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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

Thursday, 22 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, Mr Brendan O'Connor, Ms Hall, Mr Hayes 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

McKELLAR, Mr Andrew, Director, Government Policy, Federal Chamber of Automotive Industries 1

STURROCK, Mr Peter, Chief Executive, Federal Chamber of Automotive Industries 1

Committee met at 11.12 am**McKELLAR, Mr Andrew, Director, Government Policy, Federal Chamber of Automotive Industries****STURROCK, Mr Peter, Chief Executive, Federal Chamber of Automotive Industries**

CHAIR (Mr Barresi)—I declare open this House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation 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. The committee called for submissions, and 27 have been received to date.

I welcome the representatives from the Federal Chamber of Automotive Industries. 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 and, consequently, warrant the same respect as proceedings of the House itself. It is also customary to remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. Gentlemen, would you like to make some introductory remarks?

Mr Sturrock—I will make a few brief remarks. Our submission is, I think, quite detailed, and we certainly look forward to your questions. As you are aware, the FCAI represents the vehicle manufacturers and importers of new passenger cars, four-wheel drives, light commercials and motor cycles in the Australian market. The environment facing the Australian automotive manufacturers has become significantly tougher over the past two to three years. These changing circumstances have strongly impacted the performance of the Australian vehicle manufacturers and, in turn, this has added to the competitive pressures being experienced by many firms in the component manufacturing sector.

Over that period, the competitive environment facing the Australian automotive industry has been strongly influenced by a range of factors, including the sustained appreciation of the Australian dollar underpinned by a booming resources sector, strong commodity prices and surging terms of trade. Global restructuring and commercial pressures within the automotive industry and the competitive pressures facing the parent companies of Australian based vehicle manufacturers have been well documented. In terms of changing approaches to global supply chain management, supply chain management has been increasingly influenced by global approaches to sourcing, pricing and quality as global manufacturers have sought to better integrate diverse international manufacturing operations.

There is also the emergence of China, India and Thailand as significant regional producers of vehicles and automotive components. These economies have been successful in rapidly expanding productive capacity in vehicles and automotive products. At the same time, these emerging economies apply various tariff and non-tariff barriers which impede Australian automotive exports.

The changing market segmentation in our local market is evidenced by the rapid growth in small and light cars, compact SUVs and the diminishing share of the large car sector. I should note that much of the recent change in competitive circumstances has been driven by factors

which are beyond the control of the Australian industry or of Australian government policy—for example, fuel pricing.

In terms of cost and price competitiveness, circumstances have contributed to a significant shift in the competitive balance between imported and locally manufactured vehicles in the period since the completion of the most recent review of policy arrangements for our industry, which was in the late 2002 period. In our submission, we present evidence which notes that the cost competitiveness of a representative locally made vehicle has, since late 2002, deteriorated by around \$5,000 against an imported vehicle of a similar value. Local manufacturers have been forced to absorb some of this loss in cost competitiveness, while for importers it has presented an opportunity to increase the level of features and specification delivered to customers. However, at the retail level, we would estimate that there has been an overall deterioration in retail price competitiveness for the locally manufactured vehicle of around nine per cent, or around \$2,600 on a \$30,000 vehicle. As a consequence of this change in the cost and price competitiveness, there has also been a loss of sales in locally manufactured vehicles, which we estimate in 2005 to be around 50,000 units.

Looking ahead, the outlook for automotive manufacturing production and employment will be strongly influenced by the direction of the domestic market in the near term. The loss of local market volume and the reduced competitiveness of Australian automotive exports have placed significant pressure on the ability of the Australian vehicle manufacturers and the component manufacturing sector to maintain production volumes and to maintain employment. From a recent high of around 408,000 units of light-vehicle production in Australia, production last year slipped back to 390,000 units. There has been a growing contribution to domestic production volumes as a result of the increased volume of vehicle exports over the past decade. However, as is the case in the domestic market, the competitive position of local manufacturers has been adversely affected by the appreciation of the Australian dollar against key currencies over recent times.

Australian vehicle exports continue to be narrowly concentrated in a limited number of key markets—primarily the Middle Eastern markets, which account for over 55 per cent of Australian vehicle exports at this moment. Notwithstanding the prospects for a successful conclusion to the WTO Doha Round or the implementation of further possible free trade agreements, Australian automotive exports continue to face significant market access barriers in our Asia-Pacific region. In the near term, the pending release of several key new locally manufactured models may provide an opportunity for local manufacturers to offset or to restore some of the recent loss in domestic market share.

They are some of the issues we face in terms of the vehicle cost-competitiveness issues. My colleague has some comments to make on training and skills and other matters which underpin the industry.

Mr McKellar—Very briefly, in terms of skills and training requirements, clearly the automotive industry is in very significant competition with a range of other sectors to attract and retain skilled employees. For us, effective national arrangements to coordinate training standards and training packages for industry as a whole are of fundamental importance. To that end, the automotive industry and FCAI and other stakeholders have been partners in an organisation, Automotive Training Australia, which has worked to develop national training standards across

the supply chain, starting with the retail, service and repair sectors of the industry. Moving through, we had some role with components, although in the past that has historically been covered by another organisation. Then we had the vehicle manufacturing area, where there is a national training package and where there is coordination between the various manufacturers through ATA to ensure consistent standards in that regard. That is a very important element of the approach to training across the industry.

The industry has sought, with government, to work through the reform process that has been under way for some period now, initially with the involvement of ANTA. I guess it is fair to say that we supported the objectives of that process, although at the end of the day we have not been able to reach a final resolution in terms of the approach of the skills councils. I think, as our submission highlights, we do have a number of reservations about some of the characteristics of the skills councils and how they sit in the broader reform picture. I guess we would see that there probably needs to be some further flexibility in that regard.

If I can characterise it very quickly, the ANTA model was one which was really born in the early 1990s, I guess. It was still in the period of the prices and incomes accord. It was based on a so-called bipartite model. One of our reservations about the structures that came out of that ANTA model were really that they tended to reinforce some of the linkages between training qualifications, the award based classification structures and the associated remuneration levels. I think in a modern business environment there is a stronger argument for a more flexible model—one which bases training requirements on the skills requirements and the structures that industry has in a particular job.

Clearly, if you are undertaking work which has a greater skill requirement, a greater complexity to it and also a greater productive outcome, that should be linked to remuneration. The former structures that were in place tended to link it somewhat artificially between particular job descriptions perhaps and classification structures that came out of the awards and so on and sought to link that to training qualifications, many of the skills of which may not have been actually required for individual jobs. There was clearly a need for reform in that.

I guess we would see that the industry skills councils that have been put in place as part of that ANTA reform process have not entirely moved away from that model. I do not know that they necessarily fully represent the contemporary requirements of industry, and I think that is why we would see that there needs to be further reform in that regard. We are working with government and with the department to achieve more contemporary arrangements for the automotive industry. We would certainly be very hopeful that we could achieve that, and we would hope to see that occur in the near term.

CHAIR—Thank you for those opening comments. As this inquiry is around the automotive component industry, and there is no doubt that the linkage between the component industry and the manufacturers is key, do you actually have any representation from the auto component industry as well? Is there a subsidiary relationship or coordination across the associations on the various issues? Could you explain the structure and the type of work that you would do together to achieve outcomes.

Mr Sturrock—We are two separate organisations, fundamentally—FCAI, representing the vehicle manufacturers and importers and FAPM, a separate body entirely, representing the

component manufacturers. We have some 40 members and they have some 200 members. The two associations are domiciled side by side in Canberra, but we are quite separate. We do have cross-dialogue on a number of issues and, as you rightly point out, there is a very hand-in-glove link between vehicle manufacturers and their component suppliers. However, their issues are quite separately addressed, as ours are as well. From time to time, we also join together in varying government inquiries or discussions with ministers and so on, as it may be appropriate. It is important to note that they are two separate organisations.

CHAIR—That is just a follow-on from Andrew's comments about skills. The comment has been made quite a number of times—in fact, when we visited South Australia—that, with the retrenchment of the workers in Mitsubishi and General Motors, the expectation that some of those might have been picked up by the auto component industry just has not taken place because of the difference in the skills set. I think it is a pity that that kind of skills training link is not there. Would either of you like to comment on that?

Mr McKellar—You have probably raised a fair point. In terms of our submission and the approach that we have taken in our discussions with government and with the former ANTA, I guess we have always believed that there is a strong logic in trying to build those linkages across the supply chain. Certainly with Automotive Training Australia we had sought to do that. There are other retail and service repair elements of the industry and their training arrangements are part of that. We would have always seen that there was logic in having stronger linkages with the component manufacturers. I guess, historically, part of the reason for them not being covered under those training package arrangements is that they were seen as being part of the metals industry arrangements. Their training arrangements tended to be more closely linked to the metals industry award and so on.

The vehicle manufacturers were covered under different award based arrangements, historically. So I guess that is part of the difficulty that the industry has faced in trying to break down those old award based classification structures and come to something that is more flexible and more contemporary, and which recognises the common skills requirements that might exist in areas of vehicle manufacturing and also those things that are occurring in component manufacturing and so on so, and that there is a greater sharing of the common skills requirements.

The reform arrangements that have been put in place with the skills council achieve that to some extent, but it is still very much built around a model that is in ANTA's image. ANTA is now being abolished by the federal government and I think we would agree that that was certainly a very correct move. The things that we have inherited though are industry skills council structures and governance arrangements which are still very much in that former model. I guess that is why we would argue that they have not fully achieved the outcome that is desired and that there is further scope to go. We would hope that they would be under review and that further changes would be contemplated in that regard. We look forward to continuing to work with the government on those issues.

Mr BRENDAN O'CONNOR—I will ask two questions. The first is about something the chair touched upon in terms of collaboration. Reading the reports—and it does not matter from which association they are—would lead any reader to conclude that the industry is in some significant trouble. Do you believe that the industry itself is able to deal with the paradox of, on

the one hand, competing with each other or the competition, domestically fighting for business, and, at the same time, having to collaborate in order to save the automotive parts industry? How is that reconciled, if at all? In other words, how much collaboration occurs in order to look forward to ensure there is an industry in which to compete in Australia? That is my first question.

My second question is on skills, which I guess will go to Andrew. Can government do more? We have heard evidence that some employers do not wish to train certain staff because of the costs associated with wage increases that may result from that training. I wonder whether the government is assisting enough in that particular area in terms of skill acquisition and enabling employers to encourage training to increase skills in the industry.

Mr Sturrock—To take the first question, the industry in Australia is quite tiny in terms of global manufacturing volume. We build around 400,000 vehicles in Australia. We are exporting around 140,000 of those vehicles.

Mr BRENDAN O'CONNOR—I have to go, but I will certainly read the transcript of your answers and I apologise for this. I have just been texted again to get to the chamber. I do seriously wish you to respond to those and, as I say, I will look at the transcript and follow up then. I apologise.

Mr Sturrock—Within the locally manufacturing sector—the four vehicle manufacturers—there is no question that they are under enormous pressure in this market and with the issues of their global parents. We have covered those issues in the paper, but I think it is very important to note that there are significant pressures on some of the global parents of the four manufacturers in different parts of the world.

Turning to Australia, we have said on many occasions—and I think the government has reinforced the same point—that, to have a viable locally manufactured vehicle industry, it is essential that we have a strong domestic market complemented by growing exports. Growing exports can provide us with additional economies of scale in all areas—components, vehicles, employment and so on; the whole issue of the industry. We are under an enormous siege, as the industry is typically a very vibrant global industry and the issues of vehicle manufacturing are established and growing in places like Thailand, China and India—never mind the US, South Africa, mainstream United States, Europe and so on. These areas are all seeking further investment by their corporate headquarters. There is enormous pressure for new model development and new technologies today—alternative fuels, hybrid engines, cleaner vehicles, vehicles which are safer et cetera. There are growing trends to smaller vehicles around the world and trends to SUVs—multipurpose type vehicles. All these add pressure.

In Australia, we are under much stronger pressure than we were under five or 10 years ago. As we have noted, the appreciation of the Australian dollar has put additional pressure on the domestic manufacturers and on our exports. In spite of that, we still have the basis for a viable manufacturing industry, but nobody is too short-sighted to think that there are enormous commercial and organisational challenges coming forward.

It is very clear that, without a vibrant vehicle manufacturing industry, the component industry is under threat and siege. The component industry is obviously feeling the effects of the global

sourcing programs which the vehicle manufacturers have embarked on. That has come into sharp focus in the last two or three years. The response from the industry—from the vehicle manufacturers—has been a willingness to work as closely as possible with the key local component suppliers in Australia and, with the assistance of the government through industry minister Macfarlane and others, to ensure that we do everything we can to encourage the overseas parents, be they in Japan, the US or wherever, to consider Australian component manufacturers within their sourcing programs. The sourcing programs of those vehicle manufacturers have very strict criteria of quality, pricing, product development and so on, and they are significant challenges.

However, to conclude my brief summary, the one major opportunity we have in Australia is a high skill base and reasonably low cost R&D or engineering development compared with Japan, the US or Europe. Australia is now being called upon by the overseas parent companies of brands like General Motors Holden, Ford and Toyota to specifically undertake R&D and model development work for their wider groups of companies not just in the region but sometimes globally. That is an area where we can provide significant expertise. It is a growing opportunity for Australia's manufacturers. I repeat that it is in the R&D and technical development area. It may well be that that product or those goods may not necessarily be built in Australia but they may well be designed and developed in Australia in the first stage. So there are some opportunities and positives on the horizon, notwithstanding the challenges that I have just outlined.

CHAIR—Thank you. We want to ask a lot of questions. I ask that perhaps your answers could be a little briefer so that we can follow up on some of them. You threw a lot of things in there, which I would like to follow up on. What about Mr O'Connor's second question?

Mr Sturrock—Yes, his second question was the issue of skills and so on.

Ms HALL—Can I ask a question?

CHAIR—No. We all have a lot of other questions, but Brendan asked a second question and I do not want that to be lost.

Mr McKellar—On the skills issue, the point is that those training arrangements need to be relevant to the employer's requirements of the jobs that need to be undertaken. The design of training qualifications and training packages is not just about providing a qualification structure for people to earn brownie points. It needs to be ensured that, with whatever qualifications are designed and put in place, relevant skills and competencies are being put into that as part of the overall structure and part of the training packages that are designed, and that they serve both employers' needs in terms of the jobs that they are putting together and the jobs that people are undertaking, and the employees' requirements in that capacity to effectively fulfil the job that they are employed to undertake.

CHAIR—The other aspect of his question was about the resultant cost of training and the wage increases that will emanate from it. Do you share that view?

Mr McKellar—The issue is that employers clearly will link remuneration to productivity. If training delivers relevant skills and that increases employer productivity, clearly there will be a

link to what employers can afford to pay. I think that is the role that it fundamentally has. The government's approach to that should be to facilitate that outcome and to ensure that the training packages that are being put in place are structured in that way rather than being built around artificially facilitating people to collect a string of qualifications, 70 or 80 per cent of which might have no relevance to the work that they are undertaking.

Ms HALL—Going back to the question that you were answering for Mr O'Connor, is it a fact that the component manufacturing industry is more vulnerable than the actual motor vehicle manufacturing industry, given that motor vehicle manufacturers can import those parts from overseas and assemble them in Australia? What action can the government take to ensure the sustainability of both industries?

Mr Sturrock—It could be argued that the component industry *prima facie*, because it is supplying the local vehicle manufacturers, is more vulnerable than the vehicle manufacturing industry. The component industry has an obligation and is challenged to seek export markets for its components, just as the vehicle manufacturers do. However, if we take the view that the component manufacturing industry is largely made up of smaller and medium sized enterprises—there are 15 or 20 large organisations within the component manufacturing industry which, in many cases, are international companies, but many others are quite small—the smaller ones are probably vulnerable when compared with the vehicle manufacturers.

Having said that, it is essential that the vehicle manufacturers, as a global industry, have the capacity to draw components from wherever. The CEOs of the vehicle manufacturers in Australia have said on a number of occasions that they would always wish to source components locally, if they could. That is their primary aim. However, if that is not possible for cost, technical or other reasons or because the company that supplies them is not necessarily meeting their criteria, they have to go overseas. It depends on model changes and technologies as they come forward. Nothing is ever locked in stone forever in terms of a continuous supply from a particular component company to a vehicle manufacturer.

The government is certainly cognisant of those issues and the industry is very clearly aware of those challenges. We have had many discussions around the table about that matter. The government is obviously very keen to see a basis of component manufacturing being maintained viably in Australia. I think it is fair to say that the government accepts that global sourcing forms part of the industry. However, it has asked—I think quite fairly—the vehicle manufacturers to ensure that they do their very best to source locally. I think the government, through its policy, believes that there is a mutual obligation issue, with government support being provided to vehicle manufacturers on the one hand and, on the other hand, with the vehicle manufacturers and their future model programs and sourcing issues. It is not a clear-cut matter and circumstances have been changing in recent years. However, the point can be argued that, in the first instance, the component industry could be considered to be under greater pressure than the vehicle manufacturers.

CHAIR—You say that the auto-manufacturing companies have a policy of sourcing locally as much as possible. Is that simply a PR statement rather than reality? I ask that because what is happening this year with General Motors and its new car is a classic example. How can local componentry move from a position of 72 or 74 per cent to 52 or 54 per cent? That is a huge

decrease in the use of local components. It is great to have it there as a statement of the car manufacturers, but the reality does not seem to bear that out.

Mr Sturrock—There are two things there. Firstly, you would need to ask General Motors directly about the figures you have quoted, because we are not privy to those particular figures and we do not know whether they are accurate. Secondly, the policy that I have just enunciated is a clear policy. It is not simply a PR stunt; it is a genuine requirement. Certain parts of vehicles need to be sourced locally because of their very type and dimension—things like seats, dashboards and large items such as plastic mouldings and so on. Sourcing could be done elsewhere for other areas. It is about the technology of the vehicle and the future model changes those companies will make. I want to emphasise the changing nature of the models, the production sequences and the arrangements that the companies are putting in place.

The second point I will draw to your attention is that yesterday Holden announced that the new standard Commodore, which will be released in the third quarter of this year—it is a substantially changed vehicle for the local market from Holden—will be fitted with electronic stability control. That is a substantial technology commitment. As part and parcel of the arrangement, that component has been sourced locally from the Bosch operation in Australia. I think that is an example of what they wish to do by way of sourcing.

Mr BAKER—The chairman just gave some statistics, and your response was that we have to look at it from where we source certain types of components. Surely that illustrates where the relationship is between the manufacturer and the components. Where are the innovation and the forward planning with the components? The relationship between the vehicle manufacturers is that surely they will be saying the next year or the year after: ‘These are the types of components we want. Can you manufacture these components?’ It is a huge drop from 70-plus per cent to 50-plus per cent. What concerns me is that there is no illustration that it is not a publicity stunt.

Mr Sturrock—There is a normal process between the vehicle manufacturers and their suppliers where they are having discussions about components and sourcing two, three, four years out. The discussions for vehicles released this year took place that amount of time ago. They are in discussion now about future products that are to be built in Australia. I cite there the recent announcement regarding Ford and its ongoing development of territory and so on—the next Ford Falcon and whatever. That is typically the time cycle. The companies themselves, both the component companies and the vehicle manufacturers, could give you greater detail as to exactly how they work in those sourcing issues. So it is not a year-to-year position. You are talking about ongoing relationships with those leading companies, which are quite intense—they are quite detailed and they take place over quite some period of time.

Mr BAKER—But the results seem to be reactive and not proactive.

Mr Sturrock—I do not know that that is an entire reflection of the negotiation process or the relationship. I would suggest to you that that change in structure is part and parcel of the automotive industry globally; it is not unique to Australia.

Mrs MAY—Just to go a little bit further on that, what would you then see as the greatest barrier to sourcing those components locally? You talk about talking years in advance when

working with the components manufacturers. But if those figures are sliding, what do you see as being the greatest barrier for sourcing locally?

Mr Sturrock—It is fair to say that the greatest barrier or challenge would be the ability of the local organisations to meet the quality and the technical development of those components for the vehicles built in Australia. There is a wide variety of components manufactured. In the future, we have to focus on the high-end R&D innovative type products. Some of that can be undertaken in Australia; others simply cannot be, because we do not necessarily have the capacity. But it is fair to say that the reality is that the manufacturing process of low-value simple widgets, if we can call them that, will probably be handled elsewhere rather than in Australia, because we are simply not in that mass production simple unit area where we can be competitive with other countries in our immediate north-west.

Mrs MAY—Not competitive because of wage break-outs or wage increases? Would you see that as being another—

Mr Sturrock—It is simply uneconomic in a basic issue to produce simple items in Australia when they can be produced more cheaply elsewhere for a variety of reasons.

CHAIR—You started off saying it was quality and the ability to provide a quality product, but now you have introduced cost as well.

Mr Sturrock—It is technology. It is the innovation within the product and it is the combination of all those issues. Australia's future, as has been identified from time to time, is more in the high-end product than the low-end product, as a general rule.

Mr HAYES—I will also continue with that theme. I understand what you said about Minister Macfarlane and having some clear understandings with the industry. I also hark back to the comments made by the chair about the drop in components being used by Holden, and you said that it is a question for them. We have actually had the benefit of meeting with the departments of industry and trade, and we have confirmed that that is very much an across-the-board development. One of the things I put to them, which I would like to put to you, is that, if it appears to you, as it does to us, that the components industry is effectively being wound down because of lack of support from the vehicle manufacturers, what should we be looking at doing to encourage manufacturers to give greater support to local component manufacture?

Mr Sturrock—The future of the component industry supporting the local manufacturers is in the development of the higher end product working in collaboration with those companies—whether it is with one or a range of the vehicle manufacturers of the four—to endeavour to source to both the Australian manufacturing arm and some of the offshore plants of that particular company.

Mr HAYES—I understand that, but bear in mind that the vehicle industry in this country has received a lot of support from the federal government—certainly a declining tariff regime, but nevertheless a measure of support in order to preserve its ongoing nature. It has to be able to compete in the marketplace, which I understand. However, what you have advised us—that is, that the CEOs of all our major vehicle manufacturers are committed to supporting the local industry—does not seem to be translating into matters of fact out in the business world at the

moment, particularly when you see the level of decline that is occurring in our components manufacturing arm of the industry. If that continues to decline, is it not a fact that we will not be in a position to retool and be able to supply local industry with local manufactured components?

CHAIR—In fact, the eventual result will be that those 15 or 20 large component manufacturers that you referred to will be it. That is what we will be left with.

Mr HAYES—Exactly.

Mr Sturrock—I keep coming back to the global nature of the industry and how quickly it has changed over the past five years. The same rationalisation amongst vehicle manufacturers and amongst component manufacturers is occurring in the United States, in Europe and in other parts of the world. Certainly, growth areas such as China, India, Thailand and eastern Europe are emerging. But in the mature markets where we have had vehicle manufacturing for many decades, that process is occurring. The rationalisation is one that we are seeing groups moving together in collaboration. There have been references to tier 1, 2 and 3 type suppliers, which tend to identify the size and the scope of some of those component manufacturers. Quite regularly, some of those groups are getting together in a financial or cooperative sense and working as a group where singularly they are somewhat more vulnerable. That is a trend that has occurred in a similar fashion to the way vehicles are manufactured for various groups around the world.

There is no question that the pressure is on the component sector. With the component industry, in a number of areas, the larger companies have not only established growing manufacturing facilities in Australia; they have put plants overseas in places like Korea, China and the United States to support the supply of their components to the vehicle manufacturers within GM, within Ford, within whatever. That is again a trend that has occurred around the world, and Australia is no different. You could argue that without the determination of the Australian vehicle manufacturers and how they are trying to ensure that viability of manufacturing in Australia is maintained in the future, it could be argued that, without that focus and commitment, the position could worsen. I am not for one moment suggesting that we are not seeing a diminishing of component vehicle manufacturing numbers. I am simply saying that that is a trend which is global, we are part of that trend and we are maintaining our focus. There have been some slippages, but—

CHAIR—We get the point there. I will move on to something else that is in your submission, which I actually have a personal interest in, and that is the future of the industry with regard to either smaller cars or hybrid cars.

Mr Sturrock—Yes.

CHAIR—You mention here that rising fuel prices have been a factor. Rising fuel prices are not going to go away. Fuel prices will be with us for many years. Is the Australian industry missing an opportunity here to get ahead of the game in developing a niche car which will be in demand by consumers out there who are very price sensitive to fuel increases?

Mr Sturrock—There are two points there. One is that vehicle manufacturers locally have said previously that they see an important aspect for LPG fuelled vehicles in Australia, and they have been available and will no doubt grow. Further focus is being given to diesel powered vehicles

by the Australian manufacturers. Whilst there is nothing on the market today from the local vehicle manufacturers with a diesel engine that is manufactured here, as distinct from being imported under their brand, there may be in the future.

Secondly, the technologies of things like hybrid engines and so on are extremely expensive, as everyone is aware. They are generally sourced from an overseas manufacturer. Toyota, for example, has the Prius. The Prius engine is a very acceptable example of a hybrid engine, I suppose. It is being sold in this country in limited volume because of its high price. If you are asking me if I see a situation where Australia may well devise, design or build a hybrid engine in Australia, I think that is a challenging question. It would, in my view, be unlikely in the immediate period. Because of the size of our domestic market, we would logically be sourcing something like that from one of the plants overseas.

CHAIR—I am not looking at this as a car to be manufactured for the Australian consumer, although that would be a great spin-off, but more in terms that the rest of the world is making these cars. There is a lot of competition from the rest of the world in making these cars, whether it be in Thailand, Detroit or Germany. Why don't we get ahead of the game and develop some sort of niche vehicle that we can then say is our vehicle that we can then market so, in other words, it becomes an export advantage for us as well?

Mr Sturrock—I understand. The recent example of that would be the Ford Territory, a multipurpose SUV, which was wholly designed and then built in Australia; it is now exported. That particular vehicle has been most successful. The challenge is really at the feet of each of the manufacturers. However, to take your question on why we do not design and build a smaller sized vehicle for the world market, two or three of the companies have, over recent years, said that it is uneconomic for them to consider building a smaller car in Australia because of margins and cost issues and because small cars generally can be more efficiently built in other plants of their organisations around the world. That is the general view. I cannot give you a guarantee that there would not be an opportunity to build something in Australia. These competitive issues are things that the manufacturers normally keep closely to themselves.

Mrs MAY—So we would miss out on emerging markets too if we were not to locally manufacture a smaller car for export?

Mr Sturrock—No.

Mr BAKER—But wouldn't it turn it around so that we would end up importing a smaller car that has been developed overseas? It would work in reverse as far as the benefits to Australia are concerned.

Mr Sturrock—If we take the view that a brand like General Motors Holden, Ford, Toyota or Mitsubishi would contemplate building a vehicle—if it were a smaller sized vehicle as you are suggesting—and they asked themselves: 'Shall we build it in Australia or build it somewhere else? We'll sell it in Australia but we'll sell it elsewhere as well,' then they would contemplate the cost of manufacturing and the efficiency of building that vehicle in various plants. That is a typical corporate consideration. Australia would put their hand up and say, 'Yes, we can build it for you. Here's our cost structure,' and so on. Whether they win or lose that particular business is a matter for the corporate head office. However, the companies have said on a number of

occasions that it is more economic to build a smaller sized vehicle in other plants around the world than Australia.

CHAIR—So even though the motivation may be there at a domestic level to manufacture it, at the end of the day the sign-off on it will have to be from head office, which will be looking at competitiveness with other plants. I understand that.

Mr Sturrock—All major investments in Australia are signed off by head offices around the world. Capital and investment is very mobile and it is extremely difficult to continue to attract that capital to Australia. We have done a remarkable job hitherto; the challenge continues.

CHAIR—We already provide a lot of money through the ACIS scheme to the local manufacturers.

Mr Sturrock—Correct.

CHAIR—Could that be offset by some other government response that looks at promoting a hybrid manufactured vehicle locally?

Mr Sturrock—I think that is a reasonably complex policy issue and I would not imagine that you could link one with the other. The ACIS arrangements and the transitional assistance arrangements to industry have been provided over a long-term, 10-year plan, which is exactly the type of plan which is essential for vehicle manufacturing and investment decisions. The question about whether you link that to something else would be—

CHAIR—It does not necessarily have to be ACIS, but there would be some sort of government support. The government would say, ‘The future of the industry will, unless we have a niche product, bleed over time anyway, whether it be five, 10 or 15 years, so perhaps we should be looking at a separate government program which supports that kind of manufacture in Australia.’

Mr Sturrock—Other government programs have been offered in recent years for such R&D type work. Just recently Ford announced success in gaining a grant from the federal government for new engine technologies and the future model development. That was made only about six weeks ago by the Prime Minister.

Mr HAYES—Just following up on the issue about R&D, which has been looked at recently in terms of science and innovation, what would be the likely opportunities available to us if we could review the tax concession on R&D for overseas owned companies that have been conducting R&D work in Australia?

Mr Sturrock—It is a question that has been discussed between the industry and government on a number of occasions. I think the companies would be keen to see some further assistance in terms of the R&D tax concessions, if that is possible. The companies understand the current structure of the arrangements of R&D and of those tax opportunities. It is a matter of ongoing discussion at the present moment between ourselves and government.

Mr HAYES—Having regard to the trend that seems to be occurring in the States—the acceleration of the production of a smaller vehicle—that is something that we are seen to be either insulated from or not addressing out here, given conversations that have occurred so far. If we are not going to be looking to domestically manufacture a small vehicle here, are we likely to be shunted out of the market within the next 15 years?

Mr Sturrock—We are building what a large chunk of the passenger vehicle market demands in Australia at this moment—the large car, the utility and various other versions of commercials. The companies are clearly aware of the market trend and are looking at more fuel efficient engines and other matters within the ranges. For example, we understand, as has been announced, that the new Toyota Camry will be sold as a four-cylinder engine only, whereas today it is a four and a six. There will be changes like that. However, as I have said before, on a number of occasions companies have commented that it is not economic to build a small vehicle in Australia. That is a pure matter of fact that has been tabled by those companies. Whether that changes in the future is yet to be seen, but at the present moment that is their view from head office.

Mr HAYES—Is that really sounding the death knell of our industry? Internationally, the vehicle industry is trending toward the manufacture of smaller vehicles. If we are saying that we are going to insulate ourselves from that, are we going into this with our eyes wide open on the basis that we do see a continual but eventual decline to the point of destruction of the Australian vehicle industry?

Mr Sturrock—There are still niches for our large car in export markets. The Middle East is a prime example. We are very keen to export the product into China and Korea. That is already happening from General Motors Holden with a rebadged version of their Statesman, and there are other opportunities which they are examining at the moment. We are seeking greater market access in some of those countries in the APEC region and in other places like Malaysia, Thailand and so on where today there are considerable tariff and non-tariff barriers. However, in the longer term, Australia has a role to play in exporting a midsized, semiluxury vehicle like a Commodore, a Falcon or a Camry to those particular markets. Export is key to that issue, and our regional area provides considerable scope in the longer term, assuming we can gain better market access.

Mr HAYES—I thought I read somewhere in the past that Ford was investigating the possibility of putting a vehicle plant in China. Is that so?

Mr Sturrock—Many of the brands in China are in the joint venture. So the Chinese government allows it today and has done for many, many years and the continuing investment grows there. As to the specific issue of Ford, I do not recall. But we read every day about further commitment by the major vehicle manufacturers from Europe and the US into China through the joint venture arrangements, as they are allowed to do.

Mr BAKER—I am very concerned about that aspect. The message coming through is that, whether it is economic or whatever, we are going to be reactive and not proactive as far as the small vehicle market is concerned and, as you said, we are locking ourselves into the SUVs or Territories. If plants start opening up overseas, where do we go from the Australian production perspective? We seem to be locking ourselves into one particular area instead of developing a

wide-ranging, growing industry—not only from a vehicle manufacturing perspective but also from a components perspective, because they go hand in hand. We just seem very short-sighted in that area.

Mr Sturrock—I think we need to appreciate the historic nature of the industry and the four manufacturers. I repeat: the economy of scale in Australia is quite tiny in relation to other vehicle manufacturers and we are building 400,000 vehicles between four manufacturers in Australia. That in itself is—

CHAIR—I think we have pushed this point pretty strongly here. If the countenance to the drop in domestic sales because of imports to Australia is offset by export sales—and you said 55 per cent of exports go to the Middle East—then what else can we be doing to increase the percentage of exports? Team Australia has been set up, we heard. It is only early days. There are sales going on into the United States and other places. Are we doing enough in terms of exporting more cars?

Mr Sturrock—Team Australia is the first point. The second point is that we have to work very hard continuously to seek greater market access in the markets I mentioned earlier—places like Malaysia, Thailand, China, Korea, the Philippines and so on, in the Asia-Pacific region, where we have the opportunity to sell product. Collectively those markets represent the fastest growing segment of the automotive industry in the world. We have other areas like Africa. The Middle East and South America remain important and there may be other areas. Export is fundamental to our future viability and success. That has been stated often.

CHAIR—You are highlighting those markets, particularly the South-East Asian area, as a destination. You also made the point that some of those countries have cost advantages over us in terms of their manufacturing. How can we sell into that market? Are they after a specific car? Why would the Australian manufactured car be attractive in those markets where they can also produce it?

Mr Sturrock—Those countries primarily build small vehicles and commercial vehicles. They do not build medium or large sized or luxury vehicles, in the main. We build larger vehicles, which can be luxury vehicles or semi-luxury vehicles in their market. So there is a complementation. We can export our vehicle with that luxury specification to places like Korea, China, Thailand et cetera. As duties and non-tariff barriers are removed over time, hopefully there will be greater market access. So it is a complementation. I am not for one moment suggesting that we build small cars here and sell back to a market that already produces small cars very effectively, such as Thailand.

CHAIR—So, in effect, our niche product is the larger vehicle in those markets.

Mr Sturrock—It is a niche product, and that is correct. That is the way we have to see ourselves in terms of the global structure and that is how the industry has been working in recent times.

Mr BAKER—The Ford Territories, as you say, have been a great success in Australia.

Mr Sturrock—Yes.

Mr BAKER—On one hand, we say that there is obviously a problem which we all know about—fuel costs—yet Ford Territories are four-wheel drives and have six cylinders. There seems to be a conflict there. That market is exploding, yet we are blaming fuel costs. There seems to be a contradiction in that area.

Mr Sturrock—They do build an all-wheel drive and a two-wheel drive version. It is no secret that they are looking at a diesel version of the vehicle. It was originally released as petrol; it is now turbo charged as well. There are opportunities there. But please appreciate that, within the Ford group globally, there is a Mazda product which has four cylinders and is the size below the Territory, which is an SUV, and Ford sell that in Australia as a Ford vehicle.

Mr BAKER—I was just interested in that.

CHAIR—We are going to Victoria on Monday. The Victorian government held a manufacturing summit last year. Did you participate in that summit?

Mr Sturrock—We did, yes.

CHAIR—I cannot recall what was in that. We will have to read it before we get there on Monday. Do you want to make any comments about the outcome of that summit?

Mr Sturrock—Yes, I will be brief. It continues as a dialogue. It is a useful dialogue between industry members and federal and state governments. It has been discussing the many challenges, as we have been discussing them here this morning. I think it is fair to say that from our viewpoint it has been a little light on specific issues such as the workplace relations area, the employment issues, the flexibility of the industry and some of the challenges that we face in terms of the workforce, the skills and training area and the opportunity to bring further reform to the vehicle manufacturing and distribution process. So we see that those areas are still unattended in terms of the summit activities. The summit will continue; it has been scheduled to continue for some time. As I said, it is a valuable dialogue, but I think there is more concrete work that could be done in some of these basic reform areas which would be to the benefit of the industry.

CHAIR—Thank you, gentlemen. We appreciate you coming in and answering our questions. We have one more day of hearings, and after that we will be writing our report. If you want to throw any additional information our way based on the comments or questions you were asked today, we would certainly appreciate that.

Resolved (on motion by **Mr Baker**):

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

Committee adjourned at 12.13 pm