



TOYOTA MOTOR CORPORATION AUSTRALIA LIMITED
A B.N 64 009 686 097

By email: ewrwp.reps@aph.gov.au

Committee Secretary
Standing Committee on Employment,
Workplace Relations & Workforce Participation
House of Representatives
Parliament House
Canberra ACT 2600

February 9, 2006.

Dear Sir/Madam,

Please find enclosed a submission from Toyota Australia in relation to the above Inquiry into employment in the automotive component manufacturing industry.

Yours faithfully,

John Egan
Senior Executive
Office of the President

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**Employment in the Automotive Component
Manufacturing Sector**

**Submission to the House of Representatives
Standing Committee on Employment, Workplace
Relations and Workforce Participation.**

9 February 2006

For further information, please contact

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Toyota Australia Profile

Toyota Australia has been producing cars in Australia for more than four decades and in 1995 commissioned a new state of the art plant in Altona Victoria at a cost of \$420 million. This is now the base for all Toyota Australia vehicle manufacturing operations and will produce our new model Camry and a new 6 cylinder Aurion vehicles, which are to be introduced later this year

Toyota Australia's total sales revenue from domestically produced and imported products reached \$7.4 billion in 2005. 110,000 vehicles were manufactured locally with a value of \$2.5 billion, making the company one of Australia's largest manufacturing enterprises.

Toyota Australia is Australia's largest vehicle exporter. Around 69,000 vehicles were exported to 23 overseas destinations and together with parts and accessories earned more than \$1.3 billion in export revenue

Domestic manufacturing relies on an extensive local supplier base, with 84 first tier local component suppliers plus general suppliers earning \$2.1 billion per annum from goods and services supplied to Toyota.

Toyota employs 4,500 staff Australia wide, including over 3,300 in manufacturing, with an annual payroll of \$380 million.

Toyota continues to make major investments in production largely linked to new model cycles. In the lead up to 2002, \$350 million was spent bringing to market a new model Camry, production of a new 4 cylinder engine and increasing plant capacity. Toyota is now in the final stages of spending over \$400 million in preparation for the next generation Camry and Aurion 6 cylinder car scheduled for release in 2006.

Toyota Australia's head office is based in a new purpose built facility in Port Melbourne.

In addition to its Melbourne facilities, Toyota Australia maintains a comprehensive sales and marketing and parts distribution operation in Sydney employing 500 people, as well as sales and distribution operations in all mainland states.

In terms of sales to the end customer, Toyota has around 220 dealerships Australia wide with employment of around 11,500 staff.

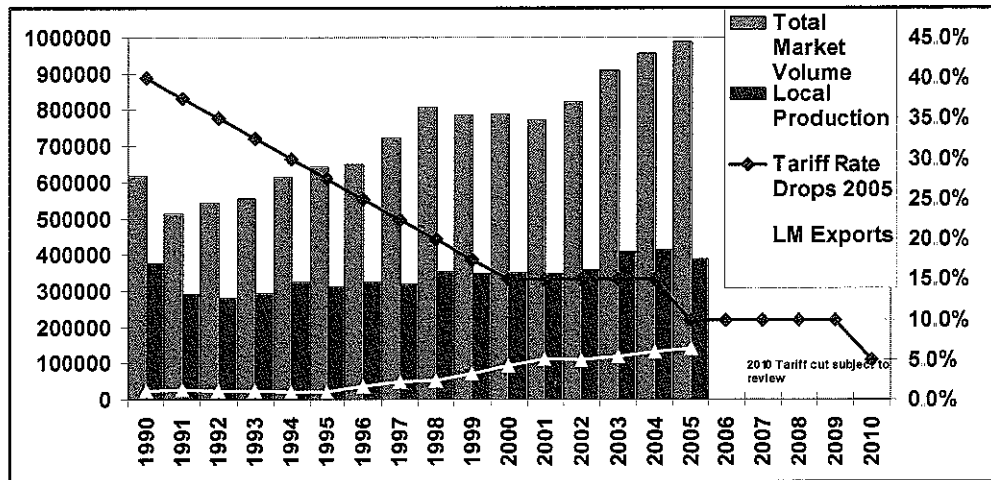
Toyota is currently No.1 in the domestic market with a market share of over 20%. The product range covers market sectors from family sedans and four wheel drives to luxury vehicles and small hatches to small buses. A large range of imported passenger, 4WD and commercial vehicles complement locally produced Camry vehicles.

The competitive environment.

Employment in the automotive component industry is heavily influenced by the local production volumes of the domestic vehicle manufacturers and the local content of the vehicles produced. These local production volumes are in turn determined by market demand from the final consumers in domestic and overseas markets.

The following chart shows that the Australian market has grown very strongly from around 600,000 in 1990 to its current level of just under a million. Over the same time period, exports of locally manufactured product have grown from 25,000 units to 142,000. However despite the twin stimuli of strongly growing domestic and export markets, manufacturing volumes have remained relatively static at just under 400,000 units, as the opening of the Australian market, expansion of production in low cost locations and changing consumer demand has encouraged increased absorption of imported product.

TOTAL MARKET, LOCAL PRODUCTION, EXPORTS & TARIFF



Thus in order to be able to offer ongoing employment in the component sector, local manufacturers must be fully competitive in cost and quality with imported product

With the reduction of tariffs and elimination of non tariff barriers, the Australian market has become one of the most competitive in the world, with a multiplicity of brands chasing market share in a relatively small market.

One measure of competitiveness is the market size divided by the number of brands sold in that market. Australia is a market of just under 1 million vehicle sales per year which is shared between 55 brands, giving average sales of only 18,000 vehicles per brand. In contrast, the USA has a market of over 17 million but only has 32 brands represented, giving an average of 540,000 units per brand. With a much smaller market being shared between a much larger number of brands, the consumer in Australia is in a position to demand very high value for money in the products they choose. In this environment, vehicle manufacturers and component suppliers need to be very cost and quality competitive if their product is to be successful.

COMPETITIVE MARKET SITUATION

Country	No. of Brands	Market Size (million)	Market/Brand (thousand)
Australia	55	1.0	18
USA	32	17.3	540
Japan	33	5.8	176
Europe	70	15.7	224

As the industry moves to global product to minimize costs and maximize value to the consumer, each local manufacturing location must be competitive not only with competitor product, but also with the same product which could potentially be sourced from overseas.

For example the Toyota plant in Altona is only one of 51 plants operated in 26 countries by Toyota Motor Corporation (TMC); These other plants are also competing with Australia for markets and/or continuing investment. Therefore to secure our future and that of our suppliers, we must be competitive on cost and quality to continue to attract our share of investment from our parent company. In the longer term in a free trade environment the access to investment and eligibility to supply markets will be dependent on being competitive with other Toyota locations.

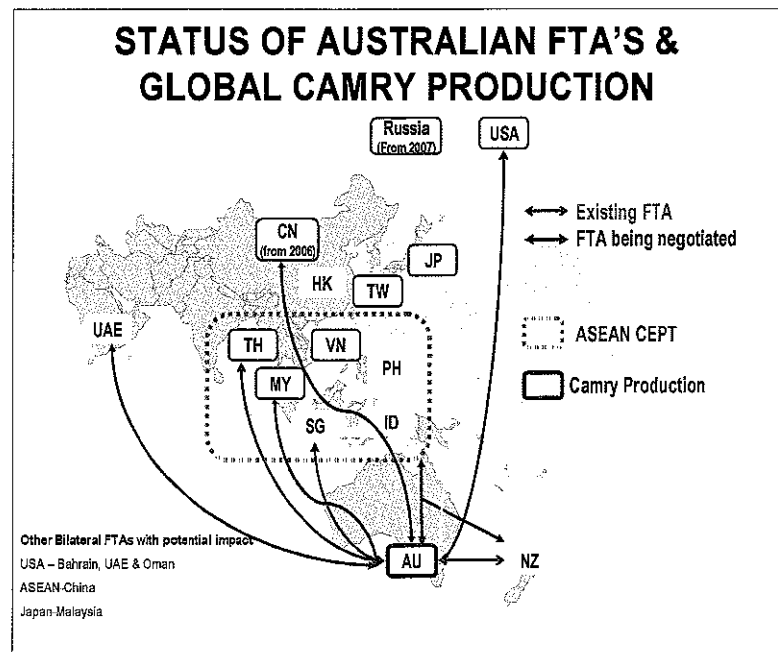
Toyota Global Overview

26 Countries, 51 Plants



More specifically the adjacent chart shows that Camry is manufactured in USA, China (2006) Thailand, Taiwan, Japan, Russia (2007) as well as Australia. Any of these countries could in the future have the capacity to supply our domestic or export markets with Camry vehicles if we are not competitive.

Therefore Toyota must work on all aspects of its operation, including the cost of locally sourced components, to ensure that it is competitive enough in price and quality with (a) other Camry locations and (b) other brands.



Toyota Purchasing Policy

The key principles of Toyota Motor Corporation's (TMC) Purchasing Policy are:

- i. Fair competition based on an open door policy.
- ii. Mutual benefit based on mutual trust.
- iii. Contributing to local economic vitality through localisation - good corporate citizenship.

This third principle is further explained in the following extract from the TMC Purchasing Mission statement:

"Contributing to local economic vitality through localization: good corporate citizenship.

- Our production outside Japan is increasing rapidly as we globalize our operations. We work to make an economic and industrial contribution that is fully commensurate with our market presence in each region. That includes purchasing parts, materials, tools and equipment from local suppliers."

Toyota Australia Purchasing Policy

This Policy is implemented in Australia in line with Toyota Australia's Purchasing Mission statement:

- "Our aim is to achieve global best practice in the procurement of products and services.
- Our performance will be driven by the ability of our business partners to offer products and services exceeding global standards for cost, quality and delivery.
- Our success demands a strong and sustainable local supplier base, balanced by intelligent utilisation of in-house and global sourcing options.
- Our future will be assured by a capable and motivated team of employees, engaged in strong relationships with suppliers, TMCA linking Divisions, TMC and affiliated companies.
- Our procurement strategies will deliver to TMCA a sustainable competitive advantage in the Australian Vehicle Market, and within Toyota's global vehicle assembly operations."

Current and Future Employment trends in the component sector.

There has been recent publicity about employment trends in the component sector. We have already indicated the openness of the Australian market and the extreme competitive pressure that manufacturers must meet if they are to be a successful in the Australian market.

However despite this competition, Toyota Australia is just completing an investment of over \$400 million in preparation for the introduction of the new Camry and 6 cylinder Aurion models in 2006, and to expand our capacity in Australia from around 110,000 to 140,000 units per annum.

Component sourcing plans are complete for the new models, and, although there will be a slight decrease in the local content per vehicle reflecting the increased integration into the global supply chain and the strengthening of the \$A, we are confident that the volume and value of locally sourced components will increase, thereby ensuring continued employment for those companies supplying Toyota

This of course assumes that the market demand for our new cars from domestic and export customers will be in line with our expectations.

For the industry as a whole, ongoing employment in the component sector will depend on the number of locally manufactured vehicles sold as well as the local content in those vehicles. We have already pointed out that locally manufactured vehicle volumes have not increased despite the strong market growth; it is essential that this locally manufactured volume be maintained and increased, in spite of tariff reductions and market segmentation changes, if employment in the component sector is to be maintained.

The component sector can also expect increased competition from component suppliers from lower cost economies, and all stakeholders will need to demonstrate a strong commitment to reliable, flexible, and cost competitive supply if they are to meet this competition and maintain employment levels.

Labour adjustment measures required to assist redeployed and affected workers

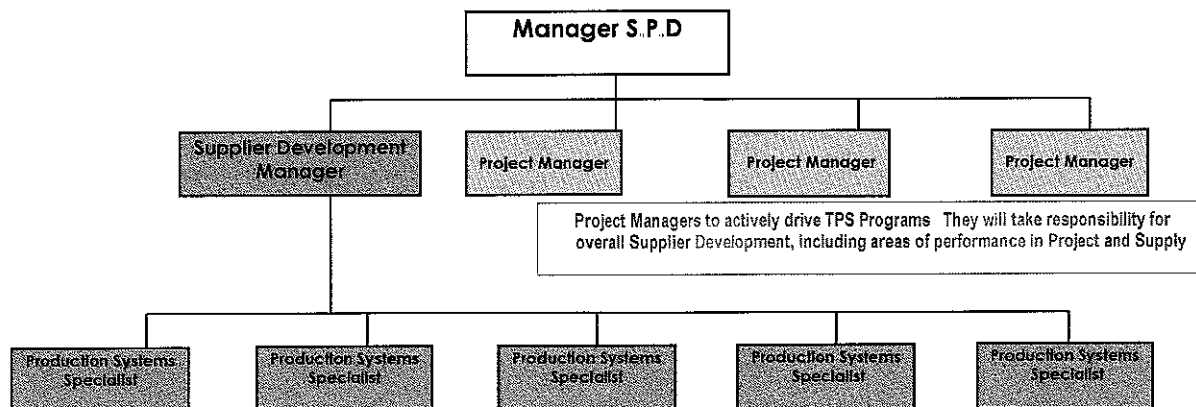
Although we do not expect an overall employment reduction resulting from Toyota component sourcing, there will inevitably be winners and losers in the component sector, with some companies gaining greater business, some moving from a Tier 1 to Tier 2 role and other companies no longer supplying. As with any dynamic industry moving towards global integration and global competitiveness, there will inevitably be difficult adjustments to be made by a number of organizations and their employees.

Measures to support skills development, innovation and investment in the industry

The concurrent challenges of a stronger exchange rate accompanied by a tariff reduction from 15% to 10% in 2005, a further reduction to 5% in 2010 and the emergence of China, Thailand, India, Korea and other low cost countries as significant competitors means that the vehicle manufacturing industry has a significant challenge to retain competitiveness in an open market. Therefore it is critical that all participants in automotive manufacturing are able to improve their capabilities to ensure that they are equal to these renewed challenges.

Toyota Australia makes a significant commitment to supplier development as per the following structure; a dedicated team allocated to strategically important suppliers focused on 1) project management 2) production system improvements.

SUPPLIER DEVELOPMENT STRUCTURE

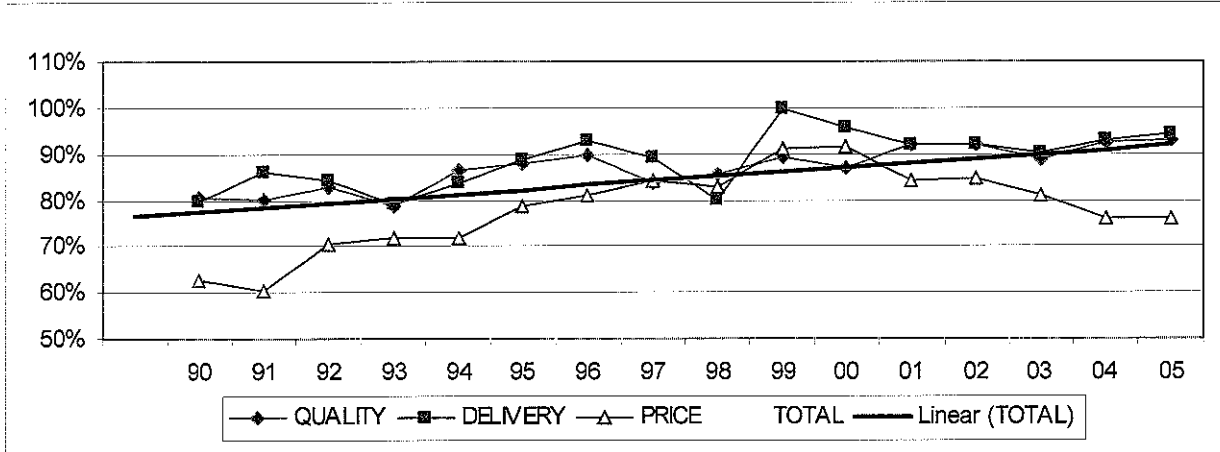


All expectations are communicated annually to suppliers and are measured via the Toyota Supplier Assessment (TSA) System.

The TSA program was introduced in 1990 as a tool to enable TMCA to objectively evaluate its suppliers in the key areas of price, quality and delivery. (The trend is positive.)

If suppliers meet the allocated targets they can plan with confidence for ongoing business, subject to being able to meet leadtime and technical requirements

**SUPPLIER IMPROVEMENT TREND
(TOYOTA SUPPLIER ASSESSMENT)**



We believe this approach, of the manufacturer working directly with the component producer, can be very productive. However our resources are very limited. Therefore we are currently involved in the Federal and State Government sponsored "Automotive Industry Strategic Group" which is attempting to develop a model of how the government and industry can work together to ensure that there is sufficient emphasis on capability development and promotion of our strengths.

Conclusion.

Although the automotive industry and the companies supplying it face many challenges, Toyota Australia is confident that its growth plans will be successful, and that this growth will have significant benefits to that section of the component industry that supplies Toyota.

However we must acknowledge that the virtual elimination of protection and the emergence of new players from lower cost countries, accompanied by a strong exchange rate will create significant challenges to the industry. As shown earlier the Australian market is already extremely competitive, but we believe this competition will intensify, creating major pressures on vehicle manufacturers and the component sector to reduce costs.

The industry as a whole will need to continue to generate a significant improvement in its capability if it is to become a self sustaining part of the global automotive industry.

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