured) exports from Australia.

2.0 Market factors impacting the industry

Toyota Australia's business strategy is firmly founded on the maintenance of local manufacturing operations on the basis that:

- The company seeks to maintain a balanced business model including manufacturing, export and import
- It considers that the manufacturing operations strengthen Toyota's brand and support its position as market leader
- Toyota contributes to Australian society through making an economic contribution by manufacturing in this country

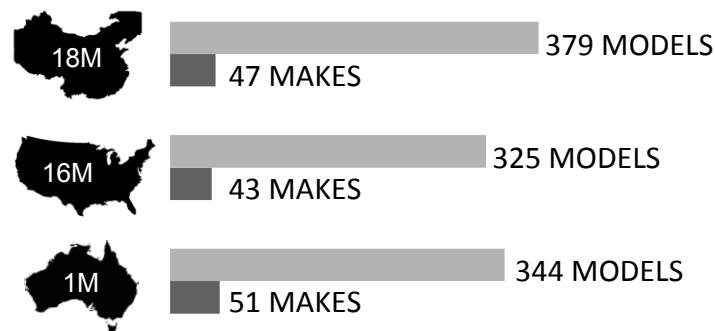
Notwithstanding the company's desire to maintain its manufacturing operations, the viability of those operations has been significantly impacted by an unbalanced trading environment in which market and regulatory factors have allowed unfettered access to the Australian market while preventing access to global markets for locally built cars. The impacts can be summarised as including, but not limited to, the following:

- Scale limitations caused by:
 - The fragmented and intensely competitive domestic market
 - Limited access to export markets
- Profitability impacts exacerbated by persistently and historically high AUD causing:
 - Significant price pressure in the domestic market (global overcapacity combined with AUD strength makes Australia an attractive destination for cars from all over the world)
 - Extreme revenue reduction from Middle East export markets as sales are in USD

2.1 Domestic scale issue– fragmented market

The Australian automotive market is characterised by low entry barriers and a high level of competition. The result is a significant fragmentation of the market, with more vehicle brands and models available to Australian consumers compared with almost anywhere in the world. For example, China, Japan and the USA which despite being much bigger markets, have a similar number of makes competing for market share. These multiple brands and models compete in Australia for a relatively small overall new car sales market.

Diagram: Market Size versus Competing Vehicle Makes and Models*



*Figures exclude trucks

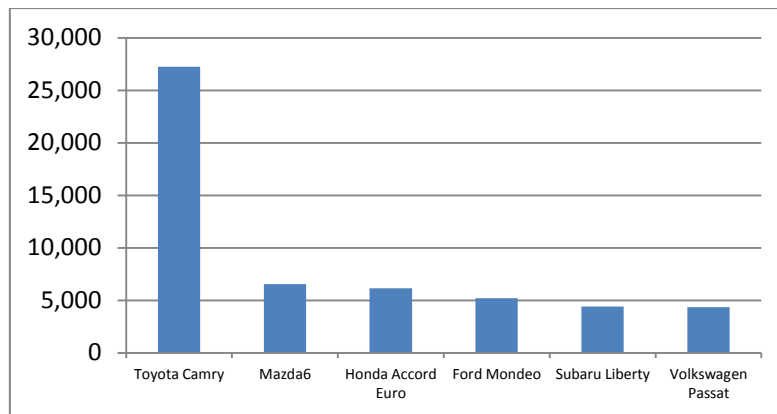
The list below shows 2012's top 10 selling cars (units sold) in Australia which was a record year with more than 1.1m new car sales:

List: Top 10 Selling Vehicles in Australia – 2012 (VFACTS)

1.	Mazda3	44,128
2.	Toyota HiLux	40,646
3.	Toyota Corolla	38,799
4.	Holden Commodore	30,532
5.	Holden Cruze	29,161
6.	Hyundai i30	28,348
7.	Toyota Camry	27,230
8.	Nissan Navara	26,045
9.	Toyota Yaris	18,808
10.	Ford Focus	18,586

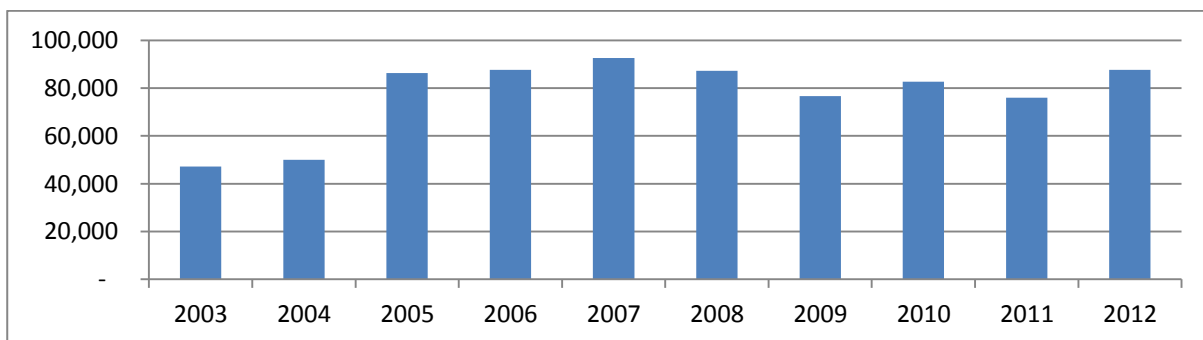
The above list illustrates two important facts. The first is that Australian built cars feature prominently in new car sales. The Camry has been the top selling car in the medium car segment for 19 years, with a market share (near 40%) that exceeds that of its next four rivals combined.

Chart: Medium Car Segment Sales – 2012 (VFACTS)



In addition, the medium car segment is a reasonable size. While the market has experienced significant fragmentation on an overall basis, the medium car segment has been relatively stable and continues to offer reasonable volumes in the Australian context.

Chart: Medium car segment sales – 2003 to 2012 (VFACTS)



The second important fact illustrated by the top 10 selling list is that it is difficult for any single manufacturer to achieve reasonable local production volumes without an export program or without manufacturing a number of different vehicle models. As a result, local manufacturing faces the challenges of limited scale, while investment per model remains significant. This is evidenced by the fact that the Camry, while commanding around 40 per cent of its segment, only generated 27,230 sales in 2012. The Aurion, a six cylinder derivative of the Camry, provided an additional 9,074 sales in 2012. Toyota Australia also exports Camry and Aurion (primarily to the Gulf Co-operative Council states) which represents 60-70 per cent of annual production volume and is essential for ongoing manufacturing viability.

At the same time, it must be recognised that lower production volumes offers the opportunity for flexibility and agility. Toyota's Altona plant is the only one in the Toyota world that has all of its operations on the one premises (i.e. engine casting and assembly under one roof next to vehicle manufacture and assembly). It is also the only Camry producing plant that builds both left and right hand drive derivatives in both 'core' and 'premium' grades on a single production line. Additionally, while in many cases Australia's distance from world markets would be seen as a disadvantage, the export related logistics and transport costs are not significantly impacted by geography as car carriers tend to move much greater volumes one way (importing into Australia). This creates opportunity for reasonable shipping/logistics costs on outgoing/export routes.

Despite its local segment dominance, Toyota Australia's Camry production is underpinned by exports which make up approximately 70 per cent of the Altona plant's production volume.

Graph: Toyota Australia's production and export proportion (volume units 000's)



2.2 Inequitable trade agreements– limited access to export markets

The Australian experience in negotiating Free Trade Agreements (FTA's) has generally been positive for sectors other than automotive which is generally viewed as 'sensitive' by just about all other countries, even where such other countries have more substantial automotive sectors than Australia's. The result of a number of FTA's has been to provide complete access to the Australian market whilst either maintaining tariff or non-tariff protections to other markets for Australian built cars. The consequences of this are not generally understood or promoted but are worth examining to ensure, if nothing else, that negotiators or supporters of future FTA's seek to redress such deficiencies where the same countries are involved in future FTA's or where new FTA's are being negotiated. Some examples are set out below:

- Thailand-Australia FTA:
 - provided 0 per cent tariff on cars to Australia from 2005 but tariffs into Thailand maintained until 2010
 - By 2010 the production of the Camry in Thailand was embedded despite relatively low volumes (around 25,000, half of which is exported to Indonesia and Malaysia)
 - Thailand has for many years applied a discriminatory excise tax regime where excise tax paid on (primarily locally built) light trucks has been 3 per cent whilst the same tax on a 4 cylinder Camry was 35 per cent
 - The current issues impacting Australian manufacturing (eg strong currency) now make it difficult to make a reasonable business case for expansion of Toyota Australia's production for supply to this region

- ASEAN-Australia-New Zealand FTA
 - Toyota Australia's engine plant produces four cylinder petrol and hybrid engines for the locally built Camry as well as for export to Malaysia and Thailand
 - Originally it was planned that Toyota Australia would also export engines to Vietnam (despite there remaining significant tariffs into Vietnam under the FTA)
 - The Vietnamese Government provided Japan preferential tariff treatment outside of an FTA negotiation, resulting in the decision to switch engine supply to Vietnam from Japan instead of Australia
- Australia-GCC FTA
 - The USA has a number of bilateral FTA's with GCC countries that provide a competitive advantage to USA sourced vehicles. These agreements allow USA sourced competitors vehicle into parts of the GCC at 0 per cent tariff versus Australia sourced Camry and Aurion at 5 per cent tariff into the same countries.
 - Renewed effort to progress the Australia-GCC FTA would significantly support Australian exports to the region

Tariff on imported parts – excluded goods schedule (automotive parts)

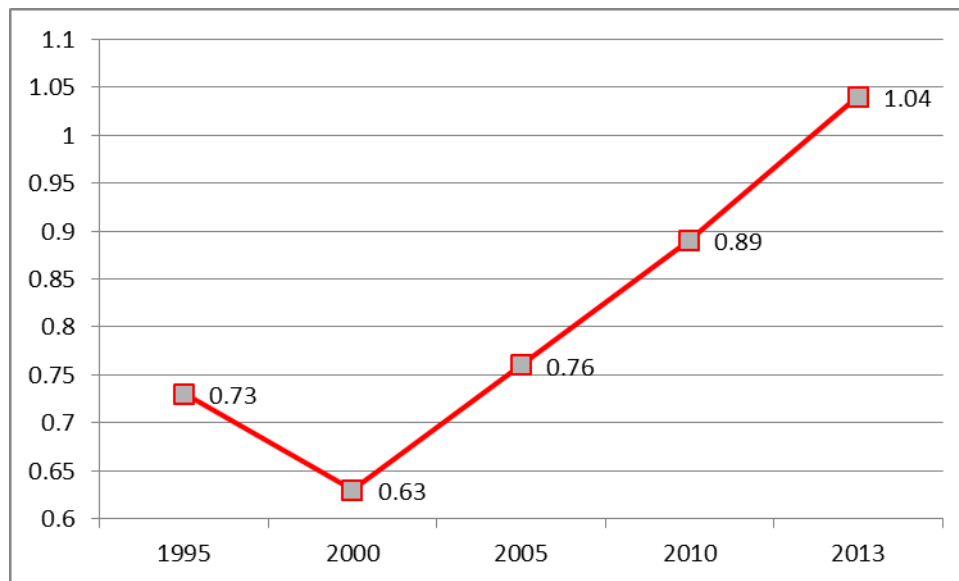
An additional point that should be made is the exclusion of the automotive industry from customs processes that are available to other industries to seek concessions on tariffs on goods not available in Australia. Tariff concession orders are generally available to importers provided they prove that the goods for which they seek a concession on are not available in Australia. This is only available where there is evidence that an applicant has made all reasonable enquiries to ensure that substitutable goods are not produced in Australia. Once this test has been met, importers can be granted a tariff concession for such parts.

The automotive industry, already under severe cost (up) and price (down) pressure, is restricted from applying for such concessions. This creates a perverse outcome, given that the processes for obtaining tariff concession orders have inbuilt protections for Australian manufacturers. Precluding automotive manufacturers means that tariffs are paid on parts which cannot be purchased in this country. At this time, Toyota Australia and its local supply chain pays around \$300 tariff per vehicle (base model Camry sold domestically) on parts imported to Australia that are in many instances not available in this country.

2.3 Currency impacts

The sustained strength of the Australian dollar in recent years has significantly impacted the profitability of exports, which are primarily to the GCC countries and sold in USD. The following graph highlights the drastic movement in the AUD: USD exchange rate since Toyota Australia commenced exporting vehicles to the Middle East in the mid 1990's.

Graph: AUD: USD exchange movement during Toyota Australia's export program



The dramatic strengthening of the AUD, well above long term average levels, has had a significant and detrimental impact on Toyota Australia's export profitability and overall profitability in Australia. For this reason, in late 2011 the company started to assess the business changes that would be necessary to transform Toyota Australia's business while retaining local manufacturing operations in the context of a strong Australian currency.

3.4. Toyota Australia actions

3.4.1 Business transformation

While Toyota Australia generally seeks to improve productivity and reduce costs (in the Toyota Way spirit of kaizen or continuous improvement) to manage its exposure to foreign currency fluctuations, it recognised in late 2011 the severity of the factors impacting the Australian manufacturing environment. Since then the company has taken urgent action to drive productivity and cost improvements, so as to be more competitive against alternate Camry producers (such as the Tsutsumi plant in Japan or the Kentucky plant in the USA) which could potentially supply the Middle East market with the Camry model.

The company has implemented a company-wide transformation project referred to as TAFBT (Toyota Australia Future Business Transformation) for the period 2012 to 2018 aimed at improving efficiencies and cutting \$3,800 out of the cost of building a car in Australia, improvement in organisational and manufacturing efficiencies and maximisation of sales of the locally built Camry/Aurion in the domestic market.¹ Year one (year ended 31 March 2013) saw the company achieve its targets with a profit announced of \$220.9m (after tax \$149.1m) in which the company's President Mr Yasuda stated:

¹ Refer Toyota Australia Media Release dated 15 October 2013.

“Our business is being radically changed to counter both internal and external pressures impacting us. We are doing everything we can to strengthen Toyota Australia and ensure our long term future in this country as an importer and manufacturer”².

The company’s transformation is not limited to internal cost reduction strategies but also involves reviewing sourcing of import commodities (both parts and vehicles) and local supplier capability development and diversification. In addition, the company recognises the importance of staff development and ensures that the Toyota Institute Australia (TIA) facilitates training for employees, suppliers and dealers using global content developed by Toyota Motor Corporation including workshops on Toyota Way and Toyota Business Practices.

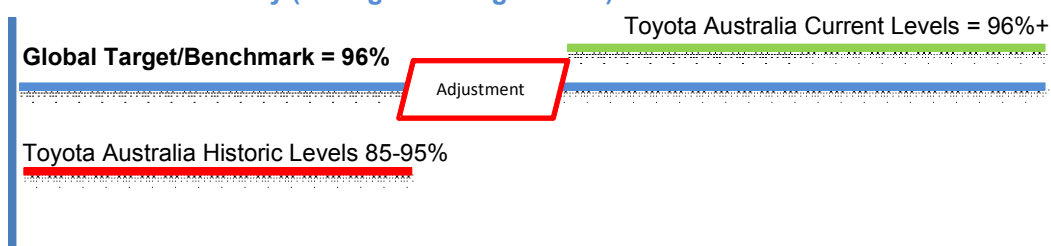
On 31 October 2013 the company announced that it was seeking the co-operation of its employees to achieve productivity improvements in its manufacturing operations through varying terms and conditions in its existing Workplace Agreement. The changes being considered are aimed at improving flexibility and removing out-dated and uncompetitive practices and allowances that increase labour costs and reduce global competitiveness.³ Employees will vote on the proposal on 13 December 2013.

The TAFBT project involves all parts of the organisation being allocated year on year financial targets and the responsibility to identify and implement business improvement initiatives. The company’s TAFBT targets ultimately aim to achieve 5 per cent return on overall sales primarily based on improving the profitability of local manufacturing. The company’s targets are based on the assumption of long term parity between the Australian and US currencies.

One of the more unfortunate aspects of the TAFBT project was the compulsory redundancy of 350 employees from the Altona facility in early 2012. Toyota Australia had maintained an excess production workforce for many years throughout the downturns experienced through the Global Financial Crisis and the supply issues resulting from the Japanese earthquake/tsunami and the Thailand floods. However, when production volumes continued to remain low, this position became unsustainable and the company was forced to reduce the size of its workforce.

Since the start of our business transformation activity which included the compulsory redundancies, the Altona facility has achieved record efficiency levels and, for the first time in its history, it is performing at or above Toyota’s global target in terms of production efficiency making it a leader among Camry producers, a key performance measure, as shown below.

Graph: Altona Plant Efficiency (‘Straight Through Ratio’)



² Refer Toyota Australia Media Release dated 11 June 2013.

³ Refer Toyota Australia Media Release dated 31 October 2013.

As the levels of automation vary greatly among different plants, alternate measures of productivity are difficult to compare. Having said this, Toyota Australia does conduct detailed benchmark studies of matters such as time taken to perform identical functions in other Camry producing plants and generally also performs well in a range of other metrics including quality, warranty and environmental leadership.

Despite these positive indicators demonstrating Toyota Australia has made progress in its drive towards business transformation, further improvements are needed to achieve the \$3,800 cost reduction goal by 2018. An acceleration of productivity improvements and cost reduction are needed to remain globally competitive.

3.4.2 Supplier Capability Development and Diversification

Toyota Australia has driven supplier productivity through actively supporting the capability development of its local supplier base since 1989. This has involved active human resource development through coaching in Toyota Production Systems (TPS) techniques and processes.

In recent years, this existing activity has been expanded and accelerated via the Automotive Supply Chain Development Program (ASCDP) funded by the Australian Government. This ASCDP funding has allowed for an additional 10 experts to be contracted, trained and actively participating in deploying TPS training to suppliers.

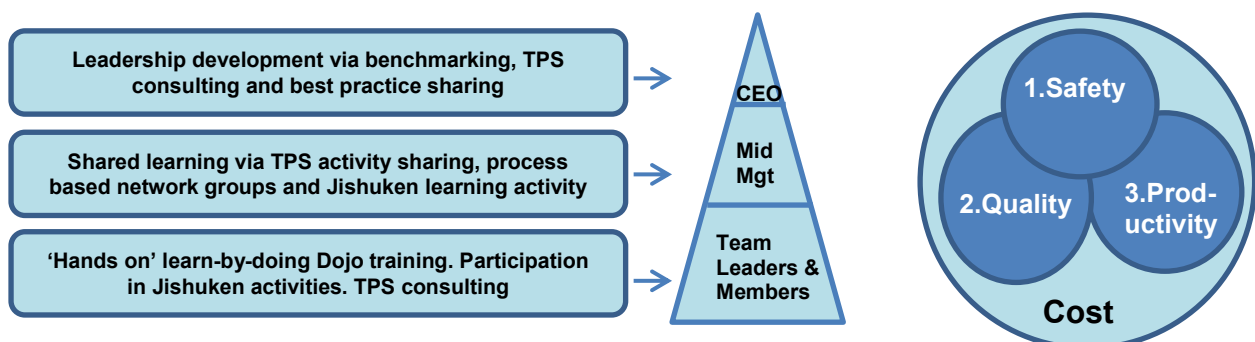
The strength of the Australian currency and the reduced volumes of domestic vehicle manufacturers are causing severe stress to the supplier base. Toyota Australia considers that its supplier capability development activities have significantly benefitted productivity of suppliers.

In addition, there are obvious benefits for the entire manufacturing sector in Australia from these activities. The activities undertaken by Toyota Australia such as the Kaizen Club, invite other industries to participate and create opportunities for information sharing and diversification.

A. Supplier Productivity and Capability Approach

Toyota Australia's approach in delivering its TPS, and associated training and coaching, is to target the entire organisation to maximise success. It aims to influence management direction and provide middle management and shopfloor skills to suppliers.

Diagram: Industry Sustainability: Targeting the Whole Organisation



B. Supplier Productivity and Capability Program Achievements

Recent supplier productivity and capability development activities have resulted in process improvements in safety, quality and cost including:

- 60 per cent reduction in target safety incidents in focus group from 2009 to 2012
- Launch quality improvement from 2006 Camry launch (250 parts identified) to 2011/12 Camry launch (just over 50 parts identified)
- \$50m annual savings achieved by 2012 (and cumulating year on year thereafter) through productivity improvements achieved via implementation of lean manufacturing and TPS principles
- Benefits to the greater manufacturing industry broadly through the creation of networks and sharing of knowledge and best practice.

C. Supplier Productivity and Capability – Case Studies

Total Tooling

Total Tooling is an Australian owned company located in Croydon South, Victoria. It has been operating for more than 30 years and has approximately 80 employees.

Total Tooling has been a direct supplier to Toyota Australia since the launch of the new generation Camry in 2011, and an indirect supplier via Denso since the late 1990's. It designs and manufactures precision metal stamping tooling for the automotive and domestic sectors. Total Tooling supplies Toyota Australia with approximately 47,000 parts per week for its locally manufactured Aurion and Camry including pressed metal and welded sub-assemblies for the boot, floor and car doors.

A Jishuken activity was undertaken in 2012 with Total Tooling through its participation in Toyota's ASCDP funded supplier development activities. 'Jishuken' is a Toyota Production System activity which involves collaboration between many different parties to address a problem. The cross company Jishuken exercise examined Total Tooling's entire production process to find ways in which it could be improved. It involved participation of other suppliers at Total Tooling's premises to collaborate and find the optimal solution to Total Tooling's issues.

The outcome was that three separate production processes were combined into one. As a result Total Tooling was able to lift its productivity by 26 per cent in one section of its operations. This equated to a time saving of 8.75 hours a week, or just over one working day, to produce the same number of parts. The improvements were implemented from concept to reality in less than 60 days.

Paul Jones, former General Manager of Total Tooling at the time, said the company is already seeing the benefits of improving its production process.

"The ongoing support and guidance we have received from Toyota, and the support from other suppliers, is a tremendous boost to Total Tooling," Mr Jones said.

"It is our belief that those who change quickly will survive, and Toyota is not only supporting our survival but making our business stronger.

“Through this process we have been able to significantly improve our productivity without having to rely on investment in new equipment. With the time saved we are now able to better utilise our resources and no longer have to rely on overtime when we receive an increase in orders for these components.”

Thales Australia

Toyota Australia recently invited two of Australia’s largest defence contractors, Thales Australia & BAE Systems, to attend its supplier development forums.

Thales Australia is working with both Holden and Toyota as part of the “supply chain development program” for its Hawkei military vehicle.

Spokesman Julian Elliott recently said:

“We’re looking for SME’s (small and medium enterprises) who are used to delivering high quality, innovative components into the auto industry”

“We want to utilise their expertise in reducing Hawkei’s cost and mass to the lowest possible levels in order to deliver a value-for-money product for Australian taxpayers and the ADF (Australian Defence Force), while also achieving a globally competitive cost for export purposes.”⁴

Chassis Brake International (CBI)

Toyota Australia’s supplier development program, supported with co-investment funding by the Australian Government, has been working with suppliers on transition.

CBI Director of Manufacturing Craig Charter said

“We have brakes as our core business, which brings in revenue and maintains our skilled workforce. Then we’re trying to diversify, but keeping this as our core”

“If you don’t, none of this innovation will even happen. You won’t have the people capable of actually delivering innovation.”⁵

D. Supplier Productivity & Capability Expenditure and Target Activities

Successful outcomes of Toyota Australia’s ASCDP activities, including the Kaizen Club, have included active assistance in enhancing operational capability which has undoubtedly assisted diversification projects for key suppliers such as:

- Hella: mining, street lighting and commercial lighting
- Backwell IXL: solar energy
- Socobell: medical instruments and consumables
- SMR: medical instruments and consumables
- Denso: caravan air conditioning
- CBI: rail
- VDMG: plastic fuel containers, building products and plastic shopping trolleys

⁴ Refer GoAuto.com.au 9 July 2013.

⁵ Refer Australian Financial Review 20 August, 2013.

It is proposed that this program could be opened to other industries such as defence, transport/retail, aerospace, mining, and medical and would provide further opportunities for local auto suppliers. The benefits of this include:

- Driving productivity across manufacturing sectors
- Exposure of non-auto industries/sectors to TPS
- Facilitation of communication, networking and diversification opportunities.

4.0 Industrial Relations

Changes to the industrial relations framework should be contemplated to, amongst other things:

- Require industrial laws including those surrounding bargaining to be based, at least to some degree, on productivity and flexibility gains
- Set a more reasonable threshold for the definition of 'significant harm' in the context of preventing damaging industrial action.

5.0 Investment Attraction Challenges

Toyota Australia competes with Toyota affiliates in other countries for investment.

Other countries are aggressively pursuing automotive investment through a variety of transparent and non-transparent measures including:

- Direct financial grants
- Long term taxation and import duty exemptions
- Accelerated depreciation
- Export encouragement measures
- Market protection measures – tariff or non-tariff such as discriminatory taxes or technical regulations.

6.0 Correcting the Record

There are a number of matters that should be clarified for the public record through this review. These include the following:

- PC treatment of 5 per cent tariff as direct financial assistance to the automotive manufacturing industry
- The incorrect notion that local car makers do not build cars that 'Australians want to buy'
- The incorrect claim that the luxury car tax protects local manufacturing

- Perspective of discussion and comment regarding Australia's support for its automotive sector compared to that provided in other countries or that provided to other industries in Australia.

6.1 Five per cent tariff on imported vehicles

The Australian Government collected \$1b in tariffs for the 2011/12 year from the importation of motor vehicles into Australia. The Australian tariff rate at 5 per cent is amongst the lowest in the world, with the effective rate closer to 3.5 per cent once FTA's are taken into account.

In its annual Trade and Assistance Review 2011-12 released in June 2013, the Productivity Commission made the following assertions:

- Tariffs on imported goods increase the price at which those goods are sold on the Australian market, and thus allow scope for domestic producers of competing products to increase their prices. These effects are captured by the Commission's estimates of output assistance.

Toyota would like to make the following observations on these assertions:

- In theory the existence of tariffs protects local manufacturers. In reality however, this protection is quite limited in the Australian context and the value of the 5 per cent (effectively 3.5 per cent) import tariff collected by Government should not be treated as a direct financial support measure to local manufacturing.
- Automotive consumers are extremely price sensitive. This means that the proliferation of Free Trade Agreements (FTA's) allow many vehicles to enter the Australian market at zero tariff. Whether these vehicles compete in the same segment as locally built vehicles, or in immediately proximate segments of the market, there will be scope for importers of zero tariff vehicles to reduce the transaction price of vehicles through recommended retail price (RRP) reduction or discounting or specification increase.
- The impact of this is to create pressure to lower prices to consumers across segments and in proximate segments (eg reduced price of larger car impacts price point of medium car and so on). The highly competitive nature of the market means that brands which do not match price reductions lose market volume. This means that there is actually limited or no scope for local manufacturers to adjust prices in the market without losing critical volumes which underpin Australian factories. In fact, the experience of Toyota in the Australian market is the *opposite*. Toyota's medium car (Camry) competes in a segment that includes a Thailand built car that is able to enter Australia duty free. Toyota has actively reduced the transaction price of the Camry at various time in order to maintain domestic sales and support production volumes as follows:
 - Late 2012 – 0% finance offer on locally built vehicles
 - Oct 2013 - \$2,000 free petrol offer
 - Nov 2013 - \$26,990 drive away price offer (Camry Altise).

6.2 Building 'cars that Australians want to buy'

Three locally built cars are in the top 10 selling cars in a market that has 51 makes and 344 models competing for a market of one million new car sales per year.

Comments suggesting that the local industry is not making cars Australians buy are ignoring the clear facts that are readily available on the market.

6.3 Luxury Car Tax (LCT)

The LCT is a punitive and inequitable tax that applies to more Toyota customers than to any other brand, and Toyota supports calls for its abolition. Some parties claim that it protects local manufacturing but there is no evidence that sales of locally built cars have increased since the LCT was introduced.

6.4 Carbon Tax

Carbon tax impact on locally manufactured vehicles has been widely reported to be \$400 per vehicle. In Toyota Australia's case, \$115 per vehicle is the actual carbon tax impact on Camry and Aurion taking into account all costs directly incurred as well as supply chain pass-through costs. It should also be noted the carbon tax price has been absorbed by Toyota Australia and not passed through to the end customer.

6.5 Perspective on support for the automotive industry in Australia

Government support of Automotive industry is *modest* compared to other countries and *reasonable* relative to support of other industries in Australia. Other industries are able to access support through a range of permanent or temporary measures including diesel fuel rebates, bank guarantees, health insurance, negative gearing etc.

---END OF SUBMISSION---