



Submission to the

Standing Committee on Employment, Workplace Relations and Workforce Participation

Parliament of Australia

Inquiry into

Employment in Automotive Component Manufacturing

Wednesday, 1 March 2006

Australian Automotive Aftermarket Association Ltd
Suite 5, 622 Ferntree Gully Rd
Mulgrave VIC 3170
Ph: 03 9561 7044
Fax: 03 9561 7066
Email: info@aaaa.com.au
Web: www.aaaa.com.au

Stuart Charity
Executive Director

1) Terms of Reference

The House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation has been asked to inquire into and report on *employment opportunities and challenges in the Australian automotive component manufacturing sector with a particular 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.

2) Background

2.1 The Australian Automotive Aftermarket Association Ltd.

The Australian Automotive Aftermarket Association Ltd (AAAA) is the national industry association representing manufacturers, distributors, wholesalers, importers and retailers of automotive parts and accessories, tools and equipment in Australia.

The association has over 900 member companies in all categories of the Australian automotive aftermarket and includes major national and multi-national corporations as well as a large number of small and medium size businesses.

Member companies are located in metropolitan, regional and rural Australia.

2.2 The Structure and Size of the Australian Automotive Aftermarket

The automotive aftermarket is composed of two distinct sectors which service two different customer bases. These sectors can be categorized as:

- The Independent Automotive Aftermarket,
- The Original Equipment Automotive Aftermarket.

The customer bases served by both these groups are:

- The automotive repair and service workshops commonly referred to as the Trade.
- The independent retail store network commonly referred to as Retail.

2.3 The Independent Automotive Aftermarket

The Independent Automotive Aftermarket is primarily involved in the production, distribution and retailing of automotive parts and accessories through networks external to the Motor Vehicle Manufacturer networks.

2.4 The Original Equipment Automotive Aftermarket

This category is based on the distribution and retail networks of the Motor Vehicle Manufacturer and their Dealer networks.

It is important to recognize that an automotive aftermarket manufacturer can operate in both markets.

Some companies manufacture products that are distributed and retailed under a motor vehicle manufacturers brand name, their own brand name and may also supply a major retail chain for sale under the retail groups brand name.

2.5 Market Size

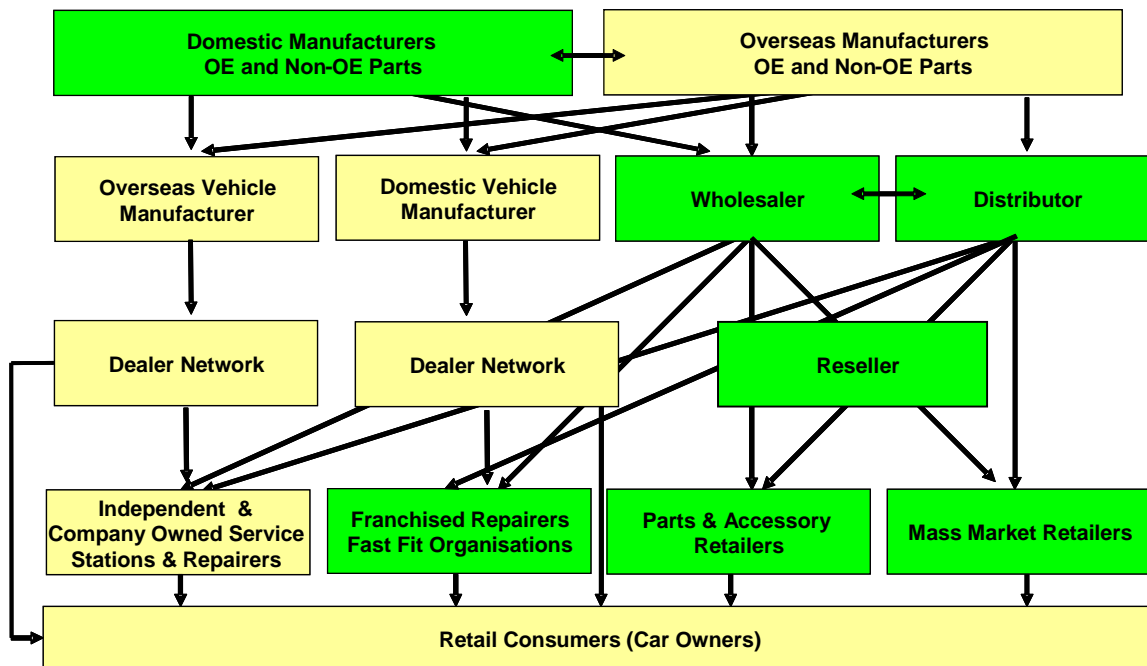
In August 2005 the Australian Bureau of Statistics released the 2003-2004 Household Expenditure Survey, which provides us with an insight into the goods and services purchased by Australian households. The release of this Survey has enabled the AAAA to update our estimate of the size of Australia's automotive aftermarket.

Based on the information in the Survey, we estimate the retail value of Australia's automotive aftermarket to be \$8.1 billion.

The calculation supporting this estimate can be found in Table 1. It should be noted that this is an estimate of sales by all of the entities at the end of the aftermarket supply chain to the retail customer as depicted in Figure 1. These entities include the dealer networks of the Australian passenger vehicle manufacturers (PMV) and the PMV and LCV importers, the independent and company owned service stations and repairers, the franchised repairers and fast fit organisations, parts and accessory retailers and the mass market retailers.

<i>Table 1: The size of Australia's automotive aftermarket</i>		
	<u>2003/2004</u>	<u>1998/1999</u>
Spending per week on selected items of transport expenditure by Australian households		
Oils lubricants & additives	0.50	0.57
Batteries	0.41	0.33
Parts & accessories	4.03	4.42
Crash repairs	1.04	0.98
Tyres	2.75	2.58
Servicing	<u>12.67</u>	<u>9.34</u>
	21.40	18.22
Less: Labour cost of crash repairs & servicing costs	<u>7.17</u>	<u>5.40</u>
Estimated aftermarket spending per week	<u>14.23</u>	<u>12.82</u>
Estimated annual expenditure on aftermarket products by households per year	739.76	666.64
Number of occupied households (millions)	7.735	7.072
Estimated aftermarket expenditure by households per year (\$billions)	5.72	4.71
Adjusted to include business use of vehicles (\$billions)	8.14	7.07
Australia's retail automotive aftermarket	\$8.1 billion	\$7.1 billion

Figure 1: Australia's Automotive Aftermarket



*NOTE: AAAA member companies predominately operate in the segments shown in green.

The AAAA estimates that the sector directly employs approximately 35,000 people in the manufacturing, distribution and sale of aftermarket products.

2.6 Relationship Between the AAAA and FAPM

There is some overlap in the membership of the AAAA and FAPM particularly in the manufacture and supply of automotive components to the original equipment automotive aftermarket sector. In addition, many OE component manufacturers also sell product through the independent aftermarket. An example of this is PBR International which supplies automotive brake products as original equipment and through both the original equipment and independent aftermarket.

As a result of this overlap we have developed a strong working relationship with FAPM and where possible seek to work in partnership on issues that impact on our respective members and the wider industry. The AAAA has read a draft of the FAPM submission to this inquiry and supports the main recommendations detailed in this document. For the purposes of our submission, discussion will focus on issues impacting on the aftermarket sector while acknowledging the strong inter-relationship that exists across the entire automotive manufacturing sector.

3) Industry Environment

Local aftermarket manufacturers face the challenge of a declining customer base together with the ever present threat of import substitution for their product.

With the increased globalization 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 realities 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.

Coupled with this development is the staged reduction in tariff levels on automotive components in Australia which has the impact of increasing market access to international companies while some of our competitors are strengthening trade blocs, aggressively chasing new investment and formulating a raft of non-tariff protection measures to protect and grow their local industries. This, combined with the rise of the Australian dollar against most major currencies, has reduced the international competitiveness of local manufacturers which has contributed to a shift in some production offshore in recent years. Further, some of our Asian trading partners have 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 needs little or no investment in R&D and is effectively “stealing” technology. While we acknowledge that the Australian Government is actively seeking Bilateral and Multi-lateral agreements to improve market access for Australian companies there is currently significant disparities in the level of industry protection between Australia and some of our major trading partners - particularly in South East and North Asia. We also believe that it is imperative that protection of intellectual property be taken into consideration in any negotiation of trade agreements.

Similarly these policy settings have significantly increased the number and range of imported vehicles available in Australia. While the overall number of new vehicles sold in Australia has increased in recent years, competition in this sector has seen the market share of locally produced vehicles decline to 30% which has a flow on effect on the supply of replacement of parts and equipment for these vehicles. These structural adjustments have also resulted in the reduction in local content on upcoming local vehicle platforms will have a flow on effect to the aftermarket as in most cases the replacement parts would be manufactured by the same original equipment supplier.

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 the service original equipment and aftermarket to follow this trend.

A second important factor to consider is that manufacturing and R&D activities are normally co-located. A company that shifts production offshore may maintain a R&D base in Australia in the short term, however in the medium to long term it is likely that this activity will be gradually shift to the production base once local R&D capability is increased. It is the view of the AAAA that this critical relationship between local production and R&D activity means that the Federal Government must continue to do everything in its power to protect and encourage investment and re-investment in Australian automotive manufacturing industry.

Export markets are potential source of growth for aftermarket manufacturers. Australia’s diverse car parc exposes aftermarket manufacturers to a proliferation of marques and models and the opportunity to develop product for these vehicles. We estimate that aftermarket currently represents approximately 20% of total component exports. The export of Australian made vehicles has the potential to open up opportunities in the supply of replacement parts and

equipment however it should be noted that Australian based suppliers to an exported vehicle are often required to tender against offshore manufacturers for this business.

4) Current and Future Employment Trends in the Industry

While employment levels in the automotive manufacturing sector have remained relatively static over the last ten years, the sector has experienced a decrease in overall numbers in the last 12 - 18 months. This is due to a range of factors including global sourcing, increased productivity and reduced tariff protection detailed above. In addition, while production volumes have risen over the period, the increased use of technology and automation in the production process has meant that job numbers have not increased proportionately.

We anticipate that this trend towards a decline in the number of people employed in the automotive component sector to continue over the coming years as the sector faces increased competition and declining profitability. It is the view of the AAAA that the only way to reverse this downward trend and maintain employment levels in the industry is to provide increased support for export and business improvement activity to assist local manufactures to develop new markets internationally and continue to ensure that that productivity levels are at “worlds best practice”.

Technology is having a significant impact on the skill requirements and number of employees required in the industry, particularly in the repair and service sector. The increased use of electronics in vehicles means that technicians are required to develop an understanding of computerised diagnostic and service equipment and increasingly components are being replaced rather than repaired. This trend is leading to a need for two streams of technicians in the industry:

- **Master Technician:** a highly skilled individual with an in-depth understanding of vehicle systems and their inter-relationship. Their role is to diagnose and repair faults particularly in the electronic and safety systems of the vehicle.
- **Technician:** an individual with a lower depth of knowledge that works with diagnostic equipment and undertakes general servicing of vehicles and the replacement of components. Any difficult or critical faults are referred to the master technician.

The above two streams of technicians require different levels of training and re-training which is not supported under the current system.

Given the rapid increase in technology and the integration of components and sub-systems in vehicles it is critical that vocational and workplace training programs are tailored to meet the specific requirements of the industry and have the flexibility to meet the dynamic and changing future needs of the industry.

5) Emerging skills shortages and appropriate recruitment and training strategies

Although the trend in the automotive component manufacturing industry is for a reduction in overall employment, the sector is experiencing emerging skills shortages particularly in specialist areas of engineering, design and development. Many automotive component manufacturers are actively recruiting staff offshore and encouraging them to relocate to Australia. While this practice fulfils a short term need, the cost of relocating expatriates has an impact on the competitiveness of individual businesses and the industry as a whole in the longer term.

There are also a number of short term transitional opportunities available to Australian manufacturers, which are being impacted by skills shortages. An example is 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.

Skills shortages are a major issue across all trades and are having a significant impact on both automotive component manufacturing and the repair and service sector. Major factors contributing to this issue include a lack of incentives for employers to employ and train apprentices, industry perception and stereotypes and the lack of flexibility and industry specific training programs.

While the AAAA supports recent Federal Government initiatives to create more flexibility in the delivery of TAFE based training as well as additional technical places, the current regime is inconsistent across state and territories, is confusing for employers and in many cases the elongated process and red tape required to employ an apprentice or trainee is a significant disincentive. There is also confusion with the respective role of Federal and State Government agencies in the process.

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 sized enterprises. The increased global competition, resulting in decreased margins in the industry mean 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. As such, it is the AAAA's position that the Government has an ongoing role in providing appropriate incentives to encourage employers to continue to employ and train young and re-deployed workers.

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. This is a long standing problem that is contributing factor in the skills shortages currently experienced in the industry. The only way to overcome these incorrect perceptions is for the industry, with the support of Federal and State Governments, to promote itself as internationally focused, at the cutting edge of technology and offering a diverse range of exciting and well paid career opportunities.

6) Labour adjustment measures to assist redeployed and affected workers

Much of the incentives offered by Governments are based on taking on new employees whereas they should also be offered in the re-training and re-deployment of existing employees whose skills have become redundant as a result of changes in technology and processes. For example, the opportunity may exist to redeploy workers from the automotive component manufacturing industry to the repair and service sector with appropriate Government support and assistance.

The AAAA supports the view of FAPM that any Federal and State Government labour adjustment packages should be offered to the industry as a whole and not just confined to the automotive manufacturers as was the case with the packages offered to Holden and Mitsubishi employees in 2005. As we have indicated previously, the interrelationship in the automotive manufacturing industry mean that the impacts of structural adjustments are felt down the entire supply chain.

7) Measures to support skills development, innovation and investment in the industry

The Government incentives offered for new investment in plant and equipment and R&D for original equipment manufacturers through the ACIS program are critical as the automotive sector undergoes a period of structural re-adjustment. The exclusion of purely aftermarket

manufactures from the ACIS program illustrates the importance of this support to the industry. There is no doubt that the inability of the independent aftermarket manufacturing sector to access this program, combined with the increasingly competitive global environment, has been a contributing factor in the decision by some aftermarket manufacturers to shift operations offshore or simply contract out manufacturing to third parties. An example of this is GUD Automotive who were forced to discontinue manufacturing in Australia to maintain profitability but have retained an R&D centre in Melbourne. This company does not qualify for ACIS and with little or no Government support they are increasingly finding it difficult to justify maintaining this overhead in Australia.

While acknowledging the importance of ACIS to the industry it is the view of the AAAA that Government support of the automotive industry should not begin and end with ACIS. To ensure the long term survival and growth of the industry it is vital that the Federal Government provides:

- an industrial relations system that promotes a flexible and productive workforce;
- incentives for training and retraining of the workforce to ensure that skills are kept up to date with changes in technology and industry structure and dynamics.
- an industry specific training board that can ensure that training and support packages are in place to support the rapidly changing skill requirements of the sector as a result of technological advances.
- support for local automotive aftermarket manufacturers to internationalize through direct exports, joint ventures and technology transfer and licensing.
- a taxation and incentive system that encourages new investment in the industry as well as partnerships between public and private research institutions.

8) Conclusion

Automotive manufacturing, including for the OE and independent aftermarket, is a major driver of employment and economic growth in Australia but is now under significant pressure from a range of factors including global sourcing, trade barriers and blocs, currency fluctuations and import competition. The industry has recently entered into a period of structural adjustment as companies review their operations to ensure ongoing competitiveness and profitability. In some cases, manufacturing has been outsourced or moved offshore which has resulted in some redundancies.

It is anticipated that this re-adjustment will continue and possibly intensify in the short to medium term with a likely increase in the level of merger and acquisition activity. These factors combined with greater productivity through the use of automation and technology and static or declining demand for most locally produced components is likely to result in a decline in the number of people employed in the industry over the coming years.

While we believe that this downward trend in employment is an inevitable consequence of current market conditions, it is the view of the AAAA that Government intervention could play a significant role in the extent of contraction in the industry by providing a policy framework to support the industry as detailed above. Failure to support and protect the industry now could result in the loss of critical mass in OE manufacturing which would flow on to aftermarket manufacturing and local research and development activity.