



FORD MOTOR COMPANY OF AUSTRALIA LIMITED

(ABN 30 004 116 223)

SUBMISSION TO THE PRODUCTIVITY COMMISSION

REVIEW OF POST 2005

AUTOMOTIVE POLICY ARRANGEMENTS

May 2002

This submission is made by Ford Motor Company of Australia Limited (ABN 30 004 116 223). The company is subsequently referred to as Ford Australia. In addition to this submission, Ford Australia has also contributed to the submission by the Federal Chamber of Automotive Industries, and supports the recommendations incorporated in that submission.

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Attachments:

- (a) Ford Australia Financial Summary
- (b) Ford Australia Education & Training Pathway
- (c) Ford Australia's Progression to a Flexible Workplace

1.0 PREFACE

- 1.** This study by the Productivity Commission is a critical public policy review of an Australian automotive manufacturing industry which has experienced dramatic change in recent years. Its existence today in one of the most open and competitive home markets of any country in the world contrasts sharply with an industry of little more than a decade ago which was a highly-protected and largely inward-looking producer of uncompetitive motor vehicles.
- 1.2** This change has been largely achieved by a market-oriented focus on people, process and product; underpinned by significant new investment. Australia's automotive manufacturing industry, small by global standards, has been transformed into a uniquely valuable national asset with skilled and motivated employees producing high value and high quality motor vehicles. Increasingly, Australian vehicle producers have the confidence to put their products to the test in some of the world's most competitive markets; to the extent that annual automotive exports of vehicles and components now exceed the value of traditional primary sector exports like meat, wool and dairy products. Furthermore, parent companies are prepared to make major new investments to provide exciting new products capable of competing in a rapidly growing market sector at home against the very latest of imported global products; a form of reverse export which is equally beneficial as traditional exports to Australia's national trade and balance of payments performance.
- 1.3** This study is about the creation of a globally comparable public policy framework capable of attracting and facilitating global investment. It is a new approach which requires an appreciation of the value of globally comparable levels of assistance in capturing future investment in an increasingly competitive environment of mobile capital and low market entry costs. Australia's automotive manufacturing industry is well-placed to continue its global transition. With an appropriate sector-specific public policy framework, the industry is genuinely capable of playing a lead role in driving a further evolution of the knowledge economy. The national benefits of Australia continuing to be one of only a small number of countries in the world capable of designing, engineering and manufacturing their own world-class motor vehicles will be immense.

2.0 EXECUTIVE SUMMARY

- 2.1 The Australian automotive market has become one of the most competitive in the world. Australia is very much part of a global automotive industry which is undergoing dramatic change with direct relevance to Australia.
- 2.2 Ford Australia is a major national automotive manufacturer. It has extensive design, engineering and manufacturing facilities directly employing nearly 5000 people. It has responded strongly and positively to the challenges inherent in the Government's automotive policy plan with a strong focus on people, process and product. Its new product investments and workplace skill levels are at record levels. It has remained committed to this response despite a difficult commercial environment over the past four years.
- 2.3 The Australian automotive industry has undergone a transformation in recent years. It is small by global standards, but well placed to play a lead role in driving a further evolution of the knowledge economy. Its ongoing transition to a low cost and high value producer will be driven by continued innovation, and its ability to capture ongoing global investment funds. A stable and internationally comparable policy framework will be a critical component of this process.

Table 1

FORD AUSTRALIA KEY RECOMMENDATIONS
<ul style="list-style-type: none">• A lower tariff:<ul style="list-style-type: none">- the company accepts that passenger car tariffs will fall by one-third from 15 per cent to 10 per cent in 2005. It supports this, but strongly recommends there be no reduction beyond this point.• A more innovative ACIS Program:<ul style="list-style-type: none">- ACIS is a critical component of the policy framework and must be continued. The company seeks to complement its production orientation with enhanced support for investment and R & D including own-use R & D.• A unique trade strategy:<ul style="list-style-type: none">- a stronger focus on the selective negotiation of early free trade agreements, incorporating automotive trade, with countries such as Thailand.

3.0 FORD AUSTRALIA – AN OVERVIEW

3.1 Ford Australia is a major national automotive manufacturer with extensive globally-linked design, engineering and manufacturing facilities in Geelong and Broadmeadows, Victoria. These facilities reflect a vertically-integrated organisation with significant asset infrastructure and technical capability. A manufacturing presence has been developed in Australia since 1925.

Table 2

FORD AUSTRALIA - 2001		
		\$A
Employment (number)	-	4950
Wages & Salaries	-	\$357 million
Local Purchases	-	\$1.2 billion
Vehicle Sales (units)	-	106,730
Sales Revenues	-	\$2.8 billion
Research & Development	-	\$124 million
Capital Expenditure	-	\$153 million
Financial Result	-	(\$5.5 million)

(source: Ford Australia)

3.2 Ford Australia is a subsidiary of the Ford Motor Company. Ford Motor Company is the world's second largest automotive company. It was founded in 1903 and is headquartered in Dearborn, USA. Its corporate brand portfolio includes Ford, Mercury, Mazda, Aston Martin, Jaguar, Lincoln, Volvo and Land Rover. These automotive brands are complemented by the Company's ownership of Ford Credit - the industry's largest automotive finance organisation, and Hertz - the world's largest car rental company.

Table 3

FORD MOTOR COMPANY - 2001	
	\$A
Employment (number)	354,431
Total Labour Cost	\$44.3 billion
Vehicle Sales (units)	6.9 million
Sales Revenue	\$306 billion
Capital Expenditure	\$11.9 billion
Financial Result	(\$10.28 billion)

(source: Ford Motor Company annual report 2001)

3.3 Ford Australia's core product is the Ford Falcon, which is also exported to New Zealand and South Africa. The car is designed, engineered and manufactured in Australia. It has an average local content of 85 per cent and has widespread local supplier linkages. Its design and engineering is undertaken in Research and Development facilities at Geelong, Lara and Broadmeadows. These facilities make extensive use of computer-aided design/computer-aided manufacturing technology and are electronically linked to similar corporate facilities in Japan, Europe and North America. The capability and skill level of Ford Australia's product development resource is being continually enhanced in line with new computer programs being used globally. The assembly of the Ford Falcon, which is available in sedan, wagon and utility variants, is undertaken at Broadmeadows where Ford Australia's manufacturing facilities include an advanced water-based paint plant.

Table 4

FORD AUSTRALIA	
<u>Geelong</u>	Product Engineering Iron and Aluminium Casting Engine Manufacture Stamping Chassis & Component Manufacture
<u>Lara</u>	Climate Laboratory Emission Laboratory Proving Ground
<u>Broadmeadows</u>	Research Centre/Design Studio Training Centre Assembly Plant FCSD Parts Warehouse Head Office Fordstar Broadcast Studio

(source: Ford Australia)

3.4 Ford Australia is continually investing in the abovementioned facilities as it pursues on-going improvements in design technologies, manufacturing productivity and vehicle performance and quality. These investments are usually linked to the introduction of new models and can be illustrated by a series of recent investments associated with a \$540 million investment to develop a new model Ford Falcon due for introduction later this year. They include:

- \$31 million at Broadmeadows Assembly Plant for a series of new initiatives, including a state-of-the-art computerised welding facility for vehicle engine bay body assembly and additional laser-technology wheel alignment equipment.
- \$23 million at Geelong Powertrain Plant for investment in a series of new state-of-the-art facilities for engine manufacturing.
- \$14.2 million at Geelong Stamping Plant and Broadmeadows Assembly Plant for a series of new investments including a robotic rear-floor assembly facility.

3.5 Much of the abovementioned equipment was introduced over the 2001/02 Christmas-New Year plant shutdown period when up to 1000 people worked at Broadmeadows and Geelong to complete installation before the scheduled resumption of vehicle assembly.

3.6 Ford Australia has a large supplier network with total annual purchases of components, materials and services approaching \$1.5 billion. The following table is a sample of some key local component suppliers whose annual value of purchases by Ford Australia exceeds \$500 million.

Table 5

FORD AUSTRALIA – SOME KEY SUPPLIERS		
Venture	Plastic Components	Vic
BTR	Transmissions	NSW
Spicer	Rear Axles	NSW
Bosch	Electronics	Vic
PBR	Brakes	Vic
Walker	Exhaust Systems	SA
Plexicor	Trim/Mouldings	Vic
Autoliv	Air Bags/Seat Belts	Vic
Hella	Lighting	Vic
ACL	Engine Parts	Tas

(source: Ford Australia)

3.7 Ford Australia distributes its vehicles, replacement parts and technical/service expertise and knowledge through a network of 240 independently owned dealerships. The dealerships directly employ more than 11,000 people, have a total capital investment of \$1.03 billion and are spread throughout Australia.

Many are located in smaller regional and rural centres where they are long-established, integral parts of the commercial and employment community. Satellite technology is used to conduct interactive communication and employee training sessions with dealerships throughout Australia and New Zealand.

Table 6

DEALERSHIPS		
	<u>Number</u>	<u>Employment</u>
NSW/ACT	79	3901
Vic/Tas	61	3377
Qld	37	2037
SA/NT	33	824
WA	30	979
Total	240	11,112
As at September 2001		

(source: Ford Australia)

Table 7

FORDSTAR
<p>Fordstar is an instructor led satellite based training process. It broadcasts from three fully equipped studios in Campbellfield across two channels to nearly 300 dealer sites in Australia and New Zealand. Broadcast hours in 2001 were approximately 8,575.</p>

(source: Ford Australia)

Table 8

FORD AUSTRALIA – KEY MODELS		
Ford Falcon (all derivates)	Australia	72,944
Ford Laser	Japan	15,374
Ford Courier	Thailand	6,587
Ford Escape	Japan	2,842
Ford Transit	Europe	2,388
Ford Ka	Europe	1,982
Ford Explorer	USA	1,387
2001 Sales Data		

(source: VFACTS)

KEY MESSAGE:

Ford Australia is a significant manufacturing industry investor and employer, with extensive R & D, supplier and dealership linkages.

4.0 AUSTRALIA – A HIGHLY COMPETITIVE MARKET

- 4.1 The Australian automotive market has quickly become one of the most competitive in the world with a strong consumer demand for quality, value and performance. The domestic market is very much a world stage with contemporary vehicles contributing to a competitive industry largely unrivalled in icon automotive markets like Japan, Germany and the United States.
- 4.2 The Australian automotive market has become increasingly segmented and derives much of its competitive ethos from its diversity of brand and product. Unlike aviation (Qantas), telecommunications (Telstra) and retailing (ColesMyer/Woolworths), there are no dominant suppliers in the automotive market. The automotive market leader in each of the last two years has achieved less than 22 per cent of the new vehicle market. The diversity of brand/product in the automotive market is further illustrated by the 52 different brands and 320 different models on sale. In addition, these brands and models are sourced from 20 different countries ranging from the established powerhouse automotive economies of Germany, Japan and the United States to aggressive relatively new producer countries like South Korea and emerging new producer countries like Thailand and South Africa. The value of vehicle imports from Thailand, for example, is fast approaching that of the more-established South Korea having increased from a modest \$22 million to \$564 million over the past five years.

Table 9

<u>AUSTRALIA MARKET</u>
20 source countries 52 different brands 320 different models

(source: Ford Australia)

- 4.3 The Australian automotive market's competitive intensity is also, however, derived from factors beyond brand/product diversity. In fact, many of these factors have been drivers of the diversity. They include:

Market: The market for motor vehicles is unique (apart from housing) in that it encompasses both new and used products. However it must clearly be viewed

as one entity. This entity is made up of a series of inter-locking sub-markets at different price levels. A major change in any one of these sub-markets can be expected to impact on other sub-markets (eg. low price Korean small and light cars impacting on used vehicle prices, plus new all terrain wagons taking sales from traditional passenger cars).

Pricing: The Australian automotive market's prices are among the most competitive in the world with enhanced affordability driving higher overall sales in recent years. In addition, vehicles sold in Australia generally incorporate high levels of standard equipment. The strong value equation in Australia is driven by a number of factors including:

- the wide variety of brands and models on sale.
- the strong value offered by locally-produced products like Ford Falcon. These medium/large passenger cars with high levels of equipment and performance act as an effective pricing cap. They are a consumer barometer of value.
- low price Korean-sourced small and light passenger cars .

The effect of a Ford Falcon type price cap and low price entry cars is to place a considerable pricing squeeze on medium cars.

Table 10

A GLOBAL RETAIL PRICE COMPARISON - \$A

<u>Market Segment</u>	Australia		USA		UK		Japan	
Light	Ford KA Toyota Echo Holden Barina	15,490 15,940 14,990			Ford KA Toyota Echo Vauxhall Corsa	17,122 19,648 22,556	Toyota Echo	18,210
Small	Ford Laser Toyota Corolla Holden Astra	23,950 23,590 23,590	Ford Focus Toyota Corolla	30,662 28,121	Ford Focus Toyota Corolla Vauxhall Astra	32,073 32,209 32,906	Mazda 323 Toyota Corolla	21,392 22,497
Medium	Toyota Camry Holden Vectra	26,280 25,490	Toyota Camry	37,120	Toyota Camry Vauxhall Vectra	53,236 48,307	Toyota Camry	32,699
Large	Ford Falcon Toyota Avalon	32,485 31,490	Ford Taurus Toyota Avalon	38,423 49,363			Toyota Avalon	45,778

Note: This chart is an indicative only comparison of volume selling model derivatives in each market. There may be model and specification differences from market to market. Quoted prices are recommended retail. Exchange rates are US 0.533, UK 0.366 and Japan 68.87.

In addition to its globally competitive price levels, the sensitivity of the new car market to the abovementioned issues of well-priced small vehicles and larger high value domestic products is illustrated by the following chart.

Table 11

NEW CAR PRICE SENSITIVITY		
(Passenger & All Terrain Wagons – 2000)		
	<u>Volume</u>	<u>Share</u>
\$ 0 - \$14,999	28,891	4.4%
\$15,000 - \$19,999	73,512	11.2%
\$20,000 - \$24,999	116,593	17.7%
\$25,000 - \$29,999	71,623	10.9%
\$30,000 - \$34,999	145,088	22.0%
\$35,000 - \$39,999	73,634	11.2%
\$40,000 - \$49,999	74,408	11.3%
\$50,000 upwards	67,13	10.4%

(source: VFACTS/Ford Australia)

Low Entry Costs: The Australian automotive market is not an expensive market for suppliers of built-up vehicles to enter. It has relatively low tariffs and no hidden barriers to entry. There are no volume restraint mechanisms and there are few unique design rule requirements because regulatory standards are increasingly harmonised with other global standards. A concentration of population in the east/south corridor eases the entry cost for new market entrants, as does their ability to access existing dealer distribution networks via multi-franchise arrangements. Given the relatively small size of the Australian market, new entrants can enter the market with modest commercial risk.

A Strong Fleet Orientation: The Australian automotive market has a strong business fleet and government orientation. Fifty percent of all new passenger cars are sold to these fleet buyers. This market share, versus private buyers, increases to approximately seventy percent for locally-produced passenger cars. A strong "whole-of-life" cost focus is placed on new vehicles by fleet buyers. This includes operating cost and resale value competitiveness. A recent trend toward individual company employees being able to choose their brand/model (versus the historical practice of "tied" corporate fleets) under novated lease type arrangements, has also increased the cost of marketing and selling to this important market sector.

Table 12

<u>PASSENGER CAR FLEET MARKET</u>			
	<u>1995</u>	<u>1998</u>	<u>2001</u>
Private	49.1%	52.1%	50.6%
Fleet	50.9%	47.9%	49.4%

(source: VFACTS)

Increased Segmentation: In addition to the entry of new brands and models to the Australian automotive market, there has been significant change in relation to the types of vehicles being purchased. This change, which results in considerable inter and intra segment competitive pressure, is illustrated by the following table. It is anticipated that the trends shown in the table below will continue.

Table 13

<u>AUSTRALIAN PASSENGER CAR MARKET SHARE (incl. ATWs)</u>				
	<u>1995</u>	<u>1997</u>	<u>1999</u>	<u>2001</u>
Light	16.2	18.5	14.3	10.4
Small	15.9	18.8	21.0	25.1
Large	36.4	32.6	31.9	29.5
Other	10.9	10.4	9.9	11.1
All Terrain Wagons	8.6	11.7	16.0	18.0

(source: VFACTS)

Affordability: New car affordability for Australian motorists has improved in recent years. It now takes fewer weeks' work to buy a new car. A Ford Falcon takes 38 weeks work (average total weekly earnings) compared to 44 weeks in 1995. This follows several years of declining affordability during which time the age of the national car fleet deteriorated to among the oldest in the developed world. The more recent improvement has resulted from a mix of competitive and regulatory factors including the emergence of new low cost cars, intense market-wide competition due to the increasing diversity of brands and comprehensive tax reform. Such is the competitive intensity that the impact of recent currency changes for example, has not been fully reflected in higher retail prices. The value equation of new cars has also been further enhanced by the fact today's cars incorporate significantly higher levels of feature content than previously.

While the new vehicle market has performed strongly in recent years, driven by enhanced affordability and positive national economic growth, there is still some further growth potential. It has been estimated that the underlying market is potentially 950,000+ annually. There is significant volume and business potential for all local vehicle producers if this potential can be unlocked and if those producers can ensure their products meet the diverse needs of a demanding marketplace.

Table 14

GREATER VEHICLE FEATURE LEVELS		
	<u>1995 Ford Falcon GLi</u>	<u>2002 Ford Falcon Forte</u>
ABS Brakes:	Option	Standard
Air Conditioning:	Option	Standard
Airbag	Driver	Driver & Passenger
Audio	Radio/Cassette	AM/FM CD Stereo
Windows	Manual	Front Power
Wheels	15"	16"

(source: Ford Australia)

Table 15

<u>AUSTRALIA</u>				
<u>NATIONAL VEHICLE FLEET</u>				
	<u>New Vehicle Sales</u>	<u>National Vehicle Fleet</u>	<u>Average Age</u>	<u>Scrappage Rate %</u>
1998	807,669	12.06m	10.7	3.3
1999	786,845	12.6m	10.6	4.6
2001	772,681	12.47m	10.5	5.0

(source: VFACTS and ABS)

The automotive industry has a clear interest in the size of the market being as large as possible. A stagnant market will tend to make Australia less attractive as an investment location for our parent companies compared to investing in countries where the demand for new cars is growing strongly. However, the industry's ability to grow the market via enhanced affordability is a delicately-balanced proposition. It is very much a value equation. From a product cost

perspective, vehicle manufacturers are facing a number of strong global challenges, which will inevitably impact on Australian producers. These challenges include:

- demands for new environmental and regulatory equipment features including hybrid and fuel cell technologies. The sensitivity of Australian consumers to paying heavily for additional environmental features is illustrated by the following table:-

Table 16

<u>SALES (YTD MARCH)</u>	
Honda Insight (hybrid)	2
Toyota Prius (hybrid)	49
Ford Falcon (dedicated LPG)	942
Insight and Prius retail prices are virtually double comparably sized traditional petrol cars. Ford Falcon Passenger dedicated LPG is only 2.4% higher.	

(source: VFACTS/Ford Australia)

- demands for end-of-life vehicles (ELVs) to be treated according to stringent recycling and disposal rules.
- congestion in cities and large centres arising from rapid urban growth and inadequate road infrastructure development.

KEY MESSAGE:

The Australian automotive market is one of the most competitive in the world with an exhaustive model range and extremely sharp retail pricing.

5.0 HOW A GLOBAL INDUSTRY IMPACTS AUSTRALIA

- 5.1 Australia is very much part of a global automotive industry. It produces similar products, reflects a strong global culture and, in many cases, shares common ownership. Many major investment decisions are also made globally. Although a small producer, Australia is confronted by similar challenges and opportunities.
- 5.2 The global automotive industry is undergoing dramatic change. This change is strategic, structural, technological and economic. It is placing immense competitive pressures on all industry participants including vehicle producers, component suppliers and material/service providers.
- 5.3 A fundamental driver of this dramatic change is cost as the global automotive industry scrambles to address the twin pressures of surplus productive capacity in more mature and established markets (ie. Europe,. North America) and the need to build new productive capability in protected new growth markets (ie. India, China). There is also surplus capacity in many new markets as initial demand forecasts have not been achieved. Global productive capacity overall is estimated to be more than 30 per cent greater than global demand.

Table 17

GLOBAL OVER-CAPACITY		
(millions of units)		
	<u>1999</u>	<u>2003 (f)</u>
Capacity	77	82
Demand	54	55
Excess Capacity	<u>23</u>	<u>27</u>
% Excess Capacity	30%	33%

(source: Ford Motor Company forecast)

- 5.4 Overhanging the abovementioned production-related pressures are such cost pressures as consumer and regulatory demand for additional features and performance parameters, a strong consumer reluctance to pay higher prices for new vehicles, an increasing diversification in vehicle types, a concerted search for new markets and increased competition from non-automotive sources for consumer spending.

5.5 The global automotive industry's leading participants are seeking to address these fundamental challenges in a number of ways including:

- an increasing level of takeover, merger and joint venture/shared program alliances among vehicle manufacturers and service providers.
 - the disbanding of historically high levels of vertical integration, leading to the sale of large in-house component divisions (GM's Delphi and Ford's Visteon) and an expectation that component suppliers are increasingly full-service providers of design, engineering and manufacturing services.
 - the discontinuation of low volume low profit models, greater global platform commonality and the reduction of factories in mature markets.
 - more aggressive competition within global companies for future capital investment funds.
-

5.6 **The Ford Motor Company's recent initiatives are an illustrative example of a major global automotive producer's response to the abovementioned challenges:**

- Its recent takeover activity includes Volvo and Land Rover. It has also completed the purchase of Hertz. Beyond the unique personality and customer interface of its various automotive vehicle brands, the Ford Motor Company is maximising economies of scale by using common product development processes and fewer vehicle platforms across a wider range of brands and models. This lowers both development and component costs and leads to superior quality and reliability.
- It established Visteon Corporation as an independent supplier of components. Furthermore, the company's devolution of design responsibility is illustrated by a world-leading development in Brazil where the Ford Motor Company and 29 suppliers have located on a new shared site with suppliers providing high levels of value-adding including design expertise and value-chain management.

- It has embarked on a major revitalisation plan in North America that focusses on new products, lean flexible manufacturing and cost reductions. This involves the closure of five plants to eliminate 900,000 units of excess capacity, discontinuation of four low volume model lines and a workforce reduction of more than 10 per cent by mid-decade.
- It is making a comprehensive series of major new investments in growth markets.

Table 18

SOME RECENT GROWTH MARKET INVESTMENTS		
<u>Country</u>	<u>Project</u>	<u>Investment</u> <u>\$A</u>
Brazil	Integrated Assembly & Supplier facility	\$2.26 billion
India	Assembly Plant	\$560 million
China	JV Assembly Plant	\$330 million
Thailand	JV Assembly Plant	\$660 million
Russia	Assembly Plant	\$280 million
Turkey	Truck Assembly Plant	\$190 million

(source: Ford Motor Company/exchange rate \$US 0.53)

All the abovementioned investments by the Ford Motor Company were the recipients of project specific Government assistance packages beyond existing market tariffs etc.

5.7 The impact of these global automotive industry initiatives (which are being undertaken in various forms by all leading vehicle producers) on Australia is significant and increasingly immediate. It is not possible, nor desirable in an increasingly global industry where capital investments are large, lead times long and economies of scale important, for an individual country to be quarantined

from international events and trends. Given the openness of the Australian market, they impact in a number of ways including:

- the potential for shipment to Australia of vehicles sourced from under-utilised global plants.
- an increasing demand on Australian component suppliers to be full-service providers, with strong systems and information technology capability, both for domestic and export markets. The technology can either be sourced proprietarily or via joint venture/licensing agreements.
- an assessment of investment proposals by Australian vehicle producers and leading component suppliers against other global investment proposals under consideration by parent companies.
- a greater segmentation of the Australian domestic market due to the diversity of brands, models and vehicle types. The increasing diversity of the Australian market is illustrated in the table below.

Table 19

TOP TWENTY MODELS		
	<u>1996</u>	<u>2001</u>
Total Industry Volume	650,049	772,681
Top 20 Model Volume	397,237	420,964
Share of Industry	61%	54%
- industry volume up by 18% - top 20 volume up by only 6%		

(source: VFACTS)

- the shorter model cycles of many imported vehicles places increased competitive pressure on lower volume domestically produced models. It has been estimated that the world's leading vehicle producers (Ford, GM, Daimler-Chrysler, Toyota, Volkswagen and Renault-Nissan) will introduce approximately 280 new (major change/all-new) car and light truck models

between 2000-2004; 50 more than in the previous five years. In addition, leading manufacturers are aiming to be able to move from appearance approval to initial production for a new model (new appearance with continued lower structure) in 18 months compared to the present 24-30 months.

- The high capital intensity of automotive manufacturing means investments will naturally be located closest to the largest centres of population as these centres will be capable of providing greater customer pools. In addition, the emergence of trade-regions (NAFTA, MERCOSUR and ASEAN etc) can also influence investment location.
- The increased manufacturing and cost efficiencies that can result from the in-line sequence supply of components and sub-assemblies from suppliers located close to vehicle assembly plants.

KEY MESSAGE:

Australia is very much part of a global automotive industry that is undergoing dramatic strategic, structural, technological and economic change.

6.0 HOW FORD AUSTRALIA IS MEETING THE CHALLENGE

6.1 Ford Australia has responded strongly and positively to the challenges inherent in the Commonwealth Government's automotive policy arrangements. It has acknowledged the transitional opportunity provided by the arrangements (tariff and ACIS) and has continually sought to improve its competitiveness and global integration with a comprehensive focus on product, process and people. It is committed to an affordable business structure. It has committed to a suite of initiatives despite a difficult trading environment. The abovementioned initiatives are of a company very much in transition and include:

(a) Record New Product Investment

- . the introduction of Australia's first dedicated LPG car.
- . \$540 million in a significantly new Ford Falcon due for introduction late in 2002.
- . \$500 million in E265, a second vehicle line sharing a number of Ford Falcon components and due for launch in 2004.

These new products will provide Ford Australia with strong asset and capacity utilisation allowing it to release the full benefits of many of the new flexible processes it has developed in recent times. It will lead to the introduction of additional shifts. Econometric studies have also shown strong national economic benefits will accrue from E265.

Table 20

NATIONAL ECONOMIC BENEFITS OF E265
<ul style="list-style-type: none">• GDP would be higher than otherwise by about \$500 million a year;• Aggregate consumption would increase by around \$280 million a year;• Australia's terms of trade would improve by \$1.6 billion over lifecycle;• Government's budgetary position would improve by up to \$200 million annually;• Aggregate employment would increase by 4000 jobs in 2005.

(source: Ford Australia/Centre of Policy Studies, Monash Model)

Ford Australia is making the significant E265 investment on the assumption of an on-going stable tariff and an ACIS-type program. Without such an environment, E265 will not be viable.

(b) Greater Global Integration

- . E265 will compete largely against imported products in a fast growing new market sector. It will substitute for many of these products providing strong balance of payments benefits to Australia. This is a form of "reverse" export. From an economic perspective, a substituted imported product/sale is equally as valuable as a vehicle shipped overseas for sale.
- . Ford Australia's product development resource is actively seeking new business opportunities from throughout the Ford Motor Company.
- . Ford Australia's toolmaking resource has secured export contracts worth more than \$20 million with customers in Europe and Asia.

Future global product design/engineering and toolmaking contracts are important to the future development of Ford Australia's extensive skilled engineering resources. Such contracts can also play a valuable role in levelling out workload.

(c) New Supply Chain Initiatives

- . a Total Cost Management program where a comprehensive series of workshops were conducted with component suppliers over the past four years. The objective of these workshops was to identify potential design, material, manufacturing and logistical efficiencies that could be achieved without changing the design intent or functionality of the component.
- . a strong focus on environmental management including utilities consumption. Ford Australia itself is accredited and has sought

ISO14001 accreditation by all its leading component suppliers. This is expected to be achieved by mid-2003.

- . a significant expansion in the concept of in-line sequence delivery of components to the Broadmeadows Assembly Plant. This is being facilitated by the building of a new National Business Park on vacant land adjacent to the assembly plant and the location of a new enterprise within the assembly plant complex. The latter will involve Air International using a 40,000 square metre production facility and 130 employees to produce seats and other components, which will be transported directly to the production line as they are needed. Dana and one of its suppliers are also building a new facility at the National Business Park for the in-line sequence supply of suspension/axle modules.

The global competitiveness of key local suppliers was illustrated on 19 April 2002 when Adelaide-based Schefenacker Vision Systems was the recipient of a Gold Award in the Ford Motor Company's global Supplier Excellence Awards. Melbourne based PBR was the recipient of a Silver Award.

(d) More Competitive Processes

- . the introduction of the global Ford Production System at Geelong and Broadmeadows. This is a worldwide, cohesive system that encompasses and integrates Ford manufacturing processes and the inter-related Ford Product Development System, Order-to-Delivery, Purchasing and Management processes. It is very much based on the principles and efficiencies of lean manufacturing.
- . a strong environmental management strategy with ISO14001 accreditation, EPA accredited licensee status and participation in the Greenhouse Challenge.
- . a comprehensive e-Business strategy. The focus of this strategy has been to identify how Ford Australia can use the internet to improve the way it builds and sells vehicles. As a result it has been able to greatly enhance, at lower cost, its communications

with suppliers and dealers through specialised portals. Paperless communication with its dealer organisation has produced substantial cost savings. Ford Australia has also pioneered on-line auctions, on-line used vehicle sales (in partnership with dealers) and introduced a unique Web Cam which allows photographs of a customer's car to be emailed to them as the car is being built.

- . wide adoption of a six-sigma program. This is a statistical methodology that drives for a data driven solution to any problem. Ford's approach, called Consumer Driven 6 Sigma, applies the methodology to improve the vehicle attributes that provide the highest opportunity for improved customer satisfaction.

(e) Motivated People

- . the continued negotiation of flexible enterprise-based workplace agreements allowing for enhanced labor productivity, inclusiveness and more streamlined manufacturing and assembly operations.
- . a strong focus on training and education. Ford Australia's learning and development strategy is about ensuring the company can meet its business plans through having the right people, with the right skills in the right place at the right time. As such, it seeks to:
 - recruit the right people
 - develop people to ensure they can effectively and safely perform their duties
 - ensure people are continually developed
 - provide an environment which enables the company to retain employees.

Table 22

EMPLOYEE SHARE PLAN	
<p>Employees of Ford Australia have since late 1998 been able to participate in the long-term growth of the Ford Motor Company by purchasing common stock via an employee share plan. The plan allows for employees to contribute up to \$1,000 annually. There are currently 860 employees, including more than 460 hourly payroll employees, participating in the share plan.</p>	

(source: Ford Australia)

Table 23

EMPLOYEE QUALIFICATION LEVELS		
	<u>1995</u>	<u>2000</u>
Post Graduate Degree	0.84%	1.68%
Graduate Degree	8.23%	12.24%
TAFE qualification (incl. trade & VIC)	22.67%	51.28%
No Post Secondary qualifications	68.26%	34.80%

(source: Ford Australia)

Table 24

EMPLOYEES UNDERTAKING COMPANY STUDY	
<u>2002</u>	
Vehicle Industry Certificate	170
Trade	92
Advanced Trade	260
Under Graduate Degree	100
Post Graduate Degree	<u>48</u>
	670

(source: Ford Australia)

- . a commitment to diversity as being fundamental to drawing upon the creativity, talents and abilities of all people.
- . a commitment to a safer workplace and to high levels of attendance. Ford Australia has become a leader in workplace safety and has seen significant reductions in absenteeism and labor turnover.

Table 25

<u>A SAFER WORKPLACE</u>			
	<u>1997</u>	<u>1999</u>	<u>2001</u>
Number of Workcover Claims	803	565	210
Severity Rating (lost-time days for injuries per 200,000 hours)	55.4	30.7	20.5

(source: Ford Australia)

Table 26

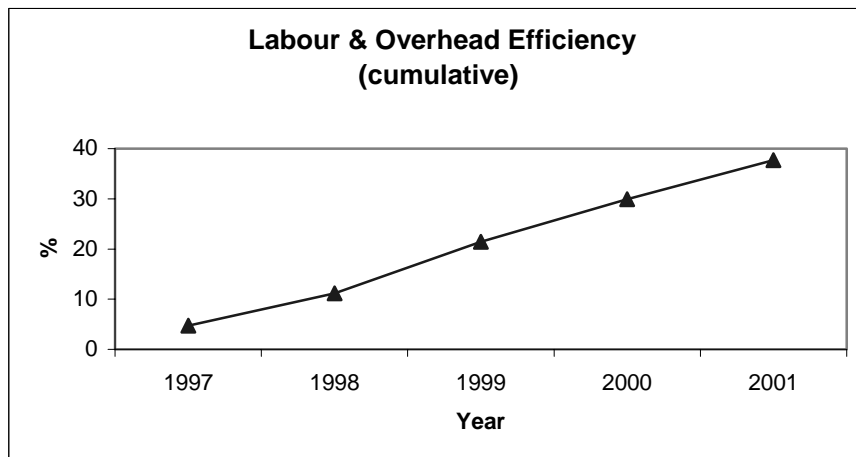
<u>EMPLOYEE PERFORMANCE INDICATORS</u>				
	<u>1996</u>	<u>1998</u>	<u>2000</u>	<u>2002 (ytd)</u>
<u>Absenteeism</u>	4.8%	4.1%	4.1%	2.8%
<u>Turnover</u>				
Trade	2.8%	1.3%	1.0%	0.3%
Non-Trade	5.7%	3.2%	2.9%	0.2%
Salaried	3.0%	3.5%	4.0%	0.7%

(source: Ford Australia)

- . a comprehensive and regular employee communications program across all levels of the company to provide a better understanding of the automotive industry business fundamentals. This program includes weekly employee e-mails from the Chief Executive and quarterly employee briefing sessions of up to one hour each by the Chief Executive.

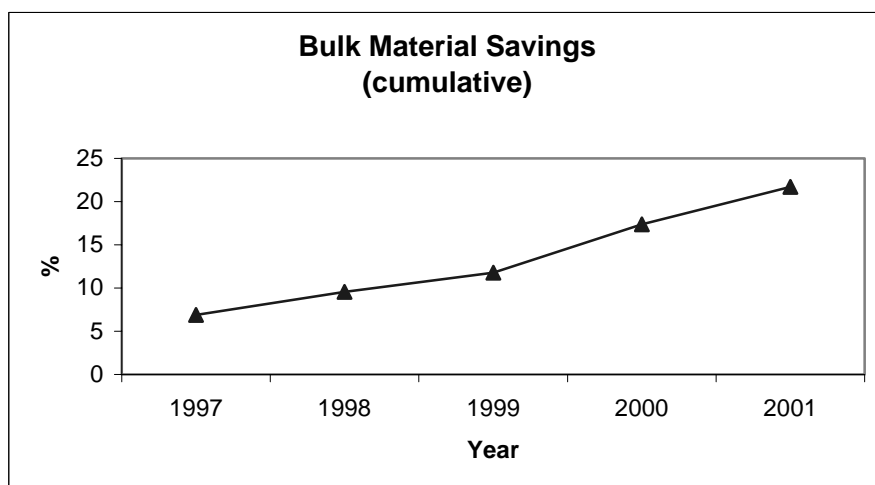
6.2 Ford Australia has been able to achieve considerable performance gains through the abovementioned suite of initiatives. The productivity and efficiency gains are illustrated in the tables below. Furthermore, the company is well positioned to be able to continue to achieve further efficiencies in the face of intense global automotive competition as its manufacturing volumes lift through the introduction of new and additional products.

Table 27



(source: Ford Australia)

Table 28



(source: Ford Australia)

KEY MESSAGE:

Ford Australia is very much a company in transition. It has responded positively to the challenges inherent in the automotive policy arrangements with a comprehensive focus on product, process and people.

7.0 AUSTRALIA'S AUTOMOTIVE POLICY – AN ASSESSMENT

7.1 The Australian automotive industry has operated under various government assistance arrangements for many years. In fact, its very existence is owed to government assistance. Early assistance arrangements were essentially aimed at reserving the domestic vehicle market for local producers. In essence, investment and production in Australia was the price automotive manufacturers were required to pay in return for almost exclusive access to the local market. The assistance arrangements were therefore protection oriented and production focussed. They were based on high tariffs, quota restrictions and local content programs. They were also prone to regular change; primarily to attract new market entrants, promote investments and to address unanticipated competitive threats.

7.2 By the late seventies, these assistance arrangements were no longer appropriate. Australia's economy was about to enter an extensive program of deregulation. The world automotive industry was becoming increasingly global. As a result, new assistance arrangements emerged. While still prescriptive in some areas, these arrangements promised greater policy stability and a stronger market, as opposed to production, approach. The new arrangements sought to promote exports and delivered a competitive spur to the industry by significantly reducing the level of government assistance. Importantly, it was recognised that transition for a capital intensive, long-lead-time industry would take time. The new arrangements used a mix of "stick and carrot" mechanisms and sought the development of an automotive industry that:

- was viable
- was internationally competitive
- provided higher quality vehicles
- delivered lower real prices
- required lower assistance levels

7.3 The abovementioned assistance arrangements have contributed to a dramatic change in the performance of the Australian automotive industry. Manufacturer, plant and model rationalisation has resulted. Significant quality, product value and productivity improvements emerged as competition from imported products

increased immensely. Furthermore, aggressive export programs were encouraged. The industry's performance is illustrated in the following table:

Table 29

CAR PLAN SCORECARD				
	<u>1984</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>
Manufacturers	5	5	4	4
Models	13	6	5	5
Production	356,747	377,461	312,908	359,686
- Domestic Sales	355,222	350,653	288,968	258,668
- Export Sales	1,525	26,808	23,940	101,018
Employment	62,450	63,195	55,800	51,400
Quality (faults per vehicle)	2.4-3.3	1.8-2.9	1.3-1.9	0.7-1.5
Export Value (vehicles & components)	\$383m	\$1.01b	\$1.77b	\$4.22b
Import Vol. (passenger)	87,133	117,533	213,617	326,305
Import Share	19.7%	25.2%	43.7%	58.9%
Tariff	57.5%	40%	27.5%	15%

(source: various State Of Industry Reports)

7.4 The Car Plan Scorecard points to considerable achievements by the industry. Higher quality cars are now made more efficiently with a stronger consumer and export focus. These achievements were the result of a number of initiatives across the industry including:

- improved people programs
- stronger supply chain partnerships
- continuous attention to cost reduction
- introduction of lean manufacturing concepts
- focussed investment in technology
- enhanced design, engineering and manufacturing processes

However, the industry's achievements were not totally positive. There were also outcomes which created future risk. These outcomes included:

- decline in local manufactured base
- concentration of locally-produced vehicles in the medium/large category
- a very large increase in imports and new brands leading to significantly greater market segmentation
- low profitability

7.5 From 2000, a new set of policy arrangements have applied. These arrangements have centred on a tariff pause at 15%, the introduction of the Automotive Competitiveness and Investment Scheme (ACIS) and a market access strategy. The objective of these initiatives has been to facilitate a transition by the industry toward greater self-sustainability. It seeks to attract further global investment while maintaining competitive pressures for further improvements in productivity, quality and innovation. These automotive policy arrangements have been complemented by other policy overhauls including comprehensive tax reform, which has improved the affordability of motor vehicles.

7.6 The post 2000 automotive policy arrangements are less than two years old. It is therefore premature to make definitive assessments on their outcomes. However, it is clear that the stable policy environment is making an important contribution to the industry's competitive transition. The early indicators include:

- high levels of new plant, technology and product investments, including new types of vehicles
- an "over-subscription" on the ACIS program forcing an early modulation and near 30 per cent reduction in capped assistance levels
- a strong market for new vehicles, as a result of sustained economic growth. However, imported vehicles continue to make further in-roads into the domestic market
- continued strong export performance by the vehicle and component sectors
- a new focus on the export of R & D/services programs by the industry
- a continued focus on ongoing cost efficiencies across the industry.

7.7 In determining a post 2005 policy framework, Ford Australia submits it is imperative the momentum provided by the stability and value of the present policy arrangements is not lost. The industry has stepped up to the challenge. It is positioned at the cusp. It would be a huge missed opportunity for Australia if the automotive manufacturing industry was unable to complete the task of transition.

7.8 At 2005, the Australian automotive manufacturing industry will be operating, despite its niche volumes, with an assistance package directly comparable to that of many developed economies and significantly below that of many developing economies. A comprehensive summary of automotive policies from a wide variety of countries has been supplied to the Productivity Commission by the Federal Chamber of Automotive Industries. Australian vehicle manufacturers, whose vehicles provide the critical anchor for the domestic industry, will be pursuing future new model investment funds which are vital to the industry's continued transition in this competitive global environment.

7.9 The continued confidence and support of global investors is critical to the future of the Australian industry. Further early reductions in assistance, without giving the industry the stability to move forward with an assistance package centred on a 10 per cent tariff, would be hasty. The upside of such early reductions would be miniscule. The downside could be considerable.

Ford Australia believes the case for continued policy stability is a robust one. It outlines its policy recommendations in Chapter 10, but bases its case on:

- the need for continued transition in an environment where vital investment funds are competed for globally.
- the scale and quality of the industry's extensive economy-wide linkages.
- the international competitiveness of Australia's planned 2005 policy arrangements.
- the miniscule national benefits that may accrue from a hasty reduction in assistance levels versus the costs of any corporate or industry withdrawal.

- the positive response of the industry to the policy challenges of recent years and the significant level of new investment underway. This new investment is placing the industry at the cusp of further new opportunities.

KEY MESSAGE:

The Australian automotive industry has undergone a dramatic change under an evolution in policy assistance arrangements. It is now positioned to continue its transition under a globally comparable policy framework.

8.0 THE LINKAGES OF A DYNAMIC INDUSTRY

8.1 Australia benefits significantly from its increasingly dynamic automotive manufacturing industry. The industry is a leader in high quality investment, underpins a growing manufacturing sector, pursues aggressive R & D outcomes in partnership with educational institutions and is a valuable participant in key regional centres.

8.2 The Australian automotive manufacturing industry has moved well beyond basic manufacturing. It is now very much part of the knowledge-based economy. It is unique in the quality and quantity of its linkages and knowledge, technology and process diffusions to the wider national economy, including the primary and services sectors. In essence, the Australian automotive manufacturing industry:

- lies at the centre of Australia's production engineering capability;
- is the leading volume manufacturer of a complex consumer product. It is one of Australia's key large scale industries. It has powerful technology linkages to world centres of automotive research, design and production;
- is a driver of Australia's increasingly valuable trade in elaborately transformed manufactures;
- it provides a knowledge channel by which new processes and skills are introduced into the wider production system, and is a driver of the creation of knowledge by component and services supplying industries;
- it is a "university" of advanced manufacturing methods and technologies;
- it provides the base-load of key capabilities and contributes strongly to the creation of a national skills base;
- is a major consumer of the products produced by many other industries.

8.3 The Australian automotive manufacturing industry has widespread linkages to many other industries, including steel, toolmaking, aluminum, glass, plastic, rubber, automation systems, paint and information technology. The automotive manufacturing industry is also a demanding customer driving higher levels of technical, process, quality and cost performance.

Table 30

AUSTRALIAN AUTOMOTIVE INDUSTRY
<ul style="list-style-type: none">• Directly employs 51,000 people.• Annual vehicle production value exceeding \$8 billion.• Exports (vehicles and components) of more than \$4.9 billion.• Gross investment expenditure (vehicle producers) exceeds \$3 billion every five years• R & D expenditure (vehicle producers) exceeds \$1.8 billion every five years.

(source: various State of Industry Reports)

8.4 The automotive industry is also driving the development of new mineral processing initiatives in Australia. A major supply contract by Ford Motor Company with the Australian Magnesium Corporation is underpinning a significant smelter development at Gladstone in Queensland.

8.5 **Ford Australia is an illustrative example of the strong linkages which emerge from the automotive manufacturing industry. The linkages are summarised as follows:**

Investment:

Ford Australia has invested \$1.4 billion in Australia over the past five years in the development of new products, new facilities, new equipment and enhanced processes.

Purchases:

Ford Australia purchases \$1.3 billion worth of production parts, after-market parts and services from suppliers in Australia annually.

Research & Development:

Ford Australia invests approximately \$110 million annually in R & D. Government surveys have shown it to be among the leading corporate R & D investors in Australia. Ford Australia also works closely with key educational institutions in pursuing R & D outcomes. It has established unique casting and

metal stamping research programs in partnership with Deakin University and the Australian National University.

Employment:

Ford Australia directly employs almost 5,000 people at Geelong and Broadmeadows. Its annual wages and salary payments are more than \$357 million.

Processes:

Ford Australia is a leader in the diffusion of new processes and systems to the wider industry and business community. These include ISO9001 quality and ISO14001 environmental framework management systems. It expects up to 200 first tier suppliers will have their main facilities certified to ISO14001 by mid 2003. In addition, Ford Australia has worked in partnership with North Link/NIETL (a North Melbourne-based business and educational networking organisation), the Environment Protection Authority of Victoria and the Australian Greenhouse Office to deliver environmental management system training and Greenhouse Challenge recruitment initiatives to local smaller and medium size businesses. More than 60 organisations were recruited to the Greenhouse Challenge as part of this initiative.

Educational:

Ford Australia has close associations with Deakin University, RMIT, Kangan-Batman TAFE and the Gordon TAFE. Its educational and training programs also include on-site university lectures and classes for degree courses. Some of these initiatives are also delivered in partnership to other local businesses.

Regional:

Ford Australia's regional linkages are extensive with local components and services sourced from Victoria, Tasmania, Queensland, New South Wales and South Australia. Some illustrative examples of the company's regional linkages are:

Geelong. Ford Australia has a major manufacturing presence in this regional Victorian city. It employs 2100 people and pays \$ 124 million in annual wages and salaries.

Albury. Ford Australia is a major customer of BTR Transmissions, the largest manufacturing operation in this regional NSW city. The company's annual purchases exceed \$110 million. BTR employment in Albury exceeds 930 people.

Toowoomba. Ford Australia recently secured a contract to supply brake system castings to Toowoomba Foundry in Queensland. These castings will be produced in Geelong and machined in Queensland before overseas export.

Corporate Citizenship

Ford Australia interacts strongly with its local communities, and has strong educational, environmental and sporting links. It is the major sponsor of the Geelong Football Club, leading national V8 Supercar teams and Clean Up Australia Day. At a more "grass-roots" local level, the company has worked closely with Youth At Risk, City of Hume Global Learning Centre project and key projects at the Hume Valley School (previously known as Broadmeadows Special School).

Ford Australia has also introduced a comprehensive visiting program for students. More than 12,600 students from 215 primary and secondary schools have participated in the Ford Alive Program, which has been jointly developed by Ford Australia and the Victorian State Government, since it was launched in May 2001.

Global Technology

Ford Australia's design and engineering facilities are computer-linked to similar Ford Motor Company facilities in North America, Europe and Japan. This provides for access to the very latest global IT programs and allows for technological developments and information/data exchanges.

In addition, Ford Australia makes extensive use of overseas training assignments and opportunities for its employees. There are currently more than 60 FOA employees on overseas assignments ranging from recent graduates to senior management. They are

working in countries as diverse as Argentina, New Zealand, Japan, Thailand, China, USA, United Kingdom, Russia and India. Two significant Ford Motor Company assembly plants in North America are run by senior Ford Australia managers. In addition, Ford Australia has undertaken training in Australia for Ford employees from India and China.

KEY MESSAGE:

Australia benefits significantly from its increasingly dynamic automotive manufacturing industry.

9.0 TWO KEY CHALLENGES

- 9.1 The Australian automotive manufacturing industry will continue to face immense pressure. This intensity will be driven in large part by consumer and regulatory demands, an increasingly segmented market and the impact of global industry development.
- 9.2 In seeking to secure the regular parent-company investment necessary to succeed in the abovementioned environment, the industry will be confronted by a number of complex challenges. Two key challenges for the Australian automotive manufacturing industry will be the need for a stronger volume base, and for industry participants to have the confidence necessary to pursue world-class supply chain practices.
- 9.3 **A Stronger Volume Base:** Automotive manufacturing is extremely capital-intensive in terms of design and engineering demands, tooling requirements and manufacturing infrastructure needs. It also has long lead-times from the concept to showroom stages given the complexity of vehicle design and development. This capital intensity, and the cash-flow demands of new model development where hundreds of millions of dollars can be invested before one dollar of consumer revenue is received, inevitably means that new investment proposals are put under very close scrutiny. It is also inevitable as part of this scrutiny that the soundness of the available volume base, over which to amortise the abovementioned high costs, will be very closely reviewed.
- 9.4 The Australian automotive manufacturing industry is very small by world standards accounting for less than one per cent of global industry production. This provides a very small base over which to spread the high levels of necessary investment to produce high quality and high value vehicles. The industry's need for external assistance is in large part derived from this small volume base.
- 9.5 In recent years there has been a significant erosion in the share of the domestic market held by locally-manufactured cars.

Table 32

MARKET SHARE OF LOCAL CARS	
1993	62.5%
1995	56.3%
1997	53.8%
1999	47.6%
2001	40.0%

9.6 This erosion in market share for domestic manufacturers has resulted from a number of factors, including:

- a specialisation by domestic producers to concentrate on their speciality of producing only medium/large passengers cars.
- a prescriptive element to automotive policy in the late eighties designed to convince manufacturers to delete lower volume cars from local production.
- a greater variety of imported brands and models as market entry barriers have declined.
- a move toward all-terrain wagon 4x4 vehicles by buyers of traditional passenger cars.

9.7 The declining share of the domestic market held by locally-produced cars further compounds the difficulties of an already low volume base. By global standards, the present market share for local cars of 40 per cent is very low. Japanese, US and European vehicle producers all benefit from a significantly greater share of their domestic markets. They also benefit from even bigger "domestic" markets via such trade pacts as the EU and NAFTA. Furthermore, these manufacturers can export from a well established domestic "anchor", as opposed to being dependent on successful and continuing export programs.

9.8 Local manufacturers are now pursuing a number of strategies in a bid to build their volume bases and manufacturing asset efficiency. These strategies include:

- a stronger focus on vehicle export programs. There has been a significant increase in vehicle exports from Australia in recent years, particularly to the Middle East.
- the development of new vehicles from existing vehicle platforms. By expanding the range of vehicle types that can be produced off a core platform, a manufacturer can enter new market segments.

9.9 A World-Class Supply Chain: The immense competitive pressures faced by the Australian automotive manufacturing industry mean that all levels of industry must continually review the efficiency and effectiveness of its processes. This means the industry must have the preparedness and flexibility necessary to consider introduction of new global industry practices and disciplines at an early stage.

9.10 The global automotive industry is, as indicated earlier in this submission, undergoing dramatic change. A major feature of this change is a significant overhaul of the traditional relationship between vehicle manufacturers and key suppliers. Historically suppliers produced and delivered individual components made to a specification set by the vehicle manufacturer. Today, this relationship is changing. Vehicle manufacturers are increasingly looking toward key suppliers for the specialist knowledge and technology necessary for different components. Instead of specifying the design and engineering input for individual components, vehicle manufacturers are working collaboratively with component suppliers to develop individual components. This new approach requires key suppliers to develop considerably higher levels of specialist technology expertise than was previously required.

9.11 These structural changes have led to the emergence of what are known as full-systems suppliers. In the Australian industry, illustrative examples of this trend are suppliers like PBR (braking systems), Air International (air conditioning and seating systems), Bosch (vehicle electronics) and Dana (suspension systems). In the case of each of these companies, they have either specifically developed and grown their own technological capability or they have entered into joint venture arrangements with established global technology providers.

9.12 The drivers of this change are many. Firstly, vehicle manufacturers have acknowledged the need to reduce historically high levels of vertical integration,

and to concentrate on key areas of expertise like vehicle design, engineering and manufacturing processes. Secondly, the advanced technologies now required by modern vehicles demand a higher level of specialisation. Thirdly, cost reductions and quality gains can be achieved by a more co-ordinated teamwork approach between vehicle producers and suppliers.

9.13 The new approach has also led to considerable changes in the delivery of components to vehicle producer assembly plants. Lean manufacturing and just-in-time delivery practices have allowed the industry to pursue considerable cost savings by eliminating unnecessary inventories. The regular delivery of components to assembly plants has also allowed for components to be delivered directly to an assembly line as opposed to being delivered via a warehouse or holding point.

9.14 Automotive manufacturers are now looking to component suppliers, where practical, to undertake the assembly of some components and to deliver sub-assemblies to the final assembly plant. In the case of Ford Australia, this process is being built around the development of a new business park adjacent to its Broadmeadows Assembly Plant. The close proximity of supplier facilities allows Ford Australia to electronically send vehicle build data as each vehicle is placed on to the assembly line. Suppliers are then able to commence the manufacture of key components and deliver them, in sequence, directly to the assembly line fitment point.

9.15 There are benefits to both the supplier and vehicle producer from this new external sequencing supply of parts and components.

The benefits for the suppliers are:

- Less warehouse space and racking/shelving for storing finished product.
- Lower inventories.
- Flexibility to change with customer demand.
- Flexibility to provide a greater range of product variations without increased inventory.

The benefits for Ford Australia are:

- Less storage space required online which will allow for:

- Assembly line decongestion
- Ability to build more vehicles or model derivatives without increasing the assembly line length.
- Lower inventories.
- Flexibility to provide a greater range of product variations without increased inventory.
- Reduced freight costs through the higher cubic utilisation achievable by transporting smaller components, rather than complete finished products, over long distances.

9.16 The introduction of these new processes are a competitive imperative and, in a number of cases, mirror what is happening in the industry globally. They have also highlighted a strong need for reliability of supply. Two key areas that can influence this reliability are transportation and industrial relations.

9.17 The tight supply lines now competitively necessary in the industry mean interruptions at a particular point of the supply chain are felt rapidly throughout the automotive supply chain. This was illustrated recently by an industrial stoppage at Walker, a South Australian-based exhaust system supplier. This stoppage led to vehicle manufacturers being unable to build new vehicles and assembly plants being brought to a halt.

9.18 Some observers have suggested that the practice of very tight supply lines with consequently low inventory levels is to blame for the abovementioned assembly plant stoppages. Ford Australia rejects these suggestions. Competitive necessity demands that all non-value adding cost be removed from the supply chain. It would represent a significant competitive disadvantage for Australian vehicle manufacturers if they needed to insure against the risk of supply chain interruptions by holding unusually high levels of idle inventory.

9.19 Ford Australia has worked extremely hard in recent years to develop a partnership with its employees. This approach has contributed to the development of a far more productive, reliable, stable and flexible workplace environment. However, the same reliability cannot be attributed to the industry's wider supply base. In addition to the abovementioned stoppage at Walker, other supply base stoppages have recently impacted on the industry. There is also a risk of further stoppages in the supply base.

9.20 This risk is completely unacceptable to a key manufacturing industry seeking to grow in an increasingly competitive and unforgiving global environment. Supply interruptions resulting from industrial stoppages can harm the industry in a number of ways including:

- a significant cost to industry participants of unplanned stoppages.
- a more difficult and doubting environment for Australian vehicle and component producers seeking new export customers.
- a tougher hurdle requirement for new investment proposals to offset real/perceived risk factors.

9.21 Ford Australia believes the impact of such supply chain interruptions could be reduced by some amendments to workplace legislation. This could include the ability for motor vehicle producers to commence affected party proceedings before the Industrial Relations Commission in the case of supply chain interruptions during protected action periods and also the placement of specific time limits by the IRC on protected action by parties. A further initiative which could provide greater stability by reducing the potential concentration of agreements under registration would be to lengthen the allowable period for agreements from 3 years to 4/5 years.

KEY MESSAGE:

The Australian automotive industry faces a key challenge concerning ways to grow its low volume base. It must also be able to adopt world best supply chain practices without fear of delivery interruptions.

10.0 THE POST 2005 POLICY FRAMEWORK – SOME RECOMMENDATIONS

- 10.1** Innovation, coupled with continuous new global investment, is key to the future of the Australian automotive manufacturing industry. It is an industry which is very much in transition; well, but delicately, positioned in its quest to be a low-cost low-volume producer in an increasingly integrated global automotive industry. The on-going success of its transition will be very much dependent on the industry's continued focus on improving its efficiency via people, processes and products. The introduction of affordable new technologies, without risking the strong value equation of Australian produced vehicles, will also play an important role. The industry will also need to seek to lift its volume base to more than 500,000 units annually via higher exports, a growing domestic market and the introduction of import-substituting new models. The investment to drive this transition will not flow automatically. It will be competed for in a global environment where investment funds are scarce and hotly contested.
- 10.2** A critical factor in facilitating the automotive industry's vital transition, and in securing future investment funds, will be the industry policy framework. Ford Australia submits that the present industry framework – tariff, ACIS and a market access strategy – is sound and provides a co-ordinated, stable and productive platform on which to cast the post 2005 policy framework in a manner which continues to place market pressures on the industry while also underpinning its future competitive performance. It can also be designed in a manner consistent with Australia's global trade obligations, and comparable with the automotive industry policies of major automotive producing countries. Ford Australia's view of each of the key policy elements is as follows:
- 10.3** **Tariff:** Ford Australia acknowledges that the import tariff for passenger vehicles and components will reduce from 15 per cent to 10 per cent in 2005, and that the tariff for light trucks will remain at 5 per cent. It accepts this reduction, but it strongly advocates that the tariff be maintained beyond 2005 at this internationally comparable level of 10 per cent and 5 per cent respectively. The potential cost and risks associated with further reductions would significantly outweigh any marginal benefits that may accrue and also jeopardise an in-progress industry transformation.

10.4 ACIS: The Automotive Investment and Competitiveness Scheme is an integral part of the automotive policy framework. It has delivered significant benefits. It also performs an important compensatory role in seeking to strike an appropriate competitive balance between the local and imported content of new vehicles given that the industry is largely excluded from the tariff concession order program. By recognising the importance of production and facilitating new investment and R & D, the ACIS Program has also hastened the industry's global transition. It is vitally important this momentum be maintained and even accelerated.

Ford Australia believes that a post 2005 ACIS Program is a vital component of a successful automotive policy framework. However, some important changes (versus the present program) would enhance its effectiveness, and represent a valuable evolution.

A new ACIS Program must:

- remain linked to the tariff rate with a clearer structure and modulation process to provide for greater planning stability.
- maintain existing production benefits including uncapped benefits.
- recognise the value and inherent logic in vehicle producers being able to claim benefits for "own-use" R & D.
- foster a higher level of productivity and technology improvements by providing two-levels of assistance for investment and R & D initiatives. Access to the different normal/high rates could depend on the technology and complexity involved and also on the level of anticipated productivity benefits.
- pursue greater equity by providing equal rates of investment and R & D assistance to both vehicle suppliers, service providers and component suppliers.
- increase the threshold entry levels to the program for vehicle producers and component suppliers.

10.5 Trade:

Ford Australia supports the Government's trade liberalisation strategies as a key component of enhancing the growth and international competitiveness of the economy. International trade issues (WTO, APEC & FTA etc) are key to the

transition and development of a competitive and increasingly integrated automotive manufacturing industry in Australia. With Australian assistance levels now very low, the liberalisation process, however, must not be done in a way which risks future global investment and negotiating strategies for marginal, if any, domestic benefit.

Accordingly, caution is urged with regard to significant unilateral actions. However, Ford Australia believes the more recent free trade agreement (FTA) strategy adopted by the Government offers significant, but selective, potential opportunity for the automotive manufacturing industry. An early FTA between Australia and Thailand would provide a basis to bring together two automotive industries that are of comparable size and complementary product focus. There could be significant benefits to the automotive industries of both countries if an early FTA, covering both vehicles and components, could be negotiated. Furthermore, such an approach would provide tangible market access opportunities in a way that would potentially expand to other regional growth markets and also facilitate greater global integration for the Australian automotive industry. Ford Australia and its parent company have also expressed support for the concept of a free trade agreement between Australia and the United States of America. Ford Australia looks forward to participating in further dialogue on this topic.

KEY MESSAGE:

Innovation, coupled with continuous new global investment, is key to the future of the Australian automotive manufacturing industry. A critical factor in facilitating the investment behind the industry's vital competitive transition will be the post 2005 industry policy framework.