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Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON EMPLOYMENT, WORKPLACE
RELATIONS AND WORKFORCE PARTICIPATION

Reference: Employment in the automotive component manufacturing sector

MONDAY, 26 JUNE 2006

MELBOURNE

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON EMPLOYMENT, WORKPLACE RELATIONS AND WORKFORCE

PARTICIPATION

Monday, 26 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, Ms May, Mr Brendan O'Connor

Terms of reference for the inquiry:

To inquire into and report on:

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

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

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Committee met at 10.13 am**LEE, Mr Michael, Manager Technology Transfer and Education, CAST Cooperative Research Centre; and Coopted National Executive Member, Australian Die Casting Association**

CHAIR (Mr Barresi)—I declare open this public hearing of the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation inquiry into employment in the automotive 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. This hearing will be the final public hearing for the inquiry.

I welcome Mr Lee. 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 witnesses that giving false or misleading evidence is a serious matter and may be regarded as contempt of parliament. We have received your submission—thank you very much—and we have been through it. Would you care to make some introductory remarks before we go into questions and answers and informal discussions?

Mr Lee—Firstly, on behalf of the Australian Die Casting Association and CAST, I thank the committee for making the time to allow us to discuss our submission further. Our submission focuses on offering constructive comments, primarily addressing point 4 of your terms of reference. We do comment on the other important points, but feel that we have a significant model to emphasise to the committee. The model we have previously presented when it was in its development stages was presented to the Employment, Workplace Relations and Education References Committee in November 2003 and was reported in *Bridging the skills divide*. Both CAST and ADCA felt that we received very positive bipartisan support for the recommendations in that report, and we are building on that with our submission. I can make some general comments to talk to my submission and then we can have questions, if I can do that.

CHAIR—Thank you very much. That would be great. Please keep going, Mr Lee.

Mr Lee—I just want to emphasise that the Australian Die Casting Association is an industry body, as you would be aware, and we focus heavily on advancing the Australian die-casting industry. We do that through the standard sorts of models that industry associations use, with meetings, bulletin magazines, conferences and the like.

We want to emphasise that we have had a long history of delivering educational programs. We have had a long involvement with the RMIT's die-casting course and we have also been very supportive of research, from the mid-seventies, with CSIRO. So there is a long history. Approximately 75 per cent of our smaller membership base is directly related to producing components for the automotive sector, so we feel that we are in a very good position to comment on the educational skills needs.

The CAST cooperative research centre is the third funding life of a CRC program focusing on light metals and light metal value chains within Australia. We have produced a number of media

releases that I can leave with the committee that emphasise our broad roles in advancing technology for the die-casting and automotive component manufacturing sector, ranging from engine alloys, casting techniques and cover gases for magnesium, to design and educational activities. One of the educational activities that we wish to emphasise is the first student to receive a certificate II in production engineering from the Swinburne TAFE focusing on light metals. That was a collaboration between Swinburne, Comalco and the Australian Die Casting Association. I would like to leave that with the committee.

A number of member companies of the Australian Die Casting Association are on the small side of small to medium enterprises. On a global scale, our medium-sized companies are considered reasonably small and we produce about one per cent of the world's die-castings. So, to comment on some comments from other submissions, it is very difficult to sway Detroit, Bonn and Tokyo to change designs for castings, and we have a lot of difficulty doing that within Australia. However, there are some positive examples: Pacifica brakes, and Castalloy making wheels for Harley Davidson and the like, come to mind.

The significant SMEs that are members of both ADCA and CAST include Ford, Nissan Casting Australia and Ferra Engineering. Ion Automotive were involved, prior to going into the hands of administrators. That was a very large blow for our research and education programs, because we were about to commission a 600-strong TAFE student program to address the skills shortages needs that Ion saw. That was to be 600 students over five years and five per cent of their workforce was to be educated to certificate IV.

We also want to emphasise that the workforce focusing on die-castings for the automotive components sector cover a range of specialist technical skills and a range of TAFE and university courses nationally. A number of these are well supported and some are suffering skills shortages. Toolmaking is one broad area that is suffering skills shortages in our industry. That is being addressed by a number of TAFEs. The one that we wish to focus on is metallurgical training at both an engineering and a TAFE level—for example, foundry and die-casting type activities and smelter cast house type activities.

We want to emphasise that comments from member companies of ADCA are that, for a die-casting company to be successful in the automotive components sector, the requirements are a tight control of manufacturing process costs, which you would have heard from a number of other people; a good market research and design input, which we want to emphasise is difficult in that we are a small player on the global scale; and a range of customers to cope with the fluctuations of domestic and export cycles and models.

Our industry members are tackling those three points in a variety of ways. The one that we want to focus on for a policy suggestion and comment with this committee is that, in order for a die-casting company to be successful, it also needs a well-trained workforce working with technical systems and equipment. What we find is that we have two types of membership that address this issue, that it is not tackled in a common way across the industry. The very large companies—and this goes to aluminium smelters that supply the metal to the die-casters—find it more cost effective to do internal training and they also attract the highly skilled people from the street; whereas the small companies, which make up a large proportion of the component manufacturers, have to rely on government programs through TAFEs and universities and on people off the street. They are struggling more than the larger companies.

The point I want to make is that coordinating the large companies nationally has been a difficulty from an educational perspective. There are a very small number of people who require specific technical metallurgical training nationally, and the numbers cannot sustain individual centres of excellence in this state. A TAFE requires a minimum of 20 people to do a course in order for the course to be financially viable. It is also very difficult to do hands-on, practical demonstration courses that involve casting equipment and large cost items such as metal in a number of locations. Both ADCA and CAST strongly recommend that this sort of education, a practical demonstration course, is handled nationally. That would require distance learning, electronic learning and all of those other things that universities and TAFEs are doing. We want to emphasise that coordinating it nationally rather than coming up with lots of centres of excellence for this industry is what we need.

The type of training that will be required is still going to be broad. The greatest drivers for our companies are that they will have to make a larger number of casting components per employee and that we are seeing an increase in assembled components rather than raw castings. Our studies show that the trend for the last 10 years has been that we are actually producing more castings per year and a greater tonnage of casting per year with fewer people. The problem is that the world die-casting market has been growing faster than the Australian die-casting market.

With regard to the emerging skills shortages and appropriate recruitment and training strategies, we want to emphasise that specialist metallurgical training at both the engineering and the technically trained shop floor level is required. This is because university training has become more generalised over the years and metallurgy has been absorbed into general engineering, mechanical engineering or chemical engineering and, as I have said, it is too expensive to run demonstration courses at the TAFE level. I believe you heard a lecturer from the University of South Australia echo those sentiments regarding the generalisation of engineering courses. We echo those sentiments. I also saw that Kangan Batman Institute of TAFE made a submission emphasising the cost of demonstration courses, and we agree with that.

To re-emphasise it, what ADCA and CAST recommend is the focusing of resources on a federally funded teaching foundry environment to service the national casting industries and to be available to both TAFE and the university sector. I have letters of support from Alcoa, Portland Aluminium and Tomago Aluminium, which is in the Newcastle area close to Ms Hall's electorate. We have also received strong support from Comalco, which assisted with the development of a course that we have online at Swinburne TAFE. We have had one graduate go through that so far. That is what the 600 Ion members were going to go through. We feel we have a very workable model. We have cost estimates on it, and I am sure that you would like to know how much it would cost.

I have the proposal that was prepared for Ion, for the 600 students. It involved a combination of about \$4½ million in funding. It was to utilise Ion money and was to largely utilise existing South Australian and Victorian government programs and federal funds to deliver that \$4½ million worth of funding over four to five years. It would have cost Ion Automotive in the order of half a million dollars to a million dollars, depending on the number of people that actually completed the training. We have that to table for the committee to consider. So we have those letters of support and we also have a media release about Grahame Cook, the Deputy Secretary of the Department of Education, Science and Training, presenting the first certificate, and we

have some nice quotes from him talking about the program to go with the previous *Bridging the skills divide* committee report.

I would like to re-emphasise that we are focusing on point 4 of your terms of reference. We feel that there are educational resources and systems within Australia that are workable for addressing the skill shortages of metallurgical training at the shop floor and university level. But we are struggling and we need to focus those resources in a national centre of excellence—or a demonstration foundry—teaching environment. ADCA strongly recommends that it be done in Victoria, mainly because the overlap of smelters, automotive components and die casters who are in ADCA's membership is focused in Victoria. There are also the opportunities for Comalco, which we deal with nationally.

The final point that I would like to make is that we are also stretching a little bit from the automotive component sector. We see that the foundry, casting and solidification education that we are talking about is relevant to the aluminium smelter sector as well. It is also relevant to steel foundries. There are similar skill shortages in those areas. We are also being approached by BHP Billiton plants in South Africa, aluminium smelters in the Middle East and Canadian aluminium smelters for this training package. It is a global issue, and we feel that the content resident in Australia is world-class. We just need to manage it financially and responsibly, which is where we are having some difficulties, not so much as to the responsibility of it but as to coordinating it. Those are my comments and I am happy to field questions.

CHAIR—Thank you, Mr Lee. We will take on board the additional evidence that you have tabled. I have a couple of basic questions to begin with. You say you represent 350 members. Over time we have seen a shift in the automotive manufacturing industry. There has been a decline and quite a number of automotive component manufacturers have actually closed their doors or have taken their businesses offshore. What change has taken place amongst your membership during this time?

Mr Lee—We have seen a number of mergers and acquisitions. We have seen a number of very small companies disappear. The largest company to undergo changes is Ion Automotive. There was a merging of a number of larger companies—Castalloy in South Australia, the former Ford wheel-casting plant in Auckland and the BTR transmission company in Albury. Some of those activities are still going on, so the membership is still there and a number of people are still there, but what we are missing is the engine-casting facility, which was going to be new.

The total number of people employed in the die-casting sector has probably reduced slightly over the last 10 years, but our tonnages have gone up. There is more scrap metal being used in our die-casting sector and there is more aluminium being used. There is a little bit of magnesium and there is a little less zinc. But zinc was a very small proportion. So the industry has been tough and there have been a lot of pressures on costs. Margins have probably come down, but they are continuing on.

CHAIR—You said that the main trades involved in die-casting are tool making, and then a whole series under the metallurgical category. Why is it difficult to attract kids to those trades or to attract students to the courses?

Mr Lee—I will tackle it in two directions. I will look at it as metallurgical engineering at universities and I will look at it as foundry type trades. There is an image problem with foundries—there has been forever. We are addressing that. We have very clean plants. You would have seen that at the facilities you have been to. We try to promote that in schools. We have school programs to get kids in at an early age. A lot of it is socially driven. Mums and dads want their children to go to universities and become accountants and earn big dollars, so we struggle with that. On the university side, metallurgy has disappeared as a course and is part of other courses. So it is not the focus. You do chemical engineering or mechanical engineering; you do not really do metallurgical engineering anymore. So the profession is being absorbed.

CHAIR—The diversity of possible employment may not be as attractive to a young kid as the industry is so tied to the auto industries—75 per cent of the industry is involved in auto components. It is very specific in its nature and, as they see the decline, the transferability from one industry to another is not as great as other trades. Would that be a fair statement?

Mr Lee—No. You have a lot of skills in the metal-casting industry that you can transfer from business to business. They are small: the defence industry, white goods production, general manufacturing. The engineering skills and manufacturing engineering skills that you learn in the foundry and die-casting environment are very applicable. With the shop floor skills it is a little more difficult, yes.

CHAIR—So hypothetically—and it is hypothetical; I do not want anyone to think that it is going to happen—if one of the big four auto manufacturers went under and decided to close its doors, a lot of your members would be able to pick up work in other industries?

Mr Lee—It would be very difficult. If one of the major car companies in Australia closed, our expectation as an industry association is that another one would close as well, in that the critical mass of supplying the very small Australian automotive industry would suffer. I would like to emphasise that it is my opinion, or my understanding, that there is a Honda Civic line in America that produces more Honda Civics than Australia produces cars. So our industry is very small. If one of the automotive companies folded, the domestic component of that would have a serious effect on the local industry. A number of companies would close.

Mr BRENDAN O'CONNOR—I am looking at what you believe the government can do in order to assist the industry. You have said that there should be greater financial support for SMEs—I presume that is small to medium enterprises—to release staff for upgrading of technical skills. The fact that you say 'greater' obviously implies that you are receiving support, or there is some support. But how would that work? You say financial support, but is it really making sure that the business is able to continue to operate by taking people out? How could a government assist in doing that more than it currently does?

Mr Lee—This is where the divide between the larger companies and the smaller companies is evident. A larger company is able to absorb the costs of taking some people off the shop floor and doing internal training—they may have a person employed full time or part time to deliver on the job training—whereas in a smaller company with, say, 20 employees, taking one person off the casting operations stops castings being produced and stops the dollars coming in the door. A lot of the small companies just cannot afford to take somebody off when you combine sick

leave, annual leave and the like. Taking one person off for four hours a week is just prohibitive at the levels that are being funded at the moment.

Mr BRENDAN O'CONNOR—In response to the chair's question, you said that quite a lot of skills were portable or could go outside the specifics, at least, of this industry. In terms of the training courses that you have referred to, are they accredited by some training board? Where do you fit in the training system? Under which ITAB umbrella are you—

Mr Lee—The certificates II, III and IV that we have developed are in the MEM 98 training package, which was under a manufacturing ITAB. Some of that can be carried over to the automotive training package in different proportions, depending on the different agreements. The material that we have put together works within that training package. It is what used to be the manufacturing ITAB.

Mr BRENDAN O'CONNOR—Does your industry fit under the metals accreditation board or the ITAB?

Mr Lee—No. We have specialised the course content so that somebody working in our industry would do that collection of material, and that is most appropriate. They could do some electives at other TAFEs. It would be reasonably good but, if they do the whole lot, it is very specific.

Mr BRENDAN O'CONNOR—It seemed to me that the chair was inferring that if there are limited opportunities or if it is confining in any sense, people would want to know that when they are training and picking up formal training they can go beyond the confines of this particular area of the industry. You have also talked about the government playing a role in lobbying the original equipment manufacturers to incorporate Australian components in global designs. Again, that is a fine statement, but how would we go about telling companies where to purchase their parts?

Mr Lee—There are already other activities, and we would like to emphasise that we are very appreciative of the efforts at various state and federal levels—Austrade, AusIndustry and trade missions by the minister to Detroit. We are after more of that, emphasising that Team Australia is able to deliver castings and that we have design and technical skills. As a country, we need to do more, because we are only producing a small proportion of the world's castings.

CHAIR—Is your industry part of Team Australia?

Mr Lee—Yes. We regularly go to various conferences and trade exhibitions. We have been very well supported by the Victorian government, particularly through DIIRD, over a long period. We have received various COMET grants and there are also other activities. So we are aware of those. We are emphasising that more of those as an industry-wide thing would be good. We do have individual companies doing it; we just need to coordinate it a little better.

Mrs MAY—Mr Lee, I want to go back and fully understand the career path that we are talking about and the diversification of the courses that are being offered. Seventy-five per cent of your members are tied to the automobile component manufacturing industry. We have heard during the course of the inquiry that there is some trouble about the future of the industry. You

have talked about Swinburne having a model that has been developed for training but only one graduate at this stage. Could you tell the committee how long that course has been in operation. You were linking that to an international model—that we would be able to do something internationally. Can you expand on the career path and diversification for young people if they choose this path and on how that model can assist young people?

Mr Lee—We are potentially taking people straight out of high school at year 10 to year 12 levels and essentially providing a trade focusing on the casting of metals. You can go all the way through from the very simplest shop jobs to foundry superintendents to setting up your own company or progressing through a larger company such as Comalco, Alcoa or Alcan.

Mrs MAY—Are those big companies employing them as trainees?

Mr Lee—We have letters of support for that. Those larger companies are essentially doing it in-house at the moment and are contracting people such as me to deliver training to their smelters. They currently find it more cost effective to have short courses that we develop that happen to meet the national training packages. They contract us to deliver it internally and the workers do not end up getting a certificate; they get internal recognition within the larger companies. We are trying to formalise that across the industry.

Mrs MAY—So it would not be portable?

Mr Lee—Yes.

Mrs MAY—What is the advantage in doing the Swinburne model you have talked about that can be delivered to—

Mr Lee—That is where we are saying that we would have a central centre that delivers material to Gladstone, Newcastle, Bell Bay in Tasmania and—

Mrs MAY—Distance learning then?

Mr Lee—A mixture of distance learning and face-to-face, and the certificate at the end of the day would be common and would be transferable.

CHAIR—So this centre of excellence would be a TAFE or a teaching foundation based in one city, perhaps Melbourne, and then its curriculum would be taken into whatever parts of Australia the students are located in. Didn't you say that a TAFE requires at least 20 students to make it worth while?

Mr Lee—Yes.

CHAIR—How does having a national centre assist in that process? They still need the number of students involved.

Mr Lee—That is where we are aiming to attract a few people from each of the large smelters and a handful of people from the small die-casters to get that critical mass coming in. That is why we emphasise that such distance learning and face-to-face content is more expensive than

running a hairdressing course or an Excel spreadsheet course at your local TAFE. The costs in travel and access to equipment as well as production down time is significant. That is where we are saying we need to coordinate it.

Ms HALL—First of all, I just want to follow up Margaret's question. Do you envisage bringing people down here for the face-to-face component or do you see that being provided in local areas?

Mr Lee—It really needs to be provided on the machines that people are working with.

Ms HALL—A lot of the TAFEs have those machines though.

Mr Lee—Not in the casting field. With the casting environment that we are involved in, there is a wide range of very expensive equipment and technical requirements for each of the pieces. The best training is on the job, training on the equipment that the workers are using, be it process control or the size of the castings that you are dealing with. The theory associated with operating the machines is transferable and a teacher or a lecturer such as me would be able to get a lot more out of a student on the equipment that they are using.

Ms HALL—Just to be 100 per cent clear on this: are you saying that the only place in Australia that apprentices can get that training and that face-to-face teaching is at Swinburne?

Mr Lee—No. Yeronga TAFE, just outside Brisbane, is focusing on steel casting, but, yes, the CAST CRC is the only place for aluminium die-casting.

Ms HALL—So they would do the distance learning and then you would expect those apprentices to travel to Swinburne to do that component?

Mr Lee—No. It would be easier to transfer the lecturer to the site.

Ms HALL—How will you do that if you do not have the machines at those sites?

Mr Lee—We would be teaching to the machines that they have at each of the individual sites, and we have demonstrated that.

Ms HALL—Do you envisage linking into the training some programs for research and development and, as such, developing that component of the industry that deals with intellectual property, expanding our one per cent of the global market and creating greater opportunities for the manufacturing industry within Australia?

Mr Lee—Yes. I feel that our media releases will emphasise that point. We currently do that through the research providers who are members of the CAST CRC and through the long history that ADCA has had with the CSIRO and various universities. I think we can demonstrate that we do do that, and we need to be more successful at that.

Mr BAKER—You said that we have one per cent of the world's die-casting market and that the world market is growing yet ours is decreasing. Could you expand on those comments as far as moving forward?

Mr Lee—About 10 years ago we probably had about 1½ per cent of the world's die-castings in production tonnage. In the last 10 years, there has been a significant decrease in the United States's proportion of the world die-casting market and a very significant increase in China's in particular but in South-East Asia's in general. Our markets have altered, depending on the proportion of local content in cars, but we have picked up some things. For instance, the free trade agreement with Thailand has been beneficial for a number of our members and it will certainly be quite good for them for the next couple of years.

Mr BAKER—How do we reverse that trend?

Mr Lee—The main trend we are seeing is that we are going from raw castings to assembled castings—for example, instead of just supplying an oil pan, supplying the oil pan combined with lots of bolts and plugs and other bits or, using the PBR Pacifica model, providing not just the brake caliper but the whole brake caliper system, so that you are supplying a larger section for the original equipment manufacturers to assemble. We are moving to providing a lot of combined castings, and we have had to train our members in various quality and skill requirements.

CHAIR—Has there been an increase in exports as a result?

Mr Lee—Yes. My industry partners are the ones to comment on the exact numbers. I cannot tell you the percentage increase, but the industry association—

Mr BAKER—Looking at the relationship moving forward between your skills based training and the market: if the market is decreasing—

Mr Lee—The global market is increasing.

Mr BAKER—But how are you connected?

Mr Lee—It is to make casting more efficient. It is to drive down the individual costs through better use of technology, better automation, better skills, new alloys and the intellectual property associated with that. Making engine blocks for Europe would be quite significant.

CHAIR—Mr Lee, you made mention of federal support for training. You mentioned that there are programs already in place both at the state and federal level.

Mr Lee—Yes.

CHAIR—So are there buckets of money available right now at both levels of government, or do you envisage a separate scheme being created at a federal level to support your training requirements?

Mr Lee—We would like to have a federally organised system because working across a number of states is very difficult; the bureaucracy is immense. It took about 2½ years to coordinate the activity between South Australia, Victoria and the federal government for the Ion proposal. The same amount of money managed in one location would be fantastic.

Mrs MAY—We were just talking about apprenticeships. Most young people in our electorates are looking for apprenticeships. You have made the comment that SMEs find it difficult to release young people to do the theory at TAFE, but I would suggest that all SMEs have that same sort of trouble in releasing people. It can have an impact on their business; my local hairdresser would have the same problem in releasing someone to do the theory at TAFE. I wonder why we cannot undertake these apprenticeships in-house. You were talking about the training that goes on in-house; why can't it be a fully-fledged apprenticeship within the company, maybe releasing young people to TAFE for four hours a week to undertake the theory? Why couldn't that work?

Ms HALL—Do you see it as a commitment to your industry—the fact that you are prepared to take apprentices?

Mr Lee—There needs to be a lot more people in the education system who can do the assessment, on-the-job approval and recognition of their learning. Those people do not exist.

Mrs MAY—Do you mean people like you, as teachers?

Mr Lee—There are very few of us, and that is because the TAFEs and the universities cannot justify putting on many people such as me for the small number of people that we are talking about nationally. If that was focused in one centre, it would be more viable.

Mrs MAY—But if you are here and there is a company in Brisbane that needs that training, you would have to travel to that company to undertake that training.

Mr Lee—Yes, and we would have to have relationships with them.

Mrs MAY—I am still not convinced that that is the right way to go, but anyway—

CHAIR—There will be an opportunity to tease some of these things out with subsequent witnesses as well, Margaret; that was a good question. Mr Lee, thank you very much for your time and for those additional pieces of evidence.

[10.53 am]

HUGO, Mr Darryn Wesley, Chief Executive Officer, Flexdrive Cables Australia Pty Ltd

CHAIR—Welcome. While the committee does not require you to give evidence under oath, I should advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. We thank you for coming before us, Mr Hugo, and also for the submission from your industry. To be honest, we have not had many submissions from the auto components industries themselves. We have had submissions from the associations but not many from individual industries. It is good that you were able to be here today and to make a submission as well. I invite you to make some introductory remarks and then we will ask questions.

Mr Hugo—Thank you for the opportunity to expand a little on our written submission. Flexdrive Cables Australia is a privately owned enterprise operating in New Gisborne, some 60 kilometres north-west of Melbourne. While the primary focus of this inquiry is skills, training, research and development et cetera, we feel that, from our recent experiences, there is an element of futility in this, given the present attitude of some of the local vehicle builders and the disinterest in the merits or benefits of the local parts supply chain. We readily acknowledge that in this global world there is no room for those who cannot measure up to the international benchmarks of price, quality and delivery. However, our experience tells us that, in relation to the local scene, price comparisons and value judgments are heavily biased towards buying from China, seemingly ignoring the real costs of getting the imported product to the assembly line—that is, judging Australian prices shipped ready for assembly into the vehicle against ex-works prices from the country of origin.

Further, there is great reluctance on the part of the local MVPs to agree to long-term contracts, reserving the right to resource at any time for any reason. This greatly limits the components suppliers' willingness to invest in R&D and to commit to new capital investment, thus undermining the viability of the local parts sector in the long term. Naturally, this contractual uncertainty is reflected in heightened caution towards the sector from lending institutions. It would seem to us that there is scant regard for any notion of mutual obligation in return for substantial assistance from the public purse, certainly in respect of the previously mentioned issues.

The investment in parts and production development supported by ACIS has little security in terms of commitment for model life for which the investment and expenditure has been made. Whilst a number of companies in the large to medium sector, including Flexdrive Cables, are actively trying to forge relationships with Chinese MVPs and component makers, any general notion of supply from Australian plants is false, unless there is unique and high-tech patented technology on offer. In the main, this is coming from the larger international players, who obviously have the ability to assign product and territories to their various global facilities.

Flexdrive Cables Australia currently employs 90 full-time employees, with that number reducing to a little over 70 within the month. Naturally, this reduction in workforce has short-term ramifications for the local community. However, it must have an impact on the minds of local secondary students contemplating their career choices. Declining employment activity and investment in manufacturing capital is hardly an attractive sell to the next generation of prospective engineers, let alone the associated mechanical trades.

Until recently, Flexdrive Cables has provided two apprenticeship places, with that number now limited to one, based on the restriction of time and supervisory resources. Our decision to reduce the number of places was difficult, as we have nurtured so many through this program over the years. The company is currently evaluating its training proposals and targeting all areas of the operation to improve the underlying skills of our people. We welcome the government's programs to support this training. However, we are mindful and cautious of the impact this training time will have on production and the cost of replacing those hours at overtime rates. Here the investment conundrum is not limited just to capital equipment.

Over recent years, Flexdrive Cable has made enormous progress in product and process development to reduce the cost and improve production efficiency, and we will continue to pursue our continuous improvement goal. However, it is the frustration of all those who work in our business that every improvement made is absorbed by the cost of declining production and volume in our customer base and the ruthless pressure of potential low-cost imports. I thank you for your time, and I welcome any questions in relation to our submission and my comments.

CHAIR—Thank you, Mr Hugo. It is quite refreshing to hear it stated as it is from someone within the industry. That will certainly open up a series of questions. I will start on that contentious point. One thing that has disappointed the members of this committee in this inquiry is the failure of a lot of auto components industry manufacturers to come forward and talk to us, even though this inquiry is essentially about them. I guess we can speculate about the reasons for that. It was summed up by one individual—I will not say who it was—when we met them at the end of a hearing, who said, 'So I guess now we'll just wait for the law suits to be issued.' Is there really that feeling of the motor vehicle producers being very much in control and in charge of the entire industry?

Mr Hugo—Certainly the motor vehicle manufacturers have the power base in the equation. However, I am really not in a position to be able to speculate on my industry peers and colleagues. Certainly Flexdrive has not named names or given any specifics. They are general observations about the state of the industry as a whole.

CHAIR—You of course are reducing your domestic workforce, but you are also entering into an arrangement with a Chinese auto manufacturer, so your company itself still has a bright future ahead of it and will be expanding, even though it may be offshore?

Mr Hugo—Certainly. We have been exploring the Chinese options. We feel that there is some potential in that marketplace for our expertise and knowledge base. We have not yet finalised all those arrangements. However, the opportunities are encouraging and those conversations are continuing. But certainly we need to position ourselves domestically for the requirements of our local industry and position ourselves in terms of size to the current decline in the marketplace.

CHAIR—So, if this venture takes off, will you be exporting to China or producing in China itself?

Mr Hugo—From the research that we have done and the discussions that we have had, it is highly unlikely that in the longer term we would be manufacturing in Australia and exporting our particular product, which is more of a commodity based product: mechanical control cables such as park brake cables and hood release cables—those sorts of things. It is difficult to export those into the Chinese market and be effective. But my understanding from meeting with MVPs and local governments in China is that their desire is to have the parts being manufactured at the local level. There is an enormous amount of investment in China from local governments and the central governments in the motor vehicle manufacturers, and therefore there is an intense desire to have the components sector and to build and breed the components sector around the manufacturing facility for the vehicle.

CHAIR—One of the other comments, observations or criticisms that you make is about the way that the ACIS is operating. You are saying that you believe there should be a greater obligation on those who are receiving federal grants to be sourcing locally. We have heard from the industry association that every motor vehicle producer has as one of its objectives to source locally. Is this just a public relations statement of your premises that you put on the front in your lobby, or does it actually come to reality? It seems to me, by implication—and I do not want to put words in your mouth—that you are basically saying that it just is not taking place.

Mr Hugo—Certainly there is intense pressure on us—I am not speaking so much for the components sector—as a company to be price competitive against all players in the global marketplace. And for our particular product that price pressure is intense. There is an enormous amount of global capacity in our industry, in our particular product commodity, and, from our point of view in negotiations with each of our customers, there seems to be intense focus on purchasing from those low-cost countries and on making sure that we are price competitive. Our concern is that those price comparisons are done on a level playing field—that is, the comparison of parts and the total cost of those parts delivered in store.

CHAIR—Just going back to ACIS, what changes would you make to the way the ACIS is implemented?

Mr Hugo—That is a difficult one for me to answer, because I am not an expert in the World Trade Organisation et cetera and the implications of how the ACIS works. However, I believe that there should be a greater tie between the ACIS funds deployed and the obligation to secure the parts manufacturing that the ACIS grants have been tied for the research and development of.

Mr BRENDAN O'CONNOR—You mention that you have a site in Gisborne. Is that the only site you have?

Mr Hugo—Correct.

Mr BRENDAN O'CONNOR—It was in my electorate for about a year-and-a-half. It is currently in the electorate of McEwen—the electorate of the Minister for Small Business and Tourism. How many EFT employees do you have?

Mr Hugo—At the moment we have about 90.

Mr BRENDAN O’CONNOR—There has been a significant reduction over recent years, I understand. Is that correct?

Mr Hugo—Yes. The organisation Flexdrive at Gisborne has gone through a number of different ownership cycles. Up until several years ago it was part of the Denso group of companies. Part of the business was sold and part of the business with Denso was relocated to another facility in Croydon. That had an associated reduction in the workforce at Gisborne. However, since the start of 2003 when we began operating as Flexdrive Cables Australia, there has been a continual reduction in employment, which goes in tandem with a number of the changes that we have been making to streamline our organisation and also in response to falling production levels.

Mr BRENDAN O’CONNOR—As I recall, about four years ago there was an effort to redeploy—this may have been before your time, I am not sure—a significant proportion of the workforce to another site—as you said, to Croydon. That was then sold off, was it?

Mr Hugo—I cannot speak for the Denso organisation but I understand that that was the relocation of one of their manufacturing processes from Gisborne to Croydon. That was an instrument manufacturing plant—making instrument clusters for a variety of Australian OEMs. The cables division was the part of the business that was purchased by the current owners.

Mr BRENDAN O’CONNOR—I understand. So now you just have Gisborne as your site. You talked about the problems with short-term contracts with original equipment manufacturers. Have you considered ways in which governments may be able to assist the industry in seeking to encourage or foster longer term contracts? Clearly, that is a major problem. You said that because you have such limited certainty it is hard to invest and to look at where you would skill up particular workers. Have you thought about what assistance governments can provide in ensuring longer term contracts with OEMs?

Mr Hugo—Outside some additional regulatory requirements of the ACIS scheme, no, I am not in a position to give any recommendations.

Mr BRENDAN O’CONNOR—Regulation is the only area in which you can see a role?

Mr Hugo—Yes.

CHAIR—Does your company receive funding through ACIS?

Mr Hugo—Yes. We are a first-tier supplier and a second-tier supplier, depending on the product.

Mr BRENDAN O’CONNOR—You said that you have seen a decline in staffing levels in the area. Do you have any picture as to how many former employees that were made redundant found work in the automotive or automotive parts industries? Do you have a general view as to what happens to those employees? Do they stay within the industry or not?

Mr Hugo—Generally, anecdotes around town indicate that, because we are the largest employer in the local area, those positions have not been retaken in other automotive manufacturing. There is, in our region particularly, a fairly limited number of other component manufacturers. Whilst you do hear of some people finding work in other organisations, they have to drive and travel some distance to get to their new places of employment.

CHAIR—You mentioned the pressures placed on you by OEMs and having significant cost reductions being delivered over three years as a precondition to supplying. You also mentioned the delivery of productivity price reductions across the life of the vehicle platform. Isn't this just part of commercial arrangements? I guess that the way I read it is that it is written as a concern for your industry. But I would have thought that it was just simply part and parcel of commercial contractual arrangements. Every customer is seeking the best out of a supplier. You would have those same pressures on your suppliers, would you not?

Mr Hugo—Certainly, but I think the overwhelming balance of power in the relationship lies with the MVPs.

Mr BAKER—Can we turn that around—develop a conscience in Australian industry?

Mr Hugo—Yes. This is only Flexdrive's view. I would not like to speak specifically—not without being in camera—about specific vehicle manufacturers.

Ms HALL—If Mr Hugo has some information that he would like to give to the committee in camera, we should move in camera.

CHAIR—We will make that offer afterwards if that is what you want, Mr Hugo.

Ms HALL—Because it would be useful for the committee if you can give us additional information.

CHAIR—We have had that sort of evidence before, but go on.

Ms HALL—In your presentation, you said that you were going to be reducing the number of employees to 70 within the next month. Why is that?

Mr Hugo—That is in response to reduced production volumes from our customer base. We currently supply to three of the local MVPs on an OEM basis. The reduction in supply across the three of those has a significant impact.

Ms HALL—How much has it declined by and what do you attribute that decline to?

Mr Hugo—There is a number of reasons for the decline. The decline has been significant. From our point of view we would have seen a reduction in the first quarter of this calendar year to the tune of around 9,000 vehicles, which for us is pretty significant. I would see the decline as made up of a number of issues, one of them obviously being the fuel price and the fact that the motor vehicles manufactured in Australia are to a large extent higher capacity engines, which means a higher amount of fuel. Obviously, the changes to import tariffs et cetera and the high

Australian dollar have given imported vehicles an edge, particularly those with smaller capacity engines.

Ms HALL—You have already spoken about developing this relationship with China. Is your long-term goal to move completely offshore?

Mr Hugo—Certainly not.

Mrs MAY—We have all touched on it, but I want to ask about the skills level of those people that you are going to put off. Firstly, will they be voluntary redundancies or are you just cutting your workforce? Secondly, as to the skills we are losing, are we losing those skills to the industry? Anecdotally, you only have some information to suggest that they are staying within the industry. Thirdly, in pushing into China, is your expertise or your skill base here going to be transferred to there? Are the Chinese going to use your skilled workers to get the business going in China? Are they your skills that are going into China? If that is an expansion, can't you use some of those Australian workers from here for the expansion into China?

Mr Hugo—First of all, the redundancies that we will be effecting have been widely discussed within our organisation. Some of them are voluntary redundancies and some of them are specific positions. Largely, those people involved are aware of who they are.

Mrs MAY—Because 20 in one go is a fair whack of a small workforce, isn't it—and in a small town too?

Mr Hugo—It certainly is.

Mrs MAY—It would have a huge impact, I would have thought.

Mr Hugo—In relation to what we are looking at in China, it is far too early to be looking at redeploying resources and taking resources away from Australia to support that operation. As I indicated earlier, there is a lot of talk to be done before contracts are signed and activities commence.

Mrs MAY—For those people who are going to lose their jobs, has your company put in training for those people?

Mr Hugo—Certainly. In the past through earlier phases of the business's life we have run engineering cadetships and training schemes of that nature and we have employed an enormous amount of time and resources in training some of these people.

Ms HALL—But you do not do that now, do you?

Mr Hugo—In terms of engineering cadetships, we have not done that for some time, no.

Ms HALL—With those workers that are going to be made redundant, are you looking at any sorts of packages or have you the ability to link into packages similar to those being operated down in South Australia?

Mr Hugo—We are looking into the opportunities there but at this stage no.

Ms HALL—Have you been able to access the information and get the support for your workers that is needed from the Commonwealth government through the Department of Employment and Workplace Relations?

Mr Hugo—In terms of supporting the employees themselves?

Ms HALL—Yes, and looking at putting in place the proper packages.

Mr Hugo—The short answer to that is no, but that is not necessarily a reflection of government.

CHAIR—You mention in your submission that perhaps there should be some collective purchasing of commodities to assist local suppliers. How would that work and would that breach any ACCC guidelines if that happened?

Mr Hugo—I am not an ACCC expert of course, but from where we sit the pressure to consistently reduce price in a marketplace where the cost to business of product inputs is going up makes it very difficult. When you are a manufacturer or a purchaser of a small quantity of these commodities it makes it very difficult to have the power equation in purchasing. That is why I allude to the fact that if we were able to better purchase materials as a block—and I cannot say how it would be structured or whether it would be breaching the ACCC regulations—

CHAIR—What does it take to get that collective purchasing going? Might it be simply like-minded companies like you in similar businesses doing that through your association starting it up?

Mr Hugo—Certainly. I think it also may have some merit in terms of talking to the car companies themselves. In many cases they purchase the great bulk of those commodities for their own purposes.

CHAIR—In your submission—and I know that we are going to be talking to the AMWU shortly—you make mention of the MVP EBAs forcing unrealistic expectations on the component sector. That is to do with wage increases and therefore pressures that they would have to reduce their costs from their suppliers, I would imagine—that is what it gets to. Are your EBAs and the MVP EBAs synchronised in terms of time frame? That problem would only occur, I would imagine, because of their EBAs having been negotiated during more prosperous times and not falling in line with the time frame that you have for yours.

Mr Hugo—Our particular EBA has now been concluded. However, that is for the next two years. My understanding is the MVPs negotiate their EBAs and they are not all in sync. My understanding is that Ford are currently negotiating theirs and Toyota, I think, did theirs last year, so they are all out of step.

CHAIR—But you are saying that the EBAs need to reflect the plight of the industry.

Mr Hugo—I guess our concern in the past has been that some results of the EBAs negotiated at the motor vehicle producer level have set really bad expectations on the component sector workforce. The component sector workforce and the businesses operating in that environment and the economic pressures that we are under make it very difficult for us to deliver anywhere near the same level of benefit improvements that the MVPs may have been negotiating with their workforce.

CHAIR—No doubt you would have passed on this sort of information and these concerns to your employees and the respective union associations that represent them?

Mr Hugo—Certainly.

CHAIR—So where is the problem?

Mr Hugo—The problem is getting understanding of the reality of that situation and the education of people to understand realistically the differences between the MVP marketplace and the component sector marketplace.

Mr BRENDAN O’CONNOR—What are the differences between the two, in your view?

Mr Hugo—From our perspective, the pressure that has been applied in terms of price reduction, price reduction, price reduction in an environment where your material costs continue to go up and the expectation that your labour rates are going to increase make it very difficult for the person in the middle, who is being squeezed from both ends.

Mr BRENDAN O’CONNOR—There are pressures on the industry. At the same time, I imagine that for you to succeed you have to maintain and increase skills at the workplace. To maintain people within the industry they have to be remunerated for the skill acquisition. That is where the unions would be coming from in terms of trying to get the best conditions for their membership. For you, directly to your employees, I imagine you are trying to keep highly skilled people in your workplaces. That must be difficult when they could be attracted elsewhere.

Mr Hugo—That is a constant concern.

Mr BRENDAN O’CONNOR—I have never sat across any table and heard an employer tell me that they pay too little or they want to pay less. I guess unions’ jobs are to represent and try to advance the interests of their members. That is the usual intention.

Mr Hugo—Absolutely.

CHAIR—It is an interesting proposition you are putting—that is, that when the MVPs negotiate their EBAs they should be conscious of the flow-on effect down the line to the suppliers. While that is a great aspiration, I am sure that happens in any industry. Negotiation, whether it involves a union or whether it is done on an individual basis, tends to be very localised for that specific organisation.

Mr Hugo—Absolutely.

CHAIR—Rather than a consideration of what effect it is going to have on a supplier.

Mr Hugo—Absolutely. From our point of view as a supplier I think our customers also need to take into account the impact that those decisions are going to necessarily make on our ability to meet their price reduction requirements.

CHAIR—Mr Hugo, great discussion. Thank you very much. Thank you for your submission—a good submission. If you have any additional information you want to send to us, we are more than happy to receive it, even if it is marked ‘confidential’. If we have any further questions we will get in touch with you. But we appreciate the time you have given us today.

[11.32 am]

CAMERON, Mr Doug, National Secretary, Australian Manufacturing Workers Union

CONROY, Mr Pat, National Project Officer, Australian Manufacturing Workers Union

CHAIR—Welcome. While I know you are a regular attendee of committees, Doug—I think this is the third inquiry of this committee in a row that you have appeared before—I still need to go through the procedure. While the committee does not require you to give evidence under oath, I should advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as contempt of parliament. Perhaps you would like to make some introductory remarks before we go to questions and answers.

Mr Cameron—Thank you, Chair, and thank you to the committee for taking our submission. First of all, we would like to say that there is a climate of fear in the component sector of the Australian manufacturing industry. That climate of fear is based on the complete control that the OEMs have over the component sector within Australia. We are very concerned that companies will not attend these hearings, believing that that would have a negative impact. There are no checks and balances on the major companies as to any reaction towards any submissions made by companies here.

Having said that, I want to say that we believe the automotive industry is extremely important to this country. It is important in terms of both economics and the social issues for workers around the country. Our figures show that there are 81,800 people directly employed in the industry, with 35,000 of those workers being in the component sector. Some economic analysis puts the multiplier effect of the industry—that is, jobs that are directly or indirectly reliant on the vehicle industry—at 6.5. That means that over half a million Australians either totally rely on or are somewhat reliant on the car industry for their economic wellbeing.

We have seen significant job losses in the industry over the last period of time and we agree with the Federation of Automotive Products Manufacturers that the industry is at a tipping point. In fact, we would go further to say that there is a very real potential for the deindustrialisation of this sector of the manufacturing industry and, if we lose this sector of the manufacturing industry, the capacity for the rest of manufacturing to be of any significance in the economy is quite clearly diminished.

We conducted a survey of workers at both Ion and Tristar—two major car component companies—in August 2005. We discovered that five per cent of people who lost their jobs as a car component manufacturing workers are forced into premature retirement. About 30 per cent of workers who lose their jobs remain unemployed. The unemployed rate, when you take the retirements out, is about 48.2 per cent. So nearly half the workers do not end up in further employment. Those who do get further employment have increased hours; nearly 90 per cent of them end up on reduced wages. This is clearly a trend. Similar analyses show about 28 per cent of redundant workers from Mitsubishi remain unemployed. There was a further task force

looking into redundancies in the manufacturing sector in Newcastle in 2001. That showed clearly that there were fewer opportunities for workers to get jobs at equal pay and equal value in the Newcastle area. There was a lost sense of social wellbeing. These are the hidden issues that workers are faced with. They lose their social wellbeing, they suffer in part-time employment, there are few pathways for them to reskill and the redundancies have a negative impact on their health and the health of their families.

There have been similar experiences overseas. At MG Rover in the UK, only 28 per cent of the redundant workers found work and 11 per cent were on training courses. Only 15 per cent of the workers had found more work in manufacturing and there was a 15 per cent wage cut. These are the real issues for workers when jobs are lost in the components sector. It is not just macroeconomic issue but also a real-life social issue for workers.

The problem we have is that there is a declining output in the automotive industry. On page 8 of our submission we have laid out some of the regional significance of the automotive industry and the issue of declining output in the industry. Innovation is a key factor in the industry but, as you see on page 8 and 9, over the period of time between 1994 up to 2001, nearly 2002, expenditure in R&D was down in the industry. That was a real black hole for innovation in research and development in the industry. As you see on page 10 of our submission, the terms of trade for automotive component exports has fallen dramatically. We are just not cutting the mustard. The component exports were going up somewhat over the period of 1989 to 2002 from a very low base but, when those start to decline, we believe the decline will rapidly increase over the next few years.

Imports into the industry in 1989-90 were \$6.14 billion and in 2002-03 it was \$19.9 billion. In 1989-90 the total value added of Australian input into the industry was 85 per cent of imports and in 2002-03 that has decreased to 25 per cent. As you see on page 12 of our submission, the automotive trade deficit is absolutely going through the roof. There might be some very small niche exports increasing but the general trend in the industry is all bad. It is a really bad sign that the trade deficit is going through the roof like this.

Net exports as a percentage of sales is a key indicator that countries overseas use to see how well they are going. On page 13 of our submission you will see that, along with the UK and the USA, Australia is the only country that has a net export as a percentage of sales in their vehicle industry. As a percentage, Australia's is bigger than even the USA and the UK. That really does tell you about the health of the industry. We are not a healthy industry when you look at those figures.

If you go to page 14 of our submission you will see that our share of high- and medium-technology industries in manufacturing exports is an absolute disgrace. Turkey has actually overtaken Australia in terms of its capacity to export high-tech goods. We stand at 29 out of 32 measured countries in terms of our capacity. We are not in B grade and we are not in C grade. We are juniors in this. We are playing junior football when it comes to manufacturing exports. If you go to the growth of high-technology manufacturing exports on page 15 of our submission, again, you will see that we are way down the league. This is the high-tech manufacturing exports that we have been told that we have to be in to be a strong country. Again, we are No. 31 of 32 in growth in manufacturing exports. It is again an abysmal situation.

The free trade agreement with the United States has put more pressure on the manufacturing industry in this country. We warned that this would be the case and that we would not get massive gains from the free trade agreement with United States. All of the economic analysis we did said that it would be a deficit in terms of manufacturing. The American manufacturing industry were crowing about how well they were going to do in the component sector of manufacturing in Australia. What they are now saying is that they will increase their exports between \$100 million and \$500 million in Australia. This means job losses for Australia and losses of exports for us.

The so-called China free trade agreement is a real worry as well. We export \$54 million worth of manufactured goods to China and we import \$236 million of that in vehicle component parts. We say we should not be doing a preferential trade agreement with China. China is not a market economy. It is massively deficient in terms of human rights for workers in that country. Trade union rights are non-existent. We are rapidly heading that way ourselves, but we are still a little bit better than them. Environmental issues and environmental controls are non-existent in China. They have one of the worst health and safety records in the world. They have a deliberately devalued currency. It is extremely difficult if not impossible for our component companies to be competing with countries that have all of those so-called benefits. This is exploitation at its worst level. Our companies are being told that we have to compete with them. In fact, we have to compete with them on the cost of the goods leaving the factory floor. So you do not even get any benefit from being in Australia. The major car companies are saying that you have to compete with the ex-factory cost of the goods.

Our market share in domestic light vehicles is declining. In 1987, 73 per cent of the cars in this country were produced locally. In 2004 that was down to 34 per cent. We are really in a crisis in the car industry. I hope other people are telling you this, because we are witnessing it quite clearly. There is a crisis that needs to be addressed. The crisis is one of cost cutting by the major car companies, forcing cost cutting and costs down on the component sector in this country. It is short-termism at its worst. It is trying to get a short-term advantage through cost cutting. Even the Business Council of Australia has indicated that this is a problem.

An AiG, FAPM and KPMG survey said four major factors were affecting the profitability of the car component industry: customer sourcing policies—which is simply the big companies saying to Australian companies, ‘You must compete with all of China’s and Thailand’s exploitation of workers and if you don’t compete you won’t be getting the goods here’—low-cost competition, raw material costs and the Australian dollar’s exchange rate. Those are the four issues that have been put forward by the car companies and the component companies. The local content of the Commodore is now down to 55 per cent. If we continue to hollow out the component sector, there will be no long-term future for the car industry itself, because these two areas are integrated. We must have a clear integration of these two areas. There is absolutely no evidence that industrial relations is an issue in the car industry, even though we have got the industrial relations minister arguing that there should be changes in the car companies’ industrial relations. We have got good industrial relations with those companies. Industrial disputation is at historically low levels. Our members and the car companies recognise what the main game is, and it is not trying to cut costs through industrial relations.

Skills innovation and investment is important but it is only part of the problem. We say that you must deal with these cost elimination demands by the big car companies, you must stop the

big car companies forcing disruptive changes onto the component sector and you must use the Automotive Competitiveness and Investment Scheme to make sure that there is a commitment to volume in the component sector. Component companies cannot carry all the cost variations that they find are happening on a continuous basis. We should look at the 90-10 rule that the car companies force on the component companies: that they pay 10 per cent of the cost of new development and 90 per cent when the development has been done. We think that there is a better way to do it and that the Automotive Competitiveness and Investment Scheme people should look at that.

We have put forward 10 recommendations. These recommendations go to innovation and to commitment to local suppliers, using ACIS as a clear link between the car companies and their suppliers to build some demand into the component sector area. We say that the car companies should be looking at alternative vehicles and that we cannot simply continue with big sixes when we are facing issues to do with the environment and the price of petrol. We say that there has to be better industry coordination. There is no industry coordination. The government thinks the market will deliver everything, but that is not good enough. It is no use sending groups of car component company and vehicle manufacturing company representatives and a few politicians over to America and Japan to plead a case. We have to get better than that and we have got to start delivering on a proper strategy within this country. We have got to increase our trade through the component sector. We have got to get more finance into this sector. We have got to have government programs that make sure that we deliver for the manufacturing sector. We have got to get some guarantees as to research and development costs.

We have tabled today a document called *Australian manufacturing: a vision for the future*. That contains 10 recommendations. Some of those recommendations are consistent with what we have in our submission. Broadly, we say there should be prudent economic management. It is not prudent economic management to simply say the market will deliver. It is not prudent economic management to continue delivering tax cuts when we have no industry planning and industries that could do with some support. It is not prudent economic management to say, 'Hands off! The strong will survive and the weak will go to the wall.' We say there should be growth in business research and development, and we have included some plans for that. We say there should be an increase in greenfield investment, and we have put some proposals for that. We say we should be pursuing import replacement in this country and we should be promoting new exports and extending our existing capability. We say we should be investing in and supporting the physical, social, environmental and research and development infrastructure of this country. We say we should increase the level of private equity in venture capital. We say we should oppose further bilateral free trade agreements, particularly with China. We say we should invest in skills formation and we should reform the Automotive Competitiveness and Investment Scheme.

Unless we take a holistic view, unless we deal with all of these issues, simply saying that we will put more skills into the industry will never get off the ground. Why would young talented people come into an industry that they see no future for, and where job losses and cost-cutting are continuing features of the industry? This is a crisis. We put it as high as that there is a potential to de-industrialise. If we de-industrialise the components sector then there is no long-term future for the car industry in this country and the whole manufacturing sector is in trouble. We say that means that we will simply be a quarry, a farm and a nice place to visit. We have to

take this seriously. I am sure this committee will take these issues seriously, and I welcome the opportunity to put these positions forward.

CHAIR—Thank you, Doug. Pat, do you want to make any comments?

Mr Conroy—I have nothing to add at this point.

CHAIR—It was a good submission, Doug, as always. A lot of research has gone into it that should be taken into consideration. There are probably 1,001 questions and we have only 15 minutes in which to ask them. One of the points you make in your submission pretty well sums it up, and that is that well-paid, highly skilled jobs in manufacturing, once lost, cannot be replaced and this has massive implications for local communities and the national economy. I concur with that, and I guess it is one of the reasons for this inquiry.

I take on board your opening comment—I will not go back to what it was, but I did write it down—about the climate of fear and control. You started to go through a number of statistics about the consequences of the redundancies and retrenchments that have taken place. We have seen the Labour Adjustment Program come into effect in more recent times both at Mitsubishi and General Motors in South Australia, and we were told when we were there that the program has been successful in that it did bring together all government agencies and South Australian departments to assist in what was obviously an unfortunate situation and a tragedy in the lives of those people who were working in those industries. Do you think that that Labour Adjustment Program is working; and, if not, what changes would you make? Obviously, if retrenchment is going to take place, it is going to take place. We cannot avoid that—as much as we would like to—so you have to be able to manage that process in the best way possible. Do you have any comments about that program, and have you fed some of those comments into DEWR and into the South Australian government?

Mr Cameron—We think a labour adjustment program is a second-best option. A labour adjustment program is simply about saying that the ambulance is in to pick up the bodies that have been destroyed by the redundancies. We do believe that that is the most effective thing to take place. As you can see in our submission, clearly the Labour Adjustment Program is not working in being able to find workers jobs of equal value and equal skill. That means that it is a failure in that area.

The labour adjustment programs are being done on an ad hoc basis. We would like to sit down with the federal government and actually talk about how a proper plan can be developed for our industry, a plan that is about moving forward. Ad hoc labour adjustment programs to diminish the political consequences of the job losses are simply not good enough. We do not see them as being effective. Bringing all these different groups together is more form than substance.

CHAIR—I appreciate that you actually want to get to the front end and prevent those retrenchments from taking place to begin with—and you have outlined a series of recommendations on what we should be doing in order to prevent them from happening—but what I am trying to look at is when they do happen. Given that you want to prevent them from happening to begin with, does the present system need to be finetuned and have changes made to it if they do happen?

Mr Cameron—We can provide some analysis of the labour adjustment programs and we would be happy to provide some more information on them. I stand by my submission here that they are more form than substance. They were about political damage control by the federal government when they were being put in. I am not saying that in a partisan way; I think that is a realistic position. Every government would do the same and would look to trying to reduce the political fallout. But there is no national strategy. There is no national plan for this industry. That is the big problem. Forget about the labour adjustment programs, forget about more skills, unless you have a national plan and a national strategy you are fiddling while Rome burns.

Mr Conroy—The South Australian branch of the union has made a submission, I understand, and they talk about this.

CHAIR—Yes, we had a great session on this.

Mr Conroy—The other issue is that for the Mitsubishi and Holden workers, that is good, they are getting the support that is needed. But if you look at our list on page 5 of notable job losses, none of those were able to access that support—for example, the 800 Ion workers or even the 20 that the previous witness talked about going from Flexdrive. It is not just when Holden cuts the third shift and some suppliers can access that, it is when Holden—and this is an example, it is not just them obviously—say that they are sourcing that supply from Mexico and a major component supplier loses a contract and sheds 100 staff, and they are not getting the support they need. If you look at Mitsubishi, even when they have their labour adjustment program they have still got unemployment rates of 30 per cent after that.

CHAIR—I was also interested in the other observation that you made, which is counter to the way it has been presented to us in the past, that the motor vehicle producers in Australia actually depend on the auto component industry in Australia for their survival and if the auto component industry goes under then they in turn will be in crisis. The presumption has always been the other way around: that the auto component industry relies on the success of the motor vehicle producers—and ACIS in a way is geared to achieve that outcome to make sure that the big four survive and are sustainable—and if they get to survive then the other industries beneath them will survive as well. Doug, you are stating it the other way round.

Mr Cameron—I am saying that they are mutually reliant and if you do not have one you will not have the other. The component companies are being put under so much pressure by the car companies. ACIS is a terrific lever of carrots and sticks and if it were used effectively we could massively increase the vertical integration of the car companies and the component companies in a far better way that we do now. We are pleading for a national vision for our industry—for national intervention to use the levers that we have got the same as overseas countries do.

CHAIR—The other point—and you backed this up with one of your graphs—is the auto trade deficit going through the roof. You are stating that a lot of that is due to small car imports. Have we got it wrong in this country where our platform is a larger vehicle? I put it to the federation last week: why don't we produce a smaller vehicle here? The comment has always been that these are decisions made at head office rather than here in Australia, so as much as we might want to develop a niche small vehicle product in this country the MPVs are not given that flexibility to do that. We are told that it is a large vehicle platform or nothing.

Mr Cameron—This is an issue where government could play a significant role by ensuring that, if we are spending billions of dollars of taxpayers' money, we focus these car companies on the future. There will always be a market for big sixes in Australia. As I am told by some car companies, 'People want to tow boats and caravans.' But when it comes to \$1.40 plus a litre for petrol I think that people are going to be making some clear choices about where they go. We believe the car industry and the component industry could play a part in this. We should be looking at more gas. There is only one car company in the country that produces an LPG gas car off the factory floor—and that is Ford—and that is a disgrace. General Motors are continuing with the big sixes. Toyota are looking at diversifying with a four-cylinder. We should be looking at alternative fuels and we should also be looking at what other car infrastructure we can put in place to make sure that we have a broad base for the future of the industry. We are very narrowly based and we see it as a real problem.

CHAIR—I made that point last week to the federation.

Mr Conroy—I will give a practical example of Doug's point about the sourcing policies and how a government can influence them. In the late nineties, Toyota was discussing the idea of designating a key producer of the Camry for the Asia-Pacific area. It is widely acknowledged that we produced the best Camrys in the world in terms of quality. It required leadership from all levels of government to help influence head office and help the local Toyota outfit get that contract, but there was a lack of leadership, which meant that Toyota set up Camry facilities and factories in Thailand and now it is looking at doing the same in China. We lost that key opportunity to be the Asia-Pacific supplier of Camry, the smallest of the big four platforms. We lost that due to a lack of coordination and leadership.

Mr BRENDAN O'CONNOR—Doug, you said earlier that there is a real need for a national plan, if you like, with respect to the industry and that has been wanting. Clearly, there will always be that tension between companies that are competitors in the market and, at the same time, whilst they are competitors, all wishing and hoping that their industry will survive and thrive. From the government's perspective, if you were trying to get a government response to the crisis in the industry, how then would you go about bringing together the parties that are from day-to-day competitors so that they can see that there are mutual benefits in at least reaching consensus on the way in which industry must go forward? What roles can government play beyond just coordination?

Mr Cameron—If I were Ian Macfarlane I would, first of all, be welcoming the initiative that the state governments have taken—that is, to bring together all of the parties in the industry, including the car companies, the component sector and the unions to talk about the macro issues in the car industry. What can we do and what do we need for infrastructure improvement within Australia? What research and development support do we need? What innovation can government help with? There is nothing like that happening anywhere. This was an initiative of the state governments. To be honest, all Ian Macfarlane could do was write to that group, who are in there trying to do the right thing, and say, 'You forgot one thing—that is, Work Choices is an industrial relations change.' We think that is naïve and base politics when we have an industry in crisis.

If I were Ian Macfarlane, I would be participating. In fact, I would be saying, 'I am not leaving it to the states; this is a matter of national consequence and national importance.' I would be

taking the leadership role and I would be conducting an analysis of the industry and ensuring that people have carrots and sticks to take this industry forward. We are talking about half a million Australian jobs, and all the industry minister can do is write and say, 'Deal with industrial relations issues.' It is not the main game anywhere in the car industry.

Mr BRENDAN O'CONNOR—Has the AMWU found examples of comparable economies where they have managed to maintain, say, an automotive industry in a particular country? I am not suggesting that we would use as an entire template some other country's idea, but are there examples where wages are comparable to those in Australia and there is a capacity to survive and a capacity for that industry to be maintained, despite the costs that are occurring externally?

Mr Cameron—If you go to page 13 of our submission you will see that Germany continues to be a net exporter of cars and components, so do France and Canada. Canada have a car industry seven times bigger than ours. They have wages and conditions far better than Australia, yet they continue to have a net surplus. Mexico do it a different way, but they do it. Brazil, South Korea, Thailand and the Czech Republic all have net export pluses in cars and components. We are the dunces. We are with the USA and the UK. We are the worst performers in that area. To me, that points to the fact that we have a significant structural problem in our industry that government needs to deal with. We must deal with it.

Mr BRENDAN O'CONNOR—People would argue that however much money you put into an industry there could be a net adverse effect—that is, if you were propping something up if it was not particularly competitive—but you are not arguing that. You did talk about the economic and social requirements of having this industry, in terms of regional employment, where there are all sorts of other effects beyond the success of particular companies and some employment. Do you want to flesh out that social dimension? If, for example, the industry were to disappear tomorrow, what sort of knock-on effects would that have socially and for manufacturing in general?

Mr Cameron—I have not contemplated that happening but, now that you have raised it with me, if half a million jobs were affected and the majority then disappeared because the car industry disappeared, obviously that would produce huge social problems. That would mean more crime in those areas and more social dislocation. We would see ghettos of hugely disadvantaged workers in regional and some city areas across this country. It just does not bear contemplation and that is why we need to make sure that the government develops a strategy and a plan and gets rid of its hands-off ideology.

No other country in the world would do this. Even in the United States, the land of the free, with their free-market economy, they intervene when they have social dislocation starting to appear because of job losses. They did it in the steel industry; they support their car industry; the states within the United States support their car industry. What do we do? We put the ACIS scheme up. It has been there for years; we are not prepared to change it and we are not prepared to focus it. It just seems to me to be economic vandalism by the federal government.

CHAIR—My understanding is that the ACIS scheme is up for review very soon. Is that right, Doug?

Mr Cameron—Yes.

CHAIR—So no doubt you will have an input into that review.

Mr Cameron—We will certainly make submissions. Whether the government takes any notice of them is another matter. That is partly the problem.

Mrs MAY—I want to turn this around. We have talked about, and you are talking about, the government having a vision for the future, working with the state governments on what we can do as far as innovation in infrastructure is concerned. To turn it around, what can the vehicle manufacturing industry do for itself to become competitive in the future? We talk about smaller cars. Have we fallen behind there? We have not changed; we are not meeting what is needed in the market. Six and eight cylinder cars are obviously not what consumers want; we are moving towards smaller cars. So what can the industry do itself to meet the changes needed in the marketplace when we are being told that those decisions are made by parent companies offshore?

Mr Cameron—You have answered the question.

Mrs MAY—What can they do here, though?

Mr Cameron—There is a limit to what they can do. We have very good companies operating in our industry. We have some really good managers. We have some of the best workers in the world. But we are restricted because of decisions made in Detroit and Tokyo. There is a bully on the block in our industry and that bully on the block is the chief executives of these major car companies in Japan and the United States. When there is a bully on the block, somebody has to come in and say, 'We're not going to cop the bullying.' I will turn it around again and say that the only people who can stop it are those in the federal government. The federal government is the only group, the only institution in this country that is big enough to stand up and say to these car companies, 'We are providing you with billions of dollars of taxpayer-funded support and, for that support, this is what you will do.' Why is the federal government not prepared to do that? It can only be dogma, from my point of view, because countries all over the world do this. They do it in an overt and a covert way.

CHAIR—Doug, it could also be fear that, in that staring-down process, Detroit will say, 'Okay, if that's your position, we'll go.'

Mrs MAY—That is right.

Mr Cameron—Well, we should not keep blinking. You can never stare anybody down if you are in a constant blinking state—if you are blinking every time they look at you. We must have some courage for the future of this country. I think the government is lacking that courage. The government is lacking a vision. It really needs to get a commitment to a plan and a vision and stare these companies down. The proof of the pudding is in the eating. It happens all over the world. We are not an insignificant market for domestic cars in this country. If we produced a different product, if we had the research and development going in, if we had the innovation, we could have a much stronger car industry and a much more vibrant component industry than we have at the moment.

Mr Conroy—It has not only been done in other countries; it has been done in the past in Australia. Look at the Button auto plans, which were tripartite, which is an important first step, so everyone had ownership of the strategies. Secondly, that was led by government. The government set out a vision and said, ‘This is our vision for automotive manufacturing in Australia in the next 20 years, and we’re going to help you get there, but we’re going to help you lead that way.’

CHAIR—I was just saying that one of the auto component manufacturers—I will not name them—actually did say to us that you can compete against the overseas market if you develop a niche product. If you develop a product which is in demand, high-quality, good technology you can compete. I put to the federation last week that perhaps what we have not done is to produce a vehicle which is very much an Australian vehicle which touches on the alternative fuels, a small vehicle, and market that around the world. Of course, the answer is that they just would not be allowed to do that because of the decision to have a large-vehicle platform in Australia.

Ms HALL—Doug, I think I am gaining from your presentation today and from the submission you have given to us that, firstly, this is a very important industry for Australia and one that we cannot afford to move away from; secondly, there has been a lack of leadership from government; and, thirdly, some actions need to be taken. You talk about the national vision and national intervention and using ACIS to manipulate the environment. I wonder if you would like to expand a little bit more on what you think needs to be included in that national intervention and even spell out to a greater degree how ACIS can be used to manipulate the industry and what is happening—and the leadership that government must take.

CHAIR—That is recommendation No. 5.

Ms HALL—I know the recommendation.

Mr Cameron—The ACIS has a huge potential, as I said, to put some carrots and sticks in. We would want to make sure that there is an integrated industry, and that integrated industry includes OEMs and the components sector. I think it will take much more analysis than we have here about how you can use such a massive government scheme to innovate and create jobs. We do not have all the answers, but we would like to be able to sit down, and we will make some submissions in detail to the review of the scheme.

But the clock is ticking. Twelve-hundred manufacturing jobs a week have been lost recently. Once we lose an economy of scale within this country, we will not be able to train workers in engineering. It will not just be the components sector, and it will not be the car industry; it will be general engineering. If we have no capacity for general engineering in this country, not only is it an economic issue, not only is it a social issue, but it becomes a defence issue because we will not be able to defend this country. We will not have the skills here to defend the country in a time of crisis. The world is so uncertain at the moment that we should not be allowing those skills to disappear.

There is a need for the car industry and general manufacturing to be given some serious consideration by government as to how we can have a long-term effective manufacturing industry in this country. Without a manufacturing industry no advanced country has a decent standard of living. We will be in real trouble. We will put forward detailed proposals to the

review. We have put some broad based proposals here. That, I think, is a whole inquiry on its own.

Mr Conroy—I will give you just one practical example of the integration Doug was talking about and the need for government flexibility, and that is the capping of the ACIS for component producers. They modulate the ACIS funding to make sure it does not go over budget. When a component producer puts in place R&D they get, under the ACIS, 45 per cent of expenditure back as an import duty. But to make sure they are under budget, ACIS modulate it, and the modulation rate is currently 50 per cent. So if an auto components producer spends \$100 on R&D, instead of getting 45 per cent of the \$100 they get 45 per cent of \$50 of the R&D expenditure. The key is that if government had some flexibility and an interest in this industry they would allow that component producer to claim the R&D tax concession that is available to the rest of Australia on that other 50 per cent that has been lost due to the budget capping of the ACIS. That is the government support and leadership we need in this industry.

Ms HALL—Further to my question, the national plan and vision really needs to be a national plan and vision for manufacturing per se in Australia and a commitment by government to ensure the long-term viability of the manufacturing industry in this country. As a component of that, it is also a commitment to the automotive industry and component industry because they are such a big part of that manufacturing industry. Would you like to comment on that?

Mr Cameron—We agree with that. You have to start somewhere and if this committee could be instrumental in recommending a start in the car and component sector that would be a start that we would welcome. Regardless of differences with the government in a range of other areas, we would be happy to sit down with government. We are valued for our input in the industry by the companies that we work for. As you see from our submission, we treat these things very seriously. The only people who do not treat the AMWU with any seriousness and do not listen to anything that we have to say are the federal government. It is not because what we are saying is not of value; it seems to be an ideological position to lock the trade union movement out and lock the voice of the workers out of everything the government does. Everything the government has set up so far has been bipartite—government and employers. Workers are getting no voice in this industry when it comes to government. I really think that is sad. We really should be a bit more mature in our approach to that.

Mr BAKER—We are an intelligent country with a population of 20 million people. Can you expand on why, on the OECD share of high and medium technology industries, we are in the situation that we are in?

Mr Cameron—There are a number of reasons. There has been in this country a clear bias towards primary products—farming, iron ore and coal. We are a commodity driven country. In Europe, countries that have had a commodity advantage for a period of time have used that advantage to build their knowledge base and have used an investment from the benefits of the commodity gains that they have got from time to time to build a broader economic base. We have not done that. We have continually sought to have a hands-off approach and rely on commodities. We have the best terms of trade we have ever had, but we have a mounting current account deficit. We have real problems. I have to say that it is a focus of both sides of politics that we can rely basically on primary produce and the commodities sector for the future of this country, and we say that is wrong.

Mr BAKER—I put it to two of the major manufacturers in Adelaide, following on from Margaret May, that from a productivity perspective in Australia a vehicle comes off the production line every 2½ minutes. In the UK, it is 1½ minutes. Therefore, there is a huge competition deficiency there. The answer was that we produce larger cars in Australia and therefore it takes longer. Isn't this a bit like: if you continue to eat lollies, you are going to rot your teeth. With the petrol prices going up, if we do not start producing smaller vehicles in this country, what is the long-term direction of the industry? Yet—to throw another one at you—look at the success of the Ford Territories and SUVs.

Mr Cameron—The SUVs are niche. We were told that we would be exporting utes to the United States—it never happened. We have a significant problem, as I have indicated: we have a narrow base for our cars in this country. The build is a big build, six-cylinder car. We should be looking at diversifying. I agree with you. You cannot simply compare a 2½-minute build to a 1½-minute build in the UK. You have got to go to quality, performance, reliability and the consumer wanting to buy the cars. Simply saying, 'We can produce more rubbish off the end of the line,' does not matter. I do not know whether Rover MG, which ended up going bust, was where you got your figures.

CHAIR—But the UK still has an auto deficit anyway, according to your graphs—irrespective of output on the production line.

Mr Cameron—That is right, because it is not the main game.

CHAIR—Doug and Pat, thank you very much for coming in. We appreciate the submission you have made. Certainly as a committee we have listened to you, Doug, on a number of occasions and we appreciate the time you have made to be with us and the supplementary material you have provided. We will return after lunch with the Australian Industry Group.

Proceedings suspended from 12.22 pm to 1.17 pm

BURN, Dr Peter, Associate Director, Public Policy, Australian Industry Group

CHAIR—Welcome. 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. I also remind you that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Thank you for your comprehensive and big submission. There is a lot of supplementary evidence. So we do appreciate that. Would you like to make some introductory remarks or talk to your submission, and then we will go into questions and answers.

Dr Burn—Thanks for inviting the Australian Industry Group to give evidence to your committee. We regard it as an important area of inquiry and one of a number of important areas of inquiry going on into the industrial structure of Australia at the moment. I am also representing the Engineering Employers Association of South Australia, with whom we have very close relations. You will notice that our submission is a joint submission between our two separate organisations. In many respects we operate as one, although formally we are separate—so I should make that clear. The Australian Industry Group and the EEASA have a long association with the automotive component manufacturing sector. We regard it as a sector having a very proud past and a very exciting future. We have recently done a large amount of research into areas very relevant to Australia's industrial structure in general. That has particular relevance, I guess, for the automotive component sector. In addition to the attachments provided to our submission, we have since then released a report, *World class skills for world class industries*, which is also very relevant to many of the areas that this inquiry touches on.

Rather than speak directly to the submission, I would like to make a few general points. I think they probably come out in the submission in any case, but I will make them. Like many areas of the economy, the automotive component manufacturing sector is, in a sense, on the wrong side of a two-speed economy at the moment. We are seeing an increase in internal competition for resources; a decrease in competitiveness in domestic and export markets, transmitted by the exchange rate; and increased competitiveness from the surge in productivity and output associated with industrial revolutions in China, India, Brazil and eastern European countries in particular. These are associated with minerals booms, slumps in manufacturing and also in tourism, or difficult times in manufacturing and tourism in many parts of the rural sector and in many parts of the economy, alongside tremendous growth in the mining sector and in sectors relating to the mining sector—particularly parts of manufacturing relating to the mining sector. The construction sector is also booming as infrastructure—and mining related infrastructure, in particular—is being invested in very heavily, to the extent that other factors are brought into play.

These general phenomena associated in short with the rise of China and the rise of the currency are interacting with a range of specific factors in a number of sectors. For example, tourism is hit particularly hard not just by the currency but also by high fuel prices, by bird flu and by terrorism. The rural sector is affected not only by the high currency and the competition for resources, particularly for skilled labour, but also by drought. Many areas of manufacturing are affected by these same sets of forces plus the slowdown in the housing industry. The automotive manufacturing components sector—and, more generally, the automotive sector—is

affected by surplus production world wide and by the fact that the sectors that Australian has concentrated on are suffering from a larger slump due to fuel prices.

We found in our investigations, particularly of the manufacturing sector, that business is responding very actively to the competitive challenges that it faces. We reported this in one of the attachments we provided to you titled *Manufacturing futures: achieving global fitness*. Businesses are doing things like investing very heavily, increasing their expenditure on training, exploring opportunities for innovation, increasing the degree of global engagement, searching very hard for efficiencies and driving down their costs. They are very active in responding to these circumstances.

We think there is also a role for government in this situation, but we are very wary about government policy and putting forward suggestions for government policy where those suggestions would detract from aggregate economic performance. The economy is an integrated whole, and we would be very wary about policy that detracts from aggregate economic performance in the hope that it would stimulate a particular area activity. We are also wary of advocating policies that add to tax burdens which, in turn, make business competitiveness less likely. In our submissions and our advocacy, we have an emphasis on generic policies rather than on industry-specific policies. There are a number of suggestions that we put forward, for instance, in *Manufacturing futures* that we can explore in more detail, but they are in the evidence provided to you.

We know also that in delivering these areas of generic assistance these programs need to be tailored for the specific circumstances of the occupations, industries and localities involved, so the line between generic and specific assistance becomes a bit blurred. In particular, I should draw your attention to the fact that we make a number of specific suggestions to assist in addressing market failures that impede transitions of the workforce both within the sector and between this and other sectors.

I would just make one final point before closing these opening remarks. The Ai Group and EEASA recognise that the auto sector receives very generous assistance relative to that available to the rest of industry—not to all industry but to the bulk of it, and certainly relative to what is generally available. We support the programs that are currently in place. They were put in place with the aim of making the sector more self-sufficient over time, making it more resilient and assisting in the transition to a more competitive and dynamic sector.

CHAIR—Thank you. A lot of your submission is regarding the current status and future of manufacturing in general in Australia. Can you clarify for me the Ai Group's coverage of the auto sector? How extensive is that coverage and what particular parts of the automotive industry does it cover? We have heard from the federation of manufacturers and also from the parts manufacturers. I am just trying to get a sense of who your members are.

Dr Burn—We have members across the economy and from all areas of the economy—from the services sector, construction sector and manufacturing sector.

CHAIR—In terms of the auto sector though?

Dr Burn—In terms of the auto sector we have the larger manufacturers—the big OEMs—and a large number of component manufacturers. Of course, you often hear about the linkages of the automotive sector with the rest of the economy. We have many members who are linked into the automotive sector although not formally part of it. They are a very large element of our membership in Victoria and also in South Australia.

CHAIR—I note that in your submission you contend that you expect the automotive component industry to increase or it is increasing its expenditure on training. I think you said there was an increase of 70 per cent in training. That does not seem to bear out with some of the other evidence given to us that there is a lack of expenditure on training in this particular sector.

Dr Burn—The expected increase could reflect a realisation by business itself that there has not been a big enough level of expenditure. So the two pieces of evidence would then be compatible.

CHAIR—What type of training expenditure is that? Are we talking about skills or in the vocational area?

Dr Burn—I cannot comment. In many of our surveys and what we know about the manufacturing sector in general, we cannot break it down too much. The data that we get is not very reliable when we break it down into subsectors. I would be hesitant to give evidence that purported to have authority in that area. I can, if you like, follow up and get our statistical people to provide some no doubt heavily qualified statements.

CHAIR—So the observations you are making are based on survey responses, are they?

Dr Burn—Many of them are. There is also personal contact with industry. Really, a large amount of what we know about the industries we represent is via the personal contact that we have with our members.

CHAIR—The other thing I noticed which is at odds with one of the other witnesses is that the Ai Group is advocating further trade liberalisation. You are saying that we should be pursuing further trade liberalisation. Is there evidence that the Ai Group has come across which supports the notion that trade liberalisation at the multilateral, regional or bilateral level actually has assisted Australian manufacturing and the automotive industry in particular?

Dr Burn—The evidence is both conceptual and experiential. The conceptual evidence is that liberalising trade increases markets and potential. The Australian experience is that, during the period when the economy was liberalised and the manufacturing sector was exposed to greater competition, there was a tremendous surge in productivity, investment and exports from that sector.

Ms HALL—Not in this industry. If there was, could you give us some hard facts and figures? I have not seen any anywhere.

Dr Burn—The evidence presented, for example, in the department of industry's submission and the DEWR submission, I think, supported a fair amount of confidence in the ability of the Australian automotive sector to be very competitive and to improve its activity and its

productivity over the past couple of decades when the period of liberalising the Australian economy occurred.

Ms HALL—But that is not the case now.

Dr Burn—You can look at what happened in a particular year of distress or a particular couple of years of distress, but you would be unwise to draw general conclusions about such a general topic as trade liberalisation and the impact on industry from those couple of years of experience in one or two sectors.

CHAIR—Another point in your submission, which I found interesting because of some of the current commentary on it, dealt with your request for an expansion of the skilled migration program. Once again, is this a manufacturing-wide call that you are making, or is it specific to the automotive component industry?

Dr Burn—It is economy wide, in fact. As I said, we represent a range of industries, including the construction sector and many businesses in the services sector and the manufacturing sector. All sectors are telling us that they have skills shortages. So that is a general call that we are making.

CHAIR—But it could not possibly be in the automotive sector.

Dr Burn—The automotive sector, due to the fact that it is under these competing pressures, is an interesting case because it is quite possible that the sector could be contracting. Due to the competition for skilled labour from other sectors, it could be suffering from skills shortages as well. That is what we think is going on. For example, the minerals sector and areas of manufacturing that are booming at the moment are attracting skilled labour out of sectors which are not able to keep pace with pay claims and so on, and the shortage of skilled labour is in fact more intense where the industries are under greater threat.

The other issue that you might be thinking of is the idea of industry-specific skills. Some of those skills might not be being utilised because these people are transferring to other sectors or they are leaving the workforce and not being replaced and the normal streams of replacement have been diverted into other sectors.

Mr BRENDAN O'CONNOR—On the matter of trade liberalisation, I accept the view that, over the last 20 or so years, some decisions by government have led to greater efficiencies, even if a lot of that resulted equally in a lot of pain for industry and working people—and, of course, people suffered retrenchments as the tariff walls started to crumble. In response to Ms Hall's question, whilst I accept that there may have been some benefits and also some adverse effects, I can understand a particular position that would be to say that there has been a net gain as a result of that decision. However, in light of the emerging markets that we are competing against in this particular industry—and you mentioned China, India and some of the Eastern European states and so on—is it not more likely that multilateral or even bilateral liberalisation between or amongst those countries with Australia will expose the automotive parts industry to enormous pressure to survive because the labour cost differential is so great that it would be nigh on impossible for large or small to medium enterprises in Australia to compete?

Dr Burn—I can answer in a general way the general point that this sector will be under more pressure due to greater global competition the lower are trade barriers between countries. The answer is yes, definitely. We do not necessarily see that only as a question of relative cheapness of labour but also as a question of economies of scale and so on. Greater pressure, I guess, is good for the consumer and it is good to give everyone a bit of a kick along and make sure they keep being productive and dynamic.

Mr BRENDAN O'CONNOR—You seem to have a paradoxical view on industry policy. You said that you support generic industry policy but each industry should have the generic policy tailored to the occupations in and the need of the industry. One would say that, therefore, you would be supportive of a tailored industry approach. I understand the difficulty for you as the peak body to favour one sector over the other; you have so many members that it may be too difficult to ask your body to do that. There is a view that some industries require greater support than others. Do you draw comparisons? For example, there are some natural advantages of some industries that are located in our economy and there are others that are exposed to greater challenges. Therefore, different weight has to be placed upon assistance that is provided by government, at the federal and state levels. I would have thought that if there was an industry that needed more than the average support, certainly the automotive parts industry would be one of those. Can you comment on that?

Dr Burn—At a very high level, the argument that an industry needs support to survive is a bit of a condemnation of its prospects and the degree to which it is going to add value net of taxpayers' money to the Australian economy. The idea that we would have higher taxes in order to prop up some sectors which cannot survive is something to be very wary of. Business in general—obviously, direct recipients of the money would be okay—pays a fair and rising share of the tax to do that. It has to be wary of those sorts of policies. That is a general comment.

On the point about tailored and specific policies, particularly when we are looking at policies affecting human capital it becomes very difficult to just target them at a generic level because the nature of that investment is specific. That is the critical point where the general policies that we advocate become murky. Tailored requirements, for example, restructuring someone out of a specific location or providing transitory assistance for auto workers to move somewhere else, become specific—they have to be tailored to specific circumstances. But I do not think that infringes our general policy or general approach of supporting generic style assistance.

The comparative advantage argument we think is very strong. If there are areas of activity in the economy which are attracting resources because they are more productive and more remunerative, that suggests that something positive is going on in those sectors and to put barriers that would stop resources flowing into them, that is, out of other sectors into them, is a very dangerous way to go if what you want to do is increase aggregate economic welfare—if that is the aim; and that is our aim.

Mr BRENDAN O'CONNOR—I can try to exemplify the contention that you may have to emphasise greater assistance in one area over another in the economy, and how you assess what the net gain is for the community vis-a-vis how much taxpayers' money goes to a particular place to prop it up. Has AiG considered the knock-on effects of the automotive parts industry and the automotive industry not surviving? What does that mean not only in terms of how that may well affect associated industries and the economy generally but how it will affect the skills

that the country has at its disposal. We had the AMWU this morning talk about their concerns, on both economic and social grounds, about the challenges and threats to the automotive parts industry. At one point they raised the spectre that a country without certain engineering skills would be at a security risk because we would be losing skills that we would possibly need for the defence of the country. Is that too much of a stretch? Should those things be considered in the national interest, above and beyond just industry policy seeking to improve the chances of the industry to thrive?

Dr Burn—Those are two very important areas—I have divided them into two in my mind. There is the knock-on effects argument, that is, the degree to which the removal of that sector would flow through to other areas that it is linked into or, alternatively, declines in that sector would flow through to greater multipliers, if you like, to other sectors. Then there is the issue of hollowing out of skills or some sort of permanent destruction of capability. First of all, we think the best way to conceptualise knock-on effects is to see that the whole economy is an integrated whole. All sectors link into all other sectors. The argument that one particular sector is more linked in has to be looked at very closely and investigated very thoroughly with input-output analysis. We have not done that for the knock-on effects of the subsets, not the least because it is very difficult to get data at that level, and when you do it is five years out of date, which is obsolete in this industry.

You have asked an interesting question on that area: have we considered the possibility of the removal of this sector? No, we have not. As we said at the beginning, we are very confident that the sector will, like the rest of the economy, confront the current challenges and rise to them, as it has in the past, and succeed. We have not spent a lot of time worrying about the worst-case scenario. We know there is a worst-case scenario and we know there are many others. We have not put a lot of attention into looking at the worst-case scenario.

CHAIR—Other witnesses say that this industry is in crisis.

Dr Burn—That word is used a lot. That is all I will say to that. On the question of the hollowing out of skills, what we are currently seeing is a temporary shock in the overall scheme of things to an industry because of the current configuration of world prices. The exchange rate is high, competition is very intense and we are currently experiencing a decline in these sectors of activity that one day soon—maybe not so soon—will be reversed and we will want these sectors and their skills to resume and to take up the slack again. The risk that we will somehow lose these skills—I am putting the defence argument aside for a bit—is a conceptual danger, that you would just lose something that somehow you are going to need at the end when the currency changes again.

We think that markets probably react more quickly than this. People are expecting minerals prices to fall again. The dollar has come down a bit. We think that things are going to happen sooner rather than having a situation in which all the engineering skills that currently exist fade out. The economy tends to adapt more quickly and we think that the economy can generate new resources and new capabilities. Indeed, what businesses are doing throughout the manufacturing sector, for example, by investing in new skills, in innovation, upskilling their workforces, doing cadetships to get new engineers and all that sort of stuff is generating new capabilities. We are less concerned about the theoretical possibility of somehow losing skills that we are going to need in the future because of this temporary blip. On the defence argument—

CHAIR—While we are going through this temporary blip, how many of your members do you expect will survive the blip? The industry may survive—and I am confident it will; I share your confidence—but what about your members? Do you have any forecasts of how many of the local automotive component manufacturers may disappear as a result?

Dr Burn—The short answer is that we do not have a forecast of that. Disappearance and consolidation are different things that need to be looked at very differently, because when two firms consolidate the capabilities are not lost but aggregated. Individual firms might go out of business but the capabilities are still there. That is another part of what is going on at the moment.

Mr BRENDAN O’CONNOR—You were going to make a comment about defence.

Dr Burn—There are clearly national objectives about defence and calls for government assistance of various kinds. We have a massive defence budget and a hell of a lot of taxpayers’ money gets spent on building and servicing stuff in Australia, and that is generating a whole lot of defence capabilities. I think that sometimes there is a temptation to use the defence argument separately from defence arguments, if you know what I mean, as a last-resort industry policy argument. The defence argument can stand on its own. If we need specific skills, then the policy tools are available. But propping up a whole industry on the chance that some of the skills might relate to defence seems to be a roundabout way of achieving that objective.

Mr BAKER—Your study with the FAPM cited that, despite agreeing to cost reductions of some 5½ per cent in 2004, 60 per cent of Victorian auto component manufacturers lost sales contracts with domestic car makers. Can you expand on the reasons why this would have occurred?

Dr Burn—The shorthand answer is China and currency. The currency is higher. Australian suppliers are less competitive. China is booming—and China is shorthand for global change, global competitiveness. Things are cheaper from overseas, so it pays to import them cheaper and it is harder to compete with imports.

Mr BAKER—What can we learn from China—basically you could say from the whole of South-East Asia, Korea et cetera? What can Australian industry learn in an effort to compete?

Dr Burn—This is very interesting. One direction in which we have found Australian business going is increasing their presence as producers in foreign countries. They are getting the advantages of producing in China or Thailand that other global companies are getting benefits from. We think this is a marked change. In our report *Manufacturing futures: achieving global fitness*, we see that there is a tremendous surge in offshore investment from an Australian base—in Australian companies investing plant and equipment abroad. That is a very big step Australian companies can take to ensure that they remain competitive in the face of what is happening across the world—to join in. We also think—

CHAIR—Surely the only advantage to us of that happening in terms of our domestic market would be if those companies that do go offshore and invest also maintain a presence in Australia.

Mr BAKER—We are shipping skills and everything and not retaining them from a domestic perspective.

CHAIR—Or do we still gain an advantage even if they move their entire operations offshore?

Dr Burn—We are not finding that any companies are removing their entire operations. But just consider that. I speak, for example, to people involved in manufacturing design. These people are based in Australia but supply design services to Australian companies operating in China. They have great ongoing relations with these companies stemming from their association in Australia. That gives them an advantage in securing the Chinese business of these companies. Very rarely does an Australian company move from Australia and sever all ties. What we find is that there are tremendous benefits in terms of the income flows back into Australia. Obviously, that is clearly one of them. In terms of the linkages with other elements of production, R&D, design and physical production elements of that, the Australian companies and the Australian branches of these companies in other countries can link into what is happening in Australia and link what is happening in Australia with what is happening globally. The alternative, of course, is to give up that foreign business and just operate in Australia without securing the Australian arm of it. We think what is happening is a very exciting development.

CHAIR—Haven't we actually seen that happening in one other industry—the textile industry? It was the very opposite to what you are saying.

Dr Burn—Yes. There is no guarantee that every industry will remain forever in place, as if frozen and protected. It cannot happen and it does not happen. The horse shoeing industry went to bits.

Ms HALL—That was because we got cars, wasn't it? Now we are talking about cars. I wonder what our alternative will be after that.

Mr BAKER—In moving forward and expanding and developing the industry here, the overseas component will play a major role as far as industry diversity, but what we are obviously concerned with is the Australian industry. From an economic perspective and that of income at a company level, that is fine, but we are looking at the overall industry. It could be that there is a pyramid effect all of the way down through to the most basic skilled worker.

Dr Burn—We take heart from the fact that our unemployment is at 4.9 per cent, GDP has never been higher, Australians are producing more than they have ever produced in real terms and more Australian workers are employed in Australia than ever before, and this is happening in the face of all of this competitive pressure. Tony Blair said that we do not want to protect individual jobs in industries—we want to make sure that we protect people. We think that aggregate outcomes are what are important. Trying to fiddle around with this or that industry is often detrimental to that aggregate outcome.

Mrs MAY—In the submission, as far as what government and we can do, you have advocated a doubling of the EMDG scheme and R&D concessions. I wonder if you would mind making some comments on how you think improving those two areas of concessions for business is going to help.

Dr Burn—I think that export growth is a very important area of economic activity. It is important that new firms develop new skills in export market development. These are difficult skills to learn and there are often high fixed costs in learning how to do it properly. Exporting is something which a small or medium sized business might balk at. We think that some government assistance could be provided to help people get over that stage in particular, to explore the idea of exports and do the initial stages of developing an export market. It is a skill, if you like, that is worth investing in. There are market failures because many businesses, particularly small and medium sized businesses, would balk at making that investment.

Mrs MAY—So you are saying that we should be doubling the dollar amount to individuals rather than doubling the size of the scheme?

Dr Burn—We think we should double the size of the scheme and make it more effective.

Mrs MAY—To allow more SMS—

Dr Burn—We would probably be interested in discussing the details of an expansion of the program, but the principle of getting more people involved in developing export markets for their products and goods and services would be a positive thing. I have forgotten the second part of your question.

Mrs MAY—The R&D and taking the cap off concessions for overseas R&D.

Dr Burn—We put forward a number of policies for R&D. Removing some of the barriers about partnershiping abroad makes sense, we think, because collaboration in these areas is increasingly international. The other R&D change that we propose is that we think that the tax concession as presently structured offers only marginal benefit to a domestic firm and that the tax concession when compounded with the Australian imputation system means that really a domestic firm is not that much better off by doing it, and after it has done its compliance costs you wonder why it does—and perhaps that explains why not all that many firms apply for it. We put forward a very simple suggestion to make it effective that can be done at the stroke of a pen without any increase in compliance costs, and that is to allow businesses to credit their franking accounts with the amount of tax saved as a result of their being eligible for the concession. That would allow the concession to flow through to shareholders—owners—and be effective rather than, as at present, pitting companies against their owners when investing in R&D.

Ms HALL—The June edition of the *Australian Accountant Magazine* said that any Australian firm that does not go offshore is crazy. Given the state of this industry, would you agree with that for this particular industry? You have just made a comment that the cap should be removed for research and development, so am I right in assuming that if these companies go offshore then you would support their R&D being conducted overseas? And finally, wouldn't that escalate the decline of the industry and facilitate more of the components being produced overseas as opposed to being produced here in Australia?

Dr Burn—Firstly, in relation to the comment that you would have to be crazy not to go offshore—

Ms HALL—That is paraphrasing it, but that was the tone of the whole article.

Dr Burn—We think that there is a great surge of—

Ms HALL—You support going offshore? That is my question.

Dr Burn—We support Australian businesses growing opportunities for themselves and their shareholders and their employees. If that involves adding capacity overseas, that is a great thing. We can point to great Australian companies that have done fantastically, and are still doing fantastically, because they have expanded offshore—and I am sure that you can think of them yourselves.

Ms HALL—Or moved offshore.

Dr Burn—I cannot think of that many that have moved offshore—that is to say, they no longer have Australian operations. I am happy to stand corrected, but I cannot think of any. You can put at risk government programs and say that money will leak offshore. There is a danger, I guess, once you put in place a government program, if you do not want to distort activity—in this case, collaborative research effort, which we know is very important for stimulating activity, knowledge, information sharing and those sorts of great things—and you do not want to exclude the possibility of these great things being benefited. You want to design tax concessions and subsidy arrangements so that they do not basically transfer to foreign shareholders or foreign taxpayers or foreign citizens. No doubt there is a tension between policy objectives but you do want to have Australian businesses and Australian R&D involved and embraced and engaged in what is happening around the world. That is a very positive thing that we think ought to be done to improve some of those arrangements.

Ms HALL—Can I ask you to provide us with copies of the surveys that you referred to earlier. Also, in one of the statements that you made, you said that you ‘think this is going on’. Can you give us some substantive information to back up your thoughts?

Dr Burn—I am happy to. Which surveys?

Ms HALL—In the beginning you were talking about a number of surveys. You stated that you could supply copies of the surveys to the committee. When you see the draft of the *Hansard* that will be sent to you, you could pick that up.

CHAIR—Perhaps I can assist. If it is not incorporated in the appendices that you have already given us—and I think some of it is incorporated in those—then send us through whatever you have.

Dr Burn—Again, I will chase it up via the record, but I did not quite get the second part of the question. I am a little bit hazy about what that was.

Ms HALL—You said that you ‘think this is going on’. It was in relation to an answer to, I think, Mr O’Connor or the chair—one of those.

Dr Burn—I will chase that up via the transcript.

CHAIR—Dr Burn, there is one more question from me. You make comment that the South Australian government currently funds a program that is aimed at upskilling the capabilities of existing employees in the manufacturing area, and there is quite a bit in your submission regarding the assistance that should be given to displaced workers, particularly with RPLs and further training. Do you have any comment to make on the programs of assistance that have been implemented in South Australia with the retrenched workers from Mitsubishi and General Motors? Is that the model you are referring to that we should be adopting more universally, or was there something else?

Dr Burn—I cannot give you a definitive answer. The first time I came across that was in reading the submission of the Australian Manufacturing Workers Union to the inquiry, so I do not have the detail at my fingertips, but I can chase up a corporate view of that if you like.

CHAIR—Thank you very much. We appreciate you coming in today. We thank you very much for your very extensive submission and all the appendices that go with it. If you have any additional information, just send it through. That would be great.

Dr Burn—Thank you very much.

[2.03 pm]

LAMB, Mr David George, Transport Leader, Commonwealth Scientific and Industrial Research Organisation

CHAIR—Welcome. Do you have any comments on the capacity in which you appear?

Mr Lamb—I appear before you because I was asked to come here and answer questions. CSIRO has not made a submission to this inquiry.

CHAIR—Are you appearing before us on behalf of CSIRO or as a private citizen?

Mr Lamb—On behalf of CSIRO.

CHAIR—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 the parliament itself. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. We thank you for your submission and for appearing before us today. Would you like to make some introductory remarks before we launch into questions and answers?

Mr Lamb—Yes. CSIRO develops technologies for the benefit of the Australian people, hopefully; that is its charter. When developing automotive technologies, it has a choice: it can either develop technologies which can be adopted, taken up, by manufacturing industry in Australia, or it can develop technologies and hope to license those technologies to overseas manufacturers. The first course is very much easier than the second. In other words, if CSIRO can partner with an organisation or can develop a technology which a local car maker in Australia decides to specify into its future vehicles, then there is much more likelihood of the technology being taken up and getting into mass production than there would be if it merely developed a technology, patented it and tried to sell the licence overseas.

We have had a fairly successful history of developing technologies and seeing them go into production in Australia—fairly productive. Of course, one of the obstacles is that all of the four car makers in Australia are overseas owned and, therefore, they regard technology development as being primarily a home office activity. Huge research laboratories exist in every car maker—none of them in Australia, with some small exceptions. The development for particular types of vehicles, for example, large vehicles, has thrived in Australia. Ford has 1,000 engineers, I believe, who are working on models of cars that will be produced in the future, not in Australia—small and medium cars. A thousand engineers; I heard that number from Ford last week.

Secondly, General Motors opened Holden Innovation in Australia. The problem is that, being a very small part of the global automotive industry—less than one per cent, albeit a very historically successful manufacturing industry in Australia—the moment times get hard around the world, times get very hard in Australia. And when the parent companies of the two largest

Australian car makers get into trouble—and, as we all know, Ford and General Motors have had severe troubles in America—then things get very, very tough in Australia.

Ten years ago CSIRO made a presentation in Parliament House to extol the virtues of the future electric cars or half-electric cars—hybrid electric cars. We put on a demonstration in Parliament House and we got some good press, a good reception, from it. Not long after that, in November 1997, a supplement to an edition of *Time* magazine appeared, about ‘Our precious planet’. It was a Toyota sponsored issue. It said that ‘saving the environment will be the next century’s biggest challenge’. And it said, ‘We’re going to develop these new technologies.’ And it said, ‘One of the technologies we’re going to develop is the hybrid electric car.’ I think if you look at this picture, published in *Time* in November 1997, you will see a remarkable resemblance to the Toyota Prius that is on the road today in Australia and around the world. It has been very successful.

It would be very easy for me to say that we should have been producing that car in Australia for the last 10 years, but if we had, or whichever company had, they would probably have gone broke because there was not a market for that kind of car in Australia. And why would there be? We had just about the cheapest petrol in the world and we had a car-buying public who were well and truly accustomed to and were wanting big cars, regardless of the amount of fuel they consumed, and with very little understanding of the environmental damage that was being done.

So when the price of petrol did go up, as it did last year—it went up, say, a mere 30 per cent—the effect was dramatic. Within a month the number of customers on public transport in Melbourne had risen 11 per cent. That is a pretty dramatic shift. The amount of petrol being bought for private cars suddenly dropped. People were using their cars less. In the market the number of people queuing up to buy large cars was reduced substantially. People were clamouring to buy small cars so that, very soon after the price of petrol first went up, you could buy a large car at a very substantial discount but on a small car you would not get a penny discount because the demand was so great. Toyota had a queue of customers waiting for its Prius, whereas the car yards were filling up with big cars. The result was that the local car makers, because they all produced big cars, were overstocked and therefore had to cut production. The biggest effect of the cut in production, aside from the effect on their profitability, was on the demand of the local component makers, who would have suffered very severely in the last 12 months. I am guessing but it is fairly logical that if the car makers cut their production according to the reduction in demand in the local market—which was a reduction of something like 25 per cent—then the component makers would have got hurt.

It would be easy for me to say that for the last 10 years we should have been producing that kind of car—but of course it easy to look back and make that sort of statement. However, I was brought up to believe that any business, whether a family business or a large industrial corporation, should plan for all eventualities, and Blind Freddy could have seen that oil was not going to continue at \$20 a barrel forever. We were hearing all sorts of stories for many years about peak oil, let alone the damage that burning oil, coal and other fossil fuels was doing to the planet. So many people, with very little thought, could have predicted that oil would rise in price and that the slightest glitch—if the Iraq war did not go well or if some African country decided to go funny—would see the supply suddenly become risky and the price would shoot up—and therefore you would prepare for it. But it seems we did not. The odd thing is that the incentives that were given to the automotive industry were primarily towards developing flashier, bigger,

more powerful and more exotic vehicles, rather than more fuel efficient ones. There was nothing that I am aware of in any of the incentive schemes that did anything to encourage either lower emission vehicles or more fuel efficient vehicles.

CHAIR—Thank you very much for that, Mr Lamb. Let me start off at where you have just ended. I understand there was an announcement only a matter of a couple of weeks ago by the federal government to provide some support for alternative fuel vehicles. Is that right?

Mr Lamb—I am not sure if you are referring to the agreement with or the offer to Ford to produce an alternative fuel version of the Territory, which is a very large vehicle.

CHAIR—That is the one.

Mr Lamb—It is an alternative fuel version of it, not necessarily a more fuel economic version.

CHAIR—Could ‘alternative fuels’ very well encapsulate those fuels that you were referring to before in terms of the hybrid car?

Mr Lamb—No. There is a total difference as to a hybrid car. A hybrid car is a half-electric car. It uses an electric system and electrical storage batteries.

CHAIR—But certainly you are moving away from the traditional oil based products.

Mr Lamb—A hybrid electric car still uses petrol but it stores some of its energy. When you are slowing down, the energy used is converted into virtual energy and stored.

CHAIR—I see, so you were referring to this alternative fuel car from Ford not being a traditional oil based vehicle.

Mr Lamb—Correct.

CHAIR—So there are moves afoot—even though they are belated in the eyes of some—as in recent announcements?

Mr Lamb—Yes.

CHAIR—Would you tell us a little about the hybrid vehicle technology that the CSIRO has been developing for the last nine years with Holden. We understand that has been taking place in partnership with Holden but has not been brought to production. Why is that the case?

Mr Lamb—Because Holden felt that there was no demand for it, that the customers were not ready and that if they produced a model it would not sell.

CHAIR—Is it important for there to be domestic demand for an alternative fuel vehicle in Australia before you can produce one in Australia? What about the export market?

Mr Lamb—Logically, you would be quite right if there were an export market. But, as I understand it, Holden's market is primarily in the Middle East, where there is no demand for hybrid electric vehicles.

CHAIR—The reason why I say that is that we have heard from a number of people so far that if Australia were to produce a niche vehicle, that in itself could be the saviour of the industry because we would be doing something different to what the rest of the world are doing. For us to produce a small car would just make us one more player in the small vehicle manufacturing game, but to produce an alternative would give us a competitive advantage. Surely that in itself would be a good argument to get something going on a production line, whether there is a domestic market for it or not.

Mr Lamb—It sounds to me a very rational argument. There are plenty of manufacturers around the world. In China there are more than 100 manufacturers and very soon they will be big enough and organised enough to be exporting. So your comment makes sense to me.

CHAIR—You mentioned the effect on car sales of the recent fuel increases. What are the latest figures for car sales? Are we just seeing that as a temporary glitch, a consumer reaction to price rises which is temporary because of the shock factor rather than something which is going to be sustainable? After all, when I first got my licence fuel prices were lower than they are now.

Mr BAKER—Ten cents?

CHAIR—Not quite 10c, but certainly there has been quite a change. Is it possible that this is simply a temporary phase that we are going through, until people become sensitised to the higher price?

Mr Lamb—Can I answer that in this way. In 1973 there was a hike in the price of fuel. Big car sales went down. Small car sales went up. The oil price went down to its old level again, and so we went back to big cars. In the early 1980s, as I recall, there was another big hike in the price of oil. Holden put a four-cylinder engine in their Commodore. It nearly sent Holden broke. You may recall that in about 1987 Holden were bailed out by the US with a \$630 million hand-out and they were told: 'This is your last chance. If you blow this, you are out of business.' They survived. But the old price came down to its old level, so we forgot all about small cars and fuel-efficient cars and we went back to our gas guzzlers. That is what happened.

CHAIR—Where do we need to be at in order to make a hybrid vehicle an attractive purchase for consumers? Is it an issue of price versus the cost of traditional fuels? Is it a technology issue, a quality issue? What needs to change in order for consumer responsiveness to a hybrid vehicle to take off?

Mr Lamb—A variety of things. First of all, a much greater value needs to be placed on minimising energy use. That can be done in several ways. It could be through a community sense of good will that it is an immoral thing to do in this day and age to be causing a lot of greenhouse gas emissions. Secondly, it could be induced by raising the price of the energy—extra taxes on fuel or higher prices of fuel.

CHAIR—We have been told to take taxes off fuel at the moment.

Mr Lamb—Of course you are being told that, because people are hurting. If I had swallowed the big car myth five years ago and I had bought a nice large house out in the boondocks, well away from any public transport, and then suddenly the fuel price went up 30 to 50 per cent, I would be asking for some relief too. The only point that I would make is that nothing will work without a cohesive plan that is stuck to. If we seriously want to have hybrid electric vehicles we need to have an agreement about who will make them and the conditions under which we will make them, and we will need to set up some sort of regulatory regime that will support such a move. That may be acceptable, and it may not be.

CHAIR—But at the end of the day—and I will go back to my question, which I am not sure you answered—it still requires a change of consumer behaviour. Why would someone do it? To wait for someone to become environmentally sensitive may take a long time. People are still using plastic bags in supermarkets, despite the campaigns, so what changes do we need to make in order for an alternative fuel or a hybrid vehicle to take off in this country?

Mr Lamb—It is tragic to me that there has not been that growing awareness—and you are quite right; it is a fact that people are still doing those things—but the moment the price goes up, the moment you charge \$1 for a plastic bag, behaviour will change.

CHAIR—So it is all going to be based on price sensitivity?

Mr Lamb—Price is certainly the biggest influence by far. With regard to fuel consumption, the average fuel consumption for the average car in Australia is much higher than for the average car in Europe. That is because our cars are larger, on average.

Mrs MAY—Just following on from what Mr Barresi has been saying, it has been suggested to us that, because of the very generous incentive schemes given to the automobile industry, government should actually be using the stick to lay down some legislation as to what the car manufacturers are producing. Maybe that is part and parcel—consumers need to be educated and probably have some goodwill, but they may be limited in what they can purchase. Do we have a role to play there at government level?

Mr Lamb—I would certainly agree. On a personal level, I have made submissions to parliamentary inquiries before where I have said that, if there is to be a change to the regulations under which incentives are given for research and development, there needs to be a tightening of what qualifies as research and development. A great deal of the money that has been claimed as legitimate tax deductible research and development expenditure in the past has in fact been used for new model development or as face-lift money for vehicles or in the purchase of new tooling and equipment and that sort of thing. My definition of R&D would be technology development that would give us a unique place in the world and a greater chance with the exportability of our products.

Mr BAKER—My understanding of the global perspective is that we have about three trillion barrels of oil, we have already used up one trillion barrels and we have two trillion barrels left. So surely the day is fast approaching where we need alternative vehicles and alternative fuels.

Mr Lamb—I agree totally. I do not agree with your numbers, but the principle is the same.

Ms HALL—Mr Lamb, could you run through the details of the hybrid car that the CSIRO has produced—how much more efficient is it and what sort of decline in fuel consumption accompanies that car?

Mr Lamb—Certainly. The CSIRO was involved in building two hybrid vehicles. One of them was with Holden, and let me deal with that one first. It was the shape and size of a Commodore but with sleeker, better aerodynamics. It used CSIRO technology in its electric motors and in its energy storage—in other words, in its high-tech battery system—and in the computer control. Controlling the balance of energy—when you create energy, when you use it, how much you store, how much you let your batteries go down and all that sort of thing—requires a great deal of computational machination. That car was technically capable of using about 40 per cent less fuel than the standard Commodore of the day. One reason was that it was running on a four-cylinder engine rather than on a six- or eight-cylinder engine. I could get elaborate about city drive cycle and so on, but in typical drive cycle it could have saved about 40 per cent of the petrol.

The second car was built with the Australian components industry. However, the prime objective of that project, other than it being something different in that it happened to be a hybrid car, was to take it around the world to show car makers overseas that Australia could make it at low cost and that we could make it look exciting, innovative, high technology and all the rest of it. It was pretty successful in as much as it did open doors in the global automotive industry. But that all happened six years ago.

Ms HALL—So accompanying both these cars would be an opportunity for Australian industries to not only maintain their place in the market but possibly expand?

Mr Lamb—Yes, but only if it is part of a much bigger plan that has all the other support mechanisms with it. For example, at the moment I believe that if I run a business and I have a company car in my business and I buy gasoline or petrol for my car then that is all a tax deductible expense. That means that a lot of the people driving the big cars are in fact driving them as tax deductible expenses, so why would they care whether or not they use a fuel efficient car? There is that sort of argument. I think all of those things would need to be taken into account if you wanted to pursue that course.

Ms HALL—Maybe the answer—and I would like you to comment on this—is the development of a national plan and vision for where we want our motor vehicle industry and our component industry to go, and that national plan and vision should take into account the research work that you have done and look at all the issues that have been brought before us today in working out how we best get there.

Mr Lamb—Regardless of the work that CSIRO or anybody else has done, I still think a national plan is a critical requirement, especially as the oil shortage becomes more important, because not only is there an oil security issue but if we believe we are a rich country and therefore we can buy whatever oil we need then we had better think again. China is spending a great deal of effort going and cosyng up to the governments of the nations that have the oil in order to make pretty darn sure that when China runs short of oil it will have an adequate supply. I would not fancy being at the tail end of the queue, hoping that just having money would get me the oil that I will need. Besides which, as far as alternative fuels are concerned, the work we are

doing leads us to this sort of conclusion: ethanol is not a solution, it is a small part of a much bigger solution. Biofuels are not a solution; they are a part of a much bigger solution.

We need a national plan to fit all these things together. At the moment all that we hear on the airwaves is: 'This is the solution,' or 'That is the solution,' and 'Why don't we do this; why don't we do that?' There is a lot of ill-informed comment that needs to be put into context, and a balanced, farsighted and long-term policy needs to be developed, in my opinion. These are personal comments, of course; I could not possibly say that I have canvassed these throughout CSIRO.

CHAIR—You are here representing CSIRO, Mr Lamb. CSIRO has developed a magnesium sheet process for high-pressure and low-pressure die-casting. We heard from the die-casting industry this morning about their future. In your submission you say that the opportunity to take up this technology has now been limited with the collapse of the Ion group. You say you have offered it to other die-casters in the domestic market but you see the future as being more overseas.

Mr Lamb—Yes.

CHAIR—Why aren't domestic die-casters taking up your product?

Mr Lamb—There is hardly a die-caster in Australia who makes magnesium product. Fifteen years ago, when Australia started to invest heavily in its upstream magnesium industry, we had visions that Australia would become a major world supplier of lightweight, strong components made of magnesium. But the Queensland project never really got off the ground—it still has not—so we do not have our own smelter. Most of the magnesium used in Australia, I understand, comes in from China, of all places. We do not have a demand for it in Australia—the demand for magnesium products is very small. The big demands for magnesium products are for computer housings and—

CHAIR—There is a demand for it overseas?

Mr Lamb—There is demand overseas, yes.

CHAIR—A domestic die-caster cannot see that opportunity to produce using this world leading-edge technology and market overseas?

Mr Lamb—I think it is more likely the technology would actually be put into place overseas to supply the domestic market of whoever makes the computer cases and so on. I cannot see it being here—not at this stage. If we had a magnesium smelting industry in Australia and we had die-casters who were located very close to the magnesium smelter then the molten metal could be transferred to the die-caster and you would not have to waste all the energy remelting it and so on. Once you have let the metal solidify, the cheapest thing to ship is metal rather than the finished product.

CHAIR—What I am trying to get to in a roundabout way, without going into your technology, is the issue of a high-quality niche product using leading-edge technology being available to be produced in Australia but not being produced in Australia. If that cannot be done

for a product such as this, are we just going round in circles when we talk about developing products that Australia can manufacture for the overseas market as a way of compensating for the collapse in domestic sales?

Mr Lamb—This is an ongoing critical issue for CSIRO: whether to invest in the technologies and how to make sure that the technologies we do work on maintain a good lead above what is going on overseas. It is a constant thought.

CHAIR—Thank you very much for coming today. We appreciate your time and the evidence that you have given to us.

Mr Lamb—Thank you.

Proceedings suspended from 2.31 pm to 2.41 pm

FRANKLIN, Mr Robert (Bob), Member, Executive Council, Federation of Automotive Products Manufacturers; and Managing Director, Autoliv Australia Pty Ltd

JAMES, Mr Paul Anthony, Executive Officer, Federation of Automotive Products Manufacturers

UPTON, Mr Peter John, Chief Executive, Federation of Automotive Products Manufacturers

HUGO, Mr Darryn Wesley, Chief Executive Officer, Flexdrive Cables Australia Pty Ltd; and Member, Federation of Automotive Products Manufacturers

CHAIR—Welcome. Do you have any comments on the capacity in which you appear?

Mr Franklin—Autoliv Australia is a component manufacturer.

CHAIR—I know you have already heard this, Mr Hugo, but I will go through it again. 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. I also remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. We have your submission before us. Thank you very much for sending that in and for the detail that is contained within it. We also offer you the opportunity to begin with to make some introductory remarks before we launch into some questions and answers. Any or all of you are entitled to make introductory remarks.

Mr Upton—I will make some very brief remarks. As you have just said, the federation has already made a submission of some length, back in February. We have also been heard once, so I will not go on at length about that. I would just make the comment that there is a somewhat contradictory appearance in the newspapers, where we are being told that there is a large-scale layoff in process in the components sector and at the same time that there is a dearth of skills. The two things do seem somewhat contradictory. So I felt that it might be worth just pointing out some of the comments which I suppose are anecdotal but which have been to some degree reinforced by the secretary of the Treasury—that is, there is a bit of a crowding-out going on.

I suppose, to me, this has been borne out most clearly in South Australia. The mining and resources boom is demanding much the same skills as those of the sorts of people that we are looking for, and the South Australian state success in bidding for defence contracts has also put pressure on that. So, for the skilled people, there is a shortage of supply. I know that Mr Franklin has some experience on this, which I will ask him to comment on in his own time. But I think that explains why we have the paradox of people being laid off on the one hand and, on the other hand, there being real skills shortages in some of the higher level areas where the components sector particularly needs those skills in order to be world competitive.

The other observation I would make—and this is my view; you do not have to agree with it—is that this inquiry started as fairly closely targeted on the skills and training issues that beset the

industry, workplace relations and employment. I have been hearing from the evidence that has been given so far that there is now a bit of a wider focus on it, which we welcome. With that brief introductory comment, I will throw it open to be questioned on our evidence and to give the gentlemen to my right and left the opportunity to make their own comments.

CHAIR—Just to respond to your comment, Mr Upton, I think it needs to be said that skills shortages was one component out of four in the reference that was given by the minister. The future of employment trends in the industry and labour adjustment measures were also part of the reference of this inquiry. Yes, skills is part of it, but it is not the sole issue. As soon as you start discussing issues such as the future of the industry, it certainly opens up a whole gamut of other issues as well. Mr James, do you have any opening comments?

Mr James—No, thank you.

CHAIR—Mr Franklin?

Mr Franklin—I will make a couple of comments. My company, Autoliv, is a multinational. One of the issues that we confront as an Australian division of that multinational company is competing for investment within our own organisation, not just trying to win business from our customers. The thing that is critical to me at this stage is for us to have a competitive position to win investment opportunities as and when they come up in the region. Hopefully, that will happen. What I am seeing when I have discussions with my head office at the moment is a situation whereby they are saying that the risk profile in Australia is too high, there are insufficient numbers of contracts available for us to win in Australia, there is a lack of guarantees about contracts and there is a lack of surety of holding those contracts for the long term which suggests to them that, if they are going to make an investment in a productive capacity, they would be better off making those investments in countries that have a lower risk profile than what we have here today.

The other comment I will make around skills in particular at this stage is that I am finding that, whilst we are losing jobs in the manufacturing area of our business, we are finding enormous opportunities to service the region through the export of engineering skills, testing skills and the like—higher level skills. Our difficulty is finding people to support that growth in our business. I will give you some statistics which will perhaps give you an indication of the battle we are having at the moment. We have 72 engineering staff on our books today. Some 32 of those were trained overseas, 12 of them were recruited directly from overseas by us. Of the four vacancies I have on my books today, I have been unable to place two of them locally and I am sourcing candidates from overseas. So we are having significant difficulties in trying to resource our organisation to take advantage of what I see as a very big opportunity to get higher level engineering work in particular within the region.

CHAIR—Let me just start with that point, Mr Franklin. We heard from various witnesses in South Australia that when there were retrenchments taking place within industry, particularly within the automotive manufacturing industry, very few, if any, of those who were retrenched were finding jobs in the industry itself. Why is it not possible for the automotive component industry to take some of that skill to displaced labour?

Mr Franklin—I guess it depends where the skills are coming from. The sort of skills that I am looking for are high-level engineering skills. I am not talking about people with higher degrees or people with specialist skills that require specialist training within an automotive component of engineering, for example. I am talking about high-level engineering simulation skills, specialist CAD capabilities and specialist component test and validation capabilities that are not readily available. We have been recruiting in South Australia and we have not been able to attract those people back into the industry. I suspect part of that is because the opportunities for them are outside the automotive industry. In an environment of uncertainty, where no-one is quite clear on what the future direction or guarantees are of a career in automotive, people will need to make a significant investment of years of experience and, to some extent, be a little more narrow in their focus. I have a feeling they are taking the view that there are other sectors of the economy that offer them much more security than the automotive industry does at the moment.

CHAIR—What is your industry doing to address that in terms of spending resources on training and upskilling the people so they do meet the skill levels that you need and also as a way of attracting them away from other industries? What are you guys doing about it apart from just identifying what the problem is?

Mr Franklin—I will have a go at answering that. I do not know that I am the right person to answer it, though. Essentially, one of the difficulties we have at the moment is the competitive nature of our industry. It is extremely price competitive. We are suffering from price competition from some of our near neighbours. Our capacity to pay is under enormous duress at the moment. When there is a shortage of skilled people available, it is extremely difficult for us to compete, to be able to afford to pay those people at the level that the resources sector is able to do at the moment.

CHAIR—So it is a collision of pressures to maintain low costs but at the same time to provide higher wages and conditions to be able to attract them out of other industries.

Mr Franklin—Exactly. Add to that the surety, the certainty, of where the industry is going and at the moment we are struggling to attract people into that industry, even though we have the opportunities there. If we can get them in, we can train them.

Mr BRENDAN O'CONNOR—I want to know what your position is on tariffs. Obviously there is a freeze on until 2010. Do you have an unequivocal position?

Mr Franklin—The general policy position has been that we supported the package of assistance measures that the government produced after the 2002 review, beginning in 2005. I note that there is a review of that which needs to take place before the scheduled step-down in the tariff in 2010 from 10 per cent to five per cent. But the far more significant mover in terms of Australia's competitive position has been the re-evaluation of the Australian dollar. The Australian dollar has, I think, over the last three years moved upwards in value about 40 per cent against the US dollar. By consequence, because of the linkage between the US dollar and the renminbi, it has also moved upwards in value against the Chinese currency. So, while the tariff may be a significant feature in the eyes of some, on analysis of the actual level of the tariff at the moment is potentially of lesser significance, and what we are talking about in 2010 is a further five per cent step down. Nevertheless, I think I could say that the federation's

position is that we ought not to be trading that away in the current circumstances without being sure that we get something for it.

That comment is particularly relevant to the negotiations surrounding the Chinese FTA, where we do not think the tariff is the most important thing. All of the other non-tariff measures which we encounter in relation to China are significant. So we think the federal government would do well to hold its powder dry on the tariff issue until we have reached some resolutions with the Chinese on other aspects that are potentially more important—protection of intellectual property being one of those, and some of the local content rules which the Chinese continue to impose, notwithstanding their accession to the WTO.

One particularly pertinent local content rule—over which the Chinese are currently being taken to the WTO by Australia, amongst other countries—says that, if the local content falls below 60 per cent, every item in a Chinese built vehicle will be tariffed at the maximum rate applicable to a fully built-up car. This means, for example, that with a WM Statesman, which was to be exported from Australia, should the local content fall below 60 per cent, then every item that a component producer has put in the car stands to be tariffed at, I think, 30 or 35 per cent. The problem with that particularly nasty provision is that it is a look backwards. You would have to go back and sort out through your books what you had actually incorporated in the car. I do not want to dwell on that. That is just one example of the sorts of issues we think are pertinent in the free trade agreement. So, in a convoluted way, that is the answer to why we are concerned about the level of the tariff—although not per se.

Mr BRENDAN O’CONNOR—In your submission on page 28 you do talk about supporting the opening-up of new markets for Australian manufacturers by promoting free trade through the WTO and also multilateral and bilateral agreements. I guess that each agreement, in terms of its own merits for this industry, will depend upon the negotiations and upon what agreements are reached and what genuine access you have to markets.

Mr Upton—Very much so.

Mr BRENDAN O’CONNOR—In principle, would you be in support of a free trade agreement with China given the threats? Are there threats and opportunities there for the Australian automotive parts industry?

Mr Upton—Yes, I think there are threats. I think there are potentially opportunities. Let me put it this way. Our chief concern with a free trade agreement with China is that the classical structure of negotiation for free trade agreements does not deal with the non-tariff issues in the way that we think is necessary in this sort of environment. The knocking-off of intellectual property is only one of the potential issues. But, as I say, the non-tariff barriers intrude themselves. Others may have a view on that as well.

Mr BRENDAN O’CONNOR—You have also recommended—and I invite anyone as well as and other than Mr Upton to respond—that the government establish automotive industry specific trade facilitation arrangements to ensure that Australian manufacturers are best able to access foreign markets. How would you see the government establishing that arrangement? How would you advise the government to go about setting up such a specific trade facilitation arrangement?

Mr Upton—The answer is different in different markets. The requirements of people who are going to successfully join an overseas supply chain begin with identifying the opportunity. I think Austrade has a very useful role to play in that if appropriately resourced to do so. The next step would be to identify the reality of whether my product is going to fit the opportunity and what I might need to do to make it fit. Then I would take the next step along the road, which we would be to go and start a dialogue with the engineering division of the potential customer. That would go on over a number of years.

At some point I am ultimately going to have to get down to the technicalities of a CAD/CAM design. You can see that each of these postulates a certain sort of requirement that a company has to go through. If you already have an overseas division which is capable of handling that, this is one kind of problem. But if in fact you are stepping up to the bar for the first time, this is entirely a different problem. The sort of assistance we think is necessary is considerably more in-depth than the traditional trade mission model would allow. It would require a specialist resource which specifically knows a good deal about the industry. I have some ideas about how we might structure that resource, but perhaps I could take that away and drop you a note on the question of where we see that going.

Mr BRENDAN O'CONNOR—Thank you. In terms of things that you think are of importance, you have included increases in skilled migration. But the submission goes on to say that this offers a relatively simple short-term policy response. I guess that infers that there is a longer-term response required. Could you just elaborate on longer-term responses to the need for skills other than skilled migration policy?

Mr James—When we looked at that recommendation, I guess it was seen in the context of some of the other specific recommendations there. It was really looking at some of the long-term training and educational institutional changes that we might need to make to ensure that the right skills are grown in Australia to satisfy the needs of the industry into the future. I guess that we are offering a short-term solution as well as forecasts and longer-term things that need to be done as well.

Mr Upton—I think that one of the longer-term things we could look at is that there is some duplication of resources. There is a need for better coordination on the whole. I am not sure how that is best managed between the state and federal governments, but there is a level of university provision, there is a level of TAFE provision and there is a level of other sorts of provision, often with the right hand not knowing what the left hand is doing. Some good efforts have been made to try to produce better coordination. I think that the Victorian experience with what is called the ACE project offers us some promise. One of the Victorian witnesses will no doubt speak in detail about that. But a coordination process would be needed.

CHAIR—What financial incentives for training are you looking at? You make the recommendation that there should be some financial incentives for both employers and employees.

Mr James—I think that the financial cost of training is a significant impact, particularly on some of our smaller companies. Of FAP members, I think about 95 per cent would be classified as small or medium enterprises, so the training cost is significant for them.

CHAIR—I understand that there is a cost. I guess I am asking what specific incentives you are looking at. Are they tax concessions? Are you proposing going back to training levy days? Everyone has talked about training but no-one has really given us at this stage a firm view of what they actually want from training, apart from saying that there needs to be more training.

Mr James—I guess the most direct subsidy to the cost of that training is the best possible, whilst making sure that the training is properly directed to the needs of the industry. For example, in the manufacturing quality area, the entire Australian industry is certified to quality standard QS 9000. That was introduced in 1997. It involved quite a bit of upskilling. And we were the only industry to have one quality standard agreed to by all four manufacturers and the entire components industry. The industry has now moved on, and at the end of this year will be certified to TS 16949, which is another, more highly developed standard. There is a range of basic quality skills training that needs to be reinforced time and time again within the industry, and with movements in and out of the industry some of those skills are lost. The cost burden of retraining and training new people in our industries is significant, so I guess direct assistance would be most effective. Darryn might be able to suggest what the impact would be on smaller companies.

Mr Hugo—As I indicated in my earlier submission, there is not only the cost of providing the training—and there are government funded programs to facilitate that, along with a whole range of providers in private enterprise—but there is also a hidden cost to allowing people to be removed from the production line to undertake that training program. We have to make sure that that training program is going to deliver results for us as an organisation as well as increase the skill base of the individuals undertaking the training. How do we then replace the lost time in production? Obviously, you need to make up that time. We are running very lean operations, as a whole, and taking time out to do training means incurring overtime premium rates.

CHAIR—Can you suggest the answer to that question, Mr Hugo?

Mr Hugo—The answer to that question is additional funding, I guess.

CHAIR—How does additional funding help you, when you still have to take that guy off the production line to put him into a classroom for half a day or two days?

Mr Hugo—Because it effectively contributes to the overtime premium that has to be paid when that person is working to replace the hours lost in the training program. Ultimately, that is the way that the companies are going to continue to maintain output.

Mr BAKER—I have a question on taxation. On page 27 you discuss indirect taxes and you say one vehicle is favoured over another. Can you elaborate?

Mr James—I guess we were supporting calls that had been made in the past by the Federal Chamber of Automotive Industries—

Mr BAKER—And feel free to mention the other taxation issues.

Mr James—I guess we were repeating a call that was made by the Federal Chamber of Automotive Industries. They had seen, in the past, a discriminatory taxation on luxury vehicles.

That had skewed the market in a particular way. The Business Council has suggested a range of other taxation reform measures and general business tax reforms that we are supportive of. I might get some detail to you on those specific items.

Ms HALL—If companies go offshore, do you support R&D being paid to those companies?

Mr James—There is already some assistance provided to research and development conducted offshore through ACIS—

Ms HALL—An expansion?

Mr James—It is directed at localising an overseas product for the Australian market, which needs to be done for local production, or taking an Australian component and localising it for a foreign market. That is the assistance that is available and targeted at the moment.

Mr Franklin—I would like to offer a comment. I have a view that there are some enormous opportunities for the Australian economy—even if we are not manufacturing in Australia—through providing engineering, project management and management services to a lot of growing companies within the Asia-Pacific region. I am talking specifically about countries such as China, Thailand, Indonesia, Malaysia and the Philippines. I think there is a window of opportunity for Australian organisations to participate. I have a view, and I say this as someone working for a multinational company, that Australia has a small window of opportunity over the next four or five years to significantly develop its capacity and capability to provide high-level engineering and management support services to those countries. If we can encourage investment in both capital and people today then that will put us in a very strong position to be able to compete in the future. I think anything we can do as a country to support the development of R&D capability in Australia we should do.

Ms HALL—That is exporting our knowledge and skills and being able to capitalise on that in the global market.

Mr Franklin—Yes.

Mr Upton—I would also like to make a comment on that. I do not think one size does fit all in terms of whether or not Australia should subsidise R&D. I think if you developed a world leading-edge product for application to today's motor car you might well be advised to take it to a foreign maker in a foreign place simply because you are more likely to have a market conquest there. I can give you a case in point. I always hesitate to use people's names without getting their approval but Bishop Engineering, for example, made their great success by selling their technology to Mercedes Benz.

It is often the case that somebody develops a world-leading technology in Australia but it dies because the market is simply not big enough. So it could be a rational calculation that says: 'I have done some wonderful work. I need to take this not to an Australian manufacturer because I will lose the Australian base if I do not actually sell it to a larger market.' I can think of other examples which I would be happy to go into at another time.

Mr James—I think more and more Australian companies need to understand their core capabilities—and those may not necessarily be bashing out components. There are some significant engineering skills and understandings that companies have that are certainly marketable around the world. On a trip I undertook to China I saw some wonderful factories with cutting-edge plant and equipment but they were being used at five, 10 or 15 per cent of their potential capacity because the know-how was not there. We always talk about threats and opportunities. Well, that is both a threat and an opportunity: we could potentially sell an engineering skill in there to help them maximise the potential capacity, and that also has some implications. But I think companies do need to look more deeply into what their core skills are and what is marketable.

Ms HALL—Do you see that you can link that to maintaining the component industry in Australia or do you think that the threat from overseas is so great that eventually it will tend to move offshore?

Mr James—I am not too sure I would like to make a strong prediction, but one thing we have seen is that the business models are becoming much more complex. In the eighties, as an industry we were basically told: export or die. We did that, and it was very easy to see the health and success of the automotive industry as exports grew. Now in the automotive component sector we have seen our exports flatten off.

But, frankly, as our business model has become more complex, we are now not just exporting product, although we are still doing a lot of that. We own plants overseas, we are licensing our technologies around the world, and we are repatriating profits as well. It is a lot of that extra activity that, frankly, we found a little difficult to record as a federation. It is easy to count boxes or crates or something being loaded onto a ship, but it is quite difficult to ask a company to talk about the engineering services that they are selling. But it is becoming a much more important and a bigger part in our international revenues that we are generating.

Ms HALL—My final question is: do you think there is a need for a national plan for both the automotive vehicle manufacturing industry and the component manufacturing industry? If so, what role do you see that government plays in that?

Mr Upton—I think there are a number of ways of thinking about plans for the automotive industry. One, which was alluded to by David Lamb, I was idly thinking is a plan for national energy security. You might therefore have a plan which intersects with what you think the automotive industry ought to do, totally from that perspective, which might yield one set of answers. In general, I suppose we are suspicious of overly prescriptive plans. But there is also the comment that there is a plan operating now, as the federal government has put it, which is that, through the ACIS, there is the intention to subsidise research and development and the intention to subsidise investment in tooling and equipment, and those intentions are being carried out. So there is, in that sense, a plan for the automotive industry. So I am not sure exactly what the elements of a plan that would need to be put in place would be.

Ms HALL—Where do you see the industry in 10 years time? What needs to take place to reach that position?

Mr Upton—We did do that exercise as we were heading towards the 2002 Productivity Commission review. In fact, the industry—all sectors of the industry, by the way, not just the automotive components sector—spent a day and a half off-site, working out what we thought the industry would look like in 2010 and 2020 and what steps needed to be taken to get there. So that is an exercise we have gone through. I have to say that that is probably not a deeply prescriptive plan, but it certainly had indicators of what needed to have happened by particular points in time for us to achieve a vision. The elements of the vision were that we essentially had a competent, world-competitive motor vehicle producing industry in Australia, with exports of \$10 billion and a bunch of other things. We would be happy to provide a copy of that vision statement.

Ms HALL—It sounds like it has not gone to plan—

Mr Upton—It hasn't, no.

Ms HALL—when we look at the decline that has taken place.

CHAIR—Mr Upton, I want to get into some specific questions rather than general forecasting. I am just curious about your graph, on page 8 of your submission, on employment in the motor vehicle and component manufacturing sector. In 2005, yes, it is a dip from the 2003 high, but it is still fairly significant employment within the industry. Are we being overalarmist about the future of the auto component industry when employment is still pretty high and we are seeing an industry that is also improving in its technology and production processes at the same time—still being able to maintain high employment and high technology?

Mr James—I will just make one comment. The chart you are referring to, figure 2, is an ABS number. There is some difficulty in getting the accurate employment number from using ABS data, but I would agree that the chart shows a sustained level of high employment there. Could I draw your attention to page 9 of the submission, to the following chart, which shows a survey that we do annually of our FAPM member employment. Whilst we are not 100 per cent of automotive component manufacturers, we are as close to that as needs to be. Certainly in 2004 we saw a significant decline in that employment. We asked our members why that was. On that page—I will not go into it—are some of the reasons why that employment has changed. We had some difficulty in reconciling the ABS figures to the numbers.

CHAIR—It could be that the ABS figures also take into consideration the after-sales market employment.

Mr James—The ABS figures are, for want of a better term, a hybrid set of numbers.

CHAIR—That is fine. That has explained it a little bit. I have some other specific questions. I can say this because it is on the public record. We heard from the AMWU this morning. They said that, essentially, the motor vehicle producers have a bullying type approach with the auto component industry, whether it be on contracts, expectations, or the cost pressures. What is your comment on that assertion?

Mr Upton—I won't repeat those words—

CHAIR—I guess the issue is a power balance.

Mr Upton—It is a power balance. The motor vehicle producers, as has already been noted, are a global concern; they are a very large size—92 per cent of all of the vehicles made in the world are made by six groups, six conglomerates. As might be expected, those six groups have international market power, and so they employ that leverage on a global basis. If you are a small Australian supplier, that does not give you a lot of leverage. One employee of a motor vehicle producer said to me, ‘Once somebody asked us, in a common forum, what the relationship is between suppliers and car companies and the person from the motor vehicle producers said to me, “It is master-slave, isn’t it, Peter?”’ I was taken aback by the forthrightness of the comment, but I think there are some characteristics of the master-slave relationship in it.

CHAIR—There is a high-level dependency in there. What we saw at Edinburgh Park, for example, where you have auto component manufacturers side by side with General Motors—that close—and also up at Broadmeadows with the Air International being side by side as well, there are obvious advantages in that proximity in terms of just-in-time production. But there is high-level dependency as well. So is the future of the industry to continue that? It is almost like we need that high-level dependency, irrespective of the disadvantage that it creates. It is better to move that way.

Mr Upton—I think in the current state of the automotive industry, that is the way it is. The dependencies in Australia are probably exaggerated over some other markets in the sense that there really are only four customers in Australia if you are an original equipment manufacturer. The structure of the industry is such that you are unlikely to be a supplier to all four. There are obvious exceptions. If you are a very significant multinational player, you may be in a contractual relationship with all four, but it is not usual throughout the industry. There is a grouping. You are a Ford plus one, a Holden plus one, a Toyota plus one or a Mitsubishi plus one. You are in a position of great vulnerability because the small size of the market means that there is a smaller spread of contracts.

Mr Franklin talked about the small number of contracts you have, so that your dependence on your contracts with your OEM can sometimes be of a critical nature. It is at that point that leverage can be employed against you globally—that is to say, you do not know as much about the other end of the chain as the car company does, so they can employ pricing information, product information. The fact that a vehicle is increasingly being produced globally is also a leverage point because you must be prepared to compete for supply all over the globe.

CHAIR—In a continuation of the same theme here, we also heard from the Federated Chamber of Automotive Industries last week that there is contract security for components of up to four years in the lead-up to the development of a new model. Would you care to comment on that, and on the issue of contract security in general. That was also mentioned today by an earlier witness. There were some more concerns about contract security and the lack of flexibility in cost adjustments, depending on what is happening in the marketplace at a particular time.

Mr Upton—I think contract security varies considerably across the industry. If you happen to own as a component producer a high-technology piece which is not able to be resourced quickly then you probably have a modicum of security as long as the model lasts. But if you are making a component which can be resourced—and it has, therefore, been a reasonable tactic on the part

of the car companies to make sure that there is always more than one supplier—you can be quoted against and you can lose the contract in a very short order of time.

You would have to get down to specifics in a contract, but to make a blanket statement that there is contract security is wrong. I think it is far more important to think about the atmospherics of it—that is, in general, the atmosphere in the supply community is that, ‘It is pretty difficult to justify making investments against what is perceived to be the insecurity of my contractual engagement.’

Whether that is true in a specific case is a matter for judgment, and you would have to look at the specific contract. It has been reported to me that sometimes members have difficulty even in obtaining finance, because a financier says, ‘You’ve got no security. This contract is only good for’—you fill in the blank—‘so we can’t finance this.’ So that does really roll it up to a component producer in those circumstances. I should stop there and allow anyone else who wishes to comment on that to do so.

CHAIR—I have another question, which may be on a similar theme. The other thing that we heard is that all the automotive manufacturers have as one of their stand-out objectives that they will purchase components locally, that domestic purchase is a priority for them. I asked a question of the federation and also of some witnesses this morning. Now that you are here, from an industry association, I ask: is that a statement that really reflects the situation or is it a public relations stance by the automotive manufacturers?

Mr Upton—Without saying whether it is a public relations stance or not, I do not think it necessarily reflects reality. The level of local content, with one or two exceptions, has been going down for a number of years. So either the comment is that the supply community—

CHAIR—General Motors Commodore is an example of that.

Mr Upton—Yes. To take their figure for it: they say that the VE Commodore will be 55 per cent locally sourced and I think they said that the VZ, which it is succeeding, was over 70 per cent. Toyota’s production in the Camry, which is still pretty high in local content, has fallen four or six percentage points between models. I do not have the others at hand, but I would say that local sourcing is an aspirational statement.

CHAIR—This is not an inquiry into the ACIS scheme, but we cannot help but to touch on ACIS issues. Would you care to make a comment on the implementation of the ACIS scheme as it is to date? I do not want to be more specific than that. I could be, but I would prefer to leave it at a general level.

Mr Upton—The federation has supported the concept of the ACIS scheme. It has supported the longer term objectives of finding for the component sector—I will just deal with the component sector—the resources to develop better approaches to R&D and to acquire the best technologies. We have had a number of administrative issues with it which, generally speaking, we have been addressing as we go along. I suppose the most difficult issue is that the modulation rate has certainly varied considerably from one, so a rate of credit earning which was originally predicated on the idea that you should earn a dollar for a credit is seeing us earn something like 60c or 68c at the moment. It went to a low of 33c under the first part of the scheme. That creates

uncertainties about that and also brings it back more closely in line with what you could expect to receive under the general R&D provisions. So there is a bit of dissatisfaction with the level of the modulation rate. That reflects that the scheme is absolutely capped—you cannot spend more than the allocation—and the draw on the scheme has been larger than was expected. I will leave it at that.

CHAIR—The view on exporting varies based on the witnesses we have had. We have had some automotive component witnesses who have been quite positive about export opportunities and the idea of having a niche market with good technology available to combat the challenges from overseas. Others are saying, ‘China is a big stress in our industry.’ The industry which is having growth in Australia at the moment is the defence industry. What plans or thoughts are there amongst your members—rather than having all of their eggs in one basket in the automotive industry—to diversify and take up some of the defence industry opportunities?

Mr Upton—I cannot answer that specifically, but most of the FAPM members certainly are cognisant of the desirability of diversifying their base of operations. Some interesting steps have been taken to try to do that. But I think the issue for all of us is that automotive is such a big component of manufacturing in Australia that the opportunities for diversification are relatively small in the chosen product line. I cannot answer the defence issue. We have pressed that case from time to time. It has not been satisfactorily answered. But it is something which I think we could look at.

Mr James—I think in terms of the capabilities and skills supply, the automotive industry certainly has sufficient capability of supplying any industry, because I think in many ways we are at the cutting edge of manufacturing technology and capabilities. However, automotive manufacturers are very specifically automotive manufacturers and they are often focused on particular product ranges which may not immediately appear to have a defence application. Many years ago, in a previous round of Productivity Commission hearings, we asked our members what they saw as inhibitors or facilitators of growth in their companies. They said that a facilitator of growth was actually getting out of the automotive industry. That was one of the things that they were seriously considering. So it is on the minds of companies all the time.

Mrs MAY—Mr James, you just touched on something there—that your members are at the cutting edge of technology. Mr Upton, you made comments about local component content in automobiles in the automobile industry. If that slides or is sliding, is it because of technology or is it all price driven?

Mr Upton—I think again that is the danger of the excluded middle. There is a combination of circumstances. If you are competing merely in a commodity area, where the cost of the materials plus the labour is basically your finished cost, then it might be all about price. It probably would be all about price. But if you are competing on technology then you may lose it because you do not have the technology. I think the answer to the question is in part that if you have the technology then it is not likely to be about price, strictly. You will still come under pressure on price, to be price competitive, but the technology will certainly be an advantage.

Mrs MAY—Are we keeping pace with technology in this country for components in the automobile industry?

Mr Upton—I think we are in some areas, but Mr Franklin might have a view on that.

Mr Franklin—I think in most instances we are, although we are at risk of slipping behind. My own company that I work for here in Australia has companies in 30 countries around the world. What I am seeing in some of those countries is that they are investing much more in the development of their technical capability than we are in Australia. Some of that is because of the timing of putting that technology into the market. We tend to be laggards; we are behind the rest of the world. I keep coming back to the point I made earlier about higher degree, highly qualified people working in R&D in the automotive sector here in Australia. We simply do not have them.

Mr James—I think that someone on the committee asked a question which referred to niche products. I think that is potentially one of the star capabilities of the industry. The reality is that we make about 350,000 to 400,000 vehicles a year in Australia which, by world standards, is a relatively small number. Another word for ‘small’ might be ‘niche’. We have companies with very flexible capabilities, which do not have the luxury of investing in a piece of plant or machinery that pumps out one million units all year and all it does is pump out that same unit every year. What Australian manufacturers have to be able to do is make 15 different colours and 10 different shapes out of that plant. That is a capability that the Australian industry has.

When a company looks at pursuing global contracts of millions of vehicles or whatever, that is a bit of a challenge. But in being able to supply 10,000 components of one colour and 15,000 components of another colour and to do that effectively and also make money from those small runs—and I do not want to say that we are flush with funds—our members are in business and they have the ability to make money from those small runs that many other automotive manufacturing companies around the world just cannot do.

CHAIR—I do not think this is in your submission, Mr Upton, and perhaps you could send it to us: are you able to give us an idea of the specific skills within your member organisations where there currently is a shortage? Die-casters said they had shortages in toolmaking and metallurgy. Are you able to provide to us the specific skill categories themselves?

Mr Upton—We can endeavour to do that.

CHAIR—I know your member organisations are quite diverse, so when you talk about ‘niche’ that is part of the problem, isn’t it.

Mr Upton—Yes.

CHAIR—You may have one company with 100 employees whose skills are very specific to that one company.

Mr James—That is right. One of the challenges with the ABS statistics is that we are not in one category. We have electronics, glass, metals, plastics and those sorts of things. When we look at those particular skills, we may in fact rely on some of the work done by the Australian Industry Group, because they have done a lot of regular work and we also share a lot of our members with the AiG.

CHAIR—It is no secret that my problem with the Australian Industry Group submission is that it covers a very large membership base and it is a bit difficult to try to hone it down to the auto sector.

Mr Upton—We will certainly give it a go.

CHAIR—Mr Upton, Mr James, Mr Franklin and Mr Hugo, thank you very much for being with us today. We look forward to any further information you may have.

[3.36 pm]

HAUG, Ms Elly, Government Liaison Manager, Ford Motor Company of Australia Ltd

SCOULAR, Mr Russell Gray, Manager, Government Affairs, Ford Motor Company of Australia

CHAIR—I welcome the representatives of the Ford Motor Company. Although the committee does not require you to give evidence under oath, I 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 giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Thank you for your submission and for appearing before us today. This is the last day of the public hearings. We have your submission. I understand you are basically referring to us the submission by the federation itself for support. Would you like to make an opening statement either to your submission or just general comments before we proceed to questions?

Mr Scoular—I would be quite happy to make a few opening comments, if I may. There is no doubt that the Australian automotive manufacturing industry and the automotive manufacturing industry globally is facing some very challenging issues. We of course as an industry in one sense are well versed in the cyclical business environment. In a nutshell, we are an industry that tends to ride the economic cycles. But at present, despite a strong domestic economic environment, our industry is being buffeted by number of significant external factors. We have all before encountered rising oil prices, a strong Australian dollar, rising commodity prices and various global automotive industry challenges. But what we have rarely encountered before is a convergence of these external factors at the same time.

Many of the factors that we are confronted with are outside the influence of companies, industries or even, in some instances, nation states. There is generally very little influence that we can have over them. None of these can control oil prices, currency movements or commodity prices. That is why long-term stability in automotive industry planning and in policy arrangements is so important to us. This also means in the environment that we face that, as businesspeople, there is only one thing that we can productively spend that time on—and that is to focus on the business issues that we can influence on a day-to-day basis. We have to keep our quality high, we need to be reliable, we need to keep our costs down and, importantly, we must be able to innovate. That means we have to invest as companies and as industry participants in new and fresh ideas and continually challenge the status quo.

If we are to be successful in the domestic automotive marketplace, which is now highly segmented, highly fragmented and one of the most competitive in the world, we have to be able to address some of those issues that we face on a day-to-day basis. At Ford Australia we have been able over the years to attract significant investment. We have invested, for example, more than \$500 million in the creation of the Ford Territory, which was launched in 2004. We recently announced a \$1.8 billion investment strategy that will see new model Falcons and Territories, and also will see our product development team take on a regional centre of excellence role and

lead the design and the engineering of a new vehicle which is intended to be sold more than 80 countries.

Our record at Ford Australia involving the local components supplier community is, I submit, unmatched. We are a substantial buyer of locally manufactured components, purchasing more than \$2.3 billion worth of production and replacement parts annually. These purchases are made after careful analysis of a number of factors involving the supplier community, including technological capability, quality, delivery performance and economics. The Ford Falcon and Ford Territory vehicles have among the highest levels of local content of any locally manufactured vehicle. The Ford Territory, for example, as I said, was launched in 2004. With annual production of some 25,000 examples of this high local content vehicle, we submit it represented one of the biggest gains for the Australian component producers in many years. In addition to its status as the top-selling SUV in Australia, this vehicle is also now exported to New Zealand, South Africa and Thailand.

In addition to Ford Australia's extensive local purchases of production parts, on many occasions we have also, in partnership with supplier companies, pioneered technological developments and facilitated a number of export initiatives. We work proactively to enhance the capability of the Australian supplier community because a well-performing and highly capable Australian supplier community is very much in our interests. Much of this work is done by a supplier technical assistance group of specialist engineers and 'lean' manufacturing specialists. I could go on but probably, in the interests of time this afternoon, I should volunteer to take some questions.

CHAIR—Thank you very much, Russell. Ms Haug, do you have any opening comments?

Ms Haug—No, I concur with those of Russell.

CHAIR—Fantastic.

Mr Scoular—A very good employee!

CHAIR—I had no doubt about that! On the in-house supplier technical assistance program, could you explain to me a little bit more how it operates? For example, one of the comments we heard this morning—I am not sure which witness it was; it does not really matter—was that perhaps there should be more input at the design stage by the auto component industry when a new product is being designed, not just with the local Broadmeadows team but also in the global design scene. Is that a valid position for them to take? Or is that already happening through your program?

Mr Scoular—I suppose there are really two aspects to your question. The first part is about our supplier technical assistance group, or STA group, as we refer to it. It is a team of about 12 to 15 engineers and 'lean' manufacturing specialists who work day in, day out with individual companies in the supplier community, developing their capability and bringing on stream new components, new parts and new services. So we are working very closely with them day in, day out and, obviously, with a team of that size, investing a not insignificant amount of money.

On the second part of your question, over the years, increasingly, we have seen the responsibility for the design, engineering and, if you like, the intellectual property of many components and subsystems in a motor vehicle belonging to the component suppliers themselves and being developed in partnership or to a specification with the automotive manufacturer. We have seen a lot of that and I think we will see more of that over time. It is a global phenomenon and it is a local phenomenon as well.

CHAIR—I guess the Team Australia program is still in its early stages, but what is your assessment of its success to date? Have there been any successes which have flowed through to the component industry?

Mr Scoular—I think the Team Australia approach is a very innovative approach and potentially a very valuable approach. In part, I think Minister Macfarlane, in bringing it together, has sought to model it on a defence industry situation that exists with the Joint Strike Fighter task force. It has, as I understand it, had meetings in Japan, Thailand and North America at senior levels of the motor industry. One thing you do find in the motor industry, given the long lead times that we face with our vehicles and our vehicle design, is that you do not go off and visit someone on Friday and get back to your office on Monday morning and find that you have a new major order, if you like; these things take a long time to come to fruition. It is very early days in the Team Australia approach, but certainly I think what it has sought to do to date is a positive and constructive way of addressing issues.

CHAIR—I think it is a bit more than just simply promoting the sale of the finished product. Is it also the promotion of sales of components?

Mr Scoular—Correct; very much so. Probably its greater focus is toward components sales and enhancing and increasing an appreciation among global automotive vehicle manufacturers of the capabilities of the Australian supplier industry.

CHAIR—I will turn now to the training of people in the industry and how to attract young kids into the auto industry. There is always something sexy about getting around a CAD CAM and designing a car and doing all those sorts of things, but does the industry have the ability to promote itself as an attractive career option? From your perspective, is it possible for that promotion to be a joint promotion from the automotive manufacturers and the components industry, or can it not be synchronised?

Mr Scoular—We have made a number of attempts over the years to address a perception that may have existed at one stage that we were a smokestack type, old style, yesterday's industry. We have sought to ensure that people can better understand that we are very much part of the knowledge economy, with demands for skills sets and capabilities across all disciplines. We have worked in a number of forums to do that, as vehicle manufacturers with components suppliers. We have worked at a local level here in Victoria with the state government as part of the, if you like, 'automotive industry week' that has been built every year around the Formula One Grand Prix, the motor show and those types of events to persuade young students that we are an industry worth thinking about.

CHAIR—But it still seems that there is a long way to go and that the industry itself is struggling to attract young people into it.

Mr Scoular—It is hard, I think, to say that we are struggling to attract young people wanting to come into the industry. Our company runs a very extensive and significant graduate program and the queues of people wanting to get on our graduate program are a lot longer than the list of positions that we have available.

CHAIR—Okay, then let me look at the other end of it, Russell. What is your apprenticeship intake this year?

Mr Scoular—I do not know what the precise number is.

CHAIR—What was it two or three years ago? Has it stabilised? Has it dropped? What particular apprenticeships are you taking on?

Mr Scoular—Probably in recent years it has stabilised.

CHAIR—Are you able to give us—not now, but at a later date—the types of apprenticeships that you are offering at Ford, and what the movement has been over the last, say, four or five years?

Mr Scoular—We can take that on notice, certainly.

CHAIR—That would be great, thank you.

Ms HALL—Could you also advise the committee whether or not you are having difficulty attracting people for those apprenticeships or whether it is similar to your graduate program, where you have far more people applying for the apprenticeships than are actually obtaining them?

CHAIR—I asked the automotive components industry a couple of questions which I guess gave them an opportunity to be—not by design but by their answer—critical, to offer some criticism of the manufacturing industry, and so in turn I offer the same thing to you, Russell. Do you believe that the automotive components industry is doing enough to look after itself and to promote itself as an industry and as a place for people to work in?

Mr Scoular—I think the automotive components sector faces many challenges and it is doing a lot of work to seek to address those challenges that it faces.

CHAIR—You should be in politics!.

Mr Scoular—I'm close enough!

CHAIR—I will have to ask you that question off record.

Mr BRENDAN O'CONNOR—You mentioned earlier that governments cannot control the prices of oil or commodities, or the appreciation of the dollar. You outlined what you thought should be happening for the industry. In four years there will be a tariff cut. There have been a number of witnesses who have raised concerns about the reduction in tariffs and how it will affect the industry. In light of the fact that the convergence, I think you said, of all of those

factors, creating somewhat of a perfect storm for the industry, has occurred subsequent to the decision by government and industry to reduce the tariff rate, should the government reconsider its decision to cut tariffs in 2010 for the industry?

Mr Scoular—I think it is a difficult question because, as you correctly point out, a number of the events that are buffeting the industry have come onto the scene in more recent times. I do not think anybody can yet answer the question of how long they may stay and what impact they may have over the longer term.

Mr BRENDAN O'CONNOR—So, because you cannot foresee how long they will affect the industry, there should be no review of the tariff decision?

Mr Scoular—No, the government has always undertaken to keep itself abreast of industry developments and of the state of the industry at any given time. I would imagine it would always continue to do that.

Mr BRENDAN O'CONNOR—What is Ford Australia's position regarding tariffs?

Mr Scoular—In what context?

Mr BRENDAN O'CONNOR—In the context of whether they should be cut in 2010.

Mr Scoular—We have a car industry plan that the government announced in 2002. It provided the industry with long-term planning stability through to 2015. It had a number of elements to it. The tariff was one element to it. A comprehensive and generous ACIS program was another element to it. We welcomed the government's decision at that time to provide the industry with significant and long-term assistance.

Mr BRENDAN O'CONNOR—So you are satisfied that, with the other elements as part of that package, it is entirely reasonable for the tariffs to be cut in four years time?

Mr Scoular—No, my comment was with regard to the impact of the other issues that have come into place since and some of those external factors. It is very hard for us to judge how long they may occur for. Oil prices may decline. The Australian dollar may decline—or, should I say, the US dollar may appreciate against the dollar, or whatever way you want to look at it. It has moved, I think, 2c or perhaps three percentage points since the weekend.

Mr BRENDAN O'CONNOR—What I am getting from you is that you are saying that the efforts are quite comprehensive. There is a holistic approach by government to assist the industry and therefore, in light of that and in light of the unforeseeable nature of some of those other factors that are currently adversely impacting on the industry, you would not be lobbying the government to defer any reduction in the tariff rate. That is all I can get from what you are saying.

Mr Scoular—I think the point I made was that I think the important thing is that the government stays abreast of developments in industry and stays close to how the industry is travelling as we look forward.

Ms HALL—What does that mean in practical terms? To me they are a lot of words that do not really say anything.

Mr Scoular—I am sorry about that. The government has always taken a strong interest in the Australian automotive industry. It is clearly on record that it supports a viable, globally integrated Australian automotive manufacturing industry. It put in place some long-term policy arrangements that it believed were appropriate to support the achievement of that vision. It agreed to stay in close contact with the industry and monitor its performance through a long transitional phase.

CHAIR—It is interesting that you say that, because one of the witnesses that we have heard from—I think it may have been last week in Canberra; I am not sure who it was—was basically saying in a very critical way of the government that what the industry wants is some sort of a plan of where it is going to be in the future, which would almost be like a statement of whether we are going to have two, three, one or no car manufacturers in 10 or 15 years. It was almost as though it was a real definition of what they wanted. Do you believe that what we have is sufficient or can we be even more defined than that? There is an element of self-fulfilling prophecy or negativity that can emerge if you are too prescriptive.

Mr Scoular—I made the comment before that the government's policy arrangements have a number of elements to them in their present state. There is the tariff, there is ACIS and there is trade liberalisation, to name three. As for those elements and whether you want to call them a plan or not, I think we would be playing with semantics. They are a pretty comprehensive policy package. With regard to the desirability of having a plan that may be very specific with certain objectives at certain points in time so we can tick a box and say we have got to something—all that type of thing—I do not know whether, in a highly dynamic, highly competitive global industry, that is achievable or appropriate.

Mr BRENDAN O'CONNOR—An allegation was made about the relationship between the automotive components industry and the automotive industry—that is, between car manufacturers and the companies that provide components to those companies. A number of comments were made by witnesses today that there is a dependency: the automotive parts industry is highly dependent upon certain companies. In fact, a witness who preceded you talked about the view held by some at least that there is a master-slave relationship between the car manufacturers and the component makers. Would you like to comment on that?

Mr Scoular—I will comment with regard to the dependency. There is a very strong interdependency in the automotive industry. If you look at my company in the case of the Falcon and the Territory motor vehicles, they were Australian designed, engineered and manufactured. I do not have in many cases a global parts supply that I can readily hop along to and, off the shelf, pick up this component and that component to bring back and put in those cars. I am very dependent on my domestic suppliers of individual components to me. With regard to the nature of the relationship between vehicle suppliers and component suppliers, it is a robust commercial relationship and we are doing business in a very robust, global industry. We cannot lose sight of that. It is a very tough industry. Say you want to look at the cost pressures that vehicle manufacturers, for example, face in their business of selling motor vehicles. In Australia since 2000, so in the last six years, the CPI has increased by the order of 20 per cent—that is the all groups 'headline number' of the CPI. Motor vehicle prices in that same period, as measured by

the ABS—and this forms part of the CPI—have gone down by five per cent. So in a highly competitive marketplace in which we all do business, there is a virtual 25 percentage point differential between what consumers are now paying for their motor vehicles and where the CPI has tracked over a six-year period. So in that environment I think there are always going to be robust pressures.

Mr BRENDAN O’CONNOR—There have been a number of points raised over the fact that the decision makers in the car-making industry are actually not based in Australia. In fact, those that make the larger, longer term decisions for Ford Australia are in Michigan or some other part of the United States. It is obviously clear that Ford Australia is a subsidiary of or owned by a company based in the United States.

Mr Scoular—Can I make a comment on that?

Mr BRENDAN O’CONNOR—Sure, but why don’t you wait until I have finished?

Mr Scoular—Sure.

Mr BRENDAN O’CONNOR—That was the preface. What I am asking—and what I have said is a matter of fact—is this: does that in any way adversely affect the way in which governments, at either a federal level or a state level, can deal with the companies, given that in the end the companies will look at their interests internationally and not necessarily at how their decisions will affect the Australian market and Australian jobs? Is that always going to be an impediment to reaching agreements as to what is in the best interests of, say, Ford Australia and the Australian consumer?

Mr Scoular—I think all companies, whether or not they are based in Michigan or wherever else, will always make business decisions that they judge over time to be in the best interests of their shareholders. That is their duty and responsibility. With regard to Ford Australia and its decision making that impacts on our investment decisions, the way it effectively works is that the management team at Ford Australia is responsible for putting up the budget and business plan—the ‘strategic plan’, if you like. We have to have our parent company sign off that plan in much the same way that the mine management in Chile has to get its plan signed off by the BHP Billiton board here in Melbourne. So the challenge for us, as part of a management team, is to seek to put up a proposal that, in a competitive environment, our directors can accept. I think that if you look at our record over the years you see that it has been a pretty good record.

Mrs MAY—What percentage of local component is in the Territory?

Mr Scoular—It varies from model to model—or derivative to derivative I should say—but it would be in the order of 70 to 75 per cent.

CHAIR—And that will continue for the next model.

Mr Scoular—Directionally, it will continue. If you can tell me what currency is going to do, because currency is one of the biggest influences in local content levels, I can give you a more precise answer.

Mrs MAY—As a manufacturer of automobiles, Brendan has asked you a little about the parent company making decisions. You have talked about your shareholders. We have also talked about the challenges facing the industry, and one of the those challenges is of course rising fuel prices. I want to come back to rising fuel prices and we have heard from some witnesses about whether there is room in the market to develop a hybrid car for Australia. Do you at Ford see yourselves as playing an active role in the education of the Australian public? We have also heard today of the social and environmental concerns. You talk about petrol and the environment. Does Ford Australia have a role to play in developing a car for the Australian market based on rising fuel prices and the cost to the Australian motoring public, and an education or an awareness program working hand in hand with government?

Mr Scoular—We will answer that question in two ways: one is—and I think this is often overlooked—that Ford Australia has been at the leading edge of the alternative fuels industry in Australia. The vehicle in question is the dedicated LPG E-Gas Falcon. If you look at the volumes we have sold of that vehicle over time, year to date we have sold about 4,000 of them. In volume terms, that is about six or seven times as many hybrid vehicles that have been sold in Australia to date. So what we sought to do with that vehicle was to focus on an alternative fuel that offered economic and environmental advantages to its users where there was a distribution system readily available that we could tap into across Australia.

One of the difficulties in looking at some of the more advanced fuel types of vehicle is being able to tap into a fuel distribution system when you come to market a vehicle in a country like Australia. It is much the same when you ask the question—I suppose it is inherently part of your question to me—should Australian vehicle producers seek to produce a smaller car in Australia? Regardless of the size of vehicle that we would seek to manufacture, a critical factor is always going to be what your volume assumption is in terms of how many of them do you think you can build and sell.

If I look at the Australian marketplace today for smaller vehicles, it is incredibly fragmented. There are more than 50 different models of small car, and that does not include the sedan, hatchback and station wagon variants of a name. There are 50 different model names of small car on sale in Australia today. The top selling small car in Australia today sells about 16,000 vehicles year to date. The average of small cars on sale in Australia today is barely 3,000 units a model. If I look at my Falcon Territory platform, which shares many components together, they are year to date about 35,000. The critical factor, if I was to seek to go into a smaller vehicle, is: I cannot get the volume mass in such a fragmented and segmented market—

Mrs MAY—What about with exports?

Mr Scoular—With exports you inevitably find that, around the world, wherever you look, people export off a viable domestic volume base, whether it be out of Japan, Korea, the US or Europe.

Mrs MAY—Even with new emerging markets—when you look at China and India and places like that—you would not see an opportunity for Australia to manufacture here and export?

Mr Scoular—There are always opportunities, but those markets and countries themselves are also very keen to get a slice of the action. I think one of the previous witnesses here was alluding

to China and entrepreneurial approaches to getting a slice of the action. We are a popular industry to be part of.

Ms Haug—As to our strategy with small cars, a recent example has been the Indian Fiesta. We recently did the R&D work on that car for manufacture in that market. The export credit that we took was the intellectual property associated with engineering and designing that vehicle for that market.

CHAIR—Just on that, for clarity in terms of numbers, what are we looking at for the total small vehicle imports in Australia as a proportion of total large vehicle platform produced by the four manufacturers?

Mr Scoular—Can I take that on notice?

CHAIR—There are about 350,000 large vehicles—is that right?

Mr Scoular—Yes. There are 350,000 to 400,000 manufactured a year and 120,000 of those are exported, so you are back to about 280,000 or 300,000 sold locally.

CHAIR—And what about imports of small vehicles?

Mr Scoular—The import of small vehicles or all other vehicles?

CHAIR—Can we stick with the small vehicle theme at the moment because that is an issue that has been raised by a number of people.

Mr Scoular—The small vehicle market would be of a similar magnitude or probably a bit higher.

CHAIR—And you are saying there are myriad different types coming in as well, the largest being 16,000?

Mr Scoular—If I go into the Falcon sized segment—the large car segment—I have five or six competitors. If I go into the small car arena I have 50.

Ms HALL—They are all imported?

Mr Scoular—Yes, but they are still vicious and ferocious competitors, so what do you do?

CHAIR—Can you give me that information on apprenticeships and—

Mr Scoular—Yes, we can get you that within the next couple of days if you like.

CHAIR—Not only just apprenticeships but also some of the other vocational training courses and the changes in the recruitment that you have going on.

Mr Scoular—Sure—we are happy to do so.

CHAIR—Thank you for coming in today. I appreciate the evidence you have given us. If there is anything further that we need we will get in touch with you.

Mr Scoular—Thank you.

[4.10 pm]

DALTON, Mr John, Director, Industry and Trade Policy, Economic Policy and Planning, Department of Innovation, Industry and Regional Development, State Government of Victoria

MONCUR, Mr David Barry, Manager, Industry Development, Office of Manufacturing and Service Industries, Department of Innovation, Industry and Regional Development, State Government of Victoria

GILLAM, Mr Trent Nathan, Chief of Staff, Office of the Victorian Minister for Manufacturing and Export

HAERMEYER, The Hon. Andre, Minister for Manufacturing and Export, State Government of Victoria

CHAIR—I know you are all aware of the drill but I need to go through it anyway, so bear with me for 30 seconds. 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 customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. You are our last witnesses and there is great anticipation that the last is always the best.

Mr Haermeyer—I must say I do not think there is anything that I am about to say that has not been said before.

CHAIR—The last witnesses are much anticipated all the time. Would you like to make introductory remarks before we proceed to questions?

Mr Haermeyer—Yes, Chair. Thank you very much for the opportunity to appear before you. As you are probably aware, the automotive industry is a pretty critical industry here in Victoria. It is the heart of our manufacturing industry. It creates a lot of the capacity that then spills over into other industries, particularly some of the engineering related industry fields and some of the aerospace and defence industry fields, so there is a skill spillover, which is important. I think a lot of our other capabilities would not be there if it were not for the automotive industry. We in Victoria account for some 54 per cent of automotive manufacturing in Australia, so we are an important cog in the wheel as far as the automotive industry is concerned.

I think the automotive industry is also central to Australia's ambitions to become an innovative, knowledge based economy. Its significance to Victoria and Australia is clear, given its strong export and innovation performance relevant to other industries, its capacity to catalyse transformation across the economy and its linkages and inputs to other sectors, as I touched on a moment ago. To retain a competitive automotive industry in Victoria and Australia, a local automotive component manufacturing capability is critical. I think it is unlikely that the passenger motor vehicle sector would manufacture and assemble vehicles in Australia without a

competitive automotive component sector. There are currently 180 automotive component manufacturers nationally, 120 of which are located here in Victoria.

I might also add that, whilst on one hand we might say that with the number of component manufacturers reducing and the industry becoming more competitive we become more export orientated, on the other hand, at the same time there is the question of at which point our component sector drops below the critical mass that is actually required to maintain the big four manufacturers here. The big four manufacturers are the reason why the component sector is here. But at the same time, if they reduce local content in their cars to a certain level, at what point will it drop below critical mass? The Victorian government is very much committed to the industry and we have done a lot of work to promote and work with the industry to improve our competitive performance on the world stage. I will come back to that in a moment.

As I think you would almost certainly be aware, the sourcing policies of, in particular, Holden and Ford have resulted in lower local content levels, limiting local suppliers' access to the overseas operations of the vehicle producers. For example, we understand that with the new Holden model, the V Commodore, local content is expected to fall from 73 per cent to 56 per cent. That has already resulted in Victorian companies losing a balance of 14 contracts. As for the local Ford, whilst overall the variation is not expected to be quite as large, we expect in some models the local content will fall from a high of around 90 per cent to as low in some models as 60 per cent.

I think it is important to bear in mind that price is not the only reason that contracts have not been renewed with local suppliers. Some of the reasons that have been stated to us by the OEMs have been inability to provide the latest in design, reliance on out-of-date technologies and failure to project manage the introduction of new model components. The dependence of local component manufacturers on local PMVs, I think, is illustrated by the relatively low value of component exports. In 2005, the majority of Australia's total automotive exports were motor vehicles—nearly six times greater in value than component exports.

Our component sector is almost entirely dependent on the four locally based manufacturers. We have been doing a lot to try and work with them to get them into global supply chains of other manufacturers, so that they are not as susceptible to changes in purchasing policy and to losses of contracts to the local manufacturers. It is quite clearly an exposure. If some of these manufacturers lose one contract, they get to a point where they drop below critical mass. If that manufacturer drops out, that then has flow on to other manufacturers in the supply chain. As I say, that dependence is cause for concern on two levels. Firstly, as mentioned, domestically produced car sales have slowed significantly and that has had a very direct impact on their mostly domestic supply base. Secondly, it means that many component companies are not linked into global supply chains and therefore are not export ready.

In terms of the future prospects for the industry, globally employment in the industry has been significantly affected by a number of dramatic and rapid changes, which include global sourcing, changing consumer preferences, proliferation of free trade agreements and, of course, in more recent times, particularly oil prices. These trends are combining to create some very significant commercial pressures on Australian component manufacturers as well as, I might add, some opportunities. We need to focus on how we make the best of those opportunities as well as how we deal with the pressures.

Our submission makes comment on the lack of publicly available data on employment in the automotive component sector. However, we understand now that unpublished ABS data has been provided to the inquiry by the federal department suggesting that the employment downturn in the vehicle component sector has been larger than previously estimated. Those figures support the anecdotal evidence of large-scale job losses in the industry, and the Victoria government submission cited such companies as Trico, Autoliv and Silcraft.

In terms of emerging skill shortages and appropriate recruiting and training strategies, we believe that there are emerging skill shortages in the industry in some specific areas such as engineering. In addition, more generic management and project skills are required to enable the industry to adapt to increasingly globalised business operations. We held a national manufacturing summit in Victoria last year and we facilitated a number of workshops on the topic of skills for our manufacturing future. In those workshops, industry stakeholders concluded that, in future, manufacturing will need higher levels of technical skills to deal with more complex and higher technical standards; higher levels of soft skills such as communication, teamwork and ability to learn; higher levels of strategic and management skills; new skills such as financial, marketing and logistic skills; and more frequent updating of skills. I think this is no doubt applicable to the automotive industry as well.

With regard to labour adjustment measures required to assist redeployed and affected workers, the Victorian government has advocated that it is essential that the Commonwealth government has appropriate labour market programs in place to assist the industry in its adjustment prior to any policy implementation. This did not happen with the recent changes to ACIS and tariff levels, and it was predicted then that there would be some employment losses.

Our submission has attempted to provide what we think are some good examples of best practice—for instance, Our Forests Our Future program, which deals with the issue of displacement of people in the forestry industry, and also the Life After Bradmill program, which was set up for retrenched TCF workers in this state in an industry that has taken a very heavy hit over the last couple of decades.

The Victorian government currently funds and administers the Skill Up program, which is a rapid response program to retrain workers who are retrenched as a result of major industry downturn or workplace closure. Whilst this program is of assistance to retrenched workers, we believe that government initiated policy changes that are known to have negative impacts on the current workforce should be carefully planned and catered for through targeted assistance packages.

With regard to skills development, our submission identifies a range of factors that have the potential to work against long-term commitment by the industry to skill formation. We have made some comment there in relation to the Work Choices legislation. We think history has shown that unions pursuing the application of award structures at the enterprise level, through either bargaining outcomes or separate negotiations to allow employees to acquire and be rewarded for skills and competencies relevant to their day-to-day work, have been a driving force behind the creation of career paths and skills and development in the automotive industry.

Just as a note of concern, I might also add that, whilst I believe there is certainly always room for debate about industrial relations, the manner in which it is taking place at the moment is

creating some tension in an industry that is highly dependent on just-in-time production. Any sort of disruption, even in a small factory anywhere along the supply chain, can cause significant disruption throughout the entire industry. From that perspective, when we go down the path of having debates about industrial relations, we really need to think about the stability of this industry, in particular, in that process.

With regard to R&D, the Victorian government currently supports a number of programs and activities that will assist the sector. The Commonwealth might be able to better leverage the activities of state governments in encouraging R&D as a driver of information and competitiveness within the industry. ACIS is a very valuable source of assistance for innovation in the industry; however, I think it is important to consider the need for a review of the scheme. Whilst I would not necessarily encourage changing ACIS, in effect ACIS is a contract between the federal government and the big four automotive manufacturers. The car makers have indicated that they require certainty in the assistance that is provided to them; however, I think the inquiry does need to consider a review of the scheme in that it encourages R&D within Australia and it inadvertently provides incentives to use imported products.

I think the inquiry also needs to examine the strategies of a number of successful Australian automotive component companies in order to identify key factors that are enabling them to compete effectively in an increasingly global environment. I note your four terms of reference—and I am not sure where this fits—but I am not sure that a strategic analysis has been done of the Australian industry and where some form of strategic assistance may actually help to bridge the gap between where we need to be to be a competitive force in the global marketplace and what is commercially viable at the moment.

One of the difficult things for many of our component manufacturers in getting into global supply chains is, I suppose, the high cost of ramping up to the level they need to be at to be in that global supply chain. In some areas that smallness and the nimbleness that comes with it are an advantage; in other areas, they are an enormous disadvantage. We have not done strategic mapping of the industry, because that is, I think, where we need to focus our attention as far as any form of any industry assistance is concerned.

I want to conclude by saying that much of the industry's future success will rest on its innovation, its level of technology, its access to global supply chains and its product quality and desirability, and I think governments will play a critical role in helping companies to achieve this. We can do that by providing an environment that fosters continued enhancement in the industry's technology, innovation, skills, capabilities, design, branding—all the sorts of areas that enable you to differentiate a product on something other than price—and measures to support firms to invest in equipment that enables responsiveness to market demands for high-volume, high-quality products. We can assist with improved access to global supply chains to embed Australian suppliers and increase the industry's volume growth and, with a constructive and collaborative approach, to foster continued labour productivity and skills improvement. I will leave it at that and I will be happy to field your questions.

CHAIR—I will start off with the attempts by the Victorian government minister to get alternative markets for the automotive component industry. You mentioned that you started to do that. Can you give us an idea of what kind of success you have had. What kind of employment result has that meant for the local industry?

Mr Haermeyer—Firstly, many in the industry are still of the view that the automotive world is Ford, Holden, Toyota and Mitsubishi. They are now coming to understand that, if they are going to survive, they probably need to be less dependent on those four and that there are opportunities in the global marketplace to get into other supply chains. We have taken trade missions with us to Japan and to the United States to try to introduce the component manufacturers to other manufacturers. It is a slow process to arouse the initial interest, but at least we now have them talking to the manufacturers about what is required. The manufacturers know that they are there and, hopefully, what they are capable of. Hopefully we will get some take-up from that. I think we had some limited take-up from the Japan mission.

CHAIR—I appreciate it is early days. In some of these things, you walk today and reap the benefits tomorrow. Are there any particular barriers or obstacles they are confronting as they go into these markets? It is very laudable that you are doing that—you are taking them with you to Japan and America. What are some of the barriers they are coming up against?

Mr Haermeyer—I think size is probably a big—

CHAIR—Economies of scale.

Mr Haermeyer—Economies of scale. It happens a lot, not just in the automotive industry. When you take Australian manufacturers on an overseas trade mission to America and they say, 'We'll take 600 of those,' they do not mean 600 units; they mean 600 containers. Sometimes the volumes are just not there and to ramp up to the level that is required is difficult. Sometimes it is also simply the level of investment in R&D that is required to be competitive at that level—to have an innovative product that really stands out. Those are some of the difficulties—and, of course, breaking into a marketplace where you have not been a player previously and you have existing relationships between car companies and suppliers. But I think that, increasingly, car companies are looking around for alternative suppliers just to drive home to their own incumbent suppliers that they are not the only players in the game. So global competitiveness is not just affecting us; it is affecting car companies around the world. They are in fact looking for alternatives around the world to provide a product that is different, that is better and that is competitive in some way with what they are using at the moment.

Mr Moncur—It is an expense in market development simply to have technical people to market to the car companies overseas for the two, three or even four years that it takes to develop sufficient rapport with an overseas car company. It is a real expense and one that some of the smaller Australian companies find hard to cover.

CHAIR—I have one other question and then I will hand over to Brendan. In South Australia we heard from representatives of DEWR and the South Australian government—I think it was the Department of Sustainability and Environment and also the education department of South Australia—about some of the work they are doing in terms of retraining and finding alternative employment for those that are displaced, and certain figures were presented to us. What is the experience in Victoria? When there have been retrenchments in the industry, what has happened here in Victoria—in terms of not only what has been done but also the statistical evidence to show it is succeeding or not succeeding? The South Australian experience was specific to the labour adjustment programs. I am not sure whether there has been a labour adjustment program

in Victoria to date, but there might have been some other things which you have done as a Victorian government.

Mr Haermeyer—What we have effectively tried to do is, firstly, to find alternative employment as quickly as possible and, secondly, to provide retraining where we can. I am not sure if we have the statistics handy, but I am happy to take that on notice and provide any details you might require.

CHAIR—We may not even have the right department here, so I apologise for that, but I just wanted to see what the status is here in Victoria compared to South Australia.

Mr Dalton—Firstly, we have made the point in the submission that there is a paucity of data on this. In our submission, we have made some references to the textile, clothing and footwear industry as examples. We were concerned that there was likely to be labour shedding post the 1 January 2005 tariff cuts and the implementation of the Thailand and US free trade agreements, and there has been. I guess the point we made in the submission is that neither the federal government nor we seem to have a handle on that data. For an analogy, we drew attention in our submission to the textile, clothing and footwear sector. We commissioned work there to look at the post-retrenchment experience of the TCF sector and, given the age profile and the regional profile of those people, there are a number of people in that sector that have not found work again.

The key lesson we have highlighted in the submission is that, where there is labour adjustment assistance before people are formally retrenched, their chances of re-employment are much higher. We have used the example there of Bradmill, which we think is a good model. There are some analogies that can be drawn with the TCF sector in that there are some regional areas of Victoria, particularly Albury-Wodonga, where automotive employment is rather critical and re-employment is difficult.

CHAIR—Thank you.

Mr BRENDAN O'CONNOR—Firstly, I want to say that the submission is relatively comprehensive so, although there are some questions that arise out of it, it certainly answers a number of questions we would have had if it had been a smaller submission. I want to ask about the free trade agreements. As I understand it, all governments have been supportive of reaching agreements with other nations to improve opportunities for trade. However, the submission does talk about the potential adverse impacts of the Thailand and US free trade agreements and also of course the strong growth of the Chinese automotive industry. It goes on to say:

Further FTAs can be expected to exacerbate this pressure—

on our domestic market. Later, on page 9, it says:

A failure by the Australian government to secure preferential access may damage Australia's export prospects as competitors will have lower cost access to these markets.

Can I glean from those two references that the state government is not necessarily opposed to free trade agreements, or even bilateral agreements, but ones that do not give preferential access?

If we were about to enter into that arrangement with another country we would want to get some preference or preferential treatment. Is that how I should read those two parts?

Mr Haermeyer—We generally are supportive of free trade agreements, but it depends on the content of those agreements. The China one is speculative at the moment because it is still under negotiation. A few things could have been put into the United States free trade agreement that were not. Let us take the United States for a moment. The analysis we have done has shown that Australia is a moderate priced location to manufacture in the automotive industry compared to the United States. You would imagine that in most circumstances we could produce a product more cheaply than the United States could, but American automotive companies are run out of Detroit largely like a command economy. I am not sure that in that sort of environment we are necessarily playing in fair competition sometimes. Ordinarily we would expect to do quite well in that market. For example, both of the big companies—Ford and General Motors—allocate markets to their particular plants. We cannot simply manufacture a Ford Territory or a Holden Commodore here and then drop it on the wharves in the United States and expect it to be sold. Markets are allocated, so it is not an internally competitive environment within those companies.

We have written to Minister Vaile about China. We think that could be a positive one or a negative one, depending on the context. China is a country that has very low wages, very low production costs. That is one thing. On the other hand, it also has, we believe, a very significantly overvalued currency and it does not have the same sorts of protections—environmental protections, OH&S protection or effective intellectual property protection. So these are issues that we would want to see addressed in the negotiation of any FTA with China.

Early evidence has shown that the first year of operation of the FTA with Thailand has worked in our favour, but we are now starting to get a bit of movement in the other direction. Time will show how that FTA has operated. We need to consider in terms of the negotiation of FTAs, however, that an FTA is a positive thing in the sense that you are getting something in return. You are negotiating a foreign government doing something that, hopefully, will be beneficial to our industries in return for some actions we take in terms of trade barriers. If you are negotiating an FTA at a time when you have a program for a unilateral reduction of tariff barriers, how that affects your ability to negotiate an FTA is a debate we need to have. It presumably takes away some of your leverage.

Mr BRENDAN O'CONNOR—I have just one last question—I know it is getting a little late. The submission does talk about the need for research and development incentives and says that they 'should be provided at a level commensurate with Australia's competitors'. From that I would conclude that clearly, if we looked at other countries' efforts in the R&D area, we would see that we are left wanting. Minister, is that your view or the view of your departmental officers?

Mr Haermeyer—Australia spends about 1.6 per cent of its GDP on research and development. If you compare that to other smaller countries like Singapore, Ireland, Finland or Israel, they are spending 2½ to five per cent of their GDP on research and development. But also, if we have a look at the R&D incentives that we put on the table, our effective rebate is around 7½c in the dollar; whereas the United States and Canada are offering something in the vicinity of 24½c in the dollar. So our rebate on R&D is quite low. At a time when a lot of your R&D is in effect coming from your big international corporations, they can pretty much take that

R&D anywhere. Particularly in automotive they tell us that they need to have some sort of manufacturing capability on the ground, but they could pretty much move that anywhere.

The R&D brings a whole lot of technology transfer to the country, and I think it also ensures the future competitiveness of your industry. I just do not think we are doing enough on the R&D front. That is one of the key areas where you differentiate your product. That is one of the key areas where we can lift our standards across the board. Ultimately, it transfers into all sectors of the industry. So I think that is an area where we need to be doing a lot more.

Ms HALL—I notice that, in your submission, you identify emerging skills shortages. I will just concentrate on those. Earlier today, we received evidence from the Australian Die Casting Association and CAST CRC. In that submission, they argued for a national training foundation that would be run out of Swinburne TAFE. They have already trialled it, and one person has successfully completed the course. My question is: would you be supportive of that? Secondly, would you envisage that the Victorian government would be involved in that program on an ongoing basis?

Mr Haermeyer—I guess our focus has been around the automotive CRC which is being set up down there in the Docklands precinct. We certainly are supportive of educational institutions taking up any opportunity to help meet our skills needs. We recently announced a \$240 million skills package, which was dealing with a number of issues: firstly, enabling us to more appropriately identify skills needs into the future and to make sure that the education system is providing the level of skills and training that are going to be required in the areas where they are going to be required. But particularly, as I say, we have invested quite heavily in the Automotive Centre of Excellence down at the Docklands, and that is an area where we have the industry and a number of our TAFE institutions working collaboratively to try and develop skills and develop a centre of excellence around skills in that particular precinct. I am not totally familiar with the Swinburne one, so—

CHAIR—Minister, what Ms Hall is trying to get at is very specific to the industry, but I guess the concept could be used on a whole lot of others—that is, within the automotive industry there are a lot of skills which are so specialised that you do not have a large take-up. In other words, the number of students that could possibly do it is too small for every college around the country to be running the course, because you need a critical mass of somewhere around 20 people. Therefore, if there were perhaps one teaching foundation or one centre which provided the curriculum and the teaching, and the rest of it were done through either distance learning or the teaching fraternity being provided with some support to go out to the various locations, that might help.

That was a solution that was presented to us by the die casters. It could just as easily be with any small skilled areas within the auto industry. The comment has been made that Victoria or South Australia, being the predominant areas of automotive manufacturing, would be the ideal locations for it. We have already started the curriculum. That would require support at both the federal and the state levels, so Ms Hall's comment—

Ms HALL—Yes, they were arguing for a Victorian base for this industry. I noticed that you argued throughout your submission for a national approach. Do you think that there is a need for all the players and all the governments to sit down and develop a whole-of-government and

whole-of-industry plan for both the automotive industry and the automotive components industry?

Mr Haermeyer—I think there is a requirement for all governments, state and federal, and also for industry and for unions to work together. We all have our differences on various things but, I have to say, one of the things that was very salient to me at the national manufacturing summit that we held last year was that we had Heather Ridout there from the Australian Industry Group and Greg Combet from the ACTU, and 95 per cent of what they said overlapped. And 90 per cent to 95 per cent of what was said there overlapped. In other words, there was enormous agreement on a lot of fronts. I think we need to at least try and sit together and agree on those things we can agree on—and I think there is probably more than most people think—and then have those discussions about the other issues on the side.

This industry is a huge supplier of full-time jobs in this country. It is a huge vehicle for skills development and technological transfer, and it is one we really need to be all working together on. As I said, there are issues that are not all that controversial, but we at least need to be identifying what needs to be done. I commend the initiative of this committee because I think this is a start. But we really cannot afford to have everybody running off and doing their own thing. What we as state governments do need to do is to dovetail in to what the federal government does and not be pulling in other directions or duplicating it. We need to be working hand in hand. Similarly, we need to be working hand in hand with industry and with the unions. At the end of the day we are all in the same boat on this, and we need to make sure that we are doing our jobs in the interests of the industry and in the interests of the Australian people.

CHAIR—We are almost at a point where we can end on that, Minister, but I have one more question. Based on that, what is the next step after the summit? What is the plan? Is there a follow-on to it?

Mr Haermeyer—Yes. Out of the summit was established a manufacturing industry forum, which is being chaired by Bob Herbert. It will report back in about September of this year in terms of a way forward, so we are hopeful that that will provide a way forward. But we really do need the Commonwealth in the boat with the states, with industry and with unions. There is no other way.

CHAIR—Will the recommendations that Mr Herbert makes be segmented according to industry or just generally on manufacturing? Will they be industry specific recommendations or will they be more generic manufacturing recommendations?

Mr Haermeyer—He has not been given a narrow brief. In other words, if he identifies some needs that are specific to particular sectors of manufacturing, the forum is free to make those recommendations. A lot of the issues that affect the automotive sector are issues that are generic to manufacturing per se. That said, there are some issues that are very peculiar to automotive.

CHAIR—We thank you very much, Minister and gentlemen, for coming in and for the submission from the Victorian government. As the deputy chair said, it is fairly comprehensive and answers quite a lot of our questions without them being asked. We do appreciate your time.

CHAIR—Can we have a motion to authorise acceptance of exhibits 1 and 2.

Mr BRENDAN O'CONNOR—I so move.

Resolved (on motion by **Ms Hall**):

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

Committee adjourned at 4.51 pm