

Cars of Tomorrow Conference

Speech by
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Good morning

Thank you for the opportunity to speak today.

I welcome this opportunity because it gives me a chance to not only participate in this excellent event, but also to reinforce the importance of the automotive industry to Australia, now and in the future.

The Australian automotive industry is innovative, it's dynamic, and it's creative. It continues to excite us with new designs, new models and new features. It does this while making cars safer, more environmentally responsible, and – most importantly - more affordable.

In fact, in Australia, cars are more affordable today, than they have ever been.

At the moment, Australians are being misled into thinking our industry is not part of the future.

For three months now, Australia's motor vehicle manufacturing sector has sustained continued accusations of being a relic of the past. A so called "rust bucket industry" that has no place in an Australian economy that must be flexible and innovative if it is to remain relevant and competitive.

The term "rust bucket industry" reminds me of how, during the dotcom boom, economic commentators labeled the mining sector part of the "old economy" a dinosaur.

Well, as we know today, it was the mining industry, strengthened by technological and productivity innovations, which positioned Australia to safely navigate and withstand those years of economic uncertainty which followed the collapse of the "new economy" players.

While the economic clout of the Australian mining industry is far greater than that of the Australian automotive industry, clear parallels nevertheless remain.

Economic purists may call our industry archaic. Past our 'use by date'. The term 'rust bucket' seems to flow easily from the tips of their often poisonous pens. But the fact is, this characterisation could not be further from the truth.

Australia's automotive industry, and here I embrace our innovative automotive parts suppliers, as well as the three local car manufacturers, is undoubtedly helping to transform Australia into the fast moving, nimble, creative and high-tech economy we must be if our nation's prosperity is to be secured into the future.

The industry does this by developing and sustaining local expertise, honing technology and driving innovation.

It is one of the largest employers of industrial designers, and customers of the tooling industry, in this country. We maintain a critical mass of demand for these skills, which are also needed by other parts of the Australian economy - such as mining and aerospace.

And, importantly, we employ and train tool makers, fitters and turners, boilermakers, tool designers, maintenance workers and fabricators.

Our industrial designers and automotive engineers also collaborate on global projects, both in Australia and internationally. This international engagement promotes overseas opportunities for local suppliers and stimulates home-grown industrial expertise.

The automotive industry is the largest R&D contributor in the Australian manufacturing sector, having invested \$5.8 billion over the past ten years.

Our industry's ability to work remotely on global vehicle programs is a critical factor in our growing international vehicle design and engineering influence. We're increasingly in the business of exporting not just cars, but knowledge, expertise, ideas, designs and engineering solutions.

Global platforms enable carmakers to achieve the scale they need to cover development costs and more quickly achieve and sustain profitability. The use of common platforms underneath different models and different brands around the world enables carmakers to better manage increasing fragmentation in the market, and competition for capital.

We'll see much more of this trend over the years ahead.

All this is driven by the need to keep pace with, indeed anticipate, the demands and expectations of our customers.

The industry's appetite for new technologies, innovative new manufacturing techniques and alternative fuel (or no fuel) engines, reflects customer demands for increased safety, more responsiveness, better handling, improved fuel efficiency and lower emissions.

Perversely, however, the addition of customer demand driven vehicle safety, efficiency and handling enhancements has pushed the price of many mid-range models – often the preferred choice of Australian families – over the Luxury Car Tax threshold.

You may be surprised to learn that, here in Australia, the brand with the most cars falling over the LCT threshold is not Jaguar, Mercedes or Porsche.

It's Toyota.

The luxury car tax, famously described at the Tax Forum last year by former Treasury Secretary Ken Henry as 'truly absurd' is an outrageous impost on the introduction of advanced safety and environmental features into the Australian car market.

With a threshold of only \$55,000, the LCT is nothing more than a misdirected revenue raising exercise, which transfers hard earned dollars from the pockets of many ordinary Australian families into the government's coffers, with no discernible benefit other than to bolster the budget bottom line.

One glimmer of hope on this front arose last week, when FCAI President Bob Graziano and I met with the Prime Minister in Canberra. Julia Gillard conceded that our industry does indeed have a case – but, in her words, we'll have to wait until the federal budget returns to surplus.

Well, we do not intend to allow this issue to fade from view.

The industry's achievements in reducing fuel consumption and the introduction of lower emission fuel alternatives are impressive but often overlooked.

Passenger cars currently generate less than 8% of Australia's CO₂ emissions – a figure that is decreasing every year. In fact, between 2000 and 2011, CO₂ emissions from new cars in Australia decreased by more than 20%.

Billions of dollars are being spent on R&D for new powertrain technologies, innovations in light-weighting, alternative fuels and electrification.

By the end of this year around 30 new environmentally friendly models will be on sale in Australia. This will give drivers a choice between electric, hybrid, LPG, diesel, ethanol and unleaded petrol.

And during 2012, we'll see Toyota, Mitsubishi, Nissan, Renault and Holden offer low or zero emission models for sale in Australia – all primarily propelled by electricity.

The investments being made by the car companies, to satisfy evolving customer expectations, are also helping to create jobs and enhance the automotive industry's strategic capability.

There can be no doubt that the industry will be part – an important part - of Australia's technological and manufacturing future.

But securing a part in that future is not without its challenges.

Australia is one of the most, if not the most, open car markets in the world. Vehicle tariffs in Australia are on average around 3.5%, down from more than 30% in 1990s.

Tariffs on cars imported into Australia are lower than on imported mining, electrical and agriculture products. Most of the car manufacturing nations, against which we compete for investment, impose tariffs and other barriers to make entry to their markets difficult for Australian car makers:

Let me list a few choice examples:

- Applied vehicle tariffs in the EU and UK are 10%
- In China it's 25%
- India 60%
- Malaysia 30% - plus a 105% excise on larger cars and a 75% impost on smaller cars
- South Korea 8% - and you get a personal tax audit thrown in as well
- Russia 30% plus an additional 18% VAT on imports
- Passenger cars in the US are 2.5% and light commercial vehicles are 25% and
- Thailand is a staggering 80%
- Brazil has a base tariff rate of 35%, but they have an additional tax called the Industrial Products Tax (the IPI) which falls mainly on imported vehicles – adding up to 55% on top of the 35% tariff.

Well, Australia has free trade agreements with an increasing number of these countries. This should, in theory, give us access to their markets in the same way they can access ours.

But it's just not the case.

Too many of our trading partners have a raft of other non-tariff barriers that make exporting to these markets virtually impossible.

Nevertheless, Australia's long-term policy - to open its automotive market, increase competition, and force local carmakers to be even more competitive - has achieved its objectives.

The Australian economy is undoubtedly the beneficiary of this policy driven reform. Today, Australia's automotive industry is innovative, flexible, and keenly competitive. Our industry boasts 60 different car brands in a one million units per year sales market.

And, in addition to domestic market sales, the industry, until recently, earned Australia around \$3.6 billion in exports each year.

Frustratingly, however, with the Australian dollar trading well above US dollar parity over the past couple of years, automotive export earnings have been well and truly shredded.

Nonetheless, our industry directly employs more than 50,000 Australians, and many more in supporting industries.

We also inject billions of dollars in tax revenue and wages into the economy each year, and we'll invest billions of research dollars for many years to come.

In December last year, FCAI's then President, Mike Devereux, gave an address to the National Press Club. He said at the time that government investment, assistance, or co-investment should not be a dirty word. Every one of the only thirteen countries that still design and make cars, support their automotive industry in one way or another.

We're by no means alone – this is the way the game is played.

In short, Australia's automotive industry provides far more than it asks.

It is worth repeating here that the OECD has corrected its recent erroneous claim that Australia's auto industry is the second most subsidised in the world.

They've since acknowledged there were errors in that report, saying the "amount of subsidies to the auto sector may not include all forms of government support and covers varying time frames ..."

That's quite an understatement.

In fact, the OECD counted 13 years' of assistance to the Australian industry as two years' worth in its comparison.

Once calculated correctly, Australia turns out to be the lowest of the major car making nations in terms of the level of assistance provided to the industry. Put another way, government assistance to the automotive industry in Australia works out at \$17 per Australian citizen.

"Less than the cost of a footy ticket" – as former Industry Minister Senator Kim Carr is often heard to say. In Germany, it's around \$95 per German citizen. And in the USA, the per head subsidy to the American auto industry is more than \$270.

On these comparisons, 17 bucks doesn't look too bad at all...

So let me conclude.

If Australia intends to be a vibrant, innovative economy of the future, it needs the automotive industry.

An industry that provides training, skills, and high-tech capabilities that are worth maintaining, not only because they directly create jobs and earn export dollars but because they're intrinsically valuable to other parts of the Australian economy.

Australia's automotive manufacturing industry embeds a national capability to design, engineer and build, in the future, products we cannot even imagine now. Should these capabilities be lost, they may well be irreplaceable. Certainly, they will be neither easily, nor quickly replicated.

Sophisticated, integrated manufacturing infrastructure remains an essential element in the matrix of capabilities that will shape our national destiny.

How else will we be able to imagine, design and build - the cars of tomorrow?

Thank you.

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