



Submission to:

Senate Rural and Regional Affairs and Transport References Committee
into The State of Australia's Rail Industry

Representation for Lovells Springs Pty Ltd

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Lovells Springs is now the only remaining Australian manufacturer of suspension systems and components for the rail industry. We produce new springs for new build locomotives, freight wagons and passenger trains, as well as offering a refurbishment and replacement service for maintenance purposes to keep existing fleets on the rails.

Lovells was started in 1936 and has been serving the local rail industry only using locally produced steel since that time. Lovells also produces springs and other components to the automotive and other industrial sectors including mining and quarrying, defence, agriculture and power generation.

Lovells is the dominant supplier to all the major players in the rolling stock industry in Australia as well as the only full service manufacturer south of Korea in the Asia Pacific region.

Lovells is a family owned company with employees numbering 50-75 depending on demand levels, and is currently enjoying buoyant business levels due to demand from all of the above sectors except rail, as well as a booming export market.

Lovells' current owners as a family have been involved in manufacturing continuously since 1860 in many industries, and this business has its manufacturing facility in Carrington NSW and delivers nationally and internationally from its distribution centre in nearby Sandgate.

As the last Australian manufacturer in this sector, Lovells is now the only strategic supplier for suspension components for military light, medium and heavy mobility equipment for the Australian Defence Forces in the event of conflict and isolation from foreign suppliers.

The rail sector has represented 30% of the local demand on Lovells over the past 12 months but was as high as 60% only 5 years ago. This massive fall in rail business is due to the almost complete cessation of new-build rolling stock manufacture in Australia over that time.

Not only has Lovells lost the new-build business, but even large scale refurbishment projects of locomotive or freight fleets may now have their spare parts sourced from overseas.

Our customers are more and more only using us for short run or short lead time requirements where international suppliers are not interested in short runs as it reduces their efficiency and increases costs.

Lovells, as a supplier to foreign railways such as Thailand, Malaysia, Indonesia, Sri Lanka, Pakistan and China, has a proud record as a world class supplier with global reach.

Should you travel from Beijing to Tibet by train, you will be pulled along by CSR- GE locomotives, built in Suzhou, China, with Lovells suspension under them.

When coal is hauled to port in Queensland for export, each 20,000 tonne load is hauled by powerful Siemens Transportation Systems electric locomotives, built in Graz, Austria, riding on Lovells suspension. In both these cases there is not a single other Australian made component on the locomotive.

We believe that rolling stock suspension components manufactured by Lovells using locally (Arrium-Onesteel Division) produced steel are equal or superior to any sourced internationally, and we are regularly called upon, at short notice, to produce many thousand springs to replace failed or failing imported springs. We are also called upon to offer technical support to Australian rail fleet suppliers and operators on suspension matters, which we do at no charge.

We believe that short term thinking, long a specialty of Australian Governments and businesses, resulting in the hollowing out of the rolling stock manufacturing industry over a very short period.

Whilst maintenance of rolling stock over its life cycle is an important function that will always be needed, only the design and construction of complex systems like locomotive and passenger trains results in the accumulation of real Intellectual Property and expertise in this country.

The accumulated and soon anticipated losses of civilian ship building, car production, white goods manufacture and textile manufacture has already wreaked havoc amongst our capacity to train young people in technical skills, condemning Australia to forever be a third-world level post-industrial economy.

Lovells has a proud record of building all its equipment and writing all its software in house and training many young people to be first class technicians and tradespeople in Industrial Automation, Combustion Engineering, Hydraulics and Pneumatics, Process Control and Toolmaking. We will continue that 150 year family tradition that predates Lovells.

This corporate technical IP will be an asset for many years into the future and allow Lovells to survive in a global economy no matter what further misfortunes befall Australia's imperilled manufacturing sector.

Specifically addressing the Terms of Reference.

- a. As stated Lovells is only a relatively small manufacturer, but it is the only one left with the capacity to produce the entire range required for the Australian rail industry. If the local market was to disappear in favour of lower quality and cost alternative Lovells would be forced to reduce its work force by 15 full time employees, and this would also have the typical flow-on effect for our suppliers.

- b. As Lovells are forced by low-cost competition to work on little or no margin, the capital needed for continuous improvement and investment is well below what is required to improve productivity to keep up with import competition.
- In addition, the greatest challenge ever faced by Lovells in its 85 year history may well be just in front of us, with cataclysmic cost increases in our natural gas supply expected over the next 6 weeks. With no opportunity for negotiation, our gas price has more than doubled in the last 3 years and in June of this year is going to double again, as a minimum. Gas represents 15% of our non-labour manufacturing input costs.

Lovells, as a small regional manufacturer and the only one remaining in our sector, would benefit as would the local and national economies from a national manufacturing framework for the rail industry.

It has been pointed out in other submissions to this enquiry that in particular the NSW government has no desire to support local manufacturing and it is clear that unless the Federal government can influence this decision they are unlikely to in the future, with the main manufacturing facilities sited in Labour electorates.

Lovells has a chequered history with the NSW state government when it comes to the rail industry. The last NSW Labour government commissioned Australian-made passenger rolling stock for the extended Sydney electrified network (the "OSCAR project") through primary contractor UGL.

Lovells setup a new green fields manufacturing facility, Lovells Technology Pty Ltd, with some financial assistance from the state government, to produce, as a subcontractor for this passenger fleet, the wiring harnesses and electrical subassemblies for UGL.

When the current Liberal government was elected they scrapped the project leaving Lovells with a \$1.5m nett loss with no compensation. The facility, employing 26 people, was closed by Lovells immediately.

This appears, given current policy settings, to be the last passenger train ever to be produced in NSW after 120 years of production.

We note that UGL and Downer Rail are not even contributing to this Subcommittee, and we note that a large number of globally competitive sub-contractors like ourselves who at this time are probably surviving on exports are not present.

Australia as a whole can only support one world-scale passenger railcar manufacturer, but our federal structure makes this very hard to organise, with Federal-State and State-State cooperation non-existent.

Our belief is that Australian domestic passenger rolling stock manufacture will now only be possible where the Federal Government ties rail infrastructure grants to local content percentages achieved in rolling stock procurement. Victoria is certainly the standout in supporting local manufacture compared to other states. NSW, by far Australia's largest passenger rail state in terms of passenger-journeys, is equal worst.

On the freight side of the industry, Australia's freight locomotive workshops are now virtually silent. Hence, the loss of scale already resulting from this cessation of freight locomotive manufacture in this country would now necessitate the granting of Federal approvals to mine conditional on Australian content in equipment at the mine-site, whether it be mining equipment or rail equipment taking minerals once extracted to port.

These would be highly controversial measures, but I doubt that a single truly viable mine development would fail to proceed on the basis of a domestic content requirement of this nature.

All manufacture of freight wagons ceased in any meaningful volume about 5 years ago, ending a market that once comprised 35% of Lovells total business on its own through Bradken Ltd and UGL.

Their huge freight wagon plants, situated across four states, are all now either closed or relocated to China. To re-establish this industry will require similar measures to those described for locomotives previously.

In conclusion, Lovells will survive as a Company even should the entire rail manufacturing sector be closed, due to the breadth and depth of our global customer base and reach across many other industries.

The tragedy that Australia's manufacturing effort will then consist of flagship projects like government funded warship production and foreign owned food-processing is depressing indeed.