FEDERAL CHAMBER OF AUTOMOTIVE INDUSTRIES

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The Secretary
Standing Committee on Employment,
Workplace Relations and Workforce Participation
House of Representatives
Parliament House
CANBERRA ACT 2600

SUBMISSION TO THE INQUIRY INTO EMPLOYMENT IN THE AUTOMOTIVE MANUFACTURING SECTOR

This submission is made on behalf of the Federal Chamber of Automotive Industries, representing the interests of motor vehicle manufacturers and importers of passenger cars, sports utility vehicles, light commercial vehicles and motor cycles in Australia.

This submission seeks to address several of broad issues relating to the competitive environment facing the Australian automotive industry and the possible implications for employment trends, skills and training requirements in the broader Australian automotive industry, including the component manufacturing sector.

A. THE COMPETITIVE ENVIRONMENT

The evolving competitive environment for Australian automotive manufacturers has become significantly tougher over the past two or three years. These changing circumstances have strongly impacted the performance of Australian vehicle manufacturers and, in turn, this has added to the competitive pressures being experienced by many firms in the component manufacturing sector.

Over this period, the competitive environment facing the Australian automotive industry has been strongly influenced by a range of factors, including the following:

- *Sustained appreciation of the $A*: A booming resources sector, strong commodity prices and surging terms of trade have underpinned an appreciation of the $A of more than 30 per cent since late-2002.

- *Global corporate environment*: The commercial pressures on many parts of the industry are demonstrated by the ongoing extent of bankruptcies and closures among significant component suppliers and corporate realignments and restructuring being undertaken by many international vehicle manufacturers. The competitive challenges facing the parent companies of Australian-based vehicle manufacturers are well documented.

- *Global supply chain management*: As global manufacturers have sought to better integrate diverse international manufacturing operations, supply chain management has been increasingly influenced by global approaches to sourcing, pricing and quality. These developments have placed increased competitive pressures on Australian vehicle manufacturers and local component suppliers.

- *Emergence of China, India and Thailand*: These economies have been successful in rapidly expanding productive capacity in vehicles and automotive products. At the same time, these and other emerging economies, apply various tariff and non-tariff barriers which impede Australian automotive exports.

- *Changing Market Segmentation/Fragmentation of Local Market*: The Australian vehicle market is characterised by a proliferation of brands and models. There are 40 brands competing in the light vehicle segments of the market, more than in many much larger markets. As a result, average volumes per brand in Australia are much lower than in major international markets such as the United States, Japan and the European Union. The market share of locally manufactured vehicles has declined steadily over more than a decade and has continued to test record lows in recent months.

- *Fuel Prices*: Rising fuel prices have been a factor compounding the impact of changing market segmentation over the past year. Consumer sensitivity to increased fuel prices and fuel economy issues has contributed to falling market share for large passenger cars.

It is noted that much of the recent change in competitive circumstances has been driven by factors which are beyond the control of the Australian industry, or government policy. Indeed it is readily acknowledged that Australian automotive manufacturers operate with the support of policy settings, calibrated to underpin ongoing investment in the industry.

Impact on Cost and Price Competitiveness

These circumstances have contributed to a significant shift in the competitive balance between imported and locally manufactured vehicles in the period since the completion of the most recent review of policy arrangements for the automotive industry in late 2002.

Table 1, over page, provides an indication of the approximate deterioration in cost competitiveness for a locally manufactured vehicle, relative to an imported vehicle of similar original value. On the basis of this generic calculation, the competitive position of a locally made vehicle has deteriorated by around $5,000 since late 2002, for a $20,000 locally made vehicle, against an imported vehicle of similar value.

From Table 1, it is noted that local manufacturers have received some cost saving as a result of the currency effect on the imported proportion of components used in production but this is more than offset by the exchange rate benefit for the fully imported vehicle. This calculation also takes into account the benefit of ACIS production credits received by vehicle manufacturers, although the average value of these credits is affected by changes in the tariff changes in the modulation rate.

Of course, this deterioration in the cost competitiveness of manufacturers in the domestic market would also be reflected by a similar deterioration in the competitive position of Australian made vehicles for export.

Table 1: Changing Cost Competitiveness

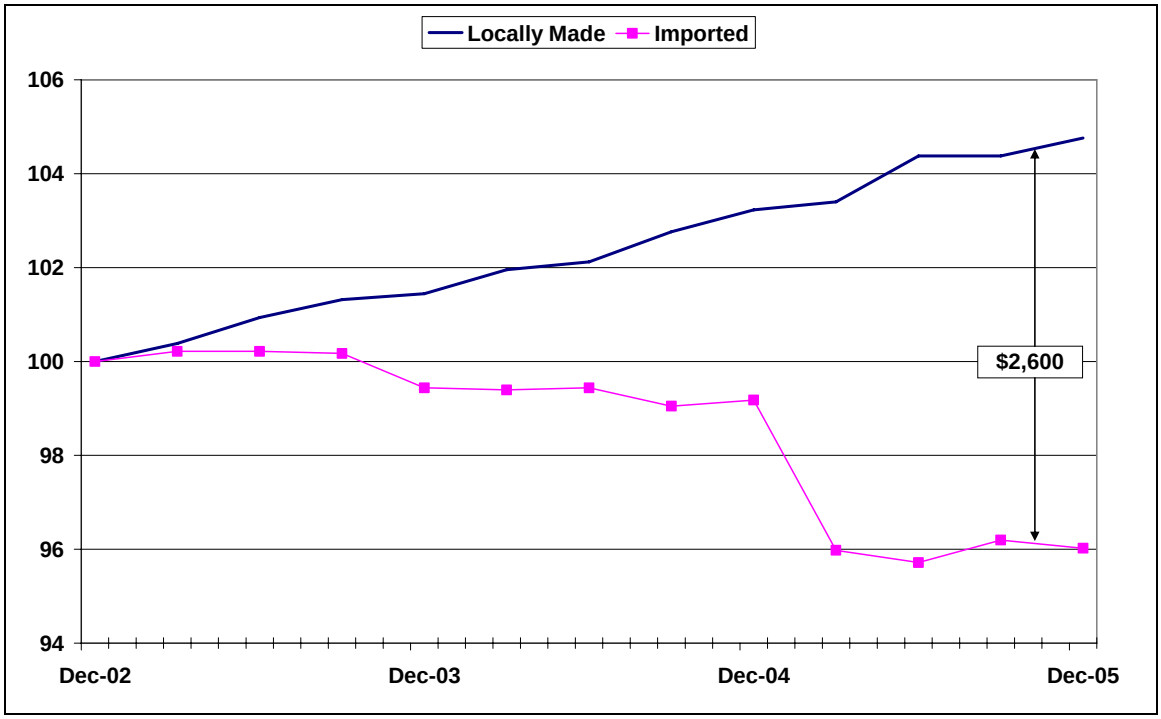
Dec Q 2002				
Imported Vehicle		**Locally Made Vehicle**		
Item	**Cost ($)**	**Item**	**Cost ($)**	**Comp Adv ($)**
		Local content	14,000	
		Imported content	6,000	
Import value (fob) ($US11,200/0.56)	20,000	Factory cost	20,000	
Tariff (@15%)	3,000	ACIS prod credit	(640)	
Net cost	23,000	Net cost	19,360	3,640
Dec Q 2005				
Imported Vehicle		**Locally Made Vehicle**		
Item	**Cost ($)**	**Item**	**Cost ($)**	**Comp Adv ($)**
		Local content	14,000	
		Imported content	4,380	
Import value (fob) ($US11,200/0.75)	14,933	Factory cost	18,380	
Tariff (@10%)	1,493	ACIS prod credit	(410)	
Net cost	16,426	Net cost	17,970	(1,544)
Net change				(5,184)

A further indication of the changing competitive balance can be gauged by comparing relative movements in retail price indices. Chart 1, over page, illustrates the extent of the divergence in retail prices for imported and locally produced vehicles over this period.

Since the December quarter 2002, the imported vehicle retail price index has declined by around 4 per cent. Over the same period the locally manufactured price index increased by almost 5 per cent. Thus over this period, there has been an overall deterioration in retail price competitiveness for the locally manufactured vehicles of around 9 per cent.

The impact of this divergence can be readily illustrated if one assumes a common retail price for an imported and an equivalent locally produced vehicle of $30,000 in the December quarter 2002. Given the percentage changes in the price indexes, by end-2005 the imported vehicle would have opened up a price advantage over the locally produced vehicle of around $2,600. While a proportion of this change must be attributed to the partial 'pass through' of exchange rate appreciation, some impact must also be attributed to the reduction of tariffs from 15 per cent to 10 per cent on 1 January 2005. Indeed the significant from Chart 1, it is noticeable that there is a significant step down in import prices in the March quarter 2005, coincident with the change in tariff rates.

Chart 1: Relative Retail Price Changes: Locally Manufactured v Imported Vehicles



Impact on Vehicle Sales

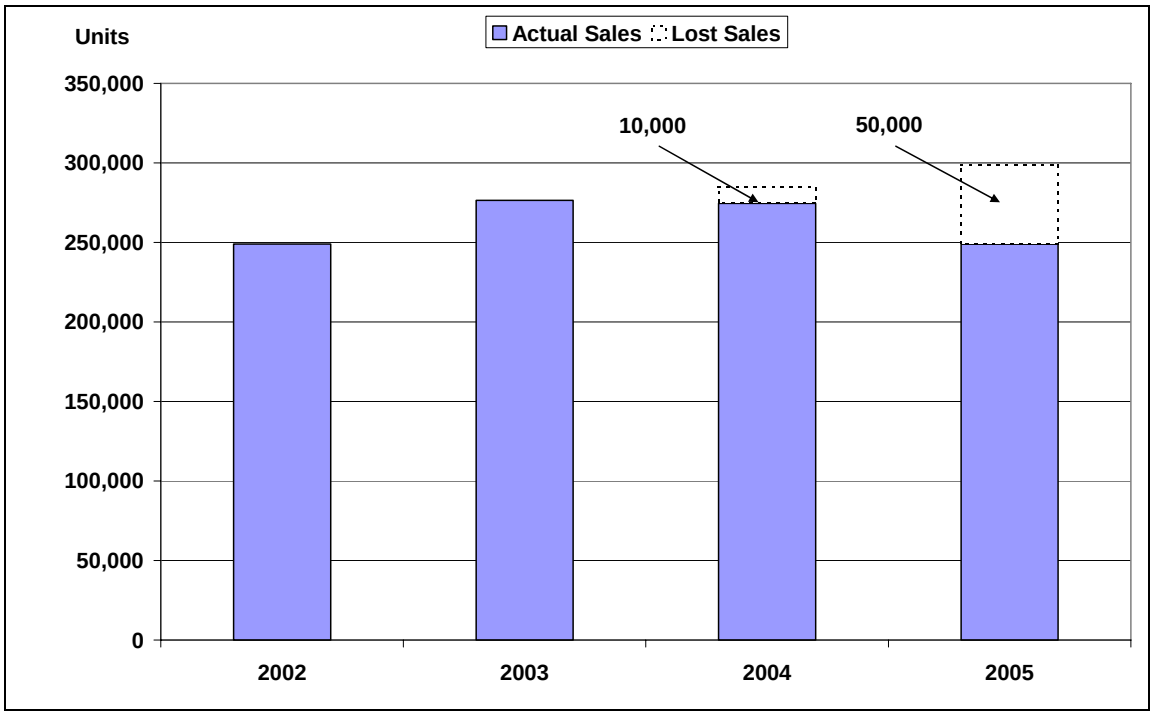
A corollary of the change in cost and price competitiveness, discussed above, is that there has also been a resultant loss of sales of locally manufactured vehicles in the Australian market. Chart 2 provides measure of the estimated loss of sales of locally made vehicles over the period from 2002-03.

Based on the share of total sales of all light vehicles held by local manufacturers in this base period, it can be seen the effective loss of sales rose from an estimated 10,000 units in 2004 to 50,000 units in 2005.

The major proportion of this loss in volume is accounted for by the decline in market share for locally manufactured passenger cars. While the significant loss of passenger car sales is partially offset by the emergence of locally manufactured SUVs, since early 2004, a drop in the

market share of locally made light commercial vehicles contributes around 5,000 units to the overall loss of sales in 2005.

Chart 2: Lost Sales for Local Manufacturers in the Australian Market



Outlook for Production and Employment

The outlook for automotive manufacturing production and employment will be strongly influenced by the direction of the domestic market in the near term.

The loss of local market volume and the reduced competitiveness of Australian automotive exports have placed significant pressure on the ability of Australian vehicle manufacturers and the component manufacturing sector to maintain production volumes and employment.

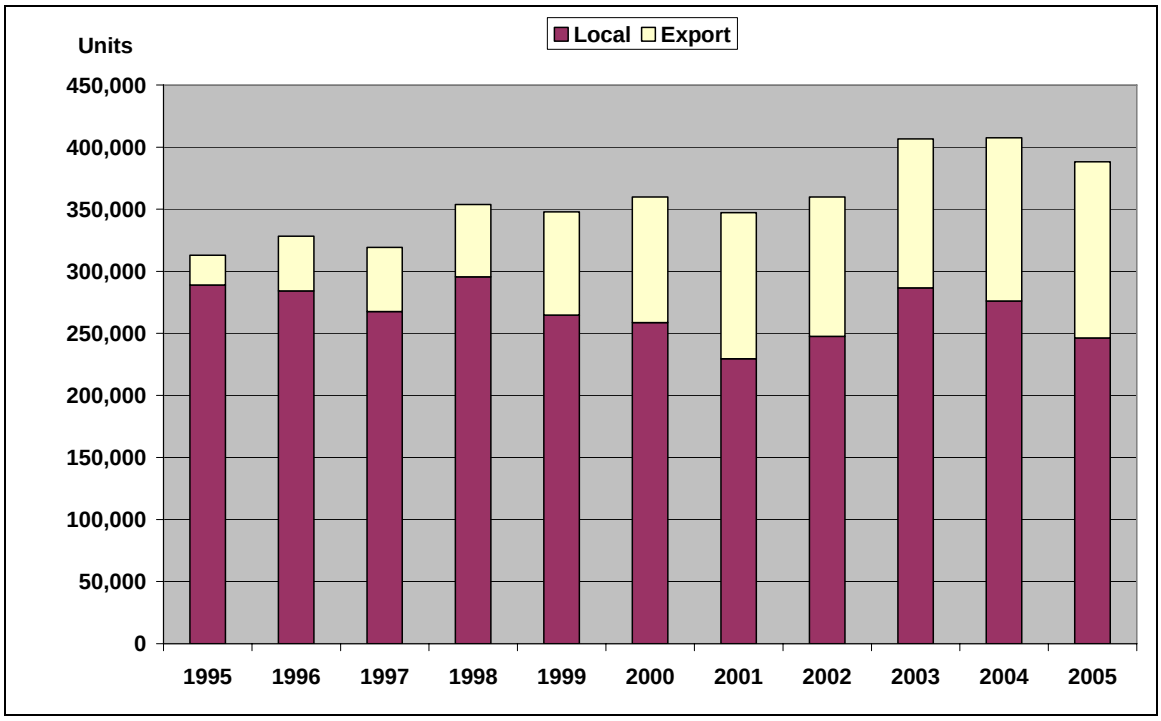
As Chart 3 shows, from a recent high of around 408,000 units light vehicle production in Australia slipped back to around 390,000 last year.

From Chart 3, it can also be seen that there has been a growing contribution to domestic production volumes as a result of the increased volume of vehicle exports over the past decade. However, as is the case in the domestic market, the competitive position of local manufacturers has been adversely affected by the appreciation of the $A against key currencies in recent times. Equally, Australian vehicle exports continue to be narrowly concentrated in a limited number of key markets (Middle Eastern markets such as Saudi Arabia, UAE, Kuwait, Oman, Qatar and Bahrain account for more than 55 per cent of the value of vehicle exports). Notwithstanding the prospects for a successful conclusion to the WTO Doha Round, or the implementation of further possible free trade agreements (FTAs) Australian automotive

exports continue to face significant (non-tariff) market access barriers in the Asia Pacific region.

In the near-term, the pending release of several key new locally manufactured models may provide an opportunity for locally manufacturers to offset or restore some of recent loses in domestic market share. Nonetheless, it is likely that production and employment in automotive manufacturing will continue to grow more slowly than the average for the Australian economy as a whole.

Chart 3: Australian Production of Light Vehicles



Summary of Key Points

The competitive environment facing Australian automotive manufacturers has become significantly tougher over the past two or three years. As a result of significant loss of cost and price competitiveness, Australian vehicle manufacturers have lost a significant volume of sales in the domestic market and face increased competitive pressure in existing and potential export markets.

Lost sales and reduced production by local vehicle manufacturers have also impacted on conditions and employment in the automotive component manufacturing sector.

In the near term, the introduction of several new vehicle models may help to underpin market share for local manufacturers.

Notwithstanding this prospect, production and employment growth in the Australian automotive industry, including the component manufacturing sector, is likely to below the average for the broader Australian economy, in the near term.

B. SKILLS AND TRAINING REQUIREMENTS

In common with many other sectors of the Australian economy the Australian automotive industry faces tough competition to attract and retain skilled employees. In this environment it is essential that industry has access to reliable information about changing patterns in labour supply and demand and the availability of highly-valued skills.

Equally, there are advantages in ensuring that the development of training packages is tailored to meet the emerging requirements of industry and that there is a strong degree of national consistency and coordination in the development of training approaches at the various stages of the industry supply chain.

National Coordination of Industry Training Arrangements

Over a number of years the Australian automotive industry has participated in national arrangements to ensure the coordinated development of training standards and qualifications.

FCAI is joint shareholder in Automotive Training Australia Ltd (ATA), a not-for-profit entity established to provide advice on the training needs of the Australian automotive industry and to develop nationally consistent training standards to meet those needs.

ATA currently undertakes the development and maintenance of training packages for automotive (vehicle) manufacturing and automotive retail, service and repair.

In 2003, the former Australian National Training Authority (ANTA) initiated a process for the reform of national industry training advisory arrangements, seeking to restructure and replace around 29 former industry training advisory boards and similar bodies with 10 new industry skills councils.

It was envisaged that the new skills councils would reduce the extent of duplication in the proliferation of training packages servicing a broad range of industry areas with common skill requirements. It was also intended that industry skills councils would be established to fulfil two main roles:

- Providing accurate industry intelligence to the VET sector about current and future skill needs and training requirements, and

- Supporting the development, implementation and continuous improvement of quality nationally recognised training products and services, including training packages.

In 2005, ANTA was abolished and responsibility for its functions, including oversight of the new industry skills councils, reverted to the Department of Education, Science and Training.

Under current arrangements, primary responsibility for the development of training standards and qualifications in the automotive component manufacturing sector has been assumed by Manufacturing Skills Australia (MSA).

While FCAI, in principle, has been supportive of the objectives of the reform of national training advisory arrangements it also holds a number of significant reservations about the structure, governance arrangements and effectiveness of the industry skills councils as implemented. As a result, FCAI and other ATA shareholders (principally the Motor Trades Association of Australia) have declined to join MSA or any other industry skills council. In particular, our concerns encompass the following:

- Many training packages continue to reflect a strong link between training qualifications and award based classification structures and associated minimum training requirements. This tends to reinforce the linkage between training, qualifications and remuneration levels. FCAI seeks a more flexible approach emphasising the acquisition of relevant skills. The classification of job descriptions and remuneration levels should be based on the functions performed, productivity and the level of responsibility accepted.

- The governance arrangements for industry skills councils tend to reinforce pre-existing patterns of industrial representation. FCAI believes that the development of training standards and classifications should be based on the skill requirements of industry.

- Many stakeholders do not make any own-source contribution to the costs of administering national industry training advisory arrangements. In contrast FCAI and MTAA have consistently contributed significant resources to ATA's operating costs. Automotive industry participation in an industry skills council would need to be undertaken on the basis of an equitable commitment of resources by all relevant stakeholders.

It is FCAI's submission that further reform of industry training advisory arrangements is warranted.

For the automotive industry, it would be desirable that a stronger degree of integration be achieved along the supply chain, in the development of training standards and the provision of advice on emerging skills trends and requirements.

FCAI doubts that this outcome can be achieved under the existing model for industry skills councils. Accordingly, FCAI submits that an alternative approach needs to be implemented which minimises the extent of duplication across the range of sectoral industry training packages, while ensuring that the development of training standards is more responsive to emerging industry needs and encourages a stronger level of integration within extended industry supply chains.

It is FCAI's view that such an approach would lead to improved training and productivity outcomes for all parts of the automotive industry, including the automotive components manufacturing sector.

Summary of Key Points:

FCAI believes that the existing model for development and maintenance of industry training packages, through existing industry skills councils has failed to deliver outcomes which fully respond to the changing skills requirements of the Australian industry.

FCAI supports further reform of national industry training arrangements to ensure that future training packages offer a more flexible approach to the development of skills and qualifications, breaking the nexus between these and workplace classification structures and pre-existing patterns of industrial representation.

FCAI believes there would be benefits from the closer integration of the development of training arrangements along the extended supply chain in the Australian automotive industry, encompassing, automotive component manufacturing, vehicle manufacturing and the retail, service and repair sector.

Contact Information

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