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Proton needs level playing field to remain competitive

By ZAINUL ARIFIN; ZULKIFLI OTHMAN

THE appointment of Tun Dr Mahathir Mohamad as adviser to national carmaker Proton Holdings Bhd caught many by surprise.

While on the surface, Dr Mahathir's appointment is logical, he is after all the brain behind Proton, it nevertheless drew mixed responses.

While some welcome it, others see that it could potentially be problematic to the board and management of the company. How do you say 'No' to the father of Proton?

However, Dr Mahathir understands his role as adviser very well, saying that he could only advise and his words need not be heeded.

There are also others who feel that Dr Mahathir's appointment means chief executive Tan Sri Tengku Mahaleel Tengku Ariff's position is more secure now.

Dr Mahathir spoke to Business Times' ZAINUL ARIFIN and ZULKIFLI OTHMAN on these issues, as well as the viability of Proton in a more competitive automotive world, in his first interview after being briefed by the Proton board on Thursday.

Business Times: We understand that you had a briefing this morning with the board and management of Proton, what have you gathered from that briefing?

Dr Mahathir: Well, the briefing was about the state of development and activities of Proton and its subsidiaries. Including the financial standing of Proton.

BT: From the briefing, what is your sense of the company?

Dr M: It looks as if it is doing quite well. It has acquired and developed some new technologies. It has reduced its cost, it is competitive.

But we also need to look into how other countries can produce cheap cars. Sometimes cars, which are imported into Malaysia, are at prices that Proton finds practically below its raw material costs. They have to find out why is that? They must learn how to produce very, very cheap cars.

BT: As adviser to Proton, what is your function?

Dr M: As adviser I advise.

I am not a (company) director, I cannot give orders. But I may put up some ideas. Perhaps, if there is anything referred to me, I may try to advise on how to approach or how to resolve the problem.

BT: Do you find there are problems in Proton that you need to address?

Dr M: In any company there are problems, and I think it is my duty to try help resolve the problems.

BT: There are reports that there is some trouble in Proton's board, that there are factions.

Dr M: I have also been told about this. But this morning's briefing went off very well. CEO (Tengku Tan Sri Mahaleel Tengku Ariff) and his senior managers gave their full briefings, and the majority of the board members were there, including chairman (Datuk Abu Hassan Kendut).

Questions were asked by members of the board, and the CEO explained the facts about the cases mentioned. As far as I can make out, the board seemed quite receptive.

So this talk about quarrels and all that is more hype by outside people or maybe even outside people started the rumours, which don't have any basis.

BT: There are reports saying the board did not agree to your appointment?

Dr M: They didn't show any lack of happiness today. I explained to the board and management what is my position. I am quite aware there is no provision for an adviser, and I told them that I have been appointed by the Government and that I will try to advise them.

But as an adviser, they are not bound to accept my advice.

BT: What would be your first advice to Proton?

Dr M: Well, to all management staff, board and everyone to make sure that Proton continues to be a viable company that is able to compete in an automotive world that has become very challenging and competitive.

BT: On what basis do you say that Proton is very competitive?

Dr M: Normally, government companies require injections of capital every now and then. But Proton has not asked the Government for any capital injection. At one time when it was still under HICOM, I think HICOM got some soft loans from the Government, but Proton is willing to pay off the loans immediately if the Government wants to.

Proton can be called cash-rich. It has spent RM1.8 billion to build the facilities in Tanjung Malim, a very sophisticated and modern facility, without resorting to government capital injection or borrowing from the banks.

So that is a measure of Proton's health, and with that kind of health, it should be competitive, provided of course that others also follow normal practice and do not subsidise their products.

BT: So you are saying that Proton is competitive, all being equal?

Dr M: Proton products are competitive. The new GEN.2, for example, is very good, and priced competitively. They have orders for 12,000 of GEN.2, and they are working hard to produce the car.

BT: One of the challenges facing Proton obviously is the liberalisation of the automotive industry. How do you see Proton going forward on this matter, especially when we talk about Proton needing a strong, strategic technical partner?

Dr M: Yes, partners must contribute. For example, Proton had Japanese shareholders, and working with Japanese shareholders sometimes increased cost. When Proton decided to design, build and produce its own car and produce its own engine, Proton can reduce cost by at least RM4,000 and this is passed on to the consumer.

BT: What about searching for a strategic partner?

Dr M: Yes, everybody wants a partner, but having a strategic partner does not ensure that you'll succeed.

For example, Mitsubishi has DaimlerChrysler and Mitsubishi Motors now is on the verge of stopping production because Daimler has haemorrhaged so much for Mitsubishi Motors that it has to stop funding Mitsubishi altogether. And when it stops the funds, then it is likely that the company may collapse.

And yet as you know Daimler is a great company, which produces the Mercedes Benz car. The same goes for Chrysler. Chrysler too has not recovered.

Thus, even with a strong partner, a strategic partner, it is not guaranteed that you'll succeed.

BT: Even though it will not guarantee success, don't you think it is important to get Proton a strategic partner?

Dr M: But you have to study carefully whether the strategic partner can contribute or not. Having a strategic partner just because people say you need one, and it causes losses, then it would be very silly.

BT: What do you think are the attributes of a good strategic partner for Proton?

Dr M: I can't say. The board has to study and it will have to make a decision.

BT: What would Proton be able to offer a strategic partner?

Dr M: Well, the Malaysian market is the second (biggest) market in South-East Asia. Even with a much smaller population, today Proton produces cars.

In fact, many countries look at Proton as a possible strategic partner for them.

BT: So do you think Proton would need a strategic partner for marketing purposes?

Dr M: Well, that the board has to decide, whether a partner it will take can contribute. If not, we cannot force Proton to take a partner. It must be a partner that can contribute, either technology-wise or be able to bring down the cost, open and penetrate (new markets), and all that.

BT: So are you looking at any of those companies?

Dr M: There are a lot of the companies, corporations, that have talked to Proton. Each has offered something to Proton, and it is evidently evaluating.

BT: Can Proton, in its present state, move forward and become a successful Malaysian corporation?

Dr M: Yes, I think so.

BT: Do you think the liberalisation of the automotive industry, like some said, will be the biggest challenge for Proton?

Dr M: It is good to liberalise because it will improve Proton. Today Proton has more than 90 per cent local content (in its cars). Now you say others need not meet the condition. It is not really a level playing field.

If you say everybody follows the same condition, then Proton can be competitive. You say others don't have to comply with the condition, but Proton has to comply, then you are actually restraining Proton.

BT: There are so much negative perceptions on Proton and you are taking the adviser role of Proton. Do you think it's a bit risky on your part?

Dr M: I am not thinking about myself, I am thinking about Proton. If I have to go down, I go down. I believe I can in some way be able to help them. I am not running away from a job like that simply because I want to save my reputation.

BT: So you seriously think that Proton is a very viable company?

Dr M: Yes, Proton has gone through a lot of phases. In the beginning it was almost a failure, but we have turned it around and now it's doing fairly well. It has a lot of cash and it does not need government help.

This is something that we cannot say of other government companies, even Felda, which has the biggest estate. Estates don't need capital injection every year, but for a time, Felda was getting capital injections every year.

Proton had an initial government investment of about half a billion ringgit in the beginning. Since then I don't remember any occasion when Proton asked for more capital injections.

BT: There are a lot of national cars in the country, is there a plan to consolidate all of them?

Dr M: Perodua is now actually Japanese-owned, 51 per cent, and it has a separate operation which produces cars for Malaysia, which is of course privileged like Proton.

But Proton is the only national car. There is no consolidation as such needed.

The only thing is that Proton should be treated fairly by the Government. And people should know what is the contribution of Proton in terms of our engineering capability, in terms of creation of jobs, in

terms of vendors (development), in terms of generating wealth. All these things should be taken into consideration.

BT: If you have something you would like to fix in Proton, what would it be?

Dr M: I think one of the most important things is for people to know how Proton has been doing and what Proton has done.

At the moment, Proton does not go to town explaining how much it makes, although it does to some extent (via its accounts).

The other day you remember Proton payed the highest corporate tax to the Government. That passed by almost without notice. People did not stress that.

In fact, they stressed a lot about Proton not be able to compete. Why is that Proton has been paying such high taxes if it's not profitable, if it's not doing well?

So, there must be some attempts made to understand things rather than to go for rumours that Proton is in bad shape, it does not want a strategic partner, it is mismanaged, and all that.

If it is mismanaged, how is it mismanaged? Is it losing money?

BT: You think it'll be of help if Proton is more open with its problems?

Dr M: It has problems, but those are minor problems and it does not help Proton to have these problem in the Press.

On the other hand, Proton is a company that is competing with other people. There are certain things that it can tell the public and certain things it has to pull back, until they are resolved.

For example, it is common for a motor company not to reveal what its future plans are and how many cars, what design of cars it is producing because then the competitors will know. So in that sense Proton is constrained.

But other companies also have similar constraints. But the assumption is that because Proton is a national car of a developing country therefore it cannot do well by comparison to the great automotive companies of the world.

I like to point out that Britain has no more cars of its own, either it has stopped production or it sold everything to other people, which is a measure of how difficult it is just to stay alive.

We have not come to the stage of having to sell our cars to other people, including the brand name.

Rolls Royce failed, Rover failed, Jaguar failed. And in other countries too the same thing is happening. Even Fiat of Italy has problems.

So to face problems is nothing new in the automotive industry, but to stay alive and to still carry the name is in itself an achievement.

BT: So are you saying that Proton will be able to compete even in the like of failures, like Jaguar etc.?

Dr M: Well, yes. There must be something that Proton knows how to do that is keeping it alive, apart from government protection, of course.

It is still alive and today, other brands are given some incentives, which make it very difficult for Proton to compete.

BT: But it's also losing market share.

Dr M: It is losing market share simply because if you allow other brands to come in and to sell at very low prices, obviously it is going to lose market share.

And those people are not coming in if they cannot have a slice of the market share. The fact that they can produce very cheap cars and have take away Proton's market share shows that they are enjoying some incentives.

BT: By us?

Dr M: Yes.

BT: Is that a bad thing?

Dr M: Well, I think a level playing field is what we need. If you impose conditions on the national car that it should have a 90 per cent local content, when others have maybe a 10 per cent local content, and they are given privileges. It is going to be difficult for the one required to have a 90 per cent local content to compete.

Of course, there are some people who suggest we should just stop selling cars at a very (high) price in order to protect Proton. We can do that. We can close down Proton and we can become consumer of foreign cars.

We have to think, if we become pure consumers of foreign cars do we gain or do we lose? Because we probably would have to stop the work of so many people employed by Proton. When we buy foreign cars, we don't generate domestic wealth.

BT: Proton has been described as a 20-year old baby, do you agree with that?

Dr M: No, it's not true. You have a lot of government companies that have to be nursed every year and all the way, and yet they still can't make money.

Proton has not got to be nursed that way. Proton has made money on its own, and if you go and see the plant in Tanjung Malim, which costs RM1.8 billion, built without borrowing from banks or injection of funds from the Government, I think it is a baby that has weaned itself of government support and can fend for itself.

In fact, it even weaned itself of banking support, it doesn't borrow money. (The plant) is a huge investment.

BT: Some people are saying that your appointment is a buffer for Tengku Mahaleel.

Dr M: People will say a lot of things. I am quite familiar (with this). I am a politician. I have been blamed for a lot of things, so I accept this as part of the price I have to pay for doing a job.

BT: Are you denying that or not saying anything?

Dr M: Whatever it is people want to say they will say. Whether I am a buffer or not is for the board to decide.

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