Submission to:
The House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation in Relation to the Automotive Component Manufacturing
By Flexdrive Cables Australia Pty Ltd

Overview

Flexdrive Cables Australia Pty Ltd (FCA) is currently reviewing its operations following recent advice from customers of significant reductions to production requirements in coming months and the impact of business lost to imported product.

FCA requests that Annexure A it's entirety remain confidential.

FCA supplies the OEM's with mechanical control cables for a variety of vehicle applications, window lift mechanisms, windscreen washer systems and radiator overflow bottles as core product lines.

FCA has been exploring opportunities for supply to vehicle OEM's in China with a view to establishing a joint venture business with a Chinese national and with a focus on generic Chinese vehicle builders. To this end we have participated in two Victorian Government facilitated trade missions and have submitted tenders to a Chinese vehicle builder with ongoing dialogue.

Summary

The most notable issues we see for the local component industry are what appear to be unfair price comparisons for locally produced product against competitive imports from low cost countries. (I.e. Local ex works vs. ex works Asia.) and;
Further the refusal of the Vehicle Builders to:
a) Provide a defined minimum contract period against which investment may be reasonably amortised.
b) Fair and timely consideration to price adjustments for commodities priced on a global basis. E.g. Oil derivatives.
c) Recognition of the impact of non-achievement of predicted volumes from the tender / contract stage and the consequential affect on cost recovery for tooling set up and investment amortisation.
d) Refusal to assist with supply chain management of component inventory exposure caused by wildly inaccurate forward estimates.
E) Collective purchasing of commodities to assist local suppliers in hedging steel and oil prices.

The vehicle builders have secured large amounts of Government support for their local investment. While it is true that without a local car industry there would be little parts manufacturing, there should be more reasonable value placed on those in the industry who have underpinned it for decades.

So too the component sector receives Government support under the ACIS program. As discussed earlier there is no contractual tie for the OEM's to continue product sourcing after product R&D has been completed. By extension, there is no connection to the ACIS dollars credited to the supplier for the R&D of product, process and capital expenditure and the ongoing local manufacture of that product.

The Auto Parts manufacturing sector as part of manufacturing as whole provides a great deal of the volume resource to underpin investment and employment. Without a strong and vibrant auto parts sector manufacturing generally will steadily decline, becoming less and less competitive.

The Market

General

FCA's principal market place is the Original Equipment Manufacturers (OEM's) of the Australian automotive market. There are three OEM's in the market place to whom FCA supplies product on current production models, being; Mitsubishi Motors Australia Limited (MMAL), Ford Motor Company (Ford), General Motors Holden (GMH). Toyota is the fourth producer in the market for which FCA supplies only a small component as a second tier supplier through Denso.

Market Developments

The Australian Vehicle build volumes (excluding Toyota on which FCA have no product) peaked in the 2004 calendar year at approx 302,000 (as published by Federation of Automotive Products Manufacturers (FAPM)). The projection for 2006 based on FAPM numbers and latest MMAL forecasts predicts a bullish 251,000 approx. An annualised volume reduction for FCA of around 51,000 vehicle kits. Most telling in this is the weighting of these reductions to product which have for FCA higher sales value.

Over the last 2 years OEM's have pursued aggressive programs to reduce cost from their product applying a global approach to component sourcing reducing, challenging and demanding local suppliers compete with low cost manufacturing suppliers to both secure existing products and win future programs. Indeed one OEM in particular demanded significant cost reduction delivery over three years as a condition precedent to sourcing qualification on new programs.

OEM's demand delivery of "productivity" price reductions from suppliers across the life of the vehicle platform, **and refuse to accept any cost adjustments for material price increases which have been significant in recent years with the rising price of oil and steel**, nor for labour price increases.

Unlike many other business the OEM's advise suppliers of schedules generally on a weekly basis, projecting out demand for a period of 3 months. Suppliers use these schedules to order components from sub suppliers. On a daily basis the OEM's advise the supplier of the following days requirements. The supplier has to ensure it has capacity and materials to fulfil those 3 month schedule requirements. In an environment as we have in the current market, where OEM daily requirements for the current period are only a fraction of those forecast (and against which suppliers have acquired components), OEM's refuse to assist suppliers in managing what can be a significant cash flow impact while inventories are absorbed over a greatly extended period of time.

In our experience OEM's award business with no long term contract for the supplier. Products can be resourced at relatively short notice as has been evidenced by FCA in recent weeks. The absence of any binding long term supply contract with the OEM's provides a lever for ongoing price reductions based on global benchmarking results.

During the quotation process the OEM's provide indicative annual volume estimates against which suppliers access the level and sophistication of production equipment and amortisation requirements for this capital investment to achieve these volumes. No fallback is provided where OEM actual requirements fall short of these estimates.

Some comment on each customer are attached in Annexure A and it is requested that these comments remain strictly confidential
GMH

Reductions to Production Requirements

The following table highlights the dramatic fall of Australian vehicle production. Note the steady fall of MMAL sales as the Magna Model ages and the dramatic reduction of sales predicted on the new 380 down from an estimate from MMAL of 35,000 vehicles to under 20,000 vehicles this calendar year.

Table 1 – OEM Vehicle Build Analysis

OEM Vehicle Build Analysis

		FCA Customer Base				
Toyota		Holden	Ford	Mitsubishi		Total
86,980	2002 Total	144,534	84,842	46,533		275,909
113,504	2003 Total	152,973	105,405	35,607		293,985
109,197	2004 Total	165,552	114,716	22,153		302,421
109,276	2005 Total	152,960	107,447	19,206		279,613
106,800	2006 Est. FAPM	130,600	100,900	19,900	*	251,400

* Note: FAPM forecast adjusted for anticipated reductions to average daily build

The most recent round of cuts have had a devastating impact on through put particularly in the short term. The following table shows the reductions in customer demand for the first quarter of 2006 calendar year compared to the stated requirements in November when inventory was being ordered to cover this period.

Table 2 – Customer Demand Change in Vehicle Build

Customer Demand Changes In Vehicle Build

	Product Delivey Dates								
Delivery	**January**		**February**		**March**		**Quarter Total**		
	Original Schedules from November compared to those advised in January								
	Original	**Revised**	**Original**	**Revised**	**Original**	**Revised**	**Original**	**Revised**	**Reduction**
Vehicles									
Ford	*Customer Confidential Information Withheld*								
MMAL									
GMH									
Total	**15,761**	**12,916**	**26,167**	**24,204**	**22,583**	**17,758**	**64,511**	**54,878**	**-9,633**

Labour Costs

During the last round of EBA negotiations the industry was in a buoyant period. The unions were therefore in a strong position to secure good wage outcomes. OEM's apply intense pressure to ensure that no protected action undertaken during EBA negotiations impacts their production like activity. On the other hand the OEM's own EBA agreements foster unrealistic expectations that the component sector already under significant cost pressure is generally unable to meet.

Subsequent to the finalisation of our last EBA, contracts have been tendered and awarded for many parts on future models. The next round of EBA negotiations will need to take into account the significant price reductions already committed in winning this new business. The current round of new EBA negotiations will be very difficult for all parties given the state of the market, and enormous cost pressures on the industry globally.