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**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON EMPLOYMENT, WORKPLACE
RELATIONS AND WORKFORCE PARTICIPATION

Reference: Employment in the automotive component manufacturing sector

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON EMPLOYMENT, WORKPLACE RELATIONS AND WORKFORCE

PARTICIPATION

Tuesday, 21 March 2006

Members: Mr Barresi (*Chair*), Mr Brendan O'Connor (*Deputy Chair*), Mr Baker, Ms Hall, Mr Hayes, Mr Henry, Mrs May, Mr Price, Mr Randall and Mr Vasta

Members in attendance: Mr Baker, Mr Barresi, Mr Henry and Mr Brendan O'Connor

Terms of reference for the inquiry:

To inquire into and report on:

Employment opportunities and challenges in the Australian automotive component manufacturing sector with a focus on the following issues:

- Current and future employment trends in the industry;
- Emerging skill shortages and appropriate recruitment and training strategies;
- Labour adjustment measures required to assist redeployed and affected workers; and
- Measures to support skills development, innovation and investment in the industry.

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Committee met at 9.44 am**YILMAZ, Mrs Leyla, Manager Industrial and Employee Relations, Victorian Automobile Chamber of Commerce**

CHAIR (Mr Barresi)—I declare open this public hearing of the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation inquiry into employment in the automotive component manufacturing industry. The inquiry arises from a request to this committee by the Minister for Employment and Workplace Relations. Written submissions were called for and 21 submissions have been received to date. The committee is now starting its program of public hearings and informal discussions. This is the first hearing of the inquiry and we welcome those who will be participating.

I welcome the representative from the Victorian Automotive Chamber of Commerce. Although the committee does not require you to give evidence under oath, I should advise you that these hearings are formal proceedings of the parliament. Consequently they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. We invite you to make a brief statement in relation to your submission, which committee members have before them, and we will then move to questions and answers.

Mrs Yilmaz—Thank you. The Victorian Automobile Chamber of Commerce has a membership of some 5,500 employers, predominantly in the repair, service and retail sector. However, we have quite a significant number of members who are in the manufacturing side of components, parts and special vehicles. We do not represent the major motor vehicle manufacturers, so Holden, Toyota, Mitsubishi and Ford are not members of VACC. There are synergies between the repair, service and retail sector and the component manufacturing sector, insofar as skills and skill shortages. The automotive training packages themselves derive from the same underpinning skills and training.

Membership of VACC is well aware of the effects of the overseas competition on component manufacturing and the effects have been felt throughout the automotive industry. Whilst VACC tendered a very short submission, we have attempted to identify some key issues that we believe are important for the committee to be aware of. We attached the change drivers report, which is a summary report from Automotive Training Victoria, which conducts significant training in the component manufacturing and repair, service and retail sector. I also have a more detailed report. If you would like to see the more detailed report, I am very happy to provide that for you.

In effect, the change drivers report identifies a number of key issues and provides some detail in relation to the synergies between the two groups—the repair, service and retail and the manufacturing sectors. The component industry, while it is hardest hit by overseas competition, is not in isolation from the rest of the automotive industry. The component manufacturing and the repair, service and retail sectors operate in an environment of very tight competition, very high competition and tight profit margins.

The technological advances and the rapid changes in technology are demanding more efficient practices across both sectors of the industry and the cost of operating business is continually increasing in Australia. Both sectors of the industry are affected by that. Most of the industry is

small to medium sized business and, although it is the case that there are these significant impacts on the industry, there is quite a significant investment in training in both sectors, particularly in the repair, service and retail sector.

The other points are summarised on page 2 of our submission. But for the purposes of today, the major point that we want to make in this inquiry is that, from the automotive perspective, it is extremely important that we retain skills. Whether those skills are initially created in the component manufacturing sector or the repair, service and retail sector, it is important from our perspective to retain skills and build on them, given that we have severe skill shortages. There is also a need to better manage labour resources and this does need some significant work across the two sectors.

The Award Review Taskforce is reviewing industry awards, federal awards and classification structures and rates of pay and we make a cautionary note that, whatever work the Award Review Taskforce pursues, it does not in any way undermine the classification structures which currently do relate to the training packages and the career pathways in the automotive industry. We have already made that point to the Award Review Taskforce. It is an industry that is quite distinct and we do not sit comfortably under ANZSIC—the Australian and New Zealand Standard Industry Classification—structures. We are scattered across 10 industry sectors of ANZSIC and many more numerous subsectors of ANZSIC.

We believe that maintaining the recognition of the industry as a whole will assist the industry in terms of mutual recognition of skills and training, and also assist the transition of individuals that move between the component manufacturing sector or the manufacturing sector as a whole to the repair, service and retail sector, or vice versa. Thank you.

CHAIR—Thank you very much, Mrs Yilmaz. I am tempted to go straight to the comments that you make on the Award Review Taskforce, but I will leave that for later. You make a couple of observations about the reasons why South Australian redeployment of redundant Mitsubishi employees failed. Can you elaborate on some of the points that you have made, particularly the lack of coordination with Job Network agencies and the lack of understanding of which skills were transferable? Who was responsible for that? Where was the breakdown, from your perspective, in that redeployment?

Mrs Yilmaz—It was explained to me by our South Australian sister organisation that they were very keen to try and assist in the redeployment of those Mitsubishi workers into the repair, service and retail sector. However, the Job Network agencies do tend to operate in isolation in many respects and, therefore, contacting one or two does not necessarily assist in communication across the network agencies. That was one issue that they had identified that perhaps could be dealt with more efficiently. From that perspective, where individuals were registered with one particular Job Network agency, for employers in another area that were registered with another Job Network agency, some of that communication was not flowing through effectively to assist with the redeployment of those individuals.

One of the other issues was the identification of skills. In terms of the component manufacturing sector and the vehicle manufacturing sector, particularly the large vehicle manufacturers, rates of pay are significantly higher than the repair, service and retail sector. Sometimes that can be a disincentive to re-engage in the repair, service and retail industry, even

though a number of those skills—particularly the underpinning skills—are transferable. There are many instances where some of those skills do need some upskilling because the nature of the work can be very specialised in those manufacturing areas and, therefore, moving over into the repair, service and retail sector, there is often a need to upskill to a broader range. That is also the case in relation to the employment and labour practices, because the repair, service and retail sector is an industry that tends to rely more on multiskills as opposed to the perfection of specific types of skills.

CHAIR—Were the labour adjustment packages that were available for those Mitsubishi workers used at all for the upskilling?

Mrs Yilmaz—One of the concerns there is that when someone already has a certificate III qualification—a trade qualification in the automotive industry—if they need additional skills and they may be at a certificate III level, the current funding arrangements and the vocational education training arrangements do not allow for the upskilling of those individuals. What often happens is that employers who do take on these individuals want to retrain them in the trade, a specific certificate III trade. They do not get the funding; therefore, they become a full fee paying student and that tends to be prohibitive for employers. This is an issue that we have identified and articulated in the Victorian vocational education training inquiry. It is something that is quite common across all states and territories. That is the general principle: the funding arrangements behind training prevent often the upskilling of individuals on that same level. That is a core issue that does need addressing.

CHAIR—On the subject of the Mitsubishi workers, another point you made was the lack of interest from highly paid redundant employees to go into lower paid jobs. When we see redundancy taking place in the IT-telco type industries, they tend to still stay within the industry. That does not seem to be taking place in the automotive industry. Where are they going? Are they setting up their own businesses? Are they taking the redundancy packages?

Mrs Yilmaz—We do not know. We do not have any information.

CHAIR—There is no tracking taking place by industry?

Mrs Yilmaz—No. We have attempted just in Victoria, through Automotive Training Victoria, to track and assist in the transition of those employees, but again we have not had any major success there. We do not really know where these individuals end up, which is a shame because they do have quite detailed skills which can be transferable, even if it means upskilling to a certain point or just changing their skill base to a certain point.

Mr BRENDAN O'CONNOR—Thanks for your submission on the industry. Can I go to the matter that Phil raised and that in fact you raised in your remarks, and it was also incorporated in the written submission, and that is the need to protect current training packages and career pathways. Could you tell the committee the current career path. I am assuming it is based in agreements or awards and it is a skill based path, but can you provide some further detail. Is it a number of levels and there are increments within the levels and there are certain competency requirements for each increment? Is it automatic? Is it an annual incremental increase? How does it work?

Mrs Yilmaz—Generally, in the automotive sector there are two principal industry awards, and the industry predominantly does rely on awards, although there is quite a significant over-award informal agreement making that does take place. There are two principal awards, the first award being the repair services and retail award, which covers a broad range, from repair, service and retail straight across. It includes your service stations, your body repairers, your farm machinery dealers, your new car dealers, your used car dealers, your towing operators, your little specialist repairers—auto electrical et cetera. It includes anyone who has anything to do with the motor car, once it comes off the production line up until it becomes scrap metal, so it includes your automotive recyclers as well. Everyone within that range is covered by that award.

Mr BRENDAN O’CONNOR—And it is obviously a federal award.

Mrs Yilmaz—It is a federal award.

Mr BRENDAN O’CONNOR—Is that confined to Victoria?

Mrs Yilmaz—No. It generally applies across Australia. It is a common rule award in Victoria; it is a common rule award in the ACT. It does not apply generally in the Northern Territory, and does apply to a significant degree but not completely in Western Australia. But the awards in Western Australia and the Northern Territory, and just about every state award, tend to mirror most of the provisions, so there are consistent provisions across the industry sector, and the classification structures are aligned. The other award, being the Vehicle Industry Award, is predominantly a manufacturing based award, so it covers our component manufacturers, our parts manufacturers, our small metal related businesses, and those who make specialised vehicles like ambulances, small boats et cetera. They are the two major awards and, even there, there is a structure that does align, so the trade level is aligned.

Mr BRENDAN O’CONNOR—Is it based on the metals classification structure?

Mrs Yilmaz—Generally, yes. It is aligned. The Vehicle Industry—Repair Services and Retail—Award goes up to level 6, which is the equivalent of a trade rate. The Vehicle Industry Award, which is the manufacturing award, generally goes up to a trade rate but has a couple of levels more in the supervisory/specialist categories above trade level. It is the levels below that which allow for that career path and the recognition of skills, so it is quite common, particularly in Victoria—it is increasing in other states but has clearly taken off in Victoria—to have individuals coming through school based programs, for instance, and coming out at the certificate II level and then articulating to the certificate III. Those awards recognise the structures which allow them to come through the system. It also provides recognition of individuals who have certain years of experience in certain categories, which can articulate eventually up to a trade level. This is the connection that we are talking about when we have those levels within the one structure. It makes it a lot easier for someone who is in the manufacturing sector to come over, because generally they are coming up through a similar stream.

Mr BRENDAN O’CONNOR—Yes. There is portability.

Mrs Yilmaz—Yes.

Mr BRENDAN O'CONNOR—How did the actual structure come about? What parties were involved in determining the definitions and the structure itself inside the awards?

Mrs Yilmaz—Both of those awards have been rationalised over time, so obviously the major parties that are respondent to those awards were involved. The Victorian Automobile Chamber of Commerce, the Motor Traders Association of New South Wales and the Motor Trade Association of South Australia are the principal employer parties, although AIG and VECCI are also respondent but tend to have a lesser role in that sector. And we obviously have all the unions that cover the major areas: AMWU Vehicle Division, SDA, Transport Workers Union, what used to be the Miscellaneous Workers Union et cetera, who tend to cover the various categories of employment. They are also respondent. Those awards basically have been rationalised over time. It is something that we have attempted to do over many decades. We used to have multiple awards that covered our industry and we did, over time, rationalise them, so we now have the two key awards.

Mr BRENDAN O'CONNOR—The awards' structures themselves are skill based award structures.

Mrs Yilmaz—Yes.

Mr BRENDAN O'CONNOR—Approximately how many incremental points do you have from entry point to the highest level?

Mrs Yilmaz—In the repair services and retail award there are six. In the Vehicle Industry Award there are five, including trade rate, and above trade, broadly speaking, there are about another three.

Mr BRENDAN O'CONNOR—You raise concerns that the Award Review Taskforce, by its decision obviously pending, may or may not undermine the current classification structure and the training package. How could the review itself, in your view or in your organisation's view, undermine the awards that you have negotiated and determined in the industry? In what way do you think it could happen?

Mrs Yilmaz—Our major concern is the failure to recognise the key awards and structure. The major issue, I guess, is if the Award Review Taskforce relies on the ANZSIC structure as opposed to the major industry awards.

Mr BRENDAN O'CONNOR—Sorry, which structure?

Mrs Yilmaz—ANZSIC—the Australian New Zealand Standard Industry Classification structure. The reason why we have difficulty with the ANZSIC structure is that in the structure prior to 2006 our industry was scattered amongst seven industry sectors. With the 2006 structure our industry is scattered across 10 recognised industries. Even though trying to obtain statistics to identify major labour issues or productivity issues et cetera features in relation to our industry through the ABS, it is extremely difficult, because even when we go down to subcategories they are not necessarily reflective always of the automotive industry, so there is a lot of caution in the use of those statistics.

Broadly speaking, for example, when you have a look at the repair, service and retail sectors, which I explained earlier, a large body would be under retail but a significant body would fall under the manufacturing subcategories. There will be other parts of our industry that might find themselves under the accommodation and cafes area, and there will be another part that will probably fall within the personal and other services category. For instance, our businesses that repair cars and provide courtesy vehicles et cetera will be in the personal services. Our dealership area, those who have distribution outlets, could find themselves in storage and transport, as opposed to the retail sector. That is the confusing part and the difficulty that we have foreshadowed in relation to reliance on ANZSIC.

Mr BRENDAN O'CONNOR—Would that other approach—the ANZSIC approach—have fewer incremental points? What is the difference in the structure itself?

Mrs Yilmaz—The structure does not have incremental points in terms of classifications. It is just an attempt to identify in economic terms, sectors of industry. The purpose behind ANZSIC is to identify specific subsectors of industry for the purpose of generating economic data.

Mr HENRY—In your evidence you have talked about the impact on career pathways if the classifications fall away as a result of this review. What are the career pathways? How do they work? Are they only up to tradesman level or do they go beyond that? Could you clarify that?

Mrs Yilmaz—They do go beyond that although, generally speaking, other than the vehicle industry award, most of those levels beyond trade are award-free; your professional employees, your vehicle sales managers et cetera, middle managers and more senior employees, tend to be award-free. But it does articulate up to the trade level and that is our significant point: we do need to retain the career paths that can go up to the trade level and which can then ultimately allow them to go beyond trade level. But that, in our view, does not necessarily have to be replicated in the award structure, because that is an area where they tend to negotiate well in excess of award provisions anyway.

Mr HENRY—Do you see a lot of tradespeople going beyond that trade requirement in the industry into a sales or management role?

Mrs Yilmaz—Yes, or they open their own business. It is quite common in our industry that they do open up their own businesses.

Mr HENRY—Entry level is not necessarily a trade.

Mrs Yilmaz—No.

Mr HENRY—It is below trade?

Mrs Yilmaz—It is below trade, yes.

Mr HENRY—You talk about industry investment in training being quite high, but you indicated earlier that there seemed to be some resistance to upskilling people because there was no funding available. Can you explain that in more detail?

Mrs Yilmaz—Yes. The industry does rely quite heavily on trade skills, as I mentioned, and the investment in training there is quite high. Engaging someone through a school based New Apprenticeships program or traineeship program and then articulating to trade level or starting off as an apprentice is quite common in the industry. Once they have a trade level, it is quite common for further investment in additional skills beyond that. But they tend to be the short courses that specialise—for example, a motor mechanic will have the additional training in terms of electronic fuel injection et cetera.

The difficulty that we have is where someone already has that certificate III. There is the investment in terms of time—downtime, the training time of those individuals; they are not there, because they are at TAFE undertaking their training during generally the four years of the apprenticeship. If they have already been through that process and they come back into the industry and need to change their skills—for example, they may have been a motor mechanic in the seventies but because of the rapid changing of technology and the reliance on electronics they need to perhaps go back and do maybe an electronics certificate III qualification—that is where the problem arises. Employers are not in a position to invest some \$30,000 in training in that same recognised skill level—what is seen as a recognised skill level—because they come out at a certificate III. The only opportunity for them is to send them off to do short courses, rather than the full breadth of the qualification at that level of certificate III.

Mr HENRY—Has your organisation, or the industry more broadly, looked at a structured approach to this sort of upskilling arrangement and how that could work? In terms of funding incentives, how would you see that working?

Mrs Yilmaz—This is an issue for the state jurisdictions because they fund TAFE and there is a need to recognise prior learning as well. TAFEs who take on individuals need to be in a position where they are not going to sacrifice their funding and recognise prior skills and then just simply add on the skills. Then there needs to be some funding to the TAFE to allow for that offset so that the employer is then ultimately only responsible for the downtime, the extra training at work, and the time that they are away from work. That is the ideal situation, but that is a complex process and, whilst it has been recognised in Victoria through the VET inquiry report, it is something that is not easy. We are not in a position to say how it needs to be done. State governments, and presumably the federal government, need to deal with these issues in terms of overcoming them on a national basis.

Mr BAKER—I think we would all agree that with globalisation the market for trade share and skilled employees is a major challenge, not only to your industry but to industries across the board. Is it suitably prepared? What plans do you have in place—if I can use the words—as the world becomes smaller?

Mrs Yilmaz—Our industry has been grappling with those issues for quite some time, simply because of the changing technology. We do need a flexible training system and, going back to the previous point, there is a need to ensure that our training systems can meet that flexibility and recognise prior learning. Again, it goes back to the basic fundamental issues of how the system is created and whether TAFEs or private training providers can facilitate that; whether they are flexible enough to meet the demands of industry. We do recognise that business itself is grappling with issues in terms of the greater competitiveness, so there is a greater reliance on the industry to send people off to training providers as opposed to training at the workplace. In years

gone by, it was quite common for dealerships to have a training master, for instance, and all that person ever did was train apprentices. That is now a complete luxury; in fact, they are non-existent these days. Industry tends to rely on the TAFEs to deliver that because business needs to react to consumer demands, the technological demands et cetera.

The industry is grappling with the changes of technology insofar as communication as well. A lot of the information source is coming from overseas, direct from the manufacturers, and that is being filtered through wherever it can be. But even that becomes an issue sometimes. There are a number of ways in which they need to confront those issues. The major issue from our point of view is ensuring that our training system is flexible enough to meet the demands of industry.

Mr HENRY—That is where there seem to be two ends to the spectrum. As you stated, the industry needs flexibility and mobility, yet on the other hand you want the structures in place that have been there for a number of decades. It seems to me that there are two poles apart, fighting with one another. If I could take the step forward: you identified a number of the reasons when the chair questioned the Mitsubishi employees' situation. I would like your views on that perspective.

Mrs Yilmaz—I agree with you. This is where it is more important for industry to work with the education sector in terms of skills in traditional trades. It is something that we have raised on a number of occasions at various inquiries. I can speak for VACC because we are an organisation that is quite democratic in terms of our structure and it is the policy of the members, it is a position of the members that we are advancing. It is their concerns that they have offered, for example, to various TAFEs, people who have training in current technology. TAFEs generally are pressured to operate in a certain way. They have to operate like a business as well, but they have structures that prohibit them from advancing, I guess, to some degree.

If you take, for example, the issue of the teachers in TAFE: many have been there for a long period of time. They are not up to date with current technology. Employers, because of a lack of time to train them in the principles or theory behind the technology, are relying on the TAFE institutes to do that. They can show them and assist in the competency of those skills and current technology, but they are not equipped, for various reasons, to give them the underpinning theory behind the technology. This is where the two can be brought together, but the TAFEs or the RTOs need to be open to that and their structures need to be open to that.

I have had many employers tell me that they are keen to volunteer their time in assisting in TAFE institutes and there are various reasons why they cannot do that. For example, because you have TAFEs with full-time teachers and all new teachers are sessional teachers, someone cannot run a business and be a sessional teacher at the demand of the TAFE. That is a problem. There are some practical issues that should be explored.

Mr BAKER—With new technical colleges where the employers will have a greater say in theory and practical content, do you see that as a positive in moving forward to assist flexibility and bringing the two together?

Mrs Yilmaz—I think it is positive if industry is involved. The industry does need to have the skills to impart that knowledge. You can be a great specialist but you may not be a great teacher, because they are two different skills. It is important that, whatever approach ultimately is taken

in that regard, those people who are chosen to impart that knowledge also have the appropriate teaching capacity to do so.

Mr BAKER—Industry to education, not education to industry.

Mrs Yilmaz—Yes.

CHAIR—Certainly the federal government—and, as recently as last week, joint state government—has been making those sorts of statements regarding TAFE and apprenticeship centres to bring the TAFE education curriculum more in line with employer needs. We are starting to see some movement in that area. Regarding the Award Review Taskforce, I have to ask you this question. You mention about business flexibility, efficiency and productivity, and Mr Baker touched on some of the issues. Certainly you talk about some of the other compounding reasons why the Mitsubishi workers will not be employed successfully, but could it possibly be that there is still room for improvement in the current award classification career structure that you want to see protected? After all, it is not working now. If it is not working at the moment—where some of these redundant workers are not being picked up because of disparities in income and classifications—is it possible that there can be some improvement? If it is, have you made a submission to the Award Review Taskforce about some possible changes, or has it been just simply a submission of, ‘What we’ve got, we want to keep’?

Mrs Yilmaz—No, we have not necessarily said, ‘What we’ve got is what we want to keep.’ We do want a structure that takes us up to trade level, because the career path issues and the connection to the training packages are up to that level. For anything beyond that level, we believe industry and the market forces should prevail. There have been no incumbents. If you look at the repair, service and retail sector, the trade is the highest level structure anyway. There are no prohibiting issues in terms of advancement beyond the trade level.

In terms of the redeployment of the Mitsubishi workers, the issue is not the classification structure; the issue is the bodies and the structures around it who are not necessarily working together. The rate of pay has been the issue. It is not an award rate of pay; these are market rates of pay which sometimes can be an inhibitor in redeployment. If someone is getting paid well in excess of what they are being paid in the repair, service and retail sector, it has no bearing on what is in the award. They need an incentive to come back into the industry and there is not that incentive. That is not reflective of the classification structure. Going back to the issue of the classification structure, we do believe, though, that even in the repair services and retail award there is some scope.

CHAIR—But they are going back to an industry that has those classifications. That is what I am saying. If they are getting paid market rates and they are going back to an industry which has retained this particular classification system, then of course it is going to be unattractive to them.

Mrs Yilmaz—If they are a mechanic in the component area and they are a mechanic in the repair services and retail award, it does not make any difference. They still have the same classification structure. The only difference is the rate of pay. It would be markedly higher in the component area than in the repair, service and retail area. Even in the repair services and retail award they pay above market rates, but not as high as the component manufacturing area. It is not the level within the classification structure. There needs to be an incentive to have these

people come back into the industry, whatever that is, and there also needs to be the incentive to retrain them. Currently, the training issues are the problem—the structure in the training arrangement.

CHAIR—You cannot put a finger on the incentives, whatever they may be? What are those incentives that you are talking about? You throw that in almost as a throwaway line, but can you say what it is?

Mrs Yilmaz—It could be that, rather than creating additional bodies to do additional work, we use what we already have. Any sort of government funding might be directed as an incentive to encourage these people to come back into employment in a related area.

CHAIR—I am not sure that that is any clearer, I am sorry, Leyla. I want to come up with some recommendations and I cannot simply say ‘incentives’. Anyway, we will tease that out with some other witnesses. If you have some other comments in that regard, if you want to go away and think about that as an organisation, I would certainly welcome you sending in a supplementary submission with some further details. Thank you very much for your time. If there is any further need for us to get in touch with you, we will.

Mrs Yilmaz—Thank you.

[10.27 am]

BROWN, Mr Raymond Arthur, Councillor, Australian Automotive Aftermarket Association

CHARITY, Mr Stuart Nathan, Executive Director, Australian Automotive Aftermarket Association

DOYLE, Mr Peter Francis, Treasurer, Australian Automotive Aftermarket Association

CHAIR—We welcome the witnesses from the Australian Automotive Aftermarket Association. Do any of you have any comments to make on the capacity in which you appear?

Mr Doyle—I am appearing to support the submission of the Australian Aftermarket Association. I am the CEO of Hella Australia Pty Ltd and Hella Asia Pacific Pty Ltd.

Mr Brown—I am also a director of Davies Craig, a small manufacturer in Australia.

CHAIR—Thank you very much, gentlemen. Although the committee does not require you to give evidence under oath, I should advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses at this time that any misleading evidence is a serious matter and may be regarded as a contempt of parliament. We invite you to make a brief opening statement. Who is going to speak? One or all can speak. Just keep in mind that the longer you speak, the shorter the time we have for questions.

Mr Charity—Thank you, Mr Chairman. I will make some opening remarks to give you an overview of the Australian Automotive Aftermarket Association. We are a national industry association representing manufacturers, distributors, wholesalers, importers and retailers of automotive parts, accessories, tools and equipment. The association has over 900 members. About a third of those are manufacturers. We operate in all categories of the Australian automotive aftermarket. It includes major multinational and national companies, as well as a large number of small to medium size enterprises. In layman's terms the automotive aftermarket is anything—any parts, accessories and equipment—that is put on a vehicle after it rolls off the production line. It includes replacement parts, accessories et cetera, so it is a fairly extensive group that our membership covers.

To put our submission together we formed a small subcommittee of a range of manufacturers across the industry. Peter Doyle's organisation, Hella Asia Pacific, is an Australian subsidiary of a multinational that operates in both the original equipment and aftermarket sector. It employs about 500 people. They have some responsibilities for Asia-Pacific as well, including operations throughout the region. Davies Craig is an SME, operating predominantly in the independent aftermarket, but they do some original equipment work. They employ 15 people in Victoria. It is a very innovative company, and active in the export market as well. We also had input from PBR, GUD and a number of other manufacturers to our submission.

To give you a summary of the market size, we estimate that the retail value of the Australian automotive aftermarket is about \$8.1 billion and we estimate that it employs 35,000 people in the manufacturing, distribution and sale of aftermarket products.

To touch briefly on the industry environment, I think we all are aware that the industry is going through a fair bit of turmoil at the moment as global sourcing, tariff levels, international competition, the rise in the Australian dollar, all seem to be conspiring concurrently against the local automotive manufacturing industry. If you put the clock back five years, the industry was on a real high. Exports were thriving, the Australian dollar was low, and the industry was tracking fairly well. It is a different scenario at the moment, and a lot of the change has been caused by the global sourcing patterns of the local vehicle manufacturers on the upcoming platforms. There has been a significant reduction in local content on them. That flows down. The interrelationship with the automotive industry is such that that actually flows down into the aftermarket sector. Reduced local content means reduced replacement parts et cetera, so there is a significant flow-on effect. This has resulted in a decrease in overall employment in the industry, and we anticipate that this will continue and could in fact intensify as companies look at maintaining their competitive advantage through merger and acquisition, outsourcing some production and so on.

I will move through the major points of the terms of reference of the inquiry. On emerging skill shortages, it is a bit of an irony that, at a time when the overall employment levels are reducing, there are emerging skill shortages, particularly in specialist areas of engineering design and development. That is impacting on current programs and also transitional opportunities. An example is Hella Australia. They have responsibility, as I said, for operations in China. They had the opportunity recently to bid on an engineering program in China. It was traditional. Basically, the Chinese research and development is not at a level where they can do a fully integrated program at this point, so there are transitional opportunities. Hella looked at the opportunity but actually had to withdraw because they did not have the engineering capability or skills at their fingertips to be able to address that program; so that is an impact that the skill shortage has.

It also flows through to the retail, repair and service sector. There are a range of issues that are impacting on that, one being industry stereotypes and perceptions. I think there is still a perception in the general public that a career in the automotive industry is a low-paid grease monkey, going nowhere, type of career. We as an industry need to address that, and I think you talked with the previous witness about some of the flexibilities and incentives for training, and also retraining and redeployment.

On the adjustment measures, we believe, as I mentioned, that the incentives should be focusing on retraining and redeployment. A lot of the structured incentive programs are about employing new employees and young employees. That is very important for the future of the industry, but we believe that there are opportunities for redeployment, although there are problems with that, as the previous witness outlined.

We also believe, because of the interrelationship in the industry, that any labour assistance packages should flow on into the component sector and aftermarket as well, because of the interrelationship. The flow-on effect is such that what impacts on the vehicle manufacturers flows right through the supply chain.

On measures to support skills development, innovation and investment in the industry, I would like to touch on the ACIS program. The Automotive Aftermarket Association is fully supportive of the ACIS program. We believe that maintaining a viable automotive manufacturing industry in Australia is critical for the aftermarket as well, because it creates the volume of production that justifies local research and development and production. An example: Hella Australia, without the original equipment business in Australia, would not operate as a purely aftermarket manufacturer in this market. They would get a product manufactured through their offshore subsidiaries. Therefore, we do support the ACIS incentives.

We will, however, say that we believe that the exclusion from this program of the independent aftermarket was an oversight at the time. The independent aftermarket is facing all the competitive pressures that the original equipment manufacturers are facing, with tariff reductions and international competition and global sourcing, but there is not the government transitional support to help the independent aftermarket.

We believe that that has contributed directly in a loss of manufacturing activity through outsourcing or moving operations offshore. GUD Automotive, which was one of the contributors to our submission, have made the decision to outsource. That is purely because the incentives and costs of manufacturing in Asia are lower than in Australia.

Mr BRENDAN O'CONNOR—When you say 'outsource', you mean actually go offshore. You do not mean domestic outsourcing?

Mr Charity—No, move their entire production offshore. They still maintain a research and development base in Australia. We believe that there is a strong link between manufacturing and R&D activity and over time they will look at transitioning that offshore as well. Davies Craig is an example also of an independent aftermarket manufacturer that does not qualify for the ACIS program but has to compete with companies in Australia that do—multinational and national companies that operate both in the original equipment and aftermarket. They are at a distinct competitive disadvantage through their exclusion from the ACIS program.

While we acknowledge the importance of ACIS, we also believe that the government support for the industry should not begin and end with ACIS. We believe specifically in an industrial relations system that promotes a flexible and productive workforce; incentives for training and retraining of the workforce to ensure that skills are kept up to date with the changes in technology; an industry-specific training board that can ensure training and support packages are in place to support the rapidly changing skill requirements of the industry; and support for the local aftermarket component manufacturers in internationalisation activities and export activities.

I would like to touch on that. There was quite a bit of federal government support some years ago, through the automotive export market development program. The aftermarket is probably well placed to take advantage of export opportunities. There is a range of vehicles and marques on our roads. We have a very diverse carpark in Australia and the aftermarket has developed products for all of those vehicles. The aftermarket is a lot more nimble in chasing export opportunities because they do not have the time frames that original equipment manufacturers have. They do not have the cost of R&D and local support requirements that original equipment manufacturers have. If an original equipment manufacturer wants to set up an operation to

supply a car company in China, for instance, they will have to localise their manufacturing operation. They are working on sometimes a six- to seven-year turnaround from the time they bid for the work to when they start getting a revenue stream.

Aftermarket manufacturers in many cases can secure export contracts through identifying a reseller or a representative in an overseas market who will warehouse and distribute on their behalf. Australian aftermarket companies have the opportunity to increase local production through export but there is very little support from the federal government—and, to an extent, state governments—in export activity at the moment. The Austrade network is a terrific network but it is all fee for service and very expensive for small to medium sized aftermarket companies, and there is very little export support.

CHAIR—Have you been able to quantify the type of gain that you could make in the export sector if there were that support, in terms of dollars? What would it mean in terms of jobs as well? Is that an aspirational statement that you are making or can you come up with some quantifiable figures of what it could result in?

Mr BRENDAN O’CONNOR—It depends on the support, doesn’t it?

Mr Charity—It does. It is very difficult to quantify.

CHAIR—Are there specific markets that you have identified, for example, if only you could get into that market? I would have thought that at the moment you would be chasing markets where our manufactured cars are going to.

Mr Charity—Not necessarily. Our biggest export market in terms of automotive components is the US and there are very few vehicles going to the US. The Monaro was going in there.

Mr Doyle—In terms of the original equipment components that are made in Australia, they are essentially controlled in Australia through a dealer network, so the opportunities are a bit limited in the free market for small independent aftermarket companies to tool up and move into. They need to develop niche markets for their products and Davies Craig have done that. But if you are thinking of—for instance, we specialise in lighting—an Australian company to tool up and try and sell into that market lighting products such as the ones that we make, it would be extraordinarily expensive and very difficult because it is controlled through the dealer distribution network of the major car companies. Then there is the free aftermarket, which is something that is quite different, where there are a lot of niche opportunities for these small, innovative, flexible Australian companies to capitalise on.

Mr Charity—We have not done any figures on quantifying. Total exports of automotive components was around \$5 billion. It may have dropped. I think it is around the \$4 billion to \$5 billion mark. It is very difficult to even quantify what component of that is aftermarket and what is original equipment.

Mr Doyle—I might help by providing another point of clarification. If you are not familiar with the industry, if you take Toyota Australia, they export 65 to 70 per cent of the vehicles that they make here. We are an Australian supplier of lighting to the Camry vehicle so, while we do not export those lights ourselves directly, we are a significant contributor to the export of

headlights and tail-lights via the vehicle producer. So there is the direct and indirect element of the export of components that are supplied as well.

Mr Charity—While we believe this downward trend in employment is an inevitable consequence of the current market conditions, we believe that government intervention can play a significant role in the extent of this contraction by providing a policy framework to support the industry. We believe that failure to support and protect the industry now could result in the loss of critical mass in the original equipment manufacturing sector which will have a flow-on effect into the aftermarket.

CHAIR—Mr Doyle, do you want to make any other comments?

Mr Doyle—I think the point that Stuart has just made is very important. It is a point that is not widely understood—the linkages within the industry—because sometimes, unless you are in the industry or close to it, it is a little hard to see them. For instance, we have a mining business which is predominantly an aftermarket business. Here in Melbourne we are the centre of excellence to design and develop mining product, and there are some natural advantages because of the industry here. But that will be a global business for Hella and that exists here only because we have the engineering D&D capability and the full infrastructure to support our original equipment business. If we did not have that, we would not be growing this fantastic opportunity in terms of realising the global opportunities that come from mining.

You would never see that linkage unless you were close to the industry and, for companies such as Hella, the strength we have had here has been our design and development and our engineering capability. We used to have 1,000 people in Australia, we now have a bit under 500, but of that 500 nearly 100 of them are on the engineering side of our business. If we lose the critical mass, then certainly we would not be doing that work here; that would be done in one of our 54 factories and manufacturing centres in other parts of the world. We have five manufacturing factories in China, three that do very much the same sort of thing that we do here in Melbourne.

CHAIR—Would they be doing original design work or are they simply adding to whatever is coming from head office overseas?

Mr Doyle—We are building very strong design centres in China, as are most of the multinationals. In some cases, it is because of the competitive advantage of labour costs, and certainly the number of engineering graduates in China is enormous, although there are still some skill gaps. They are being built there by many companies like us. At the moment—and this is the point that Stuart alluded to—our skill levels are much higher. We would have needed to support a development program in China for a new set of front and rear lighting, and that would have required maybe two or three skilled experienced engineers, supporting a development team in China.

There is a gap, but it is closing quickly, and the amount of investment going into China—both internal investment and external investment from overseas multinationals—is considerable, so the opportunity that we have is being eroded and I think it is limited.

CHAIR—Mr Brown?

Mr Brown—I have no other comments to make.

CHAIR—I actually do come from the industry, Mr Doyle.

Mr Doyle—I know.

CHAIR—I worked for Repco and GUD and all those other organisations—PBR at some time. It just seems like a lifetime ago now.

Mr Doyle—And you look a little bit different now, too!

CHAIR—Yes. Thank you. I think I'm fitter! On ACIS and your general support for it: if everything is linked in together, while the ACIS does not directly go to the independent aftermarket business, by supporting the four manufacturers there is a strong statement there that everything else that is tagged onto it is also being supported. What you are saying is that that is insufficient for the purposes of keeping—

Mr Charity—Our submission strongly supports the ACIS program. What we are saying is that at the time the automotive aftermarket manufacturers that were exporting—and I am talking the independent aftermarket—were eligible for the export credits under the previous scheme that ACIS replaced, but they were excluded from the ACIS program. There is no doubt that there is significant benefit for the industry, and it flows on and it maintains that critical mass, and that is vital. Ray's organisation is a classic example of an innovative small medium sized company that is not eligible for ACIS.

CHAIR—Because you are an independent operator?

Mr Brown—Primarily because we are not at the moment an OE supplier. We are locked out of ACIS on that basis and, whilst we made a submission to Minister Macfarlane in terms of exercising his ministerial discretion, he was unable to in the current framework. What we are doing as a small innovative manufacturer is try to develop an electric water pump. We have been, for the last couple of years, developing that product for the automotive industry. That is really at the forefront of the new technology which will be incorporated into vehicles in the next few years, just like electric fans were 20 years ago. New manufacturers are already adopting that technology—not necessarily ours, but they are adopting the technology. We are trying to develop that technology. As a small and medium manufacturer, it is very difficult to get the funds available to develop that to the point where it will become a global export and, having been locked out of ACIS, because we are not a current supplier to the automotive OE market, we have to fund it ourselves. I have to say, we have just in fact landed our first quasi-OE contract from Europe for an electric water pump.

CHAIR—Congratulations. That is great.

Mr Brown—But it is hard work, and, without that support from the federal government, it is very difficult.

CHAIR—One of the other points you make in the submission, which I thought was interesting, Stuart, is the intellectual property argument. With some of the manufacturers going

overseas, perhaps some of these nations where they are based do not recognise or honour the intellectual property argument. As part of the FTA negotiations that we are entering into with a number of countries—there will be China, Malaysia and Thailand—that has been part of the agreements in every one of those countries. Are you finding evidence of breaches in intellectual property even in those countries where there are FTAs?

Mr Brown—I can give you another perfect example of that situation. Our major competitor in the electric fans area of our market—automotive cooling, electric fans—is in fact the Chinese, and I would have to say that four years ago we had a situation where one of the Chinese manufacturers copied our product absolutely to the last T, so not only the product itself—the packaging, the colour, the part numbers even, of the product. That was the extent of copying that we were experiencing and are still experiencing in the marketplace right now.

CHAIR—We do not have an FTA with China at the moment.

Mr Brown—That is correct.

Mr Charity—No, we do not. We are negotiating, and I understand that that is part of it.

Mr Doyle—I can only repeat: we would have each year two or three prosecutions for copying from Asia, and certainly the experience in China is such that we are extremely reluctant to take the current technology there. To that extent, we were actually able to win a contract to supply to China lights because we would not move the technology. I have spoken to the FTA negotiating team about that, and of course that features as one of the prominent concerns in the current FTA negotiations.

Mr BRENDAN O’CONNOR—Is there a clear delineation between the membership of your organisation and, for example, the Victorian Automotive Chamber of Commerce, or do you overlap, and are you competitors?

Mr Charity—We are not competitors. There is a little bit of overlap, but they predominantly represent the repair and service outlets, so a vehicle repairer or service operation. We are one step back from that. We supply to the repair shops. Our members supply parts and accessories to independent and dealer network repair operations, but we also are in the retail side, so the Repcos and Super Cheap Auto et cetera.

Mr BRENDAN O’CONNOR—There is no overlap?

Mr Charity—There is overlap between a whole range of associations. Our membership overlaps with FAPM. Hella is a joint member of FAPM and AAAA. We also have some overlap where you might have a small service operation that also has a parts outlet, a retail outlet; there would be overlap there. But there is not enormous overlap between us and VACC.

Mr BRENDAN O’CONNOR—You are seeking, effectively, by way of your submission, support from the federal government to provide an industry-specific training board. You note:

... it is vital that the Federal Government provides ... an industry specific training board that can ensure training and support packages are in place to support the rapidly changing skill requirements of the sector ...

Is that not happening now? Is it not specific enough, or there is not proper support in that area?

Mr Charity—There was a restructure of the ITAB arrangements, and automotive now comes under a general manufacturing industry training board. Automotive training in Australia was representing the interests of the industry and it had developed a repair, service and retail training package et cetera. They are not recognised as an ITAB at the moment.

Mr BRENDAN O'CONNOR—In the previous structure under ANTA was it more specific?

Mr Charity—Yes.

Mr BRENDAN O'CONNOR—What was the board before, then?

Mr Charity—It came under the auspices of Automotive Training Australia. They were the Automotive Industry Training Board.

Mr BRENDAN O'CONNOR—And now it is under the general—

Mr Charity—Now it is under the general manufacturing.

Mr BRENDAN O'CONNOR—Manufacturing. Okay.

Mr Charity—Because of the technology requirements of the industry and the pace of change, we believe that the automotive industry needs its own specific training board.

Mr BRENDAN O'CONNOR—Are the major employer bodies in your industry, that were probably members of the former board, members of the current board?

Mr Charity—You have a situation at the moment where Automotive Training Australia is still in operation. They still have a representative board which is made up of the motor trader associations and most of the key industry associations, but they do not have representative status as an ITAB at this point.

Mr BRENDAN O'CONNOR—Are they funded?

Mr Charity—They are funded to provide advice to ANTA.

Mr BRENDAN O'CONNOR—They do not determine the competencies in the industry?

Mr Charity—No.

Mr BRENDAN O'CONNOR—They can, what, recommend to the general board?

Mr Charity—Yes.

Mr BRENDAN O'CONNOR—The general board can either endorse or overturn it, effectively.

Mr Charity—Yes. They can make recommendations and provide advice. That is the limit of their powers at this stage.

Mr HENRY—Following on from a question from my colleague Brendan, in terms of the skill set required by your members for business, is that similar to VACC's members' requirements? Do they have that sort of commonality? Are you competing for the same skills in employees?

Mr Charity—It is very difficult to make a broad-brush statement of our membership, because it covers everything from manufacturing to retailing, so it is a fairly diverse membership base.

Mr HENRY—I am talking about their employees.

Mr Charity—In the manufacturing side of things?

Mr HENRY—Yes.

Mr Charity—There is some small overlap again. Most larger automotive component manufacturers employ automotive tradesmen—in fact, they employ people across all trades. Peter is best placed to give a mix of the skills.

Mr Doyle—We represent a medium sized manufacturing company, so the skills that we look for would be quite different. We are looking on the engineering side for graduate engineers and apprentice technical people coming through. We are not looking at the automotive garage skill sets that VACC would more refer to because we are a full sized manufacturing company looking for other skill sets. We fall more under the metals classifications and look for those types of skills in our manufacturing organisation. A number of the members would look like us, but then there would be a lot of smaller members that probably overlap the VACC a little more, I suspect.

Mr HENRY—I thought I read in the submission about the need for upskilling and skill development in areas of electronic technology and things like that. Was that in your submission? I thought it was.

Mr Charity—It was. I guess that was more a general analysis of the industry, talking about industry-specific training boards et cetera. The technology requirements and the pace of change means that skills right across the sector have to keep pace. That goes right through to even sales and through retail. With the predominance of electronics in vehicles, there is much more replacement than repair happening. The knowledge of diagnostic equipment and electronics is required more than traditionally, and that is speeding up. But we do have a diverse membership base and there is some overlap, but not a great deal, with the VACC.

Mr HENRY—The argument in terms of award classification with respect to the need for upskilling and the changing technology impact on skills development would actually be a barrier to a lot of that upskilling in some employment circumstances, would it not?

Mr Charity—Definitely. But we believe that, given there is an overall downturn in employment in the automotive component sector and skill shortages in the automotive trades, there are certain competencies that are common across both, and that it would be more effective

to upskill or reskill someone from the component sector going into the repair, service and retail sector.

Mr HENRY—I was interested in finding out where you thought that award flexibility would provide enhancement to your industry. You made a comment about that in your submission.

Mr Charity—Yes.

Mr Doyle—Could I tease out a comment that may be helpful about the need to change and retrain. I heard the earlier witness's evidence as well. I was speaking with the CEO of Bosch on this very subject and Bosch are a larger organisation—

CHAIR—We are going there at lunchtime, so tell us what we should ask.

Mr Doyle—No. It is a point that Krister Mellve was making and it is really relevant for us. It came out in the previous evidence and, Mr Henry, I think it has some relevance in terms of the point that you raise. The ability to retrain and to effectively and quickly do that is critical. I do not think the processes address that terribly well at the moment.

Mr HENRY—Where does the responsibility lie for retraining? Is it about industry getting together to come up with appropriate structures to meet the needs of your broader membership in terms of what their skill sets might be and how you pick that up? Then I want to ask another question: you talk about the need for greater incentives or greater funding support or a changing of the structures to accommodate that. How does that work? How does that come together, from your perspective?

Mr Doyle—Again, from the narrow Hella perspective, we tend to do it ourselves and I suspect larger companies do that themselves. It is focused on the specific needs of that industry and that company. That suggests to me that the external mechanisms are perhaps not efficient, but I am no expert in that.

CHAIR—How can you afford to do it?

Mr Doyle—Less and less; therefore, we do it less and less; therefore, we become less and less competitive.

CHAIR—There is obviously very little room for fat these days.

Mr Doyle—Absolutely.

CHAIR—I do not mean just in terms of dollars but also time, with just-in-time inventories and quality management principles. It is very hard to carry someone for an extended period of time, unless they are skilled and up and running.

Mr Doyle—You are absolutely right. To me, as somebody who has been a manufacturer all his life, that is one of the real threats today: the organisations are so lean, the margins are so fine, that you cannot do that. That is why we do not have apprentices. We just cannot carry those sorts of beneficial on-costs.

Mr HENRY—What can government do? You are suggesting that government should be providing something.

Mr Charity—I will give you an example. The Automotive Aftermarket Association has written a training package specific to the automotive aftermarket, but it has a virtually zero take-up rate. One of the problems that we have is that we operate on a national basis, a lot of our members operate on a national basis, and there are different classifications in different states. At the moment we are tendering for an RTO to provide us with a national training solution that we can roll out to our members, but it is very difficult for them to do on a national basis. Private RTO organisations that operate nationally operate under a federal training structure, whereas a TAFE college operates under a state structure. Trying to get something that is flexible, that provides tailored training, training on the job or via electronic delivery, online delivery et cetera is a very difficult process. It is one that, as an organisation, we are working through, but streamlining and simplifying the entire training structure would assist.

CHAIR—You talk about that in your submission—about the confusion with the respective roles of federal and state in the TAFE system.

Mr Charity—That is right, yes.

CHAIR—I recently received in my electorate—if I can just brag for a moment—an automotive manufacturing and technology skills centre which is attached to one of the secondary schools, Ringwood Secondary College. In my understanding, it is going to be the first or only one of its kind and this year is its first year of running. That kind of connection to a school where they are learning those skills means that it is going to be pre-apprenticeship, so it is very basic in terms of what it is doing. Is that a positive way of going? That skills centre is going to have employer and local industry input and it captures those kids very early on. You talk about stereotypes and the breaking down of the negative stereotypes about the industry, about not having fat, being lean organisations. Is that perhaps an avenue that should be explored? I am certainly going to be monitoring its progress as we go. I see it as a positive development; I am not sure whether the industry sees it that way.

Mr Doyle—I would think it offers opportunities. It is a start. There are other programs afoot: adopt a school, where we are trying to get industries to form a relationship with a school to try and shift the impression of manufacturing industry. Your example is more specifically tailored to automotive but I think that whole concept—

CHAIR—And manufacturing technology.

Mr Doyle—And manufacturing technology. I think it is a great concept. To invest in it, to transfer it from a good idea into something that starts delivering, probably needs a bit more, but I think the concept has some merit.

CHAIR—On the stereotype issue, because this has been raised before: I have been involved in a number of inquiries on this committee over a number of years—whether it be youth employment, workforce participation; assessment of career teachers—and this whole issue of trade skills being seen as a second- or third-class citizen type category has constantly come up. What are you guys doing to address that issue? Do you have a program in place where you are

trying to break that negative image? It is one thing to say, 'It's a problem. You guys fix it,' but you are the industry, so what are you guys doing about it?

Mr Doyle—I do not think we have a specific program targeted at that, but it is well worthy of taking to council.

CHAIR—Has there been an attempt to go out there in the schools and perhaps get career teachers out into your industry?

Mr Charity—There is a proposal about to go to council. Councils do not know about it yet, but it is suggesting that we work in with a careers initiative in Sydney—it is basically a careers fair—and that we have some of our members there promoting the industry and being on hand to talk to schoolchildren about exactly what a career in the sector entails. It is a definite point, and we as an industry have to take the lead on it. We cannot expect someone else to do it, because we are the beneficiaries of it. I think it is also fair to say that companies at the moment are in survival mode and it is very difficult to dedicate time and resources for the betterment of the industry with declining margins and declining profitability. Certainly as an industry we have to address that point as well.

CHAIR—There are two key opinion makers in all this. One is the careers teachers and the other one is your mum and dad. While we in parliament keep talking about the fact that a career in vocational education should be as valued as any other career—and we keep saying that over and over again—you have to demonstrate it as well and attract them to your industry.

Mr BAKER—Can I throw an idea at you. This idea has moved from the infancy stage and is occurring in primary industry. They have, similar to you, a huge skill shortage in research and development scientists. Also, Mr Chair, if I might brag, the idea was actually initiated from Tassie.

CHAIR—Has it got something to do with potatoes?

Mr BAKER—No—well, it quite possibly has! It is the University of Tasmania—and it is now on a national basis—working with industry, from grade 7 all the way through to university level. It is working with industry and with government and developing programs. It is the University of Tasmania, and they are working with the University of Western Australia, the University of Queensland, the University of South Australia. It is not only promotion through the schools of science and agriculture but also of research and development—for example, developing new sprays, new fertilisers, all those sorts of things—and it is cutting-edge stuff worldwide. We are not talking about just Australia working with the wine industry and with the grain industry. Every university within the country will be on board within the next month. They have taken it on and they are driving it and industry is a major player. I do not know whether that is something that you can develop through a national training and retraining program.

Mr Charity—Certainly there are a number of programs that are aimed at both high school and universities. There is Re-engineering Australia, which is a program where primary and secondary school students design a gas-fired vehicle; Formula SAE, which has 21 Australian universities participating in designing and developing an open-wheeled racing vehicle, doing it as their final-year engineering project. There are about 200 companies supporting that, including

four local manufacturers. There is a lot of activity in the industry in that area. I guess the question was: what is the AAAA doing? We are not actively involved in that, although we are a supporter of it.

Mr BAKER—I am not talking about a ‘hit or miss’. I am talking about a structure that is going to build, and continue to build, and continue to build, which you are not going to solve in six months or 12 months.

Mr Doyle—Can I make one comment. This is not with my AAAA hat on; this is with a manufacturer’s hat on, in the automotive industry. We would love to do a lot of that stuff. We cannot afford it, because we cannot afford to have people working with university students. We have done it. We have had uni graduates working on projects. Even though they are great ideas, we do not have the resources now in a company, in the environment we are working in, where survival is problematic, to get in and do that.

Mr BAKER—But we are not talking about one company. We are talking about the organisation taking the bull by the horns, and you playing—

CHAIR—Brendan, a very brief question?

Mr BRENDAN O’CONNOR—In the last dot point on page 8 you mention that you want to see the Commonwealth provide a taxation and incentive system that encourages new investment. Can you expand upon that. You mention the taxation and an incentive system. You also talk about partnerships between public and private research institutions. Can you elaborate.

Mr Doyle—Sustaining investment is probably the biggest challenge I have—and it is not just Hella. We compete against our other companies all around the world for investment, and having an environment where there is some competitive advantage in lodging our applications for capital investment is important. Therefore, any of the schemes such as the taxation concession schemes that used to exist to provide encouragement to new investment are always a help in putting in an investment submission through the head office that ultimately allocates the capital. That is the perspective, again, from a multinational that competes with its other related companies who also have investment programs being submitted for a limited amount of funds. The sort of taxation concession regime that existed previously did enable us to make the submission for investment in Australia just a little bit more attractive.

CHAIR—You mention, Stuart, that there is increasing technology throughout the sector but job numbers are not increasing as technology is increasing. I would have thought that is pretty well the standard fare across every industry these days, so there is nothing unique there.

Mr Charity—No.

CHAIR—But you mention that there are skill shortages in specialist areas: engineering, design and development. They are very specialist. Have you been able to identify skill shortages further down the career structure chain at all, within the industry, or are there no skill shortages there to be of great concern? Maybe, Peter, this is for you. Ray, this is for you as well. Is it really up that top end where the shortages are?

Mr Brown—No, I do not think it is only there. I think—as per the VACC presentation—there is a need for some retraining in the retail area, for parts. In other words, with the changing technology there has to be retraining of those people to understand what parts have to be provided to support that technology. I think there are some retraining opportunities there. That is just one example.

CHAIR—I have a question about the ACIS program. This is not meant to be a review of ACIS. I know that there is a real temptation to do that, but there is going to be a government review of ACIS down the track. How many of your members are not part of ACIS that you believe should be roped into it? Are we talking about large numbers? Obviously, in your discussions with Minister Macfarlane you have already raised it. He would have given you reasons as to why it cannot be done. I imagine it is a budgetary decision, or is it really because you are outside the automotive manufacturing umbrella?

Mr Charity—Some of our members do access it. Hella is a member and they access it because of their original equipment business. We have about 300 member companies that manufacture in Australia or do some form of manufacturing. Probably, in terms of overlap with FAPM, there are about 50 of those that would operate in the original equipment and aftermarket, so, as a process of deduction, there are probably 250 to 300 companies that manufacture. They vary in size. Some of them are quite small operations that are not eligible for ACIS simply because ACIS is a program that is aimed at original equipment.

My understanding was that it was a budgetary decision and it was, I guess, a strategy that was aimed at maintaining first and foremost—which we agree with—a local vehicle manufacturing industry. But going forward, given that there is a significant reduction in local content on the upcoming vehicle platform which will translate into lower research and development in the original equipment sector, we believe that there might be an opportunity down the track to review that policy and possibly extend it to include the independent aftermarket.

I am not sure where they are at in terms of budget, but if there was still a gap under the overall umbrella of the scheme to include the independent aftermarket then we would certainly welcome that discussion.

CHAIR—We thank you for the time you have given. We appreciate it. We apologise for running over time and keeping you waiting. If there is some further information you want to present to us, please do so. We would be happy to receive it. Likewise, if we have any need to get back in touch with you, we will. We are going to have a roundtable at some stage further down the track and we will probably invite organisations such as yours to that.

Mr Charity—We appreciate the opportunity. Thank you for listening to us.

CHAIR—Thank you.

Proceedings suspended from 11.17 am to 11.24 am

[11.24 am]

MURPHY, Mr Phillip, General Manager, Industry Liaison, Kangan Batman TAFE

CHAIR—I welcome the representative from Kangan Batman TAFE to the hearing. Although the committee does not require you to give evidence under oath, I advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. I also remind you that giving false or misleading evidence is a serious matter and can be viewed as a contempt of parliament. I invite you to make a brief statement in relation to your submission and then I will ask my colleagues on the committee to ask some questions.

Mr Murphy—Thank you very much and thank you for the opportunity to make a submission. Some of you may or may not know Kangan Batman TAFE. We are a large TAFE within the Victorian system and a huge provider to the automotive industry in the repair, service, retail and manufacturing sectors. I noticed that the VACC appeared earlier and I suspect you would have also spoken to the FAPM at some stage. You will see that I have included reports in my submission, the first one being the segmentation skills in the retail and motor industry. The VACC combined with DEST to produce that report. The second report, which is a Victorian government and FAPM report, is about the Automotive Industry Strategic Action Group. We are major partners in both of those projects.

But we are intrinsically involved within the industry. We have a fairly long relationship with manufacturers. I noticed that Peter Doyle of Hella was talking about Bosch. We are working at Bosch, at Auto Liv, at Air International, at Dana—at many of these manufacturing sites—and we see the effects of what is going on within the manufacturing environment at the moment.

I wanted to address two issues. TAFE is not a leader in this industry; we are a supporter. We provide support services to this industry as best we can. I suspect that the roles of government and TAFE are similar: we can provide some underpinning infrastructure or support but primarily get out of the way of these people as they do their business using projects such as the two that I have addressed, the first one being the emerging skill shortages and appropriate recruitment and training strategies. You will see that I refer to an innovative approach to working with VACC, DEST, Toyota and Holden to look at the skills segmentation within the repair, service and retail sector—not too dissimilar in some of the instances because many of these apprentices are used within the manufacturing environment—and to look at some strategies for recruiting from the traditional entry level of 15- to 19-year-olds but also starting to think about fishing from different ponds rather than the existing entry level which is where most people tend to concentrate.

The second area where I thought we could provide you with some insight is in the measures to support skills development, innovation and investment in the industry. We have had an ongoing concern for many years about perceptions. I think you highlighted them before: careers, teachers, mums and dads—we would say it is mums, not dads, who actually decide the future of young kids. A project that we have been involved in for about eight years and pushing forward is 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. The Automotive Centre of Excellence is the project.

If you have had a look at the detail, you will notice that it is not just a TAFE thing: it is about bringing research and development, automotive CRCs—which the federal government funds—manufacturers, component manufacturers, and other players, into an automotive-centric precinct. It is a bit different to what occurs within our education systems currently, but it is also about making sure that that is within a premium place in town, not on the edge of the city where the perception is that it is out and about, it is off the horizon and not something that we should be interested in.

They are the two issues that, as I say, I am happy to have discussion with you about. There are two reports and I suspect you may have read the recommendations, at least, in both of those reports to give you some understanding of those issues. Thanks very much.

CHAIR—Thank you very much, Phillip. Let us talk about the Automotive Centre of Excellence. Where is it at this stage? The submission says that the proposal has been completed and has been funded by FAPM and the Victorian government. So it is up and running. Has there been any Commonwealth involvement in there at all?

Mr Murphy—There is some capital grants funding from the state government, I believe. The Automotive Centre of Excellence is a four-stage proposal at Docklands. The area is near the site of the Fox Family Trust, which is in the Batman corner, just over Charles Grimes Bridge, as you come up Bolte Bridge and turn left into Montague—not so much—and go around the Charles Grimes Bridge. On your left you will see the new building; the \$20 million first stage is coming out of the ground right now and is due for completion on 29 May this year.

CHAIR—And that first stage will be operational when?

Mr Murphy—Operational in June. It is around paint, panel and bodywork industries. Some of that is involved in the manufacturing environments. The whole project will cost about \$120 million.

The FAPM report is on stage 2 and stage 3. The concept came from replacing some pretty old, battered TAFE buildings out at Coburg and Richmond to a grander vision of putting together an automotive precinct. It will consolidate TAFE, it will consolidate research and development from a number of universities; it will consolidate the Automotive Cooperative Research Centre, which is headed by Laurie Sparke from Holden and Mathew Cuthbertson is the CEO. It will also be housing a number of industry associations and groups around the automotive industry. It will have an auditorium and a showroom. Many times when you go to a country like Korea and go to Seoul, they have showrooms in the centre of Seoul which have all the components. Australia does not have that. If you come to Tullamarine, you travel around the state and waste a whole lot of time.

The industry has been wanting some sort of support in terms of development of a permanent showroom, auditorium, within the centre of the city so that people can come in, look at working models, without having to go to Dandenong, then over to here, then over to there. It is just being

business savvy: in reality, our competitors in Korea, Japan and China actually do those sorts of things.

CHAIR—The centre will be an educational facility as well, will it not?

Mr Murphy—It is primarily around education and training, research and development, but because the concept is some government, some private, basically we are all tenants under an Automotive Centre of Excellence board of management which is basically run by the auto industry. That is the basis for its operation.

Mr BAKER—Perhaps you should have done your submission before the previous one. One of their main criticisms was that there is no basic Australian model for a centre of excellence. What were your thoughts when they were making their statements? Do they know about it?

Mr Murphy—I wanted to actually kick Stuart in the leg, because Stuart has been involved in these sorts of discussions. However, Stuart has moved from the Society of Automotive Engineers about a month ago to the AAAA and, in my view, the AAAA have not been as active in that sort of thing. The Formula SAE he was referring to is a project that we are heavily involved in, together with basically every university in Australia, and quite a number internationally. We work with them in that process. The Society of Automotive Engineers will be running their seminars and conferences at this new centre, so I probably need to ring Stuart and have a chat with him.

Mr BAKER—That is where there is some confusion.

Mr Murphy—There is some disconnect and it occurs at various levels.

Mr BAKER—He said that they had developed a national training program which would assist in the future and that the natural progression would be a centre of excellence, similar to yours.

Mr Murphy—I have a letter to that effect from his organisation. He has put that out to tender to two TAFEs and three private RTOs nationwide and we will be responding to that. I suppose that is an indication that they do see us as being heavily involved in the automotive industry.

Mr BAKER—So you do see a commitment from industry for—

Mr Murphy—Very much so, yes.

Mr BAKER—They see the need, but I am asking about the commitment.

Mr Murphy—Yes. I suspect that if you were to talk to Laurie Sparke, the chief engineer at Holden, Bruce Griffiths, Air International—I do not know whether Bruce has spoken to your committee—Peter Upton, they have been the key drivers in industry in terms of—

CHAIR—We are going there this afternoon, Phil.

Mr Murphy—Are you talking to Bruce? I suggest that you talk to Bruce about the automotive centre and whether he has heard anything.

CHAIR—One of Peter Doyle's criticisms—

Mr Murphy—Peter Doyle from Hella.

CHAIR—was that, as you heard, they had to pull out of a contract in China because they did not have sufficient expertise.

Mr Murphy—Yes. To some extent, skill shortage is a real issue. I heard them talking about engineers and so on and so forth, but it is also that operators and supervisors within their environments do not particularly have the skills. We are working with a number of those. We are not working with Peter at the moment but we continually talk with him. The nature of the business is that they are all on the edge and they find it difficult to spend a dollar on training. You have talked to Bruce Griffiths, and he knows exactly where he has to go in that sense. That is not to say they are different but the imperatives at times are driving different decisions that they are making.

I do not know if you saw in the paper just the other day that the number of international university students has almost peaked. I think Melbourne University had an increase of 20 and Monash university had an increase of 40 compared to previous years. The great growth that is occurring is in the VET system. China has realised that they have trained too many MBAs and too many Masters. They do not have tradespeople. There is no paint and panel industry in China. Once these cars get on the road, there is no-one to fix the damn things. We have had an increase of 50 just in the automotive area—motor mechanics—with international students.

The great growth in China is now going to come at that level where the population can get more involved. There is more work within the operator and trade level than there is in the MBA. That is a restricted market. They have overdone that to billyo and they realise that. To some extent, that is what we did. I heard you refer to the ATCs, and we know that that is now bipartisan, in fact, because the Victorian government has started the TECs. So we know we made a mistake 20 years ago. We know we have lost a generation. I have two sons who I know went along the wrong track, but they have now redirected themselves. I know there is a whole group out there from 20 to 35 who, if there were different ways of doing things, would want to move over into a trade.

Currently, because we concentrate on supporting four-year apprenticeships, or whatever term from entry level, we are missing a whole generation who are actually keen to move. I suppose that goes to: what can government do? What we do is, we fund trainees or existing employees for one year. We do not look at how we might change that scheme to apprenticeships for older people. The Victorian government, I noticed, in the latest VET inquiry has said they are going to look at funding arrangements for existing employees in traditional apprenticeships. No-one else does it. It is not done. That is a whole generation out there that we have lost.

That is where the skill shortage has come from and I suppose that is where the perception issue for me is such a long-term thing. We have to change the mums' and dads' perceptions. The centre down there has a museum, which I do not know if you have seen. One hundred of Lindsay

Fox's cars have been willed to the state. They are the best cars that you could see in the land. We will have the past. We will have the present in terms of the TAFE delivery working on the present. We will have the future in terms of R&D and all those sorts of activities. So the flow of information will be a lot better than it does now. These people do not talk to each other, from this university to that TAFE to that university, because we have these disjointed arrangements, in my view, not industry-centric arrangements. The University of Tokyo, I think it is Kettering University in the States and Germany, also have a few centres where they have the whole precinct, the whole range around that, and those trades are glorified.

I will tell you a good story about EDAG, the design people. They went offshore last year. They used to get six or seven engineers out of a university each year, and they would put them into CAD to design and develop. They would lose three or four of them each year because these people thought that that design was a bit lower than what their skills were. They came to us and they asked, 'Have you got some panel beaters and body makers; people who know structure and form? Maybe we could train them up.' They saw it as a career path. Six went and six stayed, and it was the best outcome they had ever had.

We do not actually look at different ways of doing things. I will go to leadership. We hear it every January: what's the bleat? 'There are not enough university places.' It comes from everywhere, and I sit back and say, 'We are wasting our money putting all these people through university.' We have to stand up at some point and do something different.

Mr BAKER—That is where we in industry will be playing a major role also; taking it by the horns and working with the education system.

Mr Murphy—Absolutely, and promoting. They are doing that in this project. They are taking a major role.

CHAIR—Phil, how involved is your TAFE college in the retraining that takes place? We have heard a lot about retrenchments in the industry. I know you were not here, but the VACC this morning spoke about the difficulties in redeploying some of those people. One of the difficulties was the retraining aspect. Are you seeing an increase in the numbers of people wanting to come back into the—

Mr Murphy—We are seeing an increase in the number of mature-age people and people wanting to move from a trades assistant to become a fully recognised tradesperson and those sorts of things. However, it is not easy to do that through the system. We virtually have to go to government on a case by case basis and say, 'Look, this guy is going to become a diesel mechanic.'

CHAIR—Is this a mature-age person coming back or someone being retrained from within the industry?

Mr Murphy—They are in the industry. Peter Doyle would say, 'Look, we do not need you in that trade any more but we do need you in this,' and it is a related sort of thing. 'You have been a general doozy-whatsit and now we want you to be a diesel mechanic. How can we retrain you?' We are involved in many of those. We are also involved in retraining people on the manufacturing line in terms of lean manufacturing—that sort of ongoing retraining of people.

CHAIR—You said there was a difficulty in doing it and you had to do it case by case. Why is that?

Mr Murphy—The allowance for existing workers to be retrained is a one-off payment from the federal government of, I think, about \$4,000 a year. That is okay for a trainee in retail, to train a behind-the-desk person to be a customer service operator, but for someone who is going through a skill trade the funding needs to be a little bit better than that. Some of them, yes, are advanced and maybe do not need the traditional three or four years. They may only need two years or two and a half years. They may only need six months. There needs to be some flexibility in the arrangement that allows some movement and some funding to flow appropriately over a number of years rather than just the base pay. One payment does not fit all. Do you pay them all or do you say, ‘Look, we’ve got skill shortages here and we’ll put a little bit more here and a little bit less there’?

CHAIR—Obviously you need a fairly solid set of competency and skills assessments and recognition of prior learning in order to make that sort of differentiation from one to another, otherwise it could be very much abused.

Mr Murphy—Yes. The current system has had its difficulties too. We have all heard tales of companies that have put every worker on an existing worker traineeship. Safeguards and audit requirements are something that someone a bit brighter than us has to think about.

Mr BRENDAN O’CONNOR—I would like to raise the issue of the industry training board that was referred to before, where the industry board was subsumed by or merged with the general Manufacturing Industry Training Board. There was a concern by the previous witnesses that not having a specific ITB would have an adverse effect upon this industry. Is that the view of Kangan TAFE?

Mr Murphy—We have kept out of the politics of industry boards and where they sit and whether they can be a subset of Manufacturing Skills Australia, which is the new board that pulled together process management, automotive and a whole lot of others.

Without doubt, there are things to be learnt across the board too. We apply the concept of lean manufacturing in the furniture industry with Shiavello, we apply it at Bosch and we can apply it somewhere else. There are concepts that can be applied and, hence, they should be brought together in some sense. Automotive Training Australia has long been a partnership of the major manufacturers—the big four—FAPM and the Motor Traders Association. It represents a number of different sectors, including the repair, service and retail sector and the manufacturing sector.

The funding has ceased for the ATA and it has all been subsumed within Manufacturing Skills Australia. Automotive has always robustly held the view that it is different and should always be treated differently. We are at the end of the food chain in some respects and we take whatever we get. There needs to be an Automotive Training Australia thing. Whether it needs to be separate or whether it needs to be a subcommittee under Manufacturing Skills Australia I do not know.

Mr BRENDAN O’CONNOR—Obviously the phrase ‘segmentation’ is important.

Mr Murphy—Yes.

Mr BRENDAN O'CONNOR—It is referred to in all sorts of reports and littered in your own submission. Give me a definition of 'segmentation' as you see it.

Mr Murphy—I will refer to that report that refers to repair, service and retail.

Mr BRENDAN O'CONNOR—Yes.

Mr Murphy—For many years we have trained general motor mechanics at an AQF level 3. What is actually happening out there in the garage is quite different. All the motor mechanics do not do all of the work. You can have a 10-year motor from Toyota, with no oil change on it; you have all these different things. Eighty per cent of the business is just general routine servicing which does not need a motor mechanic of that level. However, 20 per cent of the problems are diagnostic, higher end sort of stuff. Where we trained everyone to do this job, no-one does this job any more—a lot of them do this, a lot of them do that and a lesser number do that. That is the segmentation that has occurred.

I have heard it said that we start employment at McDonald's at 15 to 20, we then work full time for 15 years and then we might work part time for 15 years. We could actually be using these people at this level. They could be retrained in that sense. The segmentation that is occurring in that industry is general servicing and specialist servicing. Compared to a general mechanic who you train for a long time, he does not need all that stuff. We proved that last year with Toyota and Holden. We trained 25 people with this level of servicing. They were mature age, mostly migrants—former taxi drivers who had a degree of mechanical engineering from Baghdad University or whatever. Those people came in, soaked it up in six months and are out there working.

Other people we put through were mature age—18 months to two years to become high-end diagnosticians. Because they had an engineering systems degree from a university that was not recognised, they had a systems view of the world. They were able to systemically look at a car and say, 'That problem will occur there,' not, 'Well, I think it's there. Oh, it's not that. Take it apart again.' That is the segmentation and it is occurring across the board.

Mr HENRY—Following on from that segmentation to some extent: it seems to me, just from the evidence we have heard today, that there are a multitude of employers with a great variety of different training needs.

Mr Murphy—Yes, and they are all different.

Mr HENRY—How are you delivering on that? Is there sufficient flexibility in the training packages, the training arrangements and the training relationships now to deliver what their requirements are?

Mr Murphy—There is, so long as providers working with industry walk in with a view of understanding the problem that is occurring within that industry rather than, 'Have we got a training package for you?' Bosch would come to us and say, 'We need these sorts of things done.' When you work with industry, a lot of work has to be done in that consultation phase, working through what the issues are, and training might be an outcome that is delivered but it might not be. It may be other things.

In essence, because we fund training and we all have to meet targets for training, it is natural for people to go straight to here. It is not natural for them to, as a consultant does, actually work through with a particular industry, 'What are you actually on about?' in business language. Then it is my role to go away and interpret that within a training package which I think is sufficiently flexible. I have no problems with that.

Mr HENRY—What about on-the-job training?

Mr Murphy—Most of it is. Manufacturing training is mostly on the job. I have seen some TAFEs buy a million-dollar piece of laser equipment. I know within three years that will be out of date, and no-one is going to give them \$1 million again.

Mr HENRY—That is right.

Mr Murphy—You are wasting your time as a TAFE getting big capital equipment for those sorts of things, unless they are never going to get them and they are needed in some sense. We concentrate on people and process. 'This is the particular operational stuff that needs to occur on your machinery; we need to do it to your place,' and that is how you get around that. If you buy a bit of equipment—it is not over here, it is not over there, it is here, it is here—you are stuffed.

Mr HENRY—You have got me started now! What about that process of continual learning, continual upskilling, retraining and reskilling? Industry seems to be challenged by that. From what you are saying now, a lot of that really needs to be done on the job, so do these people need some direction and support in that?

Mr Murphy—They do, and there are places to get it. I think it is a leadership issue. Again, you talk to Bruce Griffiths. It is a lifelong thing.

CHAIR—Mr Murphy, thank you very much. Good luck with the ACE. It sounds very exciting, from what you said. It is going to be open sometime in June, is it?

Mr Murphy—Yes.

CHAIR—Brendan and I, as Victorian based members of the committee, might come through and have a look at that.

Mr Murphy—We would love you to do that.

CHAIR—Mark, you are entitled to come along as well. I was trying to save you an air fare! If there is anything else you want to make us aware of subsequent to this submission, please do so. Likewise, if we have any need to get back in touch with you, we will. Thank you for your time today.

Mr Murphy—Thank you very much. I appreciate the time.

[11.54 am]

MILNE, Mr Craig Lamont, Member, Society for Australian Industry and Employment

TEESE, Mr Colin Frederick, Deputy Chairman, Society for Australian Industry and Employment

CHAIR—I welcome members from the Society for Australian Industry and Employment. I know that members from your society have made presentations to this committee in the past. Do you have any comments to make on the capacity in which you appear?

Mr Milne—I am also the Chief Executive of the Australian Productivity Council.

CHAIR—We have your submission in front of us. Would you like to make some introductory comments? Then we will get into some questions.

Mr Teese—I would like to say a few words and then hand over to Craig. We were driven with our submission by the fact that it has troubled the society for quite a while that we see an unbreakable connection between the motor vehicle manufacturing sector and the parts industry.

We do not see that the parts industry could, for example, survive if there were no manufacturing in Australia, and we think that is a possibility. Craig will develop that later. We think the motor vehicle industry as a whole is very important for Australia. If you think about a manufacturing sector in an industrialised country, if you do not have an aerospace industry or an electronics industry or a fine-chemical industry or an automotive industry, you really cannot call yourself an industrial society. We have had a go at most of the others and we have let them go, for one reason or another, and we have a motor vehicle industry which is, in the view of the society, hanging on by a thread. Decisions taken in the immediate future in various directions by government—notably by the federal government—will have a big say in whether or not this industry is able to keep going.

Having said those few words, I would like to hand over to Craig and let him develop what we put forward to you as our principal suggestion.

Mr Milne—I hope that this is germane to the sorts of things that you are looking at. Over the years in my role at the Productivity Council, you work through the automotive sector at every level. Our organisation was founded in 1969 and over that time it has consulted to all of the firms, most of the suppliers, most of the VACC type people, the people who do repairs, even leasing companies and car retailers, so you tend to get a look at the whole industry. You would have to be concerned for automotive manufacturing in Australia at the moment. If you are talking about the parts business, the 200 or so members of the FAPM, the suppliers, the industry is like a pyramid with the four principal firms as the capstones of that and the 200 firms that make the products that go to the principal firms providing the base.

If the four principal firms go, the rest will disappear very quickly. There will probably be two or three members of the FAPM who will make a shift to being global businesses—some have

already started—and the rest of them are being encouraged by people in government and people outside to go global. It is a fantastic claim for most of these businesses to try to make the shift. If it is conditional on them getting future contracts, then they really do not have any future. I think that is the particular concern.

You can see that historically the prime movers in automotive manufacture in Australia—Ford and General Motors—established here as a consequence of body tariffs in the 1920s effectively closing out the development of local firms. There were many local efforts at that time to establish in the industry. They pretty well gave up, once Ford built Geelong and General Motors got together with Holden. That was fine. Until the seventies, the system worked quite well. It developed the industry very widely; there were a lot of network externalities, lots of exports. It looked a very healthy industry.

But since the 1970s, the Australian automotive sector has gone downhill. It has not responded well to the Japanese challenge. The effect of that was blunted because of tariffs and quotas, so the full devastation of Japanese competition did not finish off the industry in the seventies. The next wave from China probably will, because the old—inefficient as they may have been—tariffs and quotas did at least keep an industry going. The firms were not premiership teams—no Australian manufacturer was—but at least they had the boots on and they went out for a kick occasionally. Now they are heading off the field, and that is where they are all going, if we are not careful.

That is the overarching concern, you would have to say, for the automotive industry. It is a very inefficient structure. It is an industry in which productivity is absolutely central to the competitiveness of the industry. Everyone wants to be in the industry and, going into that industry with high costs, high regulation, high taxes and an inefficient industry structure, there would have to be a pretty grim prognosis of the outcome. That is my view. I think all of that is retrievable but it will need something that government in the past has not much wanted to do—some sort of industry policy to decide whether we want an industry; what should it look like; what sorts of things do we have to do?

Laissez faire is a good default policy but sometimes you have to do something and I think the auto industry is getting to the point where we are going to have to decide whether we want to have it and, if so, how are we going to restructure it?

The concluding remark I put here is rather provocative: perhaps the dynamic is that we need a local firm. It is very late in the day to ask for that, but given the parlous condition of General Motors internationally which is skating on the rim of chapter 11 bankruptcy anyway—Ford may go as well; Mitsubishi is in dire trouble, not just in Australia but internationally—you could well see corporate failures. General Motors has already sold Suzuki and Subaru, it has looked at selling Opel, so you can see that the industry is unravelling. If Holden starts losing money here, which is very likely because big cars are not selling well any more, General Motors will look very hard at this. That is the context you need to be reading into the industry background. The shift is very ominous for Holden—where it sees the market and how it sees its future. That is some background to get you started, I suppose.

CHAIR—You are not advocating, though, in your submission going back to a quota system, are you? I would have thought that argument is done and dusted.

Mr Milne—It probably is, yes.

CHAIR—We cannot go back to that.

Mr Milne—I agree.

CHAIR—I like other points you make in your submission: the government should exert more pressure—when I say ‘more pressure’ I do not necessarily agree with those words, but the thrust of it—on existing firms to expand exports; the government has to encourage firms to look upon local suppliers more favourably. I would have thought that is happening now.

Mr Milne—It is but—

CHAIR—The other one, which I think is quite good, is more inter-firm technical cooperation.

Mr Milne—Yes. We have a four-firm industry policy here, because Lord Rootes visited in the 1930s and was asked what an efficient car factory was and he said ‘25,000 units’. At the time, the Australian industry was 100,000 units, and so four firms got into the mind. The post-war plan envisaged four firms, and you will recall that there was GMH, International Harvester I think, Leyland and Ford. This four-firm idea got into the Australian mind. The problem now is that with a 300,000-unit output, that is really only one firm—in fact, it is really only one line—if you want world-class economies of scale.

My general thrust here is that the industry is much smaller than it should be. Given the 100 years that Australia has been in this business, given our skills, the size of the market and the opportunities, if you look at the dozen or so countries that were pioneers—as we were—in the automotive manufacturing business—we were doing this in 1900—they produce around 50,000 cars per million of population per year. That is the middle range. That suggests the Australian industry is a million-unit industry, about three times its present size.

To me, policy should be aiming at, and expecting that, Australia be competing at a middle level, and that is a million-unit industry. If that is where policy is heading, you can still keep a number of firms. If you still want four firms, that is fine, but you have to get more interchange between them of key components and elements so that you can get some economies of scale.

One of the things that I advocate here is the idea of platform sharing, where the unseen technical parts of the vehicle are exchanged between producers. This happens intra-firm now. I am simply saying that it could happen on an inter-firm basis in Australia. It does happen to some extent—Holden supply engines to SAAB and Alfa Romeo, for example—and you would be quite surprised at the number of cars that share unseen parts. That would enable Australia to get back into small vehicles and mid-size vehicles and win back shares. We have a \$20 billion import bill on cars today, which is 40 per cent of our total current account deficit—underlying \$50 billion—and no end to that in sight and, if manufacturing goes, absolutely no end to that in sight.

These are very serious and very important issues. The best chance you have of fixing manufacturing is the auto sector because it is the only serious bit of manufacturing left; the rest has all gone; vanished.

CHAIR—Mr Milne, how would we go about creating an Australian firm?

Mr Milne—I have talked to people in the industry—suppliers and others—and there is a sentiment for that. People can see that that would alter the essential dynamic of the industry. If one of those four firms was more like a Westpac or an Amcor or a Qantas, it would add a different dynamic to the industry.

It would change the behaviour of the other incumbents. They would be far less likely to flee off to China or Korea for sources because they would need to be showing themselves to be belonging in this market more. The mechanism would have to be through government really indicating that it wanted the industry to stay, and things such as the current support schemes that it has in place would assist the industry in transition. Then you would be looking to private sector people to try and put together schemes to do that.

There are three firms you would consider. Toyota would be left, because Toyota is a wonderful company that does great things for Australia. All the textbook arguments for foreign investment are met by companies like Toyota. The other three really do not contribute much. Mitsubishi is probably on its last legs. Ford is kind of an orphan within the Ford business. It is sitting out there doing its own thing. It is really off international plans for the moment, although it will come under them in future. Holden is a very fine business but, as you probably realise, the next model which will be produced is fully designed in Australia for global production. It will have about a 400,000 international production but only about 150,000 of that here and the rest will be done elsewhere. You would be looking to get one of those businesses, either by the default of GM or Ford, which is quite possible, or by purchase.

CHAIR—At the end of the day, no matter what you do, the success of those companies will be based on sales of vehicles in Australia.

Mr Milne—Yes.

CHAIR—That is something that you cannot control in terms of consumer buying behaviour. They will still make their own decisions based on what they consider is value for money.

Mr Milne—That is quite right. In the 1950s General Motors enjoyed over 50 per cent of the market. I think particularly the two US firms have dropped the ball since the seventies. They did not respond to the big shift in quality and technology that emanated from Japan. They wilfully hung onto very archaic methods of car building, and they have thrown a lot of their market away because of that. People are not fools, as you say. One of the footnotes I mention here relates to the Ford Territory, which has been extremely successful because it is an extremely good product. Australians will buy local but only if the product is good enough. That is just axiomatic, I think.

Mr HENRY—If you increase the level of protection, doesn't that mean you are going to also perhaps threaten that issue of quality by local manufacturers?

Mr Milne—You may do. I am not supporting protection or tariffs. Tariffs did enormous harm to the Australian industry.

Mr HENRY—I thought you said that you saw some opportunity for tariffs to be—

Mr Milne—Not really. My view of the harm tariffs did is quite different from the Productivity Commission's view. Their view is that it was a price-raising effect and they came up with, you may recall, the concept through the 'effective rate of assistance', of jobs being subsidised to \$20,000 per year in the auto industry. I never accepted that. That is nonsense. That was an instance of economic theory being used over empirical observation. If you actually looked at Australian-made cars at the time of high tariffs and compared them to equivalents in other parts of the world, they were never expensive.

The problem with tariffs was they brought Ford and General Motors into Australia, who established businesses here and killed off local firms. There were about 70 efforts to establish motor manufacturing in Australia before World War II. The locals gave up once Ford built at Geelong. Who wouldn't? These, Ford and GM, were the best two firms in the world. That was what tariffs did to Australia. I do not think you can get tariffs back, but you do have to worry about China. The Chinese labour rate for engineers is one-fifteenth of Australia's and for an ordinary worker about a thirtieth.

Mr BRENDAN O'CONNOR—I do accept your assertion that the automotive parts industry is heavily reliant upon and, indeed, in many cases exists upon the motor vehicle industry and that if one goes the other will follow. That is a very significant assertion but I think it is correct.

Mr BAKER—I am not sure what we will do with respect to that.

Mr Milne—It is not just the 200. After those 200, there are all the other firms that do not figure. There are the paint makers and the metals and the plastics and the chemicals and the CAD sellers and the automation firms. You lose cars and they all suffer.

Mr BAKER—Mr Milne, you touched on the success of the Territory because of its quality. Do you think that the manufacturers have learnt something from that?

Mr Milne—Yes. They always knew; they just refused to listen. I have been on design award panels for Australian cars for many years, and the engineers knew what to do. They just would not do it. That is really what it comes down to. They had issues like fits and margins, tolerancing, grain matching and all the finesse that you would find on the European and Japanese cars. 'Customers do not ask for that', was their view.

Mr BAKER—It is not rocket science, is it?

Mr Milne—It is hard to do but it is not hard to see the need to do it.

Mr BAKER—That is what I am saying. It is not rocket science in the world that we live in today.

Mr Milne—Car making is an extremely demanding business. To build cars as well as Lexus or the Germans do is a very tough business.

CHAIR—I would like to pursue the observation that the deputy chair made, which I totally agree with, about your statement that without an automotive industry everything else fails. The general feeling out there—and whether it is fact or not is another matter—is that Mitsubishi

might very well be the next manufacturer to pull up stumps, so we will move from four down to three. What effect do you think it is going to have on the industry to lose a quarter of the manufacturing power in this country?

Mr Milne—The suppliers that are on the margins now will lose their Mitsubishi business, so their overheads will have to be shared across the remaining three. The remaining three will be faced with price rises on their part, so there will be more pressure to offshore more of those parts. It will have a negative effect. I know firms that argue that if Mitsubishi goes they are going to shut the doors. Mitsubishi might not be all their business, but it is enough to push them over the edge.

CHAIR—But the argument would be that the other three can absorb the loss of Mitsubishi because of the growth in exports.

Mr Milne—Where are they? One of the striking features of the Australian industry I mentioned here is that you have four firms fighting for the D platform section of the market, which I think next year is predicted at 180,000 units for Australia. So all of our industry is focusing on one declining segment of the market. You would have to say the Mitsubishi 380 might be quite a nice car but the last thing Australia needed was another D platform car, and Toyota is looking at another one with the Aurion coming up. You wonder what is in the minds of these people. Maybe it is just some male sort of thing, where they have to have a contender. I really do not know.

Holden exhibited a Torana prototype two years ago at the motor show which was a mid-sized car, which would have done very well. It would have been far better if you had somehow got Mitsubishi talked out of the 380 and had done the Torana at Tonsley Park. There would be 50,000 cars a year you could sell off that, and that would export. That would sell very well.

CHAIR—My theory on that would be that a lot of these decisions are very much driven by fleet sales, and fleet sales are in that range of car.

Mr Milne—Yes.

CHAIR—While that is the dominant sales volumes and influence, they will continue having those even though the point you are making about small vehicles is very valid.

Mr HENRY—I confused myself between quotas and tariffs. Quota is not still having an artificial impact on the market?

Mr Milne—Of course it is. How is Australia going to cope with China's emergence? We coped with Japan because we had tariffs and quotas and we blundered through with inefficient industry. By now Japan's costs are higher and we can compete with Japan because they pay a lot more for car workers than we do, but China is not like that. China has hundreds of millions underemployed in its west. It is a dictatorship. You cannot just assume that, because Japan became within 20 or 30 years a cost equivalent producer to Australia, China will do that same. It may not in 50 or 60 years. Our capacity to cope with the Chinese is much weaker.

CHAIR—Thank you very much, Mr Milne and Mr Teese. We appreciate the time you have given to be with us. It was an interesting argument to have, so I thank you for that and for your submission.

Resolved (on motion by **Mr Baker**, seconded by **Mr Henry**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.16 pm