



## **Hella Australia Pty Ltd**

### **Submission to the Review of the Australian Automotive Manufacturing Industry**

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#### **A. Executive Overview**

Hella Australia believes that the future sustainability of the Australian automotive manufacturing industry depends upon the following conditions being met:

- An appropriate level of vehicle build volume;
- The production of vehicles that meet the demands of consumers;
- The existence of a baseline level of local content in component production and service supply;
- Access to an appropriately trained and skilled workforce;
- Continued investment in the technology required to improve the productivity, innovation, quality and competitiveness of the local industry;
- Continued focus on achieving diversification in both products and markets.

In order to achieve this, Hella Australia also believes that the Government needs to take account of the low level of access barriers to the Australian vehicle market, and develop policies that directly confront this issue.

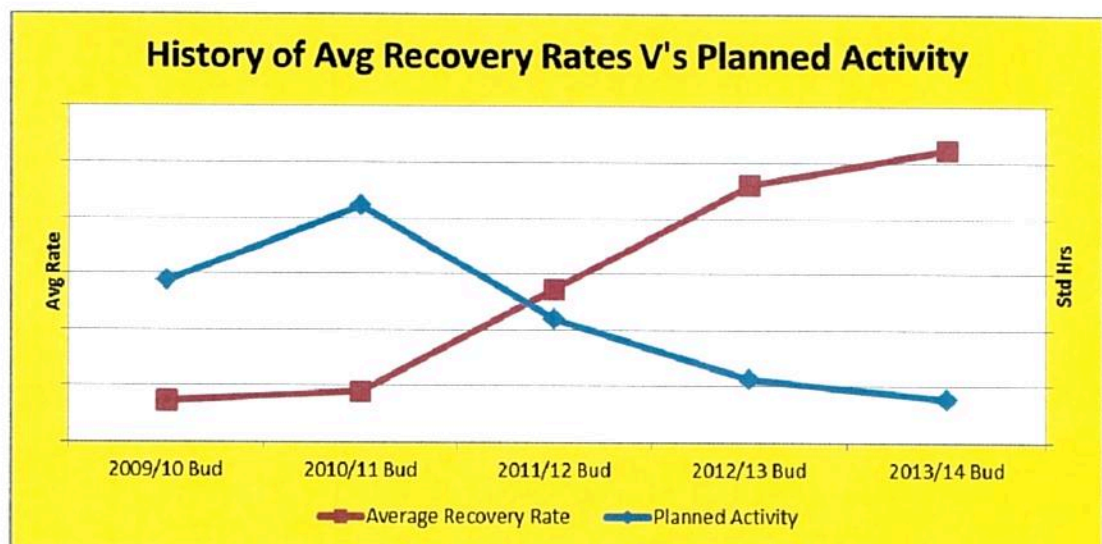
## B. Key Issues

The following are key issues that we believe should be considered by the Industry Review panel:

### Passenger Motor Vehicle Build Volumes

1. Currently, the projected build rate of new Passenger Motor Vehicles is around 200,000 pa. This includes approximately 60,000 vehicles which will be exported. This volume has decreased significantly over recent years, and the circumstances that have led to this have been well documented. The direct impact on Hella Australia of reduced volumes is to increase the required selling price needed to achieve full cost recovery. This is demonstrated in the slide below. Not surprisingly, there is limited ability to be able to pass on any such increases due to intense global pricing pressure.

If, however, the volumes increased by a factor of 2, as an example, this could reduce our production costs by up to 20%. Presumably, a similar effect is experienced by all local manufacturing supplier companies, and also by the MVPs.



2. Vehicle sale statistics demonstrate that the average annual volume for vehicle brand and model sales is less than 10,000, and the maximum vehicle model sale is around 40,000. This is function of both consumer demand and of vehicle supply. In theory, for the MVPs to increase their production and sales in Australia to 300,000 vehicles, they would therefore need to be manufacturing more than 7 different vehicle models, over several different platforms. The Australian automotive industry has proven to be very flexible in manufacturing various model differentiations off a single platform, but given the investment levels required to develop multiple platform vehicles, this is unlikely to happen without other structural changes to the industry.
3. There are only limited initiatives that will change these circumstances and lead to an increase in vehicle build, these include:



- i. Additional linked financial support that directly encourages/requires the global MVPs to make this investment, and to introduce different models into Australia;
- ii. Restrictions on the range and volumes of vehicles imported into Australia;
- iii. Economic disincentives on the importers of vehicles into Australia;
- iv. Economic disincentives on the potential buyers of imported vehicles in Australia.
- v. Incentives for export of Australian produced vehicles.

*The sustainability of the Australian PMV manufacturing industry can only be achieved if appropriate volumes of vehicles are being built and sold – either in the domestic market or exported.*

### **Vehicle Designs that Meet the Demands of Consumers**

1. Australia has traditionally built vehicles that fit into the large passenger motor vehicle category. These vehicles typically have quite large engine capacity.
2. The increased access to the Australian market by many global vehicle makers has seen a sustained trend towards (a) smaller, cheaper vehicles, (b) SUVs and (c) prestige (luxury) vehicles and brands. At the same time, the attitude of fleet buyers has changed, and other than taxis, most fleets have moved to offer vehicles that match the overall vehicle market.
3. Increasingly it is apparent that Australia is being used as a “test case” for new brands, particularly from the new automotive economies of Asia (including China).
4. Only Holden have added a market perceived smaller/cheaper vehicle to their locally manufactured model range, and Ford have been successful with the introduction some years ago of the Territory model based on the existing Falcon platform.
5. Currently, the passenger vehicle market includes in excess of 60 brands, with many model variants, and this expanded market offering has exposed the limited offering available from the local manufacturers. It is interesting to note, of course, that the local manufacturers also import a full range of vehicles that match overall market demand.

*It is clear that the current range of vehicles manufactured locally, will only be able to service a relatively small portion of consumer demand in the current market environment. An outcome of this enquiry needs to create an environment where both absolute volume and locally built vehicle choice both increase.*



## Local Content

1. The effect of decreasing volumes has had a significant effect on the local supplier industry. Economies of scale have been lost, and the reduced size of the market has increased the effect of competition (fewer opportunities for local businesses to service).
2. Some suppliers have been able to diversify their manufacturing business, and some have been able to access the global automotive supply chain, but these examples are quite limited. International companies effectively restrict their subsidiaries to regional markets, and the practices of many economies provide significant barriers to imports – particularly for automotive components.
3. Government support mechanisms currently in place for local suppliers to the automotive industry can be classified into two general groupings:
  - i. Financial support aimed at supporting continued R&D and continued investment in technology;
  - ii. Special funding from various initiatives aimed at supporting a particular project or diversification.
4. This financial support is significant and relatively well targeted but has not been able to have any visible effect on the fundamental issue of maintaining or increasing vehicle build volumes. Given that is the case, its only positive effect must be to improve the financial performance of the industry, and thus allow production to continue for some further time.
5. The open access to the Australian vehicle market has also affected the manufacturers of automotive components. Target prices suggested by the local OEMs often represent little more than material cost, and these are therefore presumably based on artificial pricing models being applied by overseas production companies. The purpose of this paper is not to draw attention to this particular issue, but rather to demonstrate that without appropriate volume, local suppliers will not be able to compete against these pricing scenarios.
6. The application of ADR and other safety requirements should benefit the local industry because non-conforming products can be eliminated from the market. However, it is our experience that these standards are not always rigorously enforced. Further, the application of these standards can then actually become an additional burden to the local industry, because supply conditions to the local OEMs require compliance with ADRs, whereas some imported cars do not always meet this same criteria (i.e. it is not as rigorously enforced).

This concern is also evident with imported replacement parts, which pose a direct threat to the current business of Australian automotive parts suppliers.

7. Australian component manufacturers also make use of imported components and materials and then add value to service the local market. There are some opportunities to seek tariff concession where no potential local supplier



is available, but otherwise, the local manufacturer is not offered any tariff inducement for their local value-added content. An overview of import tariffs should consider eliminating duty on imported components, which subsequently undertake significant value-added conversion by local suppliers.

*The opportunity for Australian suppliers to compete against low-cost countries in particular is dependent upon superior technology and skills, as well as being able to access appropriate volumes to allow sensible recovery of overhead costs. Support for this can be more than just financial: ensuring that overseas suppliers are not accessing (or disrupting) the market with inferior product is an important and legitimate protection mechanism.*

### **Training and Skills**

1. The needs of the industry for appropriately trained staff have been well documented, but those initiatives that have been implemented still fall short. This review needs to consider how Government policy can have a societal effect on vocational interest in manufacturing as a career. The current social perspective (that manufacturing is dying) needs to be displaced;
2. Remuneration and taxation structures for cadetships and apprenticeships need to be completely overhauled. There is little incentive in the automotive industry for either employers or employees to enter into these agreements;
3. The use of migrant intakes to supplement skills shortages should be seen as a short-term fix only. Unless the cultural acceptance of a career in manufacturing is changed – the drift of talent away from the sector will continue.
4. The automotive industry provides extensive opportunities for skilled and unskilled labour to access meaningful full time positions. Out of our total workforce, approximately 50% would have joined the company as an unskilled worker.

*The competition for talented employees might be seen as a useful tool for determining the economic rationality of various industries and sectors, but as part of this specific industry review, the shortage of current talent needs to be radically addressed. More importantly, the automotive industry also provides and creates working opportunities for employees of quite varied background. On the downside, the continuing debate over the future of the automotive industry is leading to skilled employees leaving the industry (including our company) only because of concerns over their future.*

### **Investment in Technology**

1. Australian produced motor vehicles need to compete not just on price, but also on quality and technology. The same also applies to locally made components. This industry review should focus on initiatives which promote these features;



2. Accessing global capital is increasingly difficult, and Australian based subsidiaries of global manufacturing companies face steep internal competition for funds. The review should ensure that industry support for capital investment funds remains a key initiative;
3. The success of local companies is often a function of their ability to be "full service suppliers" operating within a relatively small market with small production volumes. The review should ensure that this strategic advantage is also protected.

*Australia's geographical location and industrial history has made it an attractive and accessible target for the automotive industries of developing economies in the Asia Pacific region. The negotiation of FTA's with some of these countries has also further opened up the Australian market. Reciprocal access is not always available, so it is essential that the industry's strategic advantages are retained and supported.*

### **Industry Support**

1. Recent FTA's have offered direct support to economies that compete against Australian automotive suppliers. It is essential that the industry review calls a halt to the negotiation of any further FTAs which are detrimental to the survival of our industry;
2. Any further tariff reductions should be deferred. The current 5% tariff has an effect lower than that because of existing FTAs;
3. The current level of ATS support should be maintained to provide the industry some stability, but as described above, future Government policies need to focus more on achieving an increase in volumes and production of more diverse locally manufactured vehicles.

*Australia needs to decide whether maintaining a viable and diverse automotive manufacturing industry is in its long term interests. The upstream and downstream benefits are significant and will be difficult to replace when gone. All of Australia's major trading partners are actively supporting their automotive industries – and for the same general reasons.*

### **C. Hella Australia Pty Ltd – Background**

Hella Australia is a designer and manufacturer of automotive lighting equipment, as well as plastic mouldings and accessories. The company employs approximately 350 people and its facility in Mentone is responsible for the design, development and in-depth manufacture of a range of products, including headlamps, signal lamps, interior and exterior lighting, as well as auxiliary lamps, worklamps, emergency beacons and general mouldings.

All Hella products are developed and built using state-of-the-art technology and are used on some of the most sophisticated new cars in the world.





In recent years, the company has been successful in winning contracts to supply Proton in Malaysia, however it is interesting to note that in order to achieve supply to Proton we needed to develop a relationship with a local sub-supplier. This is another example of indirect barriers applied by other auto manufacturing economies.

The company also now manufactures specialised mining and fixed lighting products. These are designed and predominately manufactured in Australia, and make use of Hella technology and know-how.

The ability of our company to maintain growth in diversified products and seek export opportunities is, however, still premised on access to an appropriate level of local OEM production. Without this business we would not be able to maintain our development and production facilities in Australia.

The manufacturing plant in Mentone is equipped with injection moulding machines, polycarbonate lens moulding machines, thermoset moulding machines, automatic painting, hot foil stamping, aluminium metallising and lacquering facilities.

Hella Australia also has a NATA certified Photometric laboratory, a fully equipped environmental laboratory as well as state-of-the-art test facilities.

### **Position in the Local Industry**

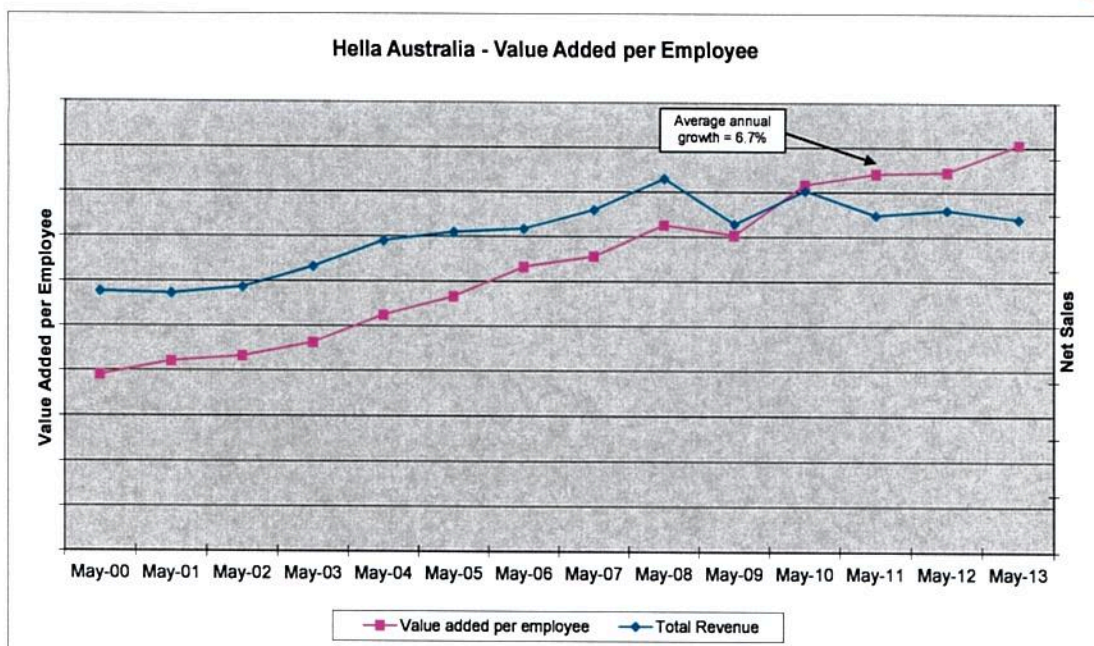
Hella Australia is the only significant manufacturer of automotive lighting in Australia. Our competitors are all offshore companies, predominantly based in Asia, and some of these competitors have corporate relationships with our OEM customers. In simple terms, Hella Australia competes head-to-head against some of the world's largest automotive component suppliers, and competes against production plants that are typically based in low cost developing countries.

We have no strategic advantage on cost, we only have a strategic advantage based on our design and technical capability, and on our local supply advantages. However, our products still have to be economically attractive to our customers.

Productivity improvements (continuous improvement) is therefore a key requirement for survival. The following chart illustrates the improvement in value added per employee that we have achieved over recent years. These improvements have not just resulted in improved financial performance, but have also enabled the company to maintain competitive pricing based on global pricing pressure. Having said that, our opportunities to continue with this level of improvement is diminishing, particularly if we just isolate the OE manufacturing business.

Hella Australia has also continued to invest in its facilities and design and development and production processes. In the last five years, total investment has exceeded \$30mio. We need this investment to maintain our technical competence and to continue cost down productivity improvements.





## **Conclusion**

Hella Australia has managed to survive through a period of difficult transition.

The radical reduction in tariff protection, coupled with a massive expansion of capacity in developing low-cost countries has seen a dramatic reduction in the scale of the local automotive industry. Companies that have survived, typically have invested in technology and productivity, but have also targeted design or product features that are not as price sensitive.

In order to survive into the future, we need certainty that the benefits and investment that we bring to the industry and economy are valued and have value, but more importantly, we need to have access to an appropriate level of vehicle build volume servicing the local industry. In summary, the key outcomes that we believe will be necessary from this inquiry in order to develop a sustainable industry in the future are:

- Develop policies that lead to an increase in vehicle production;
- Ensure that industry support is used to develop products that meet an appropriate level of consumer demand;
- Apply restrictions to the access to Australia's automotive market, in a way that offers support and opportunities to local value-added manufacturers, and is variable to the effect of global exchange rate fluctuations;
- Encourage education and training that targets the automotive industry as an exciting career path;
- Rewards export initiatives;
- Offers direct support for diversification opportunities that lead to economic improvement to the industry as a whole.

We have outlined the key issues that we see as necessary for a sustainable industry earlier in this paper, and look forward to the outcome of this critical industry review.



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