MTM PTY. LTD.

Submission to the Productivity Commission Inquiry.

Post 2005 Assistance for the Automotive Manufacturing Sector.

MAY 2002

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EXECUTIVE SUMMARY

MTM would like to highlight to the Productivity Commission the following areas:

1. Focus of a review on the Auto Industry needs to be on a time scale of 15years (out till year 2020). A continual review of the industry under these shorter time frames of 5 years is not sufficient to formulate business strategies. The year 2020 would also fall in line with the proposed outcomes of APEC discussions.

2. In 2005 maintain tariff levels at 15% until 2020 where Australia will then fulfill it's APEC obligation and align its tariffs to the APEC agreement.

3. Maintain ACIS in its current form, however, increase the funds available for distribution so that there is 100% distribution of the ACIS claims. This would mean that by 2005 there would be additional funds available for ACIS distribution with the scheme capped at a minimum distribution percentage.

4. Maintain equity within the consumer marketplace by reclassifying SUV and Passenger Utility Vehicles and Small All Terrain Wagons at a tariff rate equivalent to passenger vehicles.

5. Any cost penalties incurred through poor management of infrastructure and increased government charges and or additional employment imposts that are passed on to business are not accepted in this realm of continual cost reduction targets that are bestowed upon the supplier industry.

ARGUMENT No. 1 & 2: REVIEW SHOULD FOCUS OUT TILL 2020 AND TARIFFS SHOULD BE MAINTAINED AT 15% UNTIL THEN.

- The Automotive Industry is a long lead-time industry.
- The Local car Industry requires a minimum economy of scale to survive. A reduction in the tariff from 15% to 10% in 2005 will jeopardize this.
- A 15% tariff is effectively placing Australia at the leading edge of the 'level playing field'.
- Australia is not a part of a major trading Bloc, and needs to maintain an industry base to capitalise on the opportunities of Australia as an APEC participant in 2020.

THE AUTOMOTIVE INDUSTRY IS A LONG LEAD-TIME INDUSTRY.

The car industry works on a model life of 5 to 6 years.
Three years prior to this Design and Tooling has commenced.
Two to Four years prior to this R&D is undertaken by suppliers to meet the next generation of vehicles.

This leaves a total of 10 to 13 years of required certainty to assist with the investment strategy process.

Australia has done an excellent job of maintaining a bubbling economy, over the last 10 years. Maximisation of automotive investment is being hindered, however, by the continual requirement of a 5 year review. In this time frame the playing field can dramatically change, thereby altering business strategies.

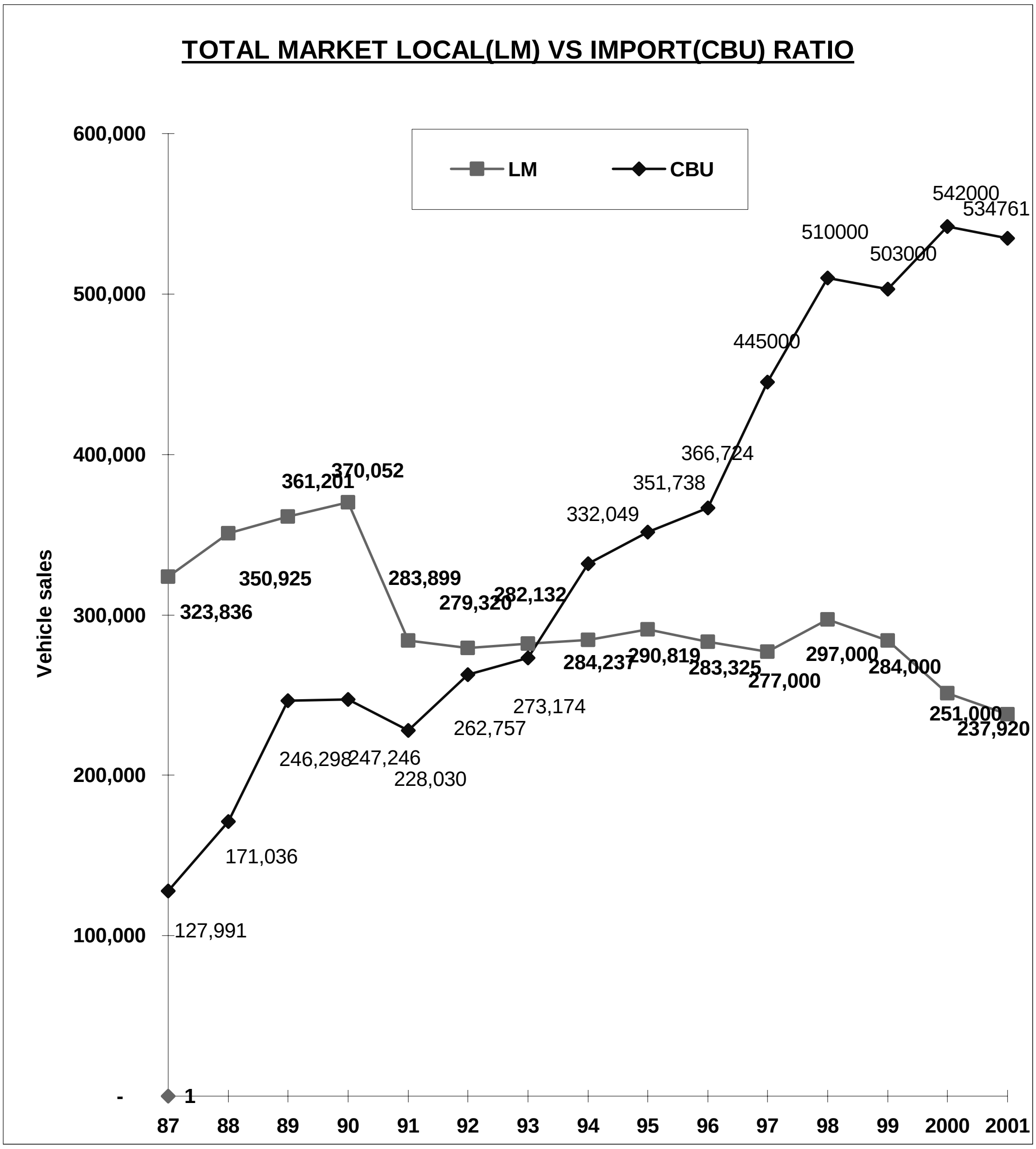
Any situation where the investment landscape could change, means that the investment is minimized until the situation is clarified. Due to the short-term focus of Australian politics, Australia is missing out on new investment.

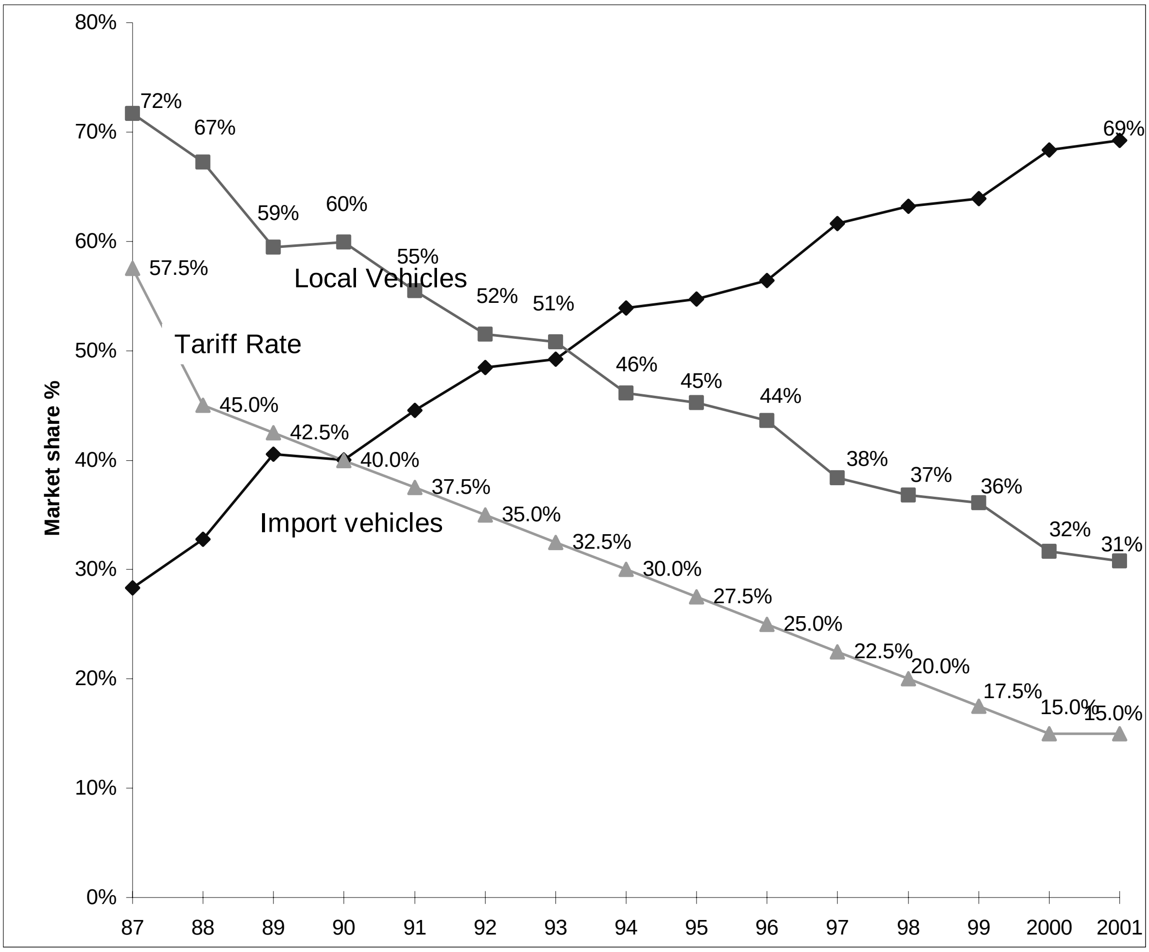
THE LOCAL CAR INDUSTRY REQUIRES A MINIMUM ECONOMY OF SCALE TO SURVIVE.

In 1990 Australia manufactured for Australia, 370,000 vehicles. Total Australian sales were 617,000 units. Australian car producers had 60% of the total market and tariffs were at 40%.

In 2000 Australia manufactured for Australia 251,000 vehicles. Total Australian sales were 793,000units. Australian car producers had 32% of the total market with a tariff rate at 15%.

Extrapolation of these figures suggests that for each 1% tariff reduction, Australia manufactures 4,800 less cars!





Continued reduction of the tariffs will, therefore signal more market share to be lost by the local car producers.

Whilst Australian production has remained flat (346,000 units in 1999 due to exports by Australian manufacturers) a continued reduction in cars locally manufactured will jeopardize the car producers presence in Australia.

Australia needs to maintain a volume of local manufacturers to maintain a local supply presence.

A 15% TARIFF EFFECTIVELY PLACES AUSTRALIA AT THE LEADING EDGE OF THE 'LEVEL PLAYING FIELD'.

Further tariff reductions will place Australia at the forefront of the lowest international automotive tariffs, with the smallest market.

Most western countries have tariff or non-tariff barriers (refer FAPM submission). Even the strong US economy protects 70% of its production by placing a 25% tariff on light trucks.

Countries that are Australia's closest neighbours, have some of the highest tariff barriers in the world.

Australia is no-where near the size of the EU or USA production volumes; indeed we are less than 1% of the world's car production.

Why then does Australia see the need to reduce its tariffs when our ability to access the marketplace is severely hampered by the population size of our country and the tariff regimes of our neighbouring countries?

Asian economies see the automotive industry as a key strategy to their sophistication and growth and they protect it behind high tariffs.

Australia has already done the hard yards in reducing its tariff rate, but why the need to go further when the government has stated that it wants an "Internationally competitive, globally integrated automotive manufacturing sector". It has this now.

AUSTRALIA IS NOT A PART OF A MAJOR TRADING BLOC.

North America has NAFTA, Europe has the EU and South East Asia has ASEAN. All of these trading Blocs open huge markets and allow trading at tariff levels below that which non-participating countries cannot apply.

Australia has the hope of APEC.

Under the APEC Bogor Treaty, 2010 and 2020 are key milestones for countries within APEC. Australia already has on of the lowest tariffs of the APEC communities, with the lowest population.

A key to the success of the Australian Automotive Industry is volume. Australia does not have it due to its population, APEC does. A key aim of the government should be to maintain the current volume of suppliers and producers so that the full benefit of the APEC trading can be achieved by 2020.

This opportunity should be seen as the jewel in the crown of Australian car and parts manufacturers.

ARGUMENT No.3: MAINTAIN ACIS

- Technological change within the industry from a product and process perspective means that that it is a high investment industry.
- Current ACIS claims suggest that the size of the government ACIS contribution should be $2.6 billion to achieve 100% of the credits.
- A minimum modulation assurity of ACIS claims needs to be guaranteed.
- The automotive Industry is a long lead-time industry.
- ACIS should be retained until the Australian market is able to have a balanced international trade in automotive products.

TECHNOLOGICAL CHANGE IN PRODUCT AND PROCESS MEANS HIGH INVESTMENT

The automotive industry is recognized as a technology leader and as such is exploring new areas of advancement. This in itself suggests additional costs over and above known technology and production methodologies.

> Product and process innovation and improvement requires a high level of investment with a long lead-time prior to a return on investment being earned. Automotive suppliers are therefore going to congregate around locations that offer a secure Research and Development environment.

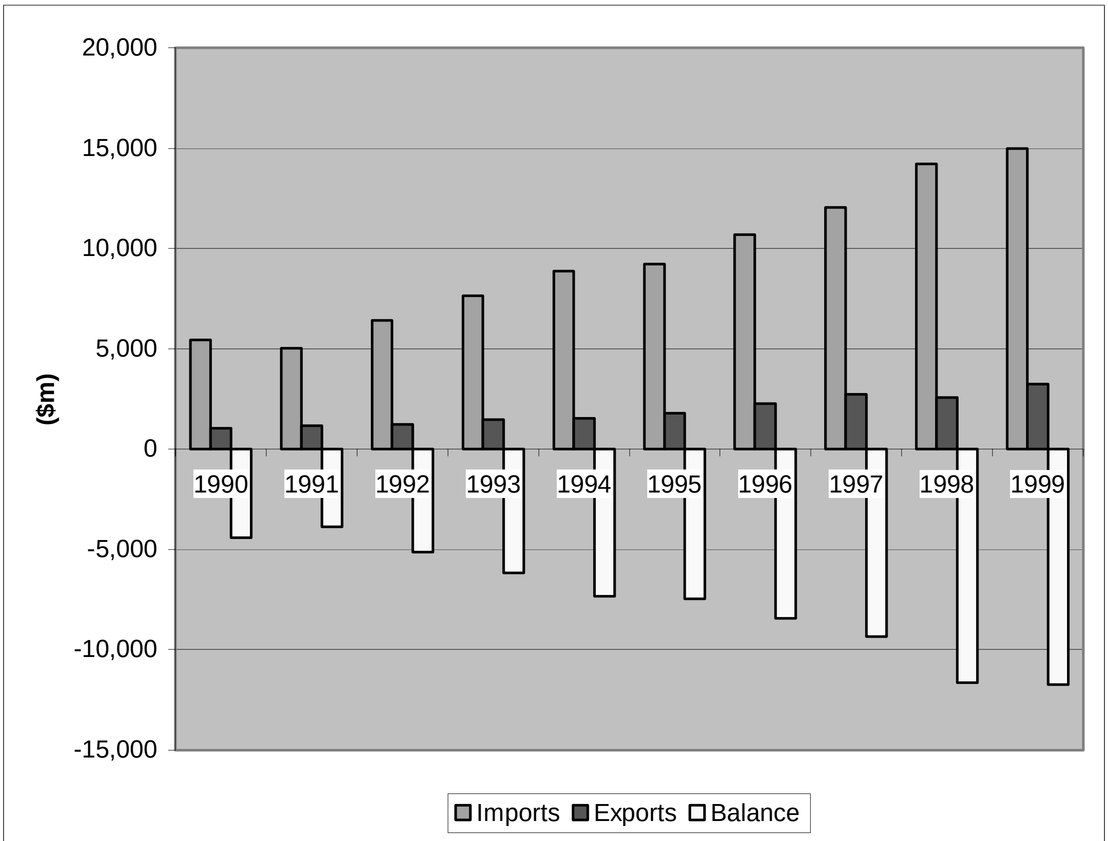
BY 2005 ACIS SHOULD BE INCREASED TO $2.6 BILLION WITH A GUARANTEED MINIMUM RETURN TO PARTICIPATING COMPANIES.

Australia has identified that it wishes to be at the forefront of Research and Development. ACIS is a good scheme that assists that process but falls down where the credits returned to participating companies are varied each quarter.

To ensure a business case can be made a minimum level of ACIS returns needs to be guaranteed.

ACIS SHOULD BE RETAINED UNTIL AUSTRALIA IS ABLE TO HAVE A BALANCED TRADE IN AUTOMOTIVE PRODUCT.

In 1990 Australia had a net balance of trade in automotive products of $4.4billion. In 1999 this net number has risen to $11.7 billion. Over this time exports have risen some 212% and imports only 174%. However due to the size of imports and exports in 1990 the trade imbalance has grown significantly in real dollar terms.



So whilst Australian exporters have been very successful, importers have been more so.

To overcome this margin of difference ACIS needs to be maintained to assist local manufacturers bridge the trade imbalance.

ARGUMENT 4: RECLASSIFY SUV, PASSENGER UTILITY VEHICLES AND SMALL ATW AT A TARIFF RATE EOUIVALENT TO PASSENGER VEHICLES.

- This current market sector is growing. One reason for this is its preferred treatment that it receives on tariffs (5% compared to passenger vehicles at 15%).

- The market has been fragmented by the introduction of the SUV (Sports Utility Vehicle), PUV (Passenger Utility Vehicles) and small ATWs (All Terrain Wagons).

- The size of this market has grown from 100,000 units in 1990 to 220,000 units in 2001. This would equate to the government foregoing at least $360 million in duty (with these cars being conservatively estimated at $30,000).

ANALYSIS

<u>Market Analysis: 1992 – 2001</u>

Total Sales	542077	⇨	772681	⇧	143%
Total passenger	406427	⇨	529452	⇧	130%
Total Light Trucks	121089	⇨	224□270	⇧	185%

Vehicles covered by the Automotive Industry Passenger Motor Vehicle (PMV) plan have grown slower (130%) than the total market average (143%).

The light truck grouping (LCV) has grown much faster (185%) than the average market growth (143%).

The majority of the growth that has occurred in the light truck grouping is caused mainly by “LIFESTYLE” passenger motor vehicle substitutes.

Within this grouping the All Terrain Wagon (ATW) segment has grown by 275% over the same time period. ATW’s grew from 34% to 52% of the light truck group.

Further analysis shows that after excluding ATW’s from the 10-year data the LCV grouping has only grown at 136%, i.e. 7% less than the market average.

Even within the ATW segment it is the use of these “LIFESTYLE” vehicles (as PMV substitutes) that has fuelled the massive growth rather than genuine commercial or farm vehicles.

Future industry forecasts project that almost every car company will introduce additional Lifestyle vehicles to the point they will occupy 30% of the market within another 5 years.

It is worth noting that Year To Date information for March 2002 shows that these lifestyle vehicles have caused all of the market growth this year to occur in the ATW segment, which grew from 52% to 55.3% of the LCV group.

Vehicles covered by the PMV plan fell from 69.4% to 66.6% YTD while LCV's grew from 28.5% to 30.9% of the total market.

Affordability Issues

Motor vehicle CPI	114.1	⇨	101.6	⇩	11%
General CPI	110.4	⇨	131.3	⇧	19%
Ave Weekly earnings	116.9	⇨	147.2	⇧	28.6%

One of the key aims of the automotive industry policy over the past 15 years has been to make cars more affordable.

ABS data shows that since 1994 motor vehicle CPI has reduced by 11% at the same time as the general CPI increased by 19% and average weekly earnings increased by 28.6%.

The affordability index has therefore risen from 101.9 to 147.2, which suggests that cars are now 45% more affordable than in 1994. (The industry has achieved what the government intended)

However one unintended consequence from this increase in affordability is that buyers have shifted their buying pattern and purchase decision towards more expensive passenger substitute vehicles not covered by the PMV plan (e.g. SUV's and ATW's.)

Market distortion

When the PMV plan commenced in 1984 Imported vehicles were effectively limited to around 20% of the total market.

Within this the light truck grouping (LCV's) occupied around 12% of the market. They were mostly genuine commercial or farm vehicles and so were treated under the general tariff arrangements rather than through the PMV tariff plan.

Today the LVC segment has grown to 31% of the market (March 2002).
However the genuine commercial and farm portion has not increased significantly – the huge growth has occurred in the Lifestyle passenger substitute vehicles being increasingly bought by city dwellers (the so called Toorak tractor).

One of the major contributing factors to this growth is the preferential treatment that the LCV segment receives in lower tariffs then the PMV tariff rate. Currently this advantage is a 10% lower duty rate.

This lower duty advantage, combined with increased affordability has led to a dramatic increase in Leisure type vehicles currently classified as LCV's being purchased as passenger vehicle substitutes.

With PUV type vehicles increasing from around 20,000 vehicles in 1984 to a forecast of 138,000 in 2002 the government is currently forgoing around $360 million per annum in duty (using a conservative $30k average estimated price).

As this segment dramatically increases in the next 5 years the government will forgo even more revenue from this passenger vehicle substitution.

Environment

Canada has also recognised the SUV issue through its pollution emission standards. It is closing a loophole that allowed less stringent standards for sports utility vehicles, mini vans. SUV vehicles will now be classified as cars instead of light trucks, which are subject to lower standards.

Recommendation

It is our belief that such lifestyle vehicles (as PMV substitutes) must be brought within the scope of the PMV plan.

Vehicles such as Sport Utility Vehicles (SUV), all of the vehicles classified as Compact ATW's, and a number of those vehicles classified as medium ATW must be reclassified under a grouping of "Passenger Utility Vehicles" (PUV) and brought under the industry PMV plan.

We believe this change should be introduced from January 1st 2003 by moving these PUV's to a 10% tariff rate, which will bring them line with the PMV rate (and the next PMV plan) in 2005.

If this recommendation were adopted the government would receive an additional $400 - $600 million per year as this segment continues to grow.

Note:
A system may be required to ensure that genuine commercial and farming vehicles obtain a rebate on duty to ensure their vehicles only pay duty equivalent to the current general tariff rate (5%).

PART 3: MtM INFORMATION

MTM is a private family company it was founded in 1965 by Max Albert.

It commenced business as a Toolmaking company and a few years after commenced production operations for the automotive companies.

MTM's product range was wide due to the nature of its operations (stamping, moulding, welding and assembly). It has gone through a number of changes in its product line up and has focused purely on automotive products.

MTM started actively targeting the export market in 1991 and finally achieved success in North America in 1997, with production commencing in late1999. The door check product has now achieved a lot of success within North America, so much so that the MTM doorcheck has been written up as the design of choice for GM.

Currently, MTM is exporting 10% of its sales. By 2004/5 this figure will increase to 40%.

MTM currently employs 200 people and sells $26mill pa.

Products Manufactured include: Doorchecks, Automatic Gearshift assemblies, Steering Columns, Exterior and Interior Door Handles, Park Brake assemblies, Climate Controls, Grip Assists, Windscreen Washer Nozzles, Ashtrays and Hood Latches.