



COMMONWEALTH OF AUSTRALIA

## Official Committee Hansard

# HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON EMPLOYMENT, WORKPLACE  
RELATIONS AND WORKFORCE PARTICIPATION

**Reference: Employment in the automotive component manufacturing sector**

THURSDAY, 15 JUNE 2006

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON EMPLOYMENT, WORKPLACE RELATIONS AND WORKFORCE**  
**PARTICIPATION**

**Thursday, 15 June 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, Ms Hall, Mr Hayes, Mr Henry and Mrs May

**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.

**WITNESSES**

**CLARKE, Mr Peter, General Manager, Automotive, TCF and Engineering Branch,  
Manufacturing, Engineering and Construction Division, Department of Industry, Tourism and  
Resources ..... 1**

**PETTIFER, Mr Ken, Head of Division, Manufacturing, Engineering and Construction Division,  
Department of Industry, Tourism and Resources..... 1**



**Committee met at 11.21 am**

**CLARKE, Mr Peter, General Manager, Automotive, TCF and Engineering Branch, Manufacturing, Engineering and Construction Division, Department of Industry, Tourism and Resources**

**PETTIFER, Mr Ken, Head of Division, Manufacturing, Engineering and Construction Division, Department of Industry, Tourism and Resources**

**CHAIR (Mr Barresi)**—Welcome. I declare open this public hearing of the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation in its inquiry into employment in the automotive components 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 27 have been received to date.

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 also customary to remind you at this time that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I think you guys know the routine; you have addressed many committees. The deputy chair, Mr Brendan O'Connor, apologises for not being able to be with us. Do you wish to make any introductory remarks?

**Mr Pettifer**—No. We have made a submission to the committee, which I presume members have had a look at. And I think we provided some supplementary information following that submission. We are happy to take questions on that and follow up on any issues you might have.

**CHAIR**—We do have a number of questions we would like to raise with you. I will kick off by asking for a clarification of an announcement made this week. I understand there was an announcement from the department with regard to some support for the automotive components sector. I saw some media information on this. I did ask the minister in passing during a division and he felt that perhaps the media report was taken out of context.

**Mr Pettifer**—I think the media report was about the supplier development program. The government has indicated that it would make available \$7.2 million from the ACIS \$150 million R&D scheme to support a new supplier development program. The details of that program are currently being formulated. We are discussing that with the FCAI and FAPM, and we intend finalising the details of that within the next month or so.

**CHAIR**—Will that be available to the 240 or 250 auto component manufacturers on the ACIS list?

**Mr Pettifer**—The details of how the scheme will work are still being finalised. I think it is unlikely to be a generally available scheme in the sense that we think it would be heavily driven by the requirements of the motor vehicle producers. So I would expect that they will have a fair bit of say as to which component companies they want to work with in that program. The purpose of it is to try and lift the capability of some of the key suppliers that will be important in

terms of securing the future of the industry. It is a relatively small amount of money, so I think it will be fairly targeted and at the end of the day will be used by a relatively small number of component suppliers.

**CHAIR**—Is there a condition on the provision of the money we make available, whether it be this or other money through the other programs that your department administers, regarding the labour force within those companies being retained or is there no tie-in to the current workforce levels? I am thinking of, say, Tenneco. This week, they announced a reduction of the workforce by another 60 or 70 people. They reduced the number by 60 a while ago. They are a recipient of funding. Is that right?

**Mr Pettifer**—Yes, I would think so.

**CHAIR**—Is there an obligation by these auto component manufacturers to do all they can to hold on to their workforce if they receive that money?

**Mr Pettifer**—There is no condition in any of our schemes that relate to retaining a certain number of employees. The programs are about trying to improve the competitive position of the companies through supporting investment or research and development expenditure or production activities. To the extent that they are successful, competitive and growing then they will tend to hang on to employees. But one of the things the industry also has to do to remain competitive is to improve its productivity levels constantly, so decisions about retaining a certain number of employees are not part of that process.

**CHAIR**—I noticed in your submission the comment about the need for further productivity increases as a way of addressing some of the problems. I would have thought the scope for productivity increases probably came off a low benchmark to begin with and that a lot of the productivity gains have already been made. How many more productivity gains are possible within the industry to have it still survive? Are we really stretching it out rather than there being some quantum leaps in productivity?

**Mr Pettifer**—That is a very difficult question to answer. In one sense, as the PM said about various things, it is a race that never ends. The industry has to constantly strive for improved productivity performance. If you look at its performance over the last decade or so, it has actually been very good. It has outstripped the performance of manufacturing. But they are going to have to continue to strive on that front. I am not sure I can be more direct or definitive than that.

**CHAIR**—I guess my concern is that, if we say that the fate of the industry rests in part on continued productivity increases, we may be missing opportunities in other areas that should be addressed as well. The scope for further increases is much smaller for the future than in the past.

**Mr Pettifer**—My colleague will correct me if I am wrong, but we have not done any analysis of the extent to which there is more scope for productivity increases. But just getting back to the future of the industry I think one thing that has probably come out pretty strongly in your inquiry, and one thing we certainly think is terribly important, is that industry needs to grow its exports and it needs volume.



**CHAIR**—There are margins on exports too, I notice. That is a big issue.

**Mr Pettifer**—Yes. That is tough at the moment with the value of the Australian dollar. It is being squeezed in terms of domestic market share. These are areas that are critical to the industry's survival—just getting volume.

**CHAIR**—I will go to exports in a moment. I have two more questions and then I will hand over to my colleagues. In the general industry policy framework, looking at your submission—which is a good submission, by the way—you talk about the phasing-out of the tariff reductions. We are now at about the 10 per cent level up until 2010. Does the department have a view as to what the state of the industry will be in 2010? Where are we going to be in terms of the number of manufacturers, the number of component manufacturers and employment generally? Is there some sort of forward analysis of the state of the industry in 2010?

**Mr Pettifer**—We have not prescribed what the industry might look like in 2010. I think a lot of that will be shaped by what happens in the marketplace between now and then—how successfully the industry can grow its exports and whether it can win back some domestic market share. Those are the things that are in the hands of the industry and, depending on how successful they are there, I think that will shape how the industry looks in the future. We have tried to put in place some long-term policy settings which will support what we think are the key drivers of competitiveness for the industry going forward. It is really up to the industry to take advantage of those. We do not have in our minds a firm view as to whether there will be the same number of producers or fewer producers and how many component suppliers there will be. I would think there is probably going to be some further rationalisation in the supply chain. Whether we have the same number of car companies then or not is not terribly clear at this point. There is a review proposed of the industry in 2008. That was announced when the government put in place its post-2005 policy settings. That will be an opportunity to take stock of things.

**CHAIR**—So during that review, because there has not been a more detailed analysis of the 2010 scenario, that tariff phase-out proposition could be amended.

**Mr Pettifer**—I could not speculate on that. All I will say is that when the post-2005 policies were put in place they were very much a package. The government provided fiscal support in the form of ACIS to the industry to help it to make the adjustments required to operate in a lower tariff environment. So it was all part of a package. It is always possible for the government to review these things, but that was certainly the thinking.

**CHAIR**—Let us talk about export sales for a moment. There are some good figures here. You have here in your submission that exports of vehicles have actually increased by 14.5 per cent in 2005. But automotive parts exports, while they have increased, have only increased by 3.4 per cent. That is a huge difference. Team Australia has been set up. Is Team Australia having any impact at the moment? What is its current status and its current success or otherwise in helping to boost those sales?

**Ms HALL**—Could I just add to that because that was actually my question—great minds, Phil! Not only have they only increased by 3.4 per cent; they have plateaued. They have actually fallen to \$1.68 billion in 2005, so there has been a drop since 2000. I am interested in that answer. Just adding to that, are there any ideas of initiatives to encourage growth?

**Mr Pettifer**—It is true that I think the level of exports peaked in 2000.

**Mr Clarke**—It was 2003.

**Mr Pettifer**—Was it? My colleague will correct me.

**CHAIR**—We have got it here.

**Mr Pettifer**—I have got the figures here somewhere; I just do not have them in front of me. Is Team Australia having any impact? It is probably too early for it to have an impact, I suspect. The minister has been very active in trying to open up some new opportunities for the supply chain. He has had visits to Tokyo and Detroit where he has talked to the major car companies and promoted the capability of the local component suppliers. He is talking to the domestic motor vehicle manufacturers and encouraging them to provide new opportunities for our more competitive suppliers in their supply chains. So that process is ongoing. General Motors has offered to road map some of our suppliers, which is a process they go through in trying to foster partnerships with particular suppliers and let them know what their forward plans are to enable the suppliers to position themselves to supply that business.

There is much better dialogue between the component suppliers and the car companies than there was, say, 12 month or so ago. In one sense, there has been progress. Are we seeing that recorded at this stage in significantly increased component exports? I would have to say, no, not at this stage. Will we? I am not sure. It is an intensely competitive marketplace out there. Some of the component suppliers are taking decisions—Air International is a case in point—to invest overseas to supply the market, and this is something that will probably have to happen in a number of cases. Air International is investing quite a lot in China and will be supplying the car industries in China.

**CHAIR**—So producing their components in China.

**Mr Pettifer**—Producing components there but doing some of the higher end research and development and engineering work in Australia. I think some of that is going to need to happen. For the same reason there is an advantage in locating close to Australian industry, there is also an advantage in locating close to industries overseas if you are going to be a component supplier.

I cannot give you a very clear answer to that. We are encouraging growth in that particular sector. We are hoping the supplier development program is part of getting their capability up and getting them exposed to some new opportunities. The minister has made it clear to the car industry that in return for the support the government gives them—and they get a lot of support—he expects the component industry to be given full, fair and reasonable opportunity to supply to them. At the end of the day, it is not something we can force. We cannot enforce levels of local content. That would be something that is not compatible with our World Trade Organisation obligations.

**Mrs MAY**—How competitive is it for our local manufacturers to use local automotive parts?

**Mr Clarke**—The answer will depend on the component. There are some components that are either bulky, high value added or very difficult to move where the local manufacturer has an

advantage. To give you examples, a dashboard, for instance, has got a lot of plastic. It does not take handling very well; therefore it is easier if you manufacture it very close to a factory and just sequence it into production. It is very unlikely that someone would want to produce that in a foreign country, package it up, load it onto a ship, unpackage it and move it in. There would be so many opportunities for damage. Then there is the sequencing issue. There might be 50-odd dashboards of various designs. If you are not sequencing them properly, you can get out of order and have major inventory problems.

So there are areas like dashboards, seats, various plastic parts where there is a natural advantage to local production. I think there were some examples given in the past of things that are labour intensive like rubber hose manufacture where the natural advantage will be with the low labour cost country where there is no inventory problem with holding on to them. You can understand that the answer will vary greatly across the many thousands of components.

**Ms HALL**—I want to take up this issue. You are basically saying that, given the disparity between the car sales and the component sales, the components are being produced and supplied from overseas and, further, that Australian companies are going to move offshore to produce those components for Australian made cars; therefore, those Australian jobs are going to be exported out of Australia.

**Mr Pettifer**—I did not quite say that, I do not think. If we just go back a bit, there are two ways in which you can export components. You can export components as part of a vehicle. The fact that our vehicle exports are strong in volume terms is a good thing for the components industry, because the vehicles have a lot of Australian components in them. So that is a good thing, and we are exporting components as part of fully built-up vehicles. We also export components to overseas vehicle manufacturers. That is the figure you mentioned, which has not been looking all that strong. It might come back a bit, but I am having difficulty forecasting by exactly how much. If we look at engines, for example, we see that there are some good prospects for growth of engine sales overseas. So that should add to the picture going forward.

What I did say was that, rather than export a component, some companies are going to need to set up operations overseas if they are going to be competitive in supplying overseas vehicle producers.

**Ms HALL**—But they will not be employing Australian workers, will they?

**Mr Pettifer**—They would not be employing Australian workers in certain bits of the manufacturing process, but they would be employing Australian workers in carrying out the research and development and design work—those sorts of things.

**Ms HALL**—So the labour intensive part of the manufacturing work will be done outside Australia and in the area where there is a shortage of jobs.

**Mr Pettifer**—In some cases in the global environment in which this industry operates, that is going to happen. The key issue there is: do the companies want to be part of the international business opportunities, or don't they? There are plenty of other suppliers who will supply if they do not. That is the choice they have to make. In some cases they will be able to export successfully and continue to do so, and there are many examples of that. All I am saying is that,

as part of the mix going forward, some of the ways in which they supply the overseas market opportunities are going to be by investing overseas and supplying directly. In the same way that we said there are advantages in being physically close to the Australian vehicle producers, there are advantages in being physically close to the overseas vehicle producers.

**Mr HAYES**—I accept what you are saying in that regard and also obviously where Jill is coming from. There is no doubt that the component manufacturers are dependent on the domestic industry. As you said, the minister has been indicating that, with the levels of government support of Australian car manufacturers, there is an expectation that they will rise to meet the challenge. But what you are saying is that, to some extent, they are thumbing their nose at that. It is not being borne out in the statistics: there is a decline in component manufacturing here. The manufacturing industry is importing more and more componentry. What do we need to do, without necessarily offending our international trade obligations, to provide the necessary encouragement to local vehicle manufacturers to source their componentry onshore?

**Mr Pettifer**—I do not think I said that the motor vehicle producers were necessarily thumbing their nose at the minister.

**Mr HAYES**—My words, I am sorry.

**Mr Pettifer**—All I said was that it was not possible to compel certain levels of local content. That would not be consistent with our international obligations. In that context, I think the minister is working hard to make sure that the industry does provide a full, fair and reasonable opportunity. Earlier we mentioned the new program—the supplier development program—that we are just implementing to try and give that a bit more force. We should not forget either that the support for the components industry under ACIS is enormously generous. It is an enormously generous program in the levels of support that it provides for research and development expenditure and for investment. It is a very attractive program.

**Mr HAYES**—It is. I accept that. But the number of componentry manufacturers is rapidly declining. To some extent, they are going out backwards because they are not being supported by our domestic car manufacturing industry and, hence, this is giving rise to people looking to manufacture offshore. I was interested in your saying that they will at least access domestically a lot of their R&D. Will the companies that are setting about to go offshore to manufacture be supplied access to the Export Market Development Grants Scheme, R&D grants and favourable tax treatment at 125 per cent—I think it is at the moment? Are they going to be able to do that, yet manufacture offshore? Can the core of their business that is going to benefit from this R&D be generated offshore?

**Mr Pettifer**—I would have to get my colleague to talk about the rules around the ACIS R&D scheme. The Export Market Development Grants Scheme is not in our portfolio; but, to the extent that companies are not exporting a product, they would not be eligible for an export market development grant—I would not have thought. I am not sure of the extent to which—

**Mr HAYES**—The only reason for raising that—and I am not trying to be too cute about it—is that we are going to put in money to help people develop, but if that development is not generating Australian based employment—

**Mr Pettifer**—I understand your point.

**Mr HAYES**—We may be generating Australian currency and taxable currency, but we are not generating Australian jobs out of it.

**Mr Pettifer**—You would be generating an income stream—profits—and you would be—

**Ms HALL**—We are about jobs.

**CHAIR**—Just let him finish.

**Mr Pettifer**—We can talk about ACIS and about how that scheme operates to support the industry and what would happen if a producer set up an operation overseas. We can talk about that.

**Ms HALL**—What is Mr Clarke's response?

**Mrs MAY**—I want to ask a question about the ACIS scheme to draw this issue out a little more. Your submission states that 254 companies are registered but that only 10 component companies received nearly 50 per cent of the funding. Why is that?

**Mr Clarke**—Like most industries there is a concentration. So the large tend to be very large and the small tend to be very small and there tends to be a very long tail in the industry. You understand the concept of tier 1, tier 2 and tier 3 suppliers. A tier 1 supplier will tend to be very large, and there are few of them, whereas there might be a lot of tier 2 and tier 3 suppliers. There will always be a tendency with almost all government programs for the assistance to reflect the size of the industry and the way the industry is structured. It is not some deliberate thing. ACIS is a legislated scheme and the entitlement is based on activity, with a cap based on turnover.

**CHAIR**—Are the smaller ones encouraged to apply?

**Mr Clarke**—The eligibility requirement is fairly generous. You have to produce either 30,000 components and at least \$500,000 worth of value or \$500,000 worth of components and it is over half of your components. So you have to be either very big and important to the industry or very dependent on the industry, but you do not have to be large. To produce \$500,000 worth of components is not very much at all. It might be a firm with about three or four people.

**CHAIR**—Just on that, does the department adjust those rules as the industry shrinks? The reason I ask is that we heard from General Motors that the locally manufactured component of the new vehicle that they are about to launch next month is going to drop down to 54 per cent from 72 per cent. What I am saying is that the ability to sell in terms of either volume of units or dollars by local component manufacturers is shrinking. So are the rules to access ACIS reflecting that? Because, if you have a cap that is pretty high and the market is shrinking, it is going to put it out of reach for some of the smaller ones.

**Mr Clarke**—As I said, \$500,000 is not very much at all. It is a firm with about three or four employees. It is just not a big figure. What it does do is cut out people who are not dependent on the component sector; in other words, if you were a pure after-market person, you would not be

eligible. But \$500,000 worth of components is not much at all. I do not know if GM has actually talked local content, but what will happen is that components across the board will not be bought, not that they will necessarily be purchasing less from a particular person. I do not believe there is a problem with the eligibility requirements. They are actually very generous and not that hard. Two hundred and fifty entrants is actually quite a fair part of the industry. There would be no really significant participant who was not in ACIS.

**Mrs MAY**—Just to tease that out, what percentage of component manufacturers do apply for the funding?

**Mr Clarke**—Well, we do not know—

**Mrs MAY**—Does it rule anyone out, or are we seeing only a small number applying under those three different tiers?

**Mr Clarke**—I cannot answer that in the sense that I cannot tell you who produces components who is not in ACIS. But the threshold is actually quite a low one. It is basically \$500,000 worth of goods, which is not much. It is not a high threshold. Any business that is not turning over \$500,000 in this industry is not a serious participant.

**Mrs MAY**—How onerous is the application, though? You are saying that the threshold is low, but—

**Mr Clarke**—It is an eligibility requirement: you have to produce that amount of work and be dependent on that industry to be in ACIS—

**Mrs MAY**—It is as simple as that?

**Mr Clarke**—and I stress it is not a harsh thing to require. Three or four employees is not a difficult requirement to meet.

**CHAIR**—You have made your point, Mr Clarke.

**Mr HENRY**—I wanted to move to skills shortages—

**Ms HALL**—Before we move to that, Chair, could I please ask Mr Clarke to answer Mr Hayes's question? That has not been answered as yet.

**Mr Clarke**—No, it has not. That is easily answered. To be eligible for ACIS you must produce components in Australia. To claim eligible R&D activity, while we allow the participant to do a certain percentage overseas, in the main, yes, it is done in Australia. So you must produce components in Australia to be eligible, the plant equipment has to be in Australia and the R&D effectively has to be in Australia. It is not a problem in terms of—

**CHAIR**—Yes, and that was in the notes you provided to us. But you raise an important point here, and it was a criticism from some of the component manufacturers. That is, in terms of R&D, if we were able to extend the R&D provisions to companies where the intellectual

property is owned overseas but the R&D is done in Australia, that would be of great assistance. Has that been looked at?

**Mr Clarke**—Yes, but it is not agreed with. The policy is that you need to have a proportionate say in the R&D in Australia, otherwise you are into the question of whose R&D you are supporting: are you supporting the overseas activity or are you supporting the local industry?

**CHAIR**—But for a lot of these companies, particularly multinationals and others based in various countries, the intellectual property may be owned in Detroit but they will hive off some of the R&D development to Australia, Germany or wherever else it may be. I worked in an industry where that happened, for the Eastman Kodak organisation. The R&D was farmed out to the other locations around Australia. Wouldn't it make sense, if that was going to actually create some jobs and keep people with high-level skills employed in Australia, for us to extend those sorts of provisions?

**Mr Clarke**—That is primarily a policy issue, but the thing to also remember in this sort of thing is that ACIS is about encouraging structural adjustment; it is not about providing work as such. It is saying: 'Here is some assistance, which we'll ration out to you in a particular fashion. Use that to make yourselves competitive.' It is not necessarily trying to bring in R&D work that is being contracted. If you are being paid to do R&D work, do it, get paid for it. But it does not necessarily require a level of assistance of 45 per cent from government to do that work.

**CHAIR**—I understand that you guys cannot make comment on policy questions, but I would have thought that, if there were a policy change in that area, it would be welcomed by the industry and be of substantial benefit. That is a comment; you do not have to respond to that.

**Mr HENRY**—In your submission at page 9 you indicate that it is not your responsibility nor do you have expertise with respect to skills shortages. I am just wondering: given the outcomes of the National Manufacturing Summit, where it was indicated that skills shortages are seen as a major issue impacting on competition and the viability of the industry, are there no measures aimed at addressing this issue in industry policy? If not, shouldn't there be?

**Mr Pettifer**—The government has recognised the importance of skills shortages, and there are a number of responses on that front but I do not really want to talk about them.

**Mr HENRY**—I would be happy to hear them.

**Mr Pettifer**—There are general responses. I do not have the information in front of me. It is not the portfolio's immediate responsibility but, with the new technical colleges that have been set up, additional moneys in the budget and those sorts of things, there is a response to these particular issues. In relation to the automotive industry itself, we do not have a particular program as part of ACIS or anything like that that is about training, but clearly the industry, if it is going to be viable, needs to ensure that it is providing opportunities for trainees, engineers and those sorts of things. We have just seen Ford indicate that it is going to be investing additional resources in its R&D centre to supply the global pick-up truck platform. Holden has done the same thing. So it is in their interest to make sure they are providing the investments in skill development.

**Mr HENRY**—But, in addressing skills shortages, surely that should be part of industry policy in a broad sense. Without it we can see that there is no outcome.

**Mr Pettifer**—I think we do it. Within the portfolio we have various action agendas. We are working with particular industry sectors on what they see as the constraints to their growth and what the opportunities are. We work through that process quite closely with DEST and the training council. So there are mechanisms for us to input into that process. All I am saying, I suppose, is that we do not have particular programs in the department which focus on skilling as such. It is really not the portfolio responsibility. But what we try to do is make connections between what we think the industry needs are and the training infrastructure. We do that in various ways. The action agenda processes might be one way we do that.

**Ms HALL**—Does the department believe that there are some initiatives—I will just leave it at that term—that could be introduced to (a) cut this dependency on the domestic market and (b) promote growth within the component industry that are not in place at the moment?

**Mr Pettifer**—When you say ‘dependency on the domestic market’, is that for the components?

**Ms HALL**—We are talking components, remember.

**Mr Pettifer**—I think they are closely interrelated.

**Ms HALL**—They are very closely interrelated. Is there any way that you can see that we can break that relationship and expand our components industry?

**Mr Pettifer**—I guess we are trying to do that. Part of what the minister has been on about through the automotive industry strategic group—and we talked about what he has done there in terms of visiting Detroit and Tokyo—and what we are trying to do is to help our more competitive component suppliers secure opportunities in global supply chains. One way to do that is to encourage our local motor vehicle producers who are part of worldwide operations to try and work with our component suppliers and expose them to some new opportunities. That is one way in which we are trying to do that.

**Ms HALL**—Didn’t you say that the areas where we are most competitive need to be produced closest to the car industry? Would that be a problem for us with exporting those items?

**Mr Pettifer**—Some will. In some cases where the nature of the component means you have to produce it close to your consumer, yes. It will mean that you have to make the investment overseas if you are going to do that.

**Ms HALL**—Are there any niche areas that we could look at developing that do not need to be produced close to where the cars are manufactured?

**Mr Pettifer**—I think there are examples. Schefenacker is an example of a company that is quite a successful exporter of product.

**Ms HALL**—Can you explain that to us?



**Mr Pettifer**—They produce rear-view mirrors, for example. They are a highly innovative company and have secured substantial business in the US. That is a product that can be exported. They can remain competitive by being at the forefront of innovation. They obviously now have very well established business relationships with their customers overseas.

**CHAIR**—There were one or two other component manufacturers that made the comment that being in a niche environment is perhaps one of the ways out, a saviour for them. But I guess it is a matter of finding the right niche, which I would like to explore in a moment.

**Mr Clarke**—The domestic industry is primarily scaled for supplying the Australian market whereas if you are going to sell into the United States you would have to be several times larger. It really depends on how well you can get into a global market if you are scaled to Australian operations and how much investment you put in on the chance of getting into an overseas market. So niche is obviously attractive.

**CHAIR**—When we are assisting the car manufacturers to export and find export markets, is there any ability to tie those export sales to a component contract as well? Obviously it has to be in the after-sales market environment rather than the manufacturing environment, and that may be a lot smaller. Are we able to do that at all?

**Mr Clarke**—I would not think you could go anywhere near that. ACIS does not actually assist for the purposes of export; it provides assistance for the purpose of production, whether you export it or sell it domestically. There is no tie on it. It is basically a value that is provided for motor vehicle producers.

**CHAIR**—So it cannot be a consortium type sale where, for instance, Toyota would say, 'We'll sell 15,000 units of our finished product to Saudi Arabia but with that also comes \$1 million or \$2 million worth of components for the after-sales market.'

**Mr Clarke**—I am not sure that Saudi Arabia is going to have much use for them.

**CHAIR**—I just threw that in.

**Mr Clarke**—I think you would have trouble if the government got anywhere near that, from a WTO perspective.

**Mr HENRY**—Just following on from a question on the skills shortages, attachment D to your submission includes a table of job losses from component supplier firms, which was compiled by media reports. Do you keep any accurate data on industry employment trends?

**Mr Pettifer**—We use the ABS data and, of course, we closely monitor the survey data that AiG and other organisations do. We do not do forecasts of what might happen in the industry. There are so many uncertainties that I think it is a pretty perilous game to get into. It depends a lot on what the demand is going to be going—

**Mr HENRY**—Market changes and exchange rate changes.

**Mr Pettifer**—All of that sort of stuff. What we have tried to do in that table is just say that a number of the component suppliers have indicated that they will need to reduce their staff levels going forward. We have just tried to capture it in that table as a bit of an indicator, I suppose. That is about the best we could do. We do not do any forecasts.

**Mr Clarke**—There is no notification mechanism for component companies to say, ‘We are closing jobs.’ We are just as dependent as anybody else is on the media for that sort of advice. That is simply put in there as it is the best knowledge we have of the factual jobs that we are aware of. The nature of job losses is that the big ones tend to get into the media, the small ones do not tend to get into the media, just as small gains do not get into the media, whereas large gains do. There are gains and losses in this industry.

**CHAIR**—One of the concerns of the component manufacturers that we met is the fact that they really do not know what the government’s view will be of the industry in 15 or 20 years time. In other words, what is the state of play beyond ACIS? Has there been some thinking about that? Are we able to provide some form of response to that concern at this stage?

**Mr Pettifer**—I think the answer to that is no. One of the things that was unique about ACIS—we have also done it for the textiles, clothing and footwear industry—is that it is a long-term policy setting for the industry. We have tried to give the industry some certainty out to 2015 as to what the policy settings will look like, recognising there are long lead times for investment in the industry and that sort of thing. What we have not done is try to predict what the market might look like. It is an incredibly difficult thing to do.

**CHAIR**—I sense that is what they are after. They want to know: do you think we are going to have two or three manufacturers, are we going to have 200 or 100 components? It is almost that kind of prescriptive forecasting which is what they are asking for, which may be a little bit too difficult to do—and unrealistic.

**Mr Pettifer**—These are things that are driven by the market at the end of the day. The minute the government started forecasting certain numbers in that area, I am sure it would create problems for itself. My own view is that is not a sensible thing to do in the rapidly changing environment in which we operate here, which depends so much on the sorts of investments that are made and the competitive positioning of companies and how well they respond to consumer preferences and all of those sorts of things. To me, it is not a sensible thing to try to predict what the industry might look like. The government have said their objective is to help this industry to structurally adjust. Obviously, in that context, they would like to have a viable and sustainable industry going forward. What it exactly looks like is something that the marketplace needs to determine.

**CHAIR**—We are going to have to wrap it up soon. I am going to lose some of my members; they have other commitments. What is industry doing to help auto component manufacturers in Australia link in to the global supply chain at this stage? I understand that APEC’s automotive dialogue working group has a web portal for APEC member countries’ automotive component manufacturers to link in to the global supply chain. Are you guys playing a role in that, or some sort of proactive role in assisting these guys to go out there and link in to the global chain?

**Mr Pettifer**—We have talked about what we are doing through the automotive industry strategic group, what we are doing in relation to the new supplier capability development program. They are two key things. Austrade works closely with the industry, as do state governments, in taking missions and those sorts of things to particular market opportunities. Mr Clarke can talk about the APEC automotive dialogue. We are closely associated with that.

**CHAIR**—But the results so far are a bit light, aren't they? Your own figures say that the growth in exports in that sector is only about three per cent, so it has not been dramatic to this stage.

**Mr Clarke**—It is a difficult thing. The APEC work we do is a dialogue where we are working to convince other countries of the benefits of trade liberalisation. To the extent that we do not practise it, we can hardly ask others to reduce their trade barriers. That is part of the value of the free trade discussions that we are having with, for example, ASEAN. If that comes off, there is potential for exports of both vehicles and components. There is a range of things. However, the one thing we cannot do is to make sure that a particular component supplier does export. They have to want to do it, they have to be allowed to do it if they are a foreign company, and they have to have a product that is wanted.

**CHAIR**—Before we wrap it up, I need to raise this because, once again, it was a comment made by the component industry. They are concerned about intellectual property. They are concerned that intellectual property rights basically do not exist in some of the emerging nations that are manufacturing competitive products. Are we doing anything to ensure that that becomes a dominant issue in trade negotiations? I guess China in particular is where the big concern is at the moment. Why spend money on R&D, why spend money on intellectual property if our product is simply going to be copied and then produced over in China? That is the comment we get.

**Mr Pettifer**—Comment in relation to what we are going to raise in the free trade negotiations is probably better directed to another department, but the intellectual property issue in China is well and truly on the agenda. My understanding from talking to IP Australia, which is within our portfolio, is that the Chinese are moving very quickly to improve the administration of their intellectual property laws. My understanding on this—it is not my particular area of policy responsibility—is that the actual laws in China are not bad, it is the enforcement of them that has been a problem, but they are rapidly moving to improve that. One of the reasons for that is they realise that if they want to attract investment and intellectual property to grow and develop their own industries, they have to have adequate protection in place, because if they do not, companies will be reluctant to make those investments and make intellectual property available.

**Mr Clarke**—I just want to make the point about the APEC auto dialogue: at every meeting I have attended the intellectual property issue is pushed very strongly. The whole issue of counterfeit parts is constantly being pushed. Countries will need to recognise that if they wish to be competitive, as Mr Pettifer said.

**CHAIR**—Thanks for that. It is good that you are doing that. I have a number of questions, but I am going to lose my quorum, so I cannot keep going. I would like to have teased out some issues regarding niche markets, particularly with manufacturing cars that run on alternative fuel, and whether or not we are missing an opportunity there. If there are things the department are

involved in that might assist the committee, can you send some info to us? It seems to me that in this whole discussion of cost of fuel, Australian manufacturers are missing a great opportunity to develop a niche product that requires niche components to establish ourselves uniquely in the world.

**Mr Pettifer**—I want to make a quick comment on that. I mentioned earlier on the \$150 million R&D fund, which is part of ACIS. A number of the projects that were recently funded under that do go to this issue of improving fuel consumption and looking at different technologies in this area.

**CHAIR**—Do we have anything from the department on that at this stage? Can you send some of that to us?

**Mr Clarke**—We cannot give you a great deal more, because there is a confidentiality element. Obviously, there are competitive issues to do with that. We can give you a list of the values and the title of the project, and the media releases.

**CHAIR**—And we are going to tease that issue out when we meet with the Federation of Automotive Products Manufacturers as well. Thank you very much; we appreciate your time. We look forward to seeing the progress of your dialogues.

Resolved (on motion 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 12.14 pm**