ROH Automotive

Submission to the Australian Government Productivity Commission review of the Australian Automotive Manufacturing Industry – preliminary report.

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Automotive and automotive component manufacture in Australia generates a multitude of new benefits annually for the Australian economy in terms of wealth, skills and innovation via direct & indirect employment - the benefits from which cascade all the way through to local small businesses who provide regional retail goods and services.

Federal, State and Local Governments directly and indirectly garner significant company tax, income tax, GST, payroll tax and rates revenues as well as workplace insurance revenues, which are then redeployed into the community for the immediate and future benefit of the nation.

Skill levels are optimised and transferred across wide sectors of the economy from the car makers, the tier 1 component manufacturers and the various Tier 2, Tier 3 suppliers (etc.), who include but are not limited to :

- Technical services specialists in simulation and research – examples include Compumod and CSIRO;
- Technical training specialists including Universities, TAFES, local government providers and private provisioners including the large consulting base; and
- Engineers and chemists developing next generation technologies whose applications are not necessarily confined to the auto sector.

The automotive industry is one of the few and arguably the most coordinated large scale, embedded wealth creators in Australia. The South Australian Government's ***More Than Cars*** campaign clearly identifies the cascading benefits of auto making in Australia , not just locally but also into the economies of Queensland, New South Wales and Victoria. In ROH's case the benefits of maintaining an auto manufacturing industry in Australia cascade also to silicon metal mining and refining in Western Australia and we are, for example, Alcoa Australia's largest domestic customer for its pure aluminium sows from its Port Henry smelter.

In Australia we have enviable environmental, education, infrastructure and social systems afforded by great wage levels. We also have an enviable reputation for saving via superannuation thereby ensuring a higher level of sustainability for our economy and our way of life.

Setting aside wage differentials (why give up something we all enjoy?), the immediate and foreseeable future constraints for the auto industry in Australia include :

- A strong Australian dollar and a devalued Chinese Yuan;
- Significant financial incentives and subsidisation of auto and auto-parts manufacturing in China and Thailand in particular;
- Unrelenting and increasingly unaffordable rises in Australia of the cost of natural gas and electricity which cannot be passed on and absorbed indefinitely;

- Relaxation of trade via free trade agreements that are truly not reciprocal but quickly expose our share of a globally sensitive industry to unfair and unbalanced competition;
- High shift penalty rates;
- Anti-competitive carbon tax which is not applied to any imported motor vehicle or imported component and which cannot be passed on or absorbed indefinitely; and
- High direct and indirect taxation of all of the various manufacturing inputs and outputs.

The American organisation, The Alliance for American Manufacturing (AAM), albeit possibly right-wing in nature, has lobbied Congress for the past decade about the need to preserve, regenerate and nurture manufacturing in America, arguing that trade imbalances arising from wholesale job exportations has caused many of America's current economic woes. AAM has gone on record many times to say that when America loses the ability to make things it loses its ability to defend itself.

A recent turnaround for the American economy is in its shale oil and gas industries, reputedly resulting in a decline in the cost of gas from around $15 per gigajoule to around $3.90 per gigajoule, which has seen General Motors, Dow Chemicals and others opening new factories with all the attendant economic benefits arising from the creation of jobs. It has been argued that lower energy costs will result in more jobs being imported back into America provided Congress does not allow America's apparent surplus to be exported to the highest overseas bidders and does not allow the energy companies to force export pricing parity onto American industry.

By contrast in Australia, natural gas costs for industry may increase by around 50% by 2015 apparently on the back of the Gladstone LNG development and parity pricing. For ROH that would add around $500,000 per annum to our gas bill which is not recoverable from any customer. In this case the challenge to export - already hindered by the dollar and trade distortions for auto components from subsidised countries (that are substantially more advantageous than ever seen in Australia) – is a non-event.

We submit that any dilution of the current Automotive Transformation Scheme (ATS) budget allocation will severely impair our ability to continue to afford research and development activities to reduce our costs and improve our cost competitiveness for Toyota (who is export sensitive), and to survive the loss over the past decade of over $30 million in annual domestic revenues to dumped exports from China and the loss of a $15 million per annum export market in Canada, (as a result of copy wheels produced and exported from China). The ATS has encouraged and assisted us to persist as an Australian employer and in doing so we have found new and innovative ways to make things.

Similarly Toyota, through its Supplier Development program, continues to extend, teach, coach and mentor world's best practice to its Australian supplier base. In the four years that ROH has engaged in the Toyota Production System, we have reduced material cost and content in their steel and aluminium road wheels and we are embarking on a new forming technology for aluminium road wheels that is applied in only a handful of wheel plants globally at this present time.

By 2015, we believe Toyota Australia will be the only car plant globally who's entire production will utilise this new lightweight, energy saving technology.

We submit that additional funding returned to Toyota and Holden should continue undiluted and, with Ford's pending closure, there are strong grounds for re-investing increased funding to Toyota and Holden such that both companies continue to manufacture and innovate in Australia despite the tough conditions.

Professor Goran Roos has observed that Australia is an excellent base for manufacture of low volume and specialised, niche market products. A practical example elsewhere of this strategy is the global success of BMW Group's niche-market Mini brand which had sold two million vehicles in just ten years from its factory located in Oxford in the United Kingdom. Both Ford and Vauxhall had scaled back in the UK through the 1990's but Toyota, Honda and Nissan persisted and their plants, together with BMW's Mini plant, are a success story for that country today.

Australia depends on the survival of the auto industry for current and future benefits. It is our opinion that if the conditions for the auto industry in Australia, including a practical long term manufacturing policy, are not conducive then the industry may depart and not return – with all of the attendant losses. In addition to the ongoing contribution to revenues, innovation and skills, we would be giving away the opportunity to reap the rewards of a turn in the economic cycle in our favour – be it as a result of a shift in trade, lower energy costs, favourable exchange rates, commercialised innovation or a combination of these and other economic changes.

We believe that the immediate priorities for the Federal Government are to confirm as soon as possible the continuation of the ATS, undiminished in value, to confirm continued funding and if possible increased funding for Toyota and Holden so they and their suppliers can commence the work to meet next model milestone dates, and to set about reducing the cost we have to pay for Australian-owned energy resources that continue to impact and threaten our competitiveness. (This being in addition to removing the anti-competitive carbon tax in full.)

If Australia is to continue to benefit that arise from building cars in this country the auto sector needs to see real commitment from the government quickly. If we are to implement Professor Roos' advice to specialise in niche products, such as the globally successful Mini brand, the auto and auto component manufacturers in this country must continue to receive real and arguably more support to make that transition.

Yours sincerely,

Bill Davidson

Bill Davidson
Director & General Manager

About us

1. Background

ROH Automotive (ROH) is a privately owned South Australian company, located in the metropolitan suburb Woodville North. Originally established in South Australia in 1946, ROH is a self-insured employer of 157 personnel at its Woodville North site.

The company manufactures steel wheels for passenger cars, 4wds and heavy trucks and trailers, as well as aluminium road wheels for passenger cars and 4wds. The core manufacturing processes are metal stamping, aluminium die casting, CNC machining and application of automotive paint coatings. ROH is the only original equipment wheel manufacturer (OEM) in Australia.

Core customers include Toyota Motor Corporation Australia (Toyota) and the Australian retail tyre industry for aftermarket aluminium alloy wheels and steel wheels sold under the ROH Wheels brand.

Our OEM truck manufacturing customers include Kenworth, Mack and Volvo, each of whom manufacture a range of heavy trucks in Australia for general freight applications, mining and other specialised applications including for the Department of Defense (DoD) Land 121 program. In our case we supply wheels to Haulmark Trailers in Queensland for Land 121.

(DoD Landrover and their tag-along trailers were also fitted with ROH steel wheels, however the wheels for the new tag-along trailers to suit the replacement Mercedes vehicles are not made in Australia and are fully imported by a party unrelated to ROH.)

The company continues to face increasing input costs (in particular the costs of energy), the effects of the high Australian dollar, and dumped exports from China.

To compound our woes the recently introduced carbon tax has cost the company around $370,000 in FY13 - with no pass-through to any of our customers. To offset the carbon tax, we successfully applied to participate in the South Australian Government's BSA Energy Efficiency Program to co-fund a Stage 2 Energy Audit on selected items of plant and processes to further reduce energy consumption and carbon exposure in our operations.

The company has also recently set about to introduce a new advanced manufacturing process for aluminium road wheels which will result in savings of around 1,600 tonnes of aluminium over a five year timeframe on current volumes.

Throughout FY13 the company has achieved :

- economic sustainability through improving production, engineering and administrative processes;

- environmental sustainability with operational and capital investments to reduce consumption of inputs, reduce waste and emissions and to achieve weight reductions in the vehicle components supplied to its customers; and
- workforce skills improvements with a focus on a consultative culture supported by leadership and workforce development.

ROH operates a certified ISO9001 quality management system and holds ISO14001 environmental certification.

2. Vision & Objectives

Our vision is to remain a globally competitive Australian manufacturer of pressed steel and cast aluminium components and assemblies.

Our core objectives are:

- Customer – to meet and exceed our customer's needs and expectations;
- Environment – to continue to improve environmental outcomes;
- Workforce Skills – to continue to maintain a positive culture and develop skills; and
- Financial – strive to continue to survive the current generational constraints on our business including the lure of subsidised auto parts and motor vehicle manufacture in neighbouring countries, predominantly China and Thailand.

In order to meet these core objectives, ROH must continue to be able to afford to re-invest in research, development and installation of advanced manufacturing technologies for the production of aluminium and steel road wheels. Over the past five years ROH has embraced new engineering resources including increasing our in-house engineering resource and through research programs conducted with CSIRO. ROH's FEA capability (provided by Compumod MSC in Melbourne) allows the company to offer very short lead times for new product development with very high predictability of product performance established prior to committing to any hard tooling. Our commitment to these activities will be severely tested with any cut to the ATS.

3. Technical Capability

ROH Automotive has the following technical capability on site:

- Press metal and diecast tool design and maintenance;
- Materials testing laboratory including wheel testing plant to Australian Standard AS1638 and international automotive test standards;
- In-house maintenance teams;
- In-house technical services; and
- Production engineering team.

Additional technical capability is provided by the following technical partners in Australia:

- CSIRO – Analysis using the computational fluid dynamics package MagmaSoft to optimise part/die design for fill time whilst minimising casting defects (and other aids to manufacture);

- MSC (Compumod) – Finite Element Analysis to minimise wheel mass while maintaining the required strength.

4. Production Capability

ROH's core production capabilities are:

- Low pressure aluminium diecasting;
- Continuous solution heat treatment and age hardening;
- CNC machining – both manually loaded and robotic machining cells;
- Continuous pre-treatment and painting for aluminium - automated powder and robotic wet spray technologies;
- 3 metal stamping press lines comprising 500 to 750 tonne presses;
- Continuous butt-welding, roll forming, assembly and spot and arc welding; and
- Continuous pre-treatment and electrocoating of steel via spray and dip processes. This facility was upgraded in 2010 to also electro-coat components pressed from aluminium.

5. Future Capability – Advanced Manufacturing

By April 2014, ROH will complete the installation of new flow-forming technology and machinery to upgrade its process from the global convention of die-casting only for the production of its aluminium road wheels.

The flow-forming method introduces a new advanced manufacturing process that currently only a handful of wheel manufacturers have implemented globally. The process will reduce the aluminium content per wheel, resulting in savings of around 1,600 tonnes of aluminium in its first five years of operation.

This advanced manufacturing process will be utilised predominantly in the production of aluminium road wheels for Toyota Australia. By 2015, we believe that Toyota Australia will be the first global car plant whose car models will be 100% equipped with flow-formed wheels, contributing substantially on the one hand to Toyota's ongoing competitiveness as an Australian auto-manufacturer and exporter and, on the other hand, allowing Toyota to continue to lead the way in sustainable environmental outcomes via reduced fuel consumption and emissions in its Australian-made Aurion, Camry and Camry Hybrid models.

Unfortunately a key cornerstone of the project, a CTFFIP grant, has not been forthcoming.

More generally, we note that flow-forming technology is also utilised in the production of aerospace components. The company will be seeking to leverage its know-how in new directions post-implementation in 2014.

6. ROH suppliers

The following seven suppliers account for around 80% of all purchases by ROH :

- Alcoa – aluminium – made in Australia;
- Bluescope – steel – made in Australia;
- AGL – Australian natural gas;
- TRU – Australian electricity;
- PPG – surface coatings (paints) – made in Australia;
- Akzo Nobel – surface coatings (paints) – made in Australia;
- Henkel – metal preparation – made in Australia.

Our sustainability is very sensitive to increases in these supplier costs. Of concern to us is the continuing upward trend in energy costs. The outlook for a 50% increase in the cost of natural gas by 2015 is highly unwelcome.

7. Products & Markets

Currently the top four products in sales turnover ranking are:

1. OEM aluminium alloy wheels for Toyota;
2. Aftermarket aluminium alloy wheels sold under the ROH Wheels brand;
3. OEM steel wheels for Toyota; and
4. OEM steel wheels for heavy trucks and trailers.

Together these account for over 90% of revenue.

8. Competitors

ROH Automotive is the only domestic Australian manufacturer of OEM passenger vehicle and heavy truck steel wheels and is the only remaining Australian manufacturer of original equipment low-pressure diecast aluminium road wheels of the quality required by automotive manufacturers.

The other remaining domestic manufacturers of aftermarket aluminium road wheels are Performance Wheels located in Plympton SA (who supplements their range with wheels imported from China), and Dragway Engineering headquartered in Queensland with production facilities located at Kinglake, Victoria.

Amongst 181 importers of road wheels into Australia, the Australian industry's competitors in the aftermarket segment are all importers all of whom source their imports from China. A former large South Australian aftermarket wheel manufacturer discontinued Australian manufacture of aluminium road wheels in 2007/2008 and now imports all of its aftermarket wheels from China.

The then Minister for Home Affairs, the Hon. Jason Clare MP, recently determined that aluminium road wheels from China are exported to Australia at dumped and subsidised prices and has put in place a range of anti-dumping and countervailing measures which now apply to 116 exporters from China. Unfortunately one exporter from China evaded any measures at all and two import competitors have quickly switched to that supplier thereby avoiding any measures on their imported wheels.

9. Development of Workforce Skills

Cultural change must be lead from the top and is achieved through a long term and consistent commitment to fostering a constructive culture. The desired outcomes are an engaged and skilled workforce where individuals achieve their objectives while still working collaboratively across boundaries. These outcomes will be achieved through:

- continue engaging with Toyota's TPS and SD manufacturing improvement process, specifically team based activities such as toolbox meetings, production improvement team meetings and workplace training;
- commitment to the continued development of the current workforce and positive recruitment for the future workforce.

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