



COMMONWEALTH OF AUSTRALIA

# Proof Committee Hansard

## SENATE

ECONOMICS REFERENCES COMMITTEE

**Future of Australia's automotive industry**

(Public)

THURSDAY, 8 OCTOBER 2015

MELBOURNE

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## **SENATE**

### **ECONOMICS REFERENCES COMMITTEE**

**Thursday, 8 October 2015**

**Members in attendance:** Senators Bushby, Kim Carr, Muir, Rice.

#### **Terms of Reference for the Inquiry:**

To inquire into and report on:

The future of Australia's automotive industry, with particular reference to:

- a. maintaining the capacity for Australia to engage in advanced manufacturing, by ensuring skills and industrial capabilities that have been sustained by the automotive industry are not lost;
- b. reducing Australia's dependency on commodity exports by diversifying the country's economic base, noting the importance of advanced manufacturing, including the automotive industry, in this diversification;
- c. the role of all sectors of the automotive industry, including, but not limited to, motor vehicle production, component making, after-market manufacturing, engineering, servicing, retail motor trades, other forms of sales support, and the training of apprentices, in supporting an advanced broad-based economy;
- d. the special difficulties faced by component makers in the transition to global supply chains and to other forms of manufacturing, especially as a result of the closure announcements made by the motor vehicle producers;
- e. new technologies influencing the automotive industry, both in Australia and internationally, especially new and developing forms of propulsion, such as hydrogen, electric engines and hybrid engines;
- f. new business models for the industry, including employee share models and attracting international venture capital and private investment;
- g. the possible effects of early closure of motor vehicle producers, including risks and consequences for the industry, skills, capabilities and the broader economy, including social consequences, and what policy actions could mitigate or exacerbate these risks and consequences;
- h. the need to synthesise and consolidate the findings, recommendations and knowledge of other reviews and inquiries pertinent to the automotive industry, in order to identify key policy inconsistencies, regulatory burdens and factors for growth and investment;
- i. the importance of long-term, stable employment for workers in the automotive industry, and the need for greater access to transitional training and career opportunities; and
- j. any other related matters.

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**MOIR, Mr Stephen, Chief Executive Officer, Motor Trade Association of Western Australia**

**PATTEN, Mr Gregory, Chief Executive Officer, Motor Traders' Association of New South Wales; Motor Trades Association of Australia**

**UNERKOV, Mr Paul, Chief Executive Officer, Motor Trade Association of South Australia**

**Subcommittee met at 13:10**

**CHAIR (Senator Kim Carr):** I declare open this hearing of the Senate Economics References Committee's inquiry into the future of Australia's automotive industry. The Senate referred this inquiry to the committee on 25 November 2014 for report by the first day of sitting in November 2015. The committee has received 34 submissions so far, which are available on the committee's website.

These are public proceedings, although the committee may determine or agree to a request to have evidence heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of the evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the grounds upon which the objection is taken, and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may also be made at any other time. Would anyone like to make a very brief opening statement, given there are six witnesses?

**Mr Dudley:** Very briefly, yes, thank you. Since we last had the opportunity to discuss the auto inquiry with this committee, the Motor Trades Association of Australia conducted a summit for the Australian automotive industry in Canberra on 19 and 20 August. That summit was highly successful in achieving three outcomes, those being gathering the industry supply chain together in one venue at the one time, successfully identifying a range of key issues across each supply chain and starting work on how to potentially address some of those issues that were discussed as well.

Since that time, MTAA has taken the initiative on one of the outcomes of that summit, and that is to bring together an automotive task force. The purpose of the task force is to take on board the agreed outcomes from that summit, which were distributed to participants in the form of a communique that is available on the MTAA website, and to focus attention on those key issues.

Whilst we understand the committee's work to date on the manufacturing and component-manufacturing side, again we state that the real issues, as far as the Motor Trades Association and its members are concerned, are the ongoing issues and the structural adjustment that is occurring across the rest of the supply chain. Those sectors include, but are not exclusive to, the service, retail, repair, recycling and associated sectors of the Australian automotive industry. Our final submission to this inquiry will be presented next week after it has been endorsed by the MTAA Ltd board, and obviously we will bring that to the attention of the secretariat.

With that, I also would like to record the thanks of the association and its members for the committee and its time this morning in visiting a number of businesses. We know what a significant call that is on the committee, and we appreciate the opportunity that the committee gave us by undertaking that task.

**CHAIR:** On behalf of the committee, might I ask you to pass on to various members our thanks for the hospitality that has been shown to us today. Is there anyone else that would like to make an opening statement? No? That is good. Could I begin with the summit, Mr Dudley, that you mentioned. I thank you for the invitation to appear at that summit. It was an unusual environment for all of us, I suspect, given the range of people that were there and the way in which the political systems had to interact. Having had such a successful summit, can you now outline to the committee what you think government and the parliament should do in policy work to assist the development of the industry.

**Mr Dudley:** Very briefly, there was a clear indication—and a bipartisan one, if I read the commentary from all sides of the political spectrum who were present at the summit—that there needs to be a united voice of industry in dealing with the macro issues, if I can put it like that, facing the automotive industry as it transitions across the board into new environments. MTAA welcomes that bipartisan approach, and we would be seeking

that that be formalised in some way, through either an automotive advisory council or some other form of body that would be the go-to entity that is representative of the automotive supply chain, to deal with those issues that were unbundled at the summit—that is, taxation, infrastructure, skills training and development, and those sorts of areas.

We would welcome also consideration given to greater coordination across government portfolios, along the same lines. It is recognised that the automotive industry is somewhat fragmented at times. It has been equally demonstrated that there is probably a need for greater coordination of the government's efforts from a policy perspective across various portfolios. Somehow that should be considered as well, in terms how that might be best accommodated in a new operating environment. Whether it is part of an advisory council or whether it runs parallel to the advisory council, we think there is a strong need for that coordination across government and the advice that the parliament is receiving. Equally, we are seeking for parliament to recognise the support requirements for skills training and development, and that industry should lead that skills training and development. Unashamedly, the Motor Trades Association and its members believe that they are well placed to take a look at those critical and urgent issues of making sure that we have the skills, training and development opportunities for the near future. But work has to start on that now. There are a range of other issues which will be covered off in the submission and also covered off in other correspondence to the Senate committee.

**CHAIR:** Can I take you to that issue of policies that affect the whole industry. I concur with your assessment that we are predominantly concerned about the manufacturing side of the business as a committee, although there are other issues. There has been a great deal of emphasis on the manufacturing side, and with me that remains the case. The question, though, is how do we find a form of policy approach given the diversity of the industry, the scale of that diversity, the types of businesses involved and the activities that they are involved in? How do we get an approach to industry that covers that range of activities?

**Mr Dudley:** It is very difficult. It is recognised that, because we are a somewhat fragmented industry at the best of times, there will be differing views on how to tackle those issues, but we are already living through the alternative, and that is a fairly ad hoc and piecemeal approach to policy as it may or may not impact the automotive industry, whether it be by way of taxation, potential decisions on imports and those sorts of issues. We have to look for an alternative. Clearly the summit illustrated that there was a need for a more coordinated and consistent approach, and we would argue that it is the responsibility of both industry and government. How we would go about that is to use that advisory council to bring those issues of policy which may have an impact on automotive or road transport into that area.

**CHAIR:** Let's take one of the key areas that you are interested in that would find the general agreement of this committee: the issue of training. There was already in place an industry coordinating body up until quite recently. What has happened to that?

**Mr Gwilym:** There was a body and there still is a body that represents the automotive industry on a national level in terms of its development of competency standards and training packages. Those organisations and those skills councils do not affect training delivery. They are not funded to deliver any training. They are funded to develop standards. Some of the skills councils were involved in the national mentoring program for industry—a fantastic and highly successful program that helped enormously with apprenticeship retention—

**CHAIR:** Are you going to tell us what has happened to that?

**Mr Gwilym:** I am coming to that. It was a fantastic and highly successful program that helped enormously in terms of apprenticeship retention and promotion of traditional trades in particular. The current government has seen fit to roll that into the apprenticeships centre program. Our view is that that will not provide the outcomes that we need. We had before an industry driven program through the associations that could reach directly into industry to promote automotive careers and apprenticeships and to support students. The rates of success in retention were tenfold what they were before that program. We told government that that was the outcome and reported it; however, for some reason unbeknownst to me that program has now been rolled into the apprenticeship centres. We expect the outcome to that to be poor. It will not be facilitated by automotive people; it will be facilitated, potentially, by people who are selling cake decorating in the morning, welding at lunchtime and underwater spaghetti knitting in the afternoon.

**CHAIR:** Thank you. Mr Moyer, did you want to add anything to that?

**Mr Moir:** Yes. As chair of Auto Skills Australia I can say that, for the last two years, we have had a very focused form of development of skills profiles and sets for our industry. I do not think there has been a time in history when we have had such a good rate of success. There is very heavy industry involvement not only from the retail service sectors but also the truck industry and small motors, marine and bicycles. We are a truly

representative group. To see this now folded and put into a large industry group defies some logic to me on that basis.

In reference to the mentoring, in Western Australia's experience we had three mechanical trained people doing our mentoring. They were also qualified mentors. The success rate was well into high 80 per cent retention as opposed to the traditional 50 per cent, so it did have a very real effect on turning it around predominantly in the areas where a lot of these young people were suffering issues at home. The mentors were able to help them manage that plus the work-life process. So it is a big disappointment to the industry that we are losing Auto Skills Australia and that we will lose that relevance, particularly at a time when the industry is going through such a transformation in technology.

**Mr Dudley:** Just to add to that, while the vocational training system is meant to be industry led, the combined experience of the Motor Trades Association members is that industry rarely leads that. That is driven by funding opportunities for RTOs or other service providers, such as the Apprenticeships Support Services et cetera. The failure in the VET system is a loss to the industry and a particular concern to us at a moment when all sectors are transitioning in some way, shape or form—not just manufacturing. That is extremely important and we recognise that. There are opportunities to potentially shift some of those workers across to where we have skill shortages and also to the other sectors that are suffering skill shortages as well.

The industry has not been as effective as it could have been in promoting itself, because it consists mainly of small business, some of which you saw this morning, hence relying on its industry associations seated at this table. The image of the industry is perceived to be secondary to passenger vehicle manufacture and consisting of simple mechanics, which is far from reality nowadays. Despite the skills shortages, even if we are able to attract candidates for apprenticeships to fill vacancies, many of the applicants are over the age of 21 but are priced out of the market following the Fair Work Commission decision on apprentices.

We have a range of issues across this area and we have no time to deal with them, so we would be looking for government support and government intervention. Unfortunately, what we have seen to date is going to raise the bar at a time when we need much more focus.

**CHAIR:** Can I turn to another area in the broader policy questions, and that relates to insurance. This committee has heard evidence with regard to automated vehicles. There remain substantial policy questions around the issues of insurance, in terms of the future policy settings for the introduction of new technologies with regard to automation. Today we have also heard from some of your supplier members that there is a serious problem with the motor repair end of the industry about market abuse by the major insurance companies. Mr Patten, perhaps, would you advise us in terms of your direct experience: what is the pattern that is now emerging with regard to the insurance industry and its treatment of motor repairers?

**Mr Patten:** We have found that the industry, and the collision repair industry in particular, is a very diverse field. There are large controlling and influential insurance companies who now control the policy holders. They direct where the work goes and they also formulate agreements with some repairers so that individuals cannot compete in a fair and open marketplace to win work. We have found that part of the arrangements that are being put into place today, with that imbalance of the work available and the amount of demand for that work, allows the insurance companies to set unrealistic repair rates. That encourages a lot of small businesses to do work probably not at a professional and acceptable standard, but they need to do this to keep their doors open and to keep employing staff.

**CHAIR:** I am particularly concerned about the reports of unsafe vehicle repairs as a result of the practices pursued by the insurance companies. The use of second-hand and non-genuine parts was one of the matters that was raised today. Would you like to comment on the experience of your members in that field?

**Mr Patten:** I think in New South Wales it is probably not any different from any other of the states. We have found that to meet the criteria of staying with an insurance company to keep the work flowing in the door, some repairers agree to some very thin margins on the repair costs. Part of that is carrying out repairs to meet the dollars that they are being allowed to do the repairs, and therefore cutting costs.

In the modern-day technology, the older types of technique of stretching out chassis rails—of being able to pull them out straight again and those sorts of things—with the new materials weakens the materials, and they really need to be replaced. But to meet that dollar value of the repair cost, a few repairers might carry out the older technologies and older methods of repair. Therefore, once the vehicle is back on the road, those major components do not have the strength in them anymore.

We notice that with door skins, for instance. Instead of replacing a whole door shell that has an intrusion bar in it, if the car has been hit on the side and it has intrusion bars, the allowance might be to replace the door skin and

not the actual intrusion bar. And the use of non-genuine windscreens has always raised a question. The windscreens and the glass in the motor vehicles today are an integral part of the safety and strength of a motor vehicle. If you have a non-genuine windscreen you are not quite sure whether that will carry out its job in the case of a major accident down the track.

**CHAIR:** I put this question to anyone that is able to answer it. Having identified the problem, what is your recommendation with regard to policy changes that the Commonwealth can undertake?

**Mr Moir:** Perhaps I can answer that. I think that one of the areas we need to look at is the Australian Consumer Law and the potential to enforce a requirement for vehicles under a warranty system to have what is called OEM, or manufacturer parts, supplied as part of that repair—if we were able to get OEM parts put in as a mandatory thing for vehicles under warranty.

I think every consumer deserves to have their vehicle repaired to manufacturers' standard, and manufacturers' standard should mean manufacturer-genuine parts put into those vehicles. The use of second-hand parts is now becoming problematic in the industry. Most consumers would be amazed to find out that their vehicles have, in fact, been repaired using second-hand parts. One of the things that people do not seem to understand is that when a car has a frontal accident, for instance, there is a ripple effect right through the vehicle; so every panel can be affected with a severe front end. So it is simply taking off a rear guard that may not look damaged when, in fact, it could be fatigued and could be less safe. We need to look at the safety. It is about the consumer's right to have their vehicle repaired back to manufacturers' standard.

**Mr Unerkov:** In addition to my colleague's comments, we will be taking that issue up through the planned review of the act next year; I think it is scheduled for then. In addition, the MTAA and its member associations are very strong supporters of an effects test, which is currently being considered as part of the competition review. The reason is that an effects test would allow the examination of a market, such as the motor body repair industry, and the specificity of motor vehicle repairs in the context of the wider insurance industry. Some of the unbundling of that issue is only possible through an effects test.

That is just one example. In addition, we would like the committee to consider from a policy perspective whether other elements of government policy, which may or may not necessarily deal with issues of abuse of market power, should be strengthened; and whether the committee could be so empowered perhaps as to include in its recommendations from this inquiry that a separate inquiry be held into the motor vehicle body repair industry in this country, because the issues are nationwide. They are very complex and they are very difficult to unbundle.

The last issue is whether there is scope for another recommendation for some of the other issues which the committee has been informed on, such as access to repair information, which goes part and parcel with that repair industry and other elements of the automotive industry. And there is the issue of the use of telematics and data that is being produced by cars. That should also be the subject of further inquiries by the government, so that it can formulate some views as a precursor to arriving at policy positions on some of those issues.

**CHAIR:** Thank you very much. If there are any other matters that you want to canvass, there is still scope for us to receive supplementary material. I will leave that in your hands.

**Senator MUIR:** I did have a fair few questions around insurers, but we have gone down that path already. Is there any more information that you would like to shed on what is going on with insurers in the industry at the moment to maybe paint a picture for those listening and for the *Hansard*?

**Mr Gwilym:** I think there is an environment being created where the industry, the insurance part of the industry, is being dominated by a very small number of insurers, which is limiting choice in terms of who repairers work with. If you went back 20 or 30 years there might have been 40 insurers in the market and there were relationships between insurers and repairers. There seemed to be some level of harmony in the industry in terms of prices paid to repair vehicles, and, of course, the insurers and the body repairers could shop around.

It looks and appears that we are heading towards an environment of two or three dominant insurers in the market. That effectively reduces consumer choice, but it also limits the capacity for a body repairer to negotiate in a broad market in terms of how they undertake repairs on their vehicles and the price that needs to be paid for those repairs. I think market domination is a central issue and a major concern in the industry.

Talking to VACC members in Victoria, we have a lot of small- to medium-body repairers and they are in marginal businesses that are not earning any money. They are looking for somebody to help them, because they feel—and I will say genuinely—helpless in an environment where large multinational companies are the only place they can get paid to repair vehicles. They do not have a voice. They are unsure and they are not confident



that the customer, the person whose vehicle needs to be repaired, has real choice and is told that they have real choice of repair.

There are some major issues for us in this, and I think they sit right the middle of the future of the automotive industry—remembering that the automotive industry in Australia is four-fifths repair and service, one-fifth manufacturing. We respect our manufacturers; we love them. I am one person particularly who is very sad to see them go offshore, but four-fifths of the industry sit over here. We feel, at the VACC, that a large portion of those are being penalised in a market they actually have no control over whatsoever. It is a very serious issue.

**Senator MUIR:** You have probably led to a whole heap of questions I would like to ask. I will just go back to the insurers again. Taking into consideration the comments around the use of second-hand parts in repair jobs, does the insurers' market dominance lead to, perhaps, a customer's car being written-off when it was probably unnecessary to do so?

**Mr Gwilym:** I think the challenge for us is where you have large insurers that are vertically integrated, from owning organisations that supply used parts through to working with independent repairers and then running their own—or certainly in joint ventures—repair shops. That is a very complicated and muddy scene and I think it allows for opportunities, as was mentioned earlier, for second-hand parts to be pushed through the industry. One of our repairers stated this morning that, when forced to use those parts, their view was that they were not fit for purpose.

Even though people can suggest that there is quality assurance in play, we would rather just have parts coming straight out of the manufacturer fitted to a car so that the person that gets into that car knows that it is a safe vehicle and, as mentioned by Mr Moir, repaired to the manufacturing standard for that vehicle that that vehicle was originally designed for. This is a really interesting point in the industry. The industry are not asking for anything abnormal. They are asking for the opportunity to repair people's cars properly and safely, and they feel that they are not able to do that in many cases.

**Mr Moir:** Perhaps if I can add some additional information: the majority of jurisdictions have two categories of insurance write-offs. You have what is called a repairable write-off, where a car is declared an economic loss but can be repaired, and a statutory write-off. New South Wales have amended theirs so they only have statutory write-offs and the result there—and I think Mr Patten will be able to support this—has been that the threshold has actually increased. So, with the repairable write-off category, it is clear that insurance companies are taking advantage of that to harvest parts.

**Senator MUIR:** This has led me to a million questions, although I know we do not have much time. Would that support a case for a bit more consistency between states?

**Mr Moir:** Absolutely. We need a national solution. There are problems with jurisdictional determination and, when it comes to national road safety, at an Australian level we should have the same standard running across all of these types of categories.

**Senator MUIR:** Thank you. Back to the insurers again, once upon a time, it was a good industry to get into. Young blokes wanted to get into it and I wanted to get into it. I had an XD Fairmont Ghia, I wanted to restore it, and what better way to save money than to actually be involved in the industry? Now the industry is seen as dying, and that is very much the perception that everybody is getting, because automotive manufacturing is leaving—although, as you have just pointed out, it is only one fifth of the actual industry. As far as attracting young people into the industry, what do you think could be done in this area?

**Mr Dudley:** I will take that first up, and my colleagues can join in. We need to promote career advice by industry and provide employers with incentives to invest in apprenticeships. By 2020, we will have a national fleet of 20 million vehicles. Our members' businesses will be those who continue to keep the nation moving with those 20-plus million vehicles. We have no plan B in this country, despite assertions to the contrary. There is no massive public transport infrastructure planned. There are no massive alternatives to our reliance on road transport planned. So it is here to stay, and it is here to stay for the medium to longer term. There will be varying service industries that are required—maybe not looking like they do today—to make sure that the nation and its reliance on road transport is assured. We need to engage in the development of training standards and training packages, and we need to do that yesterday, because the mechanic of today is not necessarily the one we need in five years time or even three years time. That is provided that the government, in its restructure of skills councils, does not destroy the structure that was developed to tackle some of these changes.

Training providers need to be more responsive, which requires government, both federal and state, to regulate and implement sanctions when training providers sort the system or fail to engage with industry, and we recognise that that has been an issue. We have already touched on the retention of apprentices. It can be successful; we have

proven that it can be successful. Also, we need to be able to unbundle those issues. Again, from a policy perspective, if this inquiry sees fit, it should be making some strong recommendations about the urgent need to hone in on the skills and training area and focus attention on that as a transitioning industry.

**Mr Moir:** Just bringing you back to something more fundamental, not only do we need to attract more young people into the industry; we need to attract a better qualified young person into the industry. The unfortunate reality is that our industry has been probably at the end of the line for vocational training. If you did not want to be a plumber or an electrician, you went down the line to the mechanic or the panel beater. But the reality going forward is that we are going to need young people with technical ability—the ability to do computer programming and the ability to pick up and diagnose. That is not the skill set that we currently have, so we need to get into the school system to find a way to encourage young people to take up that.

**Senator MUIR:** There will have to be strong support there for independent repairers that do not focus on just one manufacturer.

**Mr Moir:** Correct.

**Mr Dudley:** We envisage that there may be brand new businesses. Without appearing trite, there may be a new business for sensor identification and repair. Motor vehicles have hundreds of sensors on them now. There is an increasing reliance on satellite technology. There is an increasing reliance on computerisation and also on data and telematics. We know that there are emerging opportunities there—ones that we have no qualifications around from an automotive perspective, at this point of time, but could do so, given the level of support that we need to get it rolling.

**Mr Unerkov:** We talked about training and stuff, but I think that the one thing that we can do is stop talking about the automotive industry being dead. I am a really good example of it. I worked for a manufacturer for 23 years. I worked when they were a manufacturer and then spent another half a dozen years outside of that when they became an importer. I did not know about the retail service and repair industry. My knowledge of the retail service and repair industry stopped at the dealer level.

**CHAIR:** Also, we should stop talking about the death of manufacturing firms, because there will still be hundreds of manufacturing firms.

**Senator BUSHBY:** I am interested particularly in the insurance side of things, and I note from your recommendations that maybe there is a need for a separate inquiry, and I suspect that you may well be right on that and that we are not going to solve the problems of the insurance industry here today. But most of the solutions you threw up related to market power and competition, which certainly needs to be looked at. Do you think there are solutions also more in terms of the insurance regulation side of things? Is there a problem with the way that works?

**Mr Dudley:** I think those would need to be considered as part of a separate inquiry. We are very conscious, and we actually applaud government's efforts to reduce red tape and to remove regulation wherever possible. But there is a time and a place for regulation as well, particularly when it is to address specific issues, and we are not sure that the actual regulatory environment is right.

**Senator BUSHBY:** Maybe there will be an opportunity to explore that later down the track. You talked about the used parts. What about the market power that currently exists with OEM parts? You often hear that a large part of a new car retailer's profits come from spare parts and retail, which suggests to me that there is not a lot of competition. If you are only going to go to a particular car manufacturer for replacement panels or intrusion bars or whatever it might be, they have an absolute captive market in terms of what they can sell. There is an argument that using safe second-hand parts may actually help keep its prices down. I am not advocating for that, but how do you actually deal with the ability of OEM manufacturers to ask for whatever they want and then just blow the cost out anyway?

**Mr Dudley:** You are right. That is a consideration. But the problem we have is that if you take a particular model that is retailed in this country that is in the small-car category there are up to seven front-quarter panels available worldwide for that particular car. Only one panel meets Australian design standards and the standards of the manufacturer. And it is recognised by my colleagues in our industry and the motor body repair industry that the very same factory that is producing the genuine part that is coming out the front door may also be producing the replica part going out the back door. So, there is an issue. If it can be shown that there is another part that carries the same alloys, that carries the same metallurgy that is required to meet the Australian standard and the manufacturer's specification, then absolutely we would welcome those types of competitive forces. But the issue must be one of safety first, and compliance.

**Senator BUSHBY:** No, I understand that.

**CHAIR:** But how would you know that it is the same standard?

**Mr Dudley:** Well, the consumer does not know.

**Senator BUSHBY:** No, and I guess that is the question there. Either you have, at one extreme, an absolute monopoly on OEM parts or you create some system whereby you can somehow certify competitors to supply equivalent-standard parts. It is a good question that Senator Carr asked: how do you know? And how would you go about that certification? But it does leave the motor repair industry—if you mandated absolutely only OEM—only with the option to go to manufacturers, who can charge whatever price they like. And then you are squeezed between the insurers and the manufacturers.

**Mr Gwilym:** I think there is another issue that sits alongside this, and it is: what does the consumer know? Many insurance policies make statements such as 'may use new or used'. However, in an accident, when your vehicle is towed and an insurer is demanding that a repairer use second-hand parts, does the consumer know what that means? Are you talking about a second-hand radiator, or a second-hand structural element of that vehicle? And what does that mean for me? I think the big question here is, as a consumer, when you are getting second-hand non-genuine parts used on your car, do you know the ramifications of that? It is a big question, and for 99 per cent of consumers it is a question they have never asked, because they do not know the question to ask in the first place. Are repairers just wanting to repair cars safely? A central question sitting there is: are you told that they are second-hand parts, and are you told of the ramifications of those second-hand parts being put on your vehicle?

**Senator BUSHBY:** I am certainly not advocating for second-hand parts.

**Mr Gwilym:** No, I appreciate that.

**Senator BUSHBY:** I am just trying to work through the issue between where on one side you have insurers trying to screw repairers down to an absolute minimum and on the other side if you have to buy OEM you have manufacturers who can ask whatever they like for their parts, and you are caught in the middle, with no obvious solution. I guess that is why some repairers do go down that pathway, because it gives them an alternative.

**Senator RICE:** Thanks, gentlemen, and particularly your members for our tour this morning. It was very interesting. I want to return to the issue of skills and training, because it seems to me that that is an area where, at a time when the industry is in transition, we need to be really focused on improving skills and training. But from what we have heard this morning and from your presentation today, it looks like it is actually going to get worse rather than better in the short term. In particular, I want to know whether you have any proposals for dealing with the over-21 part of the workforce. It seems to me, particularly with the reduction in manufacturing, that there are lots of opportunities for retraining and bringing people into the industry. Are there any specific initiatives that would be required in having the training and retraining and supporting that?

**Mr Gwilym:** This is a really interesting question. We are an industry that has been in skills shortage for over a decade. There are many adults who do seek to transition into industries like automotive, and often there are barriers at a state level, and that is normally found in terms of, 'You already have a high-level qualification; we can't fund you to do an apprenticeship.' There is a litany of reasons a person would find barriers to getting access to the workplace. For our employers there is a tradition of taking younger people in the industry. There is an appetite to take on older workers. However, if you reflect on some of the stories this morning about the sorts of labour rates that are pushed on to the repairers, how can you afford to take on an adult apprentice who needs to be trained over four years and subsidise that wage in your workplace?

**Senator RICE:** You are being pushed absolutely—squeezed.

**Mr Gwilym:** The only labour you are really attracted to is young apprentice labour, and that is the way you are going to run your business, because it is an economic fact that that is the only way you can run your business. I think there are opportunities for the federal government and state governments to provide financial support. There are some supports there, but they are not sufficient to support adults going into industries like automotive. The barriers in the states around red tape need to come down: 'You already have a certificate IV' or 'You already have a diploma'. All that stuff needs to go. There need to be exemptions for adults coming into apprenticeships, who transition. Barry Golding at the University of Melbourne some time ago made statements that showed us that more people went from university to TAFE than went from TAFE to university. And your comments are quite correct: there are many people in automotive manufacturing at the moment who may be able to transition into trades, but there are significant barriers there around funding supports to employers and also funding supports to training.

**Senator RICE:** It seems to just work against the whole idea of continuous improvement and continuous training and knowing that the reality of modern society is that people do not have one career for their whole life.

**Mr Gwilym:** It does work against that, yes.

**Mr Moir:** You also have to look at the relevance of the type of training that is offered. In New South Wales and Western Australia we have moved away from the traditional TAFE model of delivery to an employment based delivery model. That has a couple of advantages. One is that the apprentice is trained in the workplace by a qualified trainer. It also assists in keeping up to date with the latest technology that is coming into the industry. For a training provider trying to invest in that equipment in your own institution it is prohibitive almost. So I think it is very important that when we are looking at this we look at how we deliver the model as well.

**Senator RICE:** The other area I wanted to touch on, which was raised this morning, is the power of franchisors. I just wonder whether you had some comments you would like to make on the whole issue of the relationship between franchisors and franchisees.

**Mr Unerkov:** Obviously, coming out of both sides of that equation it is an interesting debate. It comes back to big versus small. It is very similar to the insurance discussion that we have been having. The OEMs are looking to generate a return for their shareholders in a lot of instances. Are a lot of the demands that they are putting on the dealer network fair? Are they going to allow them to generate a fair return on investment?

Times are tough, and it is all an equation between cost and return. They need to generate a sufficient return to employ the number of people that they employ and to pay for the facilities and infrastructure with regard to customer management and all of the sorts of things associated with keeping vehicles on the road—servicing customers and ensuring that they get the level of service that they require for them to continue to operate and run their vehicles on a daily basis. There is always the cost-benefit equation that comes into play. Obviously, the manufacturers are increasing their demands on the dealers and it comes back to, 'Do you want your franchise or do you not want your franchise?'

**Mr Dudley:** To add to that, we spent a good part of a decade fighting for many of the changes that occurred in the Franchising Code of Conduct that came into effect on 1 January this year. Some of those went a long way towards increasing the transparency of agreements, empowering both sides of the franchise equation. But it is a watching space. The reason that we say that is because there is a consolidation of sectors going on that is part of the structural adjustment. We are seeing a number of dealerships consolidating—for example, in the new car franchise retailing environment. We are seeing the entry of larger conglomerates into other sectors, such as motor body repair and independent mechanical repair. Some of those are from overseas.

So the franchising space is still going to be one that we have to keep a very close eye on, because by its nature that consolidation is going to drive certain market forces—some of which may translate into issues that we have already dealt with in some sectors, such as the shopper dockets and fuel retailing. Fortunately, there has been some part-resolution of those sorts of issues, but we expect to see many more examples of that as sectors consolidate.

**Mr Moir:** There is also no doubt that there is harsh and what I would consider unconscionable conduct being carried out now by franchisors. If I use the motorcycle industry as an example: we had a meeting of motorcycle franchisees last month. The majority of those people were asked to sign two-year contracts, which required up to a million dollars' investments in their franchises. That is simply not a viable business model going forward.

**Senator RICE:** No.

**Mr Moir:** But the way they view it is, 'If I don't sign this agreement I don't have a business.'

**Senator RICE:** They get nothing.

**Mr Moir:** They get nothing. So they are between a rock and a hard place. It is fair to say that that behaviour also transposes across to automotive dealers. The dealership we were at this morning is probably a \$10 million to \$15 million establishment. It did not have a lot of choice in that investment. He has to make that investment to keep that franchise. Now, you would want to sell a lot of cars to get a return on the investment.

**Senator RICE:** You said it is a watching space at the moment, and that there were changes to the franchise code in January. Are there more changes, or more regulations or things that you think that we should be recommending at this stage?

**Mr Moir:** Yes. One of the difficulties was that the changes to the code that were introduced this year could not be retrospective, obviously because you had signed contracts. But with that retrospectivity, there was a lot of activity to get people signed up before 1 January to make sure they were locked in on the old conditions.

**Senator RICE:** Right.

**Mr Moir:** I think we need to get people onto these new conditions with the new code so that we have protection, particularly at end of life. End of life is the most problematic part of the franchise agreement for most dealers. We need to get some certainty, particularly where you have outlaid millions of dollars in your business.

**Senator RICE:** Yes. Thank you.

**CHAIR:** I am sorry—we have run out of time. Thank you all very much for appearing here today and for your assistance with this inquiry.

**Mr Moir:** Thank you.

**HUGHES, Mr Brian, Managing Director, Composite Materials Engineering**

**LANGWORTHY, Mr Peter, Managing Director, Dana Australia Ltd**

[13:59]

**CHAIR:** Welcome. Thank you very much for appearing today. Would you like to make an opening statement?

**Mr Langworthy:** Dana Australia has been operating in this country for around 40 years. We are part of a multinational global organisation of around \$7 billion—certainly not quite that large in this country. We have been well aware of and well prepared for what has been going on in the industry with respect to the passenger car market in particular. We have been on a journey now for some several years with respect to restructuring our business and diversifying our business in this country in order to suit the eventual outcome. We operate in various fields, both globally and in particular in Australia. We are not only in the passenger car market; we also operate in the heavy commercial vehicle market, in the after-market space and in off-highway vehicles as well, predominantly disposed with manufacturing axles and drive-line systems and associated equipment. As I mentioned, we have been on a journey for some time. We have recently gone through an evaluation of our business in this country, and we have decided to stay on in Australia. We see this as a viable market for us to exist in and therefore have decided to stay on and, further to that, invest in the Australian market as well.

**CHAIR:** I am very pleased to hear that.

**Mr Langworthy:** Thank you.

**Mr Hughes:** Mine is a family business. We have owned the business since 1989. We employ 100 people here in Melbourne over three sites. We are a specialist in advanced composites. With that we focus on lightweighting, which is where we have been operating in the auto industry for most of the period when we have owned the business. The customers we work with are all blue chip: they are all major multinationals and internationals. We supply a lot of specialty products to them. In the auto industry, for example, in the period when we have been supplying GM we have been responsible for taking 16 kilos out of the weight of a Commodore from the time we started with them until the model that they have just released. We are seen as a global leader in that technology with GM, in fact.

With the announcement of the decision of GM, which was our major customer, in December 2013 to close, we decided that we needed to ramp up a diversification program that we had been on for a number of years. At that time we were 70 per cent automotive. As I talk to you today, we are down to 25 per cent automotive. And we have actually increased our sales as part of that. Our business now is split through a number of industries—buildings around 40 per cent and autos 30 per cent. We are No. 1 in the world and we export over 30 per cent of product—of our business and total exports—to the confectionary industry. In the last six months we have signed all of the leading multinational and international confectionary companies, like Haribo, Mars and Mondelez. We are their No. 1 supplier in the world. We are making all of that here in Melbourne and exporting it from our plants here, and have contracts running through all of next year. We are just about to make some more investments to do with that. We are working through now, as part of our expansion, moving more into trucks, trains and buses.

I talk as a family business, not as a multinational, and as a family business I have a different perspective on how we keep manufacturing here. One of the things we did, which we currently have sitting, is get approval to go to Thailand. We sought that and we invested in getting it. We have not enacted it. We have since made a decision that we do not wish to do that, for whole lot of reasons. It was a very attractive offer from Thailand to go. We did that because we were concerned that we would lose all of the years of expertise that we had built up in auto with the movement of the OEs from Australia overseas. It was interesting to listen to the discussion with the group before us about the insurance side and the supply of non-genuine parts. I think it is a global issue but one that is really going to raise its head here as a follow-on from the decisions for the domestic vehicle sales—not so much for the international imports but for the domestics. We have recognised that and, as part of that, while we are still a current member of FAPM, we have joined the Automotive Aftermarket Association. We are now looking to explore how we can transfer a lot of our expertise into that aftermarket, making some specialty high-end products that will be made overseas—our technology will be used in vehicles that are imported. We will be looking to see how we can generate and replace imported product here and then turn that from an imported product into a locally made product that we can export.

We are proficient in export. We have been doing it since 1995. Developing that skill is something that all companies need to learn and engineer. As part of that, since the closure we have also set up national and international distribution bases. We have national distribution in Australia and all through Europe. The other part of that, and one of the challenges that I see we have as a manufacturer—and I am now just talking as a

manufacturer—is the change that developing these products, bringing them to market and bringing the new technology to market solely relies on us as the individual, whereas when we are working in a collaborative way with an OE provider it has a defined market, usually a defined volume and usually defined specifications. Levels of expertise that are usually lacking in local companies, I would think—we now have to reinvest and we have to develop that expertise. The risk level for us goes up, the investment level for us goes up and the access to funding becomes more difficult because of that.

We have a number of challenges in place. With that said, I think we have been able to overcome most of those. We will have more as we go forward. We are looking to make some further investments for some further growth that we are experiencing, and bringing change. I could talk to all day about it—I am conscious that I cannot—but they are the significant challenges I think we face. The decision for the OEs to go has been made. Let us get on with it. Let us get our businesses defined. My interest in working with government is to give us a position where we can do that with some confidence.

**CHAIR:** Thank you both for those submissions. We are encouraged by the optimism with which you have approached the committee. You have seen our interim report, I trust. You are both leading firms in your areas. Internationally you have reputations of particular note. I am interested to know what you thought of the recommendations the committee has made to date and what further actions you think are required, particularly around the ATS. On that issue, I have specific questions. Currently are both of you enjoying the benefits of the ATS?

**Mr Langworthy:** We are, yes.

**Mr Hughes:** We are registered, but the benefits are somewhat declining.

**CHAIR:** That is certainly true. But you are still a member of the scheme?

**Mr Hughes:** Yes, we are.

**CHAIR:** I take it that you remain so on the basis that you have contracts other than those with the OEMs in Australia.

**Mr Langworthy:** Yes.

**CHAIR:** So your eligibility will continue post 2017—is that correct?

**Mr Hughes:** It should, yes.

**CHAIR:** Is that your understanding, Mr Langworthy?

**Mr Langworthy:** For our company it currently will not. Currently we are eligible on the basis of a percentage of revenue which in 12 months time will change, and therefore under the current scheme we will become ineligible.

**CHAIR:** Are you moving your business model so that you will become eligible?

**Mr Langworthy:** We do not believe so under the current—

**CHAIR:** You do not think you can?

**Mr Langworthy:** We do not think we can.

**Mr Hughes:** Sorry, can I just clarify; we think that we can.

**CHAIR:** Yes, I understand that. I think there has been a misconception in much of the media commentary about the nature of eligibility post 2017. I think that was the point I am trying to make. I am just trying to establish how far that goes. Specifically, in regard to actions the Commonwealth can take to help maintain industry capabilities in the automotive industry and related sectors, what do you—either of you, both of you—recommend to this committee be done?

**Mr Langworthy:** I might go first. Thank you, Chair, that is a very good question. I think the government needs to consider support for allied industries; certainly in the transport sector. There are some very, very well run, very successful businesses outside of passenger car markets in particular. The heavy truck industry is one that comes to mind and the bus industry, and then we have other allied industries as well. Previously they were—

**CHAIR:** Can you specify?

**Mr Langworthy:** Rail and other like transport technology businesses. In our experience, previously those types of businesses, truck in particular, were mutually excluded from such schemes as the ATS because they were not considered part of the automotive business.

**CHAIR:** It was a way of limiting exposure. The reality is very clear.

**Mr Langworthy:** Correct. I think some consideration certainly needs to be given to those industries to ensure that they are not only viable, because they are currently viable today, but that they are supported well into the future. That is crucial for a business such as ours, because we do enjoy quite a lot of business with the truck industry, in particular, and that needs to be considered.

The other area is in aftermarket. We enjoy a growing aftermarket business in this country, both imported product and locally produced product, and we would like to see some assistance given, with respect to the ATS or some other program, for manufacturers who choose to continue R&D work for vehicles, not only produced locally but, more often than not now, imported. I know there have been some ideas promoted such as the automotive garage that needs to be considered.

**CHAIR:** I will come to you in a minute, Mr Hughes. Do you see that those changes can be done by regulation or do you believe they require legislative change to implement?

**Mr Langworthy:** I think both. Companies like Dana stand in back. We have seen the demise of the light vehicle passenger market brought about, we believe, predominantly, by a saturated market with a lot of imported product; the 64 brand, the 300 marks, et cetera. We would not like to see that happen in some of the other industries that we currently operate in. Therefore, that leads into considering, from a manufacturing base point of view, such companies as the truck manufacturers.

**CHAIR:** Particularly in drive train, there are new technologies coming on-stream such as new materials, for instance. Do you think you can take advantage of that?

**Mr Langworthy:** We certainly do. We have some concerns with that as well. We have some concerns with what perhaps could be considered older, predominately metals manufacturing industries—and I refer to casting, forging and tubing type industries—that we are very concerned about, which have also been depleting and disappearing, that we believe need to be considered as part of this inquiry.

**CHAIR:** Thank you. Mr Hughes, what recommendations would you make for changes to the ATS?

**Mr Hughes:** I think it is quite complex, and I know you know that better than I do. My view is of an Australian family owned business manufacturing, so it is different to the internationals. I think that the ATS should include local manufacture for local R&D. But if it is made overseas, I do not believe that it should be extended to include that, because that does not help our manufacturing sector. I know I am at odds with some people in my—

**CHAIR:** I do not know if you are.

**Mr Hughes:** Probably behind me. I have not felt anything hit me just yet. The thing I see with it is that it is more around the diversification aspects of what we need to undertake. With the eligibility, the number and the volume, it is going to be difficult for a lot of us to achieve some volumes around that, particularly as we diversify and particularly as we want to bring in and invest in new technology. I do not have a genuine recommendation, but I would like to see some discussion.

**CHAIR:** Let me put something to you. There are provisions under the current act for national interest applications to be made, particularly for people with low volumes that are perhaps moving into the industry or for people moving down in the industry, which is another way of putting it. Do you think there could be a place in that sphere to pick up the sorts of diversification programs that you are proposing?

**Mr Hughes:** I think so. As long as the rules are very clear and are not subject to abuse, certainly. It needs some definitiveness around it and it needs people to be able to say, 'I can use this scheme to do this part for automotive,' because the landscape does change enormously without the OEs here. To be frank, once the OEs leave, in the main we are not talking about OE production, because there will be very few people or companies left here that will be making OE production. Most of us will be making aftermarket production for OE vehicles. So the description needs to be modified to allow for what that is about. That will impact on volume and it will impact industry and what I am intending to use my investments for. One of the things that we have lost is the certainty of volumes, so the investment decision needs to change. That is where the funding and the way the funding through ATS really kicks in and does give you at least some level of support that you can rely on—not all of it, because it should never be all. But that is what I am thinking.

**CHAIR:** I understand that. In your opening remarks you mentioned that your company considered moving to Thailand. You said that there were quite attractive offers made.

**Mr Hughes:** Yes.



**CHAIR:** I am always interested to know in real world economics the nature of these attractive offers that are made for people to pull up stumps in this country and move to another country. Are you able to provide the committee with any information about the nature of the offers that were made to you?

**Mr Hughes:** Essentially, the way that they were structured was around the tax-free nature and the tax-free holidays that you obtain. When you combine that with the labour and the cost of doing business in those countries, it becomes a significant advantage. With the FTAs that exist between Thailand and some of the export markets that you operate in, there are some advantages. They may have closed over with the current FTAs that have been released. The other part of that is when you have the OEs locating themselves there. To be honest, when the decision was made to close the automotive industry here, a business like mine went from having a value to having none. We are looking to ask, 'How can we reclaim some value?' That is why you look at those opportunities. That market has now closed. There was a time we had to register and be approved, and my understanding is that that is now closed. There will be other offers. I do not know what they comprise. You have to take that decision by a certain time. That window is still open to us but, to be honest, we have decided we will not do it, not because we cannot make money there but because we are a family business and we have different views to the corporates. We do not need to make the returns that corporates make. We are in business for different reasons.

**Senator RICE:** Mr Hughes, I am interested in hearing you say you are in the heavy truck market and in heavy transport vehicles. Could you give us some more information about the prospects you see for the growth and success of your business in those fields.

**Mr Hughes:** We have just moved into the heavy truck market through an acquisition that we have recently made. That was part of our divestment to establish the largest advanced composites business. We already have that. We are just adding some more to it. The heavy truck market is looking for companies like ours with expertise, management and technology to develop their market. Kenworth in particular is the company that we are doing a lot of work with. They are very pleased we have entered. We have tried historically to do work with them. Their volumes have restricted the technology that we have, and through this acquisition we were able to bring some management expertise and technology using some lower cost techniques. We think that that has significant advantages for the local industry and we are in the early stages of developing that. In terms of transport, we already supply most of the train seats that you sit on and we will extend that now into wall panelling and other things which companies like Bombardier and Alstom are actively importing, which drives me nuts. We will go after those contracts in a very aggressive way.

**CHAIR:** You will be competitive and on price.

**Mr Hughes:** We are hoping to. There are a number of ways that competition comes into play. Certainly, we think we will be competitive on technology and we are big technology introducers. There is certainly a lack of technology that they are wanting. To be honest, I cannot understand how they can import it because they are big parts. Little parts, things the size of a glass and so on, are easy to move around the country, and freight is not an issue. But for the things that we think we should be playing in, we think we can and we have meetings there next week.

**Senator RICE:** Are there any barriers that we could be making recommendations about that would make serving the public transport and truck industries any easier?

**Mr Hughes:** They all play around with the localisation content through their maintenance contracts. As much as they like to play good citizens, to be honest, I do not know that I support all of that. But they are no different to any other company that is wanting a return, so they want to maximise their return. Certainly local content—we have to support the local content; that is an important part of it. Just our costs of doing business around the place is a thing. We have to compete. Everyone wants a return. We recognise that. You play where you can compete and you stay away from the areas where you should not be in. But there are places that we should and big parts are definitely those places where we should be.

**Senator RICE:** We had quite a discussion with previous presenters on skills and training. Do you have anything you would like to share with us about the training and skills area?

**Mr Hughes:** Yes, I have, but it would take me all afternoon to give you my real thoughts.

**Senator RICE:** Go for it, in a condensed way.

**Mr Hughes:** I have a real problem with our welfare system, to start. That creates laziness and we cannot get Australians to work. If you came into my factory now versus five years ago, you would find it is very different. We have a more continuous turnover of people and that is becoming more difficult. In the auto sector, you could

automate more because you had more certainty. When you are moving into these other sectors, it is much more difficult.

**Senator RICE:** Does that mean your labour costs are higher as a proportion of your business costs than they used to be?

**Mr Hughes:** Yes. I would call it our inefficiency cost as well—they impact. I concur with what I heard earlier about training and trades and things like that. It is no different with us. We need to do more of it. We struggle to find the time, and the language barriers are becoming increasingly more difficult. We have Vietnamese, Burmese and Chinese—you name it; we have all sorts of religions now going on. There is a lot of stuff going on. We need training in how to deal with that as much as they need training in how to deal with us. It is a very different workplace environment today to what it was five years ago.

**Senator BUSHBY:** We have been talking about car parts and things. You have moved into confectionery. How does that work?

**Mr Hughes:** We started that in the nineties.

**Senator BUSHBY:** What were you doing before the confectionery companies?

**Mr Hughes:** I would not imagine anyone here would eat much confectionery! Snakes and jelly-based confectionery that you would buy through Mars, Nestle and Cadbury have a tray that they manufacture in high volumes. They call it a starch tray. They drop the starch in and then the confectionery is put in, and it goes through a machine and they produce these confectionery items. It is actually part of a manufacturing process. We supply those in large quantities. I probably have a container or two a week going out at the moment.

**Senator BUSHBY:** That goes all over the world, did you say?

**Mr Hughes:** All over the world, yes.

**Senator BUSHBY:** How did you create that market? Do you have some sort of competitive advantage or did you see an opening before anybody else did?

**Mr Hughes:** We saw the opening and, to be honest, we invested in the time and the people to go and do it. In relation to exporting and finding a new market—I know you would know this—you do not just wake up and find it. You have to actually invest in the time to go and do it. That sequence is about four years at a cost of about \$130,000 to \$150,000. You have a fair investment to create that market. It is like anything, once you know the market, it becomes much more difficult to compete in that sector. The dollar coming down has helped us. To create that market we put a guy into Europe last year for six months, full-time. We covered every bill and we spent just under \$100,000 because we needed the work. It comes from a whole lot of things, but principally having the right technology and making the investment to actually win the work.

**Senator BUSHBY:** You mentioned you started the diversification into that in the nineties.

**Mr Hughes:** In 1995, yes.

**Senator BUSHBY:** You also said in your opening statement that, as of the announcement that GM was pulling out, you were still 70 per cent auto focused. That was a fairly minor part of your business at that point?

**Mr Hughes:** That is right.

**Senator BUSHBY:** You mentioned also you had a guy last year over there.

**Mr Hughes:** We are fairly active and we always have people travelling, because we have to. We were planning for a closure of 2020 in our own business plans, if we did not like what we were hearing, so to come in 2017 was early. What we ended up doing was pulling a whole lot of investments forward. If I look now, it was way too much. We are still in the process of rolling out a lot of that. We had a lot of research and things sitting ready to go, and then it was really just a question of where the capacity comes from, and how you create that capacity.

**Senator BUSHBY:** For both of the companies sitting before us today, you identified early that there was a likely cessation of the manufacture of mass passenger vehicles in Australia, and you put in place plans to diversify to get through that. Is that an accurate conclusion?

**Mr Hughes:** It would be.

**Mr Langworthy:** It would be, Senator, in two parts—certainly not enough to replace all of our OE business, but enough to maintain a base beyond OE passenger car manufacture.

**Senator BUSHBY:** We heard a fair bit from Mr Hughes. Your business now, you anticipate it will be smaller after the closure of the manufacturing in Australia?

**Mr Langworthy:** Correct.

**Senator BUSHBY:** You have not diversified enough yet, or attracted new business sufficiently to fully replace the work that you will be losing?

**Mr Langworthy:** We enjoyed a substantial passenger car industry association with our OE customers. But the markets that we operate in now are not big enough to replicate the outgoing passenger car business that we have. So we will contract further when that happens.

**Senator BUSHBY:** In the longer term, do you think you will get through that?

**Mr Langworthy:** We will, yes.

**Senator BUSHBY:** And continue to grow?

**Mr Langworthy:** Correct.

**Senator BUSHBY:** How are you planning on doing that? I have a note here about you, which the secretariat has put together, that said that your company base now includes nearly every major manufacturer in the global automotive commercial vehicle and off-highway market. That is an accurate statement?

**Mr Langworthy:** It is, Senator, yes.

**Senator BUSHBY:** What sorts of things are you doing for that? If you have a customer base that includes major vehicle manufacturers in Europe, for example, what are you putting into those?

**Mr Langworthy:** We are putting nothing into those vehicles from an Australian perspective at OE level. But we are working on aftermarket solutions for those vehicles as they find their way into Australia. This last year, we have developed a new rear axle for one of the global 4x4 products that is imported into this country. We identified that it had some design enhancements that we could bring to the market, so we have invested in the last 12 months into development and manufacture in Australia of a replacement axle for that product. We intend to not only market that locally but also use that for export opportunities as well.

**Senator BUSHBY:** In respect of both companies, how many are employed in Australia at the moment?

**Mr Langworthy:** Senator, at the moment Dana Australia employs 110 people.

**Senator BUSHBY:** What about the composite materials, engineering?

**Mr Hughes:** Just over 100.

**Senator BUSHBY:** What do both of you think the impact of the actual closure of passenger vehicle manufacturing in Australia will be on your employment? Do you think it will go down at that point? I think from what Mr Langworthy says it may well do. Mr Hughes—in your case?

**Mr Hughes:** We will hopefully be employing more.

**Senator BUSHBY:** Because of the other things that are happening?

**Mr Hughes:** Yes.

**Senator BUSHBY:** Mr Langworthy, do you think it will go down?

**Mr Langworthy:** Yes.

**Senator BUSHBY:** Do you think that in the longer term you will be able, through the strategies you are putting in place, to build those numbers back up?

**Mr Langworthy:** Certainly in the medium to longer term—once again, not to the same extent that we have today but certainly some way towards replacing those outgoing people, yes, though in a different capacity.

**Senator BUSHBY:** I understand that. Adversity breeds innovation and you have to look at other options. I am hearing good stories from both the companies in front of me in terms of what you are doing to deal with that adversity. Best of luck with it.

**Mr Langworthy:** Thank you.

**Mr Hughes:** Thank you.

**CHAIR:** Mr Hughes, you said you thought that the OEMs would be leaving by 2020. As minister, I was negotiating with those same companies, who were telling me that they were prepared to invest in two new models—in both Toyota and General Motors, so that would be four new models. Why did you think 2020, when clearly the companies were saying something entirely different?

**Mr Hughes:** I do not know that I can give you a definitive answer to that. Part of what I have to do is to listen, look and evaluate. I had spent a lot of time on a 2020 vision for the materials technology and looked at what was

going on globally and internally, and that was just a view that we took. If it kept going—and the numbers were coming down—

**CHAIR:** That is true, but both companies were reporting to me that they were prepared to invest substantially, which would take their model productions way past 2022, just on those business plans alone. I am just wondering what special intelligence you had.

**Mr Hughes:** I did not have any, but I suppose we looked at the global automotive scene and we just took the view that if it was going past 2020 and we were in that industry we would have a much stronger business.

**CHAIR:** Sure. That is a different—

**Mr Hughes:** It was not that we—

**CHAIR:** Mr Langworthy, did you have a similar view that the companies were not telling the truth about their production plans?

**Mr Langworthy:** No. From Dana Australia's perspective we saw the writing on the wall, I suppose, several years before with respect to the local production volumes.

**CHAIR:** In fact we did have a diversification program, if I recall rightly, in the new car plan. One of the key elements was that. That is certainly true. But I am interested to know whether you think I was being misled by what the companies were telling me the time, and what information you might have to sustain that view.

**Mr Hughes:** I would not think that you were being misled. In fact, we were in a program for the next Commodore that was being released here, and that was openly being discussed. The issue around that was that the volumes they were talking about were 18,000 vehicles per year, not 60,000, 70,000 or 80,000.

**CHAIR:** I recall higher numbers than that being put to me—much higher numbers.

**Mr Hughes:** Were they?

**CHAIR:** In fact the business case was substantially higher than that.

**Mr Hughes:** I do not know. I would not suggest that they were misleading—

**CHAIR:** They talked to you as suppliers, I suspect.

**Mr Hughes:** You know, they love us. I would not think that they were misleading you at all. I would not like you to think that we are suggesting—

**CHAIR:** We did due diligence on what they said. My recollection is a 70,000 production run with the dollar at \$1.10. The business case was built on \$1.10 and 70,000 units per year. I am just wondering what information you had that was different to that.

**Mr Hughes:** I do not know that I had any, other than just my own belief. Certainly the numbers that we heard for the next Commodore were less than 20,000.

**CHAIR:** I can assure you that it was 70,000.

**Mr Hughes:** We only got that very late.

**CHAIR:** I am saying that right through the period it was 70,000. With the dollar now closer to 70c, I would have thought it would be much higher.

**Mr Hughes:** As we would. I think they would be making lots of money, based on that business model where we are now.

**CHAIR:** Given that 86c is regarded as the cut-off point for export purposes?

**Mr Hughes:** Yes, that is what we understood as well. We were waiting, in GM's case, for the long-wheelbase vehicle for the police program that they talked about a lot, which had a volume of around 70,000.

**CHAIR:** But there was the other model as well.

**Mr Hughes:** Correct.

**CHAIR:** That was for domestic production again.

**Mr Hughes:** Yes. We had to work pretty hard in the meeting we had with suppliers to understand some of the volumes.

**CHAIR:** I am very surprised we have such a discrepancy even with the numbers.

**Mr Hughes:** I was not in your meeting; I was only in mine. It may be the case that they talk collective numbers. They were the numbers we were quoted—18,000—for a particular vehicle we were involved in, which we understood was the Commodore replacement.

**Senator MUIR:** I think you touched on this in your opening statement and throughout the discussions, but post 2017, when mass production stops, what is your biggest concern about the auto industry?

**Mr Langworthy:** That is an excellent question. My concerns are around labour. We do not employ as many as we used to, but we employ predominantly semiskilled male workers. We have spent money training those people. My concern is what those people are going to be doing post manufacturing. They are people who work with their hands and may not be cut out for administrative tasks. I am also concerned about some of the base metals and base materials manufacturing that I mentioned earlier—which is also disappearing as the months go by—for things like forgings, castings, tubing and so on. As an example, I will mention a project our company had been working on this year. Unfortunately it has to go overseas for some of those materials because they are no longer produced in this country. If a government such as the Victorian government were interested in transport technologies and other like industries, there would be certain industries we would need in order to support the growth in that manufacturing capacity going forward—otherwise we are going to become a nation of assemblers rather than manufacturers.

**Mr Hughes:** I think there are about 140 OE suppliers noted in the ATS. I think there will be issues now as volumes come down. Cash is drying up in those companies. They will close and there will be lots of people out of work. I do not think we have seen the worse of it yet. I hate to be giving you doom and gloom, but I think that is to come. I am not sure when it will come, but it is certainly in front of us.

**Senator MUIR:** Predictions could be scary if we do not get the right policies in place now, or act yesterday, as was said earlier. The AAAA—this is in relation to your response, Mr Langworthy—has spoken about the introduction of an automotive parts product development lab in order to maintain those skills. Do you think this would be a good idea for you—or for both of you, for your businesses? Would you be able to utilise such a loan?

**Mr Langworthy:** Absolutely. If we look at the project we have just embarked on—or just completed, almost—we have had to go out and invest in our own vehicles. In order to do the interface engineering, we have had to go off and collaborate, to find other companies to work with. Certainly an entity such as this would provide a forum for companies like ours, at an efficient cost, to go in and develop products specifically for local and imported vehicles. We would certainly utilise it greatly.

**Mr Hughes:** I agree with that. I think it would be a great thing if you can do it. It just reduces costs and would help us diversify.

**Senator MUIR:** So there is a good chance that by having such a lab it is not only going to help these businesses transition but it would give them a centrepiece to go out and achieve what they need to achieve to help their businesses grow?

**Mr Hughes:** I think so.

**Mr Langworthy:** An independent centrepiece, yes.

**Senator MUIR:** Fantastic. Would you benefit from a specialist enthusiast manufacturer like the UK model, or are you aware with the UK model how they changed their policies as their automotive industry disintegrated?

**Mr Langworthy:** Certainly, Dana would. We do already producing other countries high-performance type drive-line components, so certainly that would be an area associated with our aftermarket business that we would be keen to foster, yes.

**Mr Hughes:** I actually do not know enough about it to comment.

**Senator MUIR:** Okay, that is fine.

**ACTING CHAIR:** Thank you both for coming and providing the committee with your advice. If there is anything further you would like to add please do not hesitate in contacting us and dropping us a line.

**STYLES, Mr Peter John, Chairman, Motoring Advisory Council**

[14:40]

*Evidence was taken via teleconference—*

**CHAIR:** Welcome. Would you like to make a brief opening statement?

**Mr Styles:** Yes, please.

**Senator MUIR:** I would like to declare some interest. I do know Pete. He is a member of my party, but he is representing the Motoring Advisory Council today.

**CHAIR:** Thank you, Senator Muir. If we declared every conflict of interest on the basis of who we knew in this business, we would probably never get anything done. But I thank you very much for your comment.

**Mr Styles:** I would like to commence by acknowledging my impending submission. It is in front of me and should be handed in within days. I am the chairman of the Motoring Advisory Council. It is an apolitical mechanism driven to inform government on motoring issues whenever the need arises. It is an initiative of the AMEP. We operate as a collaborative tool bringing together peak motoring bodies, industry groups, individual specialists, road safety experts and enthusiasts. I come from a professional civil mechanical engineering background, with a lifetime spent in motoring and motorsport. I am first and foremost an enthusiast, passionate about all things motoring. I hope to leave a lasting impression at this cornerstone moment for the Australian motoring culture.

I believe it is no coincidence that enthusiasts have joined the political stage prior to the impending closure of domestic mass vehicle manufacturing in Australia. While the impending wind-up is a very regrettable and emotional milestone for our community, it is acknowledged that we must look to the future and soften the impact for the workers and communities affected during this transition. Mass vehicle supply, though, is just one part of a much bigger picture.

Over one million vehicles enter the market annually. We import 88 per cent of our new vehicles to market and manufacture only 10 per cent domestically. Only 1.9 per cent enters the market as used imports. After 2017, all vehicles entering the market will be imported. Despite these facts, much of the debate has been narrowly focused on viability of used vehicle imports. The decisions we make now will shape the future of the entire industry, an industry that contributes \$38.4 billion per year or 2.6 percent of our GDP. Within this, the automotive aftermarket engages in manufacture and distribution of aftermarket parts, accessories, workshop tools and equipment in a sector that contributes over \$11 billion and employs over 40,000 Australians. Aftermarket manufacturing itself represents 36 per cent of all automotive manufacturing in Australia, turning over \$5.2 billion per annum, exporting \$800 million of locally manufactured product and employing 21,000 people. I think before Willesee, we probably did not realise what the aftermarket was, did we!

The aftermarket sector continues to show strong year-on-year growth, generated by global demand for specialised and personalisation components. They operate in an industry where the market products are produced on innovation, performance and features rather than price. It is placed perfectly within a globally competitive sector. Businesses here have been successful because they have made significant investments in R&D and capital equipment, with strong export focuses under demand-pull models.

It is not about replacing our domestic mass vehicle manufacturing industry; it is about safeguarding the rest of the industry. If we do this wrong, the other industry aspects will lose their stability. Australia continues to create people who possess passion and enthusiasm for automotive products. It is crucial that our automotive market keeps a foothold within the Australian economy by building on what we do well and looking forward to develop those technologies of the future. In that respect, I thank this committee for calling and extending this review. This review has the potential to complement the findings of the previous Senate reviews of the Motor Vehicle Standards Act and aspects of road safety.

I formally highlight the automotive industry summit that was held in August as a key milestone demonstrating the diversity of the industry to this inquiry. I also highlight the CAMS finding that four-wheel motorsport contributes a further \$2.27 billion to the Australian economy. You will need to confirm with Eugene, but I believe that is another \$1.2 billion of indirect contribution as well. I congratulate Senator Muir on his recent motion for recognition of this, and his support for grassroots motorsport as another aspect that contributes to local and regional economies. The spin-offs from motorsport to the economy are substantial. This is just the beginning of the economic realisation, and it is now time we recognised its contribution to the automotive industry too.

The opportunities for skills development, business and employment are enormous if we can further encourage sustainable growth in other sectors—automotive sectors that is—while domestic vehicle manufacturing winds down. This type of focus can reduce the social, economic and regional impacts of the domestic manufacturing losses. This inquiry provides an excellent opportunity to re-evaluate our current regulatory frameworks, to stimulate the wider automotive industry as we approach this wind-up. It is a unique opportunity to reset the regulations that are holding us back as a nation. Small business is held back consistently by red tape and state based regulatory inconsistencies that actively prevent domestic aftermarket growth. Please remember 94 per cent of the automotive industry is small business. A product sold in one state may be illegal in the next simply by differing interpretations of the same ADRs. How does small business cope with this? It is crucial the whole industry is considered on that basis of small business as part of a vision that reflects the needs of these businesses and industry sectors that will remain after the domestic mass vehicle manufacturers leave.

Our industry vision includes—it is a five-part vision, and then I am almost done—recognising the economic contribution of the wider automotive industry and the needs of the small business majority that drives it. Building on what we do well in motorsport and aftermarket industries to strengthen our domestic and global presence in these niche markets by implementing nationally consistent regulatory reform that supports sustainable domestic markets and cashes in on growing personalisation markets of China and India. Stimulate growth in the specialised enthusiasts' vehicle sectors to secure the Australian motoring culture for future generations to enjoy by simplifying personal import processes and exploring opportunities presented by the UK specialist enthusiast market. Support training, innovation, leadership, research and product development to realign ourselves for future industry demands by investing in R&D facilities and centres of excellence around motor sports and the aftermarket, to innovate and grow our industry presence. Finally, support competency-based driver training by linking motorsport and product development venues with driver training operations. This way we can derive road safety benefits within a safer people space, generating reductions in our \$27 billion annual cost to road trauma. I believe by adopting this vision we can grow the industry, retain skills and create jobs to offset the manufacturing losses of the domestic mass vehicle industry while also placing Australia in good stead for the future. With that, I thank you for hearing my introductory speech, and I apologise for not being there to give it in person.

**CHAIR:** Thank you very much, Mr Styles. Could you enlarge on the statements you have made on your views about the future of the entire automotive industry? What specific measures do you think the Commonwealth could undertake? You mentioned, for instance, driver education. It has not traditionally been known as a Commonwealth area of responsibility. What areas do you think the Commonwealth can take on directly to provide assistance to implement the ideas that you are arguing?

**Mr Styles:** I think it starts with regulatory reform. That is without doubt the biggest thing that our industry is in need of. At the moment the state based inconsistencies and the layers of regulations created in every state are too hard for the community and the industry to bear. It is no different to education—you pass from one state into the next, and your control measures and your guidance change. They are the same ADRs but are interpreted differently by the states. How can business deliver products and models that are economically viable when they cannot even sell to the neighbouring state or the person driving the vehicle may not be able to drive it into the next state? So I think regulatory reform from the federal level is the best way to make change here. Recognition certainly would go a long way, and I pick up on Ricky's previous recognition in the Senate—recognising that it is not just about domestic manufacturing. There is a perception here that it is the major manufacturers, but others are completely missed—like the repair industry, the spare parts industry, the aftermarket and motorsports. Would you like me to elaborate further on anything specific?

**CHAIR:** If you wish to, you could perhaps provide us with further advice on that.

**Senator MUIR:** You are speaking about the inconsistencies between states. Do you have any examples or a case study of a business being held back by complex or overbearing regulations?

**Mr Styles:** Absolutely. Thanks, Senator Muir. I would like to talk about a product known as the Varex muffler. It is created by a company by the name of xForce, an Australian company that manufactures, supplies and conducts R&D from Sydney. They own a number of world product patents, having expended \$400,000 on patents alone. They have been successfully selling to the USA market for eight to 10 years. They have 50 per cent of the Australian market share in performance exhausts. Their Varex muffler uses variable technology. It came to market about 10 years ago and it allows you to silence or open the exhaust. This offers us a balance of noise levels between performance and street ability. You can keep your car quiet in the streets where you live, open it up cruise levels on the highway or open it up even further on a race track.

They are incredibly effective and efficient on a V8 or turbocharged car and they deliver optimal efficiency as well as noise reductions. The Varex muffler accounts for two thirds of their international exports but only one

fifth of their domestic sales here in Australia. Within years of coming to market, the state regulators progressively banned the technology on emissions and ETA grounds. There was no consultation with the manufacturer, who could have removed the remote control—it was as simple as that. Despite this, similar technology was allowed on the SPV vehicle under engine control and as recently as the 2014 HSV range, where it is driver controlled. There was no public consultation with those vehicle releases—there is nothing that comes on the back end. These guys have continued in this industry. As a result, they have been forced to make waivers and statements advising customers that their products are for track use only. This severely limits their domestic market potential, and they are hoping that international exports can help them recover their R&D costs.

These guys have certainly indicated to us that the growth that they are experiencing internationally could be equalled here in Australia, if not exceeded. Whilst they may not make the same number of product sales, they can certainly take a large chunk of market share on this and I guess roll these products out nationally. But in some states they sell, but in other states they are completely illegal. I ask you: if you were a business trying to sell a product to market and then you are regulated out, would you be encouraged to continue to sell in Australia or do you just focus on your exports?

**Senator MUIR:** I was watching a video online last night. I think it was a pretty new video. I will not go into details about when it was or anything to that effect. It was about a car that had just been registered in Queensland. It had an engine swap and a modification plate. Everything had been done for it to be passed as roadworthy in Queensland. However, it was, I think, in New South Wales, and the video was of the car being 'defected' and put off the road. Do you think that sort of inconsistency has an effect on the Australian small businesses which largely form part of the aftermarket industry?

**Mr Styles:** Absolutely. It is not just driving our community bonkers—and I mean bonkers. It is driving the industry bonkers as well. The difference is that the industry do not respond. The majority are small businesses. As I am sure you can appreciate, most of us just take it on the chin and keep going, doing what we can. How do you collaborate when 94 per cent of the industry are small businesses? What you said is exactly what happens with these regulations. You roll into another state with a different interpretation and you are suddenly illegal. The owner is not trying to do anything wrong. In fact it is quite the opposite.

Probably the most frustrating thing is that there is a system out there that could be used but is only slowly being taken up—and that is the National Code of Practice for Light Vehicle Construction and Modification, or VSB14. Both the industry and the enthusiast community, or the motoring culture generally, accept that this is a brilliant, fair and really easy-to-use document. But the states throw their own layers on top, or they choose not to apply it. We are moving to an international regime of international ADRs and jumping away from national ADRs, yet the states are still struggling to keep up with the national code of practice. Anything we can do to create a system that provides a consistent mechanism for products that are sold to modify, personalise or customise a car is absolutely going to benefit the industry that produces those products.

**Senator MUIR:** You might have touched a little bit on this in your answer to Senator Carr, but, that being the case, how would a more consistent approach between the states and the federal government be implemented for the benefit of the automotive industry?

**Mr Styles:** You will find this in my submission when it comes through. We should push the national code of practice as an implied law system—I think that is the terminology—like we have with education reform or energy regulatory reform, where we ask the states to sign up to a national platform. There are certain advantages to this at the front line. I think you will find, when you speak to the importers and others, that there are issues with enforcement. We probably never have enough enforcement resources where we need them. The states get savings by rolling up their regulatory resources and putting them into registration, compliance, auditing and enforcement, while at the national level some of those are also rolled up, and the national code of practice takes precedence overall. We certainly saw great improvements in the education sectors, and I forecast the same in the automotive industry. They could couple that up with imports as well so that you are not double-dipping or needing to create two sets of resources. Imports inspections could be handled by the same mechanisms.

Here in New South Wales we have a system called the VSCCS that uses engineers from private industry to handle certification. They are all licenced, insured and whatnot and controlled through the state body. There is no reason that these kinds of systems cannot be rolled out nationally. They just need the political push.

**Senator MUIR:** If they were rolled out nationally, then it would maybe reduce duplication of bureaucracies, perhaps.

**Mr Styles:** You are cutting a drastic amount of red tape. You are cutting state expenditure by state governments and saving taxpayers and states from having each state doing progressive things over the top of one



another. At the ground level we will get one line in the sand, rather than feeling like you have changed countries every time you change state.

**Senator MUIR:** Absolutely. You said in one of your answers a little bit earlier that 94 per cent of the industry are small businesses and, therefore, they are not necessarily able to represent themselves. The MTAA, following a recent automotive summit, suggested that there should be whole-of-industry consultation. Is this something that you support?

**Mr Styles:** Absolutely. Whole-of-industry consultation would be brilliant, especially with so many small businesses. There is really not a 100 per cent clear picture on which aspects of the market are covered. We could certainly get the whole picture. I am certainly calling for a review of the market in that sense.

**Senator MUIR:** This inquiry is about the future of the automotive industry, and I see it as an opportunity to look at what happens after automotive manufacturing leaves. Something that is quite prominent nowadays are systems to improve road safety and reduce road trauma and so on. How important do you think driver education is to improving safety on our roads, and is there an industry there that could grow?

**Mr Styles:** I think it is massive and it has been overlooked by road safety regulators for a long time. I think the road safety industry find it too inconvenient to take head on. As I said in the road safety review, road safety groups have put the driver education aspect in the too-hard basket for too long.

Ninety-nine per cent of accidents have some form of driver input that can reduce the severity or prevent the crash altogether. It is very rare that we have a crash where at least one of the drivers could have done nothing. If we could couple driver education with motorsport and R&D facilities for aftermarket and other similar things, we could give them venues to deliver driver training. That would add to the growth of that industry. What we need at the national level is a serious commitment to putting driver education out there as a need.

It is incredibly difficult to deal with people who have been driving for 40 years, but it is very necessary that we all take a good look at a competency-based training model—something that recognises high-risk drivers, but encourages low-risk drivers through incentives. Let's reward the good, assist those who may have gaps with training and make initiatives like these driver training courses more attractive by offering savings and other aspects.

**Senator MUIR:** To address what I regularly hear, when you refer to driver training courses, are you referring to screaming around a skidpan, ripping on the handbrake and losing control in order to regain control, or are you speaking about learning how to best work with the safety devices our cars are now released with?

**Mr Styles:** I think it is twofold. It is never about skidpans. That image of skidpans has been floated around for a long time to get rid of the debate, because it is just too hard. It is not about skidpans. We have emerging technologies that we do not know how to use and we need to be trained to use them. Lots of people thought ABS braking was going to be a silver bullet, and it is not. Evidence is coming to light that ABS is having very little effect in reducing the severity of crashes. What we are arguing is that drivers need to be shown how to operate their GPS, their collision avoidance systems and their brakes so we do not overrule that technology. If you have ever been on an Ian Luff training course, you soon come to realise just how quickly that can occur. I myself admit that I had not used my ABS effectively. I cut my stopping distance by over half. I increased my following gap by over half, probably even three times more. We need to break the driver into these training facilities to get them to recognise their own habits and recognise that driver decision can prevent crashes.

If we are really serious about reducing the \$27 billion annual road trauma, we will stop focusing on fatalities and will start focusing on preventing all crashes, especially injury crashes. That is what the road safety experts are still conveniently avoiding. I appreciate you asking that question, Ricky. While this is not the focus of today's industry inquiry, the knock-on effect of a stable driver education industry coupled with a manufacturing and aftermarket industry and motorsport industry can all work together, which offers efficiencies and savings within those small businesses and those models.

**Senator MUIR:** Fantastic. I do have a couple more questions, but I will ask them on notice so you can answer them.

**CHAIR:** Perhaps you can incorporate your answers in your submission, which I understand you are forwarding to us.

**Mr Styles:** Yes, I can do that. Do you want a little bit more on the UK model briefly or do you want to leave that because we do have a representative who is quite informed on that?

**CHAIR:** You can put that into your submission to the committee.

**Mr Styles:** Will do.

**CHAIR:** Thank you very much for appearing today. Your advice is very much appreciated.

**Mr Styles:** Thank you for taking me on board.

**CHAIR:** No trouble at all.

**Proceedings suspended from 15:06 to 15:21**

**BROWN, Mr Malcolm John, Vice-President, Group Trucks Technology, Volvo Group Australia**

**DOZIER, Mr Christopher Michael, Managing Director, PACCAR Australia**

**GRASSO, Mr Ronald Stewart, Head of Corporate and External Affairs, APC-ANZ, CNH Industrial**

**ILLMER, Mr Paul Kelly Robert, Director, Sales, Strategy and Support, Volvo Group Australia**

**McMULLAN, Mr Anthony J., Chief Executive Officer, Truck Industry Council**

**CHAIR:** Thank you very much for appearing today. Mr McMullan, did you want to make a statement on behalf of everyone, or are there individual statements?

**Mr McMullan:** If I could, I will make a statement on behalf of everyone.

**CHAIR:** Yes. Please go ahead.

**Mr McMullan:** The Truck Industry Council welcomes these Senate deliberations and notes its focus upon all sectors of the industry. From our experience, it is a common misconception in public policy terms that the automotive industry consists of only the three car manufacturers. This is despite the fact that Australia has been manufacturing trucks since the early 1950s—in all, some 340,000 trucks.

Truck manufacturing in Australia is a good news story. Australia in 2015 has three viable truck manufacturers—Volvo Group Australia, PACCAR and CNH Industrial—designing, engineering, testing, developing and manufacturing trucks at three major locations, without federal government assistance. These organisations are examples of how complex automotive products other than cars are being manufactured here in Australia.

Trucks built in Australia are tailor-made for customers whose needs are different, and vary based upon the tasks that the customer wants their truck to perform. This results in a number of locally manufactured trucks based upon unique platforms and models. Forty-eight per cent of the heavy trucks—above 16.5 tonne gvm—sold in 2014, which was some 5,100 units, were designed and manufactured at these three plants. They had an average sales price in excess of \$200,000. For the last 10 years this sector has averaged close to 50 per cent, and it is showing no signs of abating.

These trucks can be garbage compactors; or 26-metre B-doubles, with a gross combination mass approaching 70 tonnes; or road trains, with a gross combination mass of up to 150 tonnes; or specialist vehicles, such as used in mining operations, of up to 300 tonnes. This implies great complexity at the plant, with significant local design input and adaptation activities and local in-house manufacturing with a high labour component, ensuring that the local content, by value of trucks produced in Australia, is typically higher than that achieved by Australian passenger cars.

A key feature of the Australian truck industry is that trucks sold require a second manufacturer to fit the truck with the equipment required by the operator. The vehicle is not suited for on-road use in the vast majority of cases until this second stage of manufacture is completed locally. Upwards of 25,000 vehicles each year—95 per cent of trucks sold—require this secondary manufacturing process. As such, there are hundreds of second-stage manufacturing companies, from major trailer manufacturers and tipper and tanker builders to the smaller companies making everything from specialist bodies and hydraulics for tippers and garbage collectors to cabins, fuel tanks, chassis frames, electrical harnesses, wheel guards and turntables.

Iveco product contains between 60 and 80 per cent local content, with the supply chain numbering in excess of 200 companies, most located within a 100-kilometre radius of the Dandenong site. Kenworth's local content, by value of each model, is estimated to exceed 60 per cent, as is Volvo's FM range and Mack Metro-Liner, where local content is the range of 50 to 60 per cent. In every case of Australian manufactured trucks, their local content by value exceeds their imported content, which characterises them as locally manufactured rather than locally assembled.

These companies are significant employers of skilled and semiskilled people across the trade, engineering, electronic and information technology domains, with total employment of approximately 32,730 people. Our message is that truck manufacturing is alive and well, employing Australians who are developing and utilising their unique skill set whilst designing and building world-leading trucks for the essential role of carrying the nation's ever-increasing freight task.

The Truck Industry Council proposes a policy option that could be considered to ensure Australia's future capacity to engage in advanced manufacturing, while at the same time modernising Australia's truck fleet, making the fleet safer, cleaner and greener. Simply put, Australia has an old truck fleet. There is a strategic imperative for Australia to have a more modern truck fleet. The average age of the Australian truck fleet—that is, trucks over 4.5

tonnes—is 14.8 years. The average age of heavy rigid trucks is 15.7 years. The impact of this is that the Australian truck fleet, while safe, is not as safe as it could be. It is not as productive or efficient as it could be, and it is not as environmentally friendly as it could be.

The age of the truck fleet is an important consideration for public policy development, given the additional, telling statistic that 30 per cent of vehicles in the Australian truck fleet—some 175,000 trucks—were manufactured before 1996. These older trucks predate any Australian exhaust emission laws or regulations. It would take 60 of today's trucks to equal the exhaust emissions of one pre-1996 truck. This demonstrates industry's willingness to work with government for the benefit of society. Reduced emissions mean fewer adverse health impacts, and the majority of these trucks are known to be operating in greater Sydney, Melbourne and Brisbane.

The council has long believed that there is much to be gained from a program that modernises the Australian truck fleet through the provision of investment allowances to accelerate the adoption of new trucks. We acknowledge that new expenditure of this nature needs to be funded. Through the reprioritisation of the fuel tax credit rebate, currently payable to all on-highway truck operators irrespective of the emission standard of the truck, either a fully funded, revenue positive program or a majority funded program of incentives, depending on the investment allowance adopted, would result in \$5.96 billion in benefits to the Australian community between 2015 and 2025. Such a measure could reasonably lead to an additional 3,300 trucks being manufactured here in Australia each year for the next five years and a 66 per cent increase in local production, providing a valuable stimulus to Australia's future automotive industry.

**CHAIR:** Thank you very much. Can we get a copy of that statement?

**Mr McMullan:** Yes.

**CHAIR:** Thank you. You have proposed some quite specific initiatives there, which I was very pleased to hear. I will take it that no-one else wants to make an opening statement. Perhaps we could go to the matter of what scope there is for a future expansion of a modern trucking fleet in this country—made in Australia. Could each of you give us some advice on that score?

**Mr McMullan:** I am happy to lead off by saying that the determinant at the moment is demand for product. Post GFC sales have been in decline, as much as 20 per cent below the pre-GFC figures—the highs that were associated with the economy at the time. We are now selling approximately 30,000 trucks a year, and that is down from about 38,000 at the peak. So the implication for manufacturers here is that they are not building as many trucks because demand is not that high. I am certainly more than willing to—

**CHAIR:** Would you concur with that, gentlemen?

**Mr Illmer:** We are seeing exactly that. If I think back to the pre-GFC period and some of the growth that we had then, and if I look at the market today—last year and where we are forecasting in the Volvo Group for the next few years—it is quite flat. There is nothing that we are seeing, certainly out to mid to late 2017, that we feel will bring about more sales from Volvo Group.

**Mr Dozier:** I concur with that statement.

**Mr Brown:** I would go further. Whilst these gentlemen have skin in the game, speaking from an industry point of view, we have developed a national truck plan and we based that truck plan on current sales. We do not see the figures improving on, or even getting back to, the pre-GFC days until 2024. In the last couple of years we have already started to see the fleet getting older. By 2024 I can only imagine that it will be a lot worse.

**CHAIR:** Is it the case that you are currently employing about 32,000 people in the truck manufacturing industry?

**Mr Brown:** That is both direct and indirect.

**CHAIR:** You have seen our interim report. There have been suggestions that we have another look at what it is that makes up the automotive industry and propositions have been put to us that we should include trucking and truck manufacturing as part of the automotive industry. Do you concur with that proposition?

**Mr McMullan:** It is hard to believe it has not already been included.

**CHAIR:** I would have found it difficult to believe that you could argue against it. Given that you have 32,000 people directly and indirectly employed in the industry and that there are three successful trucking manufacturers in the country at the moment, what is the argument for government support?

**Mr McMullan:** The industry has always been at pains to say to me that they would not want to see government support similar to what the car industry has been given.

**CHAIR:** This will be a unique experience in all my time in industry portfolio.

**Mr McMullan:** I am sure they would accept it if it were there.

**Mr Dozier:** Just so Tony does not have to speak, I want to make sure that it is very clear that I completely agree and in no way am I here representing PACCAR Australia. We are not looking for anything.

**CHAIR:** Not anything?

**Mr Dozier:** No. We have a plan that could essentially fund itself and that could provide the modernisation we talked about. It simply addresses technology that is going unutilised that could essentially make the industry better.

**CHAIR:** I want to be clear about this. You are not looking for support through the ATS. You are arguing that the fuel excise arrangements can be recalibrated to provide incentives for modern vehicles. Is that the thrust of your submission?

**Mr McMullan:** That is correct. My understanding is that when the fuel tax credit rebate scheme was redeveloped back in the Costello days, in 1998 to 2001, the arrangement with the Democrats at the time was—

**CHAIR:** Can I come to the specifics. What is the basis for your calculations of the costs of such a scheme? You have given us some figures here.

**Mr McMullan:** Through the development of the scheme and looking at ABS figures and the kilometres travelled by vehicles and the number of litres of diesel they have used, we have come to the conclusion that there was about \$1.475 billion in rebate being given back to operators—sorry, \$1.5 billion. What we are looking at is that the investment allowance would come in at \$1.4 to \$1.5 billion. So there is a small positive return to government by reprioritising the fuel credit rebate scheme. The reason I brought up the discussion with Costello and the Democrats at the time was that that scheme was initially set up to be tailored primarily to the emissions standard of the truck. As it evolved, you got more rebate than what the rebate was for an earlier model, and then through various discussions the decision was made to give it to all operators of trucks. What we are saying as a principle—our principle in 2004 was the same—is that this money could be better spent on modernising the Australian truck fleet by giving operators who invest in new trucks more rebate as opposed to giving it to people with pre-1996 trucks without emissions standards.

**CHAIR:** I see. I have your statement here. You are saying that there would be \$5.96 billion in benefit to the community if we adopted this arrangement. That is over a 10-year schedule. Do I take it that these estimates have been modelled?

**Mr McMullan:** Yes.

**CHAIR:** Where can I find that modelling?

**Mr McMullan:** I can give you a copy of the presentation I have here and I can provide other information that you need.

**CHAIR:** It is a very interesting idea. As you say, initiatives of this type have to be funded. If you could provide that information to the committee, that would be appreciated.

**Mr McMullan:** I can do that. What they are is: avoided health costs, taking the medium range estimate, \$1.88 billion; avoided fatalities, \$153 million; reduction in CO<sub>2</sub>, \$50 million; operator direct savings, \$3.8 billion.

**CHAIR:** The \$3.8 billion is the bit. In any of our calculations certain budgetary rules apply. I am afraid that, whether we like it or not, the current budgetary rules that are adopted by governments of all persuasions are that opportunity costs are not calculated.

**Mr McMullan:** This is based on performance based standards, maximising the efficiency of the truck.

**CHAIR:** Have you spoken to Treasury about this?

**Mr McMullan:** I have, yes.

**CHAIR:** What did they say?

**Mr McMullan:** I have never heard the comment passed to me that it was not applicable, and I have been presenting this since 2011.

**CHAIR:** As a rule the proposition, as I understand it, is that you cannot build into your costs calculations savings in other areas—road safety and opportunity costs of that type. They want to know precisely the dollars here and now.

**Mr McMullan:** Yes, you are right. But that is an additional benefit, because what we are really saying is that the fuel credit rebate scheme actually pays for the investment allowance to modernise the fleet.

**CHAIR:** That is what I am really interested in. Even with those costings, what is the net effect then?

**Mr McMullan:** If you apply, for instance, a 15 per cent investment allowance for ADR 80/03 diesel trucks and a 25 per cent investment allowance for what we call ADR 80/03-plus trucks—so that could be hybrids, gas trucks or Euro 6 trucks—you end up in a situation where, we believe, the rebate pays for it and actually saves the government \$50 million. That is because you are taking the rebate off operators who have—

**CHAIR:** That is right. You are denying eligibility. That is an integral part of your proposal. Some vehicles would no longer be eligible.

**Mr McMullan:** That is right. The reason I am saying that is first because the history of the scheme is such that that is what was originally intended, but it was changed—that is the reality of life; it changed. The second reason is that we are seeing a bit of a structural adjustment going on at the moment because various state governments are looking at ways they can minimise emissions and so forth from trucks. You could have low-emission zones, for instance, or higher registration costs for older trucks—that sort of thing.

**CHAIR:** That would be in the province of the states. But the Commonwealth, under your proposal, could take up this scheme—and you think there would be a \$50 million saving to the Commonwealth budget. That is the proposition?

**Mr McMullan:** That is correct, yes.

**CHAIR:** How many people would be affected by that decision, in your assessment?

**Mr McMullan:** I would have to get back to you on that.

**CHAIR:** I would appreciate it if you took that on notice. Presumably you have thought about it, so I assume you would tell me, 'Not that many, because they would be forced to buy new trucks if they wanted to pick up the benefit'.

**Mr McMullan:** It is a voluntary scheme. You still have the choice not to.

**CHAIR:** You have the choice of not taking government money. Not many people take that up.

**Mr McMullan:** You have the choice of not upgrading your fleet, your truck. But you would not get a rebate from the taxpayer in that case. We are not talking about lots of money here. Collectively it adds up to a lot. If a port truck is operating at 40,000 kilometres a year and the fuel efficiency is about 1.5 kilometres per litre, you are using 20,000 litres of fuel and your rebate is \$2,600 a year.

**CHAIR:** I am very attracted to the idea. I can see significant public policy reasons for arguing for it—road safety, fuel economy, environmental impacts, employment and productivity. There are a number of arguments I can immediately see would apply. You say you have spoken to Treasury about it?

**Mr McMullan:** Yes.

**CHAIR:** What has the response been?

**Mr McMullan:** I am sure each of you will appreciate the statement if I say, 'Infinite requests, finite resources'. Having said that, in our first—

**CHAIR:** They told you to bugger off, did they?

**Mr McMullan:** Having said that, in our first meeting with Treasury, we had five departmental officials around the table being briefed on it. The next year we had seven.

**CHAIR:** How long ago was this?

**Mr McMullan:** It was 2011-2012.

**CHAIR:** So it has been before the previous government as well?

**Mr McMullan:** That is right. In all honesty, whilst I have briefed the current government, their mantra has been to look at the books, the budget, and to do what it is doing. But I continue to represent this case to the current government. My understanding of the position of the department of transport and Treasury is that they can see the benefit in the plan. I guess it takes political will to make that decision, to say, 'We are going to reprioritise the fuel credit rebate scheme to pay for it'.

**Senator KETTER:** I just have a follow-up question on that. Have you had some feedback from the road transport operators about this scheme?

**Mr McMullan:** Road transport operators, or the industry association representing them, are opposed, I guess, to any taking away of money. Having said that, though, I spoke at a NatRoad conference in August of last year, and this was the whole point of my speech. The discussion subsequent to my speech was that there were parties for it and parties against it, but that conference moved that they supported the intent of this, and they moved in favour of themselves having a policy that talks about the renewal of the truck fleet. Renewing the truck fleet is a

positive initiative. I guess how it is paid for is the question. For government, it is a matter where each party has objectives: environmental objectives, which range from this to this; road safety objectives; and productivity and economic objectives. This plan fits beautifully into that, no matter where your stance is on how much you want one or the other, because it does do positive things for the—

**CHAIR:** Sorry, I did not quite catch the date of that conference that you spoke of.

**Mr McMullan:** August of last year. It was a NatRoad conference.

**Senator KETTER:** So it would be fair to say that the majority of the operators were not necessarily opposed to it?

**Mr McMullan:** That is right. In fact, one of the comments I remember was, 'Why should I have invested in your trucks when the people who haven't still get the same amount of rebate?' It is a very valid question.

**Mr Dozier:** I do not want to speak for the others, and they can certainly jump in, but I would add—and we would have to verify these numbers—that the majority are already there. The fleets that basically support the Australian economy cannot afford to not be there. Certainly they could provide data that would help make that a bit more objective, but I think that is the reality.

**CHAIR:** But you are saying to us that the average of the Australian truck fleet over 4.5 tonnes is 14.8 years. Every truck is 15.7 years on average. How do we get to that?

**Mr Dozier:** The majority, because you have big fleets. You have one-off single trucks—lots of individual trucks or small numbers—but then you have large fleets who have a bigger number of trucks.

**Mr McMullan:** There are 175,000 pre-1996 trucks fully registered on 12-month registration according to ABS.

**Senator BUSHBY:** What percentage of the overall truck fleet is that?

**Mr McMullan:** Thirty per cent. But pre-2003 is Euro 1 standard. Whilst engineers do an absolutely brilliant job today, at that time we were only learning how to effectively burn off the noxious emissions and so forth. So the point can be made that Euro 1 technology is not as advanced as where we are today, obviously. If you take into account the 100,000 Euro 1 trucks that are still on the road, fully registered for 12 months, there are 280,000 trucks in those categories, and that represents 48 per cent of the fleet.

**CHAIR:** So why wouldn't you start at the 48 per cent?

**Mr McMullan:** That is what the current truck plan is.

**CHAIR:** So that is where you want to start, and that is the basis on which the trucking industry has discussed it?

**Mr McMullan:** The current truck plan looks at pre-1996 only. The latest version, which we are working on at the moment, is going to incorporate pre-2003. The NatRoad conference only talked about pre-1996.

**CHAIR:** Okay, so 2003—what does that do to your financial projects?

**Mr McMullan:** As I have stated in the statement, it makes it majority funded. It does not completely fund it.

**CHAIR:** So how much does the Commonwealth have to tip in if you go to 2003?

**Mr McMullan:** Sorry, I would have to get that figure for you.

**CHAIR:** Could you take that on notice as well.

**Mr McMullan:** Yes, I will take that on notice. Treasury were keen to have me explore how we can do this without any caveats, such as funding it yourself. They were keen to see just where that went in terms of what the cost actually was, because I went in saying, 'I understand that new expenditure needs to be funded, so here's one for the other.' And then I was asked to have a look at it the other way as well.

**CHAIR:** You are clear, though, that pre-1996 it produced a saving to the Commonwealth of \$50 million.

**Mr McMullan:** Yes.

**CHAIR:** You are absolutely clear about that?

**Mr McMullan:** Yes.

**CHAIR:** And that is 30 per cent of the fleet.

**Mr McMullan:** That is correct. That is based on a 15 and 25 per cent investment allowance.

**CHAIR:** Perhaps I can just come to this point: you say it takes 60 of today's trucks to equal exhaust emissions of one pre-1996 truck. What is the basis for that claim?

**Mr Brown:** It is simply on the basis of the soot levels emitted by each of those standards.

**CHAIR:** Can you cite me any evidence to sustain that? How would I verify that number?

**Mr Brown:** They are the limits prescribed in the respective legislations.

**CHAIR:** And you say that is the basis of the current—

**Mr Brown:** That is the factor of the comparison of the standards at the two different points in time.

**Mr Dozier:** Engine certification, would give you exactly—

**CHAIR:** Could you give me the detail of that?

**Mr Dozier:** Yes, sure.

**Senator BUSHBY:** To follow up on that, you are saying that about 48 per cent of the heavy trucks that are sold in Australia are locally produced. Is that correct?

**Mr McMullan:** Yes.

**Senator BUSHBY:** And you say that if this measure was introduced you could reasonably expect an additional 3,300 trucks to be manufactured in Australia. So, you are making an assessment there of a percentage of the pre-1996 trucks where the incentive would be sufficient for the owners to turn over into a new truck, but presumably probably about 6½ thousand new trucks a year, with the local manufacturers making about half of them. Is that right?

**Mr McMullan:** The incentive is available to everyone.

**Senator BUSHBY:** You do not produce every new truck that is sold in Australia, but your 3,300 is roughly half the new trucks you expect would be driven by this change.

**Mr McMullan:** That is right.

**Senator BUSHBY:** Do the Australian manufacturers produce only for the domestic market? Or do you have an export market as well?

**Mr Grasso:** New Zealand.

**Senator BUSHBY:** Yes, New Zealand is the obvious place.

**Mr Grasso:** And Papua New Guinea.

**Mr Dozier:** At PACCAR we do small numbers into ASEAN, and a few into the Japanese market, but those are very specialised, usually from mining applications.

**Senator BUSHBY:** So, you do not see any opportunities for expanding exports at this point?

**Mr Dozier:** I think there are opportunities; they are relatively limited. In South Africa it would be right-hand-drive markets, so South Africa is a possibility.

**Mr Grasso:** I agree. Internally we have had similar kinds of considerations around South Africa, given the likeness in terms of right-hand drive. Not to shift away from the core focus of the truck plan, which is really what we are here to discuss, but earlier Senator Carr had a question around what the government could do to support the industry. There is one thing that I think is not necessarily supporting the OEMs directly but supporting the broader automotive industries around the supply chain. A lot of us have a very large cluster of suppliers that we rely on but in terms of the level of capability that exists within that supply chain, relative to what exists in the car industry, I think there is a fair difference. So, perhaps there is some way of transitioning some of those skills across to the truck industry, some of those suppliers, potentially.

We cannot replace the car industry by volume. We would be silly to even suggest that that could be the case. But there has to be an opportunity there to try to bring some of those skills and capabilities across. The reason I am making that point is that part of facilitating exports is about competitiveness from a manufacturing point of view, and if we can get the supply chain to work more productively as well, and more effectively and more competitively, then I think that will flow through to our ability to potentially attract new markets.

**Senator BUSHBY:** That also would flow through to what I was going to ask you about next, and that is the fact that you currently have about 48 per cent of the domestic market—

**Mr McMullan:** That is in heavy-duty trucks.

**Senator BUSHBY:** Yes, heavy duty trucks, which suggests that somebody else has 52 per cent. I suspect that trucks are a bit different to passenger vehicles, where in a lot of cases purchases are driven for emotive reasons as much as for practical reasons, whereas if you are looking at buying a truck it is because you are running a business and you are making a rational decision; you are looking for that truck to deliver outcomes that will enable you to make a dollar out of it. I guess at that level—I am interested in what the competitive advantages of the Australian industry are that enable you to get 48 per cent. And what could change? Your competitiveness is



probably part of it, and I think there are a lot of Chinese producers now, and things like that, which may be threatening. What could be done to help you capture a larger share of the Australian market? What is holding you back?

**Mr McMullan:** If I could answer the first part of that, and then let my colleagues answer the second part, the Australian market is very unique in the world for the loads carried, for the distances travelled and for the conditions that it operates in. I believe Australia is the most competitive truck market in the world. All manufacturers come here. They may not sell lots of volume, but they want to test their product here. If it survives here it will survive anywhere.

**Mr Illmer:** It is interesting. Tony is exactly right. When we talk to our global colleagues—and I am talking on behalf of the Volvo group—we are known as the most difficult truck market to operate in, in terms of our equipment. As Tony said, it is a high average speed. The population is all coastal. It is very, very hot, and the trucks we produce in Australia are completely different to anything else we produce globally. Currently between 90 and 95 per cent of all the vehicles we manufacture in Brisbane are different. If you took a sample of 100 trucks and you tried to match them up for some specification, unless it was for the same customer you could not; they are all different.

**CHAIR:** In my visiting of some of your plants, it has always struck me that the production methodology is more akin to the traditional craft based method rather than the long production lines that you see in the rest of the automotive industry. The specialist skills are very different.

**Mr McMullan:** The product is not a standard product.

**CHAIR:** That is right. But that gives you a competitive advantage, because it is such niche marketing.

**Mr Dozier:** To Senator Bushby's comments, I think it is the value add. And you asked, why 48 per cent? It is about our ability as local manufacturers to respond quickly. Your lead times for an imported product are three to six months.

**CHAIR:** But perhaps I could come back to Mr Grasso's comment: you were saying you wanted assistance with the supply chain, and diversification out of passenger vehicles. That is something where the ATS might be of assistance. Even if you do not as OMEs want assistance of that type, the supply chain may find it of benefit.

**Mr Grasso:** I think there would be some benefit in exploring that. You will find that the truck industry suppliers are often characterised as being quite diverse themselves. They are not necessarily relying on the volume that the three of us can provide to them. But often you will also find that they are smaller in terms of scale and their ability, compared with the car industry. So, as I said before, anything that can bring over some of those skills would be an advantage to us as local manufacturers. If the ATS is the tool that assists some of that to occur, then for sure that would be something that would be of interest to us.

**CHAIR:** Sorry, Senator Bushby; I interrupted.

**Senator BUSHBY:** That is all right; it was a good question. That comes back to my question, though. You explained well why you have 48 per cent—the ability to tailor to the customer's needs effectively. What about the other 52 per cent? Is that a cost based thing? Is it because they are selling them cheaper? What is the advantage that the other manufacturers have that means they can capture 52 per cent of the market?

**Mr Brown:** It depends on application. A truck that delivers groceries to a supermarket in Australia is not so different to a truck that does the same job in Europe. There is a certain segment of the market that is just the—

**Senator BUSHBY:** The generic—

**Mr Brown:** The cookie cutter type of specification.

**Senator BUSHBY:** And that comes down to cost, basically.

**Mr Brown:** Pretty much, yes.

**Mr Grasso:** You will find that quite a bit of the volume also exists in the smaller truck part of the market where it is obviously much more competitive. A lot of the brands are playing in that space. The margins are quite different, I think, from that point of view. The other thing we have to acknowledge is that over the past few years there have been a number of free trade agreements that have made access into the Australian market even easier for some of these brands from some of the countries that we have agreements with. Again, that ability to compete in that part of the market is quite difficult where most of that volume exists.

**Senator BUSHBY:** In summary, and correct me if I am wrong, you are essentially saying that the advantages that you described, which the Australian truck manufacturing market has, apply to roughly half the market and the other half of the market has different characteristics, which mean that you do not necessarily have the same

competitive advantage to be able to get that share. Do you see that there is any scope at all of increasing your share of the domestic market or is it really just that the best opportunity for growing your industry is to grow the overall market with measures like you are describing?

**Mr McMullan:** I believe that is the case, yes. It gets down to demand cycle. The simple fact of the matter is that demand is not strong at the moment and if demand were stronger there would be more people employed and more trucks being built.

**Senator MUIR:** I think everything has been covered off pretty thoroughly actually. It has been quite a good hearing. Out of curiosity, you were mentioning the age of the fleet, which is 14.8 for over 4.5 tonne and 17.7 for heavy rigid earlier on, is that correct? How many trucks would need to be manufactured locally to keep the age of the fleet the same as what it is now rather than letting it expand out and make the years longer?

**Mr McMullan:** I am tempted to ask if I can answer that on notice.

**Senator MUIR:** You can if you want.

**CHAIR:** You can.

**Mr Dozier:** I would just go ahead and do that. Do not try to do that math in your head.

**Mr McMullan:** It is a function of a number of things.

**Senator MUIR:** That is good. I am looking forward to getting an answer to that. To capture a bigger part of the smaller truck side of the market is there any procurement policy that may be councils or state government could look at that might be able to boost the sales of Australian manufactured trucks?

**Mr Grasso:** A consistent approach would potentially help. I can only speak on our behalf. We manufacture emergency services and specialty vehicles around the world, so there would be some opportunity to look at those particular markets within the Australian context. To take it from an import to a locally produced vehicle, the volume would have to justify that kind of approach and I do not know, even with procurement policies in place, whether it would have that much of an impact in terms of being able to produce some of these smaller types of vehicles in Australia.

**CHAIR:** Thank you very much and we look forward to your additional answers.

**Senator RICE:** I am interested in exploring more about the low-emissions vehicles, and obviously your initiative is based on getting those cleaner vehicles. How clean, how low an emission do you think is feasible, particularly heading towards zero carbon transport and the potential of that in the trucking fleet?

**Mr McMullan:** I think as a general statement, within the truck fleet at the moment at Euro 5 standard, ADR 80/03 standard, we are very close to the line in what can be burnt off. There is Euro 6 product coming into the country at the moment, ADR 80/04, and it is available in Europe. As I understand, the regulatory impact statement to bring it into the country at the moment cannot be justified because the economic benefits are not there. The extra costs of bringing it in as a standard do not warrant the rigour that goes through the regulatory impact statement because the amount of emissions being burnt off are very minute between Euro 5 and Euro 6. Mal can speak to that more thoroughly as the chief engineer for Volvo.

The other part of your question was about CO<sub>2</sub>. Obama brought in the fuel mandate rules for vehicles to reduce fuel use by 20 per cent between 2014 and 2018. The trucks being manufactured over there at the moment are a combination of getting better engine efficiency as well as streamlining truck design. That particularly—the streamlining of truck design, the aerodynamics of it—is going to be where the big returns are coming. Within the life of a truck plan, a five-year period, we will start seeing some of these trucks coming into the country that are better able to use less fuel, reducing CO<sub>2</sub> emissions. That is happening through Europe and Japan as well.

**Mr Brown:** When it comes to NO<sub>x</sub> and particulates, which are the regulated emissions at the moment, it is fair to say we have pretty much gone as far as we can go, and the attention is now turning to CO<sub>2</sub>. We are very close to having the air coming out of the exhaust as clean as the air going in at the moment, at Euro 5 or perhaps Euro 6.

**Senator RICE:** Could low carbon emissions be an area that Australia could lead in if we set our minds to it?

**Mr Brown:** We have a lot of ground to make up to lead, because we are not regulating CO<sub>2</sub> emissions at all at this stage. That is the thrust of the overseas direction now, with Obama and also with further developments in Euro 6 starting to address carbon dioxide rather than NO<sub>x</sub> and particulates.

**Mr Dozier:** It has gone from regulating particulates and NO<sub>x</sub> emissions to a greenhouse gas reduction now. That is what you will see in our industry—as greenhouse gas or CO<sub>2</sub> reduction. A majority of the emissions regulations that have gone on for more than a decade centred on NO<sub>x</sub> and particulates have come at the cost of

fuel economy. The benefit here, and it is being taken up and viewed favourably from a customer standpoint, is that now we get to greenhouse gas and CO<sub>2</sub> reduction, customers start to receive fuel economy benefit as you address the CO<sub>2</sub> piece.

**Mr Grasso:** That is not to say, though, that we do not have the technology available within our respective companies to be able to address some of those priorities, should they become a priority. Whether it is natural gas vehicles or electric platforms, they are available within the truck sector. We just do not make them locally because, again, there is not a market for it at the moment.

**Senator RICE:** But we could?

**Mr Grasso:** We could certainly introduce those technologies into the country; localising them is another story. I think it is a much broader discussion around volume and demand.

**CHAIR:** We are well over time. Thank you very much, gentlemen; that was very much appreciated.

**Mr Dozier:** Thank you for your time.

**AROCCA, Mr Eugene, Chief Executive Officer, Confederation of Australian Motor Sport (CAMS)**

[16:09]

**CHAIR:** Welcome. Do you wish to make a brief opening statement?

**Mr Arocca:** Yes. I will keep it to about five minutes—and if you wind me up, that will be fine.

**CHAIR:** That will be fine. We are a bit behind schedule.

**Mr Arocca:** I was going to pull the chequered flag out before, but we will battle on. I thank the committee for allowing us to make a submission in the first place and also to address the committee. I want to highlight a couple of points that have been partly covered in the submission but are probably worth bearing out. From an innovation point of view, Australian motorsport has done what no-one else has done. Fifty years ago, in 1966, Sir Jack Brabham became the first manufacturer and driver to win a world championship, and he did that without using a Holden or a Ford. He went to Repco, which is an Australian company, and was able to do something that had never been done until that time and will never be done into the future. From an innovation point of view, things like wind tunnels and carbon to carbon disc brakes were innovations that Sir Jack brought to the table. As a platform for innovation, ingenuity and engineering design, we have done the hard yards. We did them 50 years ago. I will turn to Sir Jack later on, but it is important to note that even today his spirit continues on through companies like Carbon Revolution, a company that essentially manufactures a carbon wheel out of one piece of carbon fibre, or PWR, a Queensland company that is in world-leading technology and cooling.

Regarding economic impact, we have provided information about the Ernst and Young report. What prompted us to do that was that back in 2005 there was an estimate that world motorsport generated about £50 billion of activity, and we thought it was worthwhile to look at what Australia produced. We know that the UK look at about \$11 billion of economic activity directly related to motorsport. The Ernst and Young report confirmed a few things which we suspected. Those were the 150,000 participants, \$2.7 billion of direct industry output and 16,000 direct jobs. On the back of that there are 334 tracks and 1,300 car clubs, and some 6,000 events go on every year in this country. In gross figures were talking about \$7 billion of economic and indirect value-adding. We punch way above our weight on a world scale. Some say we are the equivalent of France when it comes to motorsport economic activity.

From a cultural and sporting impact perspective, we have names like Brabham, Schenken, Jones, Webber and Ricciardo on the world stage and at the local level Brock, Moffat, Bond, Johnson, Lowndes, Winchup. This is in our DNA and, from a cultural point of view, it is not just about the Grand Prix, the World Rally Championship at Coffs Harbour or Bathurst—and I will be going tomorrow morning for my annual pilgrimage. It is about the 6,000 other events that take place at all levels across the country. On any given weekend there are hundreds—thousands—of people out there participating in motorsport, bringing families together and bringing economic activity. But, importantly, it is part of our culture. Whether it is a reflection of the size of our country or the way in which we have had to rely upon the car, it is embedded.

From an international significance point of view, Australian motorsport has an enviable reputation. We are considered to be the global ambassador for motorsport. As I speak there are five Australians in Russia managing and assisting with the Russian Grand Prix. Next month we are sending about 10 Australians to China to work with them managing motorsport events. In the last five years Australians have been travelling the world promoting motorsport. In 2011 we sent 100 officials and volunteers to Korea to, essentially, stage their grand prix. In that year we received more money from the Korean government than we had received from the Australian government as a sport in the previous five years. In fact, every year since 2010 we have received more international funding from the activities that CAMS does in motorsport than we have ever received from the Australian government through the Australian Sports Commission.

The relevance of what we do on the world market is that by being out there and teaching people how to run motorsports we are actually being a vanguard for the rest of our industry. Where motorsport takes hold, innovation, enterprise and ingenuity follow thereafter. Therefore, from that point of view, we are global ambassadors not just for motorsport but for the Australian economy.

I should mention the issue of funding. In a recent discussion with a former chair of the Australian Sports Commission he said to me, 'Eugene, the sport's problem is that it is not seen as a sport. It is really an industry.' Hemingway would disagree with that. He once said that mountain climbing, bullfighting and motor racing are the only true sports; everything else is a game. Having said that, we do not get much from industry. We sit between the two stools of perception about being a sport and being an industry. We get \$100,000 a year from the Australian Sports Commission. We are 38th on the list of government recipients for elite motorsport development and we, CAMS, get nothing, essentially, for industry support for motorsport. If you looked at the entirety of

Australian motorsport and it was a coffee table, CAMS would be a 20c piece in terms of how much we spend in generating the rest of that activity. However, having said that, recently both the South Australian government and the federal government committed to assisting Tailem Bend in South Australia to build a track. Despite that, when we look at all the other sports that have somehow been able to claw billions of dollars out of federal and state governments, we shake our heads, because we are true generator of economic activity both here and overseas.

I will wrap it up a bit by talking about one of the main planks of our submission: a centre of excellence. We invite the committee to look at the Silverstone Park model. Right next to the Silverstone track in the United Kingdom is a fantastic, innovative engineering and motorsport development park. If you google Silverstone Park it will come up. We invite the committee to look at the opportunities that might exist in Australia in a regional area where we could create a track, build into that an industry element which would be supported by the aftermarket industry, the automotive industry and the motorsport industry. We could foresee a time when international visitors would be coming to our venue and learning more about motorsport, automotive excellence and innovations that go with it.

We think that those are four or five key points. But I cannot help myself as a lawyer—I would like to refer back to Sir Jack. Just before his death he was asked to pen a contribution to CAMS's 60th anniversary history book and, despite his years, he could not help himself. Sir Jack has always been a bit outspoken. I will close by paraphrasing what he said: 'I raced in Europe as a proud Australian and I reckoned being an Aussie was a good thing. CAMS and the Australian government could do a lot if they looked at opening the borders. There is a lot of ingenuity in Australia and it needs encouragement. My association with Repco is a good example. People say it couldn't happen today but I say why not, especially with the state of the Australian motor industry; we need a big hit. My major comment has to do also with the people and the development of young drivers in sport. It has been too long since Australia has had a world champion. For Australian motor racing to really make its mark on the world we need to get national commitment that's promoted by CAMS, funded by government and supported by all Australians, including industry. I always believed I was racing for Australia. I think I did Australia proud. These days there are programs for all sorts of sports where Australians can represent their country—cricketers, cyclists, swimmers; you name it—but not for motor racers. So I am really grateful for all the recognition I have received but if I am going to leave a legacy I want to be remembered as a forerunner, a pioneer, and not as a one-off.' I think he was referring to himself not only as a competitor but also as an innovator in motorsport design. Today there are still things that are being used, such as the wind tunnels, that Sir Jack introduced to motorsport. That is pretty much my paid political speech.

**CHAIR:** It is very good.

**Mr Arocça:** I do think that the opportunity to create a centre of excellence, supported by the FIA—

**CHAIR:** I am going to come to that in a minute. Something that sparked my interest is your reference to the United Kingdom. There has been a bit of discussion within this committee and in other parts about the way in which the British were able to rebuild their motor industry after Thatcher. What, in your view, was the contribution of motorsport to that renaissance in the British automotive industry?

**Mr Arocça:** It is an interesting question but it is hard to answer. The reality is that the UK has always been seen as the home of motorsport. In fact even Sir Jack went to the UK to create Brabham, the motorsport company itself. They have a long history that goes right back to the development of the car. We could probably never replicate that in Australia. They have got eight F1 teams. They individually generate £500 million of revenue or activity. There is something endemic in their DNA, if you want to call it that, that is similar to ours, but they are closer to Europe. Their capacity to engage with the rest of the European market has been a challenge that we cannot necessarily overcome in Australia. But to that we say that Asia-Pacific is an excellent opportunity. One China is worth more than Europe in real terms, and they are just getting into motorsport. They recently invested \$250 million in a new track in China to host a grand prix. We would say that what they did in the UK was really reconnect with the rest of Europe and use their motorsport background as an entree. We could do the same in Australia to the rest of the Asia-Pacific region. It is only in the last six months we have been in Nepal and Uganda, teaching and training people about motorsport. I do not know that I have actually answered the question, but I do think that there is—

**CHAIR:** You think there is a parallel.

**Mr Arocça:** Yes, there is a parallel in the Asia-Pacific area, and we think we can be world leaders in that area.

**CHAIR:** Have you had any conversations with state governments about the motorsport centre of excellence that you have spoken of?

**Mr Arocca:** Yes, we have—the New South Wales government, in particular. They recently made an announcement that they are spending \$1.28 billion on infrastructure in sport, but there was no mention of the \$6 million we were after for the centre of excellence. They have talked about maybe partnering up with the federal government in a 50-50 deal but the Sydney Motorsport Park, which is a government owned track, seems to us to be an ideal venue for it. Personally, as a Victorian, Ballarat is currently looking for 1,000 acres to build a modest track, to start with. We can imagine a city like Ballarat, which forms a sort of a triangle between Melbourne and Geelong, could actually sustain something like a Silverstone Park. You would build a track and have industry right next to it. New South Wales does not have one V8 team, yet there are three or four in Queensland, there are three or four in Victoria and I could see an opportunity with a track—

**CHAIR:** What conversations have you had with the local government in Victoria?

**Mr Arocca:** The Vics have really only just started in government and they are working through a number of issues. We certainly met with the Victorian sports minister, John Eren, and planted the seed because Sandown will not be long of this world, in terms of motorsport. We have heard that Sandown, which is an iconic track in Victoria, probably will not go beyond 2018. We need another track in Victoria. We have certainly spoken to the government about that, and I have even spoken to well-heeled businessmen about Nagambie—70 kilometres up the highway—being an opportunity, as there is a bit of land there that could be utilised. Then we could back-end the centre of excellence into that.

We are using it as an opportunity, but I just do not think that government 'gets' motorsport beyond the event. I do not think they get the power of motorsport and the fact that out at Braybrook there are little companies that are building transmissions for export to Europe for motorsport. I just do not know that they see that picture. They see the bigger picture—

**CHAIR:** What are the costs involved in building another track?

**Mr Arocca:** They vary. You can spend \$500,000 grading an old farm track or you can spend \$200 million if you want to build a state-of-the-art facility. It is generally around the \$30 million to \$40 million mark. If you wanted a V8 race with a great facility for corporates, proper pits and a tower, you are probably looking at \$30 million to \$35 million. We got \$15 million at North Melbourne to build a training facility for 40 footballers, and I look at Australian motorsport and here we are—we do not even have a centre of excellence where we could look at road safety, community engagement and, certainly, innovation and engineers. There would be universities falling over themselves to come in on motorsport's coat tails and develop a centre of excellence. We are young, smart, innovative—mechanics and engineers could really make an impact.

**CHAIR:** Have you had any conversation with the Commonwealth government?

**Mr Arocca:** No, not really. We spoke to Peter Dutton when he was the sports minister. We actually took him to Bathurst, showed him around and talked about the centre of excellence. It is the next level that we have to cut through to. We certainly made submissions in New South Wales, and we took the view that we needed a state government to partner us. Senator Bushby, are you looking for something in Tasmania?

**Senator BUSHBY:** The obvious question there is: we all talk about Sir Jack Brabham, I think he had a key—

**CHAIR:** Senator Bushby has a keen interest in this matter!

**Mr Arocca:** I am aware of that.

**Senator BUSHBY:** He played a key role in designing Symmons Plains raceway. I presume, from what you are saying about your Geelong-Ballarat-Melbourne triangle, that your suggestion is that Tasmania probably would not have the depth of industry to sustain a centre of excellence along these lines.

**Mr Arocca:** I would say yes to that. I think we need a strong regional centre close to the capital. As much as Tassie is a fantastic venue for motorsport—the Targa, which you obviously know about, is a fantastic little industry and an economic driver—I think we need to be somewhere on the mainland and more easily accessible to the Asian market. Ideally, it should be up north. It could be in Darwin or even somewhere up in Far North Queensland.

**Senator BUSHBY:** Too far to go for those in Tasmania!

**Mr Arocca:** Too far to go for us down here, but—

**Senator MUIR:** I am going to nominate Yallourn North!

**Mr Arocca:** There is Yallourn North. There is Haunted Hills. I have been out to Haunted Hills and they have talked about building a Bathurst-like track, but 95 per cent of tracks in Australia are owned by private operators. It costs us \$10,000 for CAMS to get a track to do a come-and-try day. We cannot even get access to tracks. What we do know from the Ernst & Young report is if you build more tracks, you get more participation and when you

get more participation, you get more economic activity. Look at Coffs Harbour. It generates \$15 million to \$20 million of economic activity. Look at Bathurst. It will have 200,000 people descending on the mountain this weekend. Bathurst is huge, but it is replicated in a lot of other places around the country. What we really do need is a knock-your-socks-off track with a fantastic industry park next to it, and you will have everyone from car manufacturers to overseas participants wanting to use that area or use that experience. We went to Lang Lang; we went to General Motors Holden. We figured they have taken a fair bit of money out of the Australian government over the years and we thought, 'Wouldn't it be wonderful if you donated Lang Lang back to the Victorian government.' You could still have your Holden museum there, if you want to call it that, but then allow that to become an industry park.

**CHAIR:** Aren't they intending to expand their operations there?

**Mr Arocca:** They certainly said no to that suggestion, but they believe that Lang Lang is an excellent opportunity to continue—

**CHAIR:** They are actually using it for their own purposes.

**Mr Arocca:** But they probably use it 50 days a year. If you had a track there, that would be used 336 days.

**Senator BUSHBY:** The rest of the year.

**Mr Arocca:** For the rest of the year. We really suffer immeasurably from a lack of infrastructure.

**Senator BUSHBY:** I love the idea, as a motorsport enthusiasts, of the idea of what you are proposing. It is something that you are going to have to work through with governments, state and federal, over the coming time and make the case. Bathurst is an iconic track as you mention. I may be wrong, but I have in the back of my mind somewhere, probably under the Howard years there was some talk about trying to buy up the properties around the track to try to make it a dedicated track since Bathurst is a public road. Obviously, if you could somehow get that track to be a dedicated motorsport track, there would be nothing better than selling it to the world market. I have got motorsport friends in the UK who love watching the great race every year and it is legendary not just in Australia but around the world. If Bathurst was the place that you could do it that would have something extra.

**Mr Arocca:** Bathurst is our Nurburgring. It is recognised on the world stage.

**Senator BUSHBY:** It would be great if you could go there and do a pay per lap type of thing.

**Mr Arocca:** Unfortunately, the reality is that some of those local residents have said, 'Take it out of my cold, dead hand,' and we only have five events at Bathurst. However, I have heard recently that the Bathurst council is looking at building a track to the side, on their own land, which would utilise parts of the current Bathurst track but not the entire track. In some regard, there is a uniqueness about Bathurst because it is a street. It is a normal public road where you can drive up and down any other day of the week, normally the coppers are down the hill filming people!

**Senator BUSHBY:** I have been around there and watched the coppers very carefully.

**Mr Arocca:** Bathurst is iconic worldwide and, in some regard, what we really do need to look at is another regional opportunity where we can—

**Senator BUSHBY:** create something that is equally as iconic.

**Mr Arocca:** Absolutely.

**Senator BUSHBY:** To do that, it is not just a matter of finding a piece of land and building a track on it. The special aspects of Mount Panorama is its natural geography and the way the track actually works on it.

**Mr Arocca:** The vision of that mayor who is outstanding. We would think that what we need is a track that is probably not as iconic in terms of its topography but rather something that is practical, where mums and dads like on the Nurburgring pay \$150 to get a lap on the Nurburgring. You cannot get on a track in Australia without paying \$15,000. If you want to go to Phillip Island for a weekend—

**Senator BUSHBY:** You can in Tasmania.

**Mr Arocca:** Yes, you can, but Phillip Island will cost you \$30,000.

**Senator BUSHBY:** For \$120, you can go out and race around all day on a practice day. You suggest a motorsport centre of excellence. What other things can government do? Coming from a perspective of a Liberal, what obstacles are in place that the government could remove to help facilitate motorsport activity in the country?

**Mr Arocca:** Coming from an Italian background, you might find this surprising that it is all about cash. We just do not get our fair whack of Australian funding relative to other industries and other sports. We are 38th on the list of sports funded bodies. We are going down to \$100,000 next year. Implicit in the success of motorsport is

iconic champions, and our last one was Alan Jones. It is 30 years since him. Daniel is a chance. These people bring the sport along with them. They bring innovation with them and they bring other industries along with them.

There is an Australian swimmer who has probably received more money in the last 12 months than we have received in the last five years. We do not want to bang on about it, but the reality is that we need support at the elite level in developing young drivers and we need support in tracks. There are the loopholes that we have to jump through just to get meetings with people to talk about funding some more improvements on tracks. There is a track called Winton—

**Senator BUSHBY:** Yes, I have been on it. I have driven on it.

**Mr Arocca:** That needs about a million and a half. It generates about \$15 million of economic activity a year, beside the V8 event, and it is hard work. Governments just do not open up their money to what they see as a sport/industry/rich person's activity. It is not; it is a lot more than just rich men driving around in their Ferraris.

That is the perception. That is why we went out and got the Ernst & Young report. We felt that the economic power of motorsport could cut through some of that perception, and we have seen a lot more engagement—particularly with opportunities like this. This is a fantastic chance to talk about motorsport as a sport and as an industry.

We complement the automotive after-market—

**Senator BUSHBY:** Yes, absolutely.

**Mr Arocca:** There is all the ingenuity and design. There are Australian engineers overseas working at F1. We are there, but we just need more help. So it is money—it is cash.

**Senator MUIR:** How terrible is this? The Motoring Enthusiast Party senator and I have to rush to get a couple of questions in, and that is about it!

Following on from what you said about perception: we have just spoken a lot about the high end of motorsports—Bathurst and the potential to have a motorsport centre of excellence and so on. The perception that people will get is that we have been speaking about something that is very elite, I suppose. How important are grassroots-style motorsports? Grassroots are the entry-level motorsport, which you can get into for a couple of hundred bucks if you are lucky enough.

**Mr Arocca:** We talk about Bathurst, V8s and the F1. They represent, in sheer volume, probably 0.1 per cent of the total motorsport activity that goes on every weekend around the country at the grassroots level. It could be Nanna Jones going around some witches hats in a car park in Berwick under supervision or it could be the national-level Shannons—that is a great sort of opening, an entree, when you are talking about major events and economic activity. But the real meat and bones is below that level, right down to the 150,000 participants around the country who get out there and either spit and polish their cars or go for a spin around some witches hats.

To answer your question: the big stuff is good. It is sexy; it attracts some publicity. It gets us onto the news—onto the TV and into the newspapers. But it is all that other stuff that goes on—the 23,000 licenced competitors, of which maybe a couple are sitting in this room.

**Senator MUIR:** Right beside each other!

**Mr Arocca:** There are 8,000 officials who are CAMS related. These are all people who give up their time and just generate this fantastic sport for this country

**Senator MUIR:** Absolutely. You briefly touched on the connection between motorsport and the after-market industry. Just to highlight to other parliamentarians who might not be aware of the large connection there, do you just want to elaborate a little?

**Mr Arocca:** Yes. The Ernst & Young report revealed that the average Australian competitor—we are talking about the 53-year-old male or female out in New South Wales—spends about \$60,000 on their car for motorsport.

**Senator MUIR:** We are not speaking about 18-year-old hoons—

**Mr Arocca:** No.

**Senator MUIR:** as they would be portrayed in the media?

**Mr Arocca:** No, that is a perception which is completely wrong. In fact, I would much rather get in a car with Daniel Ricciardo instead of my son! Motor racing actually does develop other skills, but generally \$60,000 is spent by each 'participant', if you want to call them that, just on their cars. They spend about \$13,000 a year just participating. That is all money that is going through the economy. They spend nine nights a year away from home to travel to motorsport. So to answer your question: in the after-market situation, a lot of that \$60,000 is in



performance improvement and after-market modifications. It is a key part of a bigger part of a major part. The \$11 billion that the auto after-market generates is helped considerably by motorsport.

**Senator MUIR:** Just to help to paint a picture: you mentioned an age there of 50-something-years—

**Mr Arocca:** Yes.

**Senator MUIR:** So the perception, again, is about very young people. But being somebody who is in this industry regularly, what sorts of people are we speaking about? Are we speaking about doctors, or—

**Mr Arocca:** You can go from lawyers and doctors right down to the ordinary, everyday blue-collar worker who drives all the way from Mildura to Haunted Hills with his \$500 bomb on the back of a trailer just to have a spin around a track. It cuts through all the demographics, it really does. However, we do seem to have a baby boomer mentality based around getting involved in motorsport. My 19-year-old son bought an old HX. He is doing it up; he paid eight grand. I suspect he is going to spend another \$52,000 over the life of that car, because it does cut through. It is not just about age. As I said, I think it is in our DNA. I believe that it is something that certainly should be supported.

**Senator MUIR:** The Ernst and Young report focused on four-wheel motorsport.

**Mr Arocca:** Yes, absolutely. We have encouraged our friends in the two-wheeled industry to get onto Ernst and Young. They have more 'competitors', if you want to call it that. There are more people on motorbikes than we have in sport and we think that, if you put the two of us together, it would probably be double the \$2.7 billion. Doohan, Gardner and Stoner are iconic names. It is with great joy and pride that we are actually going to have the first Australian hall of fame in March during the Grand Prix where some 28 inductees are going to be announced, and we have another 28 to go, so it is part of our history.

**Senator MUIR:** I have so many questions, but so little time.

**Mr Arocca:** The chequered flag is going to come out on me I think.

**CHAIR:** Thank you very much for your attendance today. We have appreciated your submission.

**Mr Arocca:** It is a pleasure. Thank you very much for allowing me to do so.

**COOPER, Mr Brian, New Projects Manager, Engineering Department, Nissan Casting Australia Pty Ltd**

**SPINDLER, Mr Markus, General Manager, Nissan Casting Australia Pty Ltd**

[16:37]

**CHAIR:** Welcome. Would you like to make an opening statement?

**Mr Spindler:** Yes, please. Thank you for the opportunity to appear here. Senator Carr, I think our paths have crossed a few times in the past, and I have heard you speak a few times.

**CHAIR:** We are familiar with each other, yes.

**Mr Spindler:** In some ways I think we can share this. I am going to take you to the latest news and a general update about our manufacturing operations at Nissan Casting Australia in Dandenong. There have been some exciting developments in recent months and I am honoured to be able to share them with you today. Despite the turmoil that has been reported about our country's manufacturing sector, especially in the local automotive industry, we have been working away in the background.

Today, I want to show you what we have been doing in local manufacturing. Here is some important background information: Nissan Casting Australia was established in 1982. Our manufacturing operation here comprises the following: high-pressure die-casting, which are the parts you see in front of you; precision machining, as you see with the water jacket, which Senator Ricky Muir has at the moment; component assembly, and we also do some accessories manufacturing for the local Nissans.

We sit on around 90,000 square metres of land, over 20,000 of which is fully covered. At the moment, we employ around 160 staff and we are looking at recruiting more if we can secure all the new business. We are currently running three shifts a day, six days a week. Every year we make around 2.3 million aluminium castings and about 25,000 Nissan accessories, including tow bars and sports bars. Together we make 49 separate components here—39 castings, 10 accessories.

All of our castings are exported globally. Our customers are the Nissan plants in Japan, the US, Thailand, Mexico and supply companies to Nissan, which include Calsonic Kansei and the transmission company JATCO in Japan. Success with these customers does not come down only to the cost of the product. One thing that unites them is they demand the highest skill set, capability, on-time delivery and quality. This is on our existing product range. For Nissan Casting Australia to secure new work we have to be competitive on a global level. As you can imagine, this is not easy. There is a stringent process to follow through. Today, I want to note what Nissan has been doing in local manufacturing.

What sets us apart is a drive to exceed our customers' expectations on new project works, in regard to innovation, offer solutions to their problems, manage the complexity, be reliable, deliver a quality product the first time and achieve the shortest possible project-introduction timing. I am very proud to say that those are the main reasons they source from us today. The high-pressure aluminium castings we make for them can be grouped like this: we make oil pans, gearbox housings, final-drive housings, that you can see in front of you, and electric powered, EV, motor parts.

All of these we make here, in Dandenong plant, for the two Nissan electric vehicle models, the Nissan LEAF and the e-NV200. When you see an example as it comes straight out from the press you think it has been machined not cast. We see in the water jacket the fins are cast not machined. This is something that sets us apart. If you have a closer look at the electric vehicle motor parts fitted onto the EV motor you will see that the accuracy and surface finish are extremely precise. These parts are that precise because they have to match up in Nissan's assembly plants overseas to a tolerance of about 50 microns, less than the diameter of a human hair.

It is due to this local know-how and the skill of our staff and local suppliers—like our toolmakers, locally, and the engineering-solution providers—that we achieved this precision and quality, which has secured us the initial contract for the supply of these parts. I am very proud to say that they are part of the reason we have secured even more business from Nissan Global, some of it exclusive to Nissan Casting Australia.

Our manufacturing factory has been awarded more manufacturing work, and we have not won this based on cost. We still have to find the gap to find investment. But what we have is the high-skill level of our staff and our local suppliers. The new business includes drive-line components for soon-to-be-released new models, new motor technology and new propulsion systems. We believe that this development will see Nissan Casting Australia operating well past 2020. This additional contract shows that we have been working to secure additional manufacturing business—for the staff in our casting plant, for the local toolmakers, for the local engineering companies, which design and build our equipment needed for this potential new work, and for local suppliers of all kinds of consumables.

We have made some significant investment, here, in the past, such as our high-efficiency tower melter, a fully robot automated machining line and robot welding service, and we are about to make another significant investment for these new opportunities. Our total investment was done with federal and state government assistance in the past. Our investments and results are working. We earn more work from Global Nissan and it lets us operate at near capacity. Right now, we are in the final stages of securing a new program. This will secure work and employment for our people and has the potential for more job vacancies in our high-pressure die-casting operation.

New exclusive supply contracts awarded by Nissan Global will see Nissan Casting working well into the next decade. Nissan has a good position in Australian manufacturing. We are an exporting business, so we compete on a global level on pricing for our castings. We have capability and skills to make complex parts and we are sourcing our tooling and machinery locally. But the challenges are huge. The help we are seeking to win this new business is to lift the five per cent cap on the current ATS claims. This is because we are finding our business does not fit in any other funding arrangements currently available.

In the long term we see a need for workplace reform in penalty rates and shift flexibility. We see a need for support of young people in our universities and trade schools and for collaboration between government and research organisations and the industry. We see a need for future government programs to financially assist companies with investment for new projects in value-adding manufacturing. We see an ongoing need for support of innovation, research and development for the manufacturing industry like the current ATS scheme. We need to improve the infrastructure, including a port development for the south-eastern side of Melbourne.

This is a little bit of evidence of 'Made in Australia'. You see the kangaroo cast in our parts. We carry this in the world with pride. This is well-known within the Nissan world. You see it here in Australia in the cars which come back. This concludes my report. Thank you.

**CHAIR:** Mr Cooper, did you want to add anything?

**Mr Cooper:** Yes. As you know, we previously were the recipients of the Green Car Innovation Fund.

**CHAIR:** I am only too well aware of it.

**Mr Cooper:** We used that to set up the initial EV parts manufacturing site that we have, which involved clean rooms. EV parts are a clean room component for electronics. They also have very high requirements in terms of leaking. Unfortunately, water and electronics do not go together. To get the performance out of the vehicles we have to have water cooled equipment. Leaking is a big problems. We have helium leak testing also, which we unfortunately had to install, and that has caused us a lot of grief from an engineering perspective.

Going forward we are now fighting for the next generation LEAF. The LEAF that we are making now is the Series II LEAF. We make the water jacket, the inverter cover and the starter housing for the motor of that particular vehicle. That is for the current model which goes on the LEAF and the e-NV200 van. That model will eventually end, so we are looking to try to win business for the next generation Series III LEAF. You have probably all seen in the papers a lot of talk about range anxiety and how to oversee it. The new LEAF is going to address that. There will be announcements about that eventually.

We are fighting on a global scale for that. We have quoted the work. Unfortunately for us, because the car did not meet the market's expectation in terms of range, the project was put back a year, so we were given a bit of a breather. Originally we applied for ADP funding for that project, but unfortunately we were unsuccessful. Subsequently we have become ineligible for ADP funding because we no longer supply to an Australian OEM manufacturer. We did win some new business for a new generation of hybrid vehicle, which Nissan will produce. It will be launched shortly. We won that and we were successful in getting a grant from MTP for that.

**CHAIR:** It is my understanding that you are able to attract funding for work undertaken outside Australia—for global supply chain work—and you are not entirely dependant upon support from Australian OEMs. Is that correct?

**Mr Cooper:** That is correct.

**CHAIR:** So when you say you are not eligible for funding—how does that apply?

**Mr Cooper:** We have looked at what funding opportunities we have. The problem I have with the next-generation LEAF is that we need \$4 million to develop the product to make for that next generation. We will use the existing facilities we have but we have to retool—new dies and so on—because the parts change.

**CHAIR:** And the ATS does not cover any of that?

**Mr Cooper:** It does cover some of it. In the quotations for that we have factored all of that in. We have a competitive piece price. But we are competing against global companies. Because we are within the Nissan

Group, we have to fund that \$4 million basically out of Nissan money. The other companies—Hitachi light metals, Ryobi, RST—will fund it themselves separately from Nissan. So the vendor tooling cost for the project is greatly reduced against what we have to do. To fight that, we have to be competitive so that we achieve the capital hurdle rates for the product. The problem I have at the moment is that we have a gap. Knowing the prices that the other people can supply and what our competitive price is, we do not have enough to step over. We need just a bit of assistance.

**CHAIR:** But that is not \$4 million.

**Mr Cooper:** It is not \$4 million, no.

**CHAIR:** You obviously do not want to tell us what the gap is, for commercial reasons, and I am not asking you that, but it is not \$4 million.

**Mr Cooper:** No. Actually I can tell you: the gap we are looking at is around \$1 million.

**CHAIR:** Have you approached the Commonwealth about that?

**Mr Cooper:** We applied for the ADP. That is what we did previously. We have talked to the Victorian government as well. They keep pointing us back to ADP. We were eligible in round 1 because we were a supplier to DSI Holdings at that point and they were closing, so it was deemed that that sort of met the eligibility requirements. But since then we no longer supply, so we do not—

**CHAIR:** The national interest criteria do not apply?

**Mr Cooper:** We have not talked to anyone about the national interest criteria.

**CHAIR:** I just want to explore this. There is a notion in some quarters that program assistance is not available after 2017. That is not your understanding of the current law—is that right?

**Mr Cooper:** Yes.

**CHAIR:** Unless there is a change in the legislation itself.

**Mr Cooper:** That is right.

**Senator RICE:** You said you can only get some funding out of the ATS at the moment. What changes would need to happen for you to get more funding out of that?

**Mr Cooper:** Because it is a brand-new program for us and because our production at the moment is up here but over the next year we will drop down a bit, so our output from the plant will be less, we hit the cap for ATS. What we have been exploring is whether there is any opportunity to have the cap adjusted or whatever so that when we put this investment in we do not get it capped and blocked out because our turnover of the plant is reduced.

**Senator RICE:** So basically it is the volume requirement in the ATS. You are not going to be producing sufficient volumes.

**Mr Cooper:** Yes. Our turnover traditionally is about \$70 million but this year and next year it will be about \$50 million. That pushes the cap down, and we do not get as much support because of that.

**CHAIR:** We are interested in exploring what actions can be taken with the ATS. So we would be interested in any specific proposals you have about which regulations need to change to allow what you are suggesting to occur—what the implications are. If you have anything further to add to that, it would be gratefully received by the committee. I am very impressed by what you have done, given the scale of your operations—160 employees—the diversity of your products and the work you have done with the CSIRO. It has been an extraordinary success story, particularly in a castings area—aluminium casting. It is a remarkable achievement. Personally I would be very keen to assist in any way we can to facilitate future investment in the plant. Is it your view that you could grow employment if you did have the right policy positions?

**Mr Spindler:** Yes, correct. The announcement we made was that the new project is up to 30 people—that is new employment. If we lose business or something falls over, we could still secure the work of the 100 people we have now. But for new jobs we are talking about 30 people, and we made that public. I know what we do on the manufacturing side would be right down your alley. We make parts, we have aluminium, we take molten aluminium, we transform it, we value add, we go down to machining on EV parts, we have an assembly process which we have fully automated, we have agreements with Japan, and the final product comes back on CHEP pallets again—the whole chain is a beautiful manufacturing story.

**CHAIR:** It is a terrific project.

**Senator MUIR:** Do you see any other areas of policy that could be changed to help not only yourselves but other manufacturers expand their opportunities into the very near future?

**Mr Spindler:** I just came back from Japan last week. We had a global conference. The business environment in Australia is very tough; it is hard to compete on a global level. It is about the skill levels. For the first time this year, Nissan Casting took apprentices on again. We have an electrical apprentice as well as one in the mechanical and toolmaking areas. We have IBL students and next year we are also taking graduate students. We have students from RMIT in to do their work practice. I think that is one of the key things.

Japan asks us about our succession planning, they ask what is happening to give them confidence that once Brian, with his 24 years of experience, passes on, there will be new blood to take things through. If they give us a difficult part to make and Brian's know-how is gone, who will be there to step into that role? Japan sends people to us for two years to get foreign exposure and to learn skills here, which they then take back home. We want to do the same. We want to send engineers over there for two years, picking up skills there and bringing them back—skills in toolmaking, in water cooling, in injection cooling and so on. That is a big thing: bring young, fresh kids in. We had a school class through the other day. Was it RMIT that came through?

**Mr Cooper:** Yes.

**Mr Spindler:** The lecturer got a very pleasant surprise with the visit and his feedback is that he wants to repeat this visit with his students.

**Mr Cooper:** One of the problems we are having is that automotive is not seen as the sexy future, and manufacturing is seen a bit negatively.

**Senator MUIR:** So we need to change perceptions.

**Mr Cooper:** Yes. One of the problems I have is that everyone keeps saying, 'Automotive is dying; it is going.' Yes, we are not going to make cars, but automotive is not dead in Australia.

**CHAIR:** I agree entirely with that proposition.

**Senator RICE:** Are there any other initiatives from government that you would like to see to support the electric vehicle parts business, electric vehicle manufacturing?

**Mr Spindler:** We would like to see the infrastructure for EVB reheaters rolled out—the charging stations. This is one of the stumbling blocks. Australia is not an easy place to roll out electric vehicle reheaters. I fully understand that. If you go to Japan, you see the charging stations and you see the cars. While Australia is not an easy place to do it, for day-to-day driving in Melbourne or the other capital cities, I think there is a viable program to support EVBs. We are not alone. All the other car manufacturers have EVB reheaters now.

**Senator RICE:** That infrastructure would then feed into the growth in the electric vehicle industry that would help support your manufacturing.

**Mr Cooper:** Unfortunately we run on volume. Electric cars globally are not selling as well as people had hoped, partly because of range anxiety.

**CHAIR:** Thank you very much for coming today. Your submission has been very valuable. If there is anything further you would like to add or if there are any other matters you think we have not dealt with given the short time we had available, please do not hesitate to contact us.

**Committee adjourned at 16:59**