



Australian Government

**Department of Employment and
Workplace Relations**

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

**Inquiry into Employment in the Automotive
Component Manufacturing Sector**

**Submission by the Department of Employment and
Workplace Relations**

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CHAPTER 1 INTRODUCTION

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 to inquire into and report on employment opportunities and challenges in the Australian automotive component manufacturing sector with a focus on the following issues:

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

The Department of Employment and Workplace Relations (DEWR) is pleased to make a submission to the Committee. The department has three outcomes which cover responsibility for: the delivery of efficient and effective labour market assistance; assisting Australians to achieve higher productivity, higher pay workplaces; and the development of policies and strategies to increase workforce participation in Australia, making it well placed to provide input on issues relating to employment in this sector.

The body of this submission, comprising Chapters 2 to 5, addresses the terms of reference in order. Chapter 6 provides concluding comments.

CHAPTER 2 CURRENT AND FUTURE EMPLOYMENT TRENDS IN THE INDUSTRY

BACKGROUND

2.1 AUTOMOTIVE COMPONENT MANUFACTURING SECTOR OVERVIEW

The automotive industry is a significant contributor to the Australian economy. The industry accounts for 6 per cent of total manufacturing activity nearly 0.7 per cent of total economic activity¹, and 3.7 per cent of total merchandise exports. The automotive component manufacturing sector is a vital part of the overall industry. In November 2005, the sector employed more than 35,000 workers although it also has linkages to all areas of the Australian economy and, as such, its importance reaches well beyond those workers. The automotive component manufacturing sector accounts for around 43 per cent of the motor vehicle and parts industry. Accordingly, the ongoing viability of the sector remains a priority.

A buoyant vehicle sales environment has led to the automotive sector posting its fourth successive year of growth, with sales having risen by more than 27 per cent since 2001. Data from the Federal Chamber of Automotive Industries (FCAI) show that 988,269 vehicles were sold in Australia in 2005, 3.5 per cent more than the 2004 record. Of these domestic sales, 276,063 vehicles were manufactured locally. In addition, 131,474 locally manufactured vehicles were exported.²

- It is worth noting, however, that sales were strongest in the first quarter of 2005 and fell away towards the end of the last quarter of the year. Further, these strong sales figures disguise the competitive pressures and economic difficulties the vehicle manufacturing sector in particular and the industry as a whole is facing.

In 2004, Australian automotive component producers (ACPs) total sales were valued at \$7.1 billion. Domestic sales, primarily to Australian motor vehicle producers (MVPs), accounted for 91 per cent of this total.³ According to the Federation of Automotive Products Manufacturers, there are more than 200 ACP suppliers to the four Australian MVPs. Given the high level of integration existing between the ACPs and the MVPs, component producers are heavily reliant on motor vehicle producers for business.

The sector as a whole faces a number of challenges exacerbated by rising production costs due to escalating raw material prices, an excess of capacity, increased competition from overseas producers with greater economies of scale and changing production methods that could disadvantage Australian manufacturers and a high Australian dollar impacting on export markets. In addition, a number of manufacturers have overseas parent companies facing extensive financial problems including General Motors, Ford, Mitsubishi and Delphi.

Profile of the sector

In 2004, around 407,500 vehicles were produced domestically by the four Australian MVPs – Ford Australia, GM Holden Ltd, Mitsubishi Motors Australia Limited (MMAL) and Toyota Australia. These companies assemble five main vehicle models at four plants in Victoria and South Australia. Total sales of the four vehicle producers are around \$17 billion a year.

Exports

¹ ABS, *Australia's Automotive Industry, Year Book of Australia*, September 2004

² DITR Key Automotive Statistics 2004

³ FAPM, Sales of components by FAPM member companies, 2004

During 2004–05, automotive exports (including vehicles and components) were valued at \$4.7 billion.⁴ Four areas accounted for more than 80 per cent of all exports—the Middle East (37.6 per cent); the North American Free Trade Agreement area (21.8 per cent); New Zealand (16.3 per cent); and South Korea (6.9 per cent). Other countries importing vehicles and components from Australia include Japan, Indonesia, and the United Kingdom.⁵

In 2004, vehicle exports excluding components were the single largest (and only) elaborately transformed manufactured good accounted for in Australia's top ten principal merchandise exports⁶, reinforcing the industry's importance as a key value adding export industry. While automotive component exports have fallen in the last two years, their value was still \$1.6 billion.

Imports

In 2004 the total value of automotive imports was \$21.5 billion, up by 5.1 per cent from 2003. Of these imports, \$5.8 billion were components with the remaining \$15.7 billion representing vehicle imports.

Excess capacity

Globally, the automotive industry is experiencing excess capacity, with 86 million vehicles built worldwide in 2004 and only 63 million sold. With the January 2005 reduction in Australian tariffs on imported passenger vehicles and components to 10 per cent (see Section 2.2 for more details), the local industry has been increasingly forced to compete for domestic market share with global car makers and replace lost domestic markets with increased exports.

The manufacture of motor vehicles and components takes place in a variety of countries, however, it is frequently integrated within the strategy of a single multinational organisation. Of the four vehicle producers represented in Australia, General Motors (US) operates in more than 50 countries; Mitsubishi (Japan) in 31 countries; Ford (US) in about 30 countries; and Toyota (Japan) in 25 countries⁷.

Scale of production

Scale of production is a key issue for the Australian industry as the cost of production in this capital intensive sector decreases dramatically as unit production increases. The Australian MVPs are forced to compete against the greater economies of scale achieved by overseas manufacturers. For example, in 2004 Western Europe, Japan, China and the United States accounted for more than 69 per cent of global output. By comparison, Australia represented just 0.6 per cent of world automotive production.⁸ In 2004, GM Holden assembled 165,252 vehicles in its Australian plant.⁹ By comparison, the company's Daewoo operation in South Korea produced over one million vehicles in 2005.

Similar problems exist for local ACPs with the unit cost of production increasing as manufacturers lose market share. Correspondingly, importing components becomes cheaper as import volumes increase. A March 2005 report by the Australian Industry Group found that component manufacturers were concerned about the next model round in four to five years time

⁴ DFAT, STARS database

⁵ DFAT, STARS database to the end of calendar 2004

⁶ ABS data on the DFAT STARS database.

⁷ Productivity Commission, *The Automotive Industry Commission Inquiry Report*, 1997.

⁸ OICA Correspondents Survey, *World Motor Vehicle Production By Country*, 2003-2004.

⁹ Department of Industry Tourism and Resource industry survey 2004.

and how the passage of time might result in low cost countries eroding Australian manufacturers' competitive advantage in terms of quality and technology.¹⁰

With Australia's domestic demand for vehicles low by world standards and the export environment clouded by global excess capacity, local manufacturers will need to develop niche markets to remain competitive. For instance, GM Holden have indicated that the engineering skills they have developed in Australia to support the most complex plant of its scale within its group of 181 plants might provide some of the opportunities they need. The company's design and engineering centre in Port Melbourne, one of General Motors global hubs, has contributed to the manufacture of a number of overseas vehicles within the group, and GM Holden recently announced that it was recruiting an additional 70 employees for the facility.

Local economic conditions

Recent events in the component manufacturing sector demonstrate its current fragility. According to the Australian Industry Group, FAPM and KPMG,¹¹ the MVPs practice of requiring that local suppliers match Chinese 'factory gate' or 'ex-works' prices (i.e. without including transportation and storage considerations) with annual 'cost downs' (the system where the price a manufacturer pays for a component falls by up to 8 per cent for every year of the potentially five year contract) have placed intense pressure on the margins of ACPs. The Australian Industry Group Survey of Victorian automotive component manufacturers found that 'fully 90 per cent of local suppliers had lowered selling prices to Original Equipment Manufacturers [MVPs] by an average of 5.5 per cent in the previous year and further significant cuts were expected in the next two years'.¹²

The value of the Australian dollar has a significant impact on the profitability of ACPs. With the sector as a whole increasingly integrated into the global economy as tariffs have declined, consumers have had increased access to cheaper vehicles. At the same time, the proportion of locally manufactured vehicles purchased in Australia has declined, particularly as the type of vehicles Australian consumers purchase has changed.

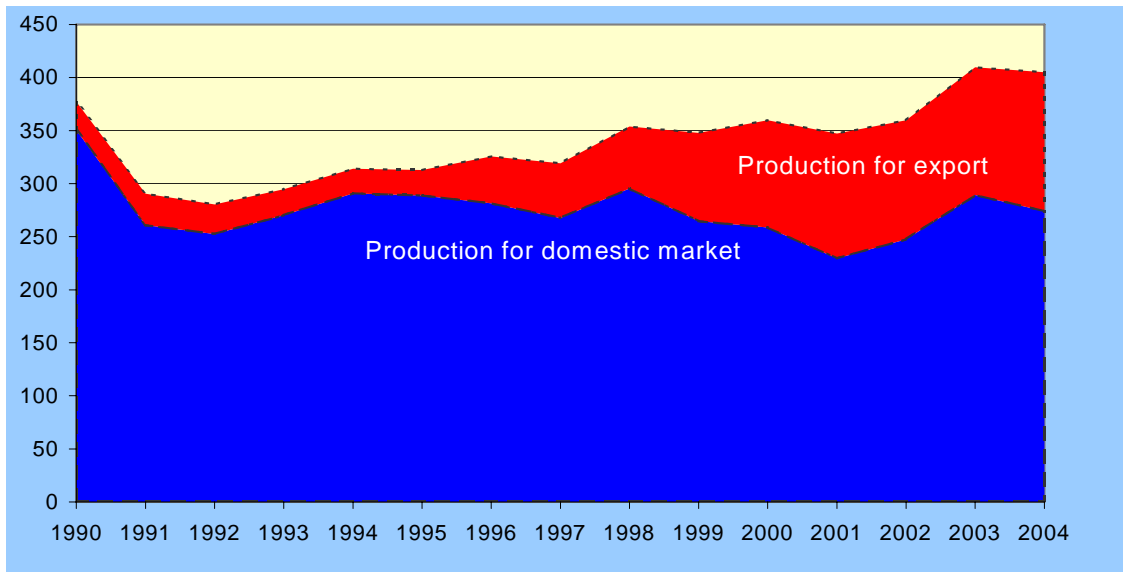
As recently as ten years ago the domestic automotive market was dominated by large family sedans. However, the market has re-configured and is now more fragmented with small imported four-cylinder vehicles making up an increasing proportion of the market, and niche products such as (mostly imported) four wheel drive sports utility vehicles making inroads. Accordingly, Australian MVPs have had to develop export markets to hold production at existing levels.

¹⁰ Australian Industry Group, FAPM and KPMG, *The Victorian Automotive Components Industry – Competitiveness, Profitability and Future Strategies*, March 2005.

¹¹ Australian Industry Group, FAPM and KPMG, *The Victorian Automotive Components Industry – Competitiveness, Profitability and Future Strategies*, March 2005.

¹² Industry – The Australian Industry Group magazine, Edition 33 Winter 2005 'Victorian auto component manufacturers develop new roads to growth' p.68 – 69.

Chart 1: Increases in export production, 1990 to 2004 ('000 units)



Source: Department of Foreign Affairs and Trade 'Exports of Primary and Manufactured Products Australia 2004'

As Chart 1 shows, MVPs have been successful in developing and servicing export markets. However, as noted above, international competitiveness in these markets is highly dependent on the value of the Australian dollar. With the dollar increasing from \$US0.50 in 2000–01 to around \$US0.75 in 2004–05, the 'cost' of an Australian vehicle has increased by 50 per cent in currency terms. While the real impact of currency movements on Australian automotive exports is more complex, with imported parts and company strategies creating a number of different currency hedges, the upward movement of the Australian dollar has impacted negatively on the competitiveness of Australian manufactured exports and, in particular, on automotive components.

In addition, the same economic pressures driving up the value of the Australian dollar—the high prices being paid for resources such as minerals, steel and energy (with crude oil prices rising to as much as \$US70 a barrel in 2005 and the price of Australian coal also rising) have also driven up the cost of inputs into the manufacturing process.

Influence of parent companies

Parent companies of three of the four Australian manufacturers; General Motors, Ford and Mitsubishi, are facing extensive financial problems. General Motors and Ford have been weakened by reduced market share due to reduced profit margins and a large pension and health care legacy for current and retired workers. This position was reflected in the decision by credit agencies to downgrade to junk-status the debts of both companies, and General Motors' decision to cut 25,000 manufacturing jobs in the United States. In Australia, GM Holden has ceased running a third shift at its Elizabeth plant resulting in around 1,400 (voluntary) redundancies, while Ford announced 350 redundancies to occur later this year.

The Mitsubishi Motor Corporation in Japan posted its second straight net loss of \$5.8 billion, \$3.8 billion down on the previous financial year. In Australia, MMAL was forced to downsize, closing an engine plant in 2004 and making 1,200 workers redundant. In addition, it is predicted that a maximum of 27,000 vehicles will be produced during the first year of production of its new 380 model (5,000 less than originally planned) with 250 redundancies announced for the Tonsley Park assembly plant in January this year.

All Australian MVPs are integrated into the global industry, with strategic direction for Australian manufacturing coming from parent companies in Japan and the United States. The Minister for Industry, Tourism and Resources, recently acknowledged this by forming an Automotive Industry Strategic Group to engage industry leaders on a range of issues of concern to local components and car makers in the global supply chains of the international automotive industry.

The international automotive industry is in a period of transition. While, in the past, models were developed for particular markets, the global automotive companies have indicated that in the future this will no longer be the case. Increasingly, these companies are developing common global vehicle platforms which can be modified to meet the needs of particular markets if necessary. Common global vehicle platforms allow the development of interchangeable common components. Of course, by negotiating to purchase components globally from one supplier MVPs are able to obtain price cuts for these global contracts—once tendered, such global contracts have the potential to lock out Australian companies from doing business with MVPs, regardless of the price they might offer. Similarly, to tender competitively for such contracts most Australian ACPs will need to develop a much larger capacity than they have had experience with to date.

Decisions made by global parent companies have important ramifications for ACPs with decisions to close or outsource parts of MVP operations immediately impacting on ACPs who supply those parts of the operation. These impacts can affect all tiers of ACPs and change the financial model underpinning an ACPs business plan. Contracts which were profitable when based on sourcing arrangements for more than one MVP can become unprofitable as scale is stripped away if one customer contracts elsewhere. In view of the importance of scale in the capital intensive, narrow profit margin component manufacturing sector, changes in contracting arrangements driven by MVP head office decisions can completely alter the economics of component manufacturing.

It is important to note that not all of these decisions have negative impacts. Toyota for instance, as part of its commitment to the ‘Toyota Way’ corporate culture, sources as many local components as possible wherever it produces. In part, this acts as a hedge against currency movement, however, Toyota is also heavily committed to quality, working closely with its suppliers to ensure very low average rates of faults and a very high ‘straight through ratios’ (where cars are assembled without any additional work to correct errors).

2.2 IMPACT OF TARIFFS

The Australian automotive industry, including the automotive component manufacturing sector, has received substantial protection in the form of tariffs and other special assistance from the Australian community for nearly 60 years. Up until the early 1980s the industry was heavily protected, characterised by tariffs, export assistance, a local content scheme, import quotas and import tariff relief on a proportion of imported components.

The former Industry Commission reported that “the higher the level of assistance to the industry the poorer the industry’s performance”¹³. In effect, a succession of government policies had promoted the development of an inefficient industry, which depended on government assistance for its survival. As a result, it was unable to compete internationally.

¹³ Industry Commission Report (Draft), *The Automotive Industry*, 20 December 1996, p xxi.

Government policy on the automotive industry changed direction in 1984. The deficiencies of past policies, together with the adverse consequences, were recognised and the Government changed policy direction, aiming to have a viable and internationally competitive automotive manufacturing industry in Australia. Measures were progressively introduced to steadily lower the level of protection which gradually forced the industry to increase its efficiency and integrate with the world automotive manufacturing industry.

In 1996, the tariff was the main form of assistance in the automotive industry and was structured as follows:

- a 25 per cent tariff on Passenger Motor Vehicles (PMV) and PMV derivatives and Original Equipment (OE) components for these vehicles, which was scheduled to decline by 2.5 percentage points each year to 15 per cent by January 2000;
- a 15 per cent tariff on replacement components for PMVs and their derivatives, which was scheduled to remain at that level until January 2000; and
- a 5 per cent tariff on Light Commercial Vehicles and 4WDs and all components for these vehicles, which was scheduled to stay at that level until January 2000.

These tariff rates also apply to all second-hand vehicle imports *plus* an additional specific tariff of \$12,000. This specific tariff was introduced in 1991, in response to industry concerns that high-volume importation of second-hand vehicles from Japan would exert significant competitive pressure on the local automotive industry.

Tariffs on automotive imports have been significantly higher than for most other manufacturing imports since the mid-1960s. As at July 1996, the general rate for manufacturing was 5 per cent. This compares with a tariff rate of 25 per cent for PMVs and OE components.

The present situation

The transformation of the automotive industry in recent years to being a major exporter and innovator¹⁴ is attributable in large part to the reductions in tariffs.

Continuing with the policy of reducing protection on the automotive industry that had been occurring since 1984, a further tariff cut of 5 percentage points occurred on 1 January 2005 (to the 10 per cent level) for imported passenger vehicles and components.

The industry has also been assisted by a range of other government assistance measures (such as subsidies, government vehicle purchasing preferences, R&D grants, and various tax concessions), collectively known as the Automotive Competitiveness and Investment Scheme (ACIS) funding. Therefore, the effective rate of protection (that is, the assistance to the industry's value added) is still around 20 per cent, even though the nominal rate of tariff was lowered to the 10 per cent level on 1 January 2005.

- The effective rate of protection for the automotive industry is still more than four times the projected average for the whole of the manufacturing sector.

The Productivity Commission, in its 2002 *Review of Automotive Assistance*, stated that the prevalence of ACIS support and a weaker Australian dollar were important factors helping the

¹⁴ Productivity Commission Report, *Review of Automotive Assistance*, September 2002, p XII.

automotive industry adjust to lower tariffs. As a result, the industry has developed certain key strengths, including “the ability to respond quickly, innovatively and cost effectively to small volume market opportunities”.¹⁵

A further 5 percentage points reduction in the (nominal) rate of tariff, to 5 per cent, is planned for the year 2010. The Productivity Commission has argued that while it is important to establish a clear path to lower assistance, it is also necessary to provide the automotive industry time to adjust. Accordingly, it is seen as being advantageous to maintain the tariff at the 10 per cent level from 2005, before lowering it again to the 5 per cent level in January 2010 and then keeping this rate until 2015.

- The Productivity Commission also recommended that the ACIS should be retained in its current form, as a transitional mechanism, until the end of 2010.

The employment effects of a tariff reduction

The Productivity Commission also estimated the employment effects of a further five percentage point reduction in the tariff, in its 2002 *Review of Automotive Assistance*.¹⁶

The results showed that if there was to be a further lowering of the rate of tariff from the present 10 per cent level (effective since 1 January 2005) to the 5 per cent level in 2010, then both output and employment in the industry as a whole would be about 9 per cent lower by 2016 (than if tariffs were left unchanged at the 15 per cent level). This would mean an annual decline of 4.7 per cent in total employment (about 400 jobs a year) in the automotive manufacturing industry (which includes the component manufacturing sector).

- Although a reduction in tariff impacts negatively on employment in the automotive industry, the longer-term effect on economy-wide employment is neutral to positive.
- The Productivity Commission’s Report stated that the job losses would be concentrated in the automotive producing regions in Melbourne, Adelaide, Geelong and also in those regions that maintain strong links to these centres, such as the Illawarra region in NSW.¹⁷ Nevertheless, aggregate regional employment would continue to grow in the period to 2016.

GENERAL LABOUR MARKET OVERVIEW

2.3 LABOUR MARKET CONDITIONS

Reflecting almost a decade and a half of uninterrupted economic growth, Australia has experienced historically strong labour market conditions, with employment growth averaging 1.7 per cent per annum. Over the last year in particular, employment growth has been especially robust, increasing by 211,000 (or 2.1 per cent) in the 12 months to December 2005. The recent strong growth in employment, coupled with a significant reduction in unemployment, has driven the unemployment rate down to a near 30-year low of 5.1 per cent. Furthermore, the participation rate has increased by 0.6 percentage points over the year to December 2005 to stand

¹⁵ *Ibid.*, p XII.

¹⁶ *Loc cit.*, p 205. The estimation was done using alternative simulations from the MONASH general equilibrium model of the Australian economy.

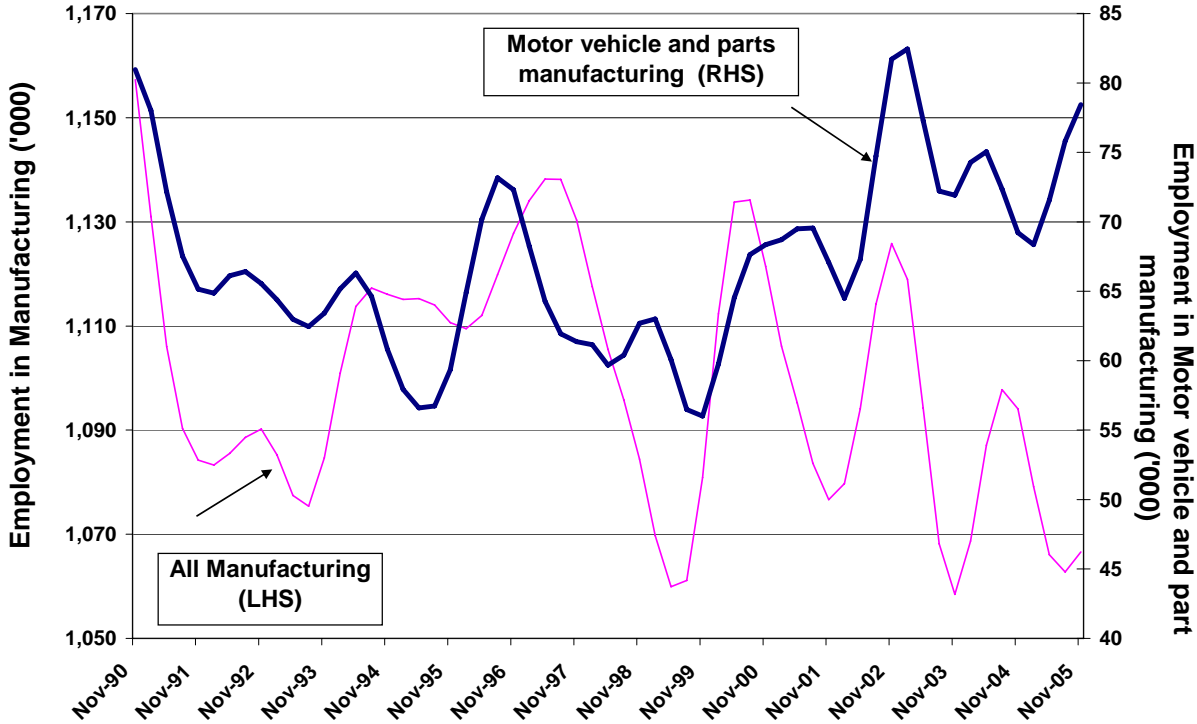
¹⁷ *Ibid.*, p 206.

at 64.4 per cent, a near record high.¹⁸ However, despite the current strength of the labour market, forward indicators point to some slowing in employment growth over 2005–06.

While the majority (76 per cent) of ABS industry divisions have recorded increases in employment over the past year to November 2005 (latest available data), there has been considerable disparity in the strength of employment growth between industries. For example, the strongest growth in employment was recorded in the Mining industry (up by 32,100 or 31.2 per cent) while Wholesale trade recorded the weakest result, with employment declining by 13,700 (or 3.1 per cent). The Manufacturing industry recorded the second largest fall in employment (in percentage terms) of any industry (down by 28,600 or 2.6 per cent).

- Indeed, Manufacturing has gone from being the largest employing industry 15 years ago, to now being the third largest, recording a fall in employment over this period of 95,300 (or 8.2 per cent).

Chart 2: Employment in Manufacturing and the Motor vehicle and parts manufacturing sector, November 1990 to November 2005, trend data



Source: ABS *Labour Force*, detailed data release (Cat no: 6291.0.55.001), December 2005, data trended by DEWR.

¹⁸ ABS *Labour Force, Australia* (Cat No 6202.0), seasonally adjusted data, December 2005

Labour market trends in the automotive component manufacturing sector

While the ABS does not collect labour market data on the more finely disaggregated automotive component manufacturing sector on a regular basis,¹⁹ data are available on employment in the broader motor vehicle and parts manufacturing (MVPM) industry.²⁰

Despite the data exhibiting considerable variability, which can make accurate interpretation of labour market conditions difficult, employment in the MVPM industry fell sharply during the recession in the early 1990s and then again in the late 1990s, following a strong recovery in 1995 and 1996 (see Chart 2 above).

- The 1990s recession resulted in the loss of around 20,000 jobs, with the majority of these lost in the year to November 1991.

Subsequently, MVPM has recorded a solid increase in employment over the past five years (up by 10,100 or 14.7 per cent)²¹ to stand at 78,400 in November 2005, against the backdrop of a decline in the Manufacturing industry more generally. While employment growth in MVPM was particularly strong over the three years to November 2002, it subsequently declined over the following two years to November 2004. Over the last year, however, employment growth has rebounded sharply (up by 9,200 or 13.3 per cent).

Clearly, despite some job losses occurring in the sector during 2005, job creation in other areas of the automotive component manufacturing sector has, to some extent, offset these redundancies. Nonetheless, employment in automotive component manufacturing (as proxied by employment in MVPM) remains essentially unchanged compared with three years ago. That said, the strength of the increase in employment in MVPM over the last year is notable, given the recent reduction in the passenger automotive tariff (from 15 per cent to 10 per cent in January 2005, discussed in detail in Part 2.2), and, in particular, given the announcements over the past 12 months or so of reductions in output and staffing by a number of major automotive producers.

There are two key points worth noting in relation to the increase in employment in MVPM over the last five years and over the last year, in particular. First, new motor vehicle sales have increased strongly over the last three or four years which will have increased the demand for automotive components. Despite easing over recent quarters, new motor vehicle sales remain at high levels.

- However, new motor vehicle sales for the month of December have now fallen by 3.0 per cent since the monthly sales peak recorded in February 2005.²² In addition, loan commitments for new motor vehicles have also been trending downwards since early 2005,²³ in line with a general slowing in consumer spending. These factors together suggest that new motor vehicle sales may soften further in 2006 which, after a lag, is likely to affect hiring intentions in the automotive component manufacturing sector sometime in the coming year. In this regard, it is worth noting that, according to the DEWR Skilled Vacancy Index, automotive trade vacancies have declined by 26.4 per cent over the year to January 2006.

¹⁹ While employment data for 2001 are available from the Census, it is out-of-date for the purpose of analysing changing labour market dynamics.

²⁰ Given that persons employed in Automotive components comprise around 43 per cent of MVPM, according to Census 2001 data, some caution should be exercised when using MVPM data as a proxy for employment conditions in the Automotive component sector.

²¹ All employment data for the MVPM sector are sourced from ABS *Labour Force*, detailed data release (Cat no: 6291.0.55.001), December 2005, data are trended by DEWR

²² ABS *Sales of New Motor Vehicles*, Electronic Delivery (Cat No: 9314.0.55.001), trend data, all vehicles, December 2005.

²³ ABS *Lending Finance*, Electronic delivery, table 9 (Cat No: 5671.0), November 2005.

- By contrast, however, the CEO of the Federal Chamber of Automotive Industries, Mr Peter Sturrock, has stated that he expects the motor vehicle market to stabilise at its current level of strength, despite general economic conditions softening in 2006.

Second, exports of automotive components and motor vehicles have fallen (by 4.9 per cent and 2.4 per cent respectively)²⁴ over the last financial year, which may put further pressure on the automotive component manufacturing sector.

- While the recent decline in exports is related to a range of factors, the current relatively high value of the Australian dollar is likely to have reduced demand for automotive components, as locally produced goods have become relatively more expensive.
 - That said, while Australian automotive component exports have experienced a small decline over the past 5 years, exports of motor vehicles have increased significantly (up by 48.4 per cent) over the same period (compared with 8.6 per cent for total manufactured exports)²⁵. Given that at least some of the components for exported vehicles are sourced domestically, this may be providing some stimulus to automotive component production, and hence MVPM employment, in Australia.

Characteristics of persons employed in the automotive component manufacturing sector

According to the 2001 Census,²⁶ there were around 26,100 persons employed in automotive component manufacturing in Australia with the vast majority being male (77.9 per cent), compared with the average for all industries of 54.8 per cent.

Age

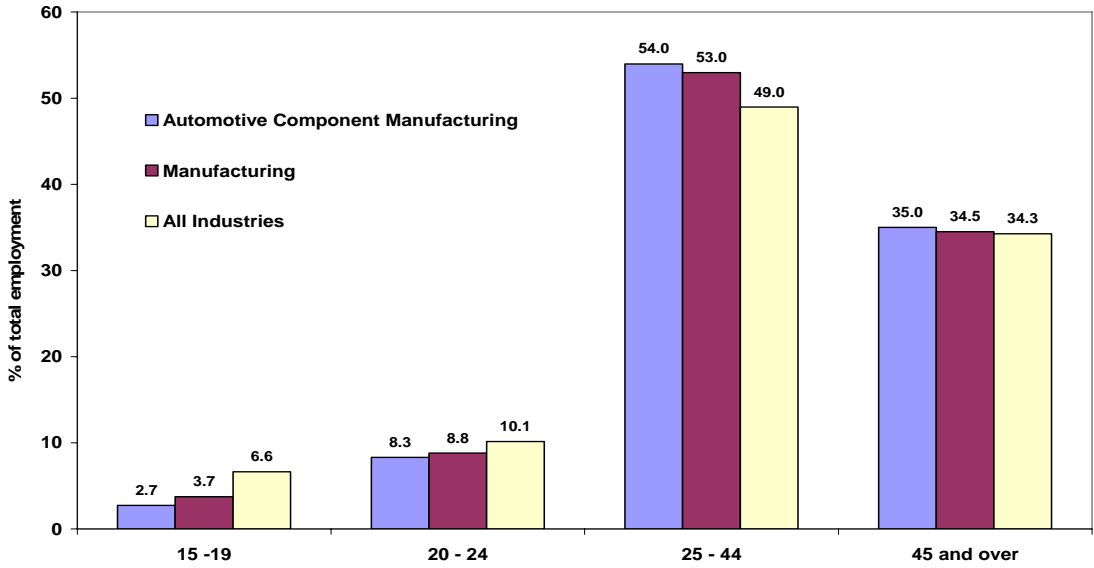
Automotive component manufacturing has a marginally older age profile than for the Manufacturing industry overall and all industries (see Chart 3). In particular, the employment share of prime age persons (25-44) in the automotive component manufacturing sector (54.0 per cent), is significantly higher than the average for all industries (49.0 per cent) and the employment share of persons aged 45 years and over (35.0 per cent) was higher than for Manufacturing (34.5 per cent) and all industries (34.3 per cent). In contrast, the share of workers aged 15 to 19 years for automotive component manufacturing (2.7 per cent) was notably lower than for Manufacturing (3.7 per cent) and all industries (6.6 per cent).

²⁴ DFAT, STARS database. Please note that all export data are in current price values.

²⁵ *ibid.*

²⁶ 2001 Census is the most up-to-date source of data for analysing the characteristics of persons employed in the Automotive component manufacturing industry.

Chart 3: Automotive component manufacturing employment by age group compared with Manufacturing and all industries (% of employment), 2001

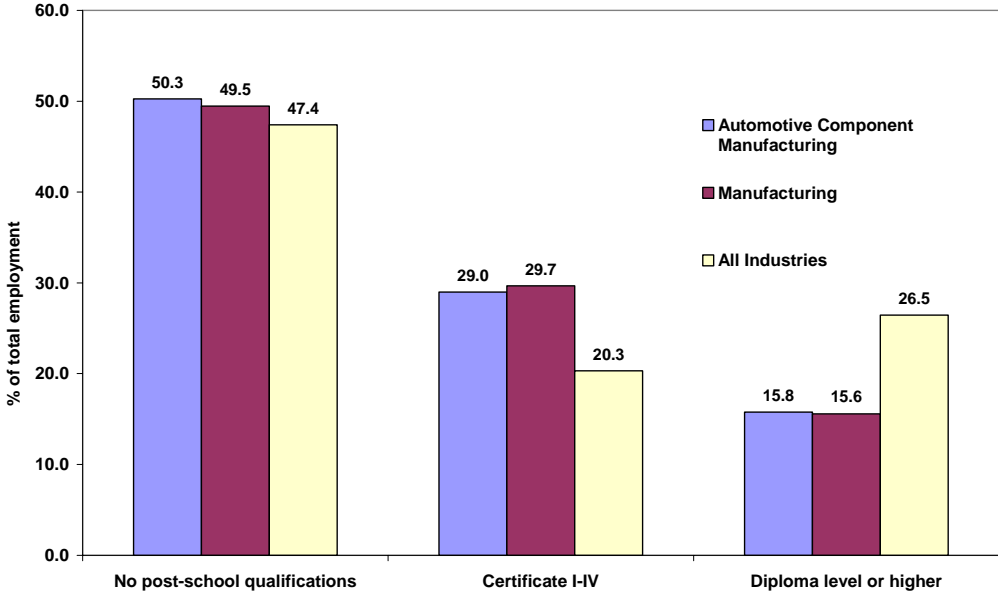


Source: ABS 2001 Census of Population and Housing

Education

Just over half (50.3 per cent) of persons employed in automotive component manufacturing do not have post-school qualifications, 29.0 per cent have a Certificate I –IV, while 15.8 per cent have a qualification at the diploma level or higher. By comparison, 49.5 per cent of persons employed in the Manufacturing industry more broadly do not have a post school qualification, while the national average is 47.4 per cent (see Chart 4, below).

Chart 4: Automotive component manufacturing employment by qualification compared with Manufacturing and all industries (% of total employment), 2001



Source: ABS 2001 Census of Population and Housing

Birthplace

The automotive component manufacturing sector employs a significantly higher proportion of persons born in an Other Than Main English Speaking Country (OTMESC)²⁷ (29.9 per cent) compared with Manufacturing overall (20.2 per cent) and the average for all industries (13.5 per cent). While data on the level of English proficiency of these workers is not readily available, the higher proportion of OTMESC may impact on the re-employment prospects of any displaced workers.

Employment by region

Employment in automotive component manufacturing is concentrated in a small number of regions across Australia (primarily in and around Melbourne and Adelaide). Melbourne accounted for around 44 per cent of total employment in automotive component manufacturing, while Adelaide accounted for almost 17 per cent of total employment in the sector.

In 2001, the regions (at the Statistical Subdivision (SSD) level) with the largest number of employees in automotive component manufacturing were located in Southern Melbourne (2,452 persons employed in the sector), Eastern Middle Melbourne (2,296), Southern Adelaide (1,843), Western Adelaide (1,531) and Greater Dandenong City (1,249). Between them, these regions accounted for 37 per cent of total employment in automotive component manufacturing.

Labour market conditions vary considerably across the key regions in which automotive component manufacturers are chiefly located.

Table 1 below, details the unemployment rates for each of the relevant ABS Labour Force Regions (LFR), in which the top employing SSD regions for automotive component manufacturing fall (as up-to-date labour market data are not available at the more highly disaggregated SSD level).

- It should be noted, however, that analysis of the unemployment rate in isolation does not always necessarily provide a complete picture of underlying labour market conditions in an area. For instance, it is possible for a region to have a high or increasing unemployment rate while, at the same time, experiencing healthy employment and population growth and strong underlying labour market conditions. Similarly, a low unemployment rate may merely reflect out-migration of job seekers rather than strong employment growth and robust labour market conditions.

²⁷ All countries excluding Australia, the United Kingdom, Ireland, New Zealand, Canada, the United States of America and South Africa.

Table 1: Unemployment rates (%) for the top ten employing regions for Automotive component manufacturing, December 2005.

Region (SSD)	Broader ABS Labour Force Region*	Unemployment Rate
Southern Melbourne	Southern Melbourne	2.0
City Core Brisbane	Brisbane City	3.7
Eastern Middle Melbourne	Inner Eastern Melbourne	4.2
Greater Dandenong City	South Eastern Melbourne	4.3
Western Adelaide	Western Adelaide	5.0
Eastern Outer Melbourne	Outer Eastern Melbourne	5.2
Southern Adelaide	Southern Adelaide	5.4
Northern Adelaide	Northern Adelaide	5.6
Ballarat City	Central Highlands-Wimmera	6.6
Hume City	North Western Melbourne	7.0

* While most LFRs make up the entirety of the SSD, a number do not (Eastern Middle Melbourne, Greater Dandenong City, Hume City, Outer Eastern Melbourne and Ballarat City). Accordingly, caution should be applied when interpreting data relating to these regions.

Source: ABS *Labour Force*, detailed data release (Cat no: 6291.0.55.001), December 2005.

Generally speaking, the majority of the LFRs located in Melbourne (with the exception of North Western Melbourne), have fairly strong labour market conditions, with most recording unemployment rates either below or around the national average unemployment rate of 5.1 per cent.²⁸ Accordingly, the direct impact of any job losses in the automotive component manufacturing sector in these regions may be relatively modest, as a dynamic labour market is able to more effectively absorb displaced workers and provide subsequent employment for them, than a poorly performing region.

However, some of the major employing regions have historically weaker labour market conditions, such as North Western Melbourne (with an unemployment rate of 7.0 per cent), Central Highland-Wimmera (at 6.6 per cent) and Northern Adelaide (5.6 per cent—although this region's unemployment rate has fallen considerably, from 7.4 per cent a year earlier).

Relative importance of automotive component manufacturing by region

As illustrated in Table 2 below, there is significant variation between regions in terms of the relative importance of the automotive component manufacturing sector to total manufacturing employment. For example, automotive component manufacturing accounted for 1.8 per cent of Manufacturing employment in Brisbane City compared with Southern Adelaide, where it comprised 11.9 per cent of the Manufacturing workforce.

- All regions, except Brisbane City, recorded significantly higher ratios of automotive component manufacturing employment to Manufacturing employment than the Australian average, of 2.6 per cent.

²⁸ 5.1 per cent refers to the seasonally adjusted unemployment rate for December 2005. The actual comparable rate is that in original terms (4.9 per cent) for December 2005.

Table 2: Automotive component manufacturing employment as a proportion of total Manufacturing employment, by ABS Labour Force Region, 2001

	%
Southern Adelaide	11.9
Central Highlands-Wimmera	9.8
Southern Melbourne	8.6
Inner Eastern Melbourne	7.6
Western Adelaide	5.7
South Eastern Melbourne	5.3
North Western Melbourne	4.4
Outer Eastern Melbourne	4.1
Northern Adelaide	4.1
Brisbane City	1.8

Source: ABS 2001 Census of Population and Housing, based on place of work

Employment Outlook

While a number of announcements of redundancies have already been made by automotive and component manufacturers (see Attachment A, Table 1 for more details), many retrenchments have not yet come into effect and would therefore not yet be evident in the employment data. Given the prospect of some further easing in the rate of new car sales, and the automotive component manufacturing job losses earmarked for the next 18 months, employment in MVPM may well begin to soften over the course of 2006, although the Federal Chamber of Automotive Industries have claimed that forward orders of manufacturers remain strong, suggesting that employment could stabilise at its current level of strength.

- It should be noted that any decline in employment as a result of these redundancies may be offset to some extent by expansion that is occurring elsewhere in the sector. For example, Toyota recently announced that they expected to increase production at their Altona plant by around 19 per cent in 2007.

Over the longer term, the outlook for employment in the automotive component manufacturing sector will be largely determined by domestic and international demand (for both locally produced vehicles and components), developments in the exchange rate and, importantly, productivity growth, as Australian car manufacturers adjust to increasing competitive pressures from countries such as China.

Job prospects

DEWR produces overall job prospects ratings for some 300 occupations in the Australian labour market, for the period to 2009–10. These prospects are based on analysis of historical and projected employment growth; whether an occupation is in growth industries; the unemployment rate; job turnover; and whether the occupation is prone to skill shortages.

Table 3 provides prospect information for the top ten occupations, in terms of employment share in the MVPM industry. These occupations account for 54.8 per cent of total employment in the industry.

- The job prospects information relates to the occupations across all industries, and is not specific to the motor vehicle and parts manufacturing industry.

While the prospects for the majority of these occupations are average to below average, a number of occupations, including Structural Steel and Welding Trades, Production Managers, Motor Mechanics, Forklift Drivers and Electricians, have good prospects.

Table 3: Job Prospects by top ten occupations in the Motor vehicle and parts manufacturing industry

Occupation	Share of Industry Employment (%)	Job Prospects
Product Assemblers	17.4	Average
Metal Fitters and Machinists	8.7	Average
Structural Steel and Welding Tradespersons	7.0	Good
Mechanical, Production and Plant Engineers	3.9	Average
Engineering Production Systems Workers	3.8	Below average
Storepersons	3.1	Average
Vehicle Body Makers	3.0	Below average
Production Managers	2.8	Good
Engineering Production Process Workers	2.7	Limited
Product Quality Controllers	2.4	Below average

Source: DEWR Australian Jobs 2005

In addition to the occupations listed above, toolmakers (average), motor mechanics (good), forklift drivers (good), electricians (good), stock and purchasing clerks (average) and manufacturers (average) also form part of the occupational makeup of the industry (accounting for a further 10.1 per cent share of industry employment).

CHAPTER 3 EMERGING SKILL SHORTAGES AND APPROPRIATE RECRUITMENT AND TRAINING STRATEGIES

3.1 SKILL SHORTAGES

DEWR conducts a Skills in Demand Research Programme which focuses on occupations rather than industries, using the Australian Standard Classification of Occupations (ASCO) to define occupations. The programme focuses on trade and professional occupations and results in the identification of occupations with skills in demand which are evident or emerging in the Australian labour market.

Data for the MVPM industry suggest employment of skilled workers (those requiring at least 3 years post school training) is primarily in the metal, automotive and electrical trades, and mechanical/production engineering and management. Trades particularly relevant to this sector include metal fabricator, welder, toolmaker, metal fitter and machinist, motor mechanic, electrician and vehicle body builder.

Shortages of these trade skills are widespread (see Table 4) although 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.

Nationally, shortages in the metal and automotive trades have been persistent over much of the past few decades with high wastage and relatively low training rates contributing to ongoing supply shortfalls.

In the professions, shortages of mechanical/production/plant engineers are apparent in States where demand from the mining/resources sector is strong, but the labour market appears to be more balanced in the manufacturing industry.

Table 4: Skills in demand—occupations with significant employment in Automotive Component Manufacturing

ASCO	Occupation	NSW	VIC	QLD	SA	WA	TAS	NT
ENGINEERS								
2126	Mechanical/Production/ Plant Engineers (not assessed in all States)			S		S		
ENGINEERING TRADES								
4112-11	Metal Fitter	S	S	S	S	S	S	S
4112-13	Metal Machinist	S	S	S	S	S	S	S
4113-11	Toolmaker	S	S	S	S	S	S	
4122-11	Metal Fabricator	R	S	S	S	S	S	S
4122-15	Welder	S	S	S	S	S	S	S
VEHICLE TRADES								
4211-11	Motor Mechanic	S	S	S	S	S	S	S
ELECTRICAL TRADES								
4311-11,13	Electrician	S	S	S	S	S	S	S

S = State/Territory-wide shortage

R = Shortage in regional areas

Listings of State and Territory Skills in Demand are posted on the department's Australian Workplace site (www.workplace.gov.au/skillsindemand). Information about skills in demand nationally is published as the Migration Occupations in Demand List (MODL) on the Department of Immigration and Multicultural Affairs (DIMA) site at www.immi.gov.au.

- Additional points are allocated to potential migrants under the Skill Stream of the Migration Program if their nominated occupation is on MODL at the time their application is assessed.
- The MODL is updated by DEWR every six months and currently includes 34 (mainly health) professional occupations, five ICT specialisations and 26 trades occupations. The List is closely monitored to determine if there is an ongoing need to source people from overseas to meet the demand for those particular skills.

Table 5 lists a number of occupations with significant employment in the Motor Vehicle and Parts Manufacturing industry which are currently assessed as being in national shortage and which are included on the MODL.

Table 5: Occupations covered by MODL, number employed in MVPM industry

Occupation	Number employed in MVPM industry
Metal Fabricator and Welder	6000
Fitter and Metal Machinist	4800
Motor Mechanic	2700
Toolmaker	1800
Electrician	1200

DEWR also conducts Regional Skills in Demand Surveys. These surveys are aimed at improving the department's understanding of issues facing employers in regional areas, and cover key industries for each region assessed, as well as occupations at all skill levels. Data collected from these surveys provide an indication of the relative difficulty of filling vacancies by industry, but do not provide reliable data for the MVPM industry.

3.2 SKILLED VACANCIES

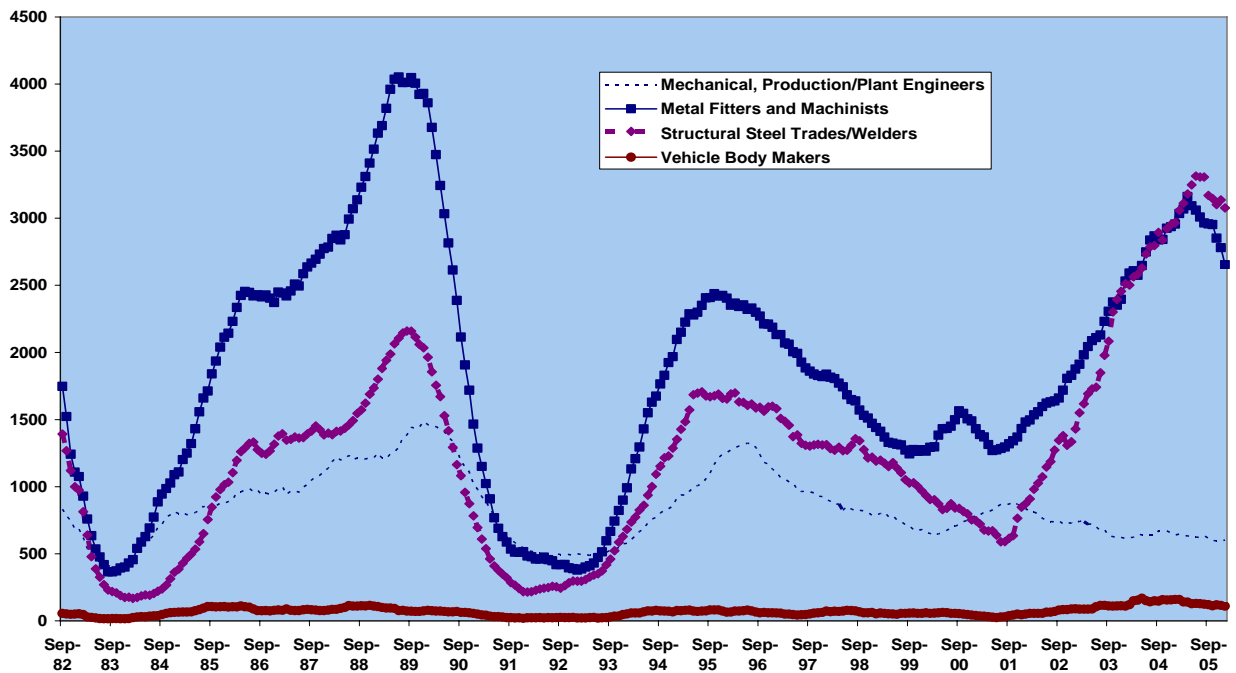
The DEWR Skilled Vacancies Index (SVI) is based on a count of skilled advertisements in selected newspapers in the six capital cities and Darwin. The data are released as part of the monthly *Vacancy Report* available at (www.workplace.gov.au).

There are four occupations relevant to MVPM in the 'top ten' occupations by share of industry employment (see Chart 5 for more details) that are counted as part of the SVI: Metal Fitters and Machinists, Structural Steel and Welding Trades, Mechanical, Production and Plant Engineers and Vehicle Body Makers. Annual averages of the number of vacancies in the six capital cities and the Northern Territory for these occupations are shown in Chart 5. Some of the noteworthy vacancy trends for these occupations are:

- Metal Fitters and Machinists: trends in vacancies are cyclical and strong growth is evident from 2001 to 2004, reflecting skill shortages for these occupations over the last 12 months, however, vacancy levels have fallen..
- Structural Steel Trades/Welders: there are marked cyclical fluctuations in vacancy levels, and very strong growth is evident from 2001, reflecting skill shortages for this occupation. There has been a fall, albeit slight, during 2005.
- Mechanical, Production and Plant Engineers: while vacancies have fluctuated with economic cycles, there has been a downward trend in the past decade.
- Vehicle Body Makers: vacancy levels have remained at quite low levels, with some growth evident in the period 2001 to 2003, before falling back in 2005.

It is important to note that, with the exception of Vehicle Body Makers, the MVPM industry only accounts for a small part of employment for these occupations and, consequently, trends in vacancy levels reflect developments in several industries. Vehicle Body Makers are employed mainly in Motor Vehicle Manufacturing or Motor Vehicle Body Manufacturing, but trends in demand for Vehicle Body Makers will be reflected in the automotive components sector.

Chart 5: Vacancies for Selected Skilled Occupations—12 monthly averages



Source: DEWR – Skilled Vacancies Index

3.3 RECRUITMENT AND TRAINING STRATEGIES

Commencing in 2005–06 the Australian Government will spend a record \$2.5 billion over four years on vocational and technical education, including an additional injection of over \$280.6 million for a suite of new initiatives designed to address skills needs, particularly in the traditional trades.

Through the Department of Education, Science and Training, the Australian Government will, in the four years from 1 July 2005:

- open 24 new Australian Technical Colleges, aimed at increasing the number of New Apprentices in the traditional trades, which complement their school studies, allowing them to secure a Year 12 level education while progressing towards a qualification 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 shortage;
- 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
- 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.

To encourage more young people to enter and remain in New Apprenticeships, New Apprentices are now able to apply for assistance under Youth Allowance, Austudy payment or ABSTUDY, subject to the application of parental and personal income tests.

To give more young Australians the opportunity to enter a trades career, DEWR is in the process of reforming the workplace relations system to ensure that it supports the implementation of New Apprenticeships. In particular, the reforms will implement the Government's election commitment to remove industrial relations barriers to the take up of School-based and part-time New Apprenticeships.

Building on previous initiatives, these measures are already contributing to significant increases in the number of apprentices, especially in the traditional trades. For example, according to data from the National Centre for Vocational Education Research, the number of commencements in the traditional trades increased by 14 per cent in the 12 months to June 2005, and 35 per cent over two years. The number of apprentices and trainees completing training across all industries has increased by 5.5 per cent over the same 12 month period.

CHAPTER 4 LABOUR ADJUSTMENT MEASURES REQUIRED TO ASSIST REDEPLOYED AND AFFECTED WORKERS

4.1 GOVERNMENT LABOUR ADJUSTMENT PROGRAMMES

The Australian Government, through Job Network, provides additional assistance to retrenched employees from selected industries beyond the Job Search Support which is normally provided to newly retrenched workers. In considering the provision of additional assistance, the Government takes into account the circumstances and likely impact of the situation for the individuals and local communities concerned. The Government has introduced two Labour Adjustment Programmes (LAPs) in the automotive industry—the Mitsubishi LAP and the Holden LAP.

These programmes were established in response to large scale job cuts at the two companies; Mitsubishi cut a total of 1,370 jobs across the Lonsdale and Tonsley Park sites in Southern Adelaide over 2004 and 2005, with a further 250 job cuts announced in January 2006; and Holden will cut 1,400 jobs from its Elizabeth site in Northern Adelaide, commencing in late 2005 and expected to continue to mid to late 2006.

The Mitsubishi and Holden LAPs both provide high level employment assistance delivered by Job Network to workers retrenched from these two companies. The assistance is also available to the employees of component companies who are retrenched as a direct result of the downturn in production at Mitsubishi and Holden.

Each labour adjustment package comprises:

- Intensive Support Customised Assistance (ISCA). Customised assistance provides one-on-one intensive assistance tailored to individual needs;
- an extra \$450 in the Job Seeker Account (on top of the \$900 allocated to the Job Seeker Account for ISCA eligible job seekers). Job Network members are able use the funds in the Job Seeker Account to purchase services or other assistance to help retrenched workers get a new job;
- help to establish new business opportunities through the New Enterprise Incentive Scheme (NEIS) if the business meets eligibility criteria (i.e. not directly competing with an existing business). However, some additional flexibility is allowed such as the provision of small business training for non NEIS eligible businesses;
- relocation assistance;
- industry specific training funds for cases where groups of workers are to be retrained to take up employment opportunities with another employer; and
- location of Australian JobSearch kiosks at the Mitsubishi (Lonsdale plant) and Holden (Elizabeth) sites.

4.2 OUTCOMES OF THE LABOUR ADJUSTMENT PROGRAMMES

The Mitsubishi programme has achieved good outcomes for the displaced employees. As at 6 January 2006, 954 (84 per cent) of the former Mitsubishi workers had registered for Job Network assistance, of whom 774 had been referred for employment and 710 had been placed into employment (equating to 74 per cent of those who registered for assistance).

Holden commenced its first round of redundancies in November 2005. Accordingly, the programme has not been running long enough to accurately assess outcomes. However, as at 6

January 2006, 876 employees had left Holden of whom 414 had registered for assistance, 143 had been referred to positions and 78 had been placed into employment. Holden suppliers have announced retrenchments for 105 people. To date, 11 have registered for the LAP, 5 individuals have been referred for employment and 3 have obtained jobs.

4.3 REDUNDANCIES IN THE AUTOMOTIVE COMPONENT MANUFACTURING SECTOR

According to information DEWR has obtained directly from the companies involved or through media reports, some 26 automotive component manufacturers have announced redundancies since February 2005. DEWR has redundancy numbers for 18 of these companies. Based on those figures, 2,478 employees are expected to be retrenched from the sector between February 2005 and September 2007.

- A summary of recent and projected redundancies in the automotive component manufacturing industry is at Attachment A.

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

4.4 MEASURES TO ASSIST EMPLOYEES IN THE AUTOMOTIVE COMPONENT MANUFACTURING SECTOR

As noted earlier, component companies that retrench employees due to a downturn in production at Mitsubishi or Holden are eligible for the LAPs. This level of assistance is not available to component firms that restructure due to loss of contracts. However, the employees of these firms are eligible for immediate Job Search Support assistance through Job Network. DEWR and Centrelink have procedures in place to provide information to retrenched workers and assist them in linking with Job Network services.

Job Search Support provides job seekers with practical job search assistance including:

- help to develop their resume;
- listing their resume onto the Australian JobSearch vacancy database, one of Australia's largest job internet sites with 70,000–80,000 jobs listed at any one time;
- job vacancy information and job search facilities;
- daily auto-matching to new jobs;
- notification of job matches via SMS messaging, email, by checking their personal page on JobSearch or by calling the JobMatch Express phone service; and
- advice on job search techniques, career options and employment programs, and feedback on interviews arranged by Job Network members.

While the combined number of job losses expected to occur in the industry is significant, at this stage the nature of these job cuts does not warrant an extension of current labour adjustment arrangements for a number of reasons including:

- 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.

It should also be noted that while some contracts have gone to overseas suppliers, a number have changed suppliers within Australia enabling those jobs to stay in the domestic market, albeit in a different location.

CHAPTER 5 MEASURES TO SUPPORT SKILLS DEVELOPMENT, INNOVATION AND INVESTMENT IN THE INDUSTRY

5.1 WORKPLACE STRATEGIES FOR ADDRESSING SKILLS NEEDS

The automotive component manufacturing sector faces an increasing number of competitive pressures, ranging from the value of the Australian dollar and the threat of cheap imports, to the rising costs of raw materials. ACPs may reasonably consider these global pressures to be beyond the capacity of individuals to adequately address. However one key area where employers have increased their competitiveness is in the area of recruiting and retaining skilled workers.

The automotive component manufacturing and related sectors face increasing difficulty in the recruitment and retention of skilled workers. As discussed in Part 3.1, there are shortages for a wide range of occupations in the sector, including skilled Metal Fitters, Machinists, Toolmakers, and Structural Steel and Welding Tradespersons. In addition, in the current economic cycle employers face global competition in attracting these workers in view of the higher wage levels that are often offered in other industries such as mining and construction.

A number of strategies besides higher wages have been adopted by manufacturing companies to attract and retain employees. Companies have actively developed reputations as ‘employer of choice’ by implementing flexible workplace arrangements, such as gender friendly workplaces or rewards for high performing workers, to suit the particular needs of their employees.

The Government is addressing skills needs issues through a number of programmes including its WorkChoices legislation and by establishing a Fair Pay Commission that will ensure that appropriate and specific wage rates exist for each category of trainee and apprentice. The gaps in the award system for coverage of minimum wage rates for training have been remedied allowing an increased uptake of school-based and part-time apprenticeships to help deal with the skills needs.

Research and experience suggests that the adoption of a high performance workplace employment model can contribute significantly to companies establishing and maintaining workplace arrangements that enhance their future competitiveness. The high performance workplace employment model is productivity-centred, and can be used for collaborative and participative work systems. It favours a long-term view of business strategy and is based on the strategic integration of enterprise objectives, and employee commitment and participation. It is not prescriptive in terms of a workplace relations instrument, and so can form part of a larger strategy to enhance the competitiveness and hence longer term sustainability and profitability of the automotive component sector.

A number of simple strategies can be introduced to align a workplace with a high performance workplace model and enhance the value of the employee’s contribution to the business.

Management to have clear workplace reform objectives

Managers are more likely to set the agenda for change in the type of workplace arrangements required in order to meet business needs, as opposed to being reactive to employees or third party logs of claims and industrial disputes. To do this, they need to identify the barriers to introducing optimal arrangements and communicate this to employees in order to maximise their engagement. The most important element in managing workplace reform is reported to be a commitment to address any and all issues that arise for employees as a result of the change.

Alignment of employer and employee objectives

This can be achieved in a number of ways. Some companies provide for employee share ownership. In this situation, wages and conditions negotiations occur in the context of employees making claims and decisions using a range of information and considerations such as how the company is performing and the resulting performance of the share price while all companies have the option of share plans, many link some part of pay to performance or personal output. These arrangements work best where employees can control the elements of production that impact on their ability to achieve a bonus.

Another way to develop this culture is to move away from status symbols or preferential consideration. For example, senior managers sharing the same parking and eating areas etc as other staff. In a number of manufacturing companies, DEWR has noted a highly integrated classification structure with senior engineers and professional staff working alongside and under the same conditions as manufacturing, laboratory and production staff.

A comprehensive workplace relations communication strategy

The success of a workplace arrangement should not be judged solely on the level of industrial dispute or strike. A successful workplace relationship is more likely to have low levels of dispute but it will also demonstrate a firm strategy aimed at obtaining best practice from employees in the workplace.

Whether communicating changes or negotiating workplace agreements, central elements of a successful communication strategy are likely to include senior management providing key information about the performance of the company to staff. This may be supported by small group information sessions (typically 10 to 15 people), which provide opportunities for questions or concerns to be raised. Consideration might also be given to the specific characteristics of the workforce. For example, in culturally diverse workforces, communication is more effective when representatives of ethnic community groups are involved or at least consulted.

Empowering employees

Employees are empowered by a number of the strategies previously discussed such as provision of information and the opportunity to earn more when the company performs well. This reinforces the role the employee plays in the success of the company.

Other ways that employees are empowered include: having opportunities to obtain information from other sources which could include independent legal advice; an independent consultant managing workplace agreement negotiations; or employees visiting other workplaces that already incorporate flexible arrangements to see for themselves how they operate. These are all strategies that have been successfully used by manufacturing companies to date to assist the change process.

Establishing these types of arrangements reduces employees' reliance on outsiders to solve their problems, negotiate for pay increases etc. It can also serve to highlight to employees those elements of a bargaining claim which focus primarily on a political or industry wide agenda and therefore are less likely to be supported by employees.

5.2 OPPORTUNITIES FOR FLEXIBLE WORKPLACE RELATIONS ARRANGEMENTS

Opportunities exist for considerable improvement in workplace relations arrangements for enterprises in the automotive component industry. For instance, there is clear evidence of under representation of female employees in the automotive component sector suggesting that skilled female staff, or female employees willing to be trained in the industry are yet to be fully utilised as an employment resource.

One of the key factors determining the attractiveness of workplaces to female employees is the availability of flexible working arrangements particularly in relation to child care. This remains the case as women overwhelmingly continue to be the primary carer of children. While centrally determined workplace arrangements are frequently rigid, workplace conditions determined at the enterprise level have the flexibility to allow all employees with family responsibilities (regardless of gender) the freedom to commit to the workplace while still providing support for their families.

Similarly, highly skilled younger workers would be more likely to be attracted to workplaces with enterprise based flexibilities. There is growing evidence which suggests that 'Generation Y' employees value flexibility above all other factors driving workplace choice including remuneration. With demographic changes impacting on the availability of appropriately skilled staff, companies without enterprise based arrangements that allow for the flexible deployment of labour are likely to be at a disadvantage in the recruitment of skilled labour.

The other area where workplaces might be able to reduce labour shortfalls is mature age workers but there is evidence that these workers also value flexibility with many pursuing workplaces that offer opportunities for 'phased retirement'. These options are not available under rigid centralised workplace arrangements but are available from genuine enterprise based bargaining.

Overall, employers who are able to recruit additional staff from the above three categories are more likely to be better protected against economic pressures resulting from changed demographics than their competitors. In the automotive component sector where margins are so narrow, the recruitment of appropriately skilled staff attracted by the flexibilities available under enterprise based arrangements may prove the difference between viability and closure.

5.3 RESOURCES AVAILABLE TO THE AUTOMOTIVE COMPONENT MANUFACTURING INDUSTRY

Resources are available through industry bodies and employer organisations to assist employers to choose the workplace relations arrangements most appropriate to their circumstances. Organisations such as the Australian Industry Group provide dedicated industrial relations services with qualified professionals.

DEWR's Office of Workplace Services in all states and territories provides free, personalised assistance to employees and employers about opportunities and choices in the Australian Government workplace relations system. Further information is available on a number of websites including www.wagenet.gov.au, www.workplace.gov.au, and www.oea.gov.au. WageNet provides information about wages and conditions of employment in Australia for work that is covered by federal awards and agreements. The Australian Workplace site provides access to online services and information, including employment information, government assistance, jobs, careers, training, working conditions and Indigenous Employment Centres. The Office of the Employment Advocate site covers information on the assistance and advice the

Office can provide to employers and employees on the *Workplace Relations Act 1996*, Australian workplace agreements (AWAs) and freedom of association provisions.

CHAPTER 6 CONCLUSION

The automotive component manufacturing sector, with its linkages across a range of areas, is vitally important to the Australian economy. While the sector has been buoyant in recent years with strong vehicle sales in particular it continues to face significant challenges. Rising production costs, excess capacity, increased competition from overseas producers with greater economies of scale, changing production methods and a high Australian dollar have impacted on export markets. In addition, a number of manufacturers have overseas parent companies facing extensive financial problems. With Australia's domestic demand for vehicles low by world standards and the export environment clouded by global excess capacity, local manufacturers will need to develop niche markets to remain competitive. With other manufacturers identifying Australia's comparative advantage in short run elaborately transformed goods, competitive advantage for Australian component manufacturers may lie in concentrating on products of high value that require highly skilled labour to value-add.

Despite these challenges the sector has recorded a solid increase in employment over the past five years. Nonetheless, the outlook for employment in the sector in the period ahead is somewhat uncertain. A softening in demand for new vehicles, together with looming reductions in output by a number of car manufacturers as well as automotive component job losses already earmarked for the next 18 months, suggests that the pace of employment growth in the sector may well begin to ease over the course of 2006. The Federal Chamber of Automotive Industries, on the other hand, has a more optimistic outlook suggesting that employment in the sector will stabilise over the course of 2006.

Employment in the automotive component manufacturing sector is concentrated in a small number of regions across Australia, primarily in and around Melbourne and Adelaide although labour market conditions vary considerably across the key regions in which automotive component manufacturers are chiefly located. Accordingly, any downturn in the industry could have a detrimental impact on the overall economic strength of these regions.

Despite the fragility of the industry and the recent retrenchments there are still widespread shortages for a number of occupations in the motor vehicle and parts manufacturing industry including metal and automotive trades where shortages have been persistent over many years. A major contributing factor in these shortages is competition between the sector and other industries, such as mining, in which trade skills are in high demand.

A number of measures are in place to address these skill needs. The Migration Occupations in Demand List provides a useful mechanism for addressing the need for particular skilled occupations. The Government is also investing heavily in vocational and technical education to address skill needs, particularly in traditional trades areas. In addition, the Government's reforms to the workplace relations system will also provide the opportunity for more young Australians to enter a trades career by ensuring that it supports the implementation of New Apprenticeships, including removing any existing industrial relations barriers to the take up of School-based and part-time New Apprenticeships.

The Government has introduced a range of measures to ensure that displaced employees have immediate and comprehensive assistance to provide them with the tools and support to find alternative employment. These measures, in particular the Labour Adjustment Programmes (LAPs) are already proving to be effective with, in the case of the Mitsubishi LAP, a high proportion of displaced employees having been placed into employment.

The Government's Workchoices legislation and the new Fair Pay Commission will play a vital role in addressing the skill needs in the automotive component manufacturing sector by ensuring appropriate and specific rates of pay are determined for each category of apprentice and trainee. Measures have also been taken to allow for an increase in the uptake of School-based and part-time apprenticeships to assist with the current and expected future demand for trade skills.

A high performance workplace model has also been identified as an important contributor to enhancing future competitiveness of businesses. To assist workplaces to move to this model, a number of simple strategies including clear workplace reform objectives; alignment of employer and employee objectives; a comprehensive workplace relations communication strategy; and empowering employees have been developed.

Finally, the new workplace relations framework is an important tool now available to workplaces to maximise opportunities for recruitment and optimising flexibilities for existing employees, including increasing the representation of female employees, attracting more highly skilled younger workers, and capitalising on the skills and experience of mature age workers.

The automotive component manufacturing sector is facing ongoing competitive pressures. In addition, the recent lowering of the tariff rate by five percentage points is likely to reduce both output and employment. However, the Government believes that the workplace relations reforms it is introducing will have a positive impact on the industry. In addition, ongoing commitment through a range of measures including Labour Adjustment Programmes will ensure that displaced workers are provided with appropriate levels of assistance to facilitate their return to employment.

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ABBREVIATIONS AND ACRONYMS

4WD	Four Wheel Drive
ABS	Australian Bureau of Statistics
ABSTUDY	Aboriginal Study Grants Scheme
ACIS	Automotive Competitiveness and Investment Scheme
ACP	Automotive Component Producer
AIG	Australian Industry Group
ASCO	Australian Standard Classification of Occupations
AWA	Australian Workplace Agreement
DEWR	Department of Employment and Workplace Relations
DFAT	Department of Foreign Affairs and Trade
DIMA	Department of Immigration and Multicultural Affairs
DITR	Department of Industry, Tourism and Resources
FAPM	Federation of Automotive Products Manufacturers
FCAI	Federal Chamber of Automotive Industries
ICT	Information and Communications Technology
ISCA	Intensive Support Customised Assistance
KPMG	Klynveld Peat Marwick Goerdler
LAP	Labour Adjustment Programme
LFR	Labour Force Region
MMAL	Mitsubishi Motors Australia Limited
MODL	Migration Occupations in Demand List
MVP	Motor Vehicle Producer
MVPM	Motor Vehicle and Parts Manufacturing
NEIS	New Enterprise Incentive Scheme
OE	Original Equipment

OICA

OTMESC **Other Than Main English Speaking Country**

PMV **Passenger Motor Vehicle**

R&D **Research and Development**

SMS **Short Message Service**

SSD **Statistical Subdivision**

STARS **Statistical Trade Analysis and Retrieval System**

SVI **Skilled Vacancies Index**

Company	No of redundancies	Redundancy date of effect	Number of continuing employees	Reason	Other action taken by company	Contract allocation –international	Contract allocation –domestic
Trico Springvale, Vic.	55	Dec 2005	14	Loss of contract to supply windscreen wipers & rubbers to the MVPs	Will expand into China, establishing a production centre.		
	80	By Aug 2006					
Autoliv Campbellfield, Vic	88	June –Dec 2005	400	Loss of contract to supply seatbelts to GM Holden Downturn in Holden Production	Will expand into South Korea, to be closer to customers Hyundai and Kia	To a Czech company in South Korea, China and other overseas locations	
	52	Jan – Feb 2006					
	28	March					
	32	June/July 06					
	102	Aug 2006					
VOA Webco (subsidiary of Autoliv) Thomastown, Vic.	65			Loss of contracts at Autoliv			
Calsonic Port Melb, Vic	25	16 Dec 05		GMH production downturn			
	145	by Aug 06					
Dana Edinburgh Park, Salisbury, SA.	9	16 Dec 05	20	GMH production downturn		To Japanese company Yorozu's plant in Thailand	For assembly at ZF Lemforder (manufactured at US operations in Georgia, US)
	70			Loss of Adelaide contract for differential supply to GM Holden. Loss of contract for engine cradle supply to GM Holden			
Australian Arrow Edinburgh, SA.	6	1 Dec 2005	90	GMH production downturn		To Japanese company Denso's facility in the US	
Pilkington Pooraka, SA	2	Nov 05		GMH production downturn Loss of GM Holden contract Discussions of plant closure in Sept/Oct 06		To a French supplier, St Gobain's plant in Thailand	
Spicer Axle (of Dana Corporation) Yennora, NSW	200			Loss of GM Holden contract			
Kemalex, Dandenong, Vic	85			Reduced production at GM Holden, and 9 week strike			
Kozma Bayswater Nth, Vic							
TI Automotive Kilburn, SA				Loss of contract to supply brake fluid and fuel delivery system to GM Holden			

Company	No of redundancies	Redundancy date of effect	Number of continuing employees	Reason	Other action taken by company	Contract allocation –international	Contract allocation –domestic
Cooper Standard Woodville Nth, SA				Loss of contract to supply power-steering to GM Holden		To a US company, ITT, plant in Mexico	
				Loss of contract to supply power-steering and brake-pedals to Ford		To suppliers in China and Canada respectively	
Schaffer Corporation- Howe Leather Thomastown, Vic	0 (no record)			Loss of leather supply upholstery contract to BMW		To suppliers in South Africa	
Socobell Spotswood, Vic	0 (no record)			Loss of contract to supply plastic parts to GM Holden		To US company Weidmann Plastics in Alabama, US	
Gates Rubber Sth Dandenong, Vic	0 (no record)			Loss of contract to supply hoses and belts to GM Holden		To company in China	
Exacto Beverley, SA	Unknown			Lost contract to supply plastic extrusions to GM Holden			
DMG	Unknown			Lost contract to supply plastic moulding bumpers to GM Holden			To Viscount
PBR East Bentleigh, Vic	50 to 60	2005		Relocating jobs to PBR factories located in Thailand			
MTM Automotive Components Sth Oakleigh, Vic	Unknown	Unknown		Relocating business offshore			
Plexicor Edinburgh Park, SA	4 3	21 Oct 05 11 Nov 05		GMH production downturn			
Bridgestone TG Edwardstown, SA	40 to 45	Feb 2006	450	GMH production downturn			

TABLE 2: NEW BUSINESS

Company	Job Gain	Greenfields or expansion of existing site	Contract won from
Air International	Increased to 380	Expansion	Seating contract for GM Holden
Plexicor		Greenfield	Carpet contract for GM Holden from Air International
Viscount		Greenfield	Plastic moulding bumpers to GM Holden from DMG
Noble Metals		Greenfield	Pressings to GM Holden (outsourced from GM Holden)
Hirotec	280	Greenfield	Doors, bonnets and boot lids to GM Holden
Johnson Controls	125	Greenfield	Interior parts maker to GM Holden (following closure of Melbourne site)
ZM Lemforder	150-200	Greenfield	Suspension assemblies/axles to GM Holden
Cubic Pacific		Greenfield	
PBR	50	Expansion	Brakes components to Mitsubishi
Siemens VDO		Expansion	Joint venture with Mitsubishi
Fibrelogic	140	Expansion	Fibreglass pipes
AI Automotive		Expansion	Pressings to GM Holden (outsourced from GM Holden)