

***Australia Automotive Component Manufacturer:  
Chassis Brakes International (Australia) Pty Ltd  
(ACN 006 530 427) Submission.***

Chassis Brakes International (Australia) Pty Ltd (CBAU) is a recognised, world class manufacturing and engineering business. With state of the art facilities and expertise, consistently producing the highest quality and reliably built products.

Today, CBAU is focused on leveraging this capability to design and validate a broad range of products for various industries.

***Submission Purpose:***

In this submission we will demonstrate:

- The importance of having a company with manufacturing and world-class technical capabilities in Australia.
- The importance of our supply base and the direct/indirect impacts.
- Several issues faced by the industry and where we would like the government to assist our industry

***Company background:***

Chassis Brakes International (Australia) Pty Ltd ('CBAU') was acquired by KPS Capital Partners, LP from The Bosch Group in May 2012 with a strategic plan to grow the business within the ASEAN region. CBAU has expanded and strengthened its engineering / manufacturing capabilities in Australia through vertical integration and has solidified its position as the only manufacturer of automotive foundation brakes and brake components for OEMs in Australia. In 2012 CBAU acquired the business of Autocast & Forge Pty Ltd (now in liquidation) ('ACF') through a wholly owned subsidiary Chassis Brakes International Castings Pty Ltd ('CBIC'). CBIC is Australia's largest automotive cast iron foundry, specialized in castings and forgings. CBAU's customers include all OEMs and tier one manufacturer's. CBAU has production facilities in East Bentleigh Victoria, Lonsdale South Australia, Seven Hills NSW (CBIC) with annual sales in excess of \$120mil and 330 permanent staff. Within our region we are also responsible for CBI's Rayong Thailand plant where sales are in excess of \$30mil and 110 permanent staff.

Chassis Brakes International Group ('CBI') is one of the world's three largest manufacturers of automotive foundation brakes and foundation brake components. The Group's primary products, which include brake calipers, rotors, drum brakes, and parking brakes, are sold directly to OEMs and through various aftermarket channels. The Group employs approximately 5,900 associates at 21 manufacturing facilities globally.

***Reconfigure for our future:***

During 2008, a concise business review was completed confirming the business needed to be re-configured to align with future market requirements. Main outcomes being: to re-size the business and maximise efficiency through the implementation of world class lean manufacturing. As a result, significant investment (approx 20mil) was made in re-configuring manufacturing operations to facilitate state of the art lean material flow and technologies, focused on improving efficiency. Significant benefits in inventory and other savings have also been achieved. On

completion of this reconfiguration of the East Bentleigh (Vic) business the manufacturing plant has achieved a 'showcase' standard employing world class technologies and production processes.

Further improvements have been achieved by embedding lean philosophy and a continuous improvement mindset within the whole business. Additionally, non-financial benefits have been gained through a "safety first" philosophy implementation, ensuring safety is at the forefront of all decisions made within the plant and the business.

We are recognised as a benchmark within CBI itself and the broader manufacturing community including, 'lean experts', OEMs and other industries.

### **Where do we go from here?**

A further strategic review was undertaken during 2012 facilitated by ASEA in order to develop a strategic plan for the business and up-skill the senior management team in strategic planning.

The key outcomes of this review were several strategic projects for the business, three of which focused on sustainability of the Australian operations.

#### **1. Pursuing global platform opportunities:**

CBAU is engaged in our region (Aust & ASEAN) pursuing new business for the supply of brake calipers, brake rotors, park brakes, and knuckles for regionally manufactured global platforms. We are in discussions with GMH and Toyota in relation to Australian manufactured platforms. We are active with other OEMs in ASEAN and have been nominated to supply brake calipers and park brakes for Ford and Proton programs which are being engineered in Australia. These two programs have secured export business for the East Bentleigh (Vic) operation starting 2014 and further export business for CBIC which will grow the export sales to \$4.6mil.

Nomination for the Toyota and GM global platforms is dependent on their continuing to manufacture as a part of the Australian automotive industry.

#### **2. Critical supplier considerations:**

Recent OEM volume reductions have contributed to the decline of local suppliers within Australia. This instability motivated us to develop a tool to provide insight into the instability of our supply base. The instability of our supply base is critical to the whole Australian Automotive industry and significant amongst other industries. Of our top twenty suppliers nine have a proportion of automotive sales in the range of 30%-60%. These nine suppliers in total employ 645 people. The extent of the impact on employment due to the loss of the automotive industry needs to be studied carefully, as does the impact on other industries through a general financial weakening of

manufacturing overall. Based on the trend of these numbers the impacts would be significant both socially and economically.

### 3. Diversifying our business:

Working with ASEA we have identified a diversification 'road map'. With our automotive level of quality and productivity we are proving to Australian manufacturers that there is still benefit in sourcing parts from Australia. We are working with an increasing number of customers developing relationships. These efforts are starting to show success through product orders. Currently the work is centred on 'make to print', but it is hoped that over the years as our experience widens that we will be able to enter these markets with products of our own design, further enhancing these other industries in Australia.

We continue to market aggressively in all these sectors with a view to winning further business and expanding our industry base.

Additionally, we are engaging in activities relating to a number of new high technology and innovative products and are looking to develop them to a marketable stage with expectations of export in the near future. The below table reflects our current activities:

#### **DIVERSIFICATION ROAD MAP**

		<b>Product:</b>	
		<b>Existing</b>	<b>New</b>
<b>Markets</b>	<b>Existing:</b>	<ul style="list-style-type: none"><li>- Automotive Brakes (Eb)</li><li>- Industrial (C)</li><li>- Export Product (C) (Eb)</li></ul>	<ul style="list-style-type: none"><li>- Other Automotive<ul style="list-style-type: none"><li>- Water Manifold (Eb)</li><li>- Exhaust Manifold (Eb)</li><li>- Light Weight Knuckles (Eb)</li></ul></li></ul>
	<b>New:</b>	<ul style="list-style-type: none"><li>- Rail (C)</li><li>- Engineering Services (Es)</li><li>- Recreational Vehicles (Eb)</li></ul>	<ul style="list-style-type: none"><li>- Innovative Products (All)</li><li>- Mining (C)</li><li>- Aerospace (Eb)</li><li>- Other (All)</li></ul>

(C) - CBIC

(Eb) - East Bentleigh

(Es) - Engineering Services

**Seven Hills (NSW) casting facility acquisition through CBIC (2012):**

The acquisition was undertaken in order to avoid the close-down of this facility and its impact on the automotive industry. This was an 'Industry response to an industry issue' with support being provided by OEMs and CBIC's direct customers. CBIC is yet to reach its full capacity. Less than 10% of its business is in non automotive sales. The future of this facility lies in its expansion to a much broader manufacturing footprint across all industries. CBIC's current focus areas for growth are mining, rail and industrial industries.

CBIC is an integral part of its local community, and as a result of the acquisition approximately 80 permanent local jobs were saved with a continuation of high quality casting capabilities maintained.

**Leveraging Local R&D excellence to enable manufacturing:**

With over 75 years of engineering design experience and a state of the art engineering facilities, our Australian based R&D centre has forged a reputation as a global centre of design excellence through the consistent delivery of high integrity and innovative solutions to our customers. Not only do we deliver the highest standard of product development to our local customers, but also to customers throughout Asia, Europe and the Americas. Within CBI we are one of only five Regional Engineering Development Centres around the world, our technical centre based in Melbourne services the Australian / ASEAN region. The R&D ASEAN focus is enabling growth by supplying primary design, development and testing function.

In Australia we have the capability to design and validate a broad range of products for various industries. Current product development programs are not limited to the automotive industry, having recently expanded to programs in the mining, rail, defence, industrial and consumer product industries. We are focused on expanding our industry portfolio into non-automotive markets through these diversification initiatives, where we have the capability to provide world-class product development technologies.

In our drive to support the latest trends in the automotive industry, we are heavily engaged in the research & development of light-weighting technology, focussing primarily on aluminium and magnesium components. There is growing interest in light-weighting technology from OEMs in the Australia / ASEAN region, but most significantly from the European markets. CBAU have recently been indirectly approached by high performance European OEMs to investigate opportunities in magnesium based component development. These OEMs have specifically indicated a preference for Australian based Engineering Research & Development due to the mature nature of our engineering capabilities.

## **Environmental benefits**

A key competency of ours is the manufacturing of aluminium castings. Aluminium caliper housings have been a long term part of our product portfolio and represent a core competency. Aluminium calipers are anticipated to grow in popularity over the coming years as the automotive industry moves to the light weighting for fuel economy, or Electric Vehicles ('EV') range extension.

Aluminium knuckles are a new development opportunity for the business. The global trend is for aluminium knuckles to replace existing cast iron knuckles. Aluminium knuckle casting is an entirely new process in Australia and will involve significant research and development. Aluminium casting is also offering some diversification opportunities into other auto and non auto manufacturing areas.

The development of lighter weight products will continue to contribute to lower transport costs and lighter weighing vehicles with reduced fuel consumption. Weight/mass reduction of components will be sought through:

- The design and manufacture of lightweight brake calipers made of aluminium and lightweight "Banksia" park brakes.
- High levels of investment in seeking weight/mass reduction opportunities as an integral part of a competitive offering.

We need to continue manufacturing aluminium castings in order to ensure we maintain the capabilities and know-how in Australia to manufacture globally competitive vehicles and components.

## **Our industry related challenges:**

- Contraction of the local automotive industry in terms of volume and participating OEM's (Nissan, MMAL, Ford),
- Core business faces significant challenges for export as we form a part of a multinational with facilities in Thailand, India and China and must compete on global platforms,
- Cost of outbound freight and duty on our exports at foreign ports,
- Investment approval (internal) is difficult due to current OEM volume and uncertainty of local manufacturing,
- Ongoing business 'down-sizing' (due to decreasing volume) restructuring costs are putting additional financial burden on business,
- Imported products (castings and finished products) are being produced in subsidised and low cost economies and imported almost duty free

**What government can do to assist:**

- Maintain ATS at current or increased levels and extend the scheme beyond 2020 to align with the next awarded model cycle ending 2022/23 to add longer term certainty to the automotive industry, to be reviewed in circa 2016, well ahead of the next re-tooling phase of the next model cycle..
- Extend ATS to cover diversification by automotive companies (definition of automotive companies should be: Automotive companies with automotive sales in excess of 50% of total sales) to enable automotive suppliers to broaden customer and product base to improve ongoing viability,
- Provide support for OEM's to increase current volumes through Government (Federal, State and Local) fleet purchasing policies to increase overall local vehicle sales,
- Provide broad based incentives for locally manufactured vehicles to be purchased ahead of imported vehicles to increase sales on local vehicles, eg:
  - o FBT exception reversed on imported vehicles only
  - o Accelerated depreciation for local vehicles
  - o Reduction in / rebate of stamp-duty costs on new locally manufactured vehicles bought
- Make available globally competitive energy costs in order to lower our manufacturing cost, ensuring no competitive disadvantage,
- Align Manufacturing (Automotive) support in Australia, with support currently in place in favoured manufacturing sites for OEMs, ie Europe, Asia & the US to ensure export/import barriers are balanced for the automotive industry.
- Financially assist "rationalisation plans" within the current supply chain to improve the ongoing viability of component producers.