Australian Automotive Aftermarket Association

Australia's Innovation System
Submission to the Senate Standing Committee on Economics

The Australian Automotive Aftermarket Association Ltd (AAAA) is the national industry association representing manufacturers, distributors, wholesalers, importers, mechanical repair & modification services and retailers of automotive parts and accessories, tools and equipment in Australia.

The Association has over 1700 member companies in all categories of the Australian automotive aftermarket and includes major national and multi-national corporations as well as a large number of Australian owned small and medium size businesses.

The parts and maintenance sector of the $108 billion Australian automotive industry represents about $34 billion. AAAA member companies employ more than 30,000 people and export over $800 million worth of product a year.

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About AAAA

The Australian Automotive Aftermarket Association (AAAA) is the national industry association representing over 1700 manufacturers, distributors, wholesalers, importers, mechanical repair & modification services and retailers of automotive parts and accessories, tools and equipment in Australia.

AAAA members manufacture motor vehicle components, including:

- Products used to modify, maintain or enhance the performance of vehicles, including modifications for rough terrain, speciality products, safety, comfort, appearance, functional performance and body components.
- Products that are replaced regularly throughout the life of the vehicle as a result of normal wear and tear – e.g. filters, tyres, wiper blades, batteries and brake pads.

Many AAAA member companies that manufacture in Australia also supply locally manufactured Original Equipment (OE) components to car manufacturers as replacement parts and accessories for fitment to locally built and imported vehicles, as well as to the independent aftermarket.

Summary

The skill base and competitive attributes of the automotive aftermarket are broad, reflecting the wide span of the production and distribution supply chain of the sector. Aftermarket components are provided through multiple channels: car producers, vehicle service, collision repair, retail outlets and direct to car owners. As a consequence the provision of components embraces many business processes including manufacturing, marketing and distribution of components. The capacity requirements include design, research and development, manufacturing, logistics and distribution, business development, marketing and export development. Products are frequently redesigned for different platforms and the sector is particularly skilled in niche markets and in best practice time-to-market design, manufacturing and delivery.

Aftermarket manufacturers are innovative and nimble but the sector is owned by small and medium sized enterprises without dedicated testing facilities. We would like to see government playing a role in supporting innovation in the aftermarket to expand our product range and provide easier access into global markets.

But as the situation stands today there is significant disincentive to automotive innovation in aftermarket production:

1. **Testing of New Products**

   ANCAP is part of the problem and not part of the solution

2. Australia's Vehicle Standards Regulatory Environment

Regulators are antagonistic to aftermarket modification despite the high reputation that Australian products enjoy overseas; domestically we are confronted with regulation without cause and without evidence. The lack of testing facilities and the absence of government acknowledgment that Australian aftermarket products are high quality and internationally regarded exacerbates this problem. State variations in in-service vehicle standards also hinder commercialisation of new products.

3. The Original Equipment Bias

Government has been so focussed on maintaining our car manufacturing industry that innovation in the independent aftermarket parts sector has been ignored, despite many studies that confirm our Australian manufacturing technology advantage, high productivity rates, consistent export expansion and employment growth.

We have a range of automotive support programs, centres of excellence, innovation and testing – none of which are geared to the automotive aftermarket. In fact these facilities are not only biased toward OE, these programs specifically exclude the aftermarket. The exclusion occurs because programs specify that the end-customer must be a car maker; these entry and eligibility pre-requisites require the component producer to be supplying to the OE market.

We design, manufacture and supply to the retail sector, to vehicle repairers and modification service providers, direct to vehicle owners and fleet customers. New programs, designed to transition the OE supplier base should not create an unfair competitive environment for the Australian automotive aftermarket industry.

4. Parallel ANCAP Testing Stream for the Aftermarket

We recommend that the Federal Government ensure that ANCAP establishes, as a part of its funding conditions, a parallel testing stream for modified vehicles available for the aftermarket on fair and reasonable commercial terms.

Case Study:
Industry Innovation Centre

Specialty Equipment Market Association (SEMA)
Los Angeles, USA
www.sema.org

Located at the Specialty Equipment Market Association (SEMA) headquarters near Los Angeles, SEMA Garage gives members from across the USA access to high-tech tools and equipment they need to take their products from initial concept through to product launch.

The 15,000-sq.-ft. facility houses nearly $2 million of equipment, including two vehicle lifts, a portable coordinate measuring machine (CMM) for 3D scanning, a 3D printer for fast prototyping, digital race car scales for the vehicle weight measurements and a dynamometer for power output measurements. The facility also features a fully certified Executive Order (EO) aftermarket-part certification lab to provide the required certification for any company planning to sell aftermarket powertrain parts in the California market. The temperature-controlled test cell can simulate weather conditions ranging from winter in the mountains, summer in the desert. Testing meets all US federal Environmental Protection Agency and California Air Resources Boards (CARB) standards with capabilities that include emissions, fuel economy, acceleration, brake stopping distance, interior/exterior noise levels and handling.

SEMA is now in a position to provide members with a reliable and affordable way to develop and test their products, thereby helping them get their products to market quicker.

The SEMA Garage originally opened on 9th May 2013 when the aftermarket-part certification lab was first made available to members. A suite of marketing support tools will be added in the next several months to complete the three-phase opening, in the form of a media centre with a photo cove, photography centre and media coordination services.

Key Issues

AAAA members provide a range of high quality vehicle and four-wheel drive performance replacement and enhancement products and components including suspension components and frontal protection systems (bull bars). Australian aftermarket manufacturing is exported globally and is world-renowned for its quality, however aftermarket manufacturers do not have access to domestic testing and research facilities that would facilitate product development and enhanced export and domestic consumption.

Unlike the lengthy and slow product cycles of the OE segment (with seven-year vehicle model cycles); the aftermarket is a very fast-paced segment, driven by rapidly evolving consumer demand and market trends. Success in this sector requires manufacturers to respond quickly to new models and new brands entering the Australian and global markets.

Recent announcements by vehicle assemblers Ford, Holden and Toyota to exit the domestic market require new and innovative government action to support the development and growth of Australia's remaining trade-exposed automotive sector. If we are able to take a step back from the traditionally narrow perspective of the automotive manufacturing industry as only comprising of original equipment producers and instead view the entire automotive manufacturing sector, we can develop policy and programs that support innovation and growth for our remaining, sustainable manufacturers.

The automotive aftermarket is not dependent upon local vehicle assembly and hence despite the announced closure of assembly and engine manufacturing plants, the aftermarket segment remains stable and profitable. The Productivity Commission in their recent report stated:

> *The extent of any contraction in automotive component manufacturing, and any consequent reduction in overall employment, will depend on a number of factors. These include the extent to which component manufacturers choose to, and are able to, diversify into other markets (such as exports, aftermarket products and non-automotive products).*
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> Australia's Automotive Manufacturing Industry Productivity Commission Position Paper P 114. January 2014

The Commission also noted that the aftermarket segment is profitable and that the aftermarket parts manufacturing segment in in Australia is less vulnerable to the announced closures (P 7).

Indeed the automotive aftermarket segment has performed strongly, achieving year on year growth. The export performance of the aftermarket segment represents 12.4% of sales and aftermarket producers are active exporters as a key focus for their future success.

Despite import pressure, the aftermarket segment has performed successfully. Our industry's response has been to move up the value chain: from service parts to high-value specialty products with a technological advantage. This competition has created an

aftermarket segment that has the right pre-conditions to be a globally competitive sector. These businesses have been successful because they made significant investments in R&D and capital, and have a strong export focus. However, the aftermarket is operating within an environment of disincentive under the current Government policy settings.

If the full growth potential of the aftermarket segment is realised, it can absorb some of the excess capacity, skills and knowledge that become available as the ongoing decline of the Australian domestic OE passenger motor vehicle sector plays out. There is much synergy in labour skills between OE employees and aftermarket employees, leading to a reasonable assumption that a growing and sustainable part of the industry can assist in absorbing excess labour. Indeed, it has a greater capacity to do so than other industries such as mining and construction.

A key consideration for policy makers should be the development of programs that support and grow the automotive manufacturing sector as it now appears in 2014, so that on the one hand, it encourages diversification by the OE segment into the aftermarket and on the other hand, positions the aftermarket for growth.

If this approach is taken, we will be successful in fostering the structural adjustment needed to transition the OE segment into a more sustainable future. Further, by fostering greater integration between the aftermarket segment and the OE segment, the resources of the OE segment can play an important role in further enhancing diversification. The lead of which is being taken by the aftermarket segment, into industries such as rail, defence, marine and mining.

1. Australia's Current Vehicle Testing Regime: The ANCAP Problem

For some time, AAAA has been concerned with the inflexibility in ANCAP's variant policy and its implications for the fitment of aftermarket parts and accessories that improve the safety of vehicles given Australia's unique driving conditions. It is becoming increasingly apparent that there is a need for independent safety testing of automotive aftermarket products and aftermarket modified vehicles, yet the present ANCAP testing regime tests only new unmodified vehicles, and its safety definitions exclude vehicles with major aftermarket modifications such as bull bars or upgraded suspension.

This issue came to our attention when BHP Billiton published a new light vehicle policy applicable to all of their 45,000+ fleet and contractor vehicles. The policy requires that all vehicles be ANCAP five-star rated – which on the surface most people would view as a great step forward for road safety. Unfortunately the policy effectively results in a prohibition of fitment of bull bars and aftermarket suspension kits (and upgrades) as well as rollover protection: in short, all of the products that we make here in Australia, to promote safety in isolated and rural areas.

Shortly after this decision was made we met with ANCAP management to get their feedback on what requirements would need to be met to ensure that a vehicle fitted with an ADR-compliant frontal protection system would maintain its five-star ANCAP rating. ANCAP advised that to maintain a five-star rating, the vehicle would require a physical crash test (64 km frontal offset) for each brand of bull bar on each model of vehicle (of which there are 340

being sold in Australia) at the approximate cost of $100,000 for each test. To test a new innovative Australian aftermarket product on every model variant using the ANCAP testing regime is clearly not commercially viable.

We now have an anomalous situation, where modified vehicles, arguably made safer for use in rural and remote areas by the addition of bull bars and upgraded suspension, lose their ANCAP 5 star rating and are effectively banned from use by the world's largest mining company.

Bull bars are extremely effective, not only in terms of the physical safety provided in a collision and the prevention of associated swerve to miss incidents. Often, drivers of non-bull bar equipped vehicles will take sudden evasive action, swerving to miss a large animal; unfortunately this can result in a far worse outcome than had there been an initial collision with the animal. AAAA research has shown that up to 74% of people who have encountered an animal strike collision believed that if their bull bar had not been fitted they would have had to swerve or take other evasive action.

In relation to suspension modifications, we believe professional aftermarket installation by qualified technicians and using quality parts enhances the performance and safety of vehicles produced for a global market, and better equips them for operation in the harsh conditions of rural Australia. This is particularly important for additional load bearing capacity, and ground clearance. Similarly to the installation of bull bars, at present, such suspension upgrades would disqualify a vehicle's ANCAP five-star rating.

There are a number of unfortunate consequences of ANCAP's steadfast refusal to work with our industry on the development of a commercially realistic and viable testing protocol to ensure ongoing ANCAP compliance. Firstly, as demonstrated with BHP Billiton's light vehicle policy, we will see major fleet operators prohibit any aftermarket modifications, regardless of the end use of the vehicle. In our view this is likely to have a significant and detrimental impact on road safety in rural and regional Australia given the majority of ANCAP testing is not reflective of the profile of many of the accidents that happen in remote locations. This will expose hundreds of thousands of Australian employees to harsh Australian conditions without the necessary protection of a bull bar and other associated safety equipment.

Secondly, to ensure that a vehicle is suited to its intended end use, aftermarket modification is a common occurrence in Australia. By providing no realistic way of testing for ongoing compliance, consumers who purchase a 5 star rated vehicle will have no way of determining the impact of the modifications they have made on their vehicle's safety rating. While ANCAP's position is to deter vehicle modifications, this is a simplistic and unrealistic viewpoint that has the potential to have a negative impact on overall road safety given the Australian driving environment.

Product Innovation

ANCAP's current position provides no incentive or commercially viable way for the automotive aftermarket industry to link into to the ANCAP testing and Roadmap process and inhibits product innovation in the automotive aftermarket manufacturing sector.

The Australian Automotive Aftermarket Association acknowledge the importance of ANCAP's work in promoting vehicle safety and ensuring the safer operation of Australian roads. We note ANCAP's commendable aim to provide consumers with independent and transparent advice on vehicle safety through its safety-rating program. But as the leading independent vehicle safety advocate for Australia, ANCAP has a responsibility to inform all road users across the continent as to elements surrounding vehicle safety.

Unlike the American market, the Australian regulatory and ratings system is not geared to the modification of global vehicle platforms to suit Australian conditions. Soon we will have a market with no Australian designed and built cars, which will make the ANCAP system even less appropriate and relevant for our road conditions than it is today.

The Australian regulatory system is fundamentally 'anti-modification', inhibiting further innovation in the aftermarket manufacturing sector and ultimately reducing the domestic and export growth of our sector. If Australian vehicles are not permitted to be modified using safe and design compliant components, what message does this send to our key export markets?

2. Australia's Vehicle Standards Regulatory Environment

Virtually all 4x4 and light commercial vehicles sold in Australia are built from global platforms, the settings and equipment of which come standard on a vehicle but are a compromise based on the vehicle price point, variations in consumer tastes/needs and the countries in which that vehicle is sold. It is our view that the aftermarket modification of a vehicle suspension using quality parts and technicians enhances the performance and safety of a vehicle; ensuring that the vehicle is fit for the purpose intended. This is particularly important for vehicles operating in rural and regional areas that require additional load bearing capacity and ground clearance.

Despite this, every single year we have a battle with regulators seeking to limit suspension height modifications. In NSW the ill fated 'hoon laws' are a very good example of nonsensical rules introduced by regulators with no technical understanding; attempting to regulate in a manner that is impractical and makes no sense to car owners, vehicle modifiers or to enforcement agencies. The 'hoon' legislation was eventually abandoned, due to the fact we invested considerable time and energy advocating and lobbying against the proposed law. Many of the proposed laws that we have successfully advocated against, were designed as a knee jerk reaction to road events by individuals with little or no technical expertise and based on a poor assumption that vehicle modification is only undertaken by hoons.

The current system of differentiation between states is both confusing and inefficient. Standards are regulated and modified on a state-by-state basis, causing confusion amongst both industry and consumers who operate and travel across state lines. Unnecessary time delays occur as states wait for and are hampered by the actions or inactions of others, and ultimately the safety of Australian road users is jeopardised. Harmonisation of national in-service vehicle standards has been something AAAA and numerous other bodies have been working to achieve for more than a decade, yet to no avail.

It is this disharmony between jurisdictions that stalls the **design and development** of new innovative safety and performance products. We have an international reputation as a producer of suspension components. This is ironic given the efforts of our state regulators to outlaw suspension modification.

3. The Original Equipment Bias: Competitiveness and Innovation

Even though the aftermarket segment has reasonable profitability, with a weighted average profitability at the EBIT level of 15.4%, the industry is still critically aware of the need to further improve productivity, to invest in capital deepening, plant and equipment and to continue to innovate and undertake research and development to push production further up the value chain.

The AutoCRC Limited's "Automotive Supplier Excellence Australia" (ASEA) arm, received funding of $2.6 million through Automotive New Markets Initiative - Business Capability Support Program (BCSP) for the purpose of improving competitiveness and innovation of the OE motor vehicle production supply chain. The design of this extensive government support for the automotive industry was to deliberately and overtly exclude the aftermarket producers. Suspension component manufacturers that produced for carmakers were supported; suspension component manufacturers that supplied the aftermarket were excluded.

Recommendations

The automotive aftermarket places a high priority on investing in technology, research and development.

If we are to continue to expand automotive aftermarket export growth and facilitate structural transition for the current OE suppliers, new approaches are required. Specifically we would advocate that action is required to:

1. Introduce a government-sponsored automotive aftermarket testing facility
2. Improve transport regulation by harmonising in-service vehicle standards
3. Remove the OE bias from all current and new programs that encourage innovation in automotive components
4. Establish a parallel testing stream for the aftermarket through ANCAP.

1. Introduce a Government-Sponsored Automotive Aftermarket Testing Facility

It is becoming increasingly apparent that there is a need for independent safety testing of automotive aftermarket products and aftermarket modified vehicles.

The present ANCAP testing regime tests only new unmodified vehicles, and its safety definitions exclude vehicles with major aftermarket modifications such as bull bars, rollover bars or upgraded suspension. The global automotive industry is in a period of rapid change, from design and manufacturing, through to modification, customisation and retail delivery, and then into the post sale service and maintenance market. This has clear implications,

challenges as well as opportunities, for the segment of the market which is called the aftermarket, but which is now becoming an integral part of the manufacture and supply of individual private motor transport.

An aftermarket specific facility such as the SEMA Garage would give the Australian aftermarket access to high-tech tools and equipment needed to take products from initial concept through to product launch. The innovation centre could contain equipment specific to the aftermarket including testing facilities to meet all Australian and export specific market regulations and standards including emissions, fuel economy, acceleration, brake stopping distance, interior/exterior noise levels and handling. The facility would provide the aftermarket with a reliable and affordable way to develop and test products, thereby getting products to market quicker.

An existing facility, such as the NSW Centre for Road Safety, *Crashlab,* could be an ideal site for the development of an industry innovation centre. The Crashlab Test Laboratory supports road safety's technical contribution to the development and improvement of Australian Standards and Australian Design Rules in the areas of seatbelts, child restraints, helmets (pedal cycle and motorcycle), bus seats, wheelchair restraints and vehicle occupant protection in frontal, side and rear impacts.

The Test Laboratory maintains comprehensive National Association of Testing Authorities (NATA), Australia accreditation for compliance and product testing to Australian Standards and Australian Design Rules.

Alternatively, the South Australian Government has expressed interest in establishing an aftermarket test facility. Investing in such a facility would provide an opportunity for workers displaced by the closure of Holden's manufacturing facilities to return to work in the automotive sector.

2. Improve Transport Regulation

State and Territory transport regulations affect aftermarket competiveness and reduce the opportunities to achieve economies of scale. Variations in regulations such as noise, emissions and suspension height affect the aftermarket export effort because they deny a strong domestic base. The relationship between industry and transport policy should be strengthened, moving towards a national harmonisation; eliminating the requirement for the industry to comply with often inconsistent and conflicting requirements – requirements with clearly deleterious effects on the efficiency, productivity and competitiveness of the industry.

3. Ensure Automotive Schemes Include the Aftermarket

Our research supports the notion that government support which encourages even greater diversification in the aftermarket segment will generate further opportunities for growth in this sector and further enhance its role in the future automotive industry.

Accordingly, we recommend that the recently announced Automotive Diversification Programme be designed to support the elements of the automotive supply chain that can deliver rapid and sustainable diversification opportunities, such as the aftermarket sector.

As an additional note, we would stress that it is imperative that after excluding the aftermarket from any industry specific Government assistance for decades, that any new Government initiatives and programs do not simply incentivise the OE sector to enter the aftermarket. This is not an approach that will work. Nor will it be fair. We would suggest that attention is paid to make sure that programs are not, as an unintended consequence, providing a competitive edge for the OE sector over the aftermarket. Having initially incentivised the OE market, to the detriment of the aftermarket, it would be unfair for government to then later recognise the aftermarket's profitability and innovation and enable the originally funded OE sector to directly compete on unfair terms. This scenario must be avoided at all costs.

4. Parallel ANCAP Testing Stream for the Aftermarket

We recommend that the Federal Government ensures that ANCAP establishes, as a part of its funding conditions, a parallel testing stream for modified vehicles available for the aftermarket on fair and reasonable commercial terms.

Australia has a significant market for aftermarket products for four-wheel drive and sports utility vehicles. We have a natural completive advantage in this market because we are well known for our isolated and rugged roads. Whilst we will not be manufacturing any 4WDs or SUVs into the future, we will continue to modify these imported vehicles to suit Australian conditions and be recognised as innovative world leaders for doing so. As the market looks to diversify and utilise our strengths, a key aspect of this will be to develop and export these unique products to other countries that look to Australia to specialise in aftermarket products such as vehicle frontal protection. At present, despite the growth and innovation of the sector, there are no innovation programs for the aftermarket. All automotive innovation programs that currently exist are dedicated to the diminishing and soon to be defunct original equipment market. It is imperative that these investments in innovation be transferred to the aftermarket; the heart, soul and future of Australian automotive manufacturing.