The Parliament of the Commonwealth of Australia

Shifting gears

Employment in the automotive components manufacturing industry

House of Representatives
Standing Committee on Employment, Workplace Relations and Workforce Participation

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Foreword

A strong automotive industry is often cited as the basis of most developed nations' economic prosperity. The employment opportunities, technological advances, skills development, engineering and educational qualifications directly required in the industry give it a prominence that few can emulate. Importantly the automotive supply chain, as well as the aftermarket industries, are all too often dependent on a prosperous local automotive manufacturing base.

Australia has a long history in the manufacture of cars and car parts. The conventional wisdom that we need a thriving local industry is being challenged. Global automotive and automotive component production are undergoing the most significant shifts of their history. The contraction in the number of motor vehicle producers, the growth in wholly imported vehicles and the move to offshore component manufacturing are all cited as some of the challenges to overcome if we are to have a continuing automotive component manufacturing industry.

The pressures on the Australian automotive component manufacturing industry are intense. In response, there is a need to reassess and adjust: the market focus; leadership needs; labour and training programs; innovation and investment incentives; and the forward vision of the industry.

With these challenges in mind, the Committee considered this inquiry was timely for the industry and represented an important opportunity to tackle the range of issues in a holistic manner. Any inquiry into the automotive component sector must as a natural extension also review aspects of the automotive manufacturing sector itself. The two are inextricably linked, both in a policy setting and also in financial viability. While the Committee sought input from vehicle and components manufacturers, to its surprise and disappointment, some key industry peak bodies displayed a lack of interest in contributing to the inquiry and some component manufacturers were reluctant to participate, citing fears of retribution or loss of contracts.

These are internal cultural and leadership issues which the industry itself must address if it is to confront global changes in a unified and coherent manner. While the industry is facing significant challenges, the Committee is firmly of the view that an economically viable and globally competitive future is within its reach. A number of local automotive component manufacturers are successfully meeting these challenges.

This report assists the industry to set its own direction and proposes a number of recommendations that will strengthen Government policy and support to the automotive component industry.

The Committee investigated the training practices and skills needs of the industry. Recommendations are made to address the need for greater industry representation on training issues across the supply chain. The high degree of on the job training taking place within the industry is recognised and options for formal skills recognition are proposed.

Innovative training models aimed at engaging young people with the industry are explored. Recruitment practices suffer because of an unfair public perception that jobs are 'greasy'. Therefore, any initiatives aimed at removing this perception and promoting careers in the industry to students, teachers and parents are valuable.

While some parts of the industry are facing recruitment difficulties, other parts are being challenged by the impact of redundancies. There is a need for innovative strategies that allow the industry to work cohesively to find solutions to these workforce challenges, including the ability to retain these often sought after skills within the industry.

Large scale redundancies have unfortunately been a feature of the automotive industry, locally and internationally, in recent years. Labour adjustment programs are therefore examined and recommendations are included in the report aimed at ensuring that these programs take into account all affected sectors of the industry.

A focus on training, recruitment and labour adjustment programs address the immediate needs of the industry. There is also a need to focus on how to best position the Australian automotive components manufacturing industry to ensure its ongoing competitive viability and success in the global marketplace.

A series of recommendations are made that will focus investment incentives on establishing a clear niche market position of the industry. They focus on enhancing R&D assistance measures to ensure that Australia retains a share of the lucrative innovation and design market.

The Australian automotive components manufacturing industry has a long and vibrant history in Australia. While there are challenges to be met in light of a new

global marketplace, the industry has shown itself to be innovative, dynamic and capable of meeting change.

This report contributes to that future by articulating a path for a renewed vision that establishes respective responsibilities for industry and Government. It is hoped that a joint commitment to this vision will enable the Australian automotive components manufacturing industry to successfully shift gear and establish its competitive niche on the global market.

Mr Phillip Barresi MP
Chair

Membership of the Committee

Chair	Mr Phillip Barresi MP	
Deputy Chair	Mr Brendan O'Connor MP	
Members	Mr Mark Baker MP	Ms Jill Hall MP
	Mr Chris Hayes MP	Mr Stuart Henry MP
	Mrs Margaret May MP	Hon Roger Price MP
	Mr Don Randall MP	Mr Ross Vasta MP

Committee Secretariat

Secretary	Dr Anna Dacre
Inquiry Secretary	Ms Siobhán Leyne
Research Officer	Ms Loes Slattery
Administrative Officer	Mr Daniel Miletic

Terms of reference

Inquiry into employment in the automotive component manufacturing sector

On 6 December 2005 the Minister for Employment and Workplace Relations requested the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation 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.

List of abbreviations

AAAA	Australian Automotive Aftermarket Association
ABS	Australian Bureau of Statistics
ACE	Automotive Centre of Excellence
ACIRRT	Australian Centre for Industrial Relations Research and Training
ACIS	Automotive Competitiveness and Investment Scheme
ACP	Automotive Component Producers
ADCA	Australian Die Casting Association
AISG	Automotive Industry Strategic Group
AMTP	Automotive Machine Tooling Producers
AMWU	Australian Manufacturing Workers Union
APEC	Asia Pacific Economic Cooperation
ASP	Automotive Service Providers
ATA	Automotive Training Australia
BIC	Bus Industry Confederation
CRC	Cooperative Research Centre
DEST	Department of Education, Science and Training

DEWR	Department of Employment and Workplace Relations
DITR	Department of Industry, Tourism and Resources
EBA	Enterprise Bargaining Agreement
ETM	Extensively/ Elaborately Transformed Manufactures
FAPM	Federation of Automotive Product Manufacturers
FCAI	Federal Chamber of Automotive Industries
FTA	Free Trade Agreement
GSM	General Skilled Migration
LAP	Labour Adjustment Programme
MMAL	Mitsubishi Motors Australia Ltd
MODL	Migration Occupations on Demand List
MTA	Motor Trades Association
MVP	Motor Vehicle Producer
NAMIG	Northern Advanced Manufacturing Industry Group
NEIS	New Enterprise Incentive Scheme
NSSS	National Skills Shortages Strategy
OEM	Original Equipment Manufacturer
R&D	Research and Development
RS&R	Retail, Service and Repair
RSMS	Regional Sponsored Migration Scheme
SAFSA	Structural Adjustment Fund for South Australia
UK	United Kingdom
VACC	Victorian Automobile Chamber of Commerce
WTO	World Trade Organisation

List of recommendations

3 The Australian automotive components industry

Recommendation 1

The Committee recommends that the Australian Bureau of Statistics publish disaggregated data on the automotive industry to the level of the automotive component manufacturing sector.

Recommendation 2

The Committee recommends that, as a matter of priority, the Department of Education, Science and Training clarify the position of Automotive Training Australia and Manufacturing Skills Australia in representing the needs of the automotive components industry.

The Committee further recommends that the Department of Education, Science and Training review the status of Automotive Training Australia giving consideration to:

- its position with or as an industry skills council;
- its capacity to adequately represent the training needs of the sector; and
- measures to ensure that there is equitable involvement and representation of industries across the automotive supply chain.

Recommendation 3

The Committee recommends that the Australian Government Minister for Vocational and Technical Education, raise as a matter of priority at the next Ministerial Council on Vocational and Technical Education the issue of skills and training within the automotive components manufacturing industry in order to establish a unified and coordinated approach across all levels of government to the skills and training needs of the industry.

Recommendation 4

The Committee recommends that the Department of Education, Science and Training ensures that the automotive industry manufacturing training packages review take into account:

- processes for recognition of on-the-job training;
- access to these and other such arrangements for any future displaced workers;
- current skills needs and strategies to address future skills shortages within the industry; and
- integrated training across the supply chain to facilitate transferability across industry sectors.

Recommendation 5

The Committee recommends that the Australian Government pilot the 'Concept 2 Creation' Program as developed by the Northern Advanced Manufacturing Industry Group in other areas of concentrated manufacturing employment and consider mechanisms to ensure access to ongoing funding for these programs.

Recommendation 6

The Committee recommends that the Australian Government support the consolidation of existing training resources to enable the establishment of a centralised teaching foundry to service the casting industries.

4 Skills needs and labour adjustment measures

Recommendation 7

The Committee recommends that the Australian Government include automotive engineering as a national priority area for higher education fee concession schemes.

Recommendation 8

The Committee recommends that the Australian Government investigate options to encourage the retention of local and foreign-born engineering graduates within Australia, including measures to facilitate entry into the workforce in areas of skills shortages.

Recommendation 9

The Committee recommends that the Australian Government support the establishment of an automotive component manufacturing leaders forum to develop strategies aimed at improving recruitment and overcoming stereotypes surrounding the image of the industry.

Recommendation 10

The Committee recommends that the Australian Government commission a national study on the post-redundancy outcomes for workers in the automotive industry which takes into account:

- employment, educational and social outcomes for those individuals accessing a formal labour adjustment program; and
- employment, educational and social outcomes for those individuals made redundant in the automotive component manufacturing sector not covered by a labour adjustment program.

Recommendation 11

The Committee recommends that the Australian Government develop a general labour adjustment program for the automotive component industry that focuses on:

- provision of training and employment support strategies to assist employees while they are still employed;
- targeted training to up skill displaced workers into areas of skills needs;
- addressing the concerns of the wider community about the impact on regions where the automotive components industry is a major employer; and
- provision of support to companies along the supply chain to promote sustainability in the industry.

5 Driving the industry's future

Recommendation 12

The Committee recommends that the Australian Government review R&D assistance available to automotive component manufacturers to assess whether it is commensurate with incentives offered internationally.

Recommendation 13

The Committee recommends that the Australian Government extend R&D assistance to work undertaken by Australian based automotive component manufacturing subsidiaries of multinational companies where it can be demonstrated that the work is to be undertaken in Australia to benefit Australian products.

Recommendation 14

The Committee recommends that the Australian Government commit to progressing, in partnership with industry, the stage two development of the Automotive Centre of Excellence in Melbourne. This may necessitate some Government start-up funding and addition to coordination support.

Recommendation 15

The Committee recommends that the Australian Government support the development of automotive component industry specific trade facilitation to ensure that Australian component manufacturers are able to access foreign markets.

Recommendation 16

The Committee recommends that the Australian Government, in partnership with industry, renew and communicate its vision for the automotive component industry that sets out the priority issues and measures to establish Australia as a niche market for innovation and investment.

Recommendation 17

The Committee recommends that the Australian Government reintroduce reporting on the level of local components in locally manufactured vehicles, consistent with World Trade Organisation obligations.

Recommendation 18

The Committee recommends that the Australian Government review of Automotive Competitiveness and Investment Scheme in 2008 consider:

- current eligibility categories and priorities; and
- the effectiveness of the scheme in assisting the Australian industry to best position itself to be globally competitive and self-sustaining in the long-term.

1

Introduction

1.1 Automotive manufacturing in Australia is in a period of transition. The opening of global markets, coupled with advances in manufacturing practices and technological innovation have transformed the automotive manufacturing environment.

1.2 The automotive component manufacturing industry is an integral part of the Australian automotive landscape. It not only is a major contributor to the economy, but also contributes to innovation, training and employment.

1.3 There is considerable pessimism surrounding the future of the automotive components manufacturing industry, both from the industry itself and commentators in the public arena.

1.4 While there are areas of concern, namely competition from the widening global industry, the Australian industry is a competitive force. It is ideally situated within the Asia-Pacific region, and has established key export markets in the Middle East.

1.5 However, global competition coupled with reducing Government protections such as import tariffs means that the industry will need to reorient itself in order to remain competitive.

1.6 Evidence to this inquiry pointed to the innovative nature of the industry and its capacity to meet the challenges that have been faced at a global level throughout its history.

1.7 This inquiry looked at these global challenges as well as training initiatives and skills shortages and their impact on local employment. It also looked at the need for labour adjustment measures to support the

industry, individuals and the community manage the effects of changing models of automotive production.

1.8 While the Committee has been disappointed at the lack of involvement from the industry in the inquiry it has found that the industry has great capacity to continue to be a strong contributor to Australia's economy.

Background to the inquiry

1.9 On 6 December 2005, the Committee agreed to conduct an inquiry into employment in the automotive components manufacturing industry. The inquiry was referred by the Minister for Employment and Workplace Relations.

1.10 The terms of reference called for the Committee to inquire into and report on:

- 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.

1.11 The inquiry was advertised in *The Australian* and the *Australian Financial Review* on 9 December 2005, the *Adelaide Advertiser* and *The Age* on 28 January 2006.

1.12 The Committee sought submissions from relevant Australian Government ministers and from state and territory governments. In addition, the Committee sought submissions from component and vehicle manufacturers, business organisations, including professional associations, major industry groups, academics and unions.

1.13 The Committee received 32 submissions, including eight supplementary submissions. These submissions are listed at Appendix A.

1.14 The Committee received three exhibits to the inquiry, which were provided in addition to written submissions, during public hearings. These are listed at Appendix B.

1.15 The Committee held nine public hearings and one in camera hearing across Australia in Canberra, Melbourne and Adelaide, including a

roundtable held in Adelaide on labour adjustment measures. The Committee heard from 55 witnesses at public hearings and three witnesses in camera. These witnesses are listed at Appendix C.

1.16 In Melbourne, the Committee visited the operations of Robert Bosch Australia Pty Ltd and Futuris Australia. In Adelaide, the Committee visited the Edinburgh Parks Automotive Precinct and spoke to representatives from the South Australian Government and component manufacturers operating in the Precinct. The Committee offers its sincere thanks to those companies that hosted it as these visits were invaluable to the inquiry.

Structure of the report

1.17 The inquiry covered a range of issues including the structure of the industry, challenges facing manufacturing and employment, skills shortages and training, innovation and investment in the future of the industry in Australia.

1.18 A global overview to the automotive industry is set out in Chapter 2. This chapter outlines the historical development of the industry and the global challenges facing the automotive industry as a whole. Although the Australian automotive components industry is small in global terms, the impacts of these global changes are also examined.

1.19 Chapter 3 focuses on the development of the Australian automotive components industry. It examines the current state of the automotive components industry contribution to the economy through manufacturing, exports and employment.

1.20 This chapter also discusses the issues around ensuring that the workforce is appropriately trained. It examines the component industry's training practices alongside the formal education and training system supported by the Australian and state governments.

1.21 Chapter 4 discusses skills shortages and the challenges of recruitment. In addition, there is discussion of strategies to support the industry workforce through periods of industry downturn and labour redundancy.

1.22 Chapter 5 considers the investment framework that will be supporting the industry into the future. The chapter then sets out the necessity for the industry to focus on innovation and discusses a possible model for the future of a vibrant automotive components industry engaged in the global market.

2

The global automotive industry— an industry in transition

2.1 The automotive industry has played an important role in the growth and development of modern industrial economies. It has supported the growth of foundational industries, in steel, plastics and glass, and has transformed societies and capital markets throughout the world.

2.2 After a century in this iconic role, the automotive industry is now in transition. Where once the developed world dominated automotive production, global trade is now being fuelled by emergent economies such as China and Thailand. The competition for market share is fierce as production exceeds demand and fluctuating oil prices have pushed mature automotive manufacturers to review their forward production plans and investment strategies.

2.3 Highly integrated with the fortunes of the automotive industry, automotive component suppliers face mounting competitive pressures to meet these new demands with increasing efficiency at an ever decreasing price.

2.4 Australian component manufacturers face additional challenges both ongoing and emergent such as: the geographical challenges which increase costs and constrain access to markets; the limits of the domestic market; the comparatively high price of labour, raw materials (including oil); and the Australia dollar. All this is occurring in a shifting and increasingly competitive global automotive market.

2.5 The global nature of the automotive market is a key issue in consideration of the Australian automotive component manufacturing industry. The

domestic industry is responsive to the decisions of Australian vehicle manufacturers, who are in turn responsive to the investment decisions made by the global automotive industry. Consequently the Australian automotive component industry is directed in part by decisions made by the upstream automotive industry at a global level.

2.6 This is not to suggest that the future viability of the Australian automotive component industry is beyond the control of the local businesses that make up the industry. However, to forecast the future of the Australian industry and understand domestic challenges it is necessary to understand emergent trends in the global automotive industry.

2.7 This chapter provides an overview of the recent history of the automotive industry and provides a context for the current and future challenges facing the Australian automotive components industry.

2.8 It traces changes in trade patterns, devolution of costs through the supply chain, and impacts of overproduction. It also considers changing production models, off-shoring and investment incentives which are currently reshaping the global, hence the domestic, automotive industry.

2.9 Global automotive production strategies are also undergoing significant change through developments such as industry consolidation, joint ventures and alliances, global vehicle platforms and the introduction of lean manufacturing models. These production changes have significant implications for global competition between component manufacturers who are pressured to achieve reduced costs and continuous improvement within compressed timeframes.

Profile of the global automotive industry

Industry value and changing market dominance

2.10 The automotive industry is a pivotal value-added industry in the global economy directly providing almost nine million jobs around the world. Its value excluding sales, spare parts dealerships and service, is estimated to be between 10 to 15 per cent of total world GDP.[1]

1 G. P. Maxton and J. Wormald, *Time for a Model Change: Re–engineering the Global Automotive Industry*, Cambridge University, 2004, p. 91, and 'The Global Picture', *The Automotive Industry – an Integral Part of Innovative Sweden*, The Ministry of Industry, Employment and Communications, Sweden, October 2005, p. 23.

2.11 Automotive component suppliers make up the bulk of value-added production in the automotive industry, accounting for more than two thirds of added value. It is estimated that by 2015, this share will have risen to almost 80 per cent.[2]

2.12 The establishment of the European Union and the progress of the international trade liberalisation agenda under the auspices of the World Trade Organisation (WTO), Asia Pacific Economic Cooperation (APEC) and various regional free trade agreements have seen traditional trade barriers fall and opened new markets and opportunities for multinational growth.

2.13 Until 1960, motor vehicle manufacturing was heavily concentrated in North America and Western Europe. The entry of Japanese manufacturers into the market in the 1960s radically altered the competitive situation and, in just 20 years, Japanese companies won control of 25 per cent of the global market. Asia and Eastern Europe have also entered the market as strong competitors—Asia now dominates 36 per cent of global production, Europe 33 per cent and North America 30 per cent.[3]

2.14 Industry consolidation (discussed in more detail later in the chapter) has led to 10 major automotive manufacturers producing 58 brands and accounting for ninety per cent of the global market. Producers in China, India and Malaysia account for the remaining ten per cent. The Chinese industry is rapidly growing—from 1997 to 2003 China's automotive industry accounted for three quarters of the Asia Pacific region's total vehicle output, and it continues to grow.[4]

2.15 A significant threat to the automotive industry in developed countries is the rise of manufacturing in developing economies. Asian real exports in manufactures overall (including automotive) have expanded by 15 per cent and now amount to around thirty per cent of global trade. China's manufacturing sector has grown on average around 12 per cent a year since 1990, and now constitutes about 39 per cent of its economy.[5]

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2 'The Global Picture', *The Automotive Industry – an Integral Part of Innovative Sweden*, The Ministry of Industry, Employment and Communications, Sweden, October 2005, p. 24.

3 'The Global Picture', *The Automotive Industry – an Integral Part of Innovative Sweden*, The Ministry of Industry, Employment and Communications, Sweden, October 2005, p. 23.

4 'Extinction of the Predator, Special Report: the Global Car Industry', *The Economist,* 10 September 2005, p. 61, and *International Metalworker Federation, IMF Auto Report 2004*, Geneva Switzerland, 2004, pp. 43–44.

5 World Trade Organisation, *World Trade Developments in 2004 and Prospects for 2005*, p. 2 and Australian Industry Group, *Manufacturing Futures – Achieving Global Fitness,* April 2006, p. 29.

Foreign direct investment in developing nations

2.16 An important indicator of the globalisation of production in the automotive industry is the extent of foreign direct investment (FDI) by major automotive producers in plants located in external countries.[6] Motor vehicle producers are among the largest multinational companies in terms of investment in assets located outside of their home markets—five of the world's top eleven multinationals are motor vehicle producers.[7]

2.17 Automotive manufacturers are also consistently ranked among the largest investors in developing economies. Within the last decade, this investment has contributed substantially to the building of automotive production capacity in India, China and Eastern Europe:

- The Indian automotive sector has received 7.81 per cent of the total foreign direct investment inflow, the highest share of all manufacturing investment since economic liberalisation began in 1991.[8] India increased output by 50 per cent over a six year period to 2003.[9]
- From 1996 to mid 2003, all 10 global motor vehicle producers (MVPs) invested around $12 billion in Chinese automotive operations.[10] Chinese government joint ventures with major manufacturers contributed to the tripling of the nation's automotive industry output. The bulk of the increase has been in the passenger car segment.[11]
- The opening of markets in Eastern Europe also provides access to low-cost labour and has driven growth in intra-European automotive trade. For example, German automakers Robert Bosch and VW have invested heavily in Central and Eastern Europe. In addition, Korea's Hyundai

6 OECD Foreign direct investment statistics guidelines require that a foreign investor must have at least ten per cent ownership in an enterprise and can have an effective voice in the management of the enterprise. OECD, *Recent Trends in Foreign Direct Investment in OECD Countries*, 2000, p. 26, accessed 28 June 2006, <www.oecd.org> .

7 United Nations Conference on Trade and Development (UNCTAD), 2000, data cited in A. Goldstein, 'Local Entrepreneurship in the Era of E-Business: Early Evidence from the Indian Automobile Industry', International Conference on 'E-commerce for Development: Reviewing Early Experiences, Comparing New Ideas', co-organised by the OECD Development Centre, Paris, France and the School of Development, Innovation and Change, University of Bologna, 4-5 May 2001, p. 2.

8 A. Goldstein, 'Local Entrepreneurship in the Era of E-Business: Early Evidence from the Indian Automobile Industry', International Conference on 'E-commerce for Development…', OECD Development Centre, Paris, France and University of Bologna, 4-5 May 2001, p. 2.

9 International Metalworker Federation, *IMF Auto Report 2004*, Geneva, Switzerland, 2004, p. 43.

10 International Metalworker Federation, *IMF Auto Report 2004*, Geneva, Switzerland, 2004, p. 25.

11 International Metalworker Federation, *IMF Auto Report 2004*, Geneva, Switzerland, 2004, p. 43.

Corporation has invested $1.3 billion in Zilina, Slovakia, to build a factory for the manufacture of its Kia brand.[12]

Market forecasts and supply chain pressures

2.18 The changing profile of the automotive and automotive component manufacturing sector is both driving change and being driven by change. Market contraction and production shifts are a feature of this changing profile.

2.19 The global automotive industry is currently undergoing a profound structural transformation. This is reflected in the extensive consolidations and alliances being formed between major existing industry players and emerging companies in developing economies in Eastern Europe and Asia.

2.20 There is increasing pressure on the motor vehicle industry to become more competitive, more efficient, and more innovative. At the same time, the race to build market share is being run on an unfamiliar road, against a larger numbers of new competitors, and in a changeable market conditioned by such factors as the high cost of fuel and global warming.

2.21 It is the automotive component manufacturers who have felt the brunt of these changes. The lean manufacturing revolution has raised their exposure to market forces, increased their responsibility for innovation and the associated staff training costs, and increased their operating risks.

2.22 There are some suggestions that motor vehicle manufacturers could work more collaboratively with supply chains to reduce some of the cost downs[13] pressure being exerted. This may mean adjusting approaches to supply management and reconsidering operating models to address some endemic structural problems in the industry and achieve a more integrated approach to component production, supply and vehicle assembly.

12 'Europe Circles the Flat Tax', *Business Week*, 26 Sept 2005, p. 29.

13 'Cost downs' refers to the now standard pricing practice whereby the price a manufacturer pays for a component falls by up to eight per cent for every year of the potentially five year contract.

Global overproduction

2.23 The automotive industry in mature economies has for some time now been showing strain, indicated by the round of industry closures that have accompanied industry consolidations and off-shoring. Restructuring in Europe in 2005 saw the loss of hundreds of thousands of jobs and the closure of a significant number of plants.[14]

2.24 In August 2006, faced with higher petrol prices and stiff competition from abroad, both General Motors (GM) and Ford are struggling to restructure. Ford announced that it would slash fourth-quarter production in North America to the lowest level in 25 years.[15]

2.25 Global overproduction appears to be driving the aggressive demands for cost downs being passed on to automotive component manufacturers. Automotive industry players in the short term place a great deal of store on production of new models and innovative products to attract a diminishing market share. Global surveys indicate, however, that the manufacturing sector overall expects that expanded growth in demand will be the main generator of profits over and above product or process innovation.[16]

2.26 One of the most concerning features of the contemporary global automotive market is therefore the combination of excess production capacity and the diminishing demand for product. An estimated 86 million vehicles are built world wide and only 63 million sold. This coincides with a slow down in population growth and saturation of developed markets in Europe, United States and Japan.[17]

2.27 Developing economies, especially in China and India, potentially offer an expansion of the sales market as demand for cars in these countries grows. However, studies indicate that development of these sales markets is likely to be slow, due to limited disposable income of large sections of the

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14 Details cited in European Foundation for the Improvement of Living and Working Conditions, *Trends and Drivers of Change in the European Automotive Industry: Four Scenarios*, European Monitoring Centre on Change, Dublin, Ireland, 2004, p. 11.

15 J. Vail, 'America Gets its Wheels', *Knowledge News,* 26 August 2006.

16 KPMG, *Industrial and Automotive Products, Globalisation and Manufacturing*, 2005, p. 20.

17 Excess capacity in Europe has been estimated at 30 per cent. *Trends and Drivers of Change in the European Automotive Industry: Four Scenarios*, European Foundation for the Improvement of Living and Working Conditions, European Monitoring Centre on Change, Dublin, Ireland, 2004, p. 6; G. P. Maxton and J. Wormald, *Time for a Model Change: Re-engineering the Global Automotive Industry,* Cambridge University Press, 2004, pp. 5–7.

population.[18] The situation is similar in Eastern Europe, where the market is predominately for second hand vehicles.[19]

2.28 In the meantime, it is expected that global excess production will be fuelled by improved production capacity in these countries. Consequently, while there may be growth in the global sales market in the short to medium term, global oversupply is likely to remain. [20]

Devolution of responsibilities in production tiers

2.29 The establishment of global vehicle platforms (discussed below) offers opportunities for motor vehicle manufactures to achieve significant economies in component purchasing, manufacturing and design.[21] This introduces a range of challenges and opportunities for automotive component suppliers.

2.30 Shared global platforms allow for the development of interchangeable common components, enabling MVPs to let a single global contract for supply of a particular automotive component or service. The purchase of components from one supplier under such a contract offers significant economies of scale to the MVP, while subjecting suppliers to greater global competition for the reduced number of contracts. [22]

2.31 Automotive component suppliers fall into a hierarchy of four production tiers. The tier a company falls into depends on what stage of the production process they contribute to:

- **Tier 1** companies hold a contract with a vehicle manufacturer to design and manufacture production components for the vehicle manufacturer.
- **Tier 2** manufacturers make and supply a component which is incorporated by the Tier 1 supplier into the production component delivered to the MVP.

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18 'Extinction of the Predator, Special Report: the Global Car Industry', *The Economist,* 10 September 2005, p. 61 and see *Balancing the Risks: Building Australia's Economic Resilience,* Australian Industry Group, December 2005, p. 1.

19 Data from Polish research in May 2004 found that roughly 50 per cent of all cars in Poland are more than 11 years old, and used car imports into Poland, principally from Germany, increased for the first half of 2004, as prices fell to levels of affordability. International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, p. 49.

20 G. P. Maxton and J. Wormald, *Time for a Model Change: Re-Engineering the Global Automotive Industry*, Cambridge University Press, 2004, pp. 16, 128, 132.

21 International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, p. 47.

22 Department of Employment and Workplace Relations (DEWR), *Submission No. 11*, p. 8.

- **Tier 3** comprises suppliers of materials or components used by Tier 2 manufacturers.
- **Tier 4** comprises suppliers of materials or components used by Tier 3 manufacturers.[23]

2.32 To service global platforms, tier one suppliers of sub-assemblies are moving offshore. Second tier suppliers may follow to establish regional production centres. Smaller or specialist component suppliers must either follow, or become integrated into upper tier businesses to survive.[24]

2.33 Tier one suppliers are also consolidating and forming partnerships and alliances with each other to achieve economies of scale. These alliances are joint venture arrangements between component manufacturers of products to assemble a product made of parts once sold separately to the automotive vehicle manufacturer.

2.34 The outsourcing of intellectual property is one consequence of these shifts in the organisation and operation of production tiers. It has been suggested that progressive automotive manufacturers may in the future limit their function to design specialists and marketers, giving suppliers and retailers more independence and responsibility to develop and trial innovations.[25]

2.35 However, these shifts in production tier responsibilities are not accompanied by opportunities for an increase in profit share. A study conducted by the Centre of Automotive Research, University of Michigan (USA), revealed that component suppliers are getting a smaller percentage of the profits from the total value of assembled vehicle sales, irrespective of year profitability.[26]

Implications for Australian component manufacturers

2.36 The rapidly changing market situation facing component suppliers was a consistent concern raised throughout the inquiry. The purchasing decisions of multinational companies are being centralised and so are not taking into account local conditions and market impacts. This can place

23 Victorian Government, *Submission No. 24*, p. 4.

24 Australian Industry Group, *Manufacturing Futures – Achieving Global Fitness,* April 2006, p. 29.

25 'Extinction of the Predator, Special Report: the Global Car Industry', *The Economist* , 10 September 2005, p. 64.

26 'Estimating the New Automotive Value Chain', The Centre of Automotive Research (CAR), Alatarum Institute, University of Michigan, November 2002, quoted G. P. Maxton and J. Wormald, *Time for a Model Change: Re-Engineering the Global Automotive Industry*, Cambridge University Press, 2004, p. 161.

significant and potentially unsustainable pressure on the domestic component industry's competitive pricing ability and capacity to supply.

2.37 The Australian Automotive Aftermarket Association (AAAA) told the Committee:

> With the increased globalisation and declining profit margins in the automotive industry, local subsidiaries of international vehicle manufacturers are increasingly moving to global sourcing of products to reduce costs and maintain profitability. This change in purchasing strategy is being driven by head offices in Europe, Asia and the United States and is based on current commercial realties rather than on the long term sustainability of the local industry. Global sourcing policies are also effectively "locking out" smaller suppliers with no international linkages as there is often a requirement to have the capacity to supply the same (or similar) products to other manufacturing locations around the world.[27]

2.38 The Committee heard concerning reports about global price matching practices of MVPs resulting in ruthless cost downs and contract letting methods that seriously undermine the business confidence of component manufacturers. While the Committee received little formal evidence on these practices, the evidence received both formally and anecdotally is serious.

2.39 Global price matching has led to MVPs requiring locally based suppliers to match developing economies 'factory gate' or 'ex-works' prices (without including transportation and storage costs).[28] This results in annual cost downs to local suppliers and is not the best interests of a long term diversely competitive industry. These practices are unsustainable in the long-term and lead to significant contract, and therefore employment, uncertainty.

2.40 There are a number of 'industry culture' issues which are of concern to the Committee. While it is difficult for the Government to directly influence these practices, greater discussion of the industry culture, sustainability and a future vision is provided in the concluding chapter.

2.41 The Ai Group Survey of Victorian automotive component manufacturers found that:

> 90 per cent of local suppliers had lowered selling prices to Original Equipment Manufacturers [MVPs] by an average of 5.5 per cent in

27 Australian Automotive Aftermarket Association (AAAA), *Submission No. 18,* pp. 4–5.

28 DEWR, *Submission No. 11,* p. 6.

> the previous year and further significant cuts were expected in the next two years.[29]

2.42 This contract management process leads to an insecure trading environment that is a significant disincentive to continued multinational investment in Australia. Mr Bob Franklin, Managing Director of Autoliv Australia, a first tier multinational supplier, told the Committee:

> 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.[30]

2.43 The Committee was told that MVP contract management practices militate against long term planning and hence capacity to invest in research and development (R&D), putting the viability of local suppliers at risk:

> 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.[31]

2.44 The issue of accountability for public investment is discussed later in the report. However, the lack of security in contracts combined with consistent cost downs and the failure of MVPs to recognise the increasing cost of raw materials is having a serious negative impact on the overall security of the industry.

2.45 The effects of these policies were seen in the August 2006 crisis facing Ajax Engineered Fasteners. As the company struggled to meet operational costs in an environment of increasing commodity prices, there was no

29 Cited by DEWR, *Submission No. 11,* p. 6.

30 Mr R. Franklin, Autoliv Australia, *Transcript of Evidence*, 26 June 2006, p. 54.

31 Mr D. Hugo, Flexdrive Cables Australia Pty Ltd, *Transcript of Evidence*, 26 June 2006, p. 11.

recognition of this in MVP contracts and the company was placed into administration. The potential closure placed the automotive industry into chaos, threatening stand down for thousands of employees across the industry.

2.46 A rescue package was eventually sourced from MVPs.[32] The Committee considers this demonstrates a reasonable acknowledgment of the responsibilities that the automotive industry holds across the component supply chain.

2.47 Increasingly it appears that MVP purchasing decisions are based on price alone, although the Committee notes that GM Holden rejects this notion. In response to the above issues GM Holden informed the Committee:

> In sourcing new business to suppliers, GM Global Purchasing and Supply Chain consistently base their decisions on an overall business case considering a supplier's performance and competitiveness in the areas of quality, service, technology and price. Any interpretation of this policy that suggests a single focus on price is clearly incorrect. All four factors drive our sourcing decisions and ongoing performance measurement. The way we look at it, high performing suppliers who demonstrate excellence in quality, service, technology and price contribute to GM Holden's strategic competitive advantage within the market in which we operate.[33]

2.48 Another consequence of global sourcing policies is the necessity for local manufacturers to have the capacity to supply globally. This is largely only possible if manufacturers are able to link into global supply chains, which requires the commitment of MVPs to supporting the local components industry and facilitating linkages into the global supply chain.

Off-shoring and outsourced production

2.49 As discussed, diminishing sales markets and resultant pressures on supply chains are severely impacting on local component manufacturers. A further significant impact is felt from the moves to off-shoring and out-sourced production. Off-shoring in manufactures has been described as 'the third wave of globalisation'. The effect on the automotive industry has been profound. Off-shore activity may be realised through:

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32 A. Trounson, 'Holden Flies in Parts to Save Jobs', in *The Australian,* p. 1.

33 Mr K. Acquilina, National Manager, Government Relations and Public Policy, GM Holden. Correspondence dated 12 July 2006.

- the use of imported components or material in domestic-based production; or
- the production of finished goods overseas.[34]

2.50 While these activities may appear to be discrete, off-shoring in the automotive sector supports a complex exchange of products at various stages in the production chain between suppliers and assemblers either co-located or at different points around the globe. In this sense it is not simply a matter of investing in infrastructure in another country.

2.51 In 2006 KPMG's Economic Intelligence Unit conducted a world-wide survey to ascertain the affects of globalisation on the manufacturing sector. It found that three main considerations were taken into account by manufacturers when making decisions about off-shoring:

- increased market access and penetration;
- lower labour costs; and
- incentives offered by nations to attract off-shore investment and innovation.[35]

2.52 Established brands are increasingly off-shoring activities by investing in automotive plants as well as sourcing components in developing countries to gain cost and other advantages. Emergent automotive industries in Asia, but also in the Middle East and Eastern Europe, are feeding into this global trade.

2.53 Following its accession to the WTO in 2003, China has capitalised on FDI to become a major importer and exporter. China now imports automotive components from other locations for assembly, and exports finished vehicles and components back to supplier assembly plants in other countries.[36]

2.54 The potential to outsource the manufacture or assembly of vehicle components depends on the position of the component in the production chain. Some automotive component products can easily be shipped across national frontiers and trade areas whereas other functions, for example engine assembly, must be closely integrated with the assembly process for inventory control purposes.[37]

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34 Australian Industry Group, *Manufacturing Futures – Achieving Global Fitness,* April 2006, p. 29.

35 KPMG, *Industrial and Automotive Products, Globalization and Manufacturing*, January 2006, p. 17.

36 Data in 'FDI into OECD Countries Jumps 27% in 2005', *OECD: Building Partnerships for Progress*, accessed 28 June 2006, <www.oecd.org>.

37 International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, p. 78.

2.55 Centralised MVP purchasing policies are reported to be driving the outsourcing trends for component supply. Ford and GM mandate for price comparison with suppliers operating in low cost countries. Toyota has a policy to develop local supply chains, nevertheless advises that competitive pricing and quality in production is a significant factor in determining which of the Toyota subsidiaries around the world will attract parent company investment.[38]

2.56 These global purchasing approaches impact on the development decisions made by MVPs and suppliers.

Increased market access

2.57 A fundamental driver of the off-shoring trend in automotive manufacturing is the desire to increase global market share through reduced costs and/or increased market penetration.

2.58 In the automotive industry, the success and sustainability of any enterprise has traditionally been based on the strength of local markets, and on the capacity of the domestic industry to retain market share.[39]

2.59 As discussed previously, the demand for cars has 'bottomed out' in the developed world, where population growth is in stasis or decline and market saturation has been reached. Meanwhile, projected population and economic growth in China and India supports hopes that in time these countries will become the world's largest vehicle markets, with China soon replacing Japan as the second largest market after the United States.[40]

2.60 The KPMG survey found that, overall, thirty per cent of companies world-wide are looking to Asian markets to drive growth.[41] Asia is a future market for sales adding to its attractiveness as a location for component manufacturing. The KPMG survey found that: 'manufacturing has to be where the markets are. Countries are saying, if you want to sell it in our country, you have to come and make it here.'[42]

2.61 Bilateral trade agreements may also indirectly drive decisions to off-shore developments to particular countries. Japanese automotive companies have recently expanded operations into Thailand, thereby gaining zero

38 Victorian Government, *Submission No. 24,* p. 8; Toyota Australia, *Submission No. 9,* pp. 4-5.

39 *The Automotive Industry – an Integral Part of Innovative Sweden,* The Ministry of Industry, Employment and Communications, Sweden, October 2005, p. 15.

40 G. P. Maxton and J. Wormald, *Time for a Model Change: Re-engineering the Global Automotive Industry*, Cambridge University Press, 2004, pp. 6–7; 'Extinction of the Predator, Special Report: the Global Car Industry', *The Economist*, 10 September 2005, p. 61

41 KPMG, *Industrial and Automotive Products Globalisation and Manufacturing*, October 2005, p. 6.

42 KPMG, *Industrial and Automotive Products, Globalisation and Manufacturing*, October 2005, p. 9.

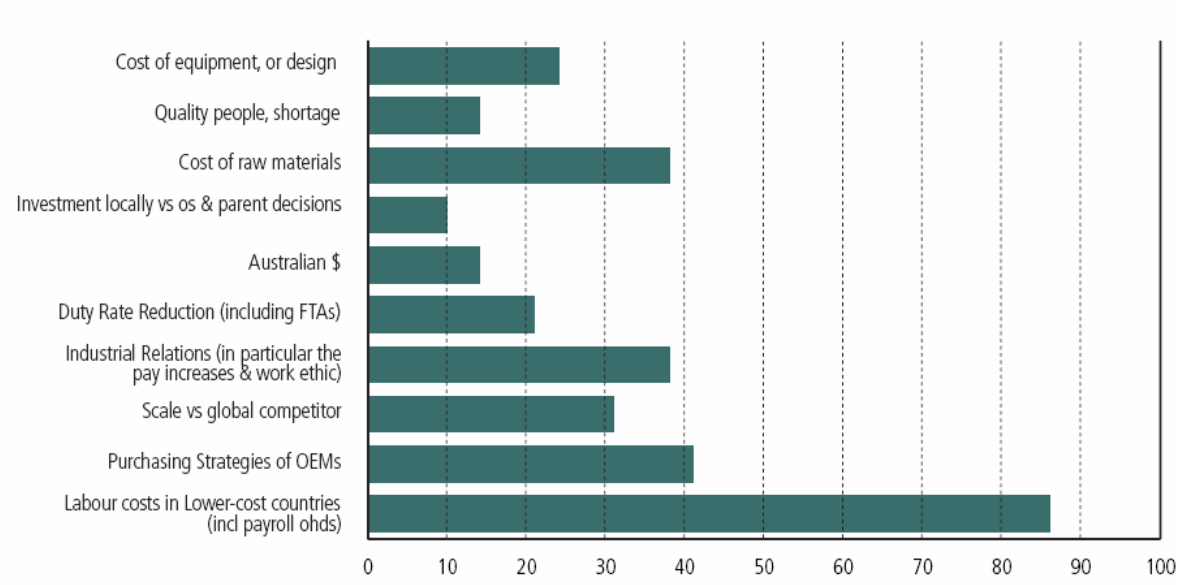
tariff entry into the Australian market through the Australia–Thailand Free Trade Agreement.[43]

Lower labour cost

2.62 Labour costs in the automotive industry are affected by a range of factors, including international trade and investment rules, domestic economic conditions, workplace relations, environmental and other legislation or policies.

2.63 One of the principal, and most contentious, motivations for off-shoring has been to obtain cost advantages from lower wage structures in developing countries. Labour costs in lower cost countries is the issue most affecting the competitiveness of the automotive components industry (see Figure 2.1).

Figure 2.1: Issues most affecting automotive component manufacturer competitiveness



Source: *Ai Group, FAPM and KPMG*, The Victorian Automotive Components Industry: Competitiveness, Profitability and Future Strategies, *March 2005, p. 17. Percentage of respondents listing as issue of concern, based on a survey of 70 component suppliers, supplemented by 30 interviews of company executives.*

2.64 Automotive manufacturers in mature markets have sought to achieve cost efficiencies by relocating operations to the fastest growing markets, which offer significantly cheaper labour in less regulated working environments.[44]

43 Victorian Government, *Submission No. 24,* p. 8.

44 International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, p. 51 and Australian Industry Group, *Manufacturing Futures – Achieving Global Fitness,* April 2006, p. 29.

2.65 While cost saving on labour is a clear driver for moving component manufacturing off-shore, there is some speculation that this may only provide a short term gain. For example, China has faced two economic downturns over the past 25 years, and another slowdown is considered inevitable at some point. Expectations are that a major exchange rate realignment and revaluing the Chinese currency is required to address underlying trade imbalances. Such a re-evaluation would dramatically increase the cost of doing business in China.[45]

2.66 Lower labour costs in developing countries must also be balanced with the lack of available skills in some off-shore locations. A KPMG survey of automotive manufacturers found that around 45 per cent of respondents considered acquiring employees with the right skills the most pressing challenge after labour costs.[46]

Investment and innovation

2.67 Market shifts, over-production, cost downs, off-shoring and outsourced production are placing mounting competitive pressures within the global automotive industry.

2.68 With global trade liberalisation, free trade agreements, national advantages are diminished and international competition becomes more intense. As a result, incentives may be needed to attract MVPs and tier one suppliers to set up, or remain onshore.

2.69 Many nations offer a mix of tax concessions, including R&D concessions and other industry incentives. While these incentives apply generally to manufacturing, in some instances they have had a profound impact on investment decisions and locations in the automotive industry.

2.70 Figure 2.2 provides a summary of the global investment incentives for the manufacturing sector. However, there 'is a need to better understand the diversity of tax incentives offered by other countries (particularly among developing economies) as these can have a major effect on the effective tax rate.'[47] The Australian Automotive Competitiveness and Investment Scheme (ACIS) forms a significant part of the other incentives offered to

45 The Hon. Alexander Downer, Minster for Foreign Affairs, 'Australia, Asia and Global Drivers for Change', Speech: *Future Summit 2006*, Brisbane, 12 May 2006; KPMG, *Industrial and Automotive Products Globalisation and Manufacturing*, October 2005, p. 11.

46 KPMG, *Industrial and Automotive Products Globalisation and Manufacturing*, October 2005, pp. 10–11.

47 Australian Industry Group, *Manufacturing Futures – Achieving Global Fitness*, April 2006, p. 60.

attract global automotive manufacturing investment in Australia. ACIS is discussed further in Chapter 5.

Figure 2.2 Global manufacturing investment incentives

Country	National Corporate Tax (%)	Corporate Marginal Effective Tax Rate (manufacturing) (%)	Depreciation Allowances (%)	Investment Incentives	Other Incentives Offered (including Manufacturing)
Australia	30	29.4	5-30	No uniform policies	Yes
Canada	21	35.5	4-100	Federal and Provincial policies	Yes
China	30	45.5	5-20	Tax concessions	Yes
Denmark	30	20.6	0-25	No uniform policies	No
Germany	25	37.7	5-33	Tax concessions and subsidies	Yes
Hong Kong	16	6.1	4-100	Tax concessions and subsidies	No
India	35	23.2	0-100	Tax concessions and Free Trade Zones	Yes
Ireland	12.5	14.1	15-100	Tax concessions and grants	Yes
Italy	33	33.3	3-10	Tax concessions and grants	Yes
Korea	13	31.9	Not available	Tax concessions and Free Trade Zones	Yes
Malaysia	28	Not available	10-20	Tax concessions and subsidies	Yes
Mexico	30	17.2	5-25	Tax concessions and Free Trade Zones	Yes
New Zealand	33	30.1	20	No uniform policies	No
Portugal	25	11.7	2-25	Tax concessions and Free Trade Zones	Yes
Singapore	20	5.8	5-100	Tax concessions and grants	Yes
Spain	35	29.9	3-30	Tax concessions and Free Trade Zones	No
Sweden	28	12.8	2-30	Tax concessions and grants	No
Switzerland	3.63	16.9	3-40	Tax concessions	No
United Kingdom	19-30	22.7	6-100	Tax concessions and grants	No
United States	35	34.6	0-100	Tax concessions and grants	Yes

Source *Ai Group*, Manufacturing Futures—Achieving Global Fitness, *April 2006*, *Appendix A*

Value of innovation

2.71 Investment in R&D for product innovation is regarded as the best means by which automotive manufacturers can gain a competitive edge in the current trading environment—not only to hedge against pressures from low cost countries but also to expand opportunities into new markets.

2.72 Developments in Europe have been underpinned by the outsourcing of high value design and engineering functions. This has led to the growth of an industry segment providing design and engineering services, which has the capacity to develop and build the small volume niche vehicles that are popular with European consumers.[48]

2.73 A strong R&D and innovation profile is powerful attraction for foreign investment and this is being recognised in European countries facing similar outsourcing pressures to Australia. For example, Sweden's automotive industry has a strong R&D profile, developed with substantial government and industry support. High government and industry investment in research has resulted in Sweden being viewed by the global

48 European Foundation for the Improvement of Living and Working Conditions, *Trends and Drivers of Change in the European Automotive Industry: Four Scenarios*, European Monitoring Centre on Change, Dublin, Ireland, 2004, p. 3.

automotive industry as a leading location for R&D and new product testing.[49]

2.74 Changes in international safety and environmental standards are driving future automotive innovation. It has been estimated that the automotive industry will have to increase R&D spending on technology by 20 per cent to meet new legislative requirements and competing demands.[50]

2.75 Escalating high fuel costs have also prompted greater awareness of the greenhouse impact of cars and the development of hybrid technologies.[51]

The emergence of new production strategies

2.76 A further challenge facing the automotive component sector is the emergence of new production strategies in the automotive industry. Automotive producers continue to evolve and refine production strategies to remain competitive as the automotive market diversifies. These strategies are interrelated and comprise:

- industry consolidation and the formation of alliances;
- the development of global vehicle platforms; and
- the adoption of lean manufacturing production processes.

Industry consolidation and alliances

2.77 As the global market becomes more dynamic, gaining an economy of scale is critical. Over the previous two decades the industry has seen an acceleration in large automotive business consolidations. Well known brands have been 'bundled' and a relatively new trend towards partnerships and joint ventures, particularly with partners in Eastern Europe and Asia, has evolved.[52]

2.78 Historically, consolidation and merger has been a major strategy used by MVPs to improve competitiveness and offset the costs of developing new technologies.

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49 *The Automotive Industry: an Integral part of Innovative Sweden,* The Ministry of Industry, Employment and Communications, Sweden, October 2005, p. 9.

50 G. P. Maxton and J. Wormald, *Time for a Model Change: Re-engineering the Global Automotive Industry*, Cambridge University Press, 2004, p. 255.

51 Mr David Lamb, CSIRO, *Submission No. 28*, p. 3.

52 International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, p. 67.

2.79 In recent years the trend towards the formation of alliances and partnerships has evolved as a useful tool to aid market penetration, and to avoid tariffs and other trade barriers when entering new markets. The European passenger car industry now consists of just nine companies while Japan's penetration of international markets has been based on successful joint ventures.[53]

2.80 Alliances are also a key feature of the capacity-building of China's fast growing automotive industry. Under the 'Trading the Market for Technology' policy, the Chinese government requires that foreign companies form 50:50 joint ventures to produce vehicles locally. Foreign investors routinely face competition from their own joint venture partners which produce similar products under their own brands.[54]

2.81 Chinese industry participants have now achieved the scale necessary to enter the global mergers and acquisitions market, entering Korea in 2004 and Europe in 2005.[55]

2.82 While there are indications that economy of scale may not secure success in 21st century automotive markets, it is nevertheless expected that amalgamations will continue to feature in the industry. According to one forecast the number of independent vehicle manufacturers worldwide will fall from 13 in 2002 to 10 or less in 2015, based on the projected rate of the formation of alliances.[56]

Global vehicle platforms

2.83 Mergers and alliances among automotive producers have enabled the establishment of 'global' vehicle platforms.

2.84 Traditionally, the passenger vehicle market was segmented according to vehicle size, with luxury lines falling in a wedge at the top of the size and price ratio.[57]

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53 'The Global Picture', *The Automotive Industry – an Integral Part of Innovative Sweden*, The Ministry of Industry, Employment and Communications, Sweden, October 2005, pp. 24-25.

54 J. Sun, 'China: the Next Global Auto Power?', *Far Eastern Economic Review*, March 2006, pp. 37–39.

55 'Detroit's Loss is China's Gain in Great Drive Forward', *Australian Financial Review,* 22 June 2006, p. 68 and J. Sun, 'China: the Next Global Auto Power?', *Far Eastern Economic Review*, March 2006, p. 40.

56 'Extinction of the Predator, Special Report: the Global Car Industry', *The Economist*, 10 September 2005, p. 62 and International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, p. 64.

57 G. P. Maxton and J. Wormald, *Time for a Model Change: Re-Engineering the Global Automotive Industry*, Cambridge University Press, 2004, p. 23.

2.85 Following the oil shock in the 1970s, the market transformed. Car products were no longer differentiated on size and vertical product class structures. MVPs built market share and badge loyalty by the production of many and different models. Based on only two or three basic engine blocks, each model variant required supply of individual components.[58]

2.86 The development of common production platforms allowed for the use of interchangeable common components for a range of brands and the letting of single global contracts for their supply.[59]

2.87 From 2002 to 2008 the number of global platforms with capacity exceeding one million units per year is expected to increase from five to fifteen.[60] This production strategy allows for significant economies of scale in production and supply. It also requires component producers to increase capacity for large-scale production to supply worldwide markets.[61]

Changing manufacturing models

2.88 The automotive industry has always been at the forefront of new industrialisation processes, including management and organisational techniques. The transforming production models of the late twentieth century have been continuous improvement strategies (*kaizen*), 'lean manufacturing' organisational techniques and 'pull' or just-in-time production (*kanban*).[62]

2.89 Traditional volume production, as devised by Henry Ford, was achieved by top down management, discrete task allocation and high levels of vertical integration (ownership of the entire product chain). By contrast, the theory of lean manufacturing values quality and customisation over volume through networked supply chains.[63]

2.90 Lean manufacturing can reduce risk and provides time management and efficiency gains while retaining the flexibility to respond to changing customer values and tastes.[64]

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58 G. P Maxton and J. Wormald, *Time for a Model Change: Re-Engineering the Global Automotive Industry*, Cambridge University Press, 2004, pp. 22-23.

59 DEWR *Submission No. 11*, p. 8.

60 International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, pp. 46–47.

61 International Labour Office, *Automotive Industry Trends Affecting Component Suppliers*, Geneva, 2005, p. 48.

62 Centre for TPM (Australasia), *Submission No. 12*.

63 G. P. Maxton and J. Wormald, *Time for a Model Change: Re-Engineering the Global Automotive Industry*, Cambridge University Press, 2004, pp. 108–11.

64 B. Hatch, 'Kaizen Culture, Organisation, Reinventing Leadership', *Australian Financial Review Boss*, vol. 7, July 2006, p. 45.

Supply chain implications of lean manufacturing

2.91 For component suppliers, a significant by-product of the adoption of lean manufacturing for the automotive industry has been the devolution of former in-house production tasks down the supply chain.[65]

2.92 Only 25 per cent of value in a vehicle is now controlled by automotive assemblers. Accordingly, suppliers are carrying more responsibility and risk in the production process than previously. Tier one suppliers may design, manufacture and supply sub-assemblies, carrying a significant management role in the supply chain coordination. [66]

Take-up of lean manufacturing

2.93 While lean manufacturing philosophies have clearly been a revolutionising force in the automotive industry the model has not been adopted wholesale.[67]

2.94 Germany and Japan, for example, have fostered extremely productive systems based on collaborative work practices, whereas other countries with different or more adversarial workplace relations systems encounter problems. Fiat found obstacles, for example, in setting up their automotive venture in India because of labour market regulations.[68]

2.95 Lean manufacturing models demand increased flexibility and the adjustment of orders and provision of product within short time frames. The process results in a low tolerance of error, minimal inventory stock and tight operating margins.[69]

65 International Metalworker Federation, *IMF Auto Report 2004*, Geneva Switzerland, 2004, p. 17.

66 See discussion G. P. Maxton and J. Wormald, *Time for a Model Change: Re-Engineering the Global Automotive Industry*, Cambridge University Press, 2004, pp. 146–47.

67 R. Gough, M. MacIntosh and B. Park, 'The Influence of Decentralised Bargaining Systems on the Introduction of Continuos Improvement Practices in Australian Automotive Components Companies', *Asia Pacific Business Review*, vol. 12, no. 2, April 2006, p. 211.

68 A. Goldstein, 'Local Entrepreneurship in the Era of E-Business: Early Evidence from the Indian Automobile Industry', International Conference on 'E-commerce for Development…', OECD Development Centre, Paris, France and University of Bologna, 4-5 May 2001, p. 14.

69 The IPA Work Reform Unit ,'The Capacity to Manage Index Report 3: The Australian Automotive Industry', *IPA* (Institute of Public Affairs) *Review*, vol. 55, no. 2, June 2003, p. 19.

2.96 Most suppliers regard adopting 'just in time' lean manufacturing methods as essential to meet the demands of the globally competitive automotive industry:

> Any company that is not practicing lean manufacturing right now will fold. It is absolutely essential. Reliance on old manufacturing techniques is not an option.[70]

Finding a position in the global marketplace

2.97 Clearly, the Australian automotive components industry is facing challenges beyond domestic market forces. The global automotive industry provides more competition than every before, largely due to the changing market dominance of new manufacturing countries.

2.98 Automotive component manufacturers have borne the brunt of the changes produced as a result of global over-production and the devolution of responsibilities along supply chains. This changing marketplace coupled with the move to global purchasing by motor vehicle manufacturers has placed significant pressure on the local industry.

2.99 To compete, Australian component manufacturers are seeking export markets and, increasingly, are off-shoring and outsourcing their manufacturing to take advantage of low labour costs and so have the capacity to supply global vehicle production lines.

2.100 Notwithstanding these export consideration, component manufacturers are still dependent on the viability of the local vehicle manufacturers. Consequently, any downturn in production and employment at the major manufacturers can have serious negative effects on the component industry.

2.101 The next chapter addresses the component sector's relationship with MVPs, employment profile and training practices.

70 Mr Steven Leece, Managing Director, Moog, United States headquartered precision component manufacturing, quoted in KPMG, *Industrial and Automotive Products, Globalisation and Manufacturing*, 2005, p. 21.

3

The Australian automotive components industry

3.1 Understanding the context and factors shaping the automotive component industry is integral to identifying its future opportunities. This chapter gives an overview of the Australian automotive components manufacturing industry, including a discussion of the major domestic and global changes affecting the industry, revenue sources, local content levels and relationships along the supply chain.

3.2 To meet the challenges of change, the industry is reliant on a trained and adaptable workforce. A discussion is given on the current workforce profile, the education and skill levels available to the industry and its dependence on effective workplace relations mechanisms.

3.3 Integral to building and maintaining a strong workforce is ensuring that employees are suitably trained. The automotive components industry utilises a combination of formal and on-the-job training practices and the chapter examines both of these to identify gaps in training provision.

Size and structure of the automotive components industry

3.4 The Australian automotive and automotive component manufacturing industries have been vital in the history of Australia's nation building. They have contributed to economic development, make a significant investment in research and development (R&D), and are sizeable employers.

3.5 To service a country in need of an effective transport system, the capacity of the Australian automotive industry developed early, following closely the development of the automobile. Throughout the 1950s and 60s high import costs (including transportation costs, high import tariffs and local content requirements) led to the development of a vibrant local components industry.

3.6 International pressures, such as rising oil costs and a downturn in global trade during the 1970s, impacted on the viability of the local industry. This led to the introduction of import quotas and an increase in import tariffs which assisted in stabilising the industry. However, the introduction of export facilitation later that decade 'effectively allowed exporters to exchange automotive exports for component imports without affecting 85 per cent local content achievement.'[1]

3.7 The 1980s saw a reduction in government protection and policy of industry rationalisation. Internationally, big automotive companies were also rationalising and Japan made a strong competitive entrance into the market. Japanese lean production methods were to later revolutionise the role and function of the components industry.

3.8 Component companies were also consolidating, and the 1990s saw 'the maturation of many component companies to become major component and technology exporters.'[2]

3.9 Today the motor vehicle production at the four major companies is supported by a complex and diverse supply chain of component and tooling manufacturers.

3.10 The industry is an important contributor to the Australian economy. With exports valued at nearly $4.7 billion (vehicles and components), the automotive industry accounts for 6 per cent of total manufacturing activity and 0.7 per cent of total economic activity.[3] Within that, automotive components are the only elaborately transformed manufactured good in Australia's top ten principal merchandise exports.[4]

3.11 In addition, the industry makes a significant contribution to product, process, technological innovation and R&D in Australia: 'In 2002-03, Business Expenditure on R&D by Australian automotive companies totalled $731 million.'[5]

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1 Australian Automotive Intelligence, *Automotive Intelligence Yearbook 2006,* March 2006, p. 8.

2 Australian Automotive Intelligence, A*utomotive Intelligence Yearbook 2006,* March 2006, p. 9.

3 Australian Bureau of Statistics (ABS), *Year Book Australia 2005,* January 2005, Cat. No. 1301.0, pp. 547–51.

4 Department of Employment and Workplace Relations (DEWR), *Submission No. 11,* p. 5.

5 Victorian Government, *Submission No. 24,* p. 3.

3.12 The fortunes for component manufacturers are highly integrated with those of the vehicle producers. In 2004, 91 per cent of total component sector sales, valued at $7.1 billion, were to the four Australia motor vehicle producers. Component sector sales increased to $7.3 billion in 2005 but domestic sales to the motor vehicle producers dropped slightly to approximately 90 per cent of this total.[6] Total sales for the four vehicle producers are valued at approximately $17 billion per year.[7]

3.13 Employment and production at the four motor vehicle producers is outlined in Appendix D.

3.14 In those states where automotive manufacturing is concentrated, it forms a significant part of the state economy:

- automotive manufacturing contributes 2.4 per cent of South Australia's Gross State Product 'generating exports worth almost $1.2 billion in the year to November 2005 and providing direct employment for around 14 800 people.'[8]
- in 2001–02, automotive manufacturing contributed $2.6 billion to the Victorian state economy and contributed 1.4 per cent of Gross State Product and providing employment for over 14 800 people.[9]

Changes affecting the components industry

3.15 While the automotive industry forms a significant part of the Australian economy, in terms of the global vehicle industry Australia is a minor participant, contributing only 0.6 per cent of global automotive production.[10] Regardless, the Australian automotive industry is not immune to international competitive pressures. As all four of the vehicle manufacturers are owned by major multinational companies, business decisions are made on a global level and not necessarily in consideration of the sustainability of local industries.

6 Federation of Automotive Product Manufacturers (FAPM), *Member Totals for Year Ending 30 December 2005.*

7 DEWR, *Submission No. 11,* p. 4

8 South Australian (SA) Government, *Submission No. 5*, p. 3.

9 Data provided by Department in Innovation, Industry and Regional Development (Victoria), 1 November 2006; Victorian Government, *Submission No. 24*, p. 10.

10 DEWR, *Submission No. 11,* p. 5.

3.16 Because of this, any challenges at a global level pose a serious threat to the Australian industry's viability. The primary challenges to the Australian automotive industry are:

- the global corporate environment providing competitive challenges to parent companies;
- integrated global supply chain management used by parent companies to centralise sourcing, pricing and quality control;
- the emergence of China, India and Thailand, coupled with tariff and non-tariff barriers, to Australian imports;
- the rising cost of fuel driving down consumer demand for large passenger vehicles;[11] and
- exchange rate risks due to the high price for raw materials and the commodity-linked exchange rate.[12]

3.17 These pressures are being felt in a deterioration of the competitive position of locally made vehicles and 'an overall deterioration in retail price competitiveness for the locally manufactured vehicles of around nine per cent' amounting to sales losses of 50 000 units.[13] The export market is also deteriorating under the appreciation of the Australian dollar. In 2005 this resulted in a drop in sales of 18 000 units from previous highs.[14]

3.18 As the fortunes of the component industry are so closely interlinked with the motor vehicle producers (MVPs), these sales downturns are being felt along the supply chain. The most significant threat to the component industry is the competition provided by imports.

3.19 Automotive imports, including components, increased from $6.14 billion in 1989–90 to $19.90 billion in 2002–03. This equates to an increase of 224 per cent. Over the same period, the total industry value added[15] fell by five per cent. This indicates a significant downward shift in the value of the industry against imports, where 'in 1989–90 total value added was equal to 85 per cent of imports, but by 2002–03 this had fallen to just 25 per cent.'[16]

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11 Federal Chamber of Automotive Industries (FCAI), *Submission No. 27,* p. 2.

12 Australian Industry Group (Ai Group) and Engineering Employers Association, South Australia (EEASA), *Submission No. 26,* p. 4.

13 FCAI, *Submission No. 27*, pp. 2–3.

14 FCAI, *Submission No. 27*, p. 5.

15 Industry value added is a measure of the net value of production in an industry.

16 Australian Expert Group in Industry Studies, University of Western Sydney (AEGIS, UWS), *Submission No. 15,* p. 2.

3.20 The decline in local manufacturing and the increase in imports has serious implications for Australia's position as a competitive nation, not only in terms of manufacturing but also in relation to our capacity to support innovation and R&D. Dr Phillip Toner, of the Australian Expert Group in Industry Studies at the University of Sydney, submitted that:

> These adverse trends in the automotive industry are part of a larger deterioration in the performance of Extensively [elaborately] Transformed Manufactures (ETMs) in Australia of which the automotive industry is an important part … In 2004-05 Australia imported $110bn of ETMs and exported $24bn in ETMs resulting in a trade deficit in ETMs of $85bn. This is equivalent to nearly 10 per cent of GDP. Australia's deficit in automobiles and parts is the equivalent of 2 percent of GDP. Over the last four years, the level of ETM exports actually declined.
>
> The inference to make from these data is that not only is Australia becoming less competitive in the manufacture of automotive products but this is part of a larger trend which has seen the nation's ETM performance deteriorate markedly, especially over the last four years. It is clear that current policies for the promotion of ETM exports, in terms of skills, R&D, innovation and investment need to be re-evaluated.[17]

Component sector revenue sources

3.21 Despite growing international pressures and import threats, revenue growth for the component sector has been reasonably strong. Although heavily dependent on the domestic MVPs, the component sector has diversified its revenue base. The Federation of Automotive Product Manufacturers (FAPM) reports that changes in revenue sources in the ten years from 1994 to 2004 were:

- the original equipment (MVP) domestic market increased from 54 to 62 per cent;
- original equipment exports fell from seven to six per cent;
- domestic aftermarket sales fell significantly from 35 per cent to 14 per cent;
- export aftermarket sales fell from four to one per cent; and

17 AEGIS, UWS, *Submission No. 15,* p. 2.

- by 2004, 17 per cent of revenues were derived from automotive specific activity other than manufacturing.[18]

3.22 International competitive pressures are rapidly increasing and consequently sustained diversification of the sector's revenue base will continue to be a priority for the industry.

Local content levels

3.23 The Committee is concerned that global purchasing models will continue to erode the local content in Australian vehicles. Conservative estimates put the decline in local content at five to six per cent based on known contract losses in 2005 and 2006[19] although evidence to this inquiry suggested it was much higher.

3.24 There is no longer any reporting of the percentage of local components used in locally produced vehicles and the Committee is surprised by this. While the Committee heard consistent reports of declining local content, the lack of any reporting requirements means this cannot be confirmed through verifiable figures.

3.25 However, as an example, the Committee heard consistent and seemingly reliable evidence that the local components have fallen from over 70 per cent in the previous model to approximately 55 per cent in the new GM Holden VE Commodore.[20]

3.26 GM Holden disputed these figures stating:

> GM Holden does not accept these figures … GM typically does not quote the proportion of local content for a number of reasons, chief among them the great difficulty that exists in identifying a consistent measure. There are also significant competitive sensitivities.[21]

3.27 The Committee notes GM Holden's concerns although remains concerned about the implication of the decline in local content on the supply chain.

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18 FAPM, *Submission No. 16*, pp. 11–12

19 Ai Group and EEASA, *Submission No. 26,* p. 8

20 Australian Manufacturing Workers Union (AMWU), *Submission No. 17,* p. 21; Victorian Government, *Submission No. 24*, p. 5; Mr D. Cameron, AMWU, *Transcript of Evidence,* 26 June 2006, p. 22; Mr P. Upton, FAPM, *Transcript of Evidence,* 26 June 2006, p. 61; Mr A. Haermeyer MP, Minister for Manufacturing and Export, Victorian Government, *Transcript of Evidence,* 26 June 2006, p. 76.

21 Mr K. Aquilina, National Manager, Government Relations and Policy, GM Holden. Correspondence dated 12 July 2006.

3.28 Both Ford and Toyota indicated a firm commitment to the local industry and developing local supply chains. This is reflected in the reported levels of local components of around 80 per cent.[22]

3.29 The Committee was told that the Australian Government Minister for Industry, Tourism and Resources has:

> made it clear to the car industry that in return for the support the government gives them—and they get a lot of support—he expects the component industry to be given full, fair and reasonable opportunity to supply to them. At the end of the day, it is not something we can force. We cannot enforce levels of local content. That would be something that is not compatible with our World Trade Organisation obligations.[23]

3.30 The support given to the automotive industry under the Automotive Competitiveness and Investment Scheme (ACIS) and subsequent accountability measures are further discussed in Chapter 5.

3.31 The reduction of diversity of local markets for the components industry will lead to the formation of single line supply chains which are not responsive to the changing global marketplace. It was submitted to the Committee by the Australian Manufacturers Workers' Union (AMWU) that there is a 'climate of fear based on the complete control that the … [MVPs] have over the component sector within Australia.'[24]

3.32 The Committee has no evidence regarding any inappropriate actions on the part of MVPs. However, some manufacturers were reticent about speaking to the Committee citing fears of retribution through loss of contracts. The Committee is unable to comment on these issues as, despite intimations of fear and control taking place within the industry, no evidence was received on record.

3.33 The operational capacity of both sectors is so closely integrated that the failure of one part of sector can be felt across the supply chain. Global changes in the automotive industry make it apparent that it is not sustainable for the MVPs to determine the conditions under which the entire Australian industry must work.

3.34 The Committee affirms the importance of a diverse and openly competitive market that recognises connections and responsibilities across

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22 Ford Motor Company of Australia, *Submission No. 4;* Toyota Australia, *Submission No. 9;* AMWU, *Submission No. 17,* p. 21.

23 Mr K. Pettifer, Department Industry, Tourism and Resources (DITR), *Transcript of Evidence,* 15 June 2006, p. 4.

24 Mr D. Cameron, AMWU, *Transcript of Evidence,* 26 June 2006, p. 20.

the supply chain, provides opportunity for a range of industry players and encourages innovation.

Integrated supply models

3.35 There are successful examples of suppliers integrating more closely with vehicle manufacturers. One innovative model of supplier integration is the Edinburgh Parks Automotive Precinct (Edinburgh Parks) in South Australia.

3.36 Edinburgh Parks is described by the South Australian Government as follows:

> The [South Australian] State Government has invested over $24 million to provide land and infrastructure at Edinburgh Parks Automotive Precinct to enable automotive component suppliers to deliver components direct to the GM Holden production line.
>
> The precinct has been modelled on overseas supplier parks and will lead to increased integration between the activities of GM Holden and their suppliers, resulting in reduced logistics and inventory costs.
>
> GM Holden has also contracted for the operation of a Logistics Optimisation Centre within the Park to act as an inwards goods store for imported components.
>
> The component manufacturers are also part of an Automotive Suppliers Group that has been formed by the Northern Adelaide Economic Development Alliance to enable the companies to address issues of common interest such as the road networks, staff training and development, childcare and medical facilities at Edinburgh Parks.[25]

3.37 The Committee visited Edinburgh Parks in May 2006, while suppliers were preparing for the commencement of operations to service the new Holden VE Commodore. The Committee was impressed by how well the development enabled component manufacturers to service the just-in-time production model.

3.38 However, beyond the just-in-time production model, the co-location of manufacturing offers many more opportunities than are currently being explored. While the manufacturers located at Edinburgh Parks were collaborating on recruitment and some training, the model also lends itself to collaboration on wider employment issues such as training, the

25 SA Government, *Submission No. 5,* p. 16.

provision of services (such as childcare) and joint employment opportunities for consultant staff such as business engineers.

3.39 The Edinburgh Parks model has been heavily supported by the South Australian Government and this has afforded a measure of leadership to assist industry, local, state and federal government agencies, and training facilities to work collaboratively. The Precinct also hosts Defence, logistics, general and service industries. There may be further opportunities to work with these industries on shared business issues.

3.40 This model of development reflects global manufacturing models and similar just-in-time supplier models are being utilised by other individual component manufacturers in both South Australia and Victoria. However, the Committee notes concerns of some that declining local content and lack of contract security will limit the capacity for future development of these models.[26]

3.41 The lack of contract security discourages component manufacturers from taking business risks. The Ajax Fasteners' crisis discussed in the previous chapter highlights this point. Without contract security, component manufacturers have no ability to plan for future production or employment levels, placing the supply chain in a high degree of uncertainty.

Relationship to the aftermarket

3.42 Between 1994 and 2004, domestic aftermarket sales fell from 35 to 14 per cent and export aftermarket sales fell from four to one per cent of component sector revenue.[27]

3.43 Despite this, the component manufacturing industry remains an integral part of the supply chain for the aftermarket. Aftermarket manufacturers operate across the automotive supply chain. They produce, distribute and retail automotive parts and accessories to the value of approximately $8.1 billion per annum and employ approximately 35 000 people.[28]

26 Mr L. Piro, Department of Trade and Economic Development, SA Government, *Transcript of Evidence,* 1 May 2006, p. 32.

27 FAPM, *Submission No. 16,* pp. 11–12.

28 AAAA, *Submission No. 18,* pp. 3–4.

3.44 A reduction in both component manufacturing and local content will continue to reduce the size of the aftermarket. The Australian Automotive Aftermarket Association (AAAA) is concerned that further reduction in the local market will lead to increased off-shoring:

> It is the view of the AAAA that maintaining a local vehicle manufacturing industry in Australia is critical to the long term viability of most automotive aftermarket manufacturing as original equipment manufacturing provides the volumes and economies of scale to justify local production and research and development. In many cases there is insufficient volume in the pure aftermarket to sustain the level of investment (and re-investment) to develop and manufacture products locally. As such we are now seeing many purely independent aftermarket suppliers shifting some or all of their production offshore in order to remain competitive. Without local vehicle manufacturing we would anticipate many manufacturers that service original equipment and aftermarket to follow this trend.[29]

3.45 The AAAA noted that for R&D to be viable, it must be co-located with manufacturing. Although companies are currently making efforts to keep R&D in Australia, this is unlikely to be sustainable as manufacturing continues to move off-shore. The issue of R&D support is further discussed in the chapter on investment and innovation.

3.46 The Institute of Automotive Mechanical Engineers noted concerns the increased use of imported parts was blocking local suppliers out of the market:

> [The] automotive service and repair industry has noted an unhealthy situation related to obtaining technical information from vehicle manufacturers that has become increasingly serious in recent years. In addition, some components have become difficult (if not impossible) to obtain and in many instances are provided at unrealistically high prices.[30]

29 AAAA, *Submission No. 18,* p. 5.

30 Institute of Automotive Mechanical Engineers, *Submission No. 3*, p. 2.

Employment

3.47 Despite the challenges facing the automobile and automotive components industry, they remain major Australian employers. The industry has experienced some workforce fluctuations in recent years and will continue to experience these in the near future. However, the ability to predict future employment trends is hampered by limited and inadequate data.

3.48 From available data, it is known that the industry's workforce tends to have higher education and skills levels than general industry levels. The automotive industry continues to be a major contributor to the wider skilled workforce through its contribution to on-the-job training.

3.49 Employment, education and skills levels are also dependent on effective workplace relations arrangements. The following section of the report discusses these issues in further detail.

Workforce profile

3.50 According to the most recent available census data (2001), the automotive industry as a whole employed 62 660 people, 24 424 of which were employed by the automotive component manufacturing sector.[31]

3.51 The Australian Bureau of Statistics (ABS) no longer disaggregates data on the automotive industry to the component manufacturing sector. Therefore it is difficult to undertake accurate labour market analysis given the differences in employment levels in the separate parts of the sector.

3.52 The most accurate automotive component industry employment figures come from the FAPM which undertakes an annual membership survey to gauge employment and sales figures.[32]

3.53 As at 30 December 2005, the components sector employed 22 745 employees, down from 27 935 the previous year. Significant redundancies have also taken place throughout 2006 so it can be projected that the actual employment figure is lower again. From member surveys, FAPM predicted that from 2004 to 2006 there would be a net loss of 12 per cent of the component workforce.

31 Department of Industry, Tourism and Resources (DITR), *Key Automotive Statistics 2004*, p. 35

32 FAPM estimates that 99 per cent of all component manufacturers hold membership.

3.54 The majority of employment is centred in Victoria, comprising 74 per cent of total employment[33]. Employment in South Australia increased from 13 to 20 per cent of the national share (2004 to 2005)[34], whereas that in New South Wales and Queensland fell from 12 to seven per cent of total national automotive employment.[35]

3.55 Based on data collected at the 2001 census, 77.9 per cent of component sector employees are male, which is significantly higher than the average for all industries at 54.8 per cent. In addition:

- 54 per cent of employees were aged 25 to 44, which was higher than the all industry average of 49 per cent; and
- the employment share of persons aged 45 and over was 35 per cent, only slightly higher than the all industry average (34.3 per cent). The share for those workers aged 15 to 19 was 2.7 per cent, significantly lower than the all industry average of 6.6 per cent.[36]

3.56 Not only is the industry a significant employer, but each job has a multiplier effect—studies estimate that for every job created in the automotive industry, 6.5 jobs are created in supply and consumer industries.[37]

3.57 Since the 2001 census there has been significant change in labour market conditions. National employment growth has been robust, in particular in the 12 months to December 2005, increasing by 2.1 per cent.[38] As at September 2006, the national unemployment rate stood at a record low of 4.8 per cent.[39]

3.58 As Figure 3.1 demonstrates, general employment growth has not been reflected in the manufacturing sector as a whole, which 'recorded the second largest fall in employment (in percentage terms) of any industry', down by 2.6 per cent. Manufacturing moved from the largest employing industry in 1990 to the third largest in 2005, experiencing significant fluctuations over this time.[40]

33 This figure incorporates Tasmanian employment.

34 This figure incorporates Western Australian employment.

35 FAPM, *Submission No. 16*, p. 7; FAPM member totals for year ending 30 December 2005.

36 DEWR, *Submission No. 11,* p. 13.

37 AMWU, *Submission No. 17,* p. 4.

38 DEWR, *Submission No. 11,* pp. 10–11.

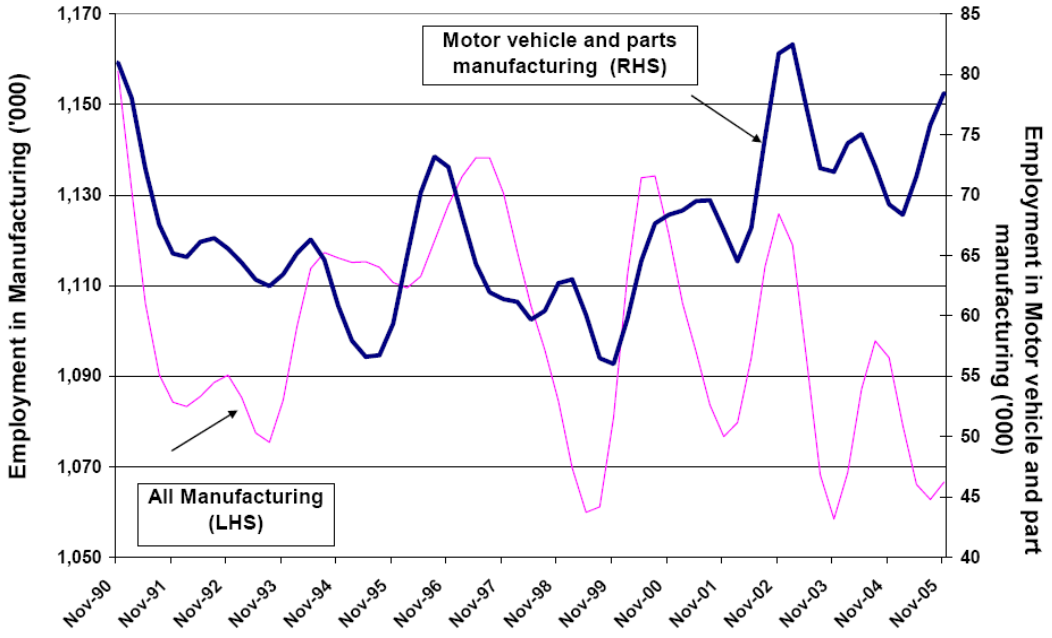
39 ABS, *Labour Force Australia,* October 2006 (cat no. 6202.0).

40 DEWR, *Submission No. 11,* pp. 10–11.

3.59 There was some strengthening in employment in the motor vehicle and parts manufacturing sector over 2005, despite downsizing by some MVPs and the reduction in the automotive tariff.

3.60 The Department of Employment and Workplace Relations (DEWR) cautions that the predicted softening in new motor vehicle sales and the decline in automotive component exports will put pressure on employment in the automotive component sector.[41] The Committee notes that this has been borne out over 2006 with a number of reported component sector redundancies.

Figure 3.1 Employment in manufacturing and the motor vehicle and parts manufacturing sector, November 1990 to November 2005, trend data



Source: *DEWR*, Submission No. 11. *Based on ABS* Labour Force, *detailed data release (Cat. No: 6291.0.55.001), December 2005.*

3.61 The lack of adequate disaggregated data for the motor vehicle and parts manufacturing sectors means employment changes cannot be tracked nor trends predicted in component manufacturing as opposed to vehicle manufacturing. Data collected at state level indicates that there is a serious negative employment trend that is not being statistically recorded.[42]

41 DEWR, *Submission No. 11*, pp. 12–13.

42 SA Government, *Submission No. 5*; Victorian Government, *Submission No. 24*.

3.62 Given the critical importance of the automotive component industry to the economy, there is an urgent need for comprehensive data to be collected about employment in this sector in order to determine the future employment trends and appropriate sector policies.

Recommendation 1

The Committee recommends that the Australian Bureau of Statistics publish disaggregated data on the automotive industry to the level of the automotive component manufacturing sector.

Education and skill levels

3.63 Due to the lack of disaggregated data, it is difficult to ascertain the educational attainment of workers in automotive component manufacturing as a sector.

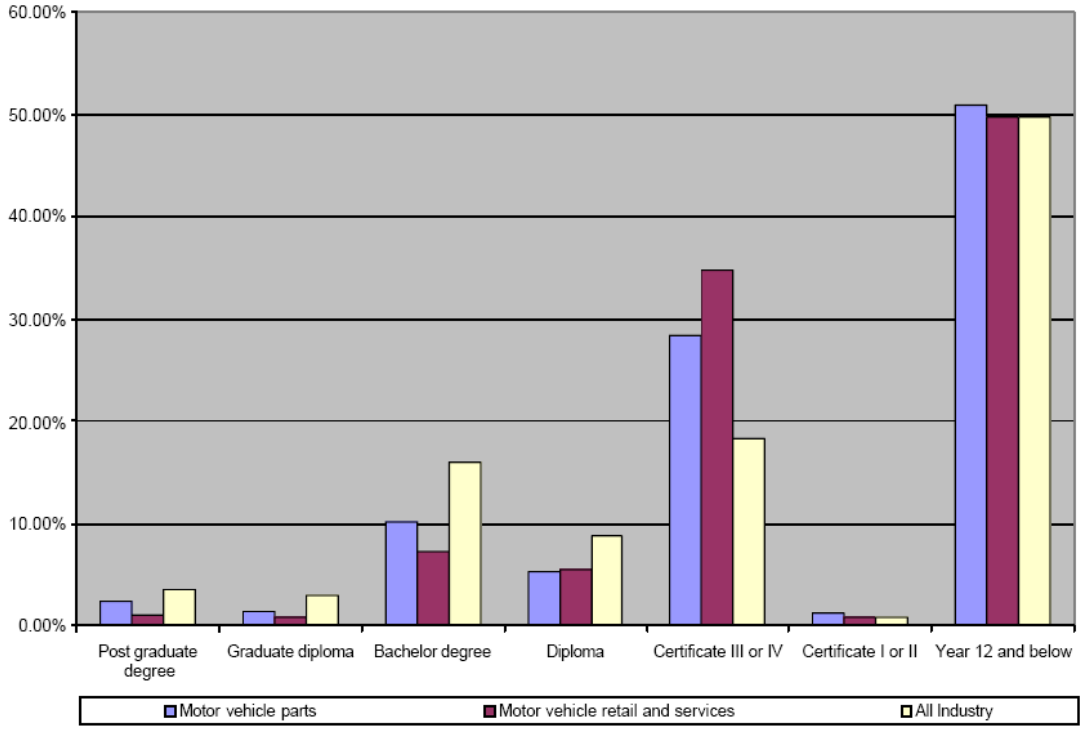
3.64 However, 2001 data on the automotive industry (motor vehicle and parts manufacturing) indicates the following attainment levels:

- nine per cent hold a bachelor degree or higher, compared to the all industries average of 21 per cent;
- 32 per cent hold skilled vocational qualifications, which is higher than both manufacturing (25 per cent) and all industries average (15 per cent); and
- other post-school qualifications (including basic vocational training) were on average with all industries average at 16 per cent;
- 56 per cent of all workers had some form of post-school qualification.[43]

3.65 Despite the recent downturn in employment, educational attainment levels remain at similar levels. The employment data demonstrated in Figure 3.2 indicates that vocational education and training qualifications held by automotive industry employees continues to be higher than general industry levels.

43 Productivity Commission, *Review of Automotive Assistance Inquiry Report,* Report No. 25, August 2002, p. 72.

Figure 3.2 Automotive industry employment by qualification level



Source *Monash Centre of Policy Studies, September 2005. Cited in Automotive Training Australia, Automotive Industry Skills Report, May 2006, p. 51. NB 'Motor vehicle parts' refers to motor vehicle and parts manufacturing.*

3.66 A substantial part of the skills acquired by workers in the automotive industry is by on-the-job training. Therefore, formal qualification data does not reflect the true nature of skills available in the automotive industry. It has been observed that because of the on-the-job training that takes place, it is not appropriate to consider automotive workers as unskilled.[44]

3.67 In its 2002 review of automotive assistance, the Productivity Commission found that:

> The skill base available to the industry is widely regarded as integral to its growing innovativeness and flexibility, and to the improvements in its productivity and quality over the last decade. Moreover, other industries and activities have benefited from the skills development that has taken place in the automotive sector.[45]

44 Automotive Training Australia (ATA), *Vocational Education and Training in the Automotive Industry, 2004-2007,* December 2004, p. 16.

45 Productivity Commission, *Review of Automotive Assistance Inquiry Report,* Report No. 25, August 2002, p. 71.

Workplace relations

3.68 The automotive industry has a history of labour organisation, with traditional vertical management structures and skill demarcation. The introduction of lean production methods changes the traditional structure of the automotive workplace and can deliver a productive workplace or, in an adversarial culture, drive a wedge in productivity. [46]

3.69 A recent *Asia Pacific Business Review* article notes that productive systems are also dependent on effective national industrial relations systems and vocational training systems, and therefore on Government, industry and employee (including union) collaboration. The article also notes that the interpretation of 'lean production' differs between companies and so how workplace relations will be affected will similarly differ.[47]

3.70 Lean production methods create a higher level of interdependency across the supply chain which means that industrial disputes at any level are widely felt. The Institute of Public Affairs Work Reform Unit reported:

> Domestic assembly, like all car manufacturers worldwide, operates on tight 'just in time' delivery schedules, where product is manufactured and delivered almost immediately. The process results in low tolerance of error, inventories are minimal, margins are extremely tight and delays can quickly cascade into industry-wide shut downs.[48]

3.71 Ai Group, FAPM and KPMG research indicates a number of issues affecting competitiveness. The AMWU note that industrial issues (which include pay increases and work ethic) are not the priority issues affecting competitiveness. Lower labour costs in developing countries, purchasing strategies of MVPs and the cost of raw materials are reported as more pressing issues.[49]

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46 G. P. Maxton and J. Wormald, *Time for a Model Change: Re–engineering the Global Automotive Industry*, Cambridge University Press, 2004, pp. 103–15.

47 R. Gough, M. MacIntosh and B. Park, 'The Influence of Decentralised Bargaining Systems on the Introduction of Continuous Improvement Practices in Australian Automotive Components Companies', *Asia Pacific Business Review*, vol. 12, no. 2, April 2006, pp. 209-211; 222.

48 The Institute of Public Affairs Work Reform Unit ,'The Capacity to Manage Index Report 3: The Australian Automotive Industry', *IPA Review*, vol. 55, no. 2, June 2003, p. 19.

49 Ai Group, FAPM and KPMG, *The Victorian Automotive Components Industry: Competitiveness, Profitability and Future Strategies*, March 2005, p. 17; AMWU, *Submission No 17,* p. 23.

3.72 The Australian Centre for Industrial Relations Research and Training (ACIRRT)[50] reports:

> Our analysis of registered enterprise bargaining agreements [in the automotive industry] shows that, at a practical level, unions and employers are grappling with the dynamics of coordinated flexibility. This is an approach to labour market regulation that is increasingly recognised as associated with superior economic and equity outcomes.[51]

3.73 Industrial disputes at an individual company level can have a widespread effect across the automotive supply chain. However, in many instances component manufacturers are unable to match wages and conditions offered by MVPs which can lead to difficulties in enterprise bargaining agreement (EBA) negotiations. Flexdrive Cables Pty Ltd explained:

> During the last round of EBA negotiations the industry was in a buoyant period. The unions were therefore in a strong position to secure good wage outcomes. … [MVPs] apply intense pressure to ensure that no protected action undertaken during EBA negotiations impacts their production like activity. On the other hand the … own EBA agreements foster unrealistic expectations that the component sector, already under significant cost pressure, is generally unable to meet.[52]

3.74 MVPs are able to offer higher wages due to higher profit margins and funded in part by the savings achieved through component cost downs. MVPs may also be unwilling to recognise rising employment and commodity costs in contracts, placing intense pressure on component manufacturers during workplace negotiations.

3.75 The significant changes in component manufacturer contract arrangements with MVPs, including the pressures placed on profit margins by cost downs, will mean that future EBA negotiations are likely to be significantly affected:

> Subsequent to the finalisation of our last EBA, contracts have been tendered and awarded for many parts on future models. The next round of EBA negotiations will need to take into account the significant price reductions already committed in winning this new business. The current round of new EBA negotiations will be

50 Known now as 'Workplace Research Centre'

51 Australian Centre for Industrial Relations Research and Training (ACIRRT), *A Critique of the Productivity Commission's Review of Automotive Assistance,* October 2002, p. 27.

52 Flexdrive Cables Australia Pty Ltd, *Submission No. 14,* p. 5.

> very difficult for all parties given the state of the market, and enormous cost pressures on the industry globally.[53]

3.76 The realities of contract negotiations also create inequitable bargaining positions between individual component manufacturing companies who may be supplying to multiple MVPs. As such there is:

> no single coherent approach to the way in which their [workplace bargaining] performance can be measured. This leaves managers to respond quite pragmatically to different and possibly competing expectations in terms of cost down, quality, and other aspects of performance.[54]

3.77 Workplace relations arrangements have the capacity to contribute to a high performance workplace model when undertaken in such a way that accommodates management ideas and employee involvement in productivity improvement. However, in order to achieve a supply chain that is not disrupted by industrial action, MVPs need to consider the pressures that purchasing arrangements place on component manufacturers.

Training systems and models

3.78 An effective industrial relations system is necessary for the implementation of training systems that provide entry to employment and career pathways. Occupation structures change over time, resulting in changes to skill needs. It is important that occupation and award classification structures have the flexibility to meet evolving employment and training needs.[55]

3.79 In Australia, the training system is reliant on the co-operation of the Australian, state and territory governments and industry leadership.

3.80 Training in the automotive components industry currently takes place both through the formal training system and through informal on-the-job training.

3.81 Although formal training mechanisms are an important avenue for entrance into a career in the automotive industry, low participant numbers

53 Flexdrive Cables Australia Pty Ltd, *Submission No. 14,* p. 5.

54 R. Gough, M. MacIntosh and B. Park, 'The Influence of Decentralised Bargaining Systems on the Introduction of Continuous Improvement Practices in Australian Automotive Components Companies', *Asia Pacific Business Review*, vol. 12, no. 2, April 2006, p. 222.

55 Mrs L. Yilmaz, Victorian Automotive Chamber of Commerce (VACC), *Transcript of Evidence*, 21 March 2006, p. 2

indicates that industry investment is primarily in on-the-job and in-house training. Automotive Training Australia (ATA) states:

> 'Continual learning' epitomises the industry, and there is a substantial non-funded industry contribution to life-long learning activities. The manufacturing sector of the industry is leading edge and is exposed to intense global competition; as a consequence, the upgrading of skills of the existing workforce is paramount.[56]

3.82 The reliance on on-the-job training means that industry/provider partnerships are an essential component to the provision of training. The ATA questions the ability for providers meet the challenges facing skills 'in the absence of widespread industry partnerships.'[57]

Component industry training practices

3.83 Despite the industry's reliance on on-the-job training there is very little information available regarding the actual training taking place within the industry outside of the formal vocational education and training (VET) system.

3.84 The Committee notes that the national VET plan for the automotive industry released by ATA in December 2004 does not contain any data on the current state of industry contribution to training.

3.85 However, the ATA does note that due to reliance on on-the-job training:

> The industry makes a substantial contribution to training and development in its own right. In the case of many enterprises this contribution significantly exceeds publicly funded contributions.[58]

3.86 The FAPM advises that improvement is needed in the areas of training hours per employee, training effectiveness and training alignment with business objectives. FAPM has found that these issues are becoming increasingly significant, with deterioration occurring markedly each year.[59]

3.87 The automotive components industry spends slightly more on training as a percentage of the average wage per year ($625 or 1.3 per cent of the average wage) than the manufacturing sector as a whole ($645 or 1.2 per

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56 ATA, *Vocational Education and Training in the Australian Automotive Industry, 2004–2007*, December 2004.

57 ATA, *Vocational Education and Training in the Australian Automotive Industry, 2004–2007,* December 2004, p. 32.

58 ATA, *Vocational Education and Training in the Australian Automotive Industry, 2004–2007*, December 2004, p. 34.

59 FAPM, *Submission No. 16,* p. 19.

cent of average wage). As an average, 'employees in the automotive components sector receive 6.25 hours each per year of training'.[60]

3.88 Even though expenditure is greater, it is not necessarily on skills development but rather on training to comply with regulatory requirements (such as occupational health and safety training), and internal processes.[61] This is supported by FAPM's findings that of all areas requiring improvement training alignment with business objectives has experienced the most significant decline.

3.89 Notwithstanding, smaller companies rate training outcomes as more effective than larger companies, even though larger companies deliver significantly more training hours. This is thought to be because larger companies need to devote more training hours to technological advances, whereas smaller companies are able to align training more closely with business priorities. This outcome is also represented through exporting and non-exporting companies:

> The hypothesis is that one segment of companies, exporters, are compelled to undertake training … set by the more sophisticated expectations of their international customers. Conversely, non-exporting companies have greater freedom to choose their training needs and choose to do less, but more effective training.[62]

3.90 The Committee notes that typically the burden for training graduates, apprentices and trainees was held by larger companies. This commitment to training has declined, leading to a general reduction in apprenticeship levels.[63] The AAAA reported:

> In the past larger automotive manufacturers have carried the training burden for the industry by taking on graduates, apprentices and trainees each year in the knowledge that many of these employees will leave and filter into small and medium size enterprises. The increased global competition, resulting in decreased margins in the industry mean[s] that companies, regardless of their size, can no longer absorb the full cost of training and development of staff that are not fully productive and remain competitive.[64]

3.91 Small businesses in particular find it difficult to take employees off lean production lines for training. Throughout this inquiry the Committee

60 FAPM, *Submission No. 16,* pp. 19–20.

61 Automotive Training Victoria, *Submission No. 6,* p. 5.

62 FAPM, *Submission No. 16,* p. 22.

63 AAAA, *Submission No. 18,* p. 7.

64 AAAA, *Submission No. 18,* p. 7.

noted a decreased ability by small businesses to invest in training due to the impact this has on production and wage costs.

3.92 Mr Darren Hugo of Flexdrive Cables Pty Ltd explained:

> 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.[65]

3.93 The Committee is concerned about the inability to invest in training as a strong skills base is integral to the automotive components industry's capacity to compete in a global market. Given that there are significant obstacles to investing in training, an alternative model of training delivery needs to be investigated.

3.94 The sector is made up of a number of small businesses that individually may not have the capacity to invest in provider partnerships. Therefore a collaborative training approach is essential. Automotive supply chain companies are not necessarily in competition with each other and are therefore afforded greater opportunities to be at the leading edge of training innovation and so they have the capacity to create an economy of scale across a number of companies.

3.95 ATA has found that:

> Small businesses face the dual problem of maintaining their internal capital and technical infrastructure together with the need to maintain the skills currency of their employees. Industry evidence points to the fact that there is increasing rationalisation of small business as the technical and capital demands of the modern industry are placing increasing pressure on small businesses and their ability to remain competitive.[66]

3.96 A collaborative approach to training provision may alleviate some of these pressures. However, the individual company approaches to training and the current nature of industry training packages (which focus on discrete sectors of the industry) are indicative of how companies do not consider themselves part of a supply chain where each company is integral to the industry's survival.

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65 Mr D. Hugo, *Transcript of Evidence,* 26 June 2006, p. 56.

66 ATA, *Vocational Education and Training in the Australian Automotive Industry 2004–2007,* p. 25.

3.97 The Committee considers that this narrow approach is not in the best interests of the industry and there is a need to develop more creative approaches to accessing both training opportunities and the range of state and federal government incentives available for training provision.

Governments' education and training responsibilities

3.98 The Australian education and training system is based on a collaborative approach, delivered jointly by the Australian, state and territory governments. Broadly, the Australian Government's responsibilities are:

- providing funding to non-government schools and to State and Territory governments for government schools, to support agreed priorities and strategies;
- providing funding through the Department of Education Science and Training (DEST) to states and territories for the delivery of Vocational Education and Training (VET) programs and services, and support for VET infrastructure;
- being the primary funding source for, and developer of policy related to, the higher education sector; and
- providing financial assistance for students.[67]

3.99 State and territory governments have responsibility for:

- having constitutional responsibility for the provision of schooling to all children of school age;
- having the major financial responsibility for government school education, and contributing funds to non-government schools;
- regulating both government and non-government school activities and policies;
- determining school curricula, course accreditation, student assessment and student awards for both government and non-government schools;
- administering and delivering VET and school education in government schools;
- administering and funding TAFE institutes for the delivery of VET programs and services;
- funding other registered training organisations for the delivery of VET programs and services, including community education providers and private providers;
- regulating the delivery of VET services, including conducting quality audits, coordinating the registration of training organisations and managing the accreditation of nationally recognised education and training programs; and

67 Productivity Commission, *Report of Government Services 2006*, p. B.2–3.

- being responsible for legislation relating to the establishment of universities and the accreditation of higher education courses.[68]

3.100 Under the agreement between the governments for the delivery of VET, the national priorities are:

- improving the system's responsiveness to rapid changes in demand for skills development and addressing skills shortages, especially in traditional trades and in emerging industries;
- delivering improved outcomes for employers, individuals and communities;
- improving quality;
- increasing participation and up-skilling mature age workers; and
- encouraging greater re-engagement in training by Australians who are not fully participating in the labour market.[69]

3.101 The effectiveness of the governments to achieve these objectives is reliant on collaborative support, involvement and leadership of the industry.

3.102 All formal vocational and technical education is based on industry endorsed training packages which contain competencies and qualifications describing the 'skills and knowledge needed to perform effectively' in the workforce.[70]

3.103 The training package directly related to the automotive component manufacturing industry is:

- Automotive Industry Training Package (AUM00).

3.104 Other training packages providing training pathways into the wider automotive industry are:

- Competitive Manufacturing Training Package (MCM04);
- Metal and Engineering Training Package MEM98 (to be replaced by MEM05);
- Electrotechnology Industry Training Package (UTE99);
- Transport and Distribution Training Package (TDTO5); and
- Automotive Industry Training Package—Retail Service and Repair.[71]

68 Productivity Commission, *Report of Government Services 2006*, p. B.2–3.

69 Department of Education and Training (DEST), *Submission No. 31*, p. 2.

70 DEST, *Submission No. 31,* p. 3.

71 Automotive Training Victoria, *Submission No. 6,* p. 10; DEST, *Submission No. 31,* p. 3.

School-based training and apprenticeships

3.105 As Australia has one of the highest tertiary completion rates among OECD countries (45 per cent of the population),[72] attracting school-leavers into trade skills is an increasing challenge.

3.106 Although 265 000 people commenced apprenticeships and traineeships in the year to June 2005, only 2.4 per cent were in automotive manufacturing. This is considerably lower than the national automotive industry employment level of 7.4 per cent.[73]

3.107 DEST reports that 2 205 participants have commenced apprenticeships in the automotive sector under the Australian Apprenticeships Access Programme since July 2002. Of these, 1 123 were placed in employment and/or further education and training. The total number still employed at 13 weeks after placement was 831.[74]

3.108 The employment share of employees across the automotive industry aged 15 to 19 is 2.7 per cent which is significantly lower than the all industry average of 6.6 per cent.[75] It is extremely concerning that apprenticeships and traineeships are either not being offered or taken up in this sector, especially given projected future skill shortages in the sector.

3.109 The Australian Government has acknowledged the need for increased apprenticeships in areas experiencing skills shortages. A range of initiatives commenced in July 2005 aimed at facilitating access to apprenticeships, including:

- open 24 new Australian Technical Colleges, aimed at increasing the number of New Apprentices in the traditional trades;
- provide a further 4 500 pre-vocational training places in trades;
- fund an additional 7 000 School-Based New Apprentices through Group Training Organisations;
- provide for an additional 20 000 places in the New Apprenticeships Access Programme, specifically targeting industries and regions experiencing skill shortages;
- supply tool kits up to the value of $800 to around 34 000 New Apprentices each year who enter a New Apprenticeship in a trade where skills are in demand;
- extend the Living Away From Home Allowance paid to New Apprentices to the third year of their New Apprenticeship; and

72 Organisation for Economic Co-operation and Development (OECD), *Science, Technology and Industry Scoreboard 2005,* p. 46.

73 SA Government, *Submission No. 5,* p. 8; AMWU, *Submission No. 17*, p. 26.

74 DEST, *Supplementary Submission No. 31.1,* p. 5.

75 DEWR, *Submission No. 11,* p. 13.

- provide a Commonwealth Trade Learning Scholarship of $500 to New Apprentices undertaking skill needs trades at the end of each of their first and second years of their New Apprenticeship. [76]

3.110 Fourteen of the Australian Technical Colleges being established will be offering automotive competencies by 2008. The locations of these colleges are as follows:

- Victoria:
  - ⇒ Eastern Melbourne (Ringwood)
  - ⇒ Bendigo
  - ⇒ Gippsland
  - ⇒ Geelong
  - ⇒ Sunshine
- South Australia:
  - ⇒ Northern Adelaide
- New South Wales:
  - ⇒ Port Macquarie
  - ⇒ Hunter
- Queensland
  - ⇒ Gladstone
  - ⇒ Gold Coast
  - ⇒ North Queensland (Townsville)
  - ⇒ North Brisbane
- Western Australia
  - ⇒ Perth South
- Tasmania
  - ⇒ Northern Tasmania (Launceston and Burnie).[77]

3.111 The Colleges are anticipated to make a significant difference to entry paths to apprenticeships that traditionally require a post–secondary school commitment over many years, with low wages.

76 DEWR, *Submission No. 11*, p. 22.

77 DEST, *Supplementary Submission No. 31.1,* p. 14.

3.112 The Colleges are expected to be responsive to local industry needs. DEST reports:

> This automotive training offered will currently include competencies for mechanics, auto electricians, panel beaters and vehicle painters. Should the local industry identify manufacturing of automotive components as a skills needs area it is expected that the Colleges will respond accordingly with appropriate training delivery.[78]

3.113 As the Colleges are a new initiative, the automotive components industry has an ideal opportunity to engage with the curriculum and ensure that training will meet current and future needs. The Committee strongly encourages the industry to take up this opportunity to engage in the establishment of the training curriculum.

3.114 The States have also acknowledged the importance of vocational education and training and have established a number of pathways for students to enter trades careers, including:

- In South Australia, ten trade schools will be established within existing high schools in areas with a concentration of industries such as manufacturing and advanced technology. The South Australian Government also has a range of incentives and support programs both for employers and young people entering employment or traineeships and apprenticeships.[79]
- Following a review of the state vocational education and training system, the Victorian Government has increased funding to:
  - ⇒ pre-apprenticeship places;
  - ⇒ prioritising engineering and automotive training;
  - ⇒ mature-age priority training;
  - ⇒ the expansion of specialist training centres and networks, including the:
    - ⇒ Specialist Centre for Automotive Design, Docklands Campus, Kangan Batman TAFE; and
    - ⇒ Specialist Provider Network for Competitive Manufacturing, Centre for New Manufacturing (Convenor), Swinburne University if Technology (TAFE Division) which has convened a network of specialist providers in new manufacturing known as the Advanced Technology Training Capability Alliance; and

78 DEST, *Submission No. 31,* p. 11.

79 SA Government, *Supplementary Submission No. 5.1,* p. 21.

⇒ a campaign to promote careers in the manufacturing industry.[80]

- Alongside school-based new apprenticeships, the NSW Government, in partnership with industry, offers two training programs focussed on the automotive industry. The Jumpstart and T3 programs offer students the opportunity to undertake a traineeship and paid employment in the automotive trades while completing the Higher School Certificate (HSC). In addition, students are able to undertake automotive courses delivered by TAFE NSW as part of their HSC course.[81]

3.115 As illustrated, the Australian and state governments have a number of initiatives aimed at providing links from school to work and vocational and technical education. However, the industry also needs to be proactive to attract and retain apprentices. At this stage it is too early to determine if these initiatives will address the training and apprenticeship challenges that the industry has to face.

3.116 The Victorian Automobile Chamber of Commerce (VACC) suggests that an automotive industry-wide strategy for employing apprentices would be of benefit. Such a strategy would allow unsuccessful apprentices to be job-matched in other areas, therefore maintaining their interest in the industry as a whole.[82]

3.117 The Committee considers that the introduction of technical colleges and other training and apprenticeship measures by the state and Australian governments are a significant positive measure. They will assist to counter negative stereotyping of the industry and promote the trades as a sound and lasting career option.

3.118 A further key element to attracting apprenticeships and school leavers is the establishment of school-based vocational education programs and career pathways that link to secondary schools. Mr Peter Smith of the Bus Industry Confederation (BIC) illustrated this point:

> Normally, after doing work experience, they become my next year's apprentices. I have an easy track to get apprentices. Everyone around me says they cannot get apprentices, but they will not put the effort into the schools and they will not have work experience. There is a company down the road that is heavily into the truck and automotive area. He says work experience is a waste of time. I just laugh at him because I get my workforce and retain

80 Victorian Government, *Submission No. 24,* p. 21; Additional information provided by the Victorian Department of Innovation, Industry and Regional Development, 9 November 2006.

81 New South Wales Government, *Supplementary Submission No. 20.1.*

82 VACC, *Submission No. 13*, p. 3.

> them, whereas he has difficulty getting his workforce. I think that is where the homework needs to be done.[83]

3.119 The BIC has acknowledged that, in the past, it has not had an adequate focus on promoting career pathways and is now working proactively to develop a career pathways strategy. This will include a national strategy for apprenticeships and job retention.[84]

3.120 The Committee commends the BIC for this strategy and is of the opinion that a similar strategy is necessary for the automotive components industry more broadly.

Local learning and employment networks

3.121 The Committee was made aware of industry-led projects that are proving to be successful in engaging young people with the manufacturing industry and further education.

3.122 For example, the Victorian Local Learning and Employment Network (LLEN) has been established to 'foster local partnerships between schools, industry, government and community organisations to improve education and employment outcomes for young people.'[85]

3.123 The LLEN is supporting initiatives such as the Automotive Manufacturing Technology Centre (AMTC) situated on the grounds of Ringwood Secondary College. The AMTC delivers automotive studies including the Certificate II Automotive to students in the local schools cluster.

3.124 In 2006, Ringwood Secondary College was involved in the successful tender to establish the Australian Technical College – Eastern Melbourne (ATCEM) and the AMTC now accommodates the delivery of the ACTEM Certificate III Automotive Mechanical Technology. The local automotive industry is involved with the ACTEM and there is scope to delivery automotive manufacturing apprenticeship programs if deemed necessary.[86]

3.125 The BIC referred to its involvement with the South East Local Learning and Employment Network (SE LLEN). The SE LLEN promotes careers in the manufacturing industry to secondary school students in the Victorian regions of the Greater Dandenong, Casey and Cardinia. Manufacturing provides 23 per cent of employment in this region.[87]

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83 Mr P. Smith, BIC, *Transcript of Evidence,* 30 March 2006, p. 7.

84 Mr M. Apps, BIC, *Transcript of Evidence*, 30 March 2006, p. 12.

85 Victorian Government, *Supplementary Submission No. 24.1,* p. 4.

86 Mr Terry Hutton, ACTEM Executive Manager, correspondence dated 22 August 2006.

87 BIC, *Submission No. 21*, Attachment 1.

3.126 Through the support of local manufacturing businesses, SE LLEN focuses on 'awakening interest in a career in manufacturing' by providing a 'local driver to the involvement of significant numbers of local young people in manufacturing careers.'[88]

3.127 The BIC acknowledged the importance of industry involvement in leading vocational education strategies noting that 'vocational programs are the new employment market for businesses seeking apprentices, trainees and entry-level workers.' It also noted that programs such as those offered by LLEN that engage young people in the manufacturing industry and expose them to potential careers are essential to promoting a positive image of the industry and addressing negative stereotypes.[89]

3.128 The BIC also commented that the automotive component industry has been a strong supporter of the manufacturing promotional activities and student involvement through the SE LLEN program.

Support for up-skilling

3.129 Criticism has been made that the training system does not have systems, other than the apprenticeship scheme, to support funding for up-skilling workers, nor is funding provided when a qualification is not completed.[90] This is particularly important for individuals who may only need a part qualification or to upgrade certain skills.

3.130 In addition, the traditional apprenticeship model is not attractive to individuals who are already employed and up-skilling or to individuals who have been in the workforce in other industries but who want to move into trades.[91]

3.131 In light of the large pool of displaced workers as the result of industry redundancies, the Committee notes that there is an urgent need for improved training incentives for mature-age workers. These incentives need to include measures that will attract individuals already in the workforce to consider careers in the trades, recognising that apprentice wages and the length of courses are a serious disincentive.

3.132 As the inquiry was near completion, the Prime Minister announced *Skills for the Future*, an $837 million investment package of skills initiatives.The package provides:

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88 BIC, *Submission No. 21*, Attachment 1.

89 BIC, *Submission No. 21*, Attachment 1; Mr M. Apps, BIC, *Transcript of Evidence,* 30 March 2006, p. 12.

90 Ai Group and EEASA, *Submission No. 26,* p. 13.

91 Mr P. Murphy, Kangan Batman TAFE, *Transcript of Evidence,* 21 March 2006, p. 28.

- work skills vouchers ($408 million)
- support for mid-career apprentices ($307 million)
- business skills vouchers for apprentices ($12 million)
- more university engineering places ($56 million); and
- incentives for higher technical skills ($54 million). [92]

3.133 Work skills vouchers provide incentives to improve basic skills such as literacy and numeracy or to undertake vocational certificate courses. Basic skills have been identified as a medium to long-term skills need within the automotive industry.[93]

3.134 Mature-age apprentices will be assisted by the incentives for individuals to take up mid-career trade apprenticeships in occupations in demand. This incentive will greatly assist workers in the automotive industry who need formal recognition and/or upgrading of skills obtained through on-the-job training. All apprentices will also have access to support to help them gain business skills.

3.135 Higher technical skills are being supported through the additional funding provided for training to the Diploma and Advanced Diploma level. The most significant part of this announcement for employers struggling to provide training in the automotive components industry are changes to funding criteria that:

- remove the rule preventing workers with prior qualifications from eligibility; and
- opens the program to an employers existing workforce, not just new employees.

3.136 The Committee welcomes these announcements and is of the opinion that they will greatly assist access to training in the automotive components industry.

92 Prime Minister of Australia, Policy Announcement, *Skills for the Future,* 12 October 2006.

93 Automotive Training Victoria, *Submission No. 6,* p. 7.

Coordinating industry-based training

3.137 There are formal mechanisms for the industry to become involved in the training system. Primarily this is by participation in industry arrangements through industry skills councils which have:

- direct input to high-level training policy and delivery through a direct line of advice to the Ministerial Council on Vocational and Technical Education;
- direct input to quality assurance and national consistency through representation on the National Quality Council, a committee of the Ministerial Council on Vocational and Technical Education;
- determining relevant skills needs for the industry and defining the competencies required in the workplace; and
- direct input to planning decisions through a clearly defined role in developing the States' annual plans for training provision.[94]

3.138 The two training packages[95] covering the automotive industry are administered by Automotive Training Australia Pty Ltd (ATA). ATA holds the contract to administer these packages even though it is not an industry skills council. This approach is supported by both the Federal Chamber of Automotive Industries (FCAI) and the Motor Trades Association.[96]

3.139 The industry skills council representing the manufacturing industry is Manufacturing Skills Australia (MSA). MSA administers a range of training packages relating to metals, engineering, process and competitive manufacturing that are accessible by the automotive components industry.

3.140 The Committee was disappointed that, considering the key role of ATA and MSA in representing the industry, neither made a submission to this inquiry.[97] The Committee agrees with the concerns expressed by the FCAI that the current industry skills advisory arrangements are not adequately addressing nor representing the skills requirements of the industry as a whole.[98]

3.141 In the ATA's May 2006 report *Automotive Industry Skills Report* it states the plan to move towards stand-alone recognition in the industry skills

94 DEST, *Submission No. 31*, p. 3.

95 Automotive Industry Manufacturing Training Package (AUM00) and the Automotive Industry Training Package—Retail, Service and Repair (AUR05).

96 DEST, *Submission No. 31*, p. 3

97 The Committee notes with thanks the submission received from Automotive Training Victoria.

98 FCAI, *Submission No. 27,* p. 8.

council framework.[99] Despite ATA's stated plan, DEST told the Committee that the current contract was conditional on ATA working towards joining an established industry skills council by the end of 2006. As at October 2006, DEST was unable to report any action taken by ATA to achieve this.

3.142 The ATA has declined to join the MSA or any other industry skills council due to concerns held by the major stakeholders that:

- training packages continue to link qualifications and award-based classification structures;
- industry skills councils governance arrangements 'reinforce pre-existing patterns of industrial representation' rather than reflecting the skills requirements of industry; and
- inequitable industry contribution to the cost of administering national industry training advisory arrangements.[100]

3.143 Both the lack of submission from some parties and the evidence that was received indicates that there is an urgent need for representation at the industry skills council level that:

- minimises the sectoral nature of training packages; and
- ensures the development of training standards that encourage integration along supply chains.

3.144 In addition, it is essential to clarify the position of the ATA and the MSA in representing the needs of the automotive components industry.

3.145 A further important aspect in industry-based training is equitable involvement for stakeholders across the automotive supply chain. While the needs of employers across the supply chain are different, it is possible to deliver tailored training in transferable skills. Accordingly, training packages should be aligned in such a manner that will allow training to take place across the supply chain addressing both specific and transferable skills.

3.146 Because of the close connection between the vehicle and parts manufacturing and repair, services and retail (RS&R) sectors both in terms of skills and sectoral dependence, calls have been made to more closely align the training packages of the two sectors to facilitate the movement of workers between them.[101]

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99 ATA, *Automotive Industry Skills Report,* May 2006, p. 8.

100 FCAI, *Submission No. 27,* p. 8.

101 Institute of Automotive Mechanical Engineers, *Submission No. 3*, p. 2.

3.147 Unfortunately, the redundancies that have taken place at MVPs (discussed in Chapter 4) have not necessarily translated into redeployment into comparable parts of the industry, such as the RS&R sector. This is in part due to the difference in training practices resulting in many skills not being formally recognised within the qualification frameworks.

3.148 This is concerning considering the downturn in employment that has occurred in recent years. It is important that retrenched workers have avenues for formal recognition of training and skills. Therefore industry VET plans should be addressing avenues for recognition of the substantial informal on-the-job training that takes place within the industry.

3.149 Further discussed in Chapter 4 is the necessity for reskilling arrangements to recognise the needs of workers displaced as a result of redundancies across the industry. The VACC submitted to the Committee that labour adjustment measures were hampered by a 'lack of understanding which skills were transferable to another sector of the vehicle industry.'[102]

3.150 It is unfortunate that redundancies may continue to be a feature of the automotive industry. However, a continued failure to recognise this in training and skills-recognition arrangements means that highly skilled workers will be lost to the industry.

3.151 Clearly, there is a need to ensure that automotive training arrangements adequately address the changing needs of the whole industry, including:

- recognition of the substantial informal on-the-job training that takes place;
- recognition of the large pool of displaced workers within the industry needing assistance to retrain; and
- integrated training across the supply chain to facilitate transferability across industry sectors.

3.152 The Committee is concerned that the lack of national industry leadership on skills issues is stifling innovative approaches to a multi-sectoral training approach.

102 VACC, *Submission No. 13,* p. 3.

Recommendation 2

The Committee recommends that, as a matter of priority, the Department of Education, Science and Training clarify the position of Automotive Training Australia and Manufacturing Skills Australia in representing the needs of the automotive components industry.

The Committee further recommends that the Department of Education, Science and Training review the status of Automotive Training Australia giving consideration to:

- **its position with or as an industry skills council;**
- **its capacity to adequately represent the training needs of the sector; and**
- **measures to ensure that there is equitable involvement and representation of industries across the automotive supply chain.**

Recommendation 3

The Committee recommends that the Australian Government Minister for Vocational and Technical Education, raise as a matter of priority at the next Ministerial Council on Vocational and Technical Education the issue of skills and training within the automotive components manufacturing industry in order to establish a unified and coordinated approach across all levels of government to the skills and training needs of the industry.

Recommendation 4

The Committee recommends that the Department of Education, Science and Training ensures that the automotive industry manufacturing training packages review take into account:

- **processes for recognition of on-the-job training;**
- **access to these and other such arrangements for any future displaced workers;**
- **current skills needs and strategies to address future skills shortages within the industry; and**
- **integrated training across the supply chain to facilitate transferability across industry sectors.**

Innovative sector training models

Northern Advanced Manufacturing Group

3.153 In Adelaide, the Committee heard from the industry-led Northern Advanced Manufacturing Industry Group (NAMIG) 'Concept 2 Creation' Program. This is an industry-led group and industry has displayed significant commitment to its continued success.

3.154 The NAMIG program services the Playford–Sailsbury area of Northern Adelaide, an area that is reported to be below the national, South Australian and Adelaide average in 'measurements of employment, welfare dependency, and education, skill and income levels.'[103]

3.155 The program 'arose from the identification of a substantial skills need and high unemployment dichotomy in northern Adelaide'. It is based on the philosophy of 'facilitating an enduring culture of industry engagement with education and training providers.'[104]

103 M. Elliot, P. Sandeman, and H. Winchester, *Embedding Community Engagement: Northern Adelaide and The University of South Australia*. Paper presented at the Australian Universities Community Engagement Alliance (AUCEA) Conference, July 2005, accessed 5 September 2006, <unisa.gov.au> .

104 Ms A. Cinnamond, NAMIG, *Transcript of Evidence,* 2 May 2006, p. 16.

3.156 General unemployment levels in Northern Adelaide are 5.6 per cent which is slightly above the national average.[105] However, youth (those aged 15–24 years) unemployment levels in the region are significantly above the national youth unemployment rate of 14.8 per cent. In 2001, the highest youth unemployment rates in Adelaide were reported in the Playford–Elizabeth and the Playford–West Central areas at 34.4 per cent and 33.4 per cent respectively.[106]

3.157 The Committee heard anecdotal evidence that there is a high degree of second and third generation unemployment in this area which generally lowers the capacity for young people to gain the skills to participate in the labour market. These are regions of Adelaide that the automotive component manufacturing industry draws heavily on for its workforce. Consequently, such levels of non-participation in the labour market should be of serious concern to the industry.

3.158 One aim of the NAMIG program is to raise the generic employability skills of participants. Ms Claire Hogarth, Deputy Chair of NAMIG and representative of Futuris Automotive, told the Committee that Futuris struggled with recruitment in the area due to the limited number of individuals successfully completing selection processes. Following the completion of the first program, Ms Hogarth noted that:

> From my perspective, something that came out of that as a positive was that some of those young students are starting to think outside the square. They are starting to use their initiative. They are starting to use some problem solving. When they go into the marketplace those people will stand out from the rest of the applicants, I would say.[107]

3.159 The project engages students in a 'product life cycle' approach to learning:

> by helping schools and students to develop the knowledge, understanding and appreciation of advanced manufacturing processes and possibilities through a problem based learning approach.[108]

3.160 The significant commitment demonstrated by the industry has resulted in an increase in enrolments in the program from 120 students in 2005 to 450 in 2006. Although it is too early for the project to fully realise employment

105 DEWR, *Submission No. 11*, p. 16.

106 ABS, *Census of Population and Housing: Selected Education and Labour Force Characteristics for Statistical Local areas, South Australia*, April 2003, Cat. No. 2017.4

107 Ms C. Hogarth, NAMIG, *Transcript of Evidence*, 2 May 2006, pp. 18–19.

108 Ms A. Cinnamond, NAMIG, *Transcript of Evidence,* 2 May 2006, p. 17.

outcomes, the results for students engaging in the curriculum are already evident:

> There was this level of enthusiasm and reality, the body language—you cannot hide body language. These students had extremely positive body language when they were presenting these projects. To me, it can be summarised by saying that, for many of these kids, the light is switched on.[109]

3.161 The Committee considers that projects such as NAMIG are essential to addressing labour market skills relevant to the manufacturing industry. Projects of this nature will affect positive long-term change in regions adversely affected in the downturn in automotive manufacturing employment and will contribute to change the overall perception of the industry.

3.162 Representatives from the NAMIG project and the BIC both noted that teacher perceptions were a significant obstacle to encouraging students to consider careers in the manufacturing industry so an essential part of any school-based program is to gain the support of teachers in the infant stage of the program.[110]

3.163 Based on the importance of the automotive industry to the Adelaide area and the need to maintain the viability of the Australian automotive industry, the Committee concludes that it is important to ensure the continuation of the NAMIG program.

3.164 Further, the Committee considers that there is strong evidence for the program to be piloted in other areas of concentrated manufacturing employment. This will support and encourage young people to pursue vocational education and training aimed at a career in the manufacturing industry.

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109 Dr L. Wood, NAMIG, *Transcript of Evidence,* 2 May 2006, p. 25.

110 Mr P. Smith, BIC, *Transcript of Evidence,* 30 March 2006, p. 2; Dr L. Wood, NAMIG, *Transcript of Evidence,* 2 May 2006, p. 26.

Recommendation 5

The Committee recommends that the Australian Government pilot the 'Concept 2 Creation' Program as developed by the Northern Advanced Manufacturing Industry Group in other areas of concentrated manufacturing employment and consider mechanisms to ensure access to ongoing funding for these programs.

National teaching foundry

3.165 The industry is in need of innovative and collaborative training models that provide ongoing professional development at an affordable cost to industry. The constraint of affordability means that training needs to target a sizeable pool of students. Currently, because of the size and dispersed nature of the industry, some training centres struggle to develop and maintain courses across low and/or nationally dispersed student numbers.[111]

3.166 However, the Committee notes these innovative training models are currently being developed.

3.167 The Australian Die Casting Association (ADCA) and CAST Cooperative Research Centre (CRC) provides national leadership in specialist metallurgical training in recognition of the nationally dispersed students in the trade and the economic prohibition to numerous organisations offering training in this area.

3.168 ADCA has been proactive in working with the industry to develop training models that will be responsive to industry needs. It was submitted to the Committee 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.[112]

111 Australian Die Casting Association (ADCA) and CAST Cooperative Research Centre, *Submission No. 22,*p. 4.

112 Mr M. Lee, ADCA, *Transcript of Evidence,* 26 June 2006, p. 4.

3.169 Such a demonstration foundry would not only significantly increase the training available to the component manufacturing industry, but also to the aluminium smelter sector and steel foundries. It would also establish Australia as a world-class training centre in this area.[113]

3.170 Although the teaching resources would be centralised, training would be delivered by distance education and by face-to-face delivery at the trainee's workplace through a 'travelling lecturer' program. This would ensure that students are also appropriately trained on the machines they will be using in their employment. ADCA considers this to be a more effective learning model than classroom style teaching.[114]

3.171 The Committee notes that there is widespread industry support for a national teaching foundry to service the casting industries and strongly supports the call for the centralisation of training resources to support its development.

Recommendation 6

The Committee recommends that the Australian Government support the consolidation of existing training resources to enable the establishment of a centralised teaching foundry to service the casting industries.

Automotive Centre of Excellence

3.172 A further innovative sector training model is the Automotive Centre of Excellence (ACE) in Melbourne, which is consolidating automotive training facilities.

3.173 The ACE is being developed in Melbourne in partnership with the Victorian Government, Kangan Batman Institute of TAFE. Stage one of the ACE, opened in September 2006, brings together automotive training and R&D facilities, but has the capacity to become a centralised showcase for all automotive products and services.

3.174 Stage one of the ACE has been fully funded in partnership with the Victorian Government, Kangan Batman TAFE and a number of private and industry partners. It will:

113 Mr M. Lee, ADCA, *Transcript of Evidence,* 26 June 2006, p. 4.

114 Mr M. Lee, ADCA, *Transcript of Evidence,* 26 June 2006, p. 8.

> house the Automotive Body Trades training group … Certificate II pre-apprenticeship program and components of the automotive diploma program, plus staff and student amenities, café, [and] customer service centre.[115]

3.175 The ACE is discussed further in Chapter 5.

Committee comment

3.176 The automotive components industry is facing a continued period of change in employment and manufacturing practices due to the global challenges facing the entire automotive industry. Traditional relationships between MVPs, component manufacturers and the aftermarket are changing and so too must management and workplace relations practices.

3.177 Nevertheless, alongside the downturn in employment there is a continued need to ensure that sector training practices are focussed on ensuring that the industry has the skills needed to face future challenges.

3.178 The industry must take the lead in developing training models that are of benefit to it. In addition, there is a need for industry to recognise interdependencies along the supply chain and seek innovative models for collaborative training. Addressing these issues is a necessary foundation step in ensuring a mobile and adequately trained workforce.

3.179 Skills shortages, mobility of skills across the sector and labour adjustment measures are discussed in the following chapter.

115 Automotive Industry Strategic Action Group Project Report, *Support for the Automotive Manufacturing Industry through ACE and Related Initiatives*, August 2005, p. 23.

4

Skills needs and labour adjustment measures

4.1 This chapter discusses the skills shortages and recruitment issues facing the automotive components industry. Although the industry has experienced an employment downturn in recent years as discussed in the previous chapter, it is still experiencing shortages in key skill areas.

4.2 The chapter examines measures suggested to address these shortages including skilled migration and improved recruitment practices. Through re-skilling and skill recognition, there are opportunities for greater mobility across segments of the automotive and automotive components industry.

4.3 This mobility of skills may also assist in addressing the challenge of large-scale redundancies facing the industry. The chapter concludes with an overview of current labour adjustment packages, international initiatives and measures to further support the industry and individuals affected by redundancy actions.

Addressing skills shortages

4.4 As with manufacturing generally, there are widespread skills shortages within the automotive industry, particularly for engineering and trade skills. Ongoing shortages in the metal and automotive trades are blamed on 'high wastage and relatively low training rates.'[1] In addition, there is significant national and international competition for skilled employees

1 Department of Employment and Workplace Relations (DEWR), *Submission No. 11*, p. 19.

across the manufacturing sector. Furthermore, in those states that have high demand from the mining and resources sector, labour and skills shortages are more pronounced.

4.5 The Department of Employment and Workplace Relations (DEWR) Skills in Demand Research Programme has identified trade skills shortages for metal fabricators, welders, toolmakers, metal fitters and machinists, motor mechanics, electricians and vehicle body builders (see Table 4.1).

4.6 The National Manufacturing Summit 2005 found that future skills needs across the manufacturing industry are:

- higher level technical skills —manufacturing will increasingly have to adopt more complex technology, and produce to higher technical standards;
- higher level 'soft' skills — communication, teamwork, ability and willingness to learn — more of the workforce in manufacturing will deal with customers, engage and manage partners and work on project teams to solve problems;
- higher level strategic and management skills — companies need to plan for the future better, including how to meet their skill needs, and more actively develop strategies for becoming world competitive;
- new skills — logistics, financial management, cultural understanding etc — as firms seek to respond faster and more fully to customers' needs, they need to operate in new areas, or have the skills in house to manage partners; and
- more frequent updating of skills — the pace of technological change and shifts in customer demands means that skills will need to be updated much more frequently.[2]

4.7 DEWR noted that although these skill shortages are widespread:

> in South Australia there are indications that the labour market for metal trades eased over late 2005, with retrenchments in motor vehicle and parts manufacturing over the previous 12 months increasing the supply of skills available to employers in other sectors.[3]

4.8 There is fierce competition for skilled employees from other sectors of the manufacturing industry, in particular the mining and resources sector which has the capacity to offer very high wages.[4] This increases the competition for trade skills within the automotive industry.

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2 Victorian Government, *Submission No. 24,* p. 14.

3 DEWR, *Submission No. 11*, p. 19.

4 DEWR, *Submission No. 11*, p. 31; Mr Peter Upton, Federation of Automotive Product Manufacturers (FAPM), *Transcript of Evidence*, 26 June 2006, p. 51.

Table 4.1: Skills in demand—occupations with significant employment in automotive component manufacturing

Occupation	NSW	VIC	QLD	SA	WA	TAS	NT
Engineers							
Mechanical/production/plant engineers (not assessed in all States)			S		S		
Engineering trades							
Metal fitter	S	S	S	S	S	S	S
Metal machinist	S	S	S	S	S	S	S
Toolmaker	S	S	S	S	S	S	
Metal Fabricator	R	S	S	S	S	S	S
Welder	S	S	S	S	S	S	S
Vehicle trades							
Motor mechanic	S	S	S	S	S	S	S
Electrical trades	S	S	S	S	S	S	S

S = State/Territory-wide shortage R = Shortage in regional areas

Source DEWR, Submission No. 11, p. 20.

4.9 While traditional trade and engineering skills are needed, skills shortages are also pronounced in generic management and project skill areas. These areas are increasingly important for the automotive component sector which needs to focus on streamlining operations and seeking new business opportunities.

4.10 The Federation of Automotive Product Manufacturers (FAPM) reports that the widespread manufacturing industry skills shortage is impacting on the automotive components industry:

- 72% of automotive equipment manufacturers are experiencing difficulties in finding skilled employees. Organisations identified a lack of applicants, lack of qualified applicants or applicants with inappropriate skills and experience as the key reasons why positions remained unfilled. Skilled vacancy rates were particularly high amongst smaller businesses; and
- it is estimated that there are in excess of 3 000 vacant positions for skilled tradespeople in the transport equipment sector, of which automotive is the dominant category.[5]

4.11 Skills shortages are, and will continue to be, a challenge for the industry. The Ai Group, FAPM and KPMG have found that skills shortages are an

5 FAPM, *Submission No. 16*, p. 16.

issue of relatively low priority for the majority of manufacturers in terms of increasing competitiveness.[6]

4.12 Notwithstanding the relatively low priority placed on skills shortages as a cause for competitive concern, the Committee notes evidence that labour and skills shortages are affecting some companies' ability to tender for additional contractual opportunities where specialised skills are required. The Australian Automotive Aftermarket Association (AAAA) cited the example of Hella Australia which:

> recently had an opportunity to tender for R&D programs to support Hella operations offshore, however they had to withdraw due to a lack of available skills locally to support the project.[7]

4.13 The Committee is concerned that the sector is not adequately focussed on future labour and skills shortages. While 'periodic skills shortages characterise virtually every labour market'[8], industry and training infrastructure need to be proactive and prepared to respond adequately to arising shortages and changing skills needs.

4.14 The Australian Government has committed significant funding to the National Skills Shortages Strategy (NSSS) since 1999, and in the May 2006 Budget committed an additional $6 million. The NSSS is based on a partnership between the Government and industry and:

> supports innovative and strategic industry-led projects to research and recommend vocational and technical education strategies for attracting new employees and retraining and upskilling existing workers.'[9]

4.15 As the NSSS is a Government-industry partnership model, it is reliant on industry to be proactive. The Committee notes that the retail, service and repair (RS&R) sector has been actively engaged in developing projects in partnership with the NSSS. To date there have been no projects undertaken by the automotive components sector.

4.16 Short-term strategies that are being employed by the automotive components sector to address shortages include:

- outsourcing work, resulting in the loss of corporate knowledge and organisational skills base;

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6 Australian Industry Group (AiGroup), FAPM and KPMG, *The Victorian Automotive Components Industry: Competitiveness, Profitability and Future Strategies*, March 2005, p. 17.

7 Australian Automotive Aftermarket Association (AAAA), *Submission No. 18,* pp. 6–7.

8 Productivity Commission, *Review of Automotive Assistance,* 2002, p. 74.

9 Department of Employment, Science and Training (DEST), *Submission No 31.1*, pp. 11–12.

- automating manual tasks, which is a longer term and potentially cost-effective solution that further reduces employment levels and skills levels; and
- use of skilled migration programs.[10]

4.17 The Committee notes that the Government has recently announced a range of measures aimed at addressing skills shortages in trade occupations through the formal training system. These new measures are outlined in Chapter 3.

Graduate business studies

4.18 The need for industry to engage with training institutions to ensure appropriately skilled workers is not limited to the trades area.

4.19 The automotive components industry is facing unique challenges as a consequence of engaging in a globalised business world. This shift to global markets brings with it certain training and skills needs. In particular, it is essential that business graduates have the capability to develop export markets for Australian businesses, cognisant of the nature of international trade and the global economy.

4.20 The Committee sought information from a range of business schools about the emphasis in courses on developing exports markets, particularly in relation to the automotive industry. Responses indicated that there is significant recognition of the importance of international business in the various courses on offer.

4.21 The Committee was pleased to note that that one university in particular has partnerships with automotive companies, both in Australia and overseas, and also offers manufacturing management units.[11]

4.22 RMIT University told the Committee that a review of their Master of Business Administration (MBA) courses had resulted in the development of units to 'engage in policy development and strategy implementation in the context of export market development in international business.'[12]

4.23 Given the need for automotive component manufacturers to increasingly focus on the development of export markets, there is a significant benefit to the industry to these focussed courses. However, these courses run on a partnership model as they are designed in 'collaboration with clients to

10 FAPM, *Submission No. 16*, p. 18.

11 RMIT University, *Submission No. 32.* The Committee wrote to a small range of business schools so there may be more manufacturing-specific courses available at other institutions.

12 RMIT University, *Submission No. 32.*

strategically fit their capability development strategies'. Consequently they are currently focussed on the needs of the MVPs.[13]

4.24 If the components industry is to develop as a niche product market, it will be necessary to ensure that it has the business capability to do so. This will require industry investment in business courses to ensure that graduates are engaged in the particular issues facing the automotive components industry.

Engineering

4.25 Other than general skills shortages across the manufacturing sector contributing to the competitive labour market, there are significant shortages across engineering professions as indicated above. FAPM reports that a December 2005 Engineers Australia survey found 902 vacancies for professional engineers amongst its members with the recruitment situation expected to worsen.[14]

4.26 Engineers are a critical part of the automotive industry and without adequate local automotive engineers, the Australian industry will not be able to compete globally, particularly against nations such as China.

4.27 The education of new engineers in Australia is significantly below OECD averages. In 2003, 7.7 per cent of new degrees awarded in Australia were in engineering. This is significantly lower than the OECD average of 11.8 per cent and markedly lower than the OECD leading country, Korea at 27.5 per cent.[15]

4.28 China has recognised the need for science and engineering graduates to increase their national intellectual capability and is devoting significant resources to training in these areas. Its national training target is to produce more graduates and doctorates in science and engineering than does America by 2010. This indicates the emphasis the Chinese government is placing on skilling, much of which will be directed to its automotive industry.[16]

4.29 During 2006, as part of the 2006-2007 Budget and the *Skills for the Future* package the Australian Government has announced that an additional 1 010 Commonwealth-supported engineering places will be made available. This is in recognition of the critical nature of engineering skills

13 RMIT University, *Submission No. 32.*

14 FAPM, *Submission No. 16*, p. 17.

15 OECD, *Science, Technology and Industry Scoreboard 2005*, accessed 17 August 2006, <oberon.sourceoecd.org>.

16 D. Roberts 'Detroit's Loss is China's Gain in Great Drive Forward', *Australian Financial Review,* 22 June 2006, p. 68.

to building Australia's competitiveness.[17] In addition, as part of the 2006–2007 Budget, employer incentives will be offered for selected Diploma and Advanced Diploma Australian Apprenticeships, including for the Diploma in Engineering.[18]

4.30 Industry will be consulted on the fields for consideration as priority areas for employer incentives, one of which will be automotive engineering.[19]

4.31 It was put to the Committee that science and engineering programs should be a national priority for concessional Higher Education Concession Scheme (HECS) programs to encourage more students to undertake engineering courses. [20]

4.32 Mr Colin Kestell of the University of Adelaide noted that he anticipates 100 Chinese students will commence the automotive engineering program in 2009. This compares to the current peak enrolment of 40 local students.[21]

4.33 Clearly international interest in engineering courses is high. Australia's engineering courses are well regarded internationally and are attracting a number of foreign-born students. It is in Australia's long-term interest to encourage both local and foreign-born engineering graduates to remain in Australia. This may be facilitated through programs that raise awareness of employment options, facilitate entry to the workforce and possibly provide incentives for employers to take on new graduates.

4.34 With global competition for engineering graduates at a premium, Australia must market itself as a nation of career opportunities. The Committee welcomes the Government's announcements aimed at increasing university engineering places and apprenticeship benefits. However, there is also a need to ensure that these students pursue careers in Australia following graduation.

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17 Prime Minister of Australia, Policy Announcement, *Skills for the Future: More Engineering Places at University* and *Skills for the Future: Incentives for Higher Technical Skills,* 12 October 2006.

18 DEST, *Submission No. 31*, p. 4.

19 Prime Minister of Australia, Policy Announcement, *Skills for the Future: Incentives for Higher Technical Skills,* 12 October 2006.

20 Ai Group and Engineering Employers Association, South Australia (EEASA), *Submission No. 26,* p. 14. The Australian Taxation Office advises that no assistance of this type is offered at present. (Higher Education Loans Unit, Australian Taxation Office, contacted 29 September 2006.)

21 Mr C. Kestell, *Submission No. 29.*

Recommendation 7

The Committee recommends that the Australian Government include automotive engineering as a national priority area for higher education fee concession schemes.

Recommendation 8

The Committee recommends that the Australian Government investigate options to encourage the retention of local and foreign-born engineering graduates within Australia, including measures to facilitate entry into the workforce in areas of skills shortages.

Skilled migration

4.35 Skilled migration programs are an effective mechanism for addressing short-term skills shortages. However, the international competition for skilled employees makes migration programs both difficult and expensive.

4.36 The industry is generally supportive of making use of skilled migration to fill skills shortages in the short term and expand the industry's skills base in order to leverage international competitiveness. In addition, the industry has also called for an easing of visa arrangements to allow greater access to foreign markets through business migration.[22]

4.37 The Migration Occupations on Demands List (MODL) allows skilled applicants to claim additional points towards their General Skilled Migration (GSM) pass mark. Engineering professions and automotive tradespersons are listed on the MODL and over the last ten years, both employer sponsored applicants and independent visa applicants in these categories have steadily increased.[23]

4.38 The South Australian Government advocated its support for the skilled migration programs for filling areas of skills shortages and noted several

22 South Australian (SA) Government, *Submission No. 5,* p. 10; FAPM, *Submission No. 16,* p. 4; Ai Group and EEESA, *Submission No. 26*, p. 14.

23 Correspondence from Mr G. Mills, A/g First Assistant Secretary, Migration and Temporary Entry Branch, Department of Immigration and Multicultural Affairs, dated 14 July 2006.

schemes actively promoted in the state. However, few other submitters made mention of using migration to fill skills shortages.

4.39 The South Australian Government noted that during 2004–2005 the South Australian automotive component industry made 54 nominations under the Regional Sponsored Migration Scheme (RSMS), which was over ten per cent of the total state nominations.[24] In addition, the 2005–06 migration program cites a total of 732 GSM migrants with skills directly related to the automotive industry, and a further 2 180 GSM migrants with skills that could be applied to the industry.[25]

4.40 Although skill shortages will continue to be a lingering issue for the industry, employment levels in the sector are expected to continue to contract. This contraction has already resulted in a number of displaced workers and the Committee is of the opinion that the initial and more sustainable strategy to address skills shortages should be focussed on assisting displaced workers to re-train within the industry.

4.41 The Committee notes that the issue of skilled migration was investigated in the September 2006 report of the Joint Standing Committee on Migration, *Negotiating the maze: Review of arrangements for overseas skills recognition, upgrading and licensing*. The report makes recommendations on policy development and skills recognition frameworks for professional and trade skills.[26]

Recruitment

4.42 The automotive components manufacturing industry has a strong reputation for attracting 'jobs for life' workers. As attitudes towards the sustainability of employment change, so recruitment and training practices need to change. However, there are conflicting reports about the state of recruitment in the automotive components sector.

4.43 Automotive Training Australia (ATA) reports that skilled individuals tend to leave the industry after 20–25 years due to the physical demands of the job and rapid technology changes. Despite this trend, ATA noted that due to the contraction of employment levels there are no significant attraction and retention issues.[27]

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24 SA Government, *Submission No. 5*, p. 10.

25 Correspondence from Mr G. Mills, A/g First Assistant Secretary, Migration and Temporary Entry Branch, Department of Immigration and Multicultural Affairs, dated 14 July 2006.

26 Parliament of Australia, Joint Standing Committee on Migration, *Negotiating the Maze: Review of arrangements for overseas skills recognition, upgrading and* licensing, September 2006, Canberra.

27 Automotive Training Australia (ATA), *Automotive Industry Skills Report*, May 2006, p. 26.

4.44 Recruitment challenges tend to be focussed on attracting new trainees and apprentices. Recruitment in the component industry is seen to be challenging because of the negative stereotypes, tight margins, lower wages, and lack of knowledge about career opportunities. The Bus Industry Confederation (BIC) reported that the same issues are further compounded in the bus industry where margins are even tighter.[28] As profit margins continue to shrink throughout the components sector, it is likely that the industry will face similar recruitment difficulties.

4.45 In order to improve the potential for recruitment, the industry needs to promote itself more effectively:

> The negative public perception of careers in the automotive industry is having a significant effect on both the number and quality of graduates, apprentices and trainees making automotive their career of choice, the only way to overcome this is for the industry, with the support of the Federal and State Governments, to promote itself as internationally focussed, at the cutting edge of technology and offering a diverse range of exciting and well paid career opportunities.[29]

4.46 The lack of public understanding of the value and diversity of automotive careers was generally acknowledged to be the major issued facing recruitment activities.[30] Concerns over sustainability of the industry and media reports of retrenchments also damage the industry image as a stable career option.

4.47 While the Committee agrees that the perception of the industry is a major hurdle to overcome in recruitment activities, it also has to agree with the Productivity Commission's contention that 'it is hard to see why the community should be charged with the task of improving the industry's image to potential employees.'[31] The Government has provided substantial dedicated assistance to the industry — both financial and strategic. The industry must also shape its own future and key to this is 'selling itself' to future employees.

4.48 It is also important that programs to change the industry image are also focussed on parents and teachers — the key mentors pivotal to influencing the decisions young people make about further education and training.

4.49 It is encouraging to note that there are efforts being made in some industry sectors to promote the industry more effectively. The Automotive

28 Bus Industry Confederation (BIC), *Submission No. 21,* p. 4.

29 AAAA, *Submission No. 18,* p. 7.

30 Automotive Training Victoria, *Submission No. 6*, p. 6.

31 Productivity Commission (2002), *Review of Automotive Assistance,* p. 74.

Centre of Excellence (ACE), discussed in Chapter 5, is being established in the Docklands area of central Melbourne to:

> bring the automotive industry out of the backblocks—out of Dandenong, out of Altona, out of Broadmeadows—into the centre of the city, putting it on the main business drag, giving it the image and perception that it does need to start turning around long-term cultural issues within this environment.[32]

4.50 The ACE will be a significant step forward for the promotion of the industry. The Australian Government has made significant investment in initiatives to address skills needs in the traditional trades. The issues facing the industry in terms of training, skills shortages, negative stereotypes and recruitment call for industry leadership.

4.51 The Committee does not advocate the Government doing the work of industry leaders. However, the Committee does see value in recommending Government administrative assistance to establish an automotive components industry leaders forum to develop short and long-term strategies to address these issues.

Recommendation 9

The Committee recommends that the Australian Government support the establishment of an automotive component manufacturing leaders forum to develop strategies aimed at improving recruitment and overcoming stereotypes surrounding the image of the industry.

Labour adjustment measures

4.52 While recruitment is one issue facing the industry as it works to ensure that it has a skills base in the future, the industry has recently experienced a rapid downturn in employment as a result of large-scale redundancy actions.

4.53 Consequently, the industry is in need of labour adjustment measures to support the employees, communities and companies affected by the structural readjustment taking place in reaction to broader local and global automotive industry changes.

32 Mr P. Murphy, Kangan Batman TAFE, *Transcript of Evidence,* 21 March 2006, p. 25.

4.54 Labour adjustment programs (LAPs) sponsored by the Australian and state governments aim to ensure that the labour market has the ability to adjust to major and rapid workforce changes over a longer period of time. They also aim to introduce a measure of stability for individuals and communities directly impacted by large-scale redundancies by focussing on minimising the length of time individuals are unemployed.

4.55 Labour adjustment programs are necessary for the automotive industry as employment is concentrated in suburban regions which tends to make those regions highly dependent on the industry. Therefore any downturn in employment cannot necessarily be absorbed into the wider labour market.

4.56 In addition, a large number of individuals in the automotive component industry are in need of assistance to retrain due to the long-term nature of employment in the industry.

Automotive industry redundancies

4.57 Two significant labour adjustment programs have taken place in the automotive industry since 2004 in response to large scale redundancies at Mitsubishi Motors Australia Ltd (Mitsubishi) and GM Holden (Holden).

4.58 The Mitsubishi Labour Adjustment Programme commenced in 2004 with the announcement of 1 370 job cuts from the Lonsdale and Tonsley Park sites in Adelaide. The Tonsley Park employees took voluntary redundancies and left the site within weeks of the announcements. However the Lonsdale plant closure took place over 15 months and involved involuntary redundancies.

4.59 DEWR reports that 78 per cent of former Mitsubishi employees who registered for Job Network assistance were placed into employment. DEWR also stated that this figure is likely to be understated as there is no obligation for individuals to report successful job outcomes.[33]

4.60 The Holden program is still in the early stages, with 1 400 redundancies being commencing in November 2005 and expected to be completed by July 2006.[34] Although it is too early to judge the outcomes of this program, DEWR reports that as at 1 May 2006,
60.6 per cent of those registered with a Job Network member had been placed in employment.[35]

33 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, p. 4.

34 DEWR, *Submission 11*, pp. 24–25.

35 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, p. 4.

4.61 Through assistance from the Australian and State Governments, each LAP provides the following for retrenched workers:

- individual intensive customised support to provide one-on-one assistance including financial and career counselling and resume preparation;
- an additional job seeker account allocation of $450 (in addition to the $900 usual allocation for all job seekers) to be used to purchase services or other assistance that supports the individual to get a new job;
- self employment assistance to establish business opportunities under the New Enterprise Incentive Scheme (NEIS) and provision of small business training for non-NEIS eligible businesses;
- relocation assistance;
- industry specific training funds;
- Australian Job Search kiosks at the Mitsubishi Lonsdale and Holden Elizabeth sites;
- skills assessment and recognition services; and
- accelerated training opportunities and specific skills development to meet areas of skills demand.[36]

4.62 The LAPs were also available to employees of component manufacturers who were able to confirm that they were made redundant as a direct result of either Mitsubishi's or Holden's downsizing. DEWR reported that no component manufacturer redundancies were confirmed as a result of Mitsubishi's downsizing, but ten have been confirmed as a result of Holden's.

4.63 While the need for the large–scale redundancies at both companies is regrettable, Mitsubishi and Holden representatives expressed their satisfaction with the cooperation received from the Australian and state governments and complimented the programs put in place:

> I too would like to make the comment on the public record that, as an organisation, we are extremely grateful and very appreciative of the services that have been provided both through the Commonwealth department and the state department. We have certainly never witnessed that level of cooperation in the past and we would certainly want to encourage that in the future. We give our thanks for the services that have been provided and to the individuals in particular who have been associated with providing

36 DEWR, *Submission No. 11*, p. 24; SA Government, *Submission No. 5*, pp. 12–13.

that service. I think that has led to what we see as a very successful program for our ex-employees.[37]

4.64 While DEWR has reported positive employment outcomes from both LAPs, these results were disputed by other evidence to the inquiry.[38]

4.65 The Australian Manufacturing Workers Union (AMWU) is concerned that while a significant number of people did manage to find employment, it was not commensurate either in terms of wage parity or skill level.[39] Wage disparity in particular is a significant disincentive for displaced MVP workers to enter the components sector.

4.66 The Victorian Automobile Chamber of Commerce (VACC) asserted that attempts to redeploy redundant employees within the sector (in particular the RS&R sector) were unsuccessful due to:

- the lack of coordination with job network agencies;
- the lack of understanding which skills were transferable to another sector of the vehicle industry;
- poor matching of candidates with vacancies;
- lack of support to supplement skills to allow transition into a related occupation;
- lack of interest amongst highly paid redundant employees into lower paid jobs.[40]

4.67 The VACC told the Committee that the Motor Trades Association of South Australia (MTA) found limitations with the way in which Job Network agencies operate. It was reported that Job Network agencies tend to work in isolation and so advertising positions with one or two agencies did not translate into positions being widely advertised. The difficulty therefore became primarily one of lack of communication.[41]

4.68 DEWR contradicted these assertions and claimed that the MTA only provided five vacancies, despite the anticipation of up to 500 vacancies being made available. DEWR emphasised that, in its opinion, the Job Network agencies did work together effectively.[42]

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37 Mr S. Barrett, Mitsubishi Motors Australia Ltd, *Transcript of Evidence,* 1 May 2006, p. 23.

38 Ms N. Govan, DEWR, *Transcript of Evidence*, 1 May 2006, p. 4. Note: the majority of these claims relate to Mitsubishi workers as the Holden LAP is still in the early stages of being implemented.

39 Mr J Camillo, Australian Manufacturing Workers Union (AMWU) South Australia Branch, *Transcript of Evidence,* 1 May 2006, p. 35.

40 VACC, *Submission No. 13,* p. 3.

41 Mrs L. Yilmaz, Victorian Automotive Chamber of Commerce (VACC), *Transcript of Evidence,* 21 March 2006, p. 2.

42 Ms N. Govan, DEWR, *Transcript of Evidence,* 1 May 2006, pp. 18, 20.

4.69 As the MTA declined to contribute to the inquiry, the Committee is unable to determine any truth to these conflicting claims. However, it is clear that the perceived lack of communication between Job Network agencies is problematic in light of the desire to retain skilled workers within the industry.

4.70 It is too soon to predict what the outcomes will be for individuals involved in both the Mitsubishi and Holden downsizing actions. However, there is significant disparity in the reported outcomes of the packages and no clear evidence about the real outcomes for redundant workers.

4.71 There is a need for a comprehensive study to be undertaken on the outcomes for workers, including access to education and re-skilling programs, instances of under employment and social outcomes. The study should also address the perceived communication difficulties between the industry and Job Network.

4.72 The Committee notes that the South Australian Government has funded Flinders University to undertake a longitudinal study on the health and wellbeing of the group of workers who left Mitsubishi. However, a national study is still required and the Committee addresses this need later in the chapter.

Component sector redundancies

4.73 The downsizing taking place at the vehicle manufacturers has received significant public attention and government support. The Committee considers it essential that this support continue. However, equally concerning is the estimated 2 400 to 3 800 workers in the component sector that are reported to have been made redundant over the previous two years or are expected to be made redundant by September 2007.[43]

4.74 Even over the course of this inquiry at least 30 small automotive component companies are reported to have closed or downsized operations.[44] The Committee understands through media and other reports that this figure is likely to be understated.

4.75 DEWR reports that:

> many, but not all, of these job cuts relate to the local vehicle manufacturers' changed purchasing arrangements. In most instances, job cuts that related to loss of contracts will occur

43 DEWR, *Submission No. 11,* p. 25; AMWU, *Submission No. 17,* p. 5.

44 DEWR, *Submission No. 11,* pp. 36-38.

gradually over the next 12 to 18 months as the manufacturers move on to the production of new models.[45]

4.76 Although these are significant redundancies, the Committee was told by DEWR that they do not warrant an extension of labour adjustment arrangements because:

- The job cuts in the component sector have long lead times, with many of the redundancies taking effect over 12 to 18 months. This provides employees with significant time to consider other employment options.
- The job cuts will occur over a geographically dispersed area in locations across metropolitan areas of Melbourne, Adelaide and Sydney. Most instances of redundancies involve about 100 people, a number which can usually be absorbed in the current buoyant labour market where skilled workers are in demand.
- The employers' certified agreements frequently provide for outplacement and financial assistance to the affected workers to assist them to find alternative employment. Anecdotal evidence from employers suggests that many retrenched employees are finding alternative employment very quickly, in some cases before their notice period expires.[46]

4.77 Notwithstanding these claims, the Committee concludes that employees made redundant from component suppliers face the same difficulties in accessing the labour market as individuals made redundant from the MVPs. In particular, they face difficulties in re-skilling or gaining skills recognition.

4.78 The AMWU cited a February 2006 survey on the employment outcomes of 872 redundancies that took place at two component manufacturers (Ion and Tristar) during August to October 2005. The survey found that the employment outcomes of these workers were significantly lower than those outcomes reported for the labour adjustment programs (see Table 4.2).[47]

4.79 The significant levels of unemployment and underemployment as well as the fall in wages and loss of long term security are concerning — particularly when a coordinated labour support package is not available to these employees.

45 DEWR, *Submission No. 11*, p. 25.

46 DEWR, *Submission No. 11*, p. 25.

47 AMWU, *Submission No. 17*, pp. 5–6.

Table 4.2: Case study: Outcomes for redundant workers in the automotive components industry: Ion and Tristar

Number employed	37.2%
Number unemployed	29.5%
Number retired (including prematurely)	10.3%
Number prematurely retired	5.1%
Not looking for work	23.1%
Unemployment rate	48.2%
Average length of unemployment	5 weeks
Number employed in manufacturing	41.4%
Number full time	48.3%
Number part time	10.3%
Number casual	31.0%
Number self employed	10.3%
Of full time workers, average hours	44.4
Number of hours more than previous job	10.0%
Of those now employed how many suffered a reduction in wages	89.7%
Average fall in wages	28.3%
Number who think their long term security has suffered significantly from the redundancy	50.0%

Source *Australian Manufacturers Workers' Union, Submission No. 17, pp. 5–6*

4.80 A number of submissions called for the labour adjustment packages to be available to the entire industry because downsizing by the major manufacturers is felt across the supply chain.[48]

4.81 The Victorian Government submitted examples of successful labour adjustment programs to mitigate the effects large scale redundancies as a result of policy changes. Key features of the programs were that they focussed on supporting employees while they were still employed to plan

48 FAPM, *Submission No. 16,* p. 24; AAAA, *Submission No. 18,* p. 7.

job transition and access further education and training, or to facilitate a smooth transition to retirement.[49]

4.82 The Committee concludes that, in the first instance, a national study of employment outcomes for displaced workers is required. This study should consider all affected workers across the automotive and automotive components industry.

Recommendation 10

The Committee recommends that the Australian Government commission a national study on the post-redundancy outcomes for workers in the automotive industry which takes into account:

- **employment, educational and social outcomes for those individuals accessing a formal labour adjustment program; and**
- **employment, educational and social outcomes for those individuals made redundant in the automotive component manufacturing sector not covered by a labour adjustment program.**

International labour adjustment programs

4.83 Large scale redundancies in the automotive industry are not unique to Australia. Responses to similar closures in other countries hold valuable lessons for the Australian and state governments, and the industry. In addition to requiring a national study on post-redundancy outcomes across all segments of the automotive industry, the Committee gave consideration to the range of assistance provided through similar programs here and overseas.

4.84 In particular, the closure of MG Rover in April 2005 led to a support package focussing on support for displaced workers and supplier firms. This closure resulted in the direct loss of 6 200 jobs at Rover and along the supply chain. The closure also affected suppliers and other dependent businesses responsible for 13 000 jobs. [50]

49 Victorian Government, *Submission No. 24,* p. 17.

50 *MG Rover Task Force: The Final Update Report: The Work Goes On,* prepared for the Department for Trade and Industry, United Kingdom (UK), March 2006, p. 10.

4.85 The £170 million rescue package was provided by the Government in conjunction with other bodies, including local government. This package covered the one-off costs of the support package for affected employees, suppliers and dealers.[51]

4.86 Support for employees included:

- community helpline to support employees and their families;
- job and training support to deliver long and short term vocational employment;
- training support including the establishment of a skills hub offering travel subsidies, minimum training and wage induction subsidies; and
- community support to provide assistance to local businesses and support for residents in key affected areas to move into sustainable employment, particularly ensuring young people were cognisant of job prospects.[52]

4.87 As at March 2006, 4 000 displaced workers (63 per cent) had found employment, ninety per cent of which were in long-term full-time jobs. Half of those in employment were earning less than previously, but one quarter were earning more.[53]

4.88 A key feature of the rescue package was a focus on supporting suppliers to diversify their operations and avoid further redundancies through:

- short term tax relief and wage and business planning support, including a dedicated supplier helpline;
- wage replacement scheme to support suppliers to avoid immediate redundancies by providing funding per employee while business planning was amended;
- a scheme to improve supplier competitiveness and resiliency;
- support for Tier 1 and 2 suppliers to improve quality, cost and delivery measures and up-skill employees to ensure that skills were nationally recognised and transferable to other industries; and

51 *The Closure of MG Rover*, National Audit Office, House of Commons (UK), 7 March 2006, p. 1.

52 Information in this section drawn from *MG Rover Task Force: The Final Update Report: The Work Goes On,* prepared for the Department for Trade and Industry, UK, March 2006.

53 *MG Rover Task Force Six Months On*, prepared for the Department for Trade and Industry, UK, November 2005, pp. 6, 10.

- support for small to medium suppliers to improve their competitive position to penetrate new markets and develop new products.[54]

4.89 The focus on supporting the supply chain was considered successful as it resulted in far fewer closures than anticipated (11 out of 150 companies) and kept job losses to a minimum.[55]

Lessons for future labour adjustment programs

4.90 While the Mitsubishi labour adjustment program can be considered successful, and provided lessons for the development of the Holden labour adjustment program, there are still lessons to be learned for future programs.

4.91 The Committee notes that the Productivity Commission acknowledged that the policy changes regarding reductions in tariffs and changes to the Automotive Competitiveness and Investment Scheme (ACIS) would result in a contraction in employment levels.[56] In addition, due to the sporadic nature of component sector redundancies and their likely continuance, it is necessary to establish general labour readjustment arrangements that are available to the industry as a whole.

4.92 These arrangements should include support for individuals to access training, gain new employment and transition to retirement. Further, they should be focussed on supporting suppliers to build international competitiveness and mitigate redundancies caused by changed MVP purchasing arrangements.

4.93 Component sector redundancies often have long lead times, which presents the ideal opportunity to ensure that workers are suitably skilled and supported to seek alternative employment. Evidence from the delivery of the Mitsubishi LAP indicates that engagement with workers before formal retrenchment resulted in more positive outcomes. The Victorian Government experience with labour adjustment programs across other industries echoes these findings.[57]

4.94 The following sections set out some of the key features that the Committee considers should be included in a general labour adjustment program. However, the Committee would also expect that any such program would build on the lessons learnt by national and international best practice.

54 Information in this section drawn from *MG Rover Task Force Six Months On*, prepared for the Department for Trade and Industry, UK, November 2005.

55 *MG Rover Task Force: The Final Update Report: The Work Goes On,* prepared for the Department for Trade and Industry, UK, March 2006, p. 15.

56 Productivity Commission, *Review of Automotive Assistance Inquiry Report,* 2002, p. 206.

57 Ms N. Govan, DEWR, *Transcript of Evidence,* 1 May 2006, pp. 4–5.

Specific support packages

4.95 Despite some concerns already outlined, the labour adjustment programs put in place for those individuals made redundant by Mitsubishi and Holden over 2004 to 2006 were generally successful. One of the reasons for this was the lead agency role played by the DEWR and the delivery of services at times and locations that suited workers.[58]

4.96 Therefore, the Committee is of the opinion that the support provided through these programs should be continued in a general labour adjustment program for the automotive components industry. In particular, programs should provide the following:

- lead agency coordination;
- on-site job search facilities;
- skills assessment and recognition services;
- financial and career counselling;
- support to access appropriate employment assistance and complete job applications; and
- accelerated training opportunities and focussed training to meet areas of skills shortages.

4.97 Many individuals employed by the automotive industry, both component and MVP, have been in the same jobs since leaving school and have never considered other employment options, nor completed job or employment assistance applications.[59] Support to develop these basic job search skills is essential.

4.98 In addition, the arrangements should include a comprehensive re-skilling framework for the industry to encourage redundant workers to upgrade their skills and remain within the industry.

4.99 In addition, MVPs and the supply chain are also often the major regional employer so any downturn in employment can cause significant stress to the community as a whole. It is therefore important to ensure that support arrangements:

- provide avenues to address concerns of the community facing the loss of a major employer; and

58 Ms N. Govan, DEWR, *Transcript of Evidence,* 1 May 2006, pp. 4–5; Mr J. Dalton, Victorian Government, *Transcript of Evidence,* 26 June 2006, p. 81.

59 Ms N. Govan, DEWR, *Transcript of Evidence,* 1 May 2006, pp. 4–5.

- provide support to young people to ensure they are aware of a wide range of employment options.

Supply chain support

4.100 A downturn in production at the MVPs has the potential for serious negative consequences in business and employment along the supply chain. Labour adjustment programs that only target individual employees rather than focussing on building sustainable industries have missed the opportunity to mitigate supply chain redundancies.

4.101 The general labour adjustment program should focus on building the sustainability of the automotive components industry by providing support:

- for business planning to identify a diversified customer base and link to global supply chains;
- to improve competitiveness, by providing better access to export programs and business skills to penetrate new markets;
- to address the immediate impact of contract losses while business planning is undertaken; and
- for employee training to ensure the transferability of skills, therefore building the capacity of the industry as a whole.

4.102 These general labour adjustment packages must focus on the sustainability of the components industry as a whole and be pro-active, rather than reacting to individual downsizing and closures.

4.103 It is also important that in the development of this program that the industry recognise its mutual dependence. As the local components industry grew out of the need to service the local MVPs, it may be necessary for the MVPs to now provide support to the components industry to identify opportunities to link to global supply chains and export markets.

Recommendation 11

The Committee recommends that the Australian Government develop a general labour adjustment program for the automotive component industry that focuses on:

- **provision of training and employment support strategies to assist employees while they are still employed;**
- **targeted training to up skill displaced workers into areas of skills needs;**
- **addressing the concerns of the wider community about the impact on regions where the automotive components industry is a major employer; and**
- **provision of support to companies along the supply chain to promote sustainability in the industry.**

Committee comment

4.104 The industry is in a contradictory situation. On the one hand it is facing skills shortages in key areas and on the other it has faced several large redundancy actions.

4.105 Unfortunately redundancies may continue to be a feature of the industry in the near future. In recognition of this, labour adjustment measures should be implemented that provide support to mitigate the effect on supply chain employment.

4.106 Whole-of-industry labour adjustment measures should also allow for skills shortages to be addressed by providing support and incentives for redeployed individuals to undertake training to stay within the industry.

4.107 The industry is facing several challenges to its future as discussed throughout this report. However, the Committee is of the opinion that the industry can secure an ongoing and viable future. The next chapter discusses the way forward

5

Driving the industry's future

5.1 This chapter considers the positioning of the automotive component manufacturing industry's future. The industry has proved itself to be competitive and innovative. Although it is facing challenges, it has the resources to move forward to a positive future.

5.2 The chapter discusses the development of automotive industry policy, including the support given by the Australian Government through the Automotive Competitiveness and Investment Scheme and one–off industry assistance.

5.3 The industry's capacity for innovation is key to its future ability to be a competitor in the global marketplace. Accordingly, the chapter discusses measures to support and promote the Australian industry as a centre for innovation.

5.4 Positioning the industry to maximise niche markets and high-end value adding roles will ensure industry sustainability. This shift is essential to securing skilling and sustaining employment in the automotive components industry into the future.

Innovation

5.5 The Australian automotive industry is a important avenue for the entrance of innovative product design and business processes into Australia to the benefit of many other industries. Automotive product design is constantly changing in response to advances in technology, regulatory standards and consumer preferences. Therefore, the industry must be at the forefront of innovation.

5.6 Innovation and investment are key partners. The automotive industry is supported by significant levels of investment by the Australian Government, primarily through the Automotive Competitiveness and Investment Scheme (ACIS), import tariffs and support for structural readjustment. State governments also support the industry heavily through various investment schemes, and the industry's own investment in research and development (R&D) is substantial.

5.7 Despite the significant levels of investment in the industry, jobs continue to be lost and business continues to move offshore to lower cost countries. The global competition to attract automotive R&D investment is fierce and current pressures on the industry indicate the need for it to undergo another major transition. The pressures also provide the industry with the opportunity to develop a future business strategy as a centre for innovation, design and engineering excellence.

5.8 The tyranny of distance that has detracted from Australia's capacity to be a major automotive exporter now finds Australia ideally located close to the central Asian markets. As some manufacturing moves offshore in response to employment and commodity cost pressures, an opportunity arises for the industry to focus on high value-adding roles. These roles are directed to project management of design and production.

5.9 The industry is unable to compete with the manufacturing labour costs of developing countries and therefore must promote its intellectual capacity and develop this as a niche market. This requires managerial capacity and innovation in business systems (that is, organisational innovation).

5.10 The Australian automotive sector already has a focus on organisational innovation and so is well positioned to consider a new industry focus. It has been suggested that the lack of organisational innovation has contributed to the decline of technical dominance by the United States. In contrast, 91 per cent of firms in the Australian automotive sector 'are focussing on innovation in business systems.'[1]

5.11 Organisational innovation requires high investment and so is usually undertaken only by large firms. However, the significant government investment in the sector can be utilised to support the adjustment that needs to take place across the sector and assist in positioning the industry for its future.

1 Department of Education, Science and Training (DEST), *Mapping Australia's Science and Innovation – Main Report*, 2003, p. 103.

Development of industry policy

5.12 Until the early 1980s the Australian automotive environment was heavily protected by a high tariff environment. It was 'characterised by tariffs, export assistance, a local content scheme, import quotas and import tariff relief on a proportion of imported components.'[2] As a result, the industry was heavily dependent on Government assistance which ensured that it was an inward-focussed industry without the necessity to focus on developing export markets.

5.13 Despite consistent recommendations to open the automotive market, real changes did not occur until 1985 with the development of the Passenger Motor Vehicle Manufacturing Plan which became known as the 'Button Plan', after the then Minister for Industry and Commerce, Senator John Button. The Button Plan is still considered to be responsible for re-shaping the Australian automotive industry.

5.14 The Button Plan set out a vision for the industry which encompassed no more than three manufacturers producing less than six models. The plan was originally intended to run until 1992 and the essential elements were:

- maintenance of the tariff at 57.5 per cent;
- increase in the import quota to 22 per cent but with the tariff on out-of-quota imports reduced to 100 per cent, to be phased down to the general tariff level of 57.5 per cent by 1992 at which point tariff quotas would become redundant;
- inclusion of light commercial and four-wheel drive (4WD) vehicles in the tariff quota system; and
- improved access to export facilitation.[3]

5.15 The Button Plan was reviewed in 1988 and amended in response to global pressures, most significantly the depreciation of the Australian dollar. The following changes were put in place:

- the immediate abolition of tariff quotas;
- reduction in the general tariff to 45 per cent, phasing down to 35 per cent in 1992; and
- reduction in the tariff on light commercial and 4WDs from 35 and 25 per cent down to 20 per cent and phasing down to 15 per cent by 1992.[4]

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2 Department of Employment and Workplace Relations (DEWR), *Submission No. 11*, p. 11.

3 D. Richardson, 'Protection in the Motor Vehicle Industry', Department of the Parliamentary Library, *Current Issues Brief 22*, 1996–97, p. 2.

4 D. Richardson, 'Protection in the Motor Vehicle Industry', Department of the Parliamentary Library, *Current Issues Brief 22*, 1996–97. p. 2.

5.16 A 1990 review set out the post-1992 arrangements which included:

- phasing of the general tariff rates down from 35 per cent to 15 per cent in the year 2000;
- reductions in the tariff on light commercials and 4WDs down from 15 to 5 per cent in 1996; and
- retention of 15 per cent duty free entitlement for producers and export facilitation arrangements.[5]

5.17 Government assistance through tariff arrangements has been subject to significant review, in particular two reviews undertaken in 1997 and 2000 by the Productivity Commission.[6] As a result, the tariff rate was cut by five percentage points on 1 January 2005 to 10 per cent and is planned to be further lowered to five per cent in 2010.

5.18 The Department of Employment and Workplace Relations (DEWR) notes that when combined with other industry assistance packages, 'the effective rate of protection (that is, the assistance to the industry's value added) is still around 20 per cent'. This means that 'the effective rate of protection is still more than four times the projected average for the whole of the manufacturing sector'.[7]

5.19 It is widely acknowledged that high levels of Government protection limit productivity and innovation. As a nation, Australia cannot compete in a global market through a policy of protectionism; Australia can only compete on the global stage by consistently keeping one step ahead of competitors through innovation.

5.20 In its 2002 report, the Productivity Commission noted that industry also acknowledges that reduction in government assistance can spur productivity improvements which in turn can:

- help firms cope with the additional competitive pressures associated with lower assistance;
- enhance the industry's longer term capacity to attract capital and its competitiveness more generally; and
- increase the industry's contribution to the economy and community well-being.[8]

5.21 While some submissions were in support of the historical high tariff system, they acknowledged that the tariff system will not work in the current political environment. Other suggestions were made regarding the

5 D. Richardson, 'Protection in the Motor Vehicle Industry', Department of the Parliamentary Library, *Current Issues Brief 22*, 1996–97. p. 2.

6 Productivity Commission, *The Automotive Industry,* May 1997, and *Review of Automotive Assistance*, August 2002.

7 DEWR, *Submission No. 11*, p. 9.

8 Productivity Commission, *Review of Automotive Assistance*, August 2002, p. xxv.

control of imported parts through quota or unwieldily quality control systems.[9]

5.22 In a liberalised global trading environment, it is not appropriate to have open trade policies balanced with restrictive practices. It is, however, important to ensure that trade policies, including free trade agreements, are enforced with Australia's best trading interests as a priority.

5.23 It is concerning to note reports of countries taking advantage of free trade agreements (FTAs) that provide for a zero tariff environment. For example, the Committee heard that the Australia–Thai FTA:

> has prompted Japanese companies to expand their operations in Thailand in order to take advantage of the zero tariff entry into Australian not available to Japan. This places further pressure on domestic producers as widely recognised Japanese brands are imported into Australia at very competitive prices.[10]

5.24 It is important that upcoming FTA negotiations with China, Malaysia and ASEAN aim to deliver preferential market access for automotive component companies. As noted by the Victorian Government, any such preferential market access will be transitory as 'China and ASEAN are currently negotiating FTAs with other countries'.[11] However, even short term advantage gained by preferential market access will afford component companies the opportunity to establish trade relationships and secure export markets.

5.25 The Committee welcomes the commitment by the Minister for Industry, Tourism and Resources that the import tariffs for the automotive sector will not be cut as part of the China FTA.[12]

5.26 A further tariff reduction to five per cent as planned for 2010 is also predicted to contribute to a downturn in output and employment by about nine per cent by 2016. This translates to an annual decline of 400 jobs per year across the industry.[13]

5.27 As yet, there has not been sufficient time to assess the full impact of the January 2005 tariff reduction on employment trends. The Committee's reference did not enable it to explore these issues in detail. Therefore, it is of the opinion that the review planned for 2008 should take place and future planned tariff movements should be considered carefully in terms

9 Mr J. Carney, *Submission No. 1*, p. 1; Society for Australian Industry and Employment, *Submission 10,* p. 14.

10 Victorian Government, *Submission No. 24*, p. 8.

11 Victorian Government, *Submission No. 24*, p. 9.

12 'Manufacturing Tariffs to Stay in China FTA', accessed 20 August 2006, ABC ,<abc.net.au>.

13 Productivity Commission, *Review of Automotive Assistance*, August 2002, p. 206.

of employment rates, market position, future FTA negotiations and the maintenance of a sustainable domestic supply base.

Automotive Competitiveness and Investment Scheme

5.28 The Automotive Competitiveness and Investment Scheme (ACIS) is the Australian Government's major policy investment initiative for the industry. The scheme is aimed at supporting the industry from 2001 to 2015 in the transition to five per cent tariff rates as outlined above. At present, ACIS is also the policy program guiding the automotive industry.

5.29 The scheme provides for $7 billion to be available in three stages over the years from 2001 to 2015. In stage one, $2 billion was delivered over 2001–2005. Stage two will deliver $2 billion over 2006–2010 and stage three will deliver $1 billion over 2011–2015, subject to modulation. A further $2 billion is uncapped funding for the period of the scheme (2001–2015).

5.30 The eligible participants are automotive component producers (ACP), automotive machine tool and automotive tooling producers (AMTP), automotive service providers (ASP) and motor vehicle producers (MVP).[14]

5.31 ACPs, AMTPs and ASPs are jointly eligible to receive:

- 25% of the value of investment in approved plant and equipment; and
- 45% of the value of investment in approved R&D.[15]

5.32 The total package of assistance for the 254[16] ACPs, AMTPs, and ASPs registered for ACIS 'will be $0.9 billion from 2006–2010 and up to $450 million from 2011 to 2015'.[17]

5.33 MVPs are eligible to receive:

- 25% of the value of production of motor vehicles, engines and engine components, multiplied by the automotive tariff rate;
- 10% of the value of investment in approved plan and equipment used to produce motor vehicles, engines or engine components;
- a 25% investment incentive and a 45% R&D incentive in those instances where MVPs produce automotive components (other

14 An automotive service provider provides automotive services and is eligible for ACIS if those services are at least $500 000 in value and at least 50 per cent related to the production of motor vehicles or original equipment.

15 Department of Industry, Tourism and Resources (DITR), *Submission No. 19*, pp. 6, 10.

16 Figure accurate at 1 March 2006.

17 DITR, *Submission No. 19*, p. 10.

than engine and engine components), automatic machine tools, automotive machine tooling, or provide automotive services to a third party MVP; and

- up to 45% of eligible R&D under the $150 million MVP R&D Scheme which is directed at encouraging Australian motor vehicle producers in high-end R&D technologies (from 2006-2010).[18]

5.34 The total package of assistance for MVPs from 2006–2010 will be $1.1 billion and up to $550 million from 2011–2015.

5.35 Approved plant and equipment includes plant and equipment for the manufacture, assembly, design, development or engineering of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling (or plant the equipment that directly supports these). Also included is related plant and equipment that is necessary:

- to comply with Commonwealth, state or territory legislation;
- for the activation of automotive-related manufacturing processes;
- to facilitate the provision of automotive services or approved research and development; and
- to indirectly support functions that are integral to the production of motor vehicles, engines, engine components, automotive components, automotive machine tools or automotive tooling.

5.36 Approved R&D includes:

- basic and strategic research;
- industrial and engineering design;
- production engineering;
- development activities relating to the building and testing or prototypes;
- re-engineering and modification of existing products and processes;
- development and installation of purpose-designed systems for:
  - quality assurance and process control; or
  - materials or movement control;
- testing and modification of new production systems (either purpose-built or interchangeable) to achieve repeatability within specific tolerances;
- obtaining industrial property rights, including:

18 DITR, *Submission No. 19*, p. 10.

- the preparation and lodging of applications and other documents that are required to be lodged, in Australia or elsewhere, for the initial grant or registration of the rights; and
- the initial grant or registration of the rights, in Australia or elsewhere;

- for a participant, activities conducted at the participant's own expense that are aimed at improving a product or process of an engine or component supplier to the participant.[19]

5.37 Of the assistance paid to automotive component suppliers under ACIS, 64 per cent related to R&D and 36 per cent was for plant and equipment. It is worth noting that 'the top ten registered component producers have received 43.4 per cent of ACIS assistance paid to all the component producers.'[20]

5.38 A review of ACIS was not a part of the terms of reference for this inquiry. However, because of its relevance to the viability of the industry, the Committee did hear evidence as to its effectiveness. ACIS is an essential part of supporting the future of the automotive industry in Australia and, as intended, provides a 'decade of certainty'. As the major Government assistance program for the automotive industry, ACIS, and the direction it sets for the industry will have significant impacts on future investment and employment trends. Evidence to the inquiry was overwhelmingly in support of the scheme.

5.39 The Committee acknowledges that there is a review of to ACIS due to occur in 2008. The policy underpinning the ACIS scheme must continue to support the transition to a lower tariff environment and focus on positioning the industry to compete in the changing global environment.

5.40 However, while ACIS was initially established to support the structural readjustment necessary after the change to tariffs, the industry and the economy has since undergone significant changes. There is evidence to indicate that the emergence of China, India and Thailand are causing rapid changes within the industry. Consequently, there are strong drivers for ACIS to be restructured to focus on supporting the industry to grow and respond to these competitive pressures rather than maintaining its current form.

5.41 The Federal Chamber of Automotive Industries (FCAI) told the Committee that large cars are the niche product market for the Australian

19 DITR, *Submission No. 19*, p. 11.

20 DITR, *Submission No. 19*, p. 6.

industry.[21] However, there are also opportunities to develop niche product markets in alternative technologies in response to the rising cost of oil and resultant public concerns about the cost of petrol.

5.42 Calls were made in submissions and other evidence by some parts of the automotive components sector for ACIS funds to be tied to a reciprocal obligation to source local parts.[22] A requirement for ACIS recipients to source parts locally may conflict with World Trade Organisation (WTO) obligations.[23]

5.43 Concerns were expressed that ACIS funds are given for R&D for which Australian products do not benefit. Because of this, there is little security for smaller manufacturers 'in terms of commitment for model and product life for which the investment and expenditure has been made'. This becomes a disincentive for R&D to take place.[24]

5.44 Concerns were expressed that ACIS support for innovation should not be granted to develop products which use imported components. The Victorian Automotive Industry Strategic Action Group (AISAG) found that the current structure of ACIS support for MVP innovation 'has significantly contributed to an increase in imported components at the cost of local component producers.'[25]

5.45 As discussed earlier in the report, the Committee shares the concerns about falling local content levels and the effect on supply chain employment. Consumers increasingly expect product disclosure information as a standard when making purchases of many Australian manufactured products. Therefore, it is not unreasonable to expect that consumers be given the option to support the local industry by being fully informed as to the percentage of local components in locally manufactured vehicles. This position is supported by FAPM.[26]

5.46 ACIS does provide significant financial support for the industry. However, given the number of closures in the automotive components industry over the past 12 months, it would not appear to be sufficient of itself to secure the transition of the industry to a more sustainable future.

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21 Mr P. Sturrock, Federal Chamber of Automotive Industries (FCAI), *Transcript of Evidence,* 22 June 2006, p. 13.

22 AMWU, *Submission No. 17,* p. 27; Mr D. Hugo, Flexdrive Cables, *Transcript of Evidence,* 26 June 2006, p. 13; Mr D. Cameron, AMWU, *Transcript of Evidence,* 26 June 2006, p. 23

23 Mr P. Clarke, DITR, *Transcript of Evidence*, 15 June 2006, pp. 4, 11.

24 Mr D. Hugo, Flexdrive Cables, *Transcript of Evidence,* 26 June 2006, p. 11.

25 Victorian Government, *Submission No. 24*, p. 24.

26 FAPM, *Submission No. 16*, p. 10.

5.47 Clearly, the innovation of the future is going to focus on sustainable technologies, including hybrid and other technologies with the most potential for growth. Without greater investment in this area, Australia is at risk of falling behind global competitors in technology innovation and business practices. Some evidence indicated that Australia is already perilously close to this stage.[27]

5.48 A review of ACIS should include what role it can play in the establishment of Australia as a centre for automotive innovation. This role includes promoting investment for R&D in new and emerging technologies and showcasing Australia as a leading investment destination for high-end R&D.

Additional industry assistance

5.49 In addition to the substantial benefits paid under ACIS, the Australian Government has provided additional financial assistance to some automotive companies. For example:

- In 2002, Mitsubishi Motors was given $85 million of combined Australian and South Australian Government assistance for the creation of an R&D facility and 900 new jobs.[28]
- In 2006, Ford Australia was given a financial assistance package of $52.5 million for design, engineering and manufacturing projects, an R&D facility and the creation of 273 new jobs.[29]
- In 2006, GM Holden was given $13.4 million of combined Australian, South Australian and Victorian Government assistance for R&D and training aimed at safety, fuel management improvements and the reduction in greenhouse gas emissions in some models.[30]

5.50 The assistance was given on condition that the local component sector is given 'every fair and reasonable opportunity to supply necessary

27 Centre for TPM, *Submission No. 12,* p. 2; Victorian Government, *Submission No. 24,* p. 24; Mr B. Franklin, FAPM, *Transcript of Evidence,* 26 June 2006, p. 63; Mr David Lamb, CSIRO, *Submission No. 28,* p. 4.

28 J. Koutsoukis and S. Evans, 'No Jobs, No Money for Mitsubishi', *Australian Financial Review*, 27 April 2002.

29 Prime Minister of Australia, 'Assistance to Ford Australia', *Media Releases*, 5 May 2006.

30 Minister for Industry, Tourism and Resources, '$13.4 million to Holden for safety and fuel upgrades', *Media Releases,* 25 October 2006.

components for these projects.'[31] This is consistent with Australia's WTO obligations.

5.51 However, as noted above, there are no local content reporting requirements. Therefore, determining whether 'fair and reasonable' opportunities are afforded to local component suppliers becomes difficult to measure.

R&D assistance

5.52 In addition to the R&D assistance received under ACIS, and the investment programs outlined above, automotive component producers can access the R&D Tax Concession:

> [This] is a broad-based, market driven tax concession which allows companies to deduct up to 125% of qualifying expenditure incurred on R&D activities when lodging their corporate tax return. A 175% Incremental (Premium) Tax Concession and R&D Tax Offset are also available in certain circumstances. This program forms part of the Backing Australia's Ability - Building our Future through Science and Innovation $5.3 billion package to follow on from the $3 billion Backing Australia's Ability strategy announced in 2001.[32]

5.53 The Committee heard evidence regarding the erosion of the real value of R&D Tax Concessions as a consequence of a 1995–96 reduction of the R&D Tax Concession from 150 per cent to its current level of 125 per cent. This erosion of value, compounded by lower corporate tax and coupled with the modulation of ACIS R&D credits at 50 per cent, makes 'the Australian automotive industry very uncompetitive in global terms as a location in which to undertake automotive R&D'.[33]

5.54 The Committee notes the Department of Industry, Tourism and Resources' (DITR) 2003 evaluation which concluded that the 125 per cent R&D Tax Concession is an appropriate and effective policy measure. There has also been an increase in direct Government R&D support since 1995–96 which is in part a result of the introduction of ACIS.[34]

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31 Prime Minister of Australia, 'Assistance to Ford Australia', *Media Releases*, 5 May 2006.

32 DITR, *Submission No. 19,* p. 15.

33 FAPM, *Submission No. 16,* p. 26.

34 DITR website, accessed 23 March 2006, <industry.gov.au>; DEST, *Mapping Australia's Science and Innovation – Main Report*, 2003, p. 386.

5.55 It was put to the Committee by the Australian Manufacturing Workers Union (AMWU) that although R&D support for the sector through ACIS is high, the 50 per cent modulation rate effectively limits the support and does not encourage growth in investment. Further, the R&D Tax Concession should be extended to cover the portion of R&D investment that is not eligible for ACIS support due to the modulation rate.[35]

5.56 The Committee notes the importance of ensuring that Australia is regarded favourably as a location for R&D investment and the gains to Australia for this investment in terms of job creation, skills transfer and retention.

5.57 Australia cannot compete in terms of attracting new manufacturing investment without attractive R&D support measures due to the strong competition provided by the emerging Asian markets in terms of lower wage and commodity prices. However, with a highly innovative industry already in place, Australia can promote its strengths in terms of a location to support the development and commercialisation of innovation.

Recommendation 12

The Committee recommends that the Australian Government review R&D assistance available to automotive component manufacturers to assess whether it is commensurate with incentives offered internationally.

5.58 The inquiry received evidence regarding inaccessibility of R&D tax concessions (both through ACIS and the R&D Tax Concession scheme) to foreign-owned multinational companies and their Australian based subsidiaries.[36] While the principle behind R&D assistance is to support Australian innovation, the OECD reports that R&D is becoming progressively more internationalised.[37] On average, OECD countries report a 16 per cent share of foreign affiliates undertaking R&D, with the United Kingdom, Canada and Ireland reporting in excess of 35 per cent.[38]

35 Mr P. Conroy, AMWU, *Transcript of Evidence,* 26 June 2006, p. 30; AMWU, *Submission No. 17,* p. 27.

36 SA Government, *Submission No. 5,* p. 19; Ai Group and EEASA, *Submission No. 26*, p. 15.

37 OECD, *Science, Technology and Industry Scoreboard 2005,* p. 78; the United Kingdom, Canada and Ireland report the highest percentage share of R&D owned by foreign affiliates.

38 OECD, *Science, Technology and Industry Scoreboard 2005,* online version, accessed 21 August 2005, <thesius.sourceoecd.org/vl=22083205/cl=21/nw=1/rpsv/scoreboard/a10.htm>.

5.59 Given that the automotive industry is becoming increasingly characterised by international parent companies investing in affiliate production and R&D, it is multinational companies who may have the best capacity to support investment in R&D. If Australia wants a share of the lucrative automotive R&D market, then this is more likely to eventuate through support for Australian based subsidiaries of multinational companies.

5.60 The OECD has noted a trend towards:

> the emergence and development of international networks of co-operation agreements or alliances either between firms or between firms and government or university R&D bodies.[39]

5.61 The Committee notes that tax assistance was considered in some detail previously by the House of Representatives Standing Committee on Science and Innovation in its 2003 inquiry report into business R&D expenditure in Australia titled *Riding the Innovation Wave:The Case For Increasing Business Investment in R&*D. The issue was again raised by the same Committee in the 2006 inquiry report titled *Pathways to Technological Innovation*.

5.62 Both of these reports made recommendations regarding the extension of R&D assistance to Australian subsidiaries of foreign-owned multinationals.[40]

5.63 Representatives from DITR told the Committee that concessions for foreign-owned R&D were not provided because it raised the question of whether the concession was for overseas activity or the local industry.[41]

5.64 The Committee does not consider the concerns expressed by DITR to be unsurmountable. Given the critical importance of encouraging R&D investment and the reality that much of this investment comes from foreign-owned multinationals, the Committee is of the view that automotive component companies that are able to demonstrate the extent to which R&D work is undertaken in Australia should qualify for support.

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39 OECD, *Science, Technology and Industry Scoreboard 2005,* online version, accessed 21 August 2005, <thesius.sourceoecd.org/vl=22083205/cl=21/nw=1/rpsv/scoreboard/a10.htm>.

40 Parliament of Australia, accessed 21 August 2006, Standing Committee on Science and Innovation (40th Parliament) *Riding the Innovation Wave*: *The Case for Increasing Business Investment in R&D' June 2003,* <aph.gov.au/house/committee/scin/randd/report.htm>. and Standing Committee on Science and Innovation (41st Parliament) *Pathways to Innovation,* June 2006, <aph.gov.au/house/committee/scin/pathways/report.htm>.

41 Mr P. Clarke, DITR, *Transcript of Evidence*, 15 June 2006, p. 9.

Recommendation 13

The Committee recommends that the Australian Government extend R&D assistance to work undertaken by Australian based automotive component manufacturing subsidiaries of multinational companies where it can be demonstrated that the work is to be undertaken in Australia to benefit Australian products.

Intellectual property protection

5.65 The increase in global trade flows is posing some threats to the security of intellectual property rights. The Committee heard concerning evidence that some trading partners:

> have little or no regard or respect for the protection of intellectual property which puts innovative Australian automotive component manufacturers at a further disadvantage as their import competitor need little or no investment in R&D and is effectively "stealing" technology.[42]

5.66 To illustrate this point Mr Raymond Brown, of small Australian manufacturer Davies Craig, told the Committee:

> I can give you another perfect example of that situation. Our major competitor in the electric fans area of our market—automotive cooling, electric fans—is in fact the Chinese, and I would have to say that four years ago we had a situation where one of the Chinese manufacturers copied our product absolutely to the last "t", so not only the product itself—the packaging, the colour, the part numbers even, of the product. That was the extent of copying that we were experiencing and are still experiencing in the marketplace right now.[43]

5.67 In the negotiation of free trade agreements it is imperative that the protection of intellectual property rights is treated with the utmost importance. Equally important is the application of appropriate sanctions for breaches.

42 AAAA, *Submission No. 18*, p. 5.

43 Mr R. Brown, AAAA, *Transcript of Evidence,* 21 March 2006, p. 17.

5.68 The Committee was told by DITR that, in regards to free trade negotiations:

> the intellectual property issue in China is well and truly on the agenda. My understanding from talking to IP Australia, which is within our portfolio, is that the Chinese are moving very quickly to improve the administration of their intellectual property laws. My understanding on this—it is not my particular area of policy responsibility—is that the actual laws in China are not bad, it is the enforcement of them that has been a problem, but they are rapidly moving to improve that. One of the reasons for that is they realise that if they want to attract investment and intellectual property to grow and develop their own industries, they have to have adequate protection in place, because if they do not, companies will be reluctant to make those investments and make intellectual property available.[44]

5.69 DITR further added:

> about the APEC auto dialogue: at every meeting I have attended the intellectual property issue is pushed very strongly. The whole issue of counterfeit parts is constantly being pushed. Countries will need to recognise that if they wish to be competitive.[45]

5.70 It is heartening that the issue of intellectual property protection, in particular for the automotive industry, is receiving due attention in trade and diplomatic negotiations. The Committee also acknowledges the difficulties associated with enforcement of breaches in other countries and the need for companies to invest in intellectual property protection where available.

5.71 This is not an issue confined to the automotive industry. It was also raised in relation to Chinese enforcement of intellectual property in the Standing Committee on Science and Innovation inquiry into pathways to technological innovation.[46]

5.72 The Committee urges the Government to continue to place high priority on this issue and urges industry peak bodies to continue to work closely with IP Australia to report and monitor breaches.

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44 Mr K. Pettifer, DITR, *Transcript of Evidence,* 15 June 2006, p. 13.

45 Mr P. Clarke, DITR, *Transcript of Evidence,* 15 June 2006, p. 13.

46 Standing Committee on Science and Innovation (41st Parliament) *Pathways to Innovation,* June 2006, <aph.gov.au/house/committee/scin/pathways/report.htm>, p. 121.

Automotive Centre of Excellence

5.73 The Automotive Centre of Excellence (ACE), as discussed in Chapter 3, will not only add intellectual capacity and value to efficient manufacturing, but allow Australia to promote itself internationally as a destination for automotive investment.

5.74 The Committee was told that the value of the ACE lies in the extent to which it can:

- strengthen the automotive industry's, and the wider manufacturing sector's, manufacturing and engineering capabilities to ensure they can compete globally;
- improve education & training and research & development outcomes through promoting critical mass and network effects;
- position Australia as a globally significant centre of excellence in the automotive industry, particularly in the areas of collaborative engineering services and niche manufacturing;
- showcase Australia's automotive expertise;
- position Australia as a supplier a high quality education and training (including distance delivery) services for the automotive industry;
- build the industry's image to allow it to attract the talented employees that it needs;
- broker best practice product design and manufacturing outcomes;
- improve linkages (both physical and virtual) between industry stakeholders; and
- allow high facility and equipment costs to be shared.[47]

5.75 The stage one development focuses on the delivery of training. Stage two development will house the remainder of the automotive trades training and R&D facilities. Stage three development will host the commercial facilities in a hub that will provide an income stream for the ACE and be a central showcase for the industry. Stages two and three are yet to be funded.

5.76 The Committee is supportive of the continued development of the ACE and concludes that it will better integrate the industry by servicing the needs of education and training, R&D, industry collaboration and promotion.

47 Kangan Batman TAFE, *Submission No. 7*, p. 4.

5.77 While the Committee considers it essential that the industry be involved in funding and ownership of the ACE, it also considers that the Australian Government should commit to progressing the stage two development given its focus on developing R&D facilities and its potential to showcase Australian automotive innovation internationally.

Recommendation 14

The Committee recommends that the Australian Government commit to progressing, in partnership with industry, the stage two development of the Automotive Centre of Excellence in Melbourne. This may necessitate some Government start-up funding and addition to coordination support.

Promoting Australian industry

5.78 The Australian Government has recently established measures, such as the Automotive Industry Strategic Group (AISG) to assist in the promotion of the Australian industry within global supply chains. The AISG, led by the Minister for Industry, Tourism and Resources, comprises representatives from MVPs, component manufacturers and the relevant ministers from South Australia and Victoria.[48]

5.79 The Committee was told that the Minister has been very active in pursuing new markets and talking to the MVPs to encourage them to provide new markets for suppliers. Although during this inquiry it was too early to determine whether this approach has been successful, it was credited with opening better communication between MVPs and component suppliers.[49]

5.80 Various industry representatives informed the Committee that while they supported AISG's 'innovative and constructive' approach, there is a need for more opportunities for the industry to promote itself as a whole.[50] There is a call to focus on automotive component industry specific

48 DITR, *Submission No. 19,* p. 6.

49 Mr K. Pettifer, DITR, *Transcript of Evidence,* 15 June 2006, p. 4.

50 Mr R. Scoular, Ford Australia, *Transcript of Evidence,* 26 June 2006, p. 67; Mr M. Lee, Australian Die Casting Association (ADCA), *Transcript of Evidence,* 26 June 2006, p. 6; Mr D. Cameron, AMWU, *Transcript of Evidence,* 26 June 2006, p. 20.

facilitation to ensure that Australian component manufacturers are best able to access foreign markets.[51]

Recommendation 15

The Committee recommends that the Australian Government support the development of automotive component industry specific trade facilitation to ensure that Australian component manufacturers are able to access foreign markets.

Renewing the industry vision

5.81 While the Committee heard many predictions of the failure of the industry, it agrees with the Productivity Commission's 2002 finding that there is reason for optimism about the industry's future. The industry is currently facing new challenges, but it has survived and thrived through challenges of a similar magnitude in the past.[52]

5.82 The difference this time is the context of globalisation and the influence of transnational market forces, a pervading pessimism in some parts of the automotive industry and the expectation of some that the onus is on Government to 'rescue' the industry.

5.83 The Committee disputes this pessimism and also the need for any rescue measure by the Government. The Committee is firmly of the view that the Government has expressed a commitment to the industry and that Australian manufacturers have the capability and competitive drive needed to sustain a strong automotive industry and strong levels of employment.

5.84 It has been made clear to the Committee throughout the course of this inquiry that a comprehensive vision is needed affirming the commitment of the industry to securing future automotive investment in Australia.

5.85 The Committee acknowledges that there is an industry vision for the advanced manufacturing industry, of which the automotive industry is a significant part. Released in July 2006, *Making it Global: Advanced Manufacturing Action Agenda* sets out the main areas that the sector will

51 FAPM, *Submission No. 16,* p. 15

52 Productivity Commission, *Review of Automotive Assistance,* August 2002. p. 198.

need to focus on in order to be internationally competitive and innovative.[53]

5.86 *Making it Global* focuses on industry leadership and collaboration, market access and development, technology and innovation, skills and training, and measuring industry performance.

5.87 These Action Agenda measures will aid the automotive industry on a macro level; however the current fragmented nature of the automotive component industry, coupled with the already significant levels of public investment, means that a focussed automotive component industry vision is needed. A vision would assist in addressing issues such as declining employment levels, training and recruitment issues and the complexity of the interrelationships of the supply chain.

5.88 While ACIS indicates the Government's long-term commitment to the existence of an Australian automotive industry, it does not provide an industry vision and nor was it even intended to provide this.

5.89 To meet the new challenges facing the industry, the Committee has concluded that an articulated automotive component industry vision is needed that sets the baseline expectations of the industry across the supply chain. The vision must cover issues such as training and retention, export markets and programs, taxation and incentive system for innovation. An articulated vision will provide a context of security, both nationally and internationally, that may assist in attracting skilled workers and greater R&D investment.

5.90 The Government financial commitment through ACIS funding can be linked to this vision and used to support the industry to take its place as a strong competitor in the global marketplace. Government support should recognise manufacturer efforts to develop global niche markets. The Committee notes that such niche support was recently provided to Ford Australia for its development of a hybrid vehicle.

5.91 It is inevitable that a certain level of manufacturing activity will move off-shore to lower-cost countries. Australian automotive opportunities lie in skilled manufacturing, product and project design and innovation. In recognition of this, the industry vision must focus on establishing Australia as a centre of excellence and a niche market for innovative product and project development and design.

53 Department of Industry, Tourism and Resources, *Making it Global: Advanced Manufacturing Action Agenda,* July 2006.

5.92 A vision for the automotive component industry cannot be achieved without the commitment and leadership of industry. Motor vehicle manufacturers, automotive component manufacturers and all other participants along the automotive supply chain must work equitably and in collaboration to focus on how to achieve a long-term, sustainable future. Any cultural issues in the sector impeding this collaboration cannot be 'fixed' by government — instead, overcoming any such issues is reliant on the courage and leadership of industry players.

5.93 Despite the automotive component industry having received substantial government assistance over the last decade, there remains much that could be improved for the position of the sector. While acknowledging that there is this work to be done, the Committee reiterates its confidence in the future of the sector. During the course of the inquiry, there were many examples provided that demonstrated the innovation and capability of the industry.

5.94 However measures are needed to coordinate the strategic development of this innovation and capability in order to achieve a competitive sustainability in the global marketplace, rather than continue the ethos of maintaining the current domestic situation.

5.95 The Committee has made a number of strong comments about industry stepping up to its responsibilities and shaping its future and also about refining the focus of government support to ensure the industry objectives of growth and sustainability are realised.

5.96 There is no 'one size fits all' remedy to these issues. Instead, a number of challenges must be met by industry and facilitated by government policy makers to respond to the global market and the challenges this poses for the future of the Australian automotive component industry.

5.97 In light of this, the Committee considers there is a strong need to readjust some aspects of the support currently provided by government. However to effect change for the future of the sector, these changes must also be accompanied by a high level of industry responsibility and the type of industry-wide participation that was not afforded this inquiry.

5.98 The Committee considers the following to be priority issues:

- The vision for the automotive component industry should be clearly communicated and aim to develop Australia as a niche market of innovation and investment.
- The level of local components in locally manufactured vehicles should be made publicly available.
- The planned 2008 independent review of ACIS should consider the appropriateness of the ACIS structure, current eligibility categories and priorities, and the effectiveness of the scheme to assist the Australian industry to position itself to be globally competitive and sustainable over the long term.

Recommendation 16

The Committee recommends that the Australian Government, in partnership with industry, renew and communicate its vision for the automotive component industry that sets out the priority issues and measures to establish Australia as a niche market for innovation and investment.

Recommendation 17

The Committee recommends that the Australian Government reintroduce reporting on the level of local components in locally manufactured vehicles, consistent with World Trade Organisation obligations.

Recommendation 18

The Committee recommends that the Australian Government review of Automotive Competitiveness and Investment Scheme in 2008 consider:

- **current eligibility categories and priorities; and**
- **the effectiveness of the scheme in assisting the Australian industry to best position itself to be globally competitive and self-sustaining in the long-term.**

In conclusion

5.99 This inquiry has come at an important time for the Australian automotive components industry as it faces significant global and local challenges. At a global level there is increased competition from emerging economies, changes in production strategies and manufacturing models. Locally, there are challenges to be met in securing and training a skilled workforce and finding new markets, particularly export markets.

5.100 Given these challenges, the Committee wanted to ensure that the inquiry tackled these issues head-on and did not shirk from criticism of industry, government policy or MVPs. The report strongly endorses initiatives in some areas while urging industry leadership in other areas.

5.101 However, the Committee's desire to conduct an open and comprehensive inquiry was complicated by a number of elements. Firstly, there was a general lack of participation in the inquiry from some industry peak bodies and few businesses expressed interest in speaking to the Committee. Other companies who did not participate, despite the opportunity to provide evidence in a confidential forum, cited fears of retribution or loss of contracts.

5.102 There was also a perception amongst some areas of the industry that the 'solution' to current challenges was greater financial support to the industry from Government. The Committee has expressed its concerns regarding the lack of industry response to this inquiry and the need for the industry to assert its own direction and create the economically viable and globally competitive future that is within its reach.

5.103 This report makes a series of strong recommendations that assert a positive future for the Australian automotive components industry. These recommendations target the actions within the scope of the Australian Government to establish the market environment, investment incentives and workforce potential to enable this future. However, achieving and delivering on this future remains the realm of the industry.

5.104 To ensure that Government initiatives are establishing the framework environment for success, there is the need for adequate data on the components industry. Currently most ABS data is at the level of the entire automotive industry, which does not provide sufficient analysis to determine the status and needs of the automotive component industry. Given the foundational importance of this industry to many other sectors of the economy, the Committee recommends that steps are introduced to ensure data is made available specific to the automotive component industry.

5.105 Having more statistical data on the nature of change in the automotive component industry will assist in identifying future workforce needs, and so support planning to meet growth and technology changes in the industry.

5.106 The Committee has made a number of recommendations in the areas of training and addressing skills needs. First and foremost, adequate and informed industry representation on training issues across all aspects of the supply chain is essential. Because of the automotive training industry's lack of engagement with the inquiry, the Committee expresses its concerns that there is inadequate representation occurring at the industry skills council level and urges a review of the status of Automotive Training Australia.

5.107 A lack of clarity and active representation at this level can only hinder the industry's progress and its capacity to contribute to training programs.

5.108 Substantial on-the-job training takes place in the industry, and there is a need for the recognition and transferability of skills across the industry. The Committee recommends that these factors are considered in the review of manufacturing training packages.

5.109 There are innovative success stories in regards to training taking place in the industry. The NAMIG training model, the concept of a centralised teaching foundry and the development of the Automotive Centre of Excellence offer significant opportunities to deliver tailored training that meets the specific needs of regional areas and workplaces.

5.110 The Committee recommends that support, and where appropriate funding and resources, be allocated to ensure the consolidation and extension of these training models.

5.111 For training models to deliver an able and motivated workforce, the industry must attract both entry-level and skilled workers. With the industry in transition, and with the media giving precedence to news of redundancies over news of industry innovation, recruitment is often challenging.

5.112 This is not an issue that Government can resolve as it is for industry to counter negative stereotyping and assert its positive and lasting future as a key industry in Australia. However, as a starting point, the Committee recommends that Government support is given to establishing an industry leaders' forum that can develop strategies at a national level to overcome stereotypes surrounding the image of the industry and boost recruitment into the industry.

5.113 Recruitment strategies and a positive industry image are also paramount when there are labour and skill shortages in certain areas such as Australia is currently experiencing. The Committee notes the measures introduced by the Australian Government in October 2006 and considers that these initiatives will assist the automotive components industry in securing qualified workers in the future. The Committee recommends that, in addition to those measures introduced, tertiary automotive engineering courses be made eligible for fee concession schemes and options to retain in Australia local and foreign-born engineering students are further examined.

5.114 Potential means of addressing skills shortages and recruitment challenges in the industry are discussed. With redundancies occurring in some areas of the industry, and recruitment difficulties experienced in others, there is a need for industry to work more cohesively to develop innovative solutions to some of these workforce challenges. The Committee recommends labour adjustment programs take into account the workforce needs of the automotive component sector and ensure that support is provided across all affected sectors of the industry.

5.115 The focus of the recommendations addressing training, skill shortages and labour adjustment programs is on responding to immediate challenges within the industry and establishing a continuing workforce. While these responses are essential, they will not ensure the ongoing competitive viability of the industry without a shift in focus to a clear niche market position with the investment, drive and commitment of industry. Structural adjustment assistance and innovation incentives are provided so the industry has the ability to focus on achieving success in the global marketplace.

5.116 In recognition of the global economy dominating the automotive industry as a whole, the Committee recommends that R&D assistance is made available to Australian based automotive subsidiaries of multinational companies. This would ensure that Australia retains a share of the lucrative innovation and design market. Further, current R&D assistance should be assessed to ensure it is commensurate with incentives offered in other countries and so that, in as far as possible, Australia is able to attract innovation investment and not lose this market niche to off-shoring.

5.117 To this end, the Committee gives its support to the Automotive Centre of Excellence in Melbourne and recommends it receive the support necessary to ensure its progression beyond training delivery to the establishment of R&D facilities.

5.118 Innovation must be accompanied by careful selection of markets and recognising Australia's competitive advantages. As Australia's closest neighbours, Asian nations may either be viewed as fierce low cost competitors or burgeoning export markets. The Committee recommends support for automotive component industry trade facilitation.

5.119 In conjunction with securing export markets, there must be an ongoing domestic market for locally produced automotive components. While the automotive industry is comprised of several sectors, its overall survival depends on the integrated nature of the supply chain and on the viability of its sectoral parts.

5.120 Retaining local content levels in locally manufactured vehicles is a vital element in the industry's future and accordingly the Committee recommends the reintroduction of local content reporting. While it is not the role of Government to set local content levels, the Committee is firmly of the view that in return for public expenditure delivered through ACIS, the public expects disclosure about the local and imported content of vehicles.

5.121 Government assistance to the automotive industry is primarily delivered through ACIS. The Committee recommends that the planned review of ACIS in 2008 brings the scheme in line with the goal of a globally competitive and self sustaining industry into the future.

5.122 The Australian Government has a strong commitment to the industry. The industry has a long history in Australia and there are many outstanding examples of innovation, dynamic companies committed to meeting change and growing their markets and skilled and dedicated workers who value life-long employment in the industry.

5.123 The Committee is not about to 'set a plan' for the industry. The industry itself is the specialist in this area and it knows best its strengths, capabilities and the market opportunities. However, a sense of apathy pervades some areas of the industry, and alarmist media reports of redundancies and business closures do nothing to invigorate the industry and enable it to see clearly its future direction.

5.124 Consequently the Committee sees a need for industry and Government to communicate a shared vision. This vision should identify the priority issues for change and strategies for the industry to achieve its place as a niche market for innovation and investment.

5.125 It should be articulated how Government assistance, through ACIS and other concessional support, aids the transition to an industry of innovation that secures its position in the global automotive marketplace. Industry should also articulate its target markets, niche export potential, and

mechanisms to achieve an integrated industry with appropriate recognition of supply chain interdependency.

5.126 With a renewed vision that establishes respective responsibilities for industry and government, the Australian automotive components industry can shift into top gear and drive its own future – securing ongoing employment and retaining valuable skills in Australia.

Phillip Barresi MP

Chair

4 December 2006

A

Appendix A – List of submissions

1	Mr Jim Carney
2	The Government of Western Australia
3	Institute of Automotive Mechanical Engineers
4	Ford Motor Company of Australia Limited
4.1	Ford Motor Company of Australia Limited (Confidential)
5	South Australian State Government
5.1	South Australian State Government
6	Automotive Training Victoria
7	Kangan Batman TAFE
8	Mr Shaun Tinnion
9	Toyota Australia
10	Society for Australian Industry & Employment Inc
11	Australian Government Department of Employment and Workplace Relations
11.1	Australian Government Department of Employment and Workplace Relations
12	The Centre for TPM (Australasia)
13	Victorian Automotive Chamber of Commerce
14	Flexdrive Cables Australia Pty Limited
15	Australian Expert Group in Industry Studies
16	Federation of Automotive Products Manufacturers

17 Australian Manufacturing Workers' Union

18 Australian Automotive Aftermarket Association

19 Australian Government Department of Industry Tourism and Resources

19.1 Australian Government Department of Industry Tourism and Resources

19.2 Australian Government Department of Industry Tourism and Resources (Confidential)

20 NSW State Government

20.1 NSW State Government

21 Bus Industry Confederation

22 Australian Die Casting Association

23 Australian Manufacturing Workers' Union

24 Victorian Government

24.1 Victorian Government

25 Tasmanian Government

26 Australian Industry Group & Engineering Employers Association, South Australia

27 Federal Chamber of Automotive Industries

28 CSIRO

29 Mr Colin Kestell

30 The University of Queensland

31 Australian Government Department of Education, Science and Training

31.1 Australian Government Department of Education, Science and Training

32 RMIT School of Management

B

Appendix B – List of exhibits

1 Australian Die Casting Association

Media releases; letters of support; Proposal for the Delivery of Engineering Production Training

2 Australian Manufacturing Workers Union

The State of the Automotive Component Industry

3 Department of Employment and Workplace Relations

Presentation Overview of DEWR Labour Adjustment Packages

C

Appendix C – List of hearings and witnesses

Tuesday, 21 March 2006 – Melbourne

Australian Automotive Aftermarket Association

Mr Raymond Brown, Councillor

Mr Stuart Charity, Executive Director

Mr Peter Doyle, Treasurer

Kangan Batman TAFE

Mr Phillip Murphy, General Manager

Society for Australian Industry and Employment

Mr Craig Milne, Member

Mr Colin Teese, Deputy Chairman

Victorian Automotive Chamber of Commerce

Mrs Leyla Yilmaz, Manager Industrial and Employee Relations

Thursday, 30 March 2006 - Canberra

Bus Industry Confederation

Mr Michael Apps, Executive Director

Mr Peter Smith, Managing Director, Southport Engineering Pty Ltd

Monday, 1 May 2006 – Adelaide

Australian Manufacturing Workers Union

Mr Tony Evans, Research Officer

Mr John Camillo, State Secretary

Australian Government Department of Employment and Workplace Relations

Ms Susana Bogosavljevic, Labour Adjustment Packages Manager

Ms Nicky Govan, State Manager

South Australian Government Department of Further Education, Employment, Science & Technology

Mrs Wendy Eldridge, Manager Labour Market Adjustment Initiatives

Mr Louis Hutchinson, Director Employment Programs

South Australian Government Department of Trade and Economic Development

Mr Leonard Piro, Director

GM Holden Ltd

Mr Terry Cubley, HR Manager

Mr John Dore, Industrial Relations Manager

Mitsubishi Motors Australia Ltd

Mr Stephen Barrett, General Manager Human Resources

Mrs Anna Duin, Diversity Management Coordinator

Service to Youth Council Inc

Mr Paul Edginton, Chief Executive Officer

Training Prospects

Mr Lou Sapio, General Manager

Tuesday, 2 May 2006 – Adelaide

In camera

Three witnesses

Public hearing

Institution of Mechanical Engineers

Mr Stanley Gafney, South Australian Panel Member

Northern Advanced Manufacturing Industry Group (NAMIG)

Ms Annette Cinnamond, Chair, NAMIG Advisory Board

Ms Claire Hogarth, Deputy Chair, NAMIG Advisory Board

Dr Lincoln Wood, Founding Member, NAMIG Advisory Body

Mrs Constance Woodberry, Coordinator, NAMIG Project

University of Adelaide

Mr Colin Kestell, Senior Lecturer and Automotive Engineering Coordinator

Thursday, 25 May 2006 – Canberra

Australian Government Department of Employment and Workplace Relations

Mr Philip Crotty, Acting Director, Automotive Project Team, Industries Branch, Workplace Relations Implementation Group

Mr Peter Frankis, Director, Industry Strategies Taskforce

Mr Ivan Neville, Assistant Secretary, Labour Supply and Skills Branch

Mr Stuart Watson, Assistant Secretary, Building Industry Branch, Workplace Relations Implementation Group

Ms Clare Woodhead, Director, Labour Market Analysis Section

Thursday, 15 June 2006 – Canberra

Australian Government Department of Industry Tourism and Resources

Mr Ken Pettifer, Head of Division, Manufacturing, Engineering and Construction Division

Mr Peter Clarke, Manufacturing, Engineering and Construction Division

Thursday, 22 June 2006 – Canberra

Federal Chamber of Automotive Industries

Mr Andrew McKellar, Director, Government Policy

Mr Peter Sturrock, Chief Executive

Monday, 26 June 2006 – Melbourne

Australian Die Casting Association

Mr Michael Lee, Manager, Technology Transfer and Education

Australian Industry Group & Engineering Employers Association, South Australia

Mr Peter Burn, Associate Director, Public Policy

Australian Manufacturing Workers Union

Mr Doug Cameron, National Secretary

Mr Pat Conroy, National Research Officer

CSIRO

Mr David Lamb, Transport Leader

Federation of Automotive Products Manufacturers

Mr Robert Franklin, Member, Executive Council

Mr Paul James, Executive Officer

Mr Peter Upton, Chief Executive

Flexdrive Cables Australia Pty Limited

Mr Darryn Hugo, Chief Executive Officer

Ford Motor Company of Australia Limited

Ms Elly Haug, Government Liaison Manager

Mr Russell Scoular, Government Affairs Manager

Victorian Government Minister for Manufacturing and Export

The Hon Andre Haermeyer

Office of the Victorian Minister for Manufacturing and Export

Mr Trent Gillam, Chief of Staff

Victorian Government Department of Innovation Industry and Regional Development

Mr John Dalton, Director, Industry & Trade Policy, Economic Policy & Planning

Mr Barry Moncur, Manager, Industry Development Office of Manufacturing & Service Industries

Thursday, 10 August 2006 – Canberra

Australian Government Department of Education, Science and Training

Ms Janice Anderson, Director, Skills Initiatives, Skills Branch, Industry Skills Development Group

Mr Ben Johnson, Branch Manager, Skills Branch

Ms Linda White, Acting Branch Manager, Australian Apprenticeships Services Branch

D

Appendix D – MVP employment and production snapshot

Australian Industry Snapshot at September 2006

MVP	Employment	Production		Market share
	Approx	*Volume+*	*Models with engine size*	*Total %*
TOYOTA	4 500*	157 364	Camry sedan–V6 Aurion sedan (from late 2006)–V6	21.8
HOLDEN (GM)	8 200	109 365	Commodore sedan, wagon & ute –V8 Statesman Caprice: upper large–V8 Pontiac GTO (export)–V8 Adventra: AWD wagon–V6	15.1
FORD	6 000	89 204	Falcon sedan, wagon & ute–V8 Fairlane & LTD sedans: upper large–V8 Territory AWD/4WD wagon: Sports Utility Vehicle (SUV)–6 cylinder	12.3
MITSUBISHI	2 000	40 270	380 sedan–V6	5.6

* not including dealerships

\+ for the year 2006 to date

Source *Federal Automotive Chamber of Industry and Commerce,* VFACTS Industry Summary September 2006, *Press Release, <www.fcai.com.au>; Industry Snapshot*, Australian Automotive Intelligence, *<www.aaintelligence.com.au>; Ford, www.ford.com.au; Holden, <www.holden.com.au>; Mitsubishi Australia, <www.mitsubishi-motors.com.au>; accessed 9 October 2006, see also Toyota and Ford Submissions Nos 4, p. 1, 9, p. 1.*