

# Transcript

**NATIONAL  
PRESS CLUB  
OF AUSTRALIA**

Station: **ABC1** Date: **07/12/2011**  
 Program: **NATIONAL PRESS CLUB ADDRESS** Time: **12:30 PM**  
 Compere: Summary ID: **C00046644954**  
 Item: **ADDRESS BY MICHAEL DEVEREUX SPEAKING ON "MAKE IT IN AUSTRALIA - WHY CAR MANUFACTURING MATTERS"**

Audience:	Male 16+ 3000	Female 16+ 2000	All people 5000
-----------	------------------	--------------------	--------------------

**STEVE LEWIS:** Ladies and gentlemen, welcome to the National Press Club and today's National Australia Bank address. The second last address for 2011.

And we are delighted to welcome to the National Press Club for the first time since 1979 the president of the Federal Chamber of Automotive Industries, a gentleman born in Liverpool, England, who grew up in Canada, who worked in Dubai before coming to Australia a little less than two years ago to head up one of Australia's iconic brands, Holden - GM Holden - and, of course, taking over the helm of Australia's motor vehicle industry lobby group at an important time in the industry's evolution under all sorts of pressures with all sorts of challenges.

Please welcome Mike Devereux.

[Applause]



MIKE DEVEREUX: Vice president Steve Lewis, ladies and gentlemen, and to all the viewers at home, thank you.

It is an honour for me to stand here and to address the National Press Club and to talk about something that, for the last 27 years, has obviously been near and dear to my heart and that's the automotive industry.

I actually want to start with a story, but it's not about a car. In 2007, the world's largest online retailer, Amazon.com, based in Seattle, launched its first ever physical product. This hugely, innovative successful product is the Kindle, an electronic book reader borne out American R&D from Silicon Valley.

Now, we all live in a mobile world and - so what's so special about the Kindle? Well, it's not just a portable library, and it's certainly not just another tablet.

Unlike a normal computer screen, and this is the really cool part, the Kindle can be read in direct sunlight, like a piece of paper.

So Amazon developed this revolutionary technology which uses tiny little capsules of electronic ink to actually change what appears on the screen without illumination.



## MEDIA MONITORS

So, with this technology, the Kindle could be to books what we all know now that the iPod is to music.

So Amazon went searching for a local US company to build this fantastic device, and in Massachusetts they found a company called E Ink. E Ink grew out of MIT's Media Lab, and was one of the only country... companies in the entire United States that had the capability to produce this kind of revolutionary electronic ink device.

But unfortunately, E Ink didn't have the technology to actually build the Kindle's screen. So Amazon, in order to get the production going and get this device to market, had to find a manufacturing partner. And they went looking again for a local US company to do that, but they needed expertise in LCD screen technology.

But amazing as it sounds, in all of America, there wasn't one company that could produce LCD screens. And even though the R&D for LCD technology originated in the US, the entire industry had actually been relinquished to Asia in the mid 1990s when those companies, frankly, gave US companies an offer that they simply couldn't refuse to move offshore.

So Amazon, as you might expect, had to look overseas to find a manufacturing partner, and they found one and it was called Prime View in Taiwan.



## MEDIA MONITORS

Now, it didn't take Prime View long to realise that it would be much more cost-effective if they could bring the production of that electronic ink closer to the manufacturing of the actual product. As it turns out, about 13,000 kilometres closer.

So, Prime View purchased E Ink, and they reallocated the entire electronic ink industry to Taiwan. An entire new industry drawn away from the country that conceived it to a country that could build it.

Now, Amazon won't release official sales figures, but I'd bet there's probably some of you in this room, and maybe even some people watching this at home that are among the estimated three million people who bought one of these devices; this fantastic innovation. Designed in America, manufactured in Taiwan.

So today, Amazon sells about seven hundred... get this, 765,000 e-books. And because of this invention, you can take about 1500 books on your next invention[sic] in that little Kindle.

This time last year, incredibly, Amazon's e-book sales actually surpassed paper book sales for the very first time.

So, you might be asking yourselves why is Mike telling you this story? I think it tells us something very important about the link between



## MEDIA MONITORS

manufacturing, innovation and the creation of a knowledge economy. And I think it's a chilling story.

The story is certainly told much better and much more elegantly in a book called *Make It In America* by Andrew Liveris. Andrew Liveris is an Australian, a boy from Darwin, a graduate of the University of Queensland and he is co-chair of President Obama's Advanced Manufacturing Partnership.

His day job is chairman and CEO of Dow Chemical Company in Midland, Michigan, which is one of the world's largest manufacturing companies, with a turnover of about \$54 billion a year, making 5000 products at 188 sites in 35 countries.

So, it's with some irony, as you had introduced me, that a story from a book called *Make It In America*, penned by an Australian, is now being retold by a British-born Canadian from a global American company arguing for the case to make it in Australia.

[Laughter]

Now, there's more to the Kindle story than you don't know what you've got 'til it's gone. As Liveris says, and I quote: by ceding these industries to other countries, we aren't just losing out on today's manufacturing jobs; we're losing out on the



production of tomorrow's innovations, on the progeny - the progeny of the products being built today. And that's what we're contemplating right now. If we give up manufacturing capability in this country, we mortgage our future for things that we cannot even imagine today.

If we're serious about Australia being a knowledge economy, then we need strategic capability.

Back in the 1990s, when the US stopped making televisions and LCD screens, there wasn't a person in the world that could have imagined that you would do your banking on a device that looks like this. Not one.

Now, there would have been some futurists that would have figured that out. But paying bills on a little device like this wasn't something that anybody in the States thought that they were giving up when they stopped making screens.

But we don't make any of these things in the United States any more. Not one. We don't make iPads, we don't make Kindles.

A first class education system and the ability to build things, high-tech, value-added products like cars I believe are some of the building blocks to this knowledge economy. So it really does perplex me that after 27 years in this industry; this highly innovative, fast-paced business that I hear people -



probably some in this room - describe the auto industry as a dinosaur. I have to tell you that Australia's auto industry is anything but prehistoric. We are developing new technologies, state-of-the-art manufacturing skills, and growing energy industries to help solve other problems like climate change which is very topical today.

As both importers and manufacturers, we play, I believe, a strategic role in addressing sustainability, and helping create reduced carbon emissions for the entire country.

Passenger cars - now get this - make up less than eight per cent of all CO2 emissions in this country. And I bet that's surprising to many people who most likely assume that we are a much bigger part of a problem.

That said, we will reduce this as much as we can, and we're making significant progress in the auto industry already. Between just 2002 and 2010, CO2 emissions from cars in Australia - new cars - decreased by over 15 per cent. Billions of dollars - literally billions of dollars are being spent on R&D for new Powertrain technologies, innovations in things like light weighting, alternative fuels, and yes, electrification.

By the end of next year, we think that there will be around 30 new environmentally friendly models on sale right here in Australia giving consumers a



## MEDIA MONITORS

choice between all electric, hybrid, LPG, diesel or ethanol, and the choice is really endless and it is the consumer's choice to make.

One of those great vehicles is a new Australian-made hybrid from one of my competitors the Toyota Hybrid Camry. Actually, the decision to bring this very first locally made hybrid to Australia was doubly significant as the team over in Altona - just outside of Melbourne, had to convince its parent company to relocate the production programme for that Hybrid Camry from Thailand to Australia, which is actually no small feat.

Importantly, the local production of the Hybrid Camry also helped Toyota secure local production of its next generation four cylinder engines for both petrol and for hybrids. This investment helped their supply base develop new hybrid skills and knowledge and also added much needed incremental volume for the industry. And that's something that probably in Q and A we'll talk about. Volume is the key driver of being able to be competitive in a highly capital-intensive industry like automotive.

Ford and Holden are also building considerable capability in alternative fuels like LPG and ethanol which really highlights, I believe, the flow-on benefits of making things in the country, which is building and to support local industries.





## MEDIA MONITORS

Now, LPG is not a new fuel, but I think it has huge potential in Australia because we have abundant supply, which means improving energy security, more local jobs, and significantly reduced CO2 outputs when you compare LPG to petrol. As an example, Ford has invested over \$232 million to transform the environmental performance of its locally made vehicles. Ford's Territory is the only SUV designed, engineered and produced in Australia, and now features a clean burning diesel engine which has given it leadership in its segment.

Next year, Ford is also launching the EcoBoost Falcon, which features a highly advanced turbo-charged, direct injection four cylinder engine - a four cylinder engine in a Falcon - and they've just launched the EcoLPi Falcon which uses a state-of-the-art liquid injection LPG technology.

Now this is the first application of this type of advanced technology by Ford on an inline, six-cylinder engine, and it's really helped grow, not just the capabilities of Ford's engineering department, but also the capabilities of one of their partner local suppliers, Orbital.

Now at Holden - enough talk about Ford - at Holden, we have our own dedicated - I always find it strange to talk about my competitors in such glowing terms, but we have two jobs here today.



At Holden, we have our own dedicated approach to LPG in terms of the Commodore, and we will be launching a new range of LPG Commodores next year. Now whichever team you choose - hopefully you'll choose Holden - for customers, LPG really is a value story. It's a performance story. But you get a large car that gives you the operating costs of a small car. And that's pretty remarkable.

So for Australia's economy, this is really a story about innovation. It's a regional employment story, and definitely, it's an environmental story.

Holden has also invested very heavily in ethanol. Ethanol can significantly reduce CO2 emissions, and like LPG it offers the chance to actually create jobs in regional Australia. Holden is driving a consortium of members in Victoria to build the country's very first gen two ethanol production facility, which will be able to turn rubbish into fuel. Now it's not like the movie *Back to the Future*, but we will be trying to make ethanol from things like waste tires and waste rubbish.

Now there's no silver bullet here in this country or in any other market when it comes to the environment. And we've got to pursue a range of options including the one that everybody likes to talk about which is electrification.

But we also have to have real world solutions for the way that Australians actually live their lives



today. But no matter which solutions customers tell us that they want, the investments are being made by car companies that - and they're helping to create jobs. They're helping to create a clean energy future, and they most significantly are helping our strategic capability in this country.

Manufacturing, more than any other sector - and this is true in Australia or any place in the world - more than any other sector creates jobs. And it's not just the downstream jobs in terms of components, but it's actually outside of our own sector. In industries like packaging, telecommunications, mining, construction; for the auto industry in Australia, which many of you know employs about 59,000 direct jobs, it's estimated that for each of these jobs, another six people are employed in supporting industries around the automotive industry.

In the case of the new locally made Holden Cruze small car, our preliminary economic modelling shows that just making this vehicle in Australia versus importing it from Korea injects about \$230 million a year into the Australian economy. It's something that we're very proud of.

To use another example from Toyota, its local production - the base production that they've got here played a very important role in actually securing the future of automotive glassmaking in this country. Without federal and Victorian State



support, these capabilities would have been lost overseas.

But today, the MH Group, one of their suppliers, is a very key supplier, not just to Toyota, but to the entire automotive industry. This industry is also the largest R&D contributor in the manufacturing sector in Australia. Our ability to work on global vehicle programs, not just the stuff that we do for this country, is a critical part of this.

Global platforms enable car makers to get the scale that they need to cover group-up development costs, which in the case of the VE Commodore launched five or six years ago was over a billion dollars cost to Holden.

Common platforms really are underneath different models and different brands all over the world, and car makers use this capability with increasing fragmentation to actually make it worthwhile to develop new products. Okay. Common platforms and global vehicle development give Australia the opportunity to design and engineer vehicles for markets not just here, but around the world. But the key thing here is that it gives our local parts makers to the opportunity to tap into scale that comes with global supply contracts; opportunities that simply wouldn't exist without local manufacturing.

Take the new Ford Ranger for example. It's an all new LCV platform designed, developed and tested



## MEDIA MONITORS

by Australia in Ford - by Ford and it will be sold in 180 different countries around the world. And that is something I don't think a lot of Australians know, and it's something that Ford should be - and I know that they are - incredibly proud of. They built that car, designed it, for the world in their Melbourne engineering centre.

So what does this mean for Melbourne-based Diver Consolidated Industries? It means the opportunity to supply, not just the Falcon in Australia, but also cargo tie-down cleats for the Ranger which means new export opportunities to South Africa and to China. Yes, an Australian parts maker exporting to China.

Similarly, Holden plays a role in global vehicle development work for GM. Our team in Port Melbourne was responsible for designing and engineering the Camaro. The Camaro, right? The ultimate American muscle car; designed in Australia, made in Canada. This is the new reality of the global automotive business. GM's global footprint also provided new export opportunities for Diver; a company which has supplied Holden, I'm proud to say, since the original 48-215 - Australia's very first mass-produced car.

Diver not only supplies the local Commodore models but also ships door hinges to China - another supplier shipping to China - and transmission tunnel insulators to Canada for the production of the Camaro.



## MEDIA MONITORS

For Nissan it means that their casting plant in Dandenong is able to produce 22,000 electric vehicle components a month to supply a new electric vehicle called the LEAF which is already on sale in some markets and I believe will be launching - has already launched right here in Australia, ramping up production next year. This is what it means to be part of an integrated global design, engineering and manufacturing capability.

Our manufacturing infrastructure and the skills in our industry can also be used to create non-automotive products, and I'll give you a few examples. Diver, making radiant heat curtains for fire trucks and for houses that are in bushfire zones.

Diver also making plasma TV screen brackets that can take the weight of a human. Futuris, another great supplier, making totem poles for public transport information and interiors for both trams and trains. Palm Plastics making non-breakable and actually glow in the dark wine glasses, which I'm sure many of you own yourselves...

[Laughter]

...and I probably will need a glass of wine after the next half an hour. And Hella making underground lighting for the mining industry. All the ability of these suppliers to do those things stems from the basic scale that they get because of the automotive industry.



## MEDIA MONITORS

So the automotive industry is also one of the largest employers of industrial designers in this country. They're trained in world-leading universities like Monash and RMIT. The auto industry provides a vital training ground for these designers who will often actually become live Australian exports.

Australian manufacturing is also the biggest single customer for Australia's tooling industry. The auto industry maintains that critical mass of demand for these skills which are also needed by other sectors like mining and aerospace.

You know, we do need toolmakers. We need people who can turn a lathe. We need fitters and turners, boilermakers, tool designers, maintenance workers, and fabricators. We can't afford to lose these skills and these job opportunities for young people just because they don't fit the mould of going to university and getting a job in business. There should be no misunderstanding or doubting the strategic nature, the actual strategic nature of the automobile manufacturing business to the country of Australia.

So, for - putting aside these arguments for a minute, I'd like to spend some time talking about the actual environment in which we operate and compete for investment.

This is where the real competition actually happens. It isn't really about Holden making things here



versus the other two - Ford and Toyota - who also make things here. It's about each of us convinced our actual parent companies to invest right here in Australia.

When we compete to design, engineer or build a new model in this country, we're not just competing with rival brands, we're actually competing with rival countries. And there are currently just 13 of these countries; 13 countries that have the ability to design, engineer and manufacture a motor vehicle from the ground up.

And I have to tell you there are a lot more of them that want to do what we do, and who will offer whatever it takes to attract that investment because these countries understand what it means for education, for employment and for innovation. They understand the strategic rationale of this basic type of industrial capability.

And where this billion dollar extremely capital intensive industry exists, one of two things always happens; government protection or government investment, and sometimes both.

So, where does Australia fit in the world today?

Well, like the dinosaur description again, I'm often shocked to see how out of touch with the competitive market many commentators are.





Fact: Australia is one of the most, if not the most, open car market in the world. Vehicle tariffs in this country are, on average, around 3.5 per cent. That's down from 30 per cent just a few decades ago. Thirty per cent in the 1990s is what import tariffs used to be. And tariffs on cars imported into Australia are much lower than on mining, electrical and agricultural products.

Now, Australia's long-term policy to open up this market, increase competition and force local car makers to be even more competitive has absolutely worked. We innovated, we got flexible, we got competitive, incredibly competitive actually. Australia has more than 60 automotive brands - and get this - in a market of just one million units. You compare that to Japan, 33 brands in a market around six million units; the US, surprisingly, 32 brands competing in a market which in past years has been as high as 17 million units; and in Europe, although having 70 different brands, the European market being about 15 times the size of the Australian market.

So, as these barriers have come down, imported vehicles have naturally increased, something that you would logically expect. So today around 85 per cent of all new cars sold in Australia are imported. And until recently, certainly in the case of my company Holden, the decline in domestic sales volume had been offset with exports. But post-GFC and, as we all know with the dollar at parity, and without - not with, but without the access to other



markets that they have to ours, Australian manufacturing is obviously going to be challenged, and it is.

So, let's take a look for a second at how we compare in Australia to other markets.

Applied vehicle tariffs in the European Union and the UK are at about 10 per cent; China 25 per cent; India 60 per cent; Malaysia 30 per cent; Korea eight per cent but with lots of non-tariff barriers; Russia 30 per cent but, get this, an additional 18 per cent VAT, Value Added Tax, just on imports; passengers cars in the US, as you might expect, a very low 2.5 per cent, but as you might not expect for light commercial vehicles, utes, what we call pick-up trucks in the States 25 per cent duties; Thailand a staggering 80 per cent duty rate on cars coming in.

And then there's Brazil; their base tariff rate is 35 per cent, but they have an additional tax called the Industrial Products Tax, or IPI as they call it, which actually is a tax that just falls on imports. Brazil is currently experiencing a resources boom. They've got a lot of iron ore. They just found huge reserves of oil on their offso... offshore shelf - tough to say - and that is driving up their currency.

They also face - the automotive business faces very intense competition from countries like China and Korea. Sounds familiar doesn't it? A resources



boom driving up the currency, lots more competition.

So, in the face of that, what did Brazil do? In the last few months Brazil increased that IPI, this Industrial Products Tax, which acts as a non-tariff trade barrier from around 25 per cent to as high as 55 per cent; again, on top of a base tariff rate of 35 per cent.

Now, Holden has an export program to Brazil where the Commodore that we all know and love is sold as the top of the line Chevrolet Omega in Brazil. The new tax added US\$9000 overnight to the retail price of our Commodore - Omega - in Brazil. This sort of imposition makes it extremely difficult to compete, and obviously Holden is having to review that particular export program.

Now, Australia does have free trade agreements with many of the countries that I mentioned and this should, in theory, give us access to those markets in the same way that they have to our markets but that's not the case. Some of these markets have a raft of other non-tariff barriers that make exporting to these markets as I've just described to you, virtually impossible.

And these barriers can include things like excise, council taxes, VAT, special registration charges just for imported vehicles and in some cases the affective rate can actually be over 120 per cent.



## MEDIA MONITORS

So let me make this absolutely clear; the auto industry is not calling for a return to protectionism. That is categorically not the case. But in other countries where integrated car industries exist, where companies have the capability to design, engineer, and to manufacture a car, there are either barriers of some form to protect those investments, or direct and indirect support financially to attract and retain new investment.

Every single auto-making nation in the world has taken direct action to make their country more attractive to potential investors. Some have offered tax holidays, some have offered investment incentives, and some have increased trade barriers.

Government intervention or investment should not be a dirty word. Government support and investment in automotive capability can happen in a number of different ways. Some transparent, and as we've seen, some not so transparent. It can take the form of ownership in a car company such as Volkswagen of which the German state of Lower Saxony owns about 20 per cent, or Renault, for example, which the French Government owns about 15 per cent of.

Support can also be injected during times of extreme crisis, such as the US and Canadian governments taking a stake in my company General Motors during the very depths of the horrific GFC.



## MEDIA MONITORS

Governments, be it federal, state, or local can attract investments in infrastructure through foregone revenues in terms of tax breaks, or direct payment in terms of incentives or the method that we in the automotive industry support, a long-term, and I repeat long-term policy of co-investment which sets a ratio for industry funding commitments for investments in things like clean technologies, practices and products.

And the auto industry is not alone in this regard, although sometimes it seems like we are. In Australia, tourism, education, banking, mining and agriculture all require some form of government intervention and direct or indirect support.

Mining for example has claimed over \$6.2 billion in the last four years from the federal governments through the diesel fuel rebate scheme. This translates to an average of about a billion five a year for the Australian taxpayer.

A fossil fuel rebate of this type does not require the users of it to guarantee a return on investment, a commitment to capital investment; there's guarantees of job retention or growth; and there's no direct link to innovation or efficiency improvements.

Now contrast what I just said to the Green Car Innovation Fund where automakers could also apply for co-investment funding on a three to one



basis to bring more sustainable products, technologies, and processes to Australia.

There is a guaranteed ROI. There is job retention and I might add growth. And there is a direct link to innovation and efficiency. So with this in mind, why is it that people think - and probably some of us in this room and some people watching me today - that Australia invests disproportionately in its auto industry relative to other countries.

Why is that?

One reason I think is bad and misleading data. Last year, the OECD, the economic survey released by the OECD had figures that implied that Australia's industry, the automotive industry, was the second most subsidised on a per capita basis in the entire world. It's a really big claim, and as it turns out an extremely erroneous claim. The OECD has since stated that there were errors in the report, and I'll quote from their report: the amount of subsidies to the auto sector may not include all forms of government support and covers varying time frames.

And what that means is that we were wrong.

The report does not compare apples to apples. It compared Australia's 12-year New Car Plan launched in 2008 by the Rudd Government, 12 year plan against very short-term retail stimulus



## MEDIA MONITORS

packages like cash for clunkers in countries like Germany, France, and Sweden, some of which only lasted for 12 months.

So it's not surprising: with bad data comes bad policy decisions; like abandoning the Green Car Innovation Fund program, and reducing co-investment for clean technology by over \$800 million.

So what's the real story?

Well the Federal Chamber of Automotive Industries engaged Superior Research Group to rerun this data in a very basic way, all we asked them to do is to compare comparable co-investment programs, and actually compare comparable time frames. Apples to apples.

And what the OECD had estimated was about \$200 per person for every Australian, in support for the automotive industry, is probably less than \$20. That's an order of magnitude of difference. And it is no small error. And it actually highlights that Australia's auto industry is competing in a global market with actually a fraction of the support, direct support, on a per person basis that many other countries enjoy.

Now developed and developing countries alike are building what I would say are comprehensive national strategies for manufacturing, and they're



investing extraordinary amounts of resources into expanding their capacity to actually create - and to build things.

And I'm going to give you some recent examples that really call out the importance of co-investment.

The state of Saxony in Germany, home to BMW and VW, contributed 46 million Euros to BMW for their Megacity electric vehicle program, 84 million Euros to VW for small and medium car production. In the state of Georgia, in the United States, \$410 million in direct support and incentives for Kia to build its very first US plant, which bought about \$1 billion of investment from the self-creating company.

Similarly, Hyundai in the US state of Alabama receiving a quarter billion dollars in support of its manufacturing operations. Most interesting though is the support and the approach being taken by the UK; a high-cost country like Australia and the United States which had also allowed its manufacturing base to erode.

Prime Minister David Cameron is rebuilding the automotive industry in the UK and their co-investment policies are attracting literally billions of dollars in manufacturing investment.

Nissan, for example, is investing \$192 million pounds to build the Next Generation Qashqai SUV,





its Sunderland plant, securing around 600,000 direct and indirect jobs.

Nissan also committed 420 million pounds to locally build the Leaf electric car, and to lift the MI on battery cells to power it which will also maintain about 2000 jobs in that same area.

This investment was directly supported by the UK Government with about GBP\$21 million from its Grant for Business Investment Program, and GBP\$137 million, again, from the European Investment Bank.

BMW, again in the UK, investing GBP\$420 million in their Mini brand's manufacturing operations in Oxford, taking its total manufacturing investment in the UK, and this is an incredible investment, up to GBP\$1.5 billion, securing 5000 jobs, and making Mini the third largest vehicle manufacturer in the UK.

Now as part of the announcements, Prime Minister Cameron said these words: it's very much part of our ambition as a government to rebalance our economy. We've been far too reliant on financial services, too reliant on one part of the country. We want to see more manufacturing, and I'm delighted that so many automotive manufacturers are bringing production and supply chain onshore.



## MEDIA MONITORS

Now both companies said that the UK Government's support for the manufacturing sector was a key factor in their decision to invest in these next generation production in the UK.

They echoed Cameron's view that industrial growth was absolutely vital to rebalance the economy, and to also bolster general growth in the British economy, and that this would only happen through technological innovation. So where does that leave Australia, where does that leave us?

Well I think frankly it leaves us at a fork in the road. Tim Colebatch from *The Age* aptly described the risk that we currently face, and I quote from Tim: mineral prices could fall sharply. But when factories close they do not reopen. To avert that would require big policy shifts, not bandaids. The risk is that we will lose manufacturing permanently for a mining boom that just turns out to be temporary.

In the short-term, losing the car industry actually means walking away from about \$3.6 billion a year in exports; 59,000 immediate Australian jobs, direct jobs, and much more in supporting industries; billions of dollars of tax revenues, wages, salaries pumping into the economy every single year; and billions, literally billions of dollars of R&D.

But more troubling to me is that Kindle example; the innovation, the product, the future capability -



the future capability that you don't even realise you're giving up, something that you couldn't even imagine, as I said before, like these devices.

So I ask again, where does this leave Australia? A key player in what Andrew Liveris describes as the golden age of manufacturing or simply a hole in the ground shipping raw materials to other countries for them to turn into high value-added goods.

Let's be under no illusion about the competition that companies like Holden, Toyota, Ford, face within our own companies as we fight for capital investment in this country from the countries around the world that actually want to do what we do here.

But what's absolutely critical, and I've said this many times, is long-term policy certainty, clarity, consistency, and competitiveness.

We cannot establish long term investment plans only to pull the rug out from under companies half way through decade-long product and investment cycles.

It's our job in the industry to be as flexible as possible. We have to run our companies extremely lean and extremely efficiency - efficiently. We are committed to being the best of the best and competing to overcome the basic challenges that we



**MEDIA MONITORS**

face which are high labour costs and a relatively high currency.

In his recent State of the Union address, President Obama, last January, echoed David Cameron's call to rebalance the economy and to invest in manufacturing and he said: cutting the deficit by gutting our investments in innovation and education is like lightening an overloaded aeroplane by removing its engine. It will make you feel like you're flying high at first but it won't take long before you feel the impact.

So if Australia does want to be a knowledge economy and a diverse economy, and it wants to be more than just a farm, a mine or a hotel, then we need to invest in our capability to design, engineer, but most importantly, to build things.

If we don't, I think the real opportunity cost is something that frankly we couldn't even imagine today.

Thank you for your attention.

[Applause]

STEVE LEWIS:

Thank you, Mike, for that address and laying out the challenges that face the automotive industry. One issue you didn't touch upon, but I'd like to ask you a question about, is the carbon tax which comes into effect from 1 July next year.



**MEDIA MONITORS**

At \$23 per tonne, can you tell me what Holden and other manufacturers believe the impact will be on the company, what you believe the impact will be on the price of a Commodore or a Falcon? And do you expect that your company and others will pass that cost - that extra cost of manufacturing onto the consumer from day one?

**MICHAEL DEVEREUX:** Well I'd say, for the industry, we've had a number of estimates and it's hard to put a figure on it. For the industry we estimate that between \$30 million to \$50 million a year in increased costs will have to flow into the local industry.

Now whether or not we are able to recoup what is really a tax on just the locally made vehicles, because if you think about it, the vehicles that are imported, those 85 per cent of the other vehicles, they don't have any carbon tax associated with them.

So whilst many countries are trying to take steps, some might say fair or unfair steps, but I think I've outlined some of the steps that other countries take. As other countries take steps to make their industries more competitive, certainly a carbon tax will add cost which is a different path I think for Australia.

But we simply can't pass those costs onto consumers because we live and work in an open



market where consumers actually vote with their wallets on how much they're willing to pay.

So we will attempt as best we can to produce the cars as efficiently as we can. I think our suppliers are going to have to really tighten their belts and look at every single part of the process to make things and to make them as inexpensively as possible with the highest value to the customers.

So it will be more difficult to make things in this country because costs will certainly go up.

STEVE LEWIS: So consumers won't pay any extra?

MICHAEL DEVEREUX: Consumers will pay what they are willing to pay. And the thing is; I can't just unilaterally say you've got to pay \$150 or \$200, or pick a number, more for a Commodore if you're not willing to pay that. You will walk.

Right, so consumers are in charge of auto prices. They always have been and they always will be.

STEVE LEWIS: Sid Maher.

QUESTION: Sid Maher from *The Australian*, Mr Devereux. Can we just - I'd just like to unpack some of the things you were talking about in your speech.

So is the level of government assistance to the car industry in Australia at the moment sufficient to secure the next round of investment in the new models?

MICHAEL DEVEREUX: No.

QUESTION: And secondly - okay, well secondly, what would you like to see and also we're about negotiate another round of free trade agreements with our Pacific partners. Does that concern you given what we've seen in free trade agreements in the past for manufacturers like the car industry?

MICHAEL DEVEREUX: So there is a lot in there so let me try to unpack your question a little bit. So the first part of your question I think related to the domestic issues around support.

I think that the country has had very intelligently crafted policies for many sectors of the economy for many years. We have a - the industry has a very good relationship with the Gillard Government. We work very closely with Senator Carr on policies.

It was a blow to the industry when the Green Car Fund was taken away after the floods in Queensland. And certainly we understand the human tragedy that was associated with the terrible floods that we had in Queensland, but what happened there is that a long term plan was changed. In our industry, our cycles for investment



**MEDIA MONITORS**

and product development, if I'm looking five or six years out, I have to be making decisions right now about what to build and where to build it?

So you need that consistency and certainty over time, no matter what the policies are. I think, in the past, Australia has had very contemporary, intelligent policies in terms of support to the auto industry. I do think that the world has changed, even since 2008, when the Rudd Government put up its New Car Plan for a Greener Future.

I wish that all the countries in the world played the game the way we wished that they would. But the fact of the matter is that they play the game quite a bit more aggressively sometimes than we do in this country.

Now as it relates to free trade agreement, I am certainly a capitalist and I certainly support free trade, but it has to be two ways. So free trade that involves zero tariffs on cars coming in from Thailand into this country, 18 per cent of the vehicles that are sold in Australia come from Thailand with zero duty.

Now it would be great if I could ship Commodores to Thailand but there actually is a tax, not a tariff, but a tax because of the size of the engine in our vehicles - and this applies to Ford as well and it applies to Toyota - that makes it very difficult for us to sell cars in Thailand.





**MEDIA MONITORS**

So we have a free trade agreement but I think I would caution the Government to be very intelligent in the manor in which those agreements are crafted so it actually is a two way deal.

**STEVE LEWIS:** Next question from Ed Logue.

**QUESTION:** Mr Devereux, Ed Logue from Australian Associated Press. In 1996, three of every four cars sold here were passenger vehicles. That's down to 55 per cent, while SUVs has gone seven per cent...

**MICHAEL DEVEREUX:** SUVs?

**QUESTION:** SUVs - to 24 per cent. With expectations of higher fuel prices, do you - over the longer term - do you see that trend continuing or maybe switching back to more smaller vehicles?

**MICHAEL DEVEREUX:** I think it's - this is the conundrum for any auto company, having to predict five or six years from now what will happen in terms of consumer demand.

The thing that we're seeing in the industry is extreme fragmentation of sectors. Gone are the days when you can pump out 85,000 or 90,000 Commodores a year and people just want one type of thing.

I was at a coffee shop, past weekend, and I was talking to a guy who loves his Commodore and he's



## MEDIA MONITORS

had one forever, okay? Three, four different versions of Commodores. And he had his third child just, I think, two years ago. He runs a little coffee shop in Melbourne.

He said, I'd love to buy another Commodore but we actually need three rows of seats because the kids fight and we've got to put one kid in the rear, so we need three rows, right? So I needed an SUV.

I think there are a lot of people - I have three young boys and they're past the age of fighting, but fragmentation in the auto business is here to stay. So gone are the days when you can make one kind of vehicle, pump out a lot of them and have economies of scale at a plant.

People's desire from both large and small SUVs is growing. I think the large car segment will never be as big as it was before and that's okay. It's consumer reality. What we, as automakers, have to do, whether it's Ford, GM or Toyota, we all have to predict what you're going to want to drive five or six years from now.

I think the future is a fuel efficiency future. It's an alternative fuel future. And it's increased fragmentation which makes it difficult as a manufacturer in this country to figure out what we put into our Adelaide facility to get us economies of scale.



MEDIA MONITORS

The Australian auto industry is never going to make 500,000 cars a year again. Those days are past us. So what can we do? We can pick vehicles that Australians are going to want to buy, which I think all three of us are doing.

And then we can also give access for our local suppliers because it's really more about scale. Get access for our local supply base for global platforms that are made in much larger volumes in other places.

I talked about Diver Consolidated Industries earlier. Getting our supply base in this country, not just to supply cars to the local assembly operations, but to supply hundreds of thousands of widgets to things like China, Korea, the United States. I think that's probably the path that we're headed down.

STEVE LEWIS: Mark Skulley.

QUESTION: Hello, Mark Skulley, *Financial Review*.

MICHAEL DEVEREUX: Hi Mark.

QUESTION: Hello, how are you? I'm just wondering, is there a financial bottom line in this? Are you saying the \$800 million which was lost with the - shutting the Green Car Fund, we want that back?

Is there a bottom line to this and just one - it's like the Senate - I'll just say, you know, by any financial



bottom line, do you want the \$800 million back and what does Tony Abbott think of funding for the car industry? Do he - is he in favour?

MICHAEL DEVEREUX: Yes, I think the debate is a complex one. To answer your question specifically, if I rewind the clock back to 2008, the world hasn't played out the way everybody thought it would, right?

We had a GFC and we thought we were done and now we have this contagion in Europe and we don't actually know what's going to happen there. Their Reserve Bank just took the basis points down by a quarter point just yesterday to try to give the Australian economy a bit of wiggle room.

Countries around the world are playing this game to win and they're being much more aggressive than they have ever been in trying to attract investment.

Mark, I don't know what the number is. All I can tell you is that I meet with both sides of Government. We have very good relationships with both the Coalition, both Tony Abbott and Shadow Minister Mirabella.

And we do what we should do as industrialists. We open the lines of communication so that the Government at least knows what our investment decisions are based upon and that they can make rational decisions with all of your money.



**MEDIA MONITORS**

I don't make light of the fact that I sit up here knowing that I asked the Australian taxpayer to understand what I said in my remarks in that some taxpayers might find what I'm saying distasteful.

But the reality is that the game is played aggressively globally and that countries developed and developing countries are courting multi-billion dollar investments from global auto companies.

If Australia doesn't do the same, it stands to reason that the likelihood of this industry existing in the form that it exists today, will be less if Australia didn't play the game the way everybody else plays it. I know that's distasteful to some people.

**STEVE LEWIS:**

With the Government's commitment to get a surplus by next year, do you fear that the motor vehicle industry might be - might lose some of that funding as the Government gets towards that surplus?

**MICHAEL DEVEREUX:** No, I think when you look at activating product investments, and I'll speak for Holden, I'll let Ford and Toyota speak for themselves, we have gotten funding for our Cruze small car. About \$150 million from the Green Car Fund.

And for our next generation Commodore which some of our colleagues here have reported as a VF Commodore which will bow in 2013.



So we've gotten some investments, some very good co-investments from the Australian Government and we're activating against those investments right now in these current budget years in terms of disbursements.

The conversations that we're having and that all companies have around the world; are really about things in the second half of this decade. So those will impact budget years that are frankly outside of the forward planning period at the moment.

STEVE LEWIS: Peter Robinson.

QUESTION: Mike, in 2000...

MICHAEL DEVEREUX: Hello Peter.

QUESTION: Hello Mike. In 2005 Holden exported over 60,000 cars. This year it will be under 7000 cars. What does the Australian dollar need to be in order that you return to those original numbers which are the equivalent of one shift at the Elizabeth plant?

MICHAEL DEVEREUX: Yes, we were very proud of a couple of things that had happened in the past. One of them was the basis of exports that we had to the Middle East, which interestingly I worked there and imported Holden Commodores as Lumina and Holden Caprices as Chevy Caprices over there, so very familiar with the exports.



We were also very proud of our export program to the US for a vehicle called the Pontiac G8. And during General Motor's bankruptcy and during the GFC, the Pontiac brand ceased to exist.

So Peter, do I think that we'll ever get back to those massive export amounts with a parity dollar? It is probably less likely than it was at 75 or 85 cents. But I also think that the reality of the situation is that there has probably been a structural adjustment to the value of the Australian currency.

Heather Ridout, she used to be with the Australian Industry Group, now is...

QUESTION: She still is.

MICHAEL DEVEREUX: When does that happen, Heather?

QUESTION: April next year.

MICHAEL DEVEREUX: April, I thought it was next month, no. But Heather and I were just talking earlier about some of the fluff that might be either a plus or a minus in the dollar. As a business person I cannot base any business plan on the Vegas-like ups and downs of the Aussie dollar.

If it's 85 cents, it's a lot easier to make money shipping police cars to the US. At a dollar, much more difficult to do so.



So what did Holden do against that backdrop? Rather than have to rely on exports, we brought a small, fuel efficient car, a global platform to Elizabeth and now that car is the fifth best selling car in Australia.

So we make two of the top five selling cars in Australia right here in Elizabeth. I'm certain that there are some people watching this or sitting in this room that don't realise that.

So we've tried to be able to get our economies of scale, Peter, by having enough mass of volume in this country and it certainly wasn't me that came up with this idea. My predecessor, Mark Reuss, was around, who you know very well, Peter. And I am just lucky that he made some very, very smart decisions three or four years ago.

**QUESTION:** That's all very well but in 2004 you were making 820 cars a day in Elizabeth and you're now making 480 cars a day. It's almost half the numbers.

**MICHAEL DEVEREUX:** It is, yes.

**QUESTION:** How - where's the - you've got a problem of over capacity surely?

**MICHAEL DEVEREUX:** No, we have an actual plan to live at those volumes and live at those volumes profitably. I wish I could go back to this fairytale land of a 75 cent dollar and exporting 60,000 or 70,000 units. But I





**MEDIA MONITORS**

don't live in that world anymore so I deal with the deck of cards that I'm being dealt and that deck of cards is a parity dollar for the foreseeable future.

I've got to be able to live within my own means in this country. I will and Holden will export as an opportunity when it presents itself and it's profitable. But that's the reality of the nature of the beast today and we have to live with that reality.

**STEVE LEWIS:** From GoAuto, Ian Porter.

**QUESTION:** Ian Porter from the GoAuto website.

**MICHAEL DEVEREUX:** Hi Ian.

**QUESTION:** There's a perception in some areas that the assistance the industry receives just flows to the bottom line and keeps you in the black or whatever. But are you confident that the taxpayer dollars that go into the industry are recouped by the Government from the various economic activities that flow from the car industry?

**MICHAEL DEVEREUX:** Without a doubt and I think even if you just look at it in a direct form, \$700 million - \$600 million a year in R&D in this country. Over \$4 billion in the last three or four years.

The tax benefits in terms of wages and income taxes that are paid, it's an incredibly diverse industry that actually has so many flow-on effects that I don't



even think people like Pricewaterhouse can actually put a number on the value of having this basic manufacturing.

And I keep coming back to this example of the Kindle. And I don't want to drill it into everybody's brains but there are things that you mortgage your future on. If you can't have people that know to turn a lathe, if you don't have tool makers - in every country, if you look at why countries are going after this type of industry, there must be a reason. And the reason is it's a bedrock of your basic capability as a country to have a multifaceted and diverse economy.

The UK understood that and after the GFC, a very financial services dependent economy, you saw the weakness in that economy. Way too much over reliance on one sector of the economy and David Cameron, I think, intelligently, has shored that up in the last few years.

I would hate to see the same thing not happen here in Australia. So I hope that the Government comes up with very intelligent, long term policies because that's really all we're looking for.

As Peter asked, his question about the value of the Australian dollar, I cannot control the cost of an hour of labour in this country. I cannot control the cost of a kilowatt hour of electricity and I certainly can't control the value of the Aussie dollar.



## MEDIA MONITORS

So I have to control those things which are within our own control. Low structural costs. Build products that people want. Cruze is a fantastic example of that. And we have a plan now to build large and small cars and be able to flex to that 450 to 480 cars a day and build what Australians want to buy.

[Break in audio - question missed]

I'm not sure what oil finished in terms of the US dollar price of a barrel of oil. But we can make a clear bet that oil prices are going to continue to rise and that there will generally be a continued flight in Australia and in every country to more fuel efficient vehicles.

Now to the point I think maybe Toby what you were saying is can we do some of those things like electrification for example in this country. And I'd say until you get critical mass for some of these new things is very difficult to fragment as a global company and do them in multiple places.

Last year I think there were about 100 electric vehicle sold out of the million units that are sold in this country and this year I think the number was less than about 50. So for us to make electric cars in this country right now when there are no human beings buying them would be difficult.



## MEDIA MONITORS

So GM's plan in that regard is to build them in Michigan, in Detroit, our new Volt electric car will come out here in Australia next year but until you get mass adoption of those types of things it's really difficult to fragment where you build them in different parts of the world.

All companies are kind of centralising that capacity. Nissan doing so in Sunderland in the UK. General Motors doing so in Detroit. So probably not in the near term Toby, but I do think that we can innovate in things like alternative fuels.

Holden, every single Commodore that we make is now capable of running on E85 flex fuel. Now you may say well why did you do that? There's not a heck of a lot of E85 flex fuel available at the pump and we're doing that because we're investing ahead of what we hope will be a consume behavioural change and that is towards renewable fuels that actually do help the environment.

Australia has certainly taken steps in the last year or so to go to a lower carbon footprint future and ethanol isn't really part of the debate and I'm puzzled as to why because it emits 40 per cent less carbon from the well, from the production of the litre of fuel to actually the tailpipe. But we don't hear a lot about ethanol.

So we're committed to doing that Toby, we're also committed to LPG as Ford is and Toyota already



MEDIA MONITORS

produces the Camry Hybrid here and is the home of four cylinder of that same engine. So I think we can do it. It will take a while for some of the more - I'd say some of the more sexy things like electric cars to be built in more than one country. And 100 cars out of a million isn't critical mass just year.

STEVE LEWIS: Mark Kenny.

QUESTION: Mark Kenny from *The Advertiser*, Mr Devereux. Thank you very much for a very entertaining speech. I noticed you said that you - you were looking - the industry will be looking for more fabricators and fitters and turners, well probably Canberra's a good place to start...

MIKE DEVEREUX: Are you looking for a job or?

QUESTION: We probably haven't got tool makers here but maybe there's one or two tools up on the hill...

[Laughter]

... I want to ask you...

MARK DEVEREUX: Is this on? No I'm just kidding.

[Laughter]

QUESTION: There's been an admirable array of sort of pointy question I supposed about the industry. I wanted to



MEDIA MONITORS

ask you a question about the kind of market and popular sentiment. I wanted thinking particularly of the *Top Gear* phenomena. I noticed Jeremy Clarkson actually test drove a Commodore at some stage and I think he might have described it as sort of typically Australia; sort of brutish but a bit unsophisticated.

I'm not sure whether you'd agree with that but has the market as a result of the sort of *Top Gear* phenomenon changed? Are people more literate about what they want in cars? Is there a higher degree of sort of demand from people for all of the different options that are there and how much harder has that made it in the industry?

MARK DEVEREUX: I think the Australian consumer is far more sophisticated than many automotive consumers around the world. That is absolutely true I think and this isn't to try to patronise out motoring press here, I also think our motoring press is a lot more educated than many of the journalists that I encountered in my previous jobs in General Motors.

So Australians are very, very smart about their cars. I think you see that in the fragmentation that exists in this country with over 60 brands competing for just a million vehicle sales per year and as was asked earlier, you'll see it in continued sub fragmentation of what types of things people want to buy.



## MEDIA MONITORS

You have a lot of early adopters in Australia. I think as a per cent of total sales electric cars will probably take off faster in Australia than they do in the United States.

Australia is a very sophisticated market and it makes our job much more difficult because in order to have a plant - an assembly plant in this country, you have to have enough volume as Peter Robinson indicated to make it economically viable to produce.

So you have to choose and choose well five or six years from now what it is you're going to produce. So at Holden we're right in the throes of trying to figure that out for Adelaide. It is likely that we will need to continue to make two different architectures here to cater to those very diverse needs, but extremely sophisticated market. And I'm not sure that Jeremy Clarkson is the only person in the world that is capable of judging a Commodore. He actually does like the car but you know, he's got to have people watch his TV show too.

[Applause]

STEVE LEWIS:

Mike I think that's an appropriate place to finish. You've given the Australian motoring writers a pat on the back so they'll be quite happy, I think. Look thanks very much for...

MARK DEVEREUX:

Maybe they'll be nicer to me who knows.



**MEDIA MONITORS**

**STEVE LEWIS:** I suspect that was part of your strategy. Thank you very much for addressing the National Press Club outlining the challenges, answering questions about some of the challenges that do face the automotive industry, your company and the other manufacturers. We hope it's not another 32 years before we have a representative of the FCAI back at the National Press Club but we do appreciate you taking time to appear here today

**MARK DEVEREUX:** My pleasure thank you

**STEVE LEWIS:** And please accept a small gift from the National Press Club including membership.

**MARK DEVEREUX:** Oh my membership so I get to come here and heckle out people.

**STEVE LEWIS:** It's very important. It means you can get your car into the car park and all of that. Thank you.

**MARK DEVEREUX:** Thank you for having me. My pleasure





\* \* END \* \*

TRANSCRIPT PRODUCED BY MEDIA MONITORS  
*target-monitor-analyse*

---

---

CLIENT SERVICE CENTRE  
1300 880 082

---

AGENCY REPORT For private research and not to be disseminated. Every effort made to ensure accuracy for the benefit of our clients but no legal responsibility is taken for errors or omissions. (\*) - Indicates unknown spelling or phonetic spelling. Metro TV demographics are supplied by OzTAM, Radio and Non-Metro TV demographics are supplied by Nielsen Media Research.

ABs = Managers, administrators, professions. GBs = Grocery buyers.

---