



Beyond the Car Company Pyramid:

The Future Australian Automotive Manufacturing Industry

Submission to the Senate Standing
Committee on Economics

February 2015



The Australian Automotive Aftermarket Association

The Australian Automotive Aftermarket Association (AAAA) represents over 1800 companies nationally that are engaged in the manufacture and distribution of automotive aftermarket parts, accessories, workshop tools and equipment in a sector that turns over \$11 billion per annum, exports \$800 million worth of product and employs over 40 000 Australians. Our links to our colleagues in international markets are extensive. We have visited and hosted our collegiate associations from Asia and Europe and we enjoy a highly productive and intensive exchange of ideas and support from the American Specialty Equipment Market Association (SEMA) and the AutoCare Association. We travel extensively throughout the US, Asia and Europe attending and facilitating trade missions and we regularly receive market intelligence that we share with our exporters and aftermarket product development community.

AAAA members manufacture, distribute and fit motor vehicle components that:

- Last the life of the vehicle or are replaced irregularly during the life of the vehicle, usually as the result of a crash or a major mechanical failure – e.g. seats, instrument panels, engines, and transmission; or
- Are replaced regularly throughout the life of the vehicle because of normal wear and tear – e.g. filters, tyres, wiper blades, spark plugs, bulbs, batteries and brake pads.
- Are manufactured and distributed to maintain or enhance the appearance and performance of vehicles, including accessories, safety, comfort, appearance, entertainment and information, functional performance, body components, tools and equipment, mechanical, lubricants, additives and chemicals.

The economic contribution of the automotive aftermarket is significant. The market is growing due to the increase in the motor vehicle stock in Australia. There are 17.6 million motor vehicles serviced by aftermarket component producers and the number of registered vehicles is increasing by 2.5% annually, the average age of all vehicles registered in Australia is over 10 years. The Australian automotive aftermarket has earned an enviable reputation internationally as a supplier of world-class innovative automotive products and Australian manufacturers are known for their flexibility and ability to supply high quality product often in niche volumes in a timely and consistent manner.



Australian Automotive Aftermarket Association

Serving the automotive parts, accessories, tools & equipment industry in Australia since 1980.

The Australian Automotive Aftermarket

Approximately 260 AAAA member companies manufacture product locally with around 65% of these companies (170) actively exporting. Automotive aftermarket manufacturing represents 36% of all automotive manufacturing in Australia - that's \$5.2 billion per annum. And the aftermarket manufacturing sector alone employs 21,000 people directly and exports \$800 million per year of locally manufactured product. The aftermarket segment continues to show strong year-on-year growth.

Not only is the aftermarket segment significant in terms of its size, but it has totally different drivers compared to the Passenger Motor Vehicle Original Equipment (PMV OE) segment. While some aftermarket manufacturers also supply OE components for fitment to Australian made or imported vehicles, the majority of product (85%) is sold to customers external to the car companies and their franchised dealer networks. Customers include wholesalers, retailers, resellers and end-users. Aftermarket products include replacement parts, accessories, vehicle modification and performance enhancement products and workshop tools and equipment. Many aftermarket manufacturers are expanding through high technology innovation with exports to Asia, Europe, Middle East and the USA.

The global demand for specialty components is growing in line with higher SUV sales and the ageing of the population is supporting demand for specialised vehicle retrofit components. The rise of global platforms, while representing a threat to local OE component producers, is generating opportunities for the development of accessories and modification products, first developed for local use and then exported. The Australian aftermarket has also been successful in branching out into non-automotive industry sectors, such as rail, defence, mining, marine and industrial, creating further opportunities for volume growth through diversification.

In the face of strong import penetration, our industry's response has been to move up the value chain - from service parts to high-value specialty products with a technological advantage such as 4WD, high performance and motorsport components. These products are purchased on innovation, performance and features rather than on price. This competition has created an aftermarket segment that has the right pre-conditions to be a globally competitive sector. These businesses have been successful because they have made significant investments in R&D and capital equipment and have a strong export focus.

If the full growth potential of the aftermarket manufacturing segment is realised, it can absorb some of the excess capacity, skills and knowledge that become available as the shutdown of the Australian domestic passenger vehicle sector plays out. In fact, the performance of both the PMV OE component and the aftermarket sector can be simultaneously enhanced through a holistic approach to policy setting which embraces both segments. There is a great deal of synergy in labour skills between PMV OE and aftermarket employees and it is quite realistic to assume that a growing and sustainable part of the industry can assist in absorbing some excess labour. Indeed, it has a greater capacity to do so than other industries such as mining and construction. If we want this to occur we need the aftermarket to reach full capacity, and it cannot do so without specific government policy and programs designed to foster growth.



Introduction

We could do so much more.

We design, develop and export aftermarket products to most parts of the world, leveraging our unique abilities in off-road and performance modification.

There are some very real and effective options for government to build upon this vibrant, sustainable automotive segment whilst mitigating the fallout from the closure of Australia's three remaining car manufacturers.

Stuart Charity,
AAAA Executive Director

We welcome the decision by the Senate to refer an investigation into the future of Australia's automotive industry to the Senate Economics References Committee for inquiry and report.

We have previously provided a formal submission to the 2013 Productivity Commission Inquiry into the Automotive Industry and our assessment of the economic contribution of Australia's automotive aftermarket is now a matter of public record. There would be little value in recycling the information that we have previously provided. The hyperlink below provides a link to our previous submission.

http://www.pc.gov.au/inquiries/completed/automotive/submissions/initial/counter/su_b054-automotive.pdf.

The purpose of this submission is to provide options for the future. A summary of our position on where we are today and a vision for the future is as follows:

1. We do not support simply turning off the Automotive Transformation Scheme (ATS) – that currently provides funding to the tier one PMV (passenger motor vehicle) manufacturers and suppliers. We accept, and we can see logic in the view that there are difficult times ahead, and that the companies that have not yet 'transitioned' may not do so in the future. However, we cannot support the immediate cuts to ATS. Despite our arguments in this document that there has been an over-emphasis on the PMV segment, we would argue that every effort should be made to genuinely support tier one suppliers to restructure and to support the employees of the companies that will inevitably exit the market.
2. Any effort to design a 'softer' landing however, should not come at the expense of leadership and vision. There can be no confusion here, we are all aware that a softer landing is a mitigation strategy - it is not a vision for the future.

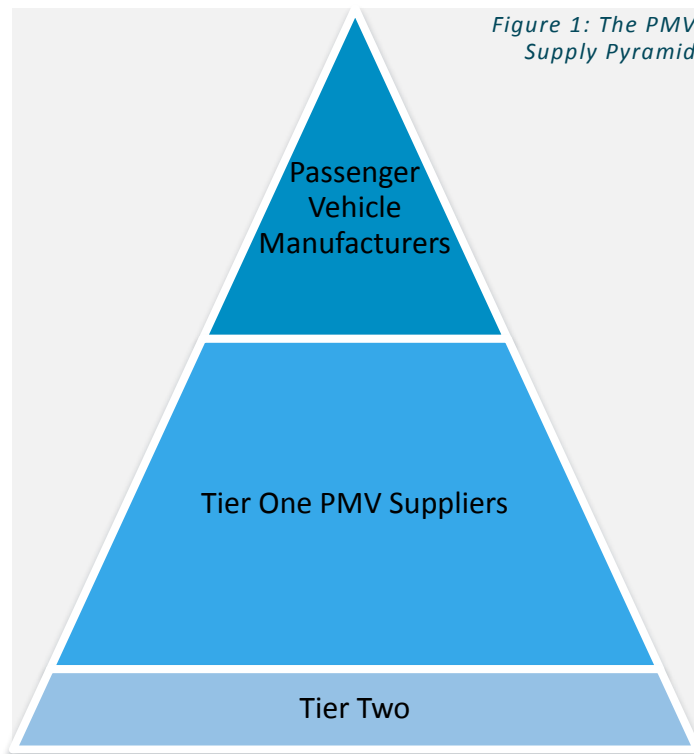
Before we can collectively imagine a future in which Australians continue to design, manufacture and export automotive products we have to finally and conclusively step away from the myth that the automotive manufacturing industry and the PMV supply pyramid are one in the same: **they are not.**

We are now living with the consequences of this narrow thinking that has been in place since the Button Car Plan. This model is based on flawed theory that the entire automotive manufacturing industry can be captured in one neat pyramid and this theory is accompanied by the myth that if we feed the top layer – the benefits will ‘trickle down’ to the other layers.

It's difficult to find this ‘trickle down’ pyramid in the industry development strategies of other

automotive producing countries. Most other developed nations do not use this diagram to describe their local automotive industry sector, because to do so is to describe only a proportion of the industry. The prerequisite for the pyramid industry paradigm is an unhesitating faith in the economic benevolence of the global car companies. Despite decades of support, these global entities repeatedly demonstrate little loyalty to their local hosts, often threatening departure if the conditions are not generous enough.

Whilst the industry strategies of our trading partners make mention of the interdependence between passenger vehicle manufacturers and their suppliers, we are not aware of any other jurisdiction that uses this pyramid as the sole foundation for automotive industry policy and industry support. Below is the Federal Government's description of the Australian automotive manufacturing industry. This is not a description of a government program, this is the primary definition of Australia's automotive manufacturing industry by the Australian Government: The industry is defined by the current ATS eligibility and not the nature of the goods that are produced. Therefore, companies that manufacture automotive parts that are not supplied directly to the PMV segment are not considered to be automotive manufacturing companies.



Automotive

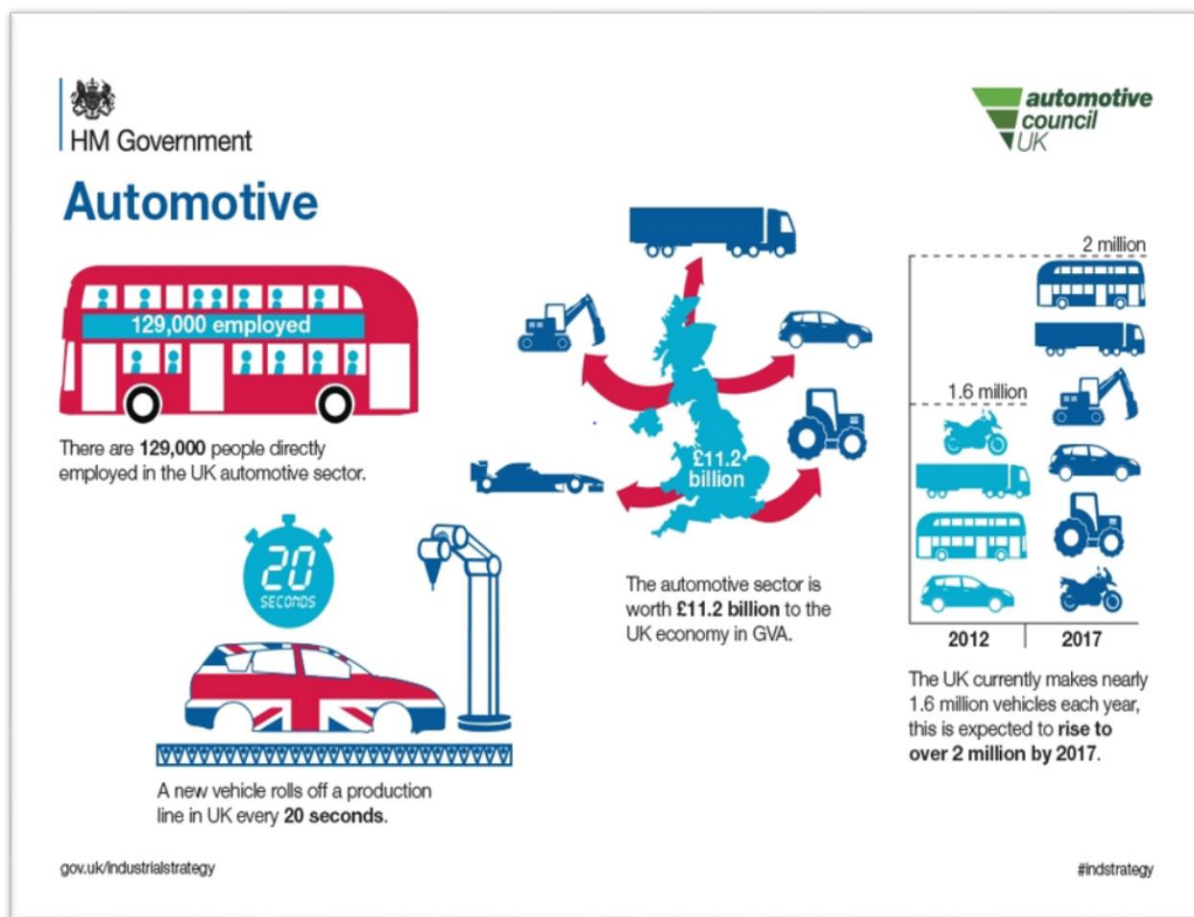
About the automotive industry

The Australian automotive manufacturing industry comprises three passenger motor vehicle producers and approximately 130 component, tooling, design and engineering firms who are registered for the Automotive Transformation Scheme.

Figure 2: Source Australian Government: Automotive Industry definition 3 February 2015 - <http://www.industry.gov.au/Industry/IndustrySectors/Automotive/Pages/default.aspx>

Our trading partners do not use this narrow definition precisely because there are good returns for supporting the full breadth of the industry including the automotive aftermarket and niche producers. In spite of the Australian Government definition, we should be very clear – AAAA members produce automotive components, often the same components as the tier one PMV suppliers. But these Australian made and exported parts are not manufactured to be sold to the PMV segment. This is the only reason that aftermarket products are not registered for the Automotive Transformation Scheme – our products have a different customer. Our member companies, operating outside of the PMV supply chain, are often locally owned, highly agile, R&D intensive and trade exposed. We may not be eligible to register for the ATS, but we clearly design, manufacture and export automotive parts.

When we examine the industry strategies of the countries that we visit, their definition of the industry encompasses so much more. The UK Government defines the industry broadly including all of the vehicle manufacturers: buses, trucks, motor sport, motorcycles and agriculture are all equally embraced for their strategic value.



Over time, the continued narrowing of automotive industry policy has cost the Australian community. The cost is the missed opportunities to build upon the breadth and complexity of automotive production: agriculture, mining vehicles, truck, bus, recreational vehicles, motorised personal vehicles, aftermarket, parts and accessories, performance enhancement, performance modification, aftermarket safety components, 4WD components and special purpose vehicles.

With the right policy settings and industry programs, we could do so much more. We could build and sustain a viable, sophisticated industry of well-designed and elaborately transformed manufactured goods. We design, develop and export aftermarket products to most parts of the world, leveraging our unique abilities for off-road and performance modification. There are some very real and effective options for government to build upon the profitable automotive segments whilst easing the demise of passenger motor vehicle manufacturing.

To this end we have previously provided many recommendations on industry initiatives that speak to this Review's terms of reference. The outcome of the Review should be policy and program settings that build on proven and successful industry development models and more importantly, build on what we already do well.

In this document we include bold and visionary initiatives that could and should be explored as foundations for the Australian automotive manufacturing industry of the future.



Key Issues

It is important to state at the outset that we were very disappointed to learn of the Ford, Toyota and Holden decisions to cease manufacturing in Australia. We did however, anticipate this move, and in our submission to the Productivity Commission we stated our position which is that *'whether Ford, Holden and Toyota maintain PMV production in Australia or not, current and projected PMV volumes simply can't support a sustainable view of the PMV supply chain, acting in isolation, any longer'*.

We felt then, as we do now, that if we are able to take a step back from traditional public sector views of what is considered to be the "automotive industry" and view the whole automotive manufacturing sector, we can develop policy and programs that facilitate a transition to a sustainable industry with ongoing growth prospects.

As the Productivity Commission concluded in their key findings, the automotive aftermarket is sustainable and is a significant part of the total automotive industry. Automotive aftermarket manufacturing represents 36% of all automotive manufacturing in Australia. After the withdrawal of vehicle production this percentage will increase.

If the Government's automotive policy settings were more effectively structured around the future role that the aftermarket industry can play in the automotive sector's long-term future, then this industry could be worth some \$6.56 billion today rather than its current estimated value at around \$5.2 billion. Gap modelling shows a realignment of public policy support could enable the aftermarket to achieve greater potential and be more effective at absorbing displaced PMV resources. The aftermarket and specialist producer segment can play a constructive role in bringing about the structural adjustment process the government is seeking for the Australian automotive industry.

A re-orientated incentive structure for the entire automotive manufacturing sector could position the aftermarket for growth, so that the resources of the PMV segment can flow into a more sustainable and growing aftermarket segment.

The initiative to commence this Senate Inquiry is an opportunity to start a conversation about re-orientating current PMV assistance to embrace the aftermarket with programs and policy to assist these companies to introduce new products to market (innovation & commercialisation) and in enhanced export market development support.

There should be a rewrite of automotive industry policy with an exploration of all of the non-PMV opportunities. A review of the submissions to the Productivity Commission reveals a similar pattern:

1. PMV manufacturers and PMV suppliers argue for continued (and enhanced) PMV support.
2. Non PMV automotive manufacturing argue that their sectors are resilient and profitable and have never received assistance.

One could easily argue that if the non-PMV sector is managing without assistance why make representation to government about the failure to acknowledge or support our industries?

There are three reasons for our ongoing interest, none of which are the result of a 'me too' philosophy.

Firstly, we have an interest because all non-PMV automotive sectors are aware that given the current environment, transition funds are likely to be re-orientated to assist Tier One PMV companies to 'diversify'. There is a genuine concern from our members, and other sectors of the automotive industry, that an easy (but ineffective) option is to simply pay the PMV producers to diversify **into our segments**. This would be the ultimate insult. To replace the dominant paradigm of a narrow focus on PMV with a program of funding these companies to compete against us is unfair, anticompetitive, unwise and insulting.

Secondly, giving funds to PMV OE component producers to compete in our segments is highly unwise because whilst the products may indeed be the same, the aftermarket business model is considerably different: different customers, product life cycle, need to cater for model variations, and distribution methods. Put simply the market structure and the business drivers for the aftermarket create significant points of difference. The aftermarket thrives on niche markets. We are very quick to market. Indeed, each time a new vehicle model or a new model variant is introduced, our members are preparing engineers and tooling divisions to design a product solution. Branding is more important in the aftermarket than in the supply of parts to the passenger motor vehicle producers, and so too is the requirement for a detailed understanding of the geographic and demographic drivers. The markets for wholesale, retail, DIY (do it yourself) and DIFM (do it for me) are very different and distribution channels, product training and installation instructions are finely crafted and tailored for each niche customer group.

We would argue that the skills in production can overlap and hence our conclusions that an expanded aftermarket could assist in the absorption of excess capital and labour from the PMV sector. But the strategy should be focussed on supporting the existing aftermarket to grow. It would be unwise and unfair to use Australian tax-payers funds to encourage non-aftermarket companies to compete against us.

A further reason for our interest in this Senate Review is to a desire to participate in this discussion and to contribute constructive ideas that could actually make a difference. A trend that we noted during the post-withdrawal announcement period was the use of government transition funds for non-automotive industries. In Victoria, we were very concerned to see millions of dollars allocated to non-automotive companies because of the false belief that 'auto is dead' and there was clearly a government decision to provide the incentives to non-automotive capital projects. In mid to late 2014, there appeared to be an unwritten policy that funds should be provided to food processing and tourism as a more effective method to soften the economic blow.

We doubt that any of these funds will mitigate the forthcoming employment loss and of concern to our industry is that poor use of government investment funds is another wasted opportunity. We still have an automotive industry in Australia, and in the future our industry will continue to require investment, skills and technology. Our prospects of accessing opportunities for growth are diminished when the government responds to the Ford closure by providing capital grants to food companies.



Vision

If we are to provide opportunities for growth we are of the view that there are visionary and innovative options and strategies that could be considered.

1. Data/ Industry Analysis

If we are to explore options for growth in the non-PMV sector we need better data. It is difficult to gain a full appreciation of the size of the industry from available ABS data. As we have explained in this submission, automotive products will continue to be produced outside of the domestic car makers' supply chain. However, the PMV original equipment and the aftermarket products can be, and often are, identical and for the PMV suppliers, their dealership and 'private label' aftermarket parts flow from exactly the same production line. The difference is in the distribution. It is very difficult to disaggregate the parts between PMV and aftermarket and we do need better data in order to measure the trend rates in the industry and to see if any new initiatives can produce economic and employment growth. We need better data on the number of companies currently engaged in this sector. We are also unsure of the size of the 4WD and the motor sport component production segments. In the import and export data these products are classified as automotive components providing very little usable market intelligence on the size of each niche or segment. No doubt the niche producers of components for mining, agriculture, recreational vehicles, bus and truck would report a similar experience.

Recommendation One:

Commission a study of the economic value of automotive aftermarket components, motor sport technology, bus, truck, mining, recreational vehicles and defence land transport manufacturing.

We are of the view that an independent study of local production and Australia's export and import data for non PMV components and aftermarket production should be undertaken to assist the process of intelligent program and industry policy formulation. An external study should be funded that has an emphasis on data analysis of all automotive segments that are not dependent upon the local car producers. Most of our information is anecdotal and we need external and qualified data on all of the segments in order to understand each niche producer to evaluate their current and future potential for growth. It is recommended that the Senate Standing Committee on Economics commission a study on the economic value of the automotive aftermarket, motor sport technology, bus, truck, mining, recreational vehicles and defence land transport manufacturing.

2. Australian Automotive Aftermarket Lab (Product Development and Testing)

The challenge for all aftermarket producers is to design, develop, manufacture and distribute high quality components that meet local and international design specifications. Compliance with design specification and compatibility with PMV systems requires access to the latest vehicles and test equipment and this can represent a significant cost and logistics barrier to small, agile and innovative companies.



Located at the Specialty Equipment Market Association (SEMA) headquarters near Los Angeles, the SEMA Garage gives members from across the USA access to the high-tech tools and equipment that are required to take products from initial concept through to product launch. The SEMA Garage houses nearly \$2 million of equipment, including two vehicle lifts, a portable coordinate measuring machine (CMM) for 3D scanning, a 3D printer for fast prototyping, digital race car scales for vehicle weight measurements and a

dynamometer for power output measurements.

The facility also features a fully certified aftermarket-part certification lab to provide the required certification for companies planning to sell aftermarket powertrain parts into the US market. The temperature-controlled test cell simulates weather conditions ranging from winter in the mountains to summer in the desert. Testing meets all US federal Environmental Protection Agency and California Air Resources Boards (CARB) standards with capabilities that include emissions, fuel economy, acceleration, brake stopping distance, interior/exterior noise levels and handling.

A real vision for the future of the Australian Automotive industry is to build upon what we do well. The aftermarket is R&D intensive and is quick to market. An Australian format 'Automotive Aftermarket Lab' would be a meaningful contribution to expanding our industry and supporting the maintenance and growth of automotive engineering and R&D. The facility could expand our work in off-road, rough terrain and ensure that products designed for export markets are fully tested for international standards.

The availability of the latest vehicle models can significantly reduce the product development costs and reduce the time to market. The Australian market is particularly diverse with 66 vehicle brands on our roads and the availability of testing equipment is equally important for domestic and international markets.


A facility such as the SEMA Garage can also provide opportunities for testing of aftermarket products to ensure regulatory and design compliance. There is a level of regulatory ambiguity in Australia for aftermarket products used in minor vehicle modifications, particularly vehicle lift and other safety modifications. Ironically, these modifications result in a safer vehicle that is fit for purpose because the global platform car requires modification to meet local conditions. However, without testing facilities the effect of modifications on vehicle safety and handling systems can be difficult to quantify.

As an industry association we recently contracted a US based company to conduct tests on 5 different platforms to test the effect of modifications on the Electronic Stability

Control systems. We contracted a US testing facility because we do not have such facilities in Australia. It is disappointing that most testing of Australian components occurs in the US and Europe.

OVERVIEW

You might be planning to develop any sort of aftermarket performance product. We would like to provide you with the tools to suit all your needs.



Each year, SEMA members introduce thousands of cutting-edge tools and accessories designed to add enjoyment to vehicle ownership. While some have universal fitments, many have model-specific applications that require significantly more research and development.

The SEMA Garage gives SEMA member businesses access to the special high-tech tools and equipment they need to get their products — whether a \$10 set of replacement wiper blades or a \$10,000 engine modification — off the drawing board and into customer hands. It is the only known facility of its kind in the United States.

Covering 15,000 square feet and filled with nearly \$2 million of equipment, the SEMA Garage includes all the tools specialty product developers could hope for and then some, including two vehicle lifts, a portable coordinate measuring machine (CMM) for 3D scanning, a 3D printer for fast prototyping, digital race car scales for the most precise vehicle weight measurements, a dynamometer for power output measurements and more.

Figure 3 The SEMA Garage provides aftermarket companies with a reliable and affordable way to develop and test products, helping them to get their products to market quicker

Establishing testing and prototyping facilities in Australia could make a significant difference to our industry. It is worth noting that we are very close to our colleagues at SEMA and we have visited the SEMA Garage to review the facilities and discuss the use of the Garage's service range by the industry. Should the members of the Review be interested in examining this facility for themselves, it would be our pleasure to facilitate such a visit.

Recommendation Two: The Australian Automotive Aftermarket Lab

Fund a feasibility study, and formulate the business model to fund the establishment of an Australian Automotive Aftermarket Lab.

There are options for advancing an investigation into this initiative and we would be pleased to discuss these options with the Committee. An exploratory visit may be the best way to progress this proposal. If there appeared to be a level of interest, a preliminary business case could be prepared utilising our good relationship with SEMA.

The options for consideration are likely to be in relation to depth and breadth: The facility can include multiple testing options including noise and emissions or the service offerings can be limited to product development. In our experience of working with the SEMA Garage, costs can be recovered from industry after an initial establishment time. For example, each purchased vehicle is sold after the examination time period has passed and the test facilities are open for industry bookings on a commercial rate. Our only reservation about this discussion is our strongly held view that the SEMA Garage works because it is an industry-led and industry-managed facility. We do not see this Lab forming a part of an existing PMV CRC nor would it be appropriate as a TAFE facility. The industry auspice ensures commercial viability and it also provides for commercial in confidence considerations.

3. High Performance Technology and Motor Sport Cluster

The Australian love of motor sport is well understood and recently documented by the Confederation of Australian Motor Sport. In 2013 CAMS commissioned an independent report into the economic impact of motor sport in Australia¹.

Motor sport is a significant generator of economic activity, of stimulus to the economy, and as an employer and creator of jobs. The benefits of our national motor sport enthusiasm are generally measured in tourism and hospitality economic returns. There is less understanding amongst policy makers of our complementary ability to produce performance enhancement and motor racing components and technology. The evaluation of motor sport as an event and the evaluation of motor sport as a manufacturing industry are generally separate conversations. And yet, there is clear evidence that leveraging our love of motor sport to promote innovation, manufacturing and engineering professions would be an efficient use of our economic resources. Marrying the two sectors – and using each to promote the other is a good method of leveraging what we love and what we do well.

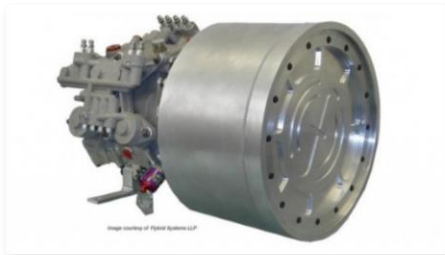


Figure 4: Mechanical bolt-on KERS hybrid for buses offers 30% fuel saving

The UK is likely to be the best example of a coordinated industry strategy designed to leverage motor sport and performance racing manufacturing and technology. In the UK, there is a considerable link between motor sport innovation and the transference of this technology to passenger vehicles, defence and aerospace. In addition to lightweight materials and engineering the most well-known of these technologies is KERS: Kinetic Energy Recovery System technology.

¹ THE ECONOMIC CONTRIBUTION OF THE AUSTRALIAN MOTOR SPORT INDUSTRY: This CAMS study, by multinational professional services firm Ernst & Young, highlights the importance of the motor sport industry to Australia, by estimating the economic contribution, value add and employment of the industry in 2013. This study also estimates other key measures, such as the number of participants, clubs and venues across Australia.

Kinetic-energy recovery systems first gained widespread attention in Formula 1, as teams like McLaren and Ferrari experimented with KERS. A mechanical kinetic energy recovery system is **smaller and lighter than a petrol-electric** hybrid system, and in real-world conditions it reduces fuel consumption by a similar percentage to a hybrid. This technology is migrating to passenger vehicles and buses (see below).

Mechanical bolt-on KERS hybrid for buses offers 30% fuel saving - Torotrak win SMMT Award

26/11/2014

Automotive industry leaders select Flybrid® affordable hybridisation technology as this year's winning 'UK innovation with the potential to make a difference'.

The 2014 SMMT Award for Automotive Innovation has been won by Torotrak plc (LSE: TRK) for its Flybrid mechanical flywheel hybrid system. The award, supported by GKN and The Times, recognises UK-developed automotive technologies that have 'the potential to leave a lasting impression on the whole automotive industry for years to come.'

"It was fantastic to see such a superb calibre of entrants in this year's Award," says SMMT Chief Executive and member of the judging panel, Mike Hawes. "The UK is one of the world's leaders in automotive engineering and R&D, a fact epitomised by Torotrak's Flybrid KERS," he adds. "Not only a genuinely innovative concept, it is also in an advanced stage of development with huge potential to influence the wider automotive sector."

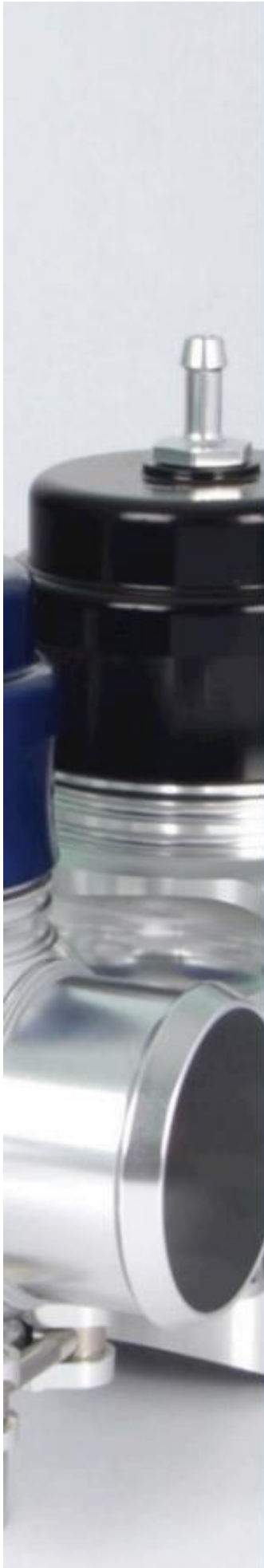
Torotrak's Award focuses on the application of its mechanical hybrid technology to urban buses and commercial vehicles. The system captures kinetic energy as the bus slows down and transfers it to a flywheel that spins at up to 60,000 rpm. The energy flow is reversed during acceleration, to reduce load on the diesel engine; saving fuel and reducing emissions. The technology is purely mechanical, with no costly high-voltage batteries and without the inefficiency of converting energy from mechanical / kinetic to electrical and back. Because it is completely mechanical, the flywheel system also provides full depth of discharge throughout the vehicle's life, and has only basic servicing requirements, similar to the main drive transmission. This helps to offer a low cost of ownership, and also maintain the vehicle's residual value.

"Our system will be around one quarter the cost of a conventional battery electric hybrid as well as substantially smaller and around a quarter the weight," says Torotrak chief executive officer Jeremy Deering. "Third party validated test results have been achieved with a thoroughly modern, light-weight, high efficiency vehicle from Wrightbus, indicating on-going opportunities to provide the sector with a low-cost route to reduced emissions and substantially lower operating costs."

"Winning such a prestigious award shows that there is real faith in the commercial potential of our purely-mechanical hybridisation system for heavy vehicle applications, and that by making hybridisation more accessible and affordable, we can make a real impact on fleet emissions and running costs," continued Deering. "We hope that this will raise awareness of our technology, and help us expand our reach more firmly into international markets."

<http://www.torotrak.com/news/2014/11/torotrak-win-smmt-award/>

We have home-grown Australian manufacturers that are also at the forefront of motor sport technology. The AAAA Performance Racing and Tuning Council (PRTC) has a number of members that rank highly in the global industry for motor sport technology and innovation including Turbosmart NSW.



Case Study

Moving up the Value Chain

Turbosmart
Croydon, NSW
www.turbosmart.com.au

Turbosmart's core range consisted of only two products when CEO Nic Cooper began manufacturing performance products in 1997, with a great amount of effort put into the product design and manufacturing process. Being more handcrafted than mass-produced, Turbosmart products quickly gained acceptance within the performance community for their quality, performance and reliability.

Over the years the company has moved considerably up the value chain through diversification and is now a market leader in boost control and fuel management with more than 600 products in the range and exports to every continent. Turbosmart blow-off valves, wastegates, boost-controllers, fuel pressure regulators and other products are still designed and manufactured in Sydney using the same tried and proven formula of innovative design, strict quality control and rigorous testing.

Turbosmart opened its California based operation, Turbosmart USA, in 2007 and with the trusted expertise from Vice President Marty Staggs they have developed a successful business model with their products now distributed by more than 200 companies in North America including Summit Racing/Atech Motorsport, Mopac, Turn14, Motovicity, Motorstate, NAPA Auto Parts and Amazon.

With this experience the management team recognised a void in the Australian industry that their experience and resources could help fill. They began offering services to other Australian aftermarket companies looking to penetrate and gain market share in North America's automotive market and their latest venture, 3pConnect, was born.

Also based in California, 3pConnect is a third-party logistics services and consulting company offering a comprehensive range of services to automotive performance product manufacturers. The outsourcing of logistics is a proven and effective method for companies looking to expand their reach and capabilities with minimal investment.

The group of companies 3pConnect currently service include Redranger, Penrite, Davies Craig and Aftermarket Industries. These companies benefit significantly because the group provides discounted and flexible marketing programs and compounded media exposure, which is extremely helpful for brand awareness, freight consolidation, sharing customers and contacts, product support and more.

Turbosmart strongly believe that should the right policy mechanisms be in place to assist greater diversification, significant growth is assured. They have a range of products with strong export potential still in concept stage, and there is significant potential for their products in the UK and Western Europe. If they were in a position to fully maximise these new opportunities, strong investment in R&D, plant and equipment and human resources would follow.

The UK does have an advantage in this market: A significant number of European F1 Teams are based in the UK. However, we have a significant advantage in our region because we have an historical record of racing teams, drivers and crew. Our technology also has a world class reputation, but we undersell this in Australia. This is an automotive segment that is not PMV dependent and could be an effective base from which to build a physical and virtual cluster. An exploratory visit to Silverstone Park in the UK may be a good use of time and effort to explore what could be done if we had the funds and the imagination – we already have the experience, the skill and the desire. The UK government values this segment and has undertaken a number of studies to understand the economic contribution and direct/indirect benefits:

Highlights from the 2013 Review of UK Motorsport Valley Business Cluster

A 'jewel in the crown' of UK engineering...

Growing, investing in R&D, exporting, and attracting investment

- In 2012, the UK motorsport engineering and services industry had a turnover of £9 billion, nearly doubling sales from £4.6 billion in 2000². Some 4300 businesses employed 41,000 people, compared to 38,500 in 2000.
- The UK motorsport industry remains healthy. Following a recessionary dip, motorsport companies have enjoyed continuous sales growth between 2009 and 2012, reaching the highest level of sales in its history. Whilst employment growth has been modest, growing sales turnover has delivered an increase in productivity.
- The industry has strong focus on research and development (R&D) with 15% of all firms surveyed spending more than 25% of their annual sales on R&D.
- The industry has a strong international flavour: 87% of firms export their products or services, and 55% are confident exports will increase during the next five years. Amongst companies who declared that motorsport accounted for over 50% of their sales, exports grew from 25% of sales in 2006 to 34% in 2012.
- Nearly 90% of the total £9 billion of sales is earned by companies who generate more than 50% of their sales from 'motorsport'.

Recommendation Three: Explore the Establishment of an Australian Motor Sport/Performance Parts Cluster

Australia has a significant record in the design, engineering and manufacture of Performance Racing and Motor Sport technologies and components, and yet we have not focussed our efforts on this sector due to an over-emphasis on the (now departing) car makers. We also need to better understand how to leverage motor sport into motor sport manufacturing. It is recommended that as a first step that there should be an exploratory tour to Silverstone Park to be undertaken with multiple industry, industry association and government/Senate representatives. The economic study recommended earlier in this document should also seek to fully understand the breadth and depth of this segment of the automotive industry.

The screenshot shows the Silverstone Park website. At the top, there is a navigation menu with links: HOME, VISION SILVERSTONE, SILVERSTONE PARK TODAY, AVAILABILITY, BUSINESS OPPORTUNITIES, MEDIA, and CONTACT US. Below the navigation is a large red banner with a map of the Silverstone region. The map is overlaid with a grid of red squares, indicating a high concentration of businesses. The banner text reads: "HIGH-PERFORMANCE TECHNOLOGY & MOTORSPORT CLUSTER".

Below the banner, there is a breadcrumb trail: "BACK TO: VISION SILVERSTONE / HIGH-PERFORMANCE TECHNOLOGY & MOTORSPORT CLUSTER".

The main content area features a headline: "Silverstone Park lies at the heart of a world-leading cluster of high-performance technology and motorsport businesses." This is followed by two paragraphs of text:

There is an extraordinary concentration of talent, including eight of the 11 F1 constructor teams and many supply chain companies that serve the motorsport industry and apply their skills and expertise to other precision engineering sectors.

In 2013, motorsport contributed around £9 billion* to the UK economy, with around £1 billion invested back in R&D.

If your company is looking to enter or expand in this sector then Silverstone Park provides an unprecedented opportunity to join a growing community of likeminded people where the supply chain and skills pool is local and the business opportunities are global.

*Motorsport Industry Association 9/01/2014

On the right side of the page, there is a contact section: "FOR FURTHER INFORMATION ABOUT THE HIGH PERFORMANCE TECHNOLOGY CLUSTER, CONTACT:" followed by a photo of Roz Bird and her contact details: "Contact Roz Bird 01327 856000".

At the bottom of the page, there is a footer with the text: "Designed & Produced by HMA Digital Marketing", "Privacy policy | Cookie policy | Sitemap | © Copyright MEPC 2015", and the MEPC logo.

4. Government Programs

The argument that the car industry does not have a future and therefore there is no reason to continue formal automotive structural adjustment ignores the economic loss that will occur in any restructure process. Labour and capital will not flow smoothly to other productive areas of the economy without significant loss and assets and capital will be stranded during the adjustment process. A realignment of program support could enable the aftermarket to be more effective at absorbing displaced OE resources. A re-orientated incentive structure for the entire automotive manufacturing sector will, on the one hand, encourage diversification by the OE segment into the aftermarket, and on the other hand, position the aftermarket for growth, so that the resources of the OE segment can flow more easily into the sustainable and growing aftermarket segment.

It is time to start a genuine conversation about expanding the eligibility and the focus of automotive assistance to embrace the aftermarket, specifically in the areas of bringing new products to market (innovation and commercialisation) and in export market access. It is very important that we reiterate that we are not asking for support of an industry that does not have a future.

4.1 Automotive Transformation Scheme

The setting of industry policy for the automotive industry is one of the few areas of public policy which has had a consistent theme sustained by successive governments over a period of decades. In the mid-1980s tariffs on imported vehicles and PMV OE components were set at 57.5%. Over the ensuing decades, tariffs have been gradually reduced to a point where the average tariff now rests at 3.5%.

As quid-pro-quo for opening up Australia's borders to ever increasing import penetration, the Australian passenger motor vehicle manufacturers and their OE supply base have been receiving various kinds of "transitional assistance". The more notable forms of assistance include the Duty Free By-law (DFA); the Export Facilitation Scheme (EFS); The Automotive and Competitiveness Scheme (ACIS) and since 2011, the Automotive Transformation Scheme (ATS).

What is now clear is that the trends towards global platforms, global engineering centres and regional purchasing has meant that the Australian landscape can no longer sustain global platform passenger vehicle production. Hence, a central premise about the intended end-point for this three decade-long policy process is in serious doubt and it is now time for government policy to break with the past and re-define the intended transitional end game for the Australian PMV/OE supply chain.

Now that policy makers can see that the expected and intended end point for the industry will most likely not be reached (i.e. an auto supply chain that can be sustained by domestic and export volumes), it is time to look at the automotive industry in a far broader sense than has traditionally been the case to pave the way for a transition by the industry to deliver a sustainable future.

In short, the aftermarket and PMV OE sectors, if considered together in the policy making process, can leverage their respective capabilities and performance potential.

On the one hand the aftermarket has made progress in accessing growing speciality component markets, both domestically and globally, as well as being successful in accessing new non-automotive markets such as rail, mining, defence and marine. It is poised to act as a catalyst for diversification for the wider automotive industry, but will need to grow and improve efficiency and innovation to realise full potential. While on the other hand the PMV OE segment which needs urgent access to diversification opportunities, can provide the much needed workforce skills, R&D capability, intellectual property, quality systems and knowledge of OEM product development and validation process, to help the aftermarket segment to overcome supply side constraints. Clearly then, policy settings which seek to maximise these synergies between the two sectors will produce win-win outcomes for the sustainability of the sector as a whole, and minimise the displacement of the workforce and other resources within the industry.

Even though the aftermarket segment has reasonable profitability our industry is still critically aware of the need to further improve productivity, to invest in capital deepening, plant and equipment and to continue to innovate and undertake research and development to push production further up the value chain.

The centrepiece scheme to support investment and innovation of the PMV OE supply chain is the ATS. The Automotive Transformation Scheme is currently undersubscribed relative to its annual budget and with continuing reductions in volumes this trend is set to continue. As a result, there is government intent to shorten the life of this scheme and remove funding from the ATS budget. However, given what we know of the breadth of this industry there is scope to maintain funding at the current levels and open up the program to other automotive component producers without necessarily disadvantaging the amount of funding available to existing program beneficiaries.

Recommendation Four: ATS

That as an aid to the structural adjustment imperative facing the industry, the Automotive Transformation Scheme be extended to include aftermarket component producers, to assist this sector to grow and innovate at a more rapid pace, thereby improving its capacity to absorb displaced resources from the OE supply chain.

5 Export Development

There are commentators including the Productivity Commission that would argue that the automotive aftermarket can access existing government programs such as EMDG (Export Market Development Grants) for market access. The EMDG does offer very good support but the scheme has both a cap on the amount to be claimed, and a sunset period after which no claims can be made.

Export Market Development Grants have been a useful scheme for AAAA members. These grants provide an opportunity to recover up to 50% of the cost of export promotional costs, which provides a crucial offset to the cost of establishing new offshore markets.

The Export Market Development Grants (EMDG) scheme is a key Australian Government financial assistance program for aspiring and current exporters. Administered by Austrade, the scheme supports a wide range of industry sectors and products, including inbound tourism and the export of intellectual property and know-how outside Australia.

The EMDG scheme:

- encourages small and medium sized Australian businesses to develop export markets
- reimburses up to 50% of eligible export promotion expenses above \$5,000 provided that the total expenses are at least \$15,000
- provides up to eight (8) grants to each [eligible applicant](#).

EMDG has been extensively patronised and highly valued by many of our members, however, most of our manufacturing members are experienced exporters and as a result are no longer eligible to claim.

In our view expanding the EMDG, an existing well designed program, for priority sector recipients (such as the non-PMV automotive sector) could have real and measurable results. The current limit on the number of claims (6 claims for established markets and 8 claims for non-established markets) could be modified to allow a further round of up to 8 claims to specifically increase international exposure for aftermarket and performance enhancement manufacturers.

Recommendation Five: EMDG

It is recommended that as an addition to investing in automotive specific programs such as ATS, expansion of the current EMDG scheme by altering the thresholds for automotive producers would specifically address our manufacturing companies that have exhausted the number of allowable claims, and allow them to be re-eligible for assistance to expand into new export markets.

Concluding Remarks

This is the beginning of a dialogue and we would be pleased to meet with Senate Standing Committee members at the Melbourne Public Hearing to discuss these ideas in more detail. In the motor sport/performance racing industry there is already a high level of agreement and it would be interesting to flesh out some fresh ideas in either a formal or an informal setting. We would also be pleased to assist and facilitate the Committee if the Senators could see value in meeting with any of our member companies, or visiting any manufacturing or R&D facilities.

We are grateful for the opportunity to respond and we look forward to ongoing discussions with you.

List of Automotive Aftermarket Products in the Australian Market

4WD accessories, replacement parts, off road performance parts, suspension kits and recovery gear.
ABS controllers
Adhesives
Adjustment push rods
Air compressors
Air conditioning (HVAC) parts and consumables
Air flow sensors
Air intake systems
Air jacks
Air mass meters
Air snorkels
Alignment parts
Axle and differential parts
Battery chargers, accessories and booster causes.
Bearing kits
Blind spot detection
Body kits
Body repair consumables, panels and parts
Bonnet protectors
Boost controllers
Brake consumables including brake fluids and coolants
Brake fluid testers
Brakes, brake hardware and brake accessories including hydraulics, rotors, hoses, cylinders, calipers, meters, pads and shoes.
Bushes and shackles
Cables
Canopies
Car care products, including environmentally friendly products
Cargo barriers
Charge air coolers

Chemicals, coolants, fuel additives, cleaning agents and abrasive products, oils and lubricants.
Child safety harnesses
Climate controllers
Close ratio gear sets
Clutch parts and tools, including brakes, buttons, covers, diaphragms, discs, facings, forks, kits, levers, adjustment and alignment tools and grease.
Compressors
Concentric Slave Cylinders
Cooling and radiator system parts and consumables
Covers
Crown Wheel & Pinion Sets
Cruise controllers devices, enclosures, circuit protection, tools, sprays, relays,
Diagnostic and dynamometer equipment
Diesel conditioner
Differential and gearbox components
Distributors, crank angle sensors, modules, coils, pick up
Dowel pins and pullers
Drainers and extractors
Driveline products
Driveshaft components
DTS 4WD diesel turbo kits
Electric fans
Electric water pumps
Electrical alternators, consumables and accessories
Electrical hardware
Electronic Rust Proofing Systems.
Electronics including entertainment systems, GPS,

parking sensors, reverse cameras and alarms.
Engine management
Engine parts, reconditioning, cooling hoses, ECM, ECU, bearings, gaskets and management.
Exhaust filters, performance and replacement parts
Exterior accessories including window visors
Filters, gauges and other instruments
Fluid Power Flush, Brake Bleeders, Drum Trolleys, Drum
Flywheels and flywheel retaining bolts
Fuel caps, cans and funnels
Fuel injection, system valves, gauges and cooling.
Fuel pressure regulators
Fuel pumps
Gear hobbing, gear generating, shot peening
Hard Parts, Restoration Parts, Rubber Products, Steering
Hard tops
Headlight Guards
Heat Exchangers
Hose clamps
Hose reels
Hose-engine/cooling
Idle speed motors
In-vehicle safety products
Injector cleaner
Instrument clusters
Intercoolers
Interior accessories including dash mats, seat covers, sun screens.
Jacks, trolley jacks, ramps and stands
Kits and ancillary equipment

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| Lamps and lighting, including warning lighting, lamps, accessories and parts | Power-train control modules | Thrust Bearings |
| Level Meters, Oil Cans, Jugs & Bottles, Auto Transmission Load restraints | Primers | Tie-downs |
| Machinery Fan Drives & Engine Drive Couplings. | Protection bars including bullbars (Vehicle Frontal Protection Systems) arc bars, nudge bars and winchbars | Tools |
| Manual Oil Dispensing Nozzles, Oil Storage Tanks | Race harnesses | Torsion bars |
| Manuals and instructional DVDs | Racks | Towing equipment and trailer parts including safety nets, trade racks, towbars |
| Mass air flow sensors | Radiators and radiator parts | Trailer parts |
| Mobile Oil Distribution Kits | Ramps and stands | Trailer parts |
| Mobile phone hands free (Bluetooth) | Recovery equipment | Transfer case |
| Modified paints | Remanufactured parts | Transmission parts, controllers and consumables including oil coolers and magnetic filters. |
| Modules/chips, thermal heat blanketing, petrol performance | Restoration parts | Trim |
| Motorsport components including gearboxes and differentials for rally, transmissions and race fuel | Ring gears | Trolley jacks |
| Mounted transfer kits | Roof racks | TTY head bolts |
| Oils and lubricants, oil coolers, pumps, seal and stabiliser. | Rubber products | Turbocharger systems, including diesel and cooler/radiator systems |
| Operated grease guns, grease nipples and grease | Rust treatments and sealants | Tyres and tyre accessories and equipment, including inflators, gauges, repair kits and sealant. |
| Paint and refinish products | Safety apparel | Universal joints |
| Panhard rods | Seats, seat covers, seat belts and occupant restraint systems | Vacuum units |
| Performance parts, accessories and other products including brakes, steering, motor sport components, turbo and blow-off valves. | Shackles | Vehicle lights, lamps, fuses and beams |
| Pilot bearings and bushes | Shock absorbers | Vehicle safety flags |
| Pivot balls | Side steps | Wastegates |
| Pneumatic oil dispensers | Spill containment pallets | Water pumps |
| Polyurethane bushes | Sports bars | Wheel accessories |
| Portable battery systems | Springs | Wheel parts |
| Power inverters | Starter motors and alternators | Wheels |
| Power sockets | Steering dampers | Window visors |
| | Steering parts including steering wheels | Wiper blades, arms and refills |
| | Steering rack boots | Wiring harnesses |
| | Struts coil, spring leaf springs | Wiring protection and plugs |
| | Suspension enhancement and replacement parts, including shocks and springs | Workshop diagnostic equipment |
| | Swaybars | Workshop equipment and tools |
| | Switches | Workshop lights and lamps |
| | Telematics and vehicle tracking | |
| | Test and repair equipment and processes | |

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Australian Automotive Aftermarket Association
Serving the automotive parts, accessories, tools & equipment industry in Australia since 1980.