

Dandenong South, November 27, 2013

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Australia's Automotive Manufacturing Industry
Productivity Commission
LB2 Collins St East
Melbourne VIC 8003



Subject: CNH Industrial submission to the Productivity Commission Inquiry into Australia's automotive industry



Dear Commissioners,



On behalf of CNH Industrial ANZ, and in particular the company's heavy and commercial vehicle manufacturing operations (Iveco Trucks Australia Limited) based in the South East of Victoria (Dandenong South), I want to thank you for the opportunity to contribute to this important inquiry into Australia's automotive manufacturing industry.



INTRODUCTORY COMMENTS

Iveco Australia, and its predecessor, International Trucks (also located on the historic Dandenong South site), have a long and proud heritage in Australia. The company's Australian truck manufacturing origins can be traced back to the early 1950's when the manufacturing facility was first established under the banner of International Trucks. The current day operations boast a highly customisable and flexible set-up allowing for the manufacture of various models, incorporating multiple variations.

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Contrary to a popular misconception, the Australian heavy and commercial vehicle industry (sometimes generically characterised as the “truck” industry) is by any conventional categorisation, part of the domestic automotive “manufacturing” industry. A case in point is Iveco Australia’s facility which produces vehicles containing between 60-85% local content.

On this factor alone, the company believes that there is a need to broaden the presently narrow definition of the automotive industry to more adequately capture the largely invisible contribution of the heavy and commercial automotive industry. A ‘full spectrum’ approach will enable a more complete analysis of the economic value and capability contribution of the domestic automotive manufacturing industry.

CORPORATE OVERVIEW AND CONTEXTUALISATION

Iveco Australia is a subsidiary of CNH Industrial, which is headquartered in Lugano, Switzerland, and listed on both the New York (NYSE) and Milan (MTA) stock exchanges. CNH Industrial represents the capital and industrial goods arm of the Italian-based automotive giant, Fiat, and only came into existence on 30 September, 2013 following the formal global merger of Iveco, CNH (Case and New Holland) and FPT Industrial (powertrain technology).

Prior to the establishment of CNH Industrial, Iveco, CNH and FPT Industrial operated as three, mostly independent, business units under the banner of Fiat Industrial. The integration as part of CNH Industrial is designed to assist in maximising the inherent synergies that exist across the three brands, and has led to the company being ranked as the top three or four capital and industrial goods firm in the world.

CNH Industrial’s strength lies in its diversity: from tractors and combines, excavators, dozers, trucks, buses, firefighting and defence/civil protection vehicles to powertrain solutions for on and off road and marine, the group designs, produces and sells ‘machines for work’. Across three commercial sectors, 12 brands, 64 manufacturing plants, 49 research and development centres, a workforce of more than 68,000 people and some 6,000 dealers, CNH Industrial is present in 190 countries.

AUSTRALIAN FOOTPRINT

Iveco’s Australian manufacturing and design facility remains an important member of CNH Industrial’s global and regional footprint, and is complimented by a significant presence in the West of Sydney: the company’s St Marys-based headquarters for Case Australia and New Holland Australia – major global agriculture and construction brands in their own right.

CNH Industrial ANZ also comprises the company’s heavy and commercial vehicle parts retail arm – Truckline – based out of Queensland, and its equipment capital financing unit – CNH Industrial Capital – headquartered in the St Marys facility.

As a consolidated group, CNH Industrial ANZ employs around 1,000 people; a large number of which are engaged in the Iveco operations (~600).

As a brand, Iveco is present across all of the domestic market segments, allowing it to claim a unique position as a “full-line” marque. However, Iveco Australia’s strength lies in its local capabilities – one of only four Iveco plants within the APAC region – and its ongoing commitment to R&D in Australia, as embodied by the 40+ engineers that are based in Dandenong South, whose main role it is to develop engineering solutions for the Australian market.

It should be noted that these R&D capabilities are not necessarily unique to Iveco Australia’s operations, but they are representative of the degree to which the domestic heavy and commercial vehicle manufacturing industry invests in developing products that meet the requirements of the local market.

This customer focus is partially a function of the unique challenges posed by the Australian landscape and the nation’s heavy reliance on road transport. Iveco Australia develops and manufactures unique Australian products, designed exclusively for the local market, and also for vehicles that are part of global platforms. The Dandenong South facility assembles and manufactures bus chassis; the ACCO (vocational vehicle); a local variant of the Stralis (multi-purpose on-highway vehicle); and the Powerstar (heavy haulage prime mover).

In addition to the manufacturing facility, the company engages with an extensive components supply chain, numbering well over 100; many of which are not currently cross-integrated with the passenger vehicle manufacturing industry. A broader and more inclusive focus on the full automotive spectrum could result in new opportunities for both existing car and heavy vehicle suppliers.

While the heavy and commercial vehicle industry is undeniably dwarfed in scale by direct comparison with the car industry (overall market: ~30,000 units p.a. of which ~6,000 are locally produced), it can play a strategically important role in complimenting the car industry in enhancing the competitiveness of Australia’s automotive manufacturing industry.

For instance, Iveco Australia already contributes to national capacity building through the production of commercial vehicles, that in-turn transport freight around and across the country. However, it is in the production plant’s inherent flexibility that its true strategic value exists. Already accustomed to adapting product to local conditions, Iveco Australia, and likely other heavy and commercial vehicle manufacturers, are able to introduce new variants and variables onto the production line relatively easily and quickly.

Given the right environment, companies such as Iveco could produce, or at the very least assemble, product as diverse as emergency vehicles or highly innovative defence platforms (Iveco is a major global defence vehicle brand and has a defence-dedicated unit headquartered out of Bolzano in

Italy). Although this typically requires a level of commitment from global headquarters, it should provoke a deeper investigation into the opportunities that exist within the automotive manufacturing industry. This could result in the identification of strategic diversification opportunities for the automotive supply chain.

It is important to note that Iveco also boasts significant global capabilities in the development of alternatively fuelled powertrains; particularly, in the areas of gaseous fuels, but also in the form of biofuels and hybrids etc. Some of these technologies have been applied to locally produced product; however, in the absence of larger scale re-fuelling infrastructure and demand-side incentives, it is currently difficult to promote a significant shift in this direction.

Having said this, Iveco Australia remains committed to engaging with key stakeholders on promoting the future viability of sustainable fuels and frequently contributes to dialogue on this topic. From a broader perspective, this approach is applied across the full range of capital and industrial goods under the CNH Industrial banner (i.e. including Case and New Holland).

BROADER INDUSTRY CONSIDERATIONS

Although not endeavouring to represent the broader industry's interests, it is important to note that Iveco Australia is one of three local heavy and commercial vehicle manufacturers; each of which also has a significant presence in the import market. To this end, it should be acknowledged that even imported product is invariably localised – to an extent - in order to meet the requirements of local customers. In many ways it could be said that no one truck – for instance – is exactly the same.

The Truck Industry Council (TIC), of which Iveco Australia is a member, is the peak industry body representing truck manufacturers and distributors (i.e. Gross Vehicle Mass above 3,500 kg) in Australia. The TIC has previously estimated that secondary manufacturing – that is, major trailer manufacturers, tipper and tanker builders, and producers of table tops, and hydraulics for tipper and garbage collectors – number in the hundreds. Combined with the OEM's and the heavy and commercial vehicle supply chain, employment is said to be greater than 17,000.

CONCLUDING COMMENTS

Iveco Australia has a long and proud history and the company continues to invest in its local automotive manufacturing capabilities with a view to strengthening its current footprint. The recent global integration under the banner of CNH Industrial is expected to generate new opportunities for growth as Iveco Australia, Case Australia and New Holland Australia (along with other associated brands within Australia) combine to broaden the company's local reach.

While the company remains committed to its local footprint and contribution to the domestic automotive manufacturing industry, it is important that the heavy and commercial vehicle industry – from buses to trucks and also off-road product – be recognised in the development of future industry-

specific policies. This will facilitate an even greater contribution to the national economy and ensure that the broader automotive supply chain can benefit from stronger integration.

Broadening the scope and characterisation of the Australian automotive industry will promote increased investment in diverse and innovative products and technologies. In turn this may assist in developing a sustainable automotive manufacturing industry that – to a degree – is shielded from the rudimentary cost-based comparison that is routinely applied within the industry.

Thank you once again for the opportunity to contribute to this significant debate on the future of Australia's automotive industry. I would welcome the opportunity to further discuss CNH Industrial's current and future plans with a view to informing the Productivity Commission on the significant role the company, and by extension, the heavy and commercial vehicle industry, play within both the Australian automotive manufacturing industry and the national economy more broadly.

Yours Sincerely,

Ronald Grasso
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