

29/11/2001

109

DIT110/210/006P
T2CS

Mitsubishi Motors Australia Limited (MMAL)

**APPROVED AS AMENDED (NEW
RECOMMENDATIONS)**

Premier and Cabinet Minister

Not Relevant

109

CABINET COVER SHEET

1 TITLE: Mitsubishi Motors Australia Limited (MMAL)

2 MINISTERS: Hon Rob Lucas MLC
Treasurer
Minister for Industry & Trade

3 PURPOSE: To approve a financial assistance package to MMAL assist secure the long term future as a local manufacturer.

4 RESOURCES REQUIRED FOR IMPLEMENTATION: Allocation of \$20.0 million from the IAF.

COSTS

	<u>Recurrent</u>
This financial year	\$20 M

Not Relevant

5 RELATIONSHIP TO GOVERNMENT POLICY: Consistent with Government policy towards facilitating business investment and employment creation

6 CONSULTATION:

Not Relevant

7 FAMILY IMPACT STATEMENT: Not applicable

8 URGENCY: The decision is required urgently to enable the Premier to communicate the package to Mitsubishi Motors in Japan during his visit on 3rd February.

9. **RECOMMENDATIONS:**

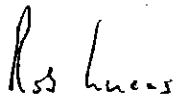
It is recommended that Cabinet:

- 9.1 Approve a \$20m loan for up to ten years to be provided to Mitsubishi Motors Australia Limited under the following terms and conditions:
 - 9.1.1 The loan to be drawn in March 2001 but becomes repayable forthwith upon demand if at the end of September 2001, MMAL have not submitted for corporate approval, a plan based on the introduction of a new vehicle platform, such as would take total vehicle build to a sustainable minimum of 60,000 units pa, with production to commence within a 3 year time frame.
 - 9.1.2 In the event of such a plan not being approved by the corporation no later than February 2002, the loan becomes repayable forthwith upon demand.
 - 9.1.3 In the event that detailed product, process and plant engineering has not commenced within 12 months of the loan being drawn down, the loan becomes repayable forthwith upon demand.
 - 9.1.4 In the event that commitment to suppliers for components and tooling has not commenced within 18 months of the loan being drawn down, the loan becomes repayable forthwith upon demand.
 - 9.1.5 In the event that commitment to suppliers for items of plant and equipment has not commenced within 24 months of the loan being drawn down, the loan becomes repayable forthwith upon demand.
 - 9.1.6 In the event that pilot vehicle build of the new product has not commenced within 32 months of the loan being drawn down, the loan becomes repayable forthwith upon demand.
 - 9.1.7 After 5 years of the loan being drawn, \$10M of the loan will become repayable without interest. However, if sales of locally produced vehicles during the previous 12 months have equalled or exceeded 60,000 units and weighted average local content of such vehicles is 70% or greater, \$10M of the loan is converted to a grant and the remaining \$10M remains in place for the specified loan period (legal advice is being taken on this clause which may require redrafting to achieve the desired effect with WTO compliance).
 - 9.1.8 If at any time during the currency of the loan, the company ceases to be a volume producer of vehicles in Adelaide then the whole of the outstanding principal becomes repayable together with interest
 - 9.1.9 Any repayments of loan funds under default conditions specified above (9.1.1 to 9.1.6) will attract interest charged at the State Government borrowing rate.
 - 9.1.10 The loan obligations to be covered by MMC's general underwriting of MMAL's obligations.

Appendix 4 shows in schematic form the proposed structure of assistance.

- 9.2 That notwithstanding the conditions specified above, the loan be conditional upon MMAL's participation in the Supply Sector restructuring advocated by the automotive Task Force in its discussion paper Future Directions for the Australian Automotive Industry.

Not Relevant



Rob Lucas MLC
TREASURER
MINISTER FOR INDUSTRY AND TRADE

24 / 1 / 2001

Not Relevant

Not Relevant

TO: CABINET

RE: MITSUBISHI MOTORS AUSTRALIA LIMITED (MMAL)

1. PROPOSAL

- 1.1 This submission seeks Cabinet approval for a \$20M loan for up to ten years to assist MMAL in bringing a new vehicle line on stream, thereby assisting to secure the medium to long term future of MMAL as a local manufacturer. Claw back provisions apply if MMAL withdraw from local assembly operations in the longer term.
- 1.2 The proposed loan imposes terms and conditions in such a way as to incorporate milestones as points at which the loan is either left in place, repaid, or partially forgiven if performance targets are achieved.

Not Relevant

2. BACKGROUND

Not Relevant

- 2.2 MMAL sales in 1999 totalled some \$2B of which \$884M was contributed by the locally produced MAGNA/VERADA, the balance coming from CBU's (completely built up imports), and parts and accessories. Some \$318M of sales came from exports, comprised of \$273M complete vehicles and \$45M from componentry.
- 2.3 MMAL has a 2 shift production capacity of some 130,000 units PA, but in 1999 produced 34,700. Production peaked in 1997 at 59,275 with an overall market share of 10.4%, albeit with only 4.6% accounted for by local production.
- 2.4 After a retrenchment program in June 1999 Company employment (as at November 2000) stood as follows:-

Tonsley Park Plant	2137
Technical, Admin etc	507
Lonsdale	<u>771</u>
Total South Australia	3415
Interstate Regional Offices	<u>91</u>
Total:	<u>3506</u>

- 2.5 Tonsley Park is the site for Technical and Administrative Services, vehicle assembly, metal stamping, sub-assembly and fabrication, tooling, aftermarket parts and accessories, and the South Australian regional sales office. Lonsdale is an iron and aluminium foundry producing engine, steering and brake components which are also machined there. It is an export source for cylinder heads and cylinder blocks (both raw and machined castings) and also assembles the V6 engine which is delivered to Tonsley for assembly into vehicles.
- 2.6 In August 1998 concern arose within the Office of Premier and Cabinet over the future of Mitsubishi Motors Australia Ltd as a local manufacturer. DIT prepared a report for the Premier, on the forces at work in determining MMAL's future, how they might impact on the company, and the role which the State Government might play in maximising the contribution of MMAL to the South Australian economy.
- 2.7 That report concluded that:-
- The Tonsley Park facility had always operated at marginal volumes and needed a much stronger role in the global industry if it was to achieve volumes to support investment in what for the most part, are facilities that have passed the end of their economic lives.
 - Whilst exit by MMAL was a possibility in the longer term, the company at that time was profitable and costs in the new look MAGNA were largely sunk, so that any precipitous withdrawal was most unlikely.
 - In the final analysis future options for MMAL would be a function of the parent company's survival strategy as it posted losses that set records in the Japanese auto industry and was becoming increasingly mired in debt (some of which had been relegated to junk status).
- 2.8 Since that time there has been a number of developments, some of which have exacerbated the parlous situation of MMAL, while others have broadened the range of possibilities for its future. VIZ.
- The rate of corporate losses was greatly accelerated and debt rose still higher.
 - The recently formed entity Daimler/Chrysler acquired 33.4% of Mitsubishi Motor Corporation (MMC) giving a right of veto at operational level.

- There has been a complete change of management and governance at both corporate and local levels.
- In Australia, the profits of 1997 and 1998 turned around into substantial losses resulting in a savage pruning of the fixed cost structure, largely through retrenchments.
- There has been sustained public speculation about the future of MMAL, and in March of last year MMAL was given an ultimatum by the Corporation, to achieve breakeven by December 2000.
- Subsequent currency movements impacted negatively on cost structures so that the December 2000 target was missed by a very wide margin – ie heavy losses were incurred.
- At the end of last year, MMC announced a capital injection of some \$172M (which approximates the losses associated with currency effects), through a share issue. This increases their holding to 88% and dilutes the other shareholder (Mitsubishi Corporation) to 12%. However not withstanding the celebratory mood which accompanied the announcement, it has more significance for external perceptions than for MMAL's long term future because MMC had previously underwritten MMAL losses and the injection was in partial fulfilment of that obligation.

2.9

Not Relevant

2.10

The ATF report concluded that the existing DIAMANTE on which the MAGNA is based has not been successful either in Australia or overseas markets and that to survive in the long term, MMAL will need to become a global source of some other product for Daimler/Chrysler or Mitsubishi Motors, and/or a contract assembler for another car producer.

2.11

The ATF also concluded that MMAL appeared at that time to be in caretaker mode pending the global integration of the 3 entities – ie Daimler, Chrysler and MMC

Not Relevant

2.12

Not Relevant

3. DISCUSSION

3.1

MMAL is already planning a major facelift of the existing MAGNA requiring investment of some \$40M, but this will not guarantee any production beyond 2004 and of itself is unlikely to generate sufficient volume for MMAL to return to profitability and provide any basis for a long

term future. This facelift will only occur if MMAL decide to proceed to continue MAGNA production to the end of 2004.

- 3.2 The ATF proposal is designed to secure approval for a new vehicle line (ie some other product out of the MMC, Daimler or Chrysler stables), using a minimum investment approach (A\$250 - \$300M)). This car line, built in parallel with MAGNA would bring minimum production volume to 60,000 units pa (ie double the current level). The ATF proposal also seeks to encourage MMAL to embrace the restructuring of the supply sector through the use of Tier 1 system integrators, in order to reinforce its operational viability.
- 3.3 The advent of Daimler/Chrysler opens up options for MMAL which would not have existed under the previous corporate structure and which should be explored while the situation is still sufficiently fluid for MMAL to take advantage of new opportunities within the greatly expanded corporation.
- 3.4 The Daimler/Chrysler appointees to the MMC Board, took up their positions in November of last year, while the Daimler based Chief Operating Officer has only commenced this month. Thus it will be some time before their influence begins to impact on global corporate structure.
- 3.5 The ATF have nevertheless expressed the view that MMAL can not just sit back and wait for its fate within the huge Daimler/Chryster empire to be announced, but should rather be proactive in submitting plans that would at least keep it in the game during what is likely to be a protracted consolidation of the three merging entities.
- 3.6
- Not Relevant
- 3.7
- 3.8 The current MAGNA vehicle is slated for build-out 2004 and at this stage there are no plans beyond that date. The introduction of a second vehicle as proposed, would (barring precipitous corporate decisions), take plant utilisation out until at least 2007, thus providing 6 years visibility and secure volume into the medium term.
- 3.9 The possibility of SA Government assistance generally in accordance with the ATF recommendations has already been discussed with MMAL and MMC. MMC Chairman Sonobe has announced a review of global operations in March 2001 and this proposal affords the SA Government opportunity to signal its support for MMAL at a critical point in the corporate

restructuring process. Accordingly, and to provide maximum impact, it is proposed that Cabinet approve the commitment of the full \$20 million immediately, but with the requirement that the loan be repaid on demand with interest if MMAL does not accept the plan to introduce a new vehicle line within 11 months of the loan drawdown.

- 3.10 In the longer term (2005) MMAL will require a replacement for MAGNA which may be the 'interim' vehicle referred to above, or an entirely new platform. In either case very substantial investment (\$500M - \$800M) would be required to bring production facilities to standards approaching those of Holden and Toyota in Australia.
- 3.11 MMC Directors Torok, Paufler and Saruhushi (Mr Tom Phillip's boss) visited Adelaide in December and reported to their President that "The Tonsley/Lonsdale Plant is in good condition, however an upgrading of the plant facilities is required as the current facilities are comparatively older than other modern plants"
- 3.12 Cabinet should therefore note that even if approval of the \$20M loan does trigger the commitment by Mitsubishi to invest in the new product line as intended, further State support could subsequently be requested to secure the later major investment in the longer term. It is not feasible to tie commitment of the State's loan to the long term investment decisions needed for plant upgrade. However, claw back provisions will be applied such that any outstanding loan principal will need to be repaid, with interest, if MMC do not make these long term investment decisions and subsequently withdraw from production in South Australia.

3.13

3.14

Not Relevant

- 3.15 With those structures now in place (albeit still at a very early operational stage), DIT has now succeeded in engaging MMAL on its future through canvassing Government support measures. Insight into future options has been gained and of even greater importance, DIT is being afforded opportunity for operational input through SACFM. At the request of MMAL, participation in the restructuring of the Supply Sector through the use of Tier 1 system integrators, as advocated in the ATF Report, is being made a condition of assistance. (MMAL wish to use this as leverage within

the corporation as a necessary measure to reinforce their operational viability). MMAL are already working on an exercise with SACFM to establish a shared Tier 1 supplier and significantly, CEO Mr Tom Phillips made reference to "a joint SA Government Mitsubishi Motors Working Party" in an Advertiser article dated January 12th 2001.

- 3.16 This new engagement with MMAL has already yielded more substantial results as the ATF has persuaded MMC through MMAL to reverse a previous decision to close the Tonsley Park Toolroom. Not only have 90 jobs been preserved, but a critical capability has been retained in the State and the foundation now exists upon which to build as MMAL have agreed to operate their Toolroom as a business unit, servicing global markets through the integrator Australian Tooling Services Pty Ltd.

3.12

Not Relevant

- 3.13 The essence of the ATF strategy reflected in this proposal is the recognition that while MMAL may be part of the world's third largest auto producer, the corporation is going through profound change, and MMAL, for all intents and purposes, is in stall mode in that:-

- It is making losses at a time when there is a global drive for cost cutting - ie it could be viewed as an early candidate for closure.
- It's facility to improve its market share and cost structure is enormously constrained by its current product.

- 3.17 That vehicle has not been successful in any market (notwithstanding its engineering excellence), and is half way through its life cycle - ie the only strategy currently on the drawing board of MMAL is to continue with that product until 2004 (although its cycle could well be prematurely terminated).

- 3.18 On the positive side, the acquisition of MMC by Daimler/Chrysler does open up two new stables of product to be built somewhere in the world. The proposed assistance is to catalyse MMAL into making bids for these opportunities such as will give the Tonsley Park facility, a reason for being (other than MAGNA) in the medium term. Success with this medium term strategy will then lay the foundation for long term plant utilisation, predicated on MMAL being afforded opportunity to demonstrate its capability to its corporate parent, with more suitable product.

3.19

Not Relevant

- 3.20 SDCC endorsement of the assistance package was conditional on commitment by MMC to remaining as a long term manufacturer in Adelaide. Such a commitment will not be given specifically at this time, as decisions on the long term plant upgrading and major new platform investment are

unlikely for sometime. However, to achieve the intent of the SDCC in this regard, the proposed package now contains the following essential elements:

- 3.20.1 repayment with interest of the full amount if certain milestones are not achieved within the first five years.
- 3.20.2 At the end of the five year period, a production target of 60,000 units has been set, including a new product line. If MMAL achieves this target, even if the major reinvestment has not occurred, it would be reasonable to presume that it would continue for some years. At this stage, 50% of the loan would have been converted to a grant.
- 3.20.3 The balance of the loan would remain for a further five years, and be repayable in full with interest, if it ceases manufacturing in South Australia. If it continues manufacturing in South Australia the balance of the loan becomes repayable after 10 years (ie 2011) without interest.

3.21

3.22

3.23

3.24

Not Relevant

3.14 Economic, financial and budget implications

Not Relevant

Not Relevant

RECOMMENDATIONS

- 4.1 Approve a \$20M loan for up to ten years to be provided to Mitsubishi Motors Australia Limited under the following terms and conditions:
 - 4.1.1 \$500K of the loan becomes available to be drawn in March 2001 for the preparation of a plan for the introduction of a new vehicle platform, such as would take total vehicle build to a sustainable minimum of 60,000 units pa, with production to commence within a 3 year time frame.
 - 4.1.2 The \$500K loan to become repayable on demand if at the end of September 2001 MMAL have not submitted the plan for corporate approval.
 - 4.1.3 The balance of the loan (\$19.5M) may only be drawn in the event of the plan outlined in 4.1.1 receiving Corporate approval and commitment no later than February 2002.
 - 4.1.4 In the event that detailed product, process and plant engineering has not commenced within 12 months of the first draw down the loan becomes repayable forthwith upon demand.
 - 4.1.5 In the event that commitment to suppliers for components and tooling has not commenced within 18 months of the first draw down the loan becomes repayable forthwith upon demand.
 - 4.1.6 In the event that commitment to suppliers for items of plant and equipment has not commenced within 24 months of the first draw down the loan becomes repayable forthwith upon demand.
 - 4.1.7 In the event that pilot vehicle build of the new product has not commenced within 32 months of the first draw down, the loan becomes repayable forthwith upon demand.
 - 4.1.8 After 5 years of the first draw down, \$10M of the loan will become repayable without interest. However, if sales of locally produced vehicles during the previous 12 months have exceeded an agreed value of production of goods and services in Australia (the agreed value would approximate production of 60,000 units with 70% local content), \$10M of the loan is converted to a grant and the remaining \$10M remains in place for the specified loan period.
 - 4.1.9 If at any time during the currency of the loan, the company ceases to be a volume producer of vehicles (to be defined in the legal agreements) in Adelaide then the whole of the outstanding principal becomes repayable together with interest

4.1.10 Any repayments of loan funds under default conditions specified above (9.1.2 to 9.1.7) will attract interest charged at the State Government borrowing rate.

4.1.11 The loan obligations to be covered by MMC's general underwriting of MMAL's obligations.

4.2 That notwithstanding the conditions specified above, the loan be conditional upon MMAL's participation in the Supply Sector restructuring advocated by the automotive Task Force in its discussion paper Future Directions for the Australian Automotive Industry.

4.3

4.4


Not Relevant

Los Lince

29/1/01

In Cabinet

29 JAN 2001

APPROVED

PREMIER

**A Proposal to Assist Mitsubishi
Motors Australia Ltd in Securing its
Position as a Local Manufacturer**

Executive Summary

- The South Australian Government is concerned about the stability of Mitsubishi Motors Australia Ltd (MMAL). Corporate uncertainty in Tokyo has precluded detailed consideration of the Australian operation.
- MMAL appears to be in caretaker operating mode pending resolution of their position within the new global structure.
- The advent of Daimler/Chrysler opens up options for MMAL which would not have existed under the previous corporate structure and which should be explored while the situation is still sufficiently fluid for MMAL to take advantage of new opportunities within the corporation.
- The new governance and operational structure under the controlling influence of Daimler/Chrysler that will eventually determine the future of MMAL, will not be fully in place until January 2001.
- The Automotive Task Force appointed by the Government to review the MMAL position has, with local management, developed plans for the local operation, with which to canvass corporate headquarters, as an alternative to them waiting to become the object of corporate focus. The plans are based on the thesis presented in the Task Force paper *Future Directions for the Australian Automotive Industry*.
- The DIAMANTE on which MAGNA is based has not been a successful platform either locally or in overseas markets and in order to achieve viable operating levels MMAL will need to become a global source for a product out of stables of Daimler/Chrysler or Mitsubishi Motors Corporation (MMC).
- This Proposal is to pull forward consideration of issues associated with future product strategies for the local operation. Future viability will require that a new and supplementary product be manufactured at Tonsley Park.
- MMAL have established a small planning group to work with the Task Force in reviewing options and preparing detailed proposals to participate as a global source for corporate product.
- Australia in general and the MMAL facility in particular, do have some strengths and attributes that could make the facility attractive to a large automotive corporation seeking a stable, technically competent base in the region.

Not Relevant

Recommendations

It is recommended that a \$20M, 5 year interest free loan be advanced to Mitsubishi Motors Australia Ltd to assist them in bringing a new vehicle line on stream. It is further recommended that the terms and conditions attaching to the loan be structured in such a way as to incorporate milestones as points at which the loan is either left in place, repaid, or under circumstances of exceptional company performance, partially forgiven, and that these milestones also be designed to impose a discipline upon the company within corporate timing parameters.

The following terms and conditions are recommended to give effect to the intention stated above:-

- An amount of \$0.5M be converted to a grant upon submission for corporate approval by the MMAL board, of a plan based on the introduction of a new vehicle platform, such as would take total vehicle build to a sustainable minimum of 60,000 units pa, with production to commence within a 3 year time frame.
- In the event of such a *plan not being endorsed by the MMAL Board* within a period of 6 months of the loan being drawn down, *the \$20M becomes repayable forthwith upon demand.*
- Should there be *no corporate approval* within 11 months of the loan being drawn down, *the residual \$19.5M becomes repayable forthwith upon demand.*
- In the event that *detailed product, process and plant engineering has not commenced* within 12 months of the loan being drawn down, *the residual \$19.5M becomes repayable forthwith upon demand.*
- In the event that *commitment to suppliers for components and tooling has not commenced* within 18 months of the loan being drawn down, *the residual \$19.5M becomes repayable forthwith upon demand.*
- In the event that *commitment to suppliers for items of plant and equipment has not commenced* within 24 months of the loan being drawn down, *the residual \$19.5M becomes repayable forthwith upon demand.*
- In the event that *pilot vehicle build of the new product has not commenced* within 32 months of the loan being drawn down, *the residual \$19.5M becomes repayable forthwith upon demand.*
- If at the expiry of the 5 year loan period, *sales of locally produced vehicles during the previous 12 months have equalled or exceeded 60,000 units and weighted average local content of such vehicles is 70% or greater, \$10M is converted to a grant* and the remaining \$9.5M becomes due and payable.

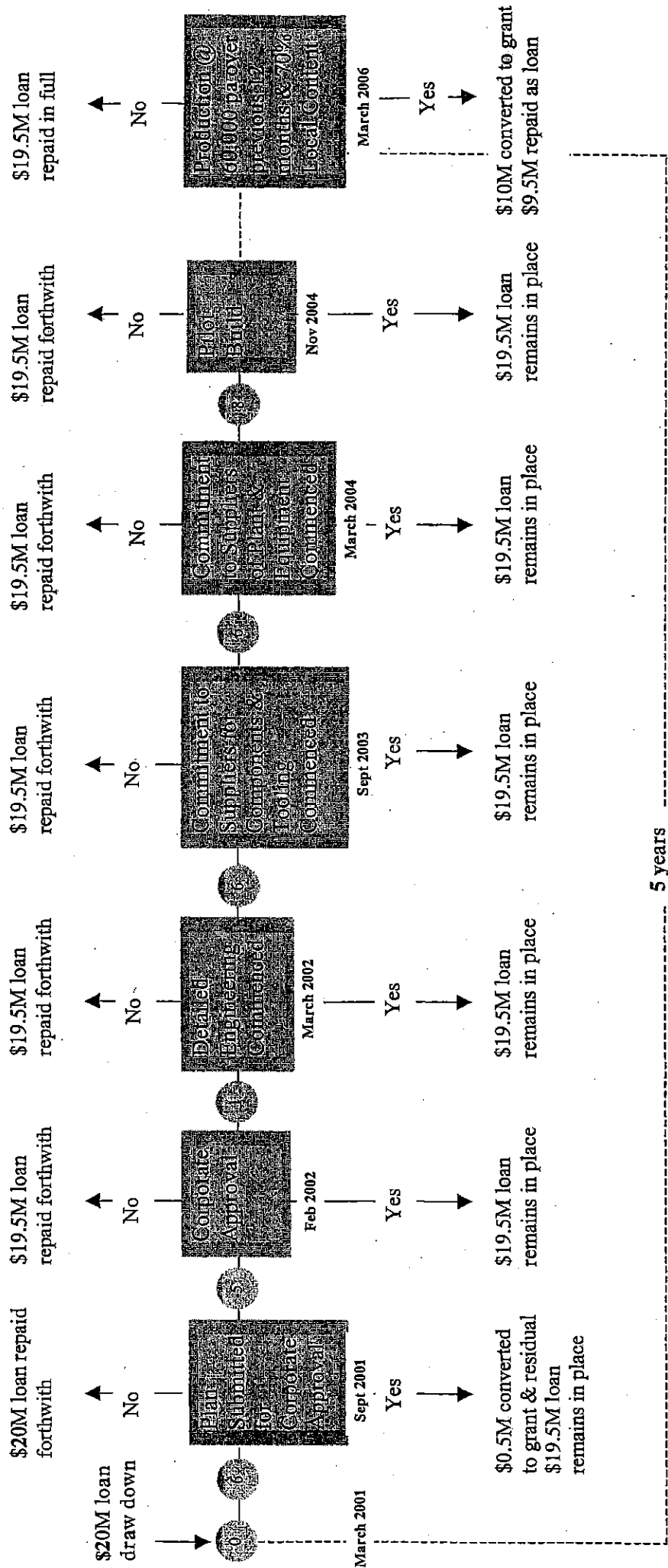
Figure 1 overleaf shows in schematic form the proposed structure of assistance.

It is also recommended that notwithstanding the milestones specified above, the loan be conditional upon MMAL's participation in the Supply Sector restructuring advocated by the automotive Task Force in its discussion paper *Future Directions for the Australian Automotive Industry*.

Figure 1

Proposed Assistance Structure

● = months



Company Details

Mitsubishi Motors Australia Ltd had its origin back in the 1920's-1930's when US Automotive giants, looking to establish an Australian manufacturing presence, sought out the best coach builders to produce bodies for their imported chassis. GM chose Holden and Frost and Chrysler acquired T J Richards.

In the early 1960's Chrysler Australia moved their Keswick location to what were at that time, modern facilities at Tonsley Park.

Also in the early 1960's, Chrysler Corporation acquired the British based Rootes Group and in Australia, the Rootes operation was subsequently closed in Melbourne and consolidated into Tonsley Park.

By the early 1970's Chrysler Australia was exporting more than 30% of the units it produced. By the late 1970's Chrysler Corporation was struggling and divested itself of all international operations including Chrysler Australia, which was picked up by Mitsubishi. This was to prove very significant for the whole Australian industry because it represented the first exposure to so called Japanese Manufacturing Philosophies, or what has since become known as *Lean Manufacturing*. By the mid 1980's Mitsubishi Motors Australia Ltd (MMAL) was Australia's most efficient car operation and became a demonstration site for industry, both automotive and other.

Marginal volumes over the ensuing years were incapable of supporting adequate investment levels and what was once a national show piece has now been well and truly eclipsed by operations such as these of Holden and Toyota. These low volumes have also led to the retention of models beyond their 'use by' date and this has been the case from Valiant, through the Mitsubishi based Sigma and Colt, to the uniquely Australian wide bodied TM MAGNA, and TR MAGNA. The current TJ MAGNA is facing a similar prospect.

MMAL is now owned 45% Mitsubishi Corporation and 65% Mitsubishi Motors Corporation. It has 2 shift production capacity of some 130,000 units PA, but last year produced 34,700. Production peaked in 1997 at 59,275 with an overall market share of 10.4%, albeit with only 4.6% accounted for by local production.

Sales in 1999 totalled some \$2B of which \$884M was contributed by the locally produced MAGNA/VERADA, the balance coming from CBU's (completely built up imports – Lancer, Mirage, Pajero and Canter truck range) and parts and accessories. \$318M of sales came from exports, comprised of \$273M complete vehicles and \$45M from componentry.

After a recent retrenchment program the Company employment stands as follows:-

Tonsley Park Plant	2137
Technical, Admin etc	507
Lonsdale	771
Total South Australia	3415
Interstate Regional Offices	91
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Tonsley Park is the site for Technical and Administrative Services, vehicle assembly, metal stamping, sub-assembly and fabrication, tooling, aftermarket parts and accessories and South Australia regional sales office. Lonsdale is an iron and

aluminium foundry producing engine, steering and brake components which are also machined there. It is an export source for cylinder heads and cylinder blocks (both raw and machined castings) and also assembles the V6 engine which is delivered to Tonsley for assembly into vehicles.

Assistance Sought

MMAL have sought a five year interest free loan of \$20 million which represents the estimated interest over a three year implementation period, of an indicative \$267M plan to expand its South Australian presence. They have requested that the \$20M be paid up front with milestone reviews as the planning and implementation phases progress.

Background

In August 1998 concern arose within the Office of Premier and Cabinet over the future of Mitsubishi Motors Australia Ltd as a local manufacturer. As a result, the Manager of the Engineering Project Group within SACFM was commissioned to prepare a report for the Premier, on the forces at work in determining MMAL's future, how they might impact on the company, and the role which the State Government might play in maximising the contribution of MMAL to the South Australian economy.

That report concluded that:-

- The Tonsley Park facility had always operated at marginal volumes and needed a much stronger role in the global industry if it was to achieve volumes to support investment in what for the most part, are facilities that have passed the end of their economic lives.
- Whilst exit by MMAL is a possibility in the longer term, the company at that time was profitable and costs in the new look MAGNA were largely sunk, so that any precipitous withdrawal was most unlikely.
- In the final analysis future options for MMAL would be a function of the parent company's survival strategy as it posted losses that set records in the Japanese auto industry and was becoming increasingly mired in debt (some of which had been relegated to *junk* status).
- The South Australian Government would be unable to make any contribution to the process of restructuring the operation without engaging local and corporate executives on the range of possibilities and options under consideration for the plant.

Since that time there has been a number of developments, some of which have exacerbated the parlous situation of MMAL, while others have broadened the range of possibilities for its future. VIZ.

- The recently formed entity Daimler/Chrysler acquired 33.4% of Mitsubishi Motor Corporation (MMC) giving a right of veto at operational level.
- The Premier visited both Tokyo and Detroit seeking to open dialogue on the future.
- The rate of MMC losses was greatly accelerated and debt rose still higher.

- Daimler/Chrysler has used its effective control of MMC to secure key positions at both governance and operational levels, thereby changing the corporate decision making dynamics (including those affecting MMAL).
- MMC has become embroiled in a recall scandal which has reduced stock values and has further strengthened Daimler/Chrysler's position (although operational control can not be formerly assumed without consolidating MMC's losses into Daimler/Chrysler's accounts). This is likely to further affect the decision making process on manufacturing operations including those at Tonsley Park.
- In Australia the profits of 1997 and 1998 have turned around into losses resulting in a savage pruning of the fixed cost structure, largely through retrenchments.
- The local MD resigned and was replaced by a former Toyota Australia Executive.
- A facelift of the locally produced MAGNA/VERADA in August was initially well received by the market (Mitsubishi eclipsed Toyota in September), but sales have since softened.
- The devaluation of the Australian dollar has added substantially to production costs through escalating imported component costs, thereby destroying the break even cost structure that was put into place to achieve the operational target set by corporate headquarters for the end 2000. Devaluation has also hiked the costs of imported vehicles which represent some 50% of MMAL sales and an even higher proportion of market share.
- An initiative was set up under the Department of Premier and Cabinet to work with MMAL in jointly considering future options. This was superseded in April this year by the establishment of an Automotive Task Force under the leadership of former MMAL Managing Director Mr Graham Spurring, with Terms of Reference which *inter alia*, required review, of and recommendations for, the long term future of MMAL.

The Terms of Reference for the Task Force anticipated some early visibility on a role within the MMC Corporation, but this has not been the case. Indeed many of the very high level issues associated with integrating operations and governance of the merging entities (Daimler/Chrysler and MMC) still remain outstanding.

The new MMC President, together with the two Daimler/Chrysler Directors, have only just been installed this month, and the Daimler Chief Operating Officer is not due to take up his position with MMC until January 2001. It is therefore likely to be some time yet before MMAL becomes the object of corporate focus and some indication of its future emerges.

Thus some two years after the South Australian Government first addressed itself to the MMAL situation, the Task Force has reached the conclusion that there has been little consideration of MMAL, within the corporation.

(The Task Force has also concluded that there are fundamental deficiencies in the Australian industry as a whole and this is the subject of a separate report).

The strategy being pursued by the Task Force as represented in this proposal is to work at local level with MMAL to develop a range of options, and to pro-actively put these forward for corporate consideration. It is for this reason that the form of Government assistance recommended is based on an up front payment, with tightly

specified milestones at which assistance can either be left in place or withdrawn altogether.

The Task Force is of the view that the local stakeholders (including the State Government) cannot just sit back and be overtaken by events. It is been said that ¹*the best way to predict the future is to create it* and it is on just such a premise that this proposal for assistance is put forward for Government consideration.

Discussion

MMAL has entered the Daimler/Chrysler era with a somewhat simplistic charter.

- Achieve operational breakeven by end 2000.
- Produce the MAGNA/VERADA (DIAMANTE platform) through to 2004 at volumes of 30,000 per annum, supplemented by export (ie maximum likely throughput 47,000 units per annum).

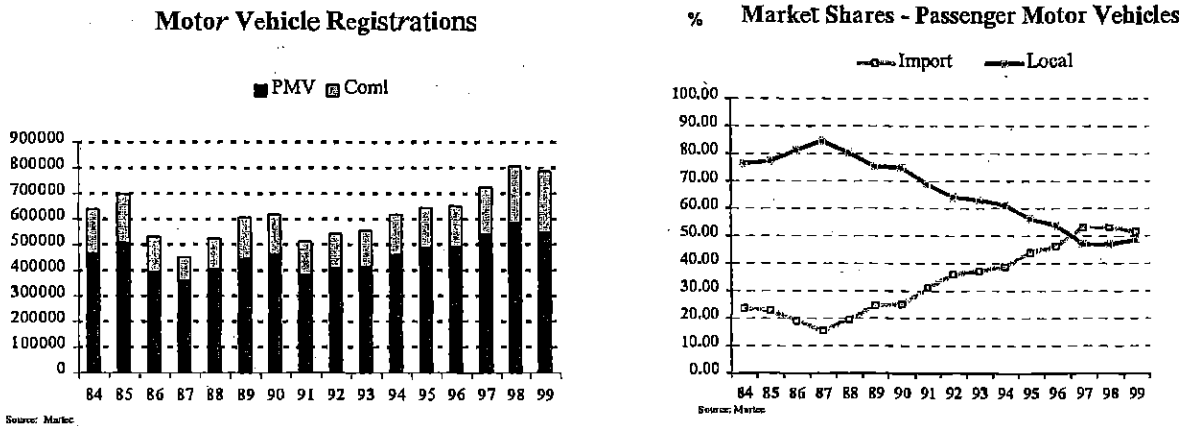
This strategy is unsustainable into the medium term and possibly even in the short term because:-

- Currency movements have already blown out production costs (refer previous section). It is estimated that each Yen movement against the \$A adds something like \$17M to the MMAL cost structure of which \$10M goes against production costs (given the current sales mix of imports and local production).
- The DIAMANTE, whilst being one of the most refined vehicles ever built in Australia, does not have strong market acceptance either locally or overseas.

In the words of the international automotive consultant AT Kearney ²*"The Mitsubishi MAGNA based upon the DIAMANTE platform, has not been a successful world car. The vehicle has failed to penetrate the American market and has had little impact in the Japanese home market."*

- The Australian passenger car market is stagnant and local vehicles are taking an ever diminishing share (refer Fig 2 below).

Figure 2 Motor Vehicle Registrations & Passenger Vehicle Market Shares



¹ David Parmenter - Carlson Marketing

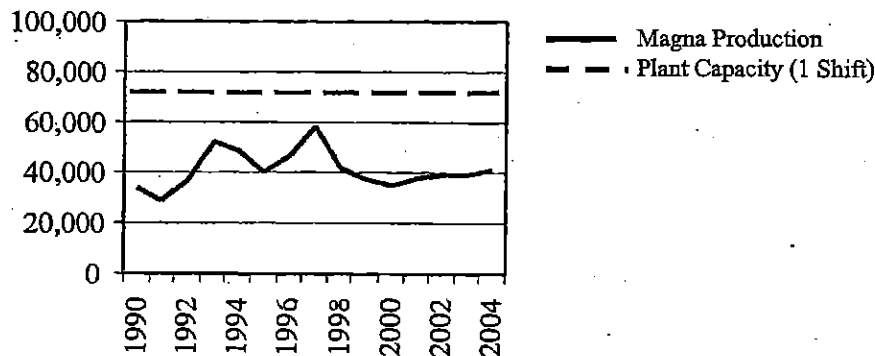
² Strategy Review of the Future of the Australian Automotive Industry - AT Kearney - December 1999

Thus to achieve sufficient volumes to provide a sound domestic base MMAL must take a greater share of a shrinking market, with a product that has never really been successful, and is now half way through a normal model life.

The magnitude of this challenge is self evident.

- Even the most optimistic projections will not provide the scale necessary to turn the company around and provide justification for well overdue investment. Figure 3 shows the inadequacy of both historical and projected volumes.

Figure 3 Magna Production of Capacity



Source: A T Kearney

- Apart from anything else, the structural, operational and philosophical adjustments which the Automotive Task Force has identified as being necessary for the whole local industry (refer *Future Directions for the Australian Automotive Industry*) will not yield gains of sufficient magnitude when applied to the low MMAL volumes. Whilst individual vehicle lines can be viably assembled at volumes as low as 30,000 per annum, there is a level of critical mass (regardless of individual model volumes) required to support the technical, operational and administrative infrastructure of a car plant. Holden Chief Executive Officer, Mr P Hanenberger, in a recent speech to CEDA, put this at 180,000 units per annum for his company and whilst some might argue that this is at the higher end of minimum economic scale, MMAL's projected 30,000 - 40,000 per annum certainly falls well short.
- The DIAMANTE is not designed for the modular system supplier structure to which the whole international industry is moving and this will put MMAL at a further competitive disadvantage. Indeed the DIAMANTE platform was originally conceived as a prestige vehicle with an inherent specification and assembly complexity that makes it an unsuitable competitor for 'easy put togethers' such as Commodore and Camry. Thus notwithstanding its quality and engineering excellence, DIAMANTE is a less than ideal product in both the factory and the market, because it is too expensive to build and the market will not pay a premium for its refinement. Furthermore, the platform complexity makes the engineering out of costs a more difficult proposition, and the remaining product cycle provides limited opportunity to recover associated tooling.

- The corporation will almost certainly not allow a little outpost in Australia to continue building a product with a poor record of success, at low volumes, into the medium term.

Thus in order to retain corporate relevance, MMAL must develop a strategy to substantially increase throughput, with additional new product(s), either run in parallel with DIAMANTE until that particular platform is built out altogether or as a replacement for Diamante. *In the longer term MMAL must become a global source for some particular corporate product.*

The automotive industry has long planning time frames and work should already be well under way for successor product(s) with which to service both domestic and global markets, but corporate uncertainty has precluded such work. Furthermore, MMAL post restructure, lacks the technical and program management infrastructure for such an undertaking.

The Task Force has estimated the cost of MMAL exiting local manufacture to be in excess of \$0.5B; a cost which the beleaguered MMC parent would prefer not to crystallise at this stage, provided that further operating losses can be contained.

In the light of the foregoing, it is difficult to escape the conclusion that MMAL has been placed in caretaker mode until the corporation works through the larger, higher order issues of its three way merger.

Over the past two years there has been a succession of attempts by the South Australian Government to engage MMC, MMAL and Daimler/Chrysler on plans for the Adelaide operation, with a view to identifying measures by which support might be provided to secure the operation for the State. These efforts have received polite but non committal response, largely because there have been no grounds for discussion – ie the future of the plant has not been comprehensively addressed.

The Automotive Task Force has now persuaded local management to join with it in examining options and developing detailed plans with which to canvas corporate decision makers.

Whilst the introduction of Daimler/Chrysler into the equation since the original report was prepared for the Premier in 1998, has deferred corporate consideration of local issues in favour of larger global matters, it nevertheless has the potential to be a very positive development for the South Australian operation because:-

- It has brought two additional product stables into the range of possibilities for MMAL in a situation where the MMC product range, with its concentration at the smaller end of the passenger vehicle market, offers few real options.
- The changed decision making dynamics (key personnel) is likely to provide MMAL with room to manoeuvre that it has previously lacked. Whilst the advent of Japanese shareholders in 1980 had very positive effects on what had been Chrysler Australia, and in fact upon the whole Australian industry, it would appear that the Japanese influence at MMAL has had a somewhat debilitating effect over recent years under the same corporate management that has brought MMC to its knees.

Notwithstanding the somewhat negative picture painted in the foregoing sections, Australia in general and MMAL in particular do offer some attraction to the new controlling shareholder in Daimler Chrysler.

- An educated and skilled workforce with a long tradition of automotive culture and manufacture (MMC was originally attracted by this strength when they acquired Chrysler Australia for something less than \$A100M back in 1980).
- A particularly cost effective source of high specification, low volume niche product.
- A technical infrastructure as a foundation upon which to build engineering resources with which to service the region to our north (Holden are already generating some \$60 million per annum sales from such services).
- A currency outlook that makes Australia a competitive source (given the right product into the right market).

At operational level, MMAL likewise has potential that is worth exploiting by its new Europe/US based shareholders.

- All production operations are under one roof which is a desirable feature proscribed by most Western building codes today.
- Strength in the foundational industries of tooling and foundry.
- A history of doing much with little and of successful and rapid adjustment to new paradigms and imperatives (witness the fundamental cultural and operational changes that accompanied the Mitsubishi acquisition in 1980).
- An acknowledged capability for consistent quality in product build that is of an international standard.

AT Kearney has concluded that ³*"It will become increasingly difficult for the Japanese manufacturers to justify continued operations in Australia"* and it is almost certain that any long term role for MMAL will come out of the European and/or US connections. As previously stated, the advent of Daimler/Chrysler brings with it a greatly expanded stable of products and therefore opportunities. Furthermore these opportunities are likely to be more appropriate for MMAL.

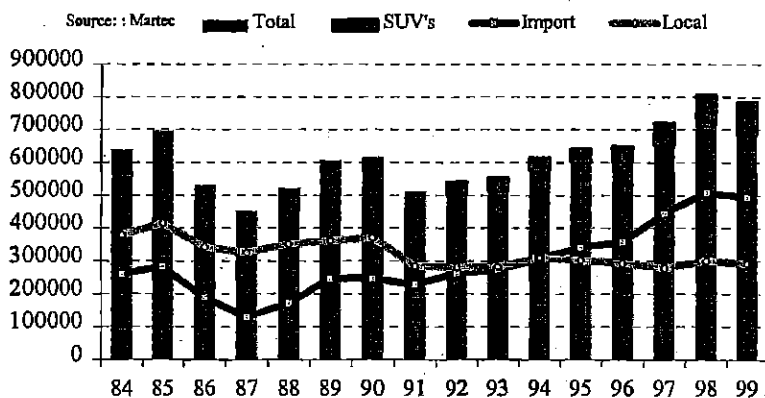
- Daimler has a range of low volume high specification product in the upper medium segment for which the Tonsley facility would be most suitable.
- Chrysler who retreated from international operations in the early 1980's is now the most profitable of the three American car producers and may well be looking for a stable and mature offshore location as a product source.
- Some of the future Chrysler product range is returning to a rear wheel drive (RWD) configuration, a segment niche in which Holden are specialising within the GM corporation.
- RWD appeals to the conservative high specification market segment which has already been identified as an opportunity for MMAL, and has the advantage of providing opportunities for drive train scale economies through commonisation, which are not available with front wheel drive. This would be an ideal program for participation by MMAL who could become the RWD engineering and build location for the entire corporation, or at least the region.

From the graph in Fig 4 it is evident that so called cross-over or Sports Utility Vehicles (SUVs) represent an increasing proportion of the very modest Australian

³ Strategy Review of the Future of the Australian Automotive Industry - AT Kearney - December 1999

market growth since the early 1990's, and all of these are being imported. Daimler/Chrysler and also MMC have product in this segment which could be built in Australia at the niche volumes where Australia excels.

Figure 4 Total Motor Vehicle Registrations



Selection of a suitable platform will need to take account of the poor exchange rate for US or Japanese sourced product (ie requiring high local content levels) and the complexity which is characteristic of Daimler product.

In considering the potential for MMAL within the Daimler/Chrysler stable it needs to be recognised that both marques are being assembled under contract in Austria which has a much higher cost structure than does Australia. Conventional industry practice would wait for a model change and retool in any proposed new location. However 'C' class Mercedes is being transferred into South Africa as a running change, and given the right set of circumstances, such an arrangement could also be a possibility for MMAL within a relatively short time frame.

AT Kearney has also said that ⁴ "The approach to how Australian producers fit within the global platform strategy of the OEMs (motor corporations) will be the single greatest determinant of the future of the Australian Automotive Industry."

Given that the pre-occupation of corporate headquarters with larger issues, has so far precluded detailed consideration of MMAL, the company has now put together a small planning group to work with the Task Force and examine strategic options for the Adelaide facility, with a view to getting corporate sign-off for a plan based on the strengths and opportunities previously identified.

In a letter to the Task Force (refer Attachment A), Chief Executive Officer Mr T Phillips describes his strategic approach as based on Markets, Products, Operations & Finance. "Markets and products identifies what we will build for whom, operations is about how we will build it and finance is about economic viability and funding sources."

It is the development and implementation of such a plan, for which MMAL are seeking Government support.

⁴ Strategy Review of the Future of the Australian Automotive Industry – AT Kearney – December 1999

Strategic Fit

Not Relevant

One aspect of the decree handed down from Tokyo earlier this year was the closure of the MMAL Toolroom for the purposes of building new dies but with the urging of the Task Force the new CEO has prevailed upon Tokyo to reverse this position. The Task Force has also provided some 6 months loading for the facility with work brought in from offshore through the SACFM Tooling Program. Thus this vital capability has been preserved for the short term but its on-going contribution to the State's skill base is dependent on the long term presence of MMAL.

Not Relevant

⁵ Future Directions for the Australian Automotive Industry – SA Automotive Task Force

⁶ Mr P K Chiang - Minister of Economic Affairs, Taiwan

Project Feasibility and Risks

Not Relevant

Financial Viability

Trading during the early 1990's was characterised by lumpy results which appear to have satisfied shareholders, suggesting that they were a product of intra corporate trading as much as local performance.

	Net Profit (Loss) after Tax				
	1994	1993	1992	1991	1990
\$M	10.6	(48.4)	1	(23.7)	13.7

The years 1995 to 1999 however showed much more violent swings with what appear to be 'real' losses of some \$129M over the past 5 years.

	Net Profit (Loss) after Tax				
	1999	1998	1997	1996	1995
\$M	(130)	3.5	106	(65.8)	(42.9)

Sales have declined 15% from their 1997 peak, a result of the difficulties associated with the DIAMANTE product in both domestic and export markets. This also demonstrates the company's sensitivity to sales and the delicate balance between profit and loss when operating at volumes around 30,000 – 40,000 pa.

Financial results are characterised by a high debt to equity ratio which fluctuates inversely with profits, suggesting that most of the borrowings have been to finance operating losses.

	Deb: Equity %			
	1999	1998	1997	1996
	696.5	227.6	231.9	831.4

Interest cover over these years has been inadequate except for the year 1997 when sales approached the level identified as the objective of this Proposal – ie 60,000 units pa.

MMAL would be unable to meet current debt liabilities if called upon, with a current ratio of 0.85. However the Corporation has given letters to both the directors and auditors of MMAL in which "MMC pledged to support MMAL to the extent necessary to enable the MMAL Group to pay its debts as and when they become due and payable".

This quasi guarantee whilst not a factor of viability, does provide comfort to the Government in considering the advance of loan funds.

Financial results reflect the difficult trading history outlined in previous sections of this proposal, and corporate influence on management decision making. Thus if the company were to be assessed on "a bit more of the same with a bit more efficiency", then long term viability would have to be called into question.

MMAL as currently structured can breakeven at 30,000 units pa, given predevaluation currency relationships. *With the infusion of new product and access to export markets such as would yield volumes of 60,000 pa plus, and under governance revitalised by the controlling influence of Daimler/Chrysler, MMAL could well experience the same sort of resurgence as has the restructured Holden.*

Thus historical data is not a particularly useful tool in assessing future viability, although it does reinforce the need for the sort of changes which this assistance package contemplates.

Justification for Intervention

In the first instance, the justification for intervention is to catalyse MMAL into taking unilateral local action to establish a role for themselves within long term global corporate planning. Whilst this may seem an unnecessary intrusion into the affairs of the company, it should be recognised that they have been in the grip of Tokyo induced paralysis and have been lacking any real direction and purpose for at least two years. Their corporate parent in MMC is awash with red ink and overwhelmed by debt and scandal, while their new major shareholder in Daimler/Chrysler is still shaking down the European/US relationship and digesting its MMC acquisition.

The newly appointed local Chief Executive Officer is attempting to address the immediate problems arising out of previous poor management and governance, with resources that are barely adequate for day to day operating. He would no doubt have eventually gotten around to larger strategic considerations notwithstanding his attention being diverted by the crisis nature of the situation at both local and corporate levels.

This particular proposal encourages the pulling forward of his consideration into an earlier time frame when the corporate situation is much more fluid in terms of options for his company.

The history of the automotive industry is littered with car producers finding themselves in difficulties; indeed some have failed completely even though, like MMAL, they had outstanding product (eg Cord, Auburn, Tucker). In more recent times Chrysler Corporation faced bankruptcy and restructured with enormous US Federal Government support. In Australia, the entity GMH became insolvent in the mid 1980's and restructured with the support of the GM corporation. MMAL's corporate parent (MMC) is in infinitely more trouble than its Australian subsidiary and is in no position to provide the sort of support that Holden received from GM, so that the necessary encouragement for restructuring (albeit somewhat nominal relative to the other examples cited) is being sought from the South Australian Government.

The parameters of the plan canvassed in correspondence from the MMAL Chief Executive Officer (refer attached) are the introduction of another product with quite modest tooling and facility upgrade budgets. A global figure of \$267 million has been estimated on the following basis.

	\$M
Initial planning process	0.5
Establishment of Tier 1 supply system	5.0
Localise pack items	3.0
Identify and evaluate new product and market options	3.5
Adaptation of international product design	4.5
Plant upgrade and refurbishment	100.0
Process development – new Lonsdale product	19.0
Assembly tooling	50.0
Sheet metal and component tooling	60.0
Material handling facilities	3.5
Miscellaneous productivity measures	8.0
Prototypes/evaluation product	7.0
Pilot build/pre-production/volume ramp up	1.8
Distribution/dealership restructure	4.0
Product launch/marketing	1.6
Relocate P & A operations	3.0
Employee training and staff development	1.6
Total	<u>\$267M</u>

NB. The above figures should be used as an indication of orders of magnitude. They should not be regarded as firm line items.

This proposal assumes that Daimler/Chrysler, having approved the plan, will secure the debt necessary to fund it, and the South Australian Government will support the interest on the borrowings for a three year period – ie during the planning and implementation phases.

Thus:- 267 less planing = 266.5 @ 7.5% pa x 3 years = \$20M.

In 1997 MMAL had annual purchases of \$1 billion of which some \$400 million was sourced in South Australia, broken down as follows:-

Transport	16
Non-Production	90
Production (components)	235
Other	20
Raw Materials	<u>33</u>
	<u>\$394M</u>

Not Relevant

Conclusion

The AT Kearney Report of 1999 concluded that ⁷*“The Mitsubishi plant will continue to struggle running at about 57% of rated plant capacity.....Mitsubishi Japan has undertaken several internal studies of the situation and have concluded that they will not stop direct investment (ie manufacturing) in Australia for the time being and would continue to manufacture vehicles at least up until current models remains*

⁷ Strategy Review of the Future of the Australian Automotive Industry – AT Kearney – December 1999

sellable." Kearney offered their own assessment. ⁸"Mitsubishi is already running at low volumes and exit remains a distinct possibility."

Since that Report the positions of both MMAL and MMC have both deteriorated but Daimler/Chrysler have acquired a controlling interest in MMC which opens up options for MMAL which did not previously exist.

MMAL have sought the support of the South Australian Government to enable them to pro-actively develop plans with which to canvass their corporate parent. For its part, the South Australian Government has established an Automotive Task Force with Terms of Reference to:-

- "Scope and quantify the level of Government assistance required".
- "Prepare proposals to Cabineton the form and level of Government assistance required to secure the future in SA".

The Task Force is of the view that MMAL cannot just sit back and be overtaken by corporate events. ⁹"The best way to predict the future is to create it", and in putting this recommendation forward, the Task Force is seeking to encourage both MMAL and the State Government to play their respective roles in creating a future for the Tonsley Park facility.

Neither the Task Force nor MMAL believe that the very modest investments contemplated in this proposal will turn the company into a major force in the global industry. The strategy outlined represents an interim measure which will keep the facility operational into the medium term and provide it with opportunity to demonstrate its worth within the corporation, much the same as Holden has done since its restructure.

Finally it should be recognised that the *maximum exposure* for the Government under the structure of assistance recommended in the event that MMAL are ultimately unsuccessful in their bid for corporate relevance, would be the cost of the initial planning process plus the time value of the 19.5M balance over the 5 year period --

$$\text{ie } \$19.5M \times 7.5\% \times 5 = 7.3M + 0.5M \text{ planning} = \$7.8M \text{ total.}$$

Given the direct and indirect contribution which MMAL makes to the South Australian economy, this proposal is commended to the South Australian Government as a responsible approach to support one of the State's largest private sector employers.

⁸ Strategy Review of the Future of the Australian Automotive Industry – AT Kearney – December 1999

⁹ David Parmenter - Carlson Marketing

MINUTES forming ENCLOSURE to

APPENDIX 2

TO: MINISTER FOR INDUSTRY AND TRADE
RE: INDUSTRIES DEVELOPMENT COMMITTEE
AUSTRALIA LIMITED

Commercial in Confidence

Not Relevant

That report concluded that:-

- The Tonsley Park facility had always operated at marginal volumes and needed a much stronger role in the global industry if it was to achieve volumes to support investment in what for the most part, are facilities that have passed the end of their economic lives.
- Whilst exit by MMAL is a possibility in the longer term, the company at that time was profitable and costs in the new look MAGNA were largely sunk, so that any precipitous withdrawal was most unlikely.
- In the final analysis future options of MMAL would be a function of the parent company's survival strategy as it posted losses that set records in the Japanese industry and was becoming increasingly mired in debt (some of which had been relegated to *junk* status).
- The South Australian Government would be unable to make any contribution to the process of restructuring the operation without engaging local and corporate executives on the range of possibilities and options under consideration for the plant.

Since that time there has been a number of developments, some of which have exacerbated the challenges facing MMAL, while others have broadened the range of possibilities for its future. VIZ.

- The recently formed entity Daimler/Chrysler acquired 33.4% of Mitsubishi Motor Corporation (MMC) giving a right of veto at operational level.
- The Premier visited both Tokyo and Detroit seeking to open dialogue on the future.

- The rate of MMC losses was greatly accelerated and debt rose still higher.
- Daimler/Chrysler has used its effective control of MMC to secure key positions at both governance and operational levels, thereby changing the corporate decision making dynamics (including those affecting MMAL).
- MMC has become embroiled in a recall scandal which has reduced stock values and further strengthened Daimler/Chrysler's position (although operational control can not be formally assumed without consolidating MMC's losses into Daimler/Chrysler's accounts). This is likely to further affect the decision making process on manufacturing operations including those at Tonsley Park.
- In Australia the profits of 1997 and 1998 have turned around into losses resulting in savage pruning of the fixed cost structure, largely through retrenchments.
- The local MD resigned and was replaced by a former Toyota Australia Executive.
- A facelift of the locally produced MAGNA/VERADA in August was received by the market (Mitsubishi eclipsed Toyota in September), but sales have since softened.
- The devaluation of the Australian dollar has added substantially to production costs through escalating imported component costs, thereby destroying the break even costs/cost structure that was put into place to achieve the operational target set by corporate headquarters for the end 2000. Devaluation has also hiked the costs of imported vehicles which represent some 50% of MMAL sales and even higher proportion of market share.
- An initiative was set up under the Department of the Premier and Cabinet to work with MMAL in jointly considering future options. This was superseded in April this year by the establishment of an Automotive Task Force under the leadership of former MMAL Managing Director, Mr Graham Spurling, with Terms of Reference which *inter alia*, required review of and recommendations for, the long term future of MMAL.

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The Terms of Reference for the Task Force anticipated some early visibility on a role within the MMC but this has not been the case. Indeed, many of the very high level issues associated with integrating operations and governance of the merging entities (Daimler/Chrysler and MMC) still remain outstanding.

The new MMC President, together with the two Daimler/Chrysler Directors, has only just been installed this month, and the Daimler Chief Operating Officer is not due to take up his position with MMC until January 2001. It is therefore likely to be some time yet before MMAL becomes the object of corporate focus and some indication of its future emerges.

Thus some two years after the South Australian Government first addressed itself to the MMAL situation, the Task Force has reached the conclusion that there has been little consideration of MMAL, within the corporation.

The strategy being pursued by the Task Force as represented in this proposal, is to work at local level with MMAL to develop a range of options, and to pro-actively put these forward for corporate consideration. It is for this reason that the form of Government assistance recommended is based on an up front payment, with tightly specified milestones at which assistance can either be left in place or withdrawn altogether.

Not Relevant

The committee notes the recent announcement of a major capital injection by MMC into MMAL. Whilst this is to be welcomed as a very significant indication of future intentions, it does not necessarily lock in a long term viable place for MMAL in the world wide strategies of the revamped MMC.

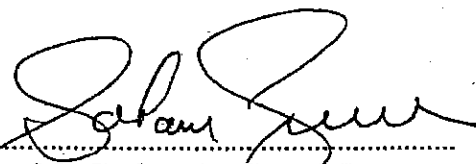
Department of
Industry and Trade

Not Relevant

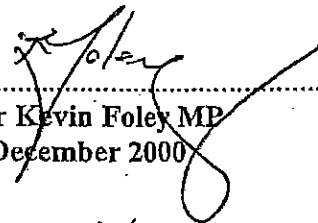
Recommendation

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DX 452 Adelaide

Not Relevant

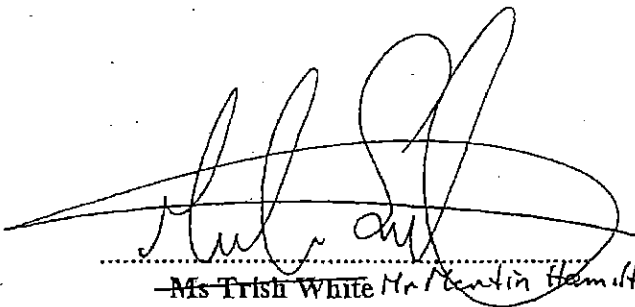


Mr Graham M Gunn MP
1 December 2000



Mr Kevin Foley MP
1 December 2000

APOLOGY
TRISH WHITE



Ms Trish White
1 December 2000

APOLOGY

Mr Gino De Gennaro
1 December 2000

Mitubishi Motors Australia Ltd – Role in the SA Economy Initial Analysis

Prepared by Barry Burgan 16 December 2000

Introduction

Not Relevant

Description

Mitsubishi Motors Australia Limited is a major player in the Australian vehicle market, with significant investments in capital and people. Some 3400 people are employed at the 2 production facilities in Adelaide. Total value of production is of the order of \$4.4 billion per year. Note that a significant percentage of that product is purchased within South Australia, but it would reasonably be expected that it would be lost to the state (a small percentage may be redirected to Holden but that is unpredictable), without Mitsubishi in place.

The core functions being undertaken at the plants include:

- **Assembly** – the production facilities at Tonsley Park and Lonsdale produce the Magna and Verada range. The vehicle assembly plant at Tonsley Park can produce up to 320 vehicles per day for domestic and export markets, and the assembly plant at Lonsdale provides V6 engines.

* Barry Burgan is a Director of Economic Research Consultants. This study, while embodying the best efforts of the investigator, is but an expression of the issues considered most relevant, and neither the individual nor the associated organisations can be held responsible for any consequences that ensue from the use of the information herein

- **Component Manufacture** - At the Lonsdale plant, one of Australia's largest foundries for the production of secondary components manufactures engine components for the domestic and export markets.
- **Tooling Facilities** -The Tonsley Park Plant also holds a tooling maintenance facility, providing skilled labour, up to date NC equipment and services both to Tonsley Park Manufacture and the Lonsdale Engine Plant. Activities undertaken included die repair, jig and fixture construction and maintenance, general fabrication work and the manufacture and maintenance of engine core boxes.

As well as producing for local markets, Magna and Verada sedans and wagons are aimed at world markets (badged as the Mitsubishi Diamante). The export markets include the United States, Japan, Taiwan, New Zealand, the Middle East, Puerto Rico, Brunei and other Pacific nations. Exports comprise some 16% of sales, and planning suggests this will continue to increase.

Not Relevant

20/12 '00 16:14

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ADELUNI-COMMERCE

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Not Relevant

Appendix 4

Proposed Assistance Structure

6 = months

