



Mr Andrew Laming MP
Chair
Joint Select Committee on the Australia Fund Establishment
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Dear Mr Laming

The Australia Fund Establishment Inquiry

The Federation of Automotive Products Manufacturers (FAPM) is the association for manufacturers engaged in the production of a comprehensive range of automotive products. It was formed in 1958 and currently consists of more than 100 member companies ranging from multinational brand name suppliers to small to medium Australian enterprises.

The objectives of the FAPM include promoting the interests and welfare of the automotive components industry, to encourage and support government policies which support the operation of a large and diverse industry and to advance the development in Australia of an increasingly efficient, manufacturing industry.

The FAPM welcomes the Joint Select Committee Inquiry on the Australia Fund Establishment and the opportunity to make a submission.

The FAPM believes that the onus for driving growth and sustainability in rural and manufacturing industries rests with industry however in light of the current climate, there is a substantial role for government in providing a policy environment that does not disadvantage Australian industry against global competitors.

As a result, the FAPM supports the establishment of an Australia Fund that invests in rural and manufacturing industries.

The Australian automotive supply chain is diverse and dispersed across Australia with manufacturing facilities in non metropolitan areas such as Ballarat and Shepparton. All FAPM members will be affected by the transition of the industry however arguably those in non metropolitan areas moreso than others. In any case, the decline of volume vehicle manufacturing is a manufacturing disaster for Australia.

Ford Australia, GM Holden and Toyota Motor Corporation of Australia are still represented in the top 25 manufacturers in Australia¹ and the industry still represents near \$5.4 billion to the Australian economy annually, generating 45,000 FTE positions with a supply chain value add of \$3.2 billion.²

The FAPM recognises automotive manufacturing will significantly decline with the cessation of operations by the Motor Vehicle Producers (MVPs) in 2018. As a result, FAPM members are pursuing opportunities of diversification and globalisation in both automotive and non-automotive manufacturing and the FAPM has made submissions on the future of the Automotive Transformation Scheme (ATS) to secure a long-term future for firms and employees in the automotive industry.

Australia is a mature automotive market with advanced capability in design, development, prototyping, production and manufacture of vehicles. Nearly one hundred years of embedded

¹ Top 100 Manufacturers in Australia, Manufacturers Monthly, December 2014, page 20-21

² FAPM Productivity Commission Submission, November 2013

knowledge will be lost without appropriate regulatory support to ensure competitiveness and securitisation of local engineering, design and production capability.

The Australia Fund can support supply chain firms to transition to new industries and new markets through initiatives such as the following:

Engineering, Design and Services

Support for advanced design, engineering services and automotive related consultancy. This secures operations such as Ford Engineering and opens up domestic expertise and capacity to South East Asia and developing automotive manufacturing countries seeking Australian design and development capability.

Aftermarket manufacturing in automotive

Support for production of aftermarket components, after-sales production and advanced manufacturing where that manufacturing is based on automotive principles. This would unite the automotive original equipment and aftermarket manufacturers and promote collaboration between companies as well as improve competitiveness customisation and aftermarket industries in a growing South East Asia.

Investment in niche MVPs

New investment is required to secure high skill, high wage automotive jobs in Australia. The global vehicle manufacturers and their associated supply chains invest significant resources into safety, environmental and consumer touch-points to compete globally.

The loss of the current MVPs could be replaced with niche MVPs with a global outlook to maintain local automotive innovation.

Australia offers a strong business case within the Asia-Pacific region to attract additional niche market MVPs, especially as Asian countries advance their economic status. In addition to the suite of existing capabilities and structures to support automotive production, the Australian market is attractive in its own right, with new vehicle sales of more than 1 million units annually.

The FAPM believes the concept of a 'game changing' initiative for the industry needs to be incorporated into future policy settings. This would create the circumstances for potential investment attraction programs around organisations such as:

- Tesla – high end performance electric vehicles which will be targeting the Asia-Pacific region
- Contract manufacturers such as Magna Steyr and Valmet Automotive, who specialise in mixed and flexible production runs suited to the fragmented Australian market
- Mahindra Reva – The Indian EV manufacturer promoting a franchise manufacturing model with a maximum annual capacity of 30,000 units per plant.

This is significantly increased with an MVP that is developing global leading technology such as electric or fuel-cell vehicles which will stimulate further technology development locally.

Investment in supply chain technology development

Despite falling production volumes, the automotive industry remains the largest contributor to Australian manufacturing R&D. This reflects the advanced technology requirements to deliver vehicles in a global market. The sector accounted for \$694 million expenditure in R&D in 2011-12, which equated to 15% of total manufacturing expenditure on R&D.

In addition, the range of advanced capabilities and R&D opportunities within the supply chain was highlighted in the 2010 roadmap study into industry capabilities, 2020 Automotive Australia

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(AA2020). This resulted from collaborations between component producers, non-automotive producers, MVPs and various research institutions.

AA2020 validated the range of advanced world-class capabilities within our industry and identified four key long-term priority areas to support the future technology needs. These are:

- Vehicle electrification - hybrid and EV components ranging from high energy density batteries, electric powertrains, electric motors and supercapacitors
- Light weighting – opportunities for Australian industry to include lightweight body panels, road wheels, steel alternatives, composite seats and interior structures
- Gaseous fuels – technologies including LPG direct injection, fast fill platforms and high capacity storage tanks
- Data and Communication – reflecting the increased availability of in-vehicle information systems such as by-wire systems. The major applications are in improved human-machine interfaces and driver information systems.

The AA2020 roadmap demonstrated the range of advanced technology capabilities within Australian industry which can be competitive on a world-scale. The study provided a platform to identify opportunities for the industry to contribute to the technologies of tomorrow and reinforced the broader value of the automotive industry in driving development of the world's leading technologies.

Global automotive trade taskforce

The pursuit of niche MVPs and supplier development requires a substantial, industry-wide effort in securing global customers, developing business cases and identifying areas of competitive advantage. Originally recommended in the Bracks Automotive Industry Review (2008), a "Team Australia Automotive" approach to exposing the local industry in international discussions is required.

An industry wide approach would require coordination from a central body and policy investment for collaboration between companies that advantages local supplier companies without hindering operating and competition practices.

As a result, a government in liaison with the industry supporting a coordinated team of dedicated automotive subject-matter experts and experienced business development executives would present a united Australian automotive capability amongst the portfolio of components and technologies accessible to global players.

Global integration of engineering capability

In addition to a specific automotive trade taskforce, substantial investment in exposing local engineers to global OEMs allows the Australian industry the best chance of securing global contracts. The FAPM recommends investment in a global exchange of engineers by introducing cost of living incentives to attract globally recognised engineers to Australia.

This could be through subsidised tax and living costs initiatives and access to higher education positions. Ideally, a stand-out engineer would intern locally for a period of three years and in return be a candidate for higher qualifications. The benefit would be knowledge built within the local industry that would be returned to other markets.

In exchange, a similar program could be implemented with trading partners whereby exported engineers would be afforded travel and living cost subsidies and be placed within global OEMs.

The benefit to the industry and country would be an exposure to global best practices that would be implemented within local companies on return.

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The FAPM have previously made these recommendations to the Senate Economics Committee Inquiry in the Automotive Transformation Scheme (ATS) however believe an Australia Fund would also be able to contribute to the transformation of the industry.

We welcome the opportunity to explore this further and can make ourselves available for the Joint Select Committee as the inquiry proceeds.

With Regards,

Richard Reilly
Chief Executive