

## Skills needs and labour adjustment measures

- 4.1 This chapter discusses the skills shortages and recruitment issues facing the automotive components industry. Although the industry has experienced an employment downturn in recent years as discussed in the previous chapter, it is still experiencing shortages in key skill areas.
- 4.2 The chapter examines measures suggested to address these shortages including skilled migration and improved recruitment practices. Through re-skilling and skill recognition, there are opportunities for greater mobility across segments of the automotive and automotive components industry.
- 4.3 This mobility of skills may also assist in addressing the challenge of large-scale redundancies facing the industry. The chapter concludes with an overview of current labour adjustment packages, international initiatives and measures to further support the industry and individuals affected by redundancy actions.

### Addressing skills shortages

- 4.4 As with manufacturing generally, there are widespread skills shortages within the automotive industry, particularly for engineering and trade skills. Ongoing shortages in the metal and automotive trades are blamed on 'high wastage and relatively low training rates.'<sup>1</sup> In addition, there is significant national and international competition for skilled employees

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1 Department of Employment and Workplace Relations (DEWR), *Submission No. 11*, p. 19.

across the manufacturing sector. Furthermore, in those states that have high demand from the mining and resources sector, labour and skills shortages are more pronounced.

4.5 The Department of Employment and Workplace Relations (DEWR) Skills in Demand Research Programme has identified trade skills shortages for metal fabricators, welders, toolmakers, metal fitters and machinists, motor mechanics, electricians and vehicle body builders (see Table 4.1).

4.6 The National Manufacturing Summit 2005 found that future skills needs across the manufacturing industry are:

- higher level technical skills – manufacturing will increasingly have to adopt more complex technology, and produce to higher technical standards;
- higher level ‘soft’ skills – communication, teamwork, ability and willingness to learn – more of the workforce in manufacturing will deal with customers, engage and manage partners and work on project teams to solve problems;
- higher level strategic and management skills – companies need to plan for the future better, including how to meet their skill needs, and more actively develop strategies for becoming world competitive;
- new skills – logistics, financial management, cultural understanding etc – as firms seek to respond faster and more fully to customers’ needs, they need to operate in new areas, or have the skills in house to manage partners; and
- more frequent updating of skills – the pace of technological change and shifts in customer demands means that skills will need to be updated much more frequently.<sup>2</sup>

4.7 DEWR noted that although these skill shortages are widespread:

in South Australia there are indications that the labour market for metal trades eased over late 2005, with retrenchments in motor vehicle and parts manufacturing over the previous 12 months increasing the supply of skills available to employers in other sectors.<sup>3</sup>

4.8 There is fierce competition for skilled employees from other sectors of the manufacturing industry, in particular the mining and resources sector which has the capacity to offer very high wages.<sup>4</sup> This increases the competition for trade skills within the automotive industry.

2 Victorian Government, *Submission No. 24*, p. 14.

3 DEWR, *Submission No. 11*, p. 19.

4 DEWR, *Submission No. 11*, p. 31; Mr Peter Upton, Federation of Automotive Product Manufacturers (FAPM), *Transcript of Evidence*, 26 June 2006, p. 51.

Table 4.1: Skills in demand—occupations with significant employment in automotive component manufacturing

Occupation	NSW	VIC	QLD	SA	WA	TAS	NT
<b>Engineers</b>							
Mechanical/production/plant engineers (not assessed in all States)			S		S		
<b>Engineering trades</b>							
Metal fitter	S	S	S	S	S	S	S
Metal machinist	S	S	S	S	S	S	S
Toolmaker	S	S	S	S	S	S	
Metal Fabricator	R	S	S	S	S	S	S
Welder	S	S	S	S	S	S	S
<b>Vehicle trades</b>							
Motor mechanic	S	S	S	S	S	S	S
<b>Electrical trades</b>							
	S	S	S	S	S	S	S

S = State/Territory-wide shortage      R = Shortage in regional areas

Source DEWR, Submission No. 11, p. 20.

4.9 While traditional trade and engineering skills are needed, skills shortages are also pronounced in generic management and project skill areas. These areas are increasingly important for the automotive component sector which needs to focus on streamlining operations and seeking new business opportunities.

4.10 The Federation of Automotive Product Manufacturers (FAPM) reports that the widespread manufacturing industry skills shortage is impacting on the automotive components industry:

- 72% of automotive equipment manufacturers are experiencing difficulties in finding skilled employees. Organisations identified a lack of applicants, lack of qualified applicants or applicants with inappropriate skills and experience as the key reasons why positions remained unfilled. Skilled vacancy rates were particularly high amongst smaller businesses; and
- it is estimated that there are in excess of 3 000 vacant positions for skilled tradespeople in the transport equipment sector, of which automotive is the dominant category.<sup>5</sup>

4.11 Skills shortages are, and will continue to be, a challenge for the industry. The Ai Group, FAPM and KPMG have found that skills shortages are an

5 FAPM, *Submission No. 16*, p. 16.

issue of relatively low priority for the majority of manufacturers in terms of increasing competitiveness.<sup>6</sup>

- 4.12 Notwithstanding the relatively low priority placed on skills shortages as a cause for competitive concern, the Committee notes evidence that labour and skills shortages are affecting some companies' ability to tender for additional contractual opportunities where specialised skills are required. The Australian Automotive Aftermarket Association (AAAA) cited the example of Hella Australia which:

recently had an opportunity to tender for R&D programs to support Hella operations offshore, however they had to withdraw due to a lack of available skills locally to support the project.<sup>7</sup>

- 4.13 The Committee is concerned that the sector is not adequately focussed on future labour and skills shortages. While 'periodic skills shortages characterise virtually every labour market'<sup>8</sup>, industry and training infrastructure need to be proactive and prepared to respond adequately to arising shortages and changing skills needs.

- 4.14 The Australian Government has committed significant funding to the National Skills Shortages Strategy (NSSS) since 1999, and in the May 2006 Budget committed an additional \$6 million. The NSSS is based on a partnership between the Government and industry and:

supports innovative and strategic industry-led projects to research and recommend vocational and technical education strategies for attracting new employees and retraining and upskilling existing workers.<sup>9</sup>

- 4.15 As the NSSS is a Government-industry partnership model, it is reliant on industry to be proactive. The Committee notes that the retail, service and repair (RS&R) sector has been actively engaged in developing projects in partnership with the NSSS. To date there have been no projects undertaken by the automotive components sector.

- 4.16 Short-term strategies that are being employed by the automotive components sector to address shortages include:

- outsourcing work, resulting in the loss of corporate knowledge and organisational skills base;

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6 Australian Industry Group (AiGroup), FAPM and KPMG, *The Victorian Automotive Components Industry: Competitiveness, Profitability and Future Strategies*, March 2005, p. 17.

7 Australian Automotive Aftermarket Association (AAAA), *Submission No. 18*, pp. 6-7.

8 Productivity Commission, *Review of Automotive Assistance*, 2002, p. 74.

9 Department of Employment, Science and Training (DEST), *Submission No 31.1*, pp. 11-12.

- automating manual tasks, which is a longer term and potentially cost-effective solution that further reduces employment levels and skills levels; and
- use of skilled migration programs.<sup>10</sup>

4.17 The Committee notes that the Government has recently announced a range of measures aimed at addressing skills shortages in trade occupations through the formal training system. These new measures are outlined in Chapter 3.

### Graduate business studies

- 4.18 The need for industry to engage with training institutions to ensure appropriately skilled workers is not limited to the trades area.
- 4.19 The automotive components industry is facing unique challenges as a consequence of engaging in a globalised business world. This shift to global markets brings with it certain training and skills needs. In particular, it is essential that business graduates have the capability to develop export markets for Australian businesses, cognisant of the nature of international trade and the global economy.
- 4.20 The Committee sought information from a range of business schools about the emphasis in courses on developing exports markets, particularly in relation to the automotive industry. Responses indicated that there is significant recognition of the importance of international business in the various courses on offer.
- 4.21 The Committee was pleased to note that that one university in particular has partnerships with automotive companies, both in Australia and overseas, and also offers manufacturing management units.<sup>11</sup>
- 4.22 RMIT University told the Committee that a review of their Master of Business Administration (MBA) courses had resulted in the development of units to 'engage in policy development and strategy implementation in the context of export market development in international business.'<sup>12</sup>
- 4.23 Given the need for automotive component manufacturers to increasingly focus on the development of export markets, there is a significant benefit to the industry to these focussed courses. However, these courses run on a partnership model as they are designed in 'collaboration with clients to

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10 FAPM, *Submission No. 16*, p. 18.

11 RMIT University, *Submission No. 32*. The Committee wrote to a small range of business schools so there may be more manufacturing-specific courses available at other institutions.

12 RMIT University, *Submission No. 32*.

strategically fit their capability development strategies'. Consequently they are currently focussed on the needs of the MVPs.<sup>13</sup>

- 4.24 If the components industry is to develop as a niche product market, it will be necessary to ensure that it has the business capability to do so. This will require industry investment in business courses to ensure that graduates are engaged in the particular issues facing the automotive components industry.

## Engineering

- 4.25 Other than general skills shortages across the manufacturing sector contributing to the competitive labour market, there are significant shortages across engineering professions as indicated above. FAPM reports that a December 2005 Engineers Australia survey found 902 vacancies for professional engineers amongst its members with the recruitment situation expected to worsen.<sup>14</sup>
- 4.26 Engineers are a critical part of the automotive industry and without adequate local automotive engineers, the Australian industry will not be able to compete globally, particularly against nations such as China.
- 4.27 The education of new engineers in Australia is significantly below OECD averages. In 2003, 7.7 per cent of new degrees awarded in Australia were in engineering. This is significantly lower than the OECD average of 11.8 per cent and markedly lower than the OECD leading country, Korea at 27.5 per cent.<sup>15</sup>
- 4.28 China has recognised the need for science and engineering graduates to increase their national intellectual capability and is devoting significant resources to training in these areas. Its national training target is to produce more graduates and doctorates in science and engineering than does America by 2010. This indicates the emphasis the Chinese government is placing on skilling, much of which will be directed to its automotive industry.<sup>16</sup>
- 4.29 During 2006, as part of the 2006-2007 Budget and the *Skills for the Future* package the Australian Government has announced that an additional 1 010 Commonwealth-supported engineering places will be made available. This is in recognition of the critical nature of engineering skills

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13 RMIT University, *Submission No. 32*.

14 FAPM, *Submission No. 16*, p. 17.

15 OECD, *Science, Technology and Industry Scoreboard 2005*, accessed 17 August 2006, <oberon.sourceoecd.org>.

16 D. Roberts 'Detroit's Loss is China's Gain in Great Drive Forward', *Australian Financial Review*, 22 June 2006, p. 68.

to building Australia's competitiveness.<sup>17</sup> In addition, as part of the 2006–2007 Budget, employer incentives will be offered for selected Diploma and Advanced Diploma Australian Apprenticeships, including for the Diploma in Engineering.<sup>18</sup>

- 4.30 Industry will be consulted on the fields for consideration as priority areas for employer incentives, one of which will be automotive engineering.<sup>19</sup>
- 4.31 It was put to the Committee that science and engineering programs should be a national priority for concessional Higher Education Concession Scheme (HECS) programs to encourage more students to undertake engineering courses.<sup>20</sup>
- 4.32 Mr Colin Kestell of the University of Adelaide noted that he anticipates 100 Chinese students will commence the automotive engineering program in 2009. This compares to the current peak enrolment of 40 local students.<sup>21</sup>
- 4.33 Clearly international interest in engineering courses is high. Australia's engineering courses are well regarded internationally and are attracting a number of foreign-born students. It is in Australia's long-term interest to encourage both local and foreign-born engineering graduates to remain in Australia. This may be facilitated through programs that raise awareness of employment options, facilitate entry to the workforce and possibly provide incentives for employers to take on new graduates.
- 4.34 With global competition for engineering graduates at a premium, Australia must market itself as a nation of career opportunities. The Committee welcomes the Government's announcements aimed at increasing university engineering places and apprenticeship benefits. However, there is also a need to ensure that these students pursue careers in Australia following graduation.

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17 Prime Minister of Australia, Policy Announcement, *Skills for the Future: More Engineering Places at University* and *Skills for the Future: Incentives for Higher Technical Skills*, 12 October 2006.

18 DEST, *Submission No. 31*, p. 4.

19 Prime Minister of Australia, Policy Announcement, *Skills for the Future: Incentives for Higher Technical Skills*, 12 October 2006.

20 Ai Group and Engineering Employers Association, South Australia (EEASA), *Submission No. 26*, p. 14. The Australian Taxation Office advises that no assistance of this type is offered at present. (Higher Education Loans Unit, Australian Taxation Office, contacted 29 September 2006.)

21 Mr C. Kestell, *Submission No. 29*.

### Recommendation 7

**The Committee recommends that the Australian Government include automotive engineering as a national priority area for higher education fee concession schemes.**

### Recommendation 8

**The Committee recommends that the Australian Government investigate options to encourage the retention of local and foreign-born engineering graduates within Australia, including measures to facilitate entry into the workforce in areas of skills shortages.**

## Skilled migration

- 4.35 Skilled migration programs are an effective mechanism for addressing short-term skills shortages. However, the international competition for skilled employees makes migration programs both difficult and expensive.
- 4.36 The industry is generally supportive of making use of skilled migration to fill skills shortages in the short term and expand the industry's skills base in order to leverage international competitiveness. In addition, the industry has also called for an easing of visa arrangements to allow greater access to foreign markets through business migration.<sup>22</sup>
- 4.37 The Migration Occupations on Demands List (MODL) allows skilled applicants to claim additional points towards their General Skilled Migration (GSM) pass mark. Engineering professions and automotive tradespersons are listed on the MODL and over the last ten years, both employer sponsored applicants and independent visa applicants in these categories have steadily increased.<sup>23</sup>
- 4.38 The South Australian Government advocated its support for the skilled migration programs for filling areas of skills shortages and noted several

22 South Australian (SA) Government, *Submission No. 5*, p. 10; FAPM, *Submission No. 16*, p. 4; Ai Group and EEESA, *Submission No. 26*, p. 14.

23 Correspondence from Mr G. Mills, A/g First Assistant Secretary, Migration and Temporary Entry Branch, Department of Immigration and Multicultural Affairs, dated 14 July 2006.



schemes actively promoted in the state. However, few other submitters made mention of using migration to fill skills shortages.

- 4.39 The South Australian Government noted that during 2004–2005 the South Australian automotive component industry made 54 nominations under the Regional Sponsored Migration Scheme (RSMS), which was over ten per cent of the total state nominations.<sup>24</sup> In addition, the 2005–06 migration program cites a total of 732 GSM migrants with skills directly related to the automotive industry, and a further 2 180 GSM migrants with skills that could be applied to the industry.<sup>25</sup>
- 4.40 Although skill shortages will continue to be a lingering issue for the industry, employment levels in the sector are expected to continue to contract. This contraction has already resulted in a number of displaced workers and the Committee is of the opinion that the initial and more sustainable strategy to address skills shortages should be focussed on assisting displaced workers to re-train within the industry.
- 4.41 The Committee notes that the issue of skilled migration was investigated in the September 2006 report of the Joint Standing Committee on Migration, *Negotiating the maze: Review of arrangements for overseas skills recognition, upgrading and licensing*. The report makes recommendations on policy development and skills recognition frameworks for professional and trade skills.<sup>26</sup>

## Recruitment

- 4.42 The automotive components manufacturing industry has a strong reputation for attracting ‘jobs for life’ workers. As attitudes towards the sustainability of employment change, so recruitment and training practices need to change. However, there are conflicting reports about the state of recruitment in the automotive components sector.
- 4.43 Automotive Training Australia (ATA) reports that skilled individuals tend to leave the industry after 20–25 years due to the physical demands of the job and rapid technology changes. Despite this trend, ATA noted that due to the contraction of employment levels there are no significant attraction and retention issues.<sup>27</sup>

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24 SA Government, *Submission No. 5*, p. 10.

25 Correspondence from Mr G. Mills, A/g First Assistant Secretary, Migration and Temporary Entry Branch, Department of Immigration and Multicultural Affairs, dated 14 July 2006.

26 Parliament of Australia, Joint Standing Committee on Migration, *Negotiating the Maze: Review of arrangements for overseas skills recognition, upgrading and licensing*, September 2006, Canberra.

27 Automotive Training Australia (ATA), *Automotive Industry Skills Report*, May 2006, p. 26.

- 4.44 Recruitment challenges tend to be focussed on attracting new trainees and apprentices. Recruitment in the component industry is seen to be challenging because of the negative stereotypes, tight margins, lower wages, and lack of knowledge about career opportunities. The Bus Industry Confederation (BIC) reported that the same issues are further compounded in the bus industry where margins are even tighter.<sup>28</sup> As profit margins continue to shrink throughout the components sector, it is likely that the industry will face similar recruitment difficulties.
- 4.45 In order to improve the potential for recruitment, the industry needs to promote itself more effectively:
- The negative public perception of careers in the automotive industry is having a significant effect on both the number and quality of graduates, apprentices and trainees making automotive their career of choice, the only way to overcome this is for the industry, with the support of the Federal and State Governments, to promote itself as internationally focussed, at the cutting edge of technology and offering a diverse range of exciting and well paid career opportunities.<sup>29</sup>
- 4.46 The lack of public understanding of the value and diversity of automotive careers was generally acknowledged to be the major issued facing recruitment activities.<sup>30</sup> Concerns over sustainability of the industry and media reports of retrenchments also damage the industry image as a stable career option.
- 4.47 While the Committee agrees that the perception of the industry is a major hurdle to overcome in recruitment activities, it also has to agree with the Productivity Commission's contention that 'it is hard to see why the community should be charged with the task of improving the industry's image to potential employees.'<sup>31</sup> The Government has provided substantial dedicated assistance to the industry – both financial and strategic. The industry must also shape its own future and key to this is 'selling itself' to future employees.
- 4.48 It is also important that programs to change the industry image are also focussed on parents and teachers – the key mentors pivotal to influencing the decisions young people make about further education and training.
- 4.49 It is encouraging to note that there are efforts being made in some industry sectors to promote the industry more effectively. The Automotive

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28 Bus Industry Confederation (BIC), *Submission No. 21*, p. 4.

29 AAAA, *Submission No. 18*, p. 7.

30 Automotive Training Victoria, *Submission No. 6*, p. 6.

31 Productivity Commission (2002), *Review of Automotive Assistance*, p. 74.

Centre of Excellence (ACE), discussed in Chapter 5, is being established in the Docklands area of central Melbourne to:

bring the automotive industry out of the backblocks – out of Dandenong, out of Altona, out of Broadmeadows – into the centre of the city, putting it on the main business drag, giving it the image and perception that it does need to start turning around long-term cultural issues within this environment.<sup>32</sup>

- 4.50 The ACE will be a significant step forward for the promotion of the industry. The Australian Government has made significant investment in initiatives to address skills needs in the traditional trades. The issues facing the industry in terms of training, skills shortages, negative stereotypes and recruitment call for industry leadership.
- 4.51 The Committee does not advocate the Government doing the work of industry leaders. However, the Committee does see value in recommending Government administrative assistance to establish an automotive components industry leaders forum to develop short and long-term strategies to address these issues.

### Recommendation 9

**The Committee recommends that the Australian Government support the establishment of an automotive component manufacturing leaders forum to develop strategies aimed at improving recruitment and overcoming stereotypes surrounding the image of the industry.**

## Labour adjustment measures

- 4.52 While recruitment is one issue facing the industry as it works to ensure that it has a skills base in the future, the industry has recently experienced a rapid downturn in employment as a result of large-scale redundancy actions.
- 4.53 Consequently, the industry is in need of labour adjustment measures to support the employees, communities and companies affected by the structural readjustment taking place in reaction to broader local and global automotive industry changes.

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32 Mr P. Murphy, Kangan Batman TAFE, *Transcript of Evidence*, 21 March 2006, p. 25.

- 4.54 Labour adjustment programs (LAPs) sponsored by the Australian and state governments aim to ensure that the labour market has the ability to adjust to major and rapid workforce changes over a longer period of time. They also aim to introduce a measure of stability for individuals and communities directly impacted by large-scale redundancies by focussing on minimising the length of time individuals are unemployed.
- 4.55 Labour adjustment programs are necessary for the automotive industry as employment is concentrated in suburban regions which tends to make those regions highly dependent on the industry. Therefore any downturn in employment cannot necessarily be absorbed into the wider labour market.
- 4.56 In addition, a large number of individuals in the automotive component industry are in need of assistance to retrain due to the long-term nature of employment in the industry.

### Automotive industry redundancies

- 4.57 Two significant labour adjustment programs have taken place in the automotive industry since 2004 in response to large scale redundancies at Mitsubishi Motors Australia Ltd (Mitsubishi) and GM Holden (Holden).
- 4.58 The Mitsubishi Labour Adjustment Programme commenced in 2004 with the announcement of 1 370 job cuts from the Lonsdale and Tonsley Park sites in Adelaide. The Tonsley Park employees took voluntary redundancies and left the site within weeks of the announcements. However the Lonsdale plant closure took place over 15 months and involved involuntary redundancies.
- 4.59 DEWR reports that 78 per cent of former Mitsubishi employees who registered for Job Network assistance were placed into employment. DEWR also stated that this figure is likely to be understated as there is no obligation for individuals to report successful job outcomes.<sup>33</sup>
- 4.60 The Holden program is still in the early stages, with 1 400 redundancies being commencing in November 2005 and expected to be completed by July 2006.<sup>34</sup> Although it is too early to judge the outcomes of this program, DEWR reports that as at 1 May 2006, 60.6 per cent of those registered with a Job Network member had been placed in employment.<sup>35</sup>

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33 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, p. 4.

34 DEWR, *Submission 11*, pp. 24–25.

35 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, p. 4.

4.61 Through assistance from the Australian and State Governments, each LAP provides the following for retrenched workers:

- individual intensive customised support to provide one-on-one assistance including financial and career counselling and resume preparation;
- an additional job seeker account allocation of \$450 (in addition to the \$900 usual allocation for all job seekers) to be used to purchase services or other assistance that supports the individual to get a new job;
- self employment assistance to establish business opportunities under the New Enterprise Incentive Scheme (NEIS) and provision of small business training for non-NEIS eligible businesses;
- relocation assistance;
- industry specific training funds;
- Australian Job Search kiosks at the Mitsubishi Lonsdale and Holden Elizabeth sites;
- skills assessment and recognition services; and
- accelerated training opportunities and specific skills development to meet areas of skills demand.<sup>36</sup>

4.62 The LAPs were also available to employees of component manufacturers who were able to confirm that they were made redundant as a direct result of either Mitsubishi's or Holden's downsizing. DEWR reported that no component manufacturer redundancies were confirmed as a result of Mitsubishi's downsizing, but ten have been confirmed as a result of Holden's.

4.63 While the need for the large-scale redundancies at both companies is regrettable, Mitsubishi and Holden representatives expressed their satisfaction with the cooperation received from the Australian and state governments and complimented the programs put in place:

I too would like to make the comment on the public record that, as an organisation, we are extremely grateful and very appreciative of the services that have been provided both through the Commonwealth department and the state department. We have certainly never witnessed that level of cooperation in the past and we would certainly want to encourage that in the future. We give our thanks for the services that have been provided and to the individuals in particular who have been associated with providing

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36 DEWR, *Submission No. 11*, p. 24; SA Government, *Submission No. 5*, pp. 12-13.

that service. I think that has led to what we see as a very successful program for our ex-employees.<sup>37</sup>

- 4.64 While DEWR has reported positive employment outcomes from both LAPs, these results were disputed by other evidence to the inquiry.<sup>38</sup>
- 4.65 The Australian Manufacturing Workers Union (AMWU) is concerned that while a significant number of people did manage to find employment, it was not commensurate either in terms of wage parity or skill level.<sup>39</sup> Wage disparity in particular is a significant disincentive for displaced MVP workers to enter the components sector.
- 4.66 The Victorian Automobile Chamber of Commerce (VACC) asserted that attempts to redeploy redundant employees within the sector (in particular the RS&R sector) were unsuccessful due to:
- the lack of coordination with job network agencies;
  - the lack of understanding which skills were transferable to another sector of the vehicle industry;
  - poor matching of candidates with vacancies;
  - lack of support to supplement skills to allow transition into a related occupation;
  - lack of interest amongst highly paid redundant employees into lower paid jobs.<sup>40</sup>
- 4.67 The VACC told the Committee that the Motor Trades Association of South Australia (MTA) found limitations with the way in which Job Network agencies operate. It was reported that Job Network agencies tend to work in isolation and so advertising positions with one or two agencies did not translate into positions being widely advertised. The difficulty therefore became primarily one of lack of communication.<sup>41</sup>
- 4.68 DEWR contradicted these assertions and claimed that the MTA only provided five vacancies, despite the anticipation of up to 500 vacancies being made available. DEWR emphasised that, in its opinion, the Job Network agencies did work together effectively.<sup>42</sup>

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37 Mr S. Barrett, Mitsubishi Motors Australia Ltd, *Transcript of Evidence*, 1 May 2006, p. 23.

38 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, p. 4. Note: the majority of these claims relate to Mitsubishi workers as the Holden LAP is still in the early stages of being implemented.

39 Mr J Camillo, Australian Manufacturing Workers Union (AMWU) South Australia Branch, *Transcript of Evidence*, 1 May 2006, p. 35.

40 VACC, *Submission No. 13*, p. 3.

41 Mrs L. Yilmaz, Victorian Automotive Chamber of Commerce (VACC), *Transcript of Evidence*, 21 March 2006, p. 2.

42 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, pp. 18, 20.

- 4.69 As the MTA declined to contribute to the inquiry, the Committee is unable to determine any truth to these conflicting claims. However, it is clear that the perceived lack of communication between Job Network agencies is problematic in light of the desire to retain skilled workers within the industry.
- 4.70 It is too soon to predict what the outcomes will be for individuals involved in both the Mitsubishi and Holden downsizing actions. However, there is significant disparity in the reported outcomes of the packages and no clear evidence about the real outcomes for redundant workers.
- 4.71 There is a need for a comprehensive study to be undertaken on the outcomes for workers, including access to education and re-skilling programs, instances of under employment and social outcomes. The study should also address the perceived communication difficulties between the industry and Job Network.
- 4.72 The Committee notes that the South Australian Government has funded Flinders University to undertake a longitudinal study on the health and wellbeing of the group of workers who left Mitsubishi. However, a national study is still required and the Committee addresses this need later in the chapter.

## Component sector redundancies

- 4.73 The downsizing taking place at the vehicle manufacturers has received significant public attention and government support. The Committee considers it essential that this support continue. However, equally concerning is the estimated 2 400 to 3 800 workers in the component sector that are reported to have been made redundant over the previous two years or are expected to be made redundant by September 2007.<sup>43</sup>
- 4.74 Even over the course of this inquiry at least 30 small automotive component companies are reported to have closed or downsized operations.<sup>44</sup> The Committee understands through media and other reports that this figure is likely to be understated.
- 4.75 DEWR reports that:
- many, but not all, of these job cuts relate to the local vehicle manufacturers' changed purchasing arrangements. In most instances, job cuts that related to loss of contracts will occur

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43 DEWR, *Submission No. 11*, p. 25; AMWU, *Submission No. 17*, p. 5.

44 DEWR, *Submission No. 11*, pp. 36-38.

gradually over the next 12 to 18 months as the manufacturers move on to the production of new models.<sup>45</sup>

- 4.76 Although these are significant redundancies, the Committee was told by DEWR that they do not warrant an extension of labour adjustment arrangements because:
- The job cuts in the component sector have long lead times, with many of the redundancies taking effect over 12 to 18 months. This provides employees with significant time to consider other employment options.
  - The job cuts will occur over a geographically dispersed area in locations across metropolitan areas of Melbourne, Adelaide and Sydney. Most instances of redundancies involve about 100 people, a number which can usually be absorbed in the current buoyant labour market where skilled workers are in demand.
  - The employers' certified agreements frequently provide for outplacement and financial assistance to the affected workers to assist them to find alternative employment. Anecdotal evidence from employers suggests that many retrenched employees are finding alternative employment very quickly, in some cases before their notice period expires.<sup>46</sup>
- 4.77 Notwithstanding these claims, the Committee concludes that employees made redundant from component suppliers face the same difficulties in accessing the labour market as individuals made redundant from the MVPs. In particular, they face difficulties in re-skilling or gaining skills recognition.
- 4.78 The AMWU cited a February 2006 survey on the employment outcomes of 872 redundancies that took place at two component manufacturers (Ion and Tristar) during August to October 2005. The survey found that the employment outcomes of these workers were significantly lower than those outcomes reported for the labour adjustment programs (see Table 4.2).<sup>47</sup>
- 4.79 The significant levels of unemployment and underemployment as well as the fall in wages and loss of long term security are concerning – particularly when a coordinated labour support package is not available to these employees.

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45 DEWR, *Submission No. 11*, p. 25.

46 DEWR, *Submission No. 11*, p. 25.

47 AMWU, *Submission No. 17*, pp. 5–6.



Table 4.2: Case study: Outcomes for redundant workers in the automotive components industry: Ion and Tristar

Number employed	37.2%
Number unemployed	29.5%
Number retired (including prematurely)	10.3%
Number prematurely retired	5.1%
Not looking for work	23.1%
Unemployment rate	48.2%
Average length of unemployment	5 weeks
Number employed in manufacturing	41.4%
Number full time	48.3%
Number part time	10.3%
Number casual	31.0%
Number self employed	10.3%
Of full time workers, average hours	44.4
Number of hours more than previous job	10.0%
Of those now employed how many suffered a reduction in wages	89.7%
Average fall in wages	28.3%
Number who think their long term security has suffered significantly from the redundancy	50.0%

Source Australian Manufacturers Workers' Union, Submission No. 17, pp. 5-6

- 4.80 A number of submissions called for the labour adjustment packages to be available to the entire industry because downsizing by the major manufacturers is felt across the supply chain.<sup>48</sup>
- 4.81 The Victorian Government submitted examples of successful labour adjustment programs to mitigate the effects large scale redundancies as a result of policy changes. Key features of the programs were that they focussed on supporting employees while they were still employed to plan

48 FAPM, Submission No. 16, p. 24; AAAA, Submission No. 18, p. 7.

job transition and access further education and training, or to facilitate a smooth transition to retirement.<sup>49</sup>

- 4.82 The Committee concludes that, in the first instance, a national study of employment outcomes for displaced workers is required. This study should consider all affected workers across the automotive and automotive components industry.

### **Recommendation 10**

**The Committee recommends that the Australian Government commission a national study on the post-redundancy outcomes for workers in the automotive industry which takes into account:**

- **employment, educational and social outcomes for those individuals accessing a formal labour adjustment program; and**
- **employment, educational and social outcomes for those individuals made redundant in the automotive component manufacturing sector not covered by a labour adjustment program.**

## **International labour adjustment programs**

- 4.83 Large scale redundancies in the automotive industry are not unique to Australia. Responses to similar closures in other countries hold valuable lessons for the Australian and state governments, and the industry. In addition to requiring a national study on post-redundancy outcomes across all segments of the automotive industry, the Committee gave consideration to the range of assistance provided through similar programs here and overseas.
- 4.84 In particular, the closure of MG Rover in April 2005 led to a support package focussing on support for displaced workers and supplier firms. This closure resulted in the direct loss of 6 200 jobs at Rover and along the supply chain. The closure also affected suppliers and other dependent businesses responsible for 13 000 jobs.<sup>50</sup>

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49 Victorian Government, *Submission No. 24*, p. 17.

50 *MG Rover Task Force: The Final Update Report: The Work Goes On*, prepared for the Department for Trade and Industry, United Kingdom (UK), March 2006, p. 10.

- 4.85 The £170 million rescue package was provided by the Government in conjunction with other bodies, including local government. This package covered the one-off costs of the support package for affected employees, suppliers and dealers.<sup>51</sup>
- 4.86 Support for employees included:
- community helpline to support employees and their families;
  - job and training support to deliver long and short term vocational employment;
  - training support including the establishment of a skills hub offering travel subsidies, minimum training and wage induction subsidies; and
  - community support to provide assistance to local businesses and support for residents in key affected areas to move into sustainable employment, particularly ensuring young people were cognisant of job prospects.<sup>52</sup>
- 4.87 As at March 2006, 4 000 displaced workers (63 per cent) had found employment, ninety per cent of which were in long-term full-time jobs. Half of those in employment were earning less than previously, but one quarter were earning more.<sup>53</sup>
- 4.88 A key feature of the rescue package was a focus on supporting suppliers to diversify their operations and avoid further redundancies through:
- short term tax relief and wage and business planning support, including a dedicated supplier helpline;
  - wage replacement scheme to support suppliers to avoid immediate redundancies by providing funding per employee while business planning was amended;
  - a scheme to improve supplier competitiveness and resiliency;
  - support for Tier 1 and 2 suppliers to improve quality, cost and delivery measures and up-skill employees to ensure that skills were nationally recognised and transferable to other industries; and

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51 *The Closure of MG Rover*, National Audit Office, House of Commons (UK), 7 March 2006, p. 1.

52 Information in this section drawn from *MG Rover Task Force: The Final Update Report: The Work Goes On*, prepared for the Department for Trade and Industry, UK, March 2006.

53 *MG Rover Task Force Six Months On*, prepared for the Department for Trade and Industry, UK, November 2005, pp. 6, 10.

- support for small to medium suppliers to improve their competitive position to penetrate new markets and develop new products.<sup>54</sup>
- 4.89 The focus on supporting the supply chain was considered successful as it resulted in far fewer closures than anticipated (11 out of 150 companies) and kept job losses to a minimum.<sup>55</sup>

## Lessons for future labour adjustment programs

- 4.90 While the Mitsubishi labour adjustment program can be considered successful, and provided lessons for the development of the Holden labour adjustment program, there are still lessons to be learned for future programs.
- 4.91 The Committee notes that the Productivity Commission acknowledged that the policy changes regarding reductions in tariffs and changes to the Automotive Competitiveness and Investment Scheme (ACIS) would result in a contraction in employment levels.<sup>56</sup> In addition, due to the sporadic nature of component sector redundancies and their likely continuance, it is necessary to establish general labour readjustment arrangements that are available to the industry as a whole.
- 4.92 These arrangements should include support for individuals to access training, gain new employment and transition to retirement. Further, they should be focussed on supporting suppliers to build international competitiveness and mitigate redundancies caused by changed MVP purchasing arrangements.
- 4.93 Component sector redundancies often have long lead times, which presents the ideal opportunity to ensure that workers are suitably skilled and supported to seek alternative employment. Evidence from the delivery of the Mitsubishi LAP indicates that engagement with workers before formal retrenchment resulted in more positive outcomes. The Victorian Government experience with labour adjustment programs across other industries echoes these findings.<sup>57</sup>
- 4.94 The following sections set out some of the key features that the Committee considers should be included in a general labour adjustment program. However, the Committee would also expect that any such program would build on the lessons learnt by national and international best practice.

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54 Information in this section drawn from *MG Rover Task Force Six Months On*, prepared for the Department for Trade and Industry, UK, November 2005.

55 *MG Rover Task Force: The Final Update Report: The Work Goes On*, prepared for the Department for Trade and Industry, UK, March 2006, p. 15.

56 Productivity Commission, *Review of Automotive Assistance Inquiry Report*, 2002, p. 206.

57 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, pp. 4-5.

## Specific support packages

- 4.95 Despite some concerns already outlined, the labour adjustment programs put in place for those individuals made redundant by Mitsubishi and Holden over 2004 to 2006 were generally successful. One of the reasons for this was the lead agency role played by the DEWR and the delivery of services at times and locations that suited workers.<sup>58</sup>
- 4.96 Therefore, the Committee is of the opinion that the support provided through these programs should be continued in a general labour adjustment program for the automotive components industry. In particular, programs should provide the following:
- lead agency coordination;
  - on-site job search facilities;
  - skills assessment and recognition services;
  - financial and career counselling;
  - support to access appropriate employment assistance and complete job applications; and
  - accelerated training opportunities and focussed training to meet areas of skills shortages.
- 4.97 Many individuals employed by the automotive industry, both component and MVP, have been in the same jobs since leaving school and have never considered other employment options, nor completed job or employment assistance applications.<sup>59</sup> Support to develop these basic job search skills is essential.
- 4.98 In addition, the arrangements should include a comprehensive re-skilling framework for the industry to encourage redundant workers to upgrade their skills and remain within the industry.
- 4.99 In addition, MVPs and the supply chain are also often the major regional employer so any downturn in employment can cause significant stress to the community as a whole. It is therefore important to ensure that support arrangements:
- provide avenues to address concerns of the community facing the loss of a major employer; and

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58 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, pp. 4–5; Mr J. Dalton, Victorian Government, *Transcript of Evidence*, 26 June 2006, p. 81.

59 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, pp. 4–5.

- provide support to young people to ensure they are aware of a wide range of employment options.

## Supply chain support

- 4.100 A downturn in production at the MVPs has the potential for serious negative consequences in business and employment along the supply chain. Labour adjustment programs that only target individual employees rather than focussing on building sustainable industries have missed the opportunity to mitigate supply chain redundancies.
- 4.101 The general labour adjustment program should focus on building the sustainability of the automotive components industry by providing support:
- for business planning to identify a diversified customer base and link to global supply chains;
  - to improve competitiveness, by providing better access to export programs and business skills to penetrate new markets;
  - to address the immediate impact of contract losses while business planning is undertaken; and
  - for employee training to ensure the transferability of skills, therefore building the capacity of the industry as a whole.
- 4.102 These general labour adjustment packages must focus on the sustainability of the components industry as a whole and be pro-active, rather than reacting to individual downsizing and closures.
- 4.103 It is also important that in the development of this program that the industry recognise its mutual dependence. As the local components industry grew out of the need to service the local MVPs, it may be necessary for the MVPs to now provide support to the components industry to identify opportunities to link to global supply chains and export markets.

## Recommendation 11

The Committee recommends that the Australian Government develop a general labour adjustment program for the automotive component industry that focuses on:

- provision of training and employment support strategies to assist employees while they are still employed;
- targeted training to up skill displaced workers into areas of skills needs;
- addressing the concerns of the wider community about the impact on regions where the automotive components industry is a major employer; and
- provision of support to companies along the supply chain to promote sustainability in the industry.

## Committee comment

- 4.104 The industry is in a contradictory situation. On the one hand it is facing skills shortages in key areas and on the other it has faced several large redundancy actions.
- 4.105 Unfortunately redundancies may continue to be a feature of the industry in the near future. In recognition of this, labour adjustment measures should be implemented that provide support to mitigate the effect on supply chain employment.
- 4.106 Whole-of-industry labour adjustment measures should also allow for skills shortages to be addressed by providing support and incentives for redeployed individuals to undertake training to stay within the industry.
- 4.107 The industry is facing several challenges to its future as discussed throughout this report. However, the Committee is of the opinion that the industry can secure an ongoing and viable future. The next chapter discusses the way forward