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Automotive Industry Inquiry
Productivity Commission

Subject: Submission to the Productivity Commission Review of Post 2005 Assistance Arrangements for the Australian Automotive Industry

Dear Sir,

Calsonic Australia would like to make the following comments in relation to the above subject for the Productivity Commission to take into consideration when formulating a range of policy options that the Government may consider for the post 2005 environment.

Calsonic Australia is a fully owned subsidiary of a Japanese multi national that is exclusively focussed on the global automotive market. The parent company (CalsonicKansei) operates fifty-two plants in sixteen countries and is therefore a committed participant in the global automotive industry.

Calsonic Australia was established in 1984 at its present manufacturing site in the Melbourne suburb of Port Melbourne. Calsonic employs in excess of 160 people, manufactures aluminium heat exchangers such as radiators, condensers, heater cores and oil coolers on a three-shift basis. Sales turnover has been increasing in recent years and has grown from \$16 million in 1996 to \$37 million in 2001, with booked business to take sales revenue to \$50 million in 2003. This growth has been largely due to the growth of our main customer (Holden) due to their expanding vehicle exports and their sourcing policy of buying modules rather than components.

Direct exports currently only represent about six percent of sales turnover and growth in exports (both direct and indirect) is seen as a key strategic issue to generate future growth as the Company already has a large share of the domestic market and therefore future growth opportunities in current products/markets is limited.

Calsonic Australia is a member of the FAPM and fully supports FAPM's submission and recommendations to the Productivity Commission. The FAPM submission provides a great deal of relevant data and therefore we will endeavour not to duplicate this information apart from giving some actual examples to expand upon the key issues we believe are vital for the future survival and prosperity of the Australian automotive industry.

As a subsidiary of a multi national we are in competition with our sister companies for the limited investment funds available from our parent. With out doubt the biggest disadvantage we face when it comes to securing new investment for the Australian market is the relatively small domestic market when combined with the fact that car penetration is already high and therefore the potential for future domestic market growth is very limited. To counter this structural imbalance it is

essential that the Australian Government have a pro automotive investment policy otherwise, at less than one percent of the global automotive market, investment funds will flow to larger and/or other markets that encourage such investment.

In addition it is essential for the survival of the Australian component industry for the vehicle assemblers to continue to assemble cars in this country. Without a local vehicle assembly industry there would be no need for a component industry. Vehicle production volume is also a critical issue as scale is a key to justify new investment and therefore vehicle export growth is a prerequisite for a viable Australian automotive industry.

For vehicle assemblers to continue to compete effectively against fully imported vehicles and gain new export markets the introduction of new technology by component producers is essential. In order to secure this new technology and investment the inherent disadvantage of a small and mature domestic market must be continually debated in overseas boardrooms. Therefore Government policy that sends a clear message that Australia values and wants to retain a local automotive manufacturing industry is critical. The ACIS scheme has proven to be extremely valuable in assisting Calsonic to put together a viable business case in securing new investment and upgrading our capability to deliver substantial improvements in quality, cost and delivery. Whilst ACIS has only been in existence since 2001 the funding has enabled Calsonic Australia to convince the parent company to continue to take a long term view of the Australian business and to start to create the necessary infrastructure which is necessary in order to effectively compete with global competition under a low tariff regime.

A specific example of how the ACIS scheme has enabled Calsonic to introduce the latest technology is in the upcoming VY Commodore model. Calsonic proposed new radiator core design technology, process assembly equipment and state of the art cooling fans much earlier than would be the case without ACIS financial assistance as the pay back period would have not met the parents investment hurdles. As a result Calsonic Australia have been able to offer the vehicle assembler improved performance at a lower cost and consequently both the vehicle assembler as well as Calsonic have improved their competitive position. We are also developing business cases for introducing new technology for the next generation of local vehicles that will come onto the market in 2005/6 period. Any decisions have been put on hold until we know the outcome of industry assistance beyond 2005 as without an ACIS Mark 11 the payback period will not be viable which will force us to continue with old technology, which will inevitably lead to a reduction in innovation and hence competitiveness against overseas competitors who enjoy much higher volumes and hence shorter pay back periods.

Calsonic Australia's direct export strategy is to position us as a niche supplier of selected heat exchange components to the Calsonic family. To achieve success we will have to prove to our parent that we can produce these components at world's best practice in regard to cost, quality, delivery and service. We have commenced to introduce a six-sigma quality program and develop an internal culture change program in order to achieve this vision. This is a five-year program with no guarantee of success and ACIS financial support has enabled us to embark upon this costly but essential program if we are to demonstrate to the parent that we have the capability to be a global player.

Of course another essential element in growing our exports from the current \$2million to our vision of \$30 million per annum by 2008 is the issue of market access. In the long term our best chance of significant export growth is to supply our sister companies in the Asia Pacific region. These companies are still relatively small and will require additional investment in the future to expand their product range and production capacity. However the parent will make investment where they can obtain the best return and therefore if we demonstrate that we are globally competitive in cost, quality, delivery and service then we will be able to secure some of this investment for the Australian operations, all other things being equal. Freight is a disadvantage however we will select components that enable the freight cost per unit to be minimal so this potential disadvantage can be neutralised.

The major obstacle however is the high level of protection in these countries. Thailand for example is a major opportunity due to the major growth in vehicle production that will occur in the future. We recently quoted a condenser for the next generation Isuzu pick up truck and our ex factory price was competitive compared to their in house manufacturing cost however the import duty rate was 25 %. Ironically we can import the current model condenser from Thailand and the import duty rate in Australia is only 5 %. This is only one example and similar situations exist in Malaysia, Indonesia, China, etc. Such an imbalance in protection must be addressed if the Australian automotive industry is to reach its full potential. The Government needs to obtain firm commitments from the strategically important Asian countries to make significant reductions in import tariffs before it makes any further commitment to lower our duty rates beyond the 10 % rate legislated for 2005.

In summary Calsonic would like to reiterate the important role that ACIS has played in expanding our sales revenue, design, development and quality capability. The process to reach world best practice is a significant challenge that requires a long-term commitment and therefore the continuation of the ACIS scheme beyond 2005 is critical to Calsonic's long-term survival and growth. The current structure that rewards investment in productive assets and broad R&D expenditure is a good mix.

The other key issue from Calsonic's point of view is market access. In order to grow the business, exports both direct and indirect are critical, and therefore improving market access is essential. The Government needs to deliver on the improved market access commitments and not move beyond the 10 % tariff until the other countries have substantially narrowed the gap that exists today.

Please don't hesitate to contact the undersigned should you have any questions or require any further information.

Yours sincerely,

R A Pattison
Managing Director

