

TOYOTA

Submission by
Toyota Australia
to the
Senate Economics References Committee
Inquiry into the future of Australia's
automotive industry
March 2015

**Toyota Motor Corporation Australia Limited
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Key facts

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| Toyota Australia facts and statistics | <ul style="list-style-type: none">▪ Presence in Australia since 1959▪ 12 consecutive years as Australia's best-selling automotive brand with 18.2 per cent market share in 2014▪ 3,900 employees across Australia▪ 2014 production and sales:<ul style="list-style-type: none">- Toyota domestic sales: 203,501- Vehicles produced: 90,126- Vehicles exported: 63,620- Export countries: 13+- Export value: approx. \$1.4 billion |
| Toyota Australia tier one supply chain facts and statistics | <ul style="list-style-type: none">▪ Over 50 local original equipment (OE) suppliers▪ Geographically concentrated in Victoria and South Australia, with some presence in New South Wales▪ Over 9,000 employees▪ 2014 value of buy approx. \$1.2 billion |

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1. Overview

Toyota Australia welcomes the opportunity to provide input to the Senate Economic References Committee Inquiry into the future of Australia's automotive industry. This submission primarily concerns the automotive manufacturing and supply chain transition and is intended to support the development of the Committee's report scheduled to be released by the first sitting day in November 2015.

2. Toyota Australia - Manufacturing transition

In February 2014 Toyota Australia announced the cessation of its local manufacturing operations in Altona by the end of 2017. The company intends to maintain vehicle and engine production throughout this period to honour its commitments to its customers both domestic and overseas, suppliers and employees. By continuing production for this period, our suppliers will be provided with time to adjust and transition to new opportunities outside of automotive manufacturing in other industry sectors.

Major facelift vehicle

In 2013 Toyota Australia announced it will invest \$108.4 million in its local manufacturing operations to undertake a major facelift of the Camry. Set to launch in mid-2015, this vehicle will undergo a complete change to its exterior, including sheet metal components. This extensive update has required significant investment in in-house and supplier tooling and equipment as well as the engagement of over 50 local component producers.

The major facelift project is supported by a co-investment package from the Australian and Victorian Governments and will ensure that Toyota Australia continues to build high quality vehicles for its local and overseas customers until closure.

Toyota Australia is Australia's largest vehicle exporter, currently exporting approximately 70,000 Camry and Aurion vehicles per year predominantly to the Middle East, with some exports to New Zealand and the South Pacific Islands. On production of the major facelift Camry, Toyota Australia will commence exports to additional markets within the Middle East and ASEAN.

Toyota Australia beyond 2017

Following Toyota Australia's announcement that it would cease manufacturing by the end of 2017, the company embarked on an extensive evaluation process to ensure the best long term structure for the company for decades ahead. The outcomes of this review were shared with employees in December 2014 with all corporate functions to be consolidated to Melbourne once local manufacturing ceases.

Toyota Australia's corporate headquarters will continue to be based in Port Melbourne and part of the Altona site will be retained for new and relocated functions, including the company's Centre of Excellence. Manufacturing legacy opportunities at the Altona site are still being investigated and will be announced in due course.

Centre of Excellence

The Centre of Excellence to be established at Toyota Australia's Altona site will include a world-class training facility and commercial activities that will encompass 50 years of manufacturing knowledge that will be directed at further developing our people, brand, products and services.

The Centre will incorporate Toyota Production Systems Support Centre Australia which will take our unique Toyota manufacturing and management skills and make them more broadly available

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across the community. This will build upon the model of the Toyota Production System (TPS) training that is currently undertaken with the supply chain which is elaborated on below.

3. Automotive supply chain - Manufacturing transition

Toyota Australia's component supply chain consist of over 50 local suppliers employing over 9,000 people across three states. These suppliers are both local and global businesses and are at various stages in their transition to a post vehicle manufacturing environment. There are a number of elements required to support an orderly supplier transition which are explained below.

Continuation of the Automotive Transformation Scheme (ATS)

Ongoing ATS support by the Australian Government during this transition period is an essential element of the sector's ability to sustain operations until the end of 2017. Due to the interdependence within the automotive sector, all industry participants i.e. both manufacturers and suppliers must sustain operations up until the designated closures of vehicle manufacturers or risk an accelerated and uncontrolled industry shut down with approximately 48,000 automotive manufacturing jobs¹ at risk.

The continuation of the current ATS funding support across both component suppliers and manufacturers until the end of vehicle manufacturing will support an orderly manufacturing transition while providing a level of certainty where investments have been made factoring in existing ATS support levels.

Diversification support

Toyota Australia acknowledges and supports diversification funding support programs to facilitate supplier transition to both global automotive chains and non-automotive sectors. It is understood that there is a significant level of interest from suppliers in the \$20 million Growth Fund Automotive Diversification Program with a considerable number of first round applications received. This is an encouraging indication that suppliers are considering opportunities outside of the sector and are seeking to continue their operations beyond local manufacturing.

Such funds are essential to assist supply chain diversification and retain manufacturing capability in Australia. To ensure the long term presence of these businesses and the capabilities they possess, a number of complementary ongoing support services are required to best position these firms to achieve international competitiveness and business sustainability, including:

- Diversification strategy development
- R&D support
- Mentoring
- Business development
- Management and workforce up-skilling
- Business improvement

Supplier productivity and capability development

Toyota Australia has driven supplier productivity through actively supporting the capability development of its local supplier base since 1989. This has involved active human resource development through coaching suppliers on how to implement TPS techniques and processes.

The Supplier Productivity and Capability Program (SPCP) is one of Toyota Australia's formal mechanism for assisting its supply base with approximately 20 experts actively deploying TPS and

¹ Automotive Industry Score Card, Department of Industry. June 2014.
<<http://www.industry.gov.au/industry/automotive/Statistics/Pages/automotivedatacard.aspx>>.

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know-how to supplier companies in Victoria and South Australia. Through the provision of funding from the Australian Government this program has been accelerated and intensified to assist companies that supply components to Toyota.

The highly competitive nature of the component industry coupled with the impending departure of Australia's remaining vehicle manufacturers is causing significant stress to the supplier base. Toyota Australia considers that its supplier development activities have significantly enhanced the productivity of suppliers, and as a consequence, better positioned these firms to take advantage of domestic and international diversification opportunities through improved business competitiveness.

In addition to direct supplier benefits, these activities have flow-on benefits outside of the automotive manufacturing sector in Australia. As part of the SPCP, non-automotive industries have been invited to participate in the program to create opportunities for information sharing, collaboration and diversification. In 2014 alone, the SPCP shared its expertise of TPS methodologies with sectors including pharmaceutical, medical, defence, energy, aerospace, engineering, agriculture/food, mining and construction.

The future direction of the SPCP program beyond the closure of local manufacturing is currently being considered. Opportunities to increase the program's focus on working with non-automotive businesses is also being explored with current SPCP activities with St Vincent's hospital and Northern Health (both based in Melbourne) being used as test cases to better understand the viability of providing such services in the future.

Supplier network forums

With the departure of local manufacturing by the end of 2017, Toyota Australia determined that there was a need to re-activate formal communication channels between suppliers to provide a forum for information sharing and collaboration in relation to sustaining operation until 2017 and beyond. This culminated in the re-establishment of four key regional supplier networks encompassing suppliers from Victoria, South Australia and New South Wales. These meetings are open to all Toyota Australia tier one suppliers.

To date the supplier network meetings have hosted government representatives sharing information on employee and business support initiatives and has create improved linkages between all related stakeholders.

It is considered that local, state and federal government involvement in the supplier network forums and other activities will support an orderly industry transition.

Conclusion

Toyota Australia's intention is to continue manufacturing through to 2017 and is committed to supporting a successful transition for all automotive industry participants. That said, the company looks forward to bringing to market a major facelift vehicle in 2015 and will work with all stakeholders to continue operations until the announced closure point.

Once local manufacturing concludes, it is important that attention is given to maintaining capability in Australia to share the benefits of these skills to sectors outside automotive.

Toyota Australia trusts that the information contained in this submission assists the Committee's Inquiry and looks forward to its findings.