



Flexible Drive Agencies Pty. Ltd.

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1-Aug-02

**SUBMISSION TO PRODUCTIVITY COMMISSION REVIEW OF
POST 2005. ASSISTANCE ARRANGEMENTS FOR THE
AUSTRALIAN AUTOMOTIVE INDUSTRY.**

FLEXIBLE DRIVE AGENCIES PTY. LTD. (F.D.A) ACN. 004922 570

FLEXDRIVE CABLES AUSTRALIA PTY. LTD. (F.C.A) ACN 098 670 529.

INTRODUCTION.

This submission is made by the undersigned Directors of two closely linked Australian owned companies operating in automotive component parts manufacturing, both OEM and aftermarket sectors of the industry. Therefore the outcome of the productivity commission review, and the government policy decisions that follow are of vital importance to forward planning and the ongoing viability of the above named companies.

Likewise, the security of job opportunities for the present 65 employees of F.D.A and the 110 plus employees of F.C.A. located in the regional center of Gisborne Victoria, (when that company becomes operational in January 2003) will be influenced by any decisions made on the basis of the review..

BACKGROUND - FLEXDRIVE & ASSOCIATED COMPANIES.

Commencing as a partnership making replacement speedometer cables and repairing instruments in a small shop in Elizabeth Street, Melbourne in 1938, the business maintained steady growth through the 1940's. It was incorporated as a public company in 1953, by which time employment had increased to approximately 80 persons occupying newly acquired premises in North Melbourne and Ascot Vale.

Flexdrive associated companies and its founders and employees have a proud history as a pioneering manufacturer and supplier of both OEM and replacement parts to the Australian automotive industry.

Flexdrive is one of the few parts manufacturers that has supplied products from the initial Holden vehicles and virtually every Australian built make and model since that time has contained one or more Flexdrive produced products, ranging from a wide variety of mechanical cable products - speedometer, handbrake, clutch, dash-board controls, hood & boot release, accelerator cables, instruments and associated sender units, windshield washers, heater control consoles and a variety of locally engineered model specific sundry items.

The growth of Flexdrive Industries Ltd., has mirrored the general growth of the overall automotive sector through the 1950's to the present time. Employment peaking at almost 1000 Australia wide in the late 1970's - however there have been some very significant changes in ownership of the group during the past 26 years.

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THE OWNERSHIP CHANGES ARE SUMMARISED BRIEFLY AS FOLLOWS -

- 1982 Takeover of Flexdrive Industries Limited by Lanes Motors Holdings Limited, and operated as a wholly owned subsidiary of Lanes with most manufacturing facilities moving to Gisborne, however, some non-automotive activities were retained at Ascot Vale.
- 1985 Lanes negotiates the sale of Flexdrive Industries Ltd., OEM mechanical cables, instrument and windshield washer business and production facilities, land and buildings at Gisborne to a Japanese consortium.
- 1985 Lanes negotiates an MBO of the Flexdrive aftermarket Sales Division, manufacturing & marketing automotive & general industrial mechanical cables, and a variety of franchise products, both local and imported, to a newly incorporated company Flexible Drive Agencies Pty. Ltd, who located and consolidated these operations at their present address 86 Stubbs Street, Kensington. While, initially retaining all mainland Australian sales offices, F.D.A. have improved and relocated all these state branch facilities over the intervening years.

This MBO understandably struggled over the early years, but has maintained profitability and steady growth, attributed to no small extent to the long experience in the industry of its senior management team. This was assisted by the very close relationship with Flexdrive Industries Ltd, Division of Denso International Australia, which continued to operate in the OEM sector of the industry.

- 2001 Flexdrive Industries Ltd and the newly formed Flexdrive Cables Australia Pty. Ltd, announce on November 20th. that, F.C.A. will purchase the Gisborne based Flexdrive mechanical control cables business, and that Denso will move instrument manufacturing to their Croydon property to consolidate with their other activities at that location.

These changes will be made in an orderly manner throughout 2002 until completion date of December 31st. Attachment # 1. Flexdrive Media release dated November 20th. 2001 will, provide the commission with a clear understanding of the importance of this latest change in the nature of and ownership of Flexdrive activities.

During the past 15 years very significant investments have been made by Flexdrive to upgrade all aspects of their operations in the regional center of Gisborne some 60 kms. northwest of Melbourne, where they are by far the largest employer of labour, offering opportunities for a wide variety of skills.

These investments include robotics, dedicated OEM production lines and the very latest developments in production equipment, along with design and testing capability in keeping with their Tier 1 supplier ranking in respect to mechanical cables, windshield washers and instrumentation.

As it is the stated intention of F.C.A. to continue production of mechanical cable products and windshield washers at the Gisborne plant substantial opportunities for employment will remain - provided of course that the total Australian industry is retained, to ensure a market for our products.

The above background has also been set down in order to show that the Flexdrive Group has had an important, active and long-term association with the Australian automotive industry. We wish to maintain this as a very significant commitment to retain the ability to make mechanical cable products and related products in Australia, and as a consequence job opportunities for employees across a broad range of skills.

SUBMISSION.

As stated at the outset our comments are being made in respect to two distinct corporate entities, one of which, F.D.A has been active for 17 years in manufacturing and distribution of aftermarket automotive and general cable products, instruments and windshield wipers and washers. However, if we put beneficial ownership changes aside - the core activities have been undertaken in Australia for in excess of 60 years.

The second entity F.C.A, will not become operational until the 31st December, 2002 completion date of the previously referred to takeover of Gisborne manufacturing of OEM and genuine replacement of cable and windshield wiper products.

The rate and strength of the development of F.C.A will depend to a very great extent on the growth and strength of the Australian automotive industry as a whole and local manufacture of vehicles in particular, and it is because of this dependence that we wish to support the well researched and documented submissions made to the commission by F.A.P.M. and A.A.A.A..

The establishment of two distinct entities comes about due to what the directors believe to be sound business reasons. Not only geographic separation, making and supplying O.E.M is in many ways quite different to making and supplying into the replacement aftermarket and general industry, however, there are many similarities which can be linked to the advantage of both customers and the businesses concerned.

It is important to expand on this point of the synergies that exist. They are between the design, manufacture & supply of OEM - REPLACEMENT or AFTERMARKET for mechanical cables and windshield washer and wiping equipment, and the resultant ability to use those skills and equipment to make and supply similar products to many other industry sectors in Australia. These include agricultural equipment (Sugar Cane Harvesters), transport (Truck & Bus, Railway & Tramway), marine (Engine controls), construction equipment (Cranes), materials handling (Fork lifts), Defence (Special purpose Army vehicles & equipment), Air Force (ground support) & Naval, (various mechanical cables used in ships).

This broadening of the market enables cost recovery opportunity leading to more competitive pricing and potential for import replacement, for these types of products.

To assist the Commissions' understanding we are attaching a number of catalogues/leaflets illustrating the type of products referred to in the foregoing paragraph

By way of summary on this point these synergies are factors to be considered in the commercial risk/reward situations that are continually presented, and the automotive sector volume potential is important when investment in both facilities and human resources are being considered.

By responding to surveys and questionnaires from the two Industry associations FAPM and AAAA, we have made our input to these submissions. We agree with the many factors referred to that impact on the local automotive industry, and the importance of taking these factors into consideration when making recommendations that will form the basis of policies that will shape the local industry in the coming decades.

We conclude this submission by highlighting several of, what we consider to be the most important and far reaching valid comments made in the industry association submissions referred to above.

WHILE THE AUSTRALIAN AUTOMOTIVE INDUSTRY IS SMALL BY WORLD STANDARDS, IT REMAINS A KEY MANUFACTURING INDUSTRY. Automotive Component Manufacturing provides substantial employment, inter-industry linkages, R & D and innovation capability, investment and exports and has a strong regional presence. The industry is improving competitiveness by building on its considerable strengths. This is evidenced by a rapidly growing export performance. Its major weakness is the relatively low volume constraint imposed by the size of the domestic market.

THE FUTURE OF THE AUSTRALIAN AUTOMOTIVE COMPONENTS SECTOR IS INEXTRICABLY TIED TO THE FUTURE OF LOCAL VEHICLE ASSEMBLY.

While export markets can be developed independently of the four local assemblers and a reasonable domestic after-market exists for automotive components, vehicle production provides the base that underpins component manufacturing. With most of the Australian production value of automotive components being supplied to the assemblers, there is a strong link between the fortunes of the assemblers and those of their suppliers.

It should be emphasised that for almost all the products referred to above, there is virtually no opportunity to consider local manufacture for the aftermarket unless the original items have been made locally. This is due to the fact that design specifications can rarely be obtained and tooling cost cannot be justified for replacement volume alone.

FOR THE AUSTRALIAN AUTOMOTIVE INDUSTRY, A KEY MILESTONE DATE IS 2005 WHEN THE TARIFF RATE IS SCHEDULED TO FALL A FURTHER 5%. This is likely to further erode the domestic industry's share of the local market. However, if present export successes can be maintained, this adverse effect can be offset. But there is little doubt that pressure on prices from imports and domestic competition is expected to continue unabated and will intensify in 2005. Production volumes can only be maintained in such a domestic market structure by exporting - and that requires world-class production efficiency and integration of every supplier in the automotive chain. It also requires external access into world markets unfettered by high import barriers.

THE NEXT POTENTIAL MILESTONE FOR THE INDUSTRY IS 2010 WHEN THE APEC BOGOR GOALS ARE INTENDED TO TAKE EFFECT. However, whether the goal of free trade between the developed countries of APEC is actually translated into tariff reductions is far from certain at this stage. The recent U.S decision on steel tariffs and agricultural subsidies gives us little confidence that it will be willing to forgo its 25% tariff rate on imported light trucks.

BY FAR THE SINGLE BIGGEST POLICY ISSUE FOR THE INDUSTRY IS THE ACIS SCHEME. This scheme is underpinning the industry's transition to international competitiveness. For the components sector, ACIS credits are being reinvested in improving the industry's competitiveness, resulting in a substantial injection of new investment in plant and equipment and R&D. Without ACIS, it is extremely doubtful whether the industry's relatively low return on funds employed would be sufficient to finance the change required over the next decade.

While neither F.D.A. nor F.C.A qualify to participate in ACIS in their own right at this time, both are, or will be, supplying under contract to vehicle builders and Tier 1 manufacturers. At this point they will obtain benefit from the scheme and thus provide opportunity for continuation of such contracts as a result of their enhanced ability to invest in the future.

We are well aware of the need to undertake R&D in respect to both product and processes, and we see some opportunities for creating export sales, thus it remains a goal to qualify for ACIS credits, hence our highlighting the importance of this scheme.

Should the Commission or members of its review team have any questions in respect to the contents of this submission, or wish to visit for discussion, we would be pleased to make arrangements to respond.

Signed On Behalf of the named Directors,

R. E. HUGO
DIRECTOR

I. R. HOCKING
DIRECTOR

T. M. MARSHALL
CHAIRMAN

ATTACHMENTS.

- (1) Flexdrive Ltd. Media Release November 20th. 2001.
- (2) Flexible Drive Agencies P/L Product Catalogues.