



Submission Number 5

**Government
of South Australia**

**Submission to the
House of Representatives
Standing Committee Inquiry**

into

**Employment in Automotive Component
Manufacturing**

January 2006

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CONTEXT

The importance of automotive manufacturing for South Australia

Manufacturing is a vitally important part of the South Australian economy, with ABS statistics indicating the sector contributes over 14 per cent of Gross State Product¹, 12 per cent of total employment², 62 per cent of total exports³ and 54 per cent of business expenditure on research and development⁴.

Automotive manufacturing is a significant part of the State's manufacturing sector, contributing 2.4 per cent of Gross State Product, generating exports worth almost \$1.2 billion in the year to November 2005 and providing direct employment for around 14,800 people.

The environment for automotive manufacturing and the manufacturing sector more generally is however undeniably challenging, with increased pressures from rapidly developing economies, trade liberalisation, exchange rate impacts, new technologies, supply chain rationalisations, skills shortages and growing consumer demand for environmental sustainability.

Furthermore, the industry is operating in a transitional tariff environment with tariffs down from around 57 per cent in the 1970s to 10 per cent at present. At the same time there has been a commensurate reduction in the proportion of local componentry, down from around 70 per cent in the 1980s and 1990s to claimed figures of between 50 and 60 per cent today in the new models being produced by Australia's car manufacturers.

The South Australian Government also recognises that the automotive industry is an important avenue through which new manufacturing technologies enter Australia. As a consequence, the State Government is committed to maintaining a strong automotive industry in the State by helping companies to innovate, develop and adopt new technologies, invest in skills development and develop export markets.

Industry Profile

Of the 368,000 vehicles produced in Australia in the eleven months to November 2005, 165,578 were manufactured in South Australia at the GM Holden and Mitsubishi Motors Australia plants, representing around 45 per cent of total Australian production.

GM Holden

GM Holden employs around 4,700 people at Elizabeth where it is investing \$450 million to launch the new VE Commodore in mid-2006.

¹ ABS 5220.0, Australian National Accounts: State Accounts, 2003-04

² ABS 6291.0.55.001, Labour Force, Australia, Detailed, Nov 2004

³ ABS Unpublished data

⁴ ABS Business Expenditure on R&D, Cat. 8104.0, Sept 2004

While the company's recent announcement to cancel its third shift will result in a total of 1,400 jobs lost by the end of February 2006, it should not be overlooked that around 800 new jobs are being created by the continuing development of Edinburgh Parks Automotive Precinct adjacent to GM Holden, where 16 new suppliers are establishing operations to support the production of the VE Commodore.

Mitsubishi

Mitsubishi Motors Australia Ltd employs around 2,000 people at Tonsley Park, where it has invested \$600 million for the '380' model launched in October 2005. In the twelve months prior to this however, the company reduced its workforce by 1,117 positions resulting from the closure of its Lonsdale foundry and restructuring at Tonsley Park.

The South Australian Government believes the response by the State and Commonwealth Governments to this significant industry restructure provides a useful model for future collaboration between industry and governments to assist individuals transition into alternative employment and provide training and skills development where required.

Component Producers

South Australia has around 40 first and second tier automotive component suppliers, employing over 7000 people⁵, comprised of global, national and South Australian companies.

A number of these companies are successfully competing in the global marketplace and have developed strong export markets for products including rear vision mirrors, motor cycle and automotive wheels to the United States and Europe.

Two suppliers, TNT Logistics and Siemens VDO, are breaking new ground in industrial relations in the Australian automotive industry by establishing operations on-site at Mitsubishi's Tonsley Park assembly plant.

TNT Logistics has designed and commissioned a Logistics Control Centre at Tonsley Park, which is expected to contribute to Mitsubishi's productivity gains by allowing the company to focus on its core manufacturing competencies.

Siemens is supplying complete cockpit modules for the '380' and has awarded several component contracts to South Australian suppliers.

These examples of supplier integration have never been attempted before and demonstrate the value of South Australia's positive industrial relations environment.

⁵ FAPM membership data 2004

Competitive Pressures on the Supplier Industry

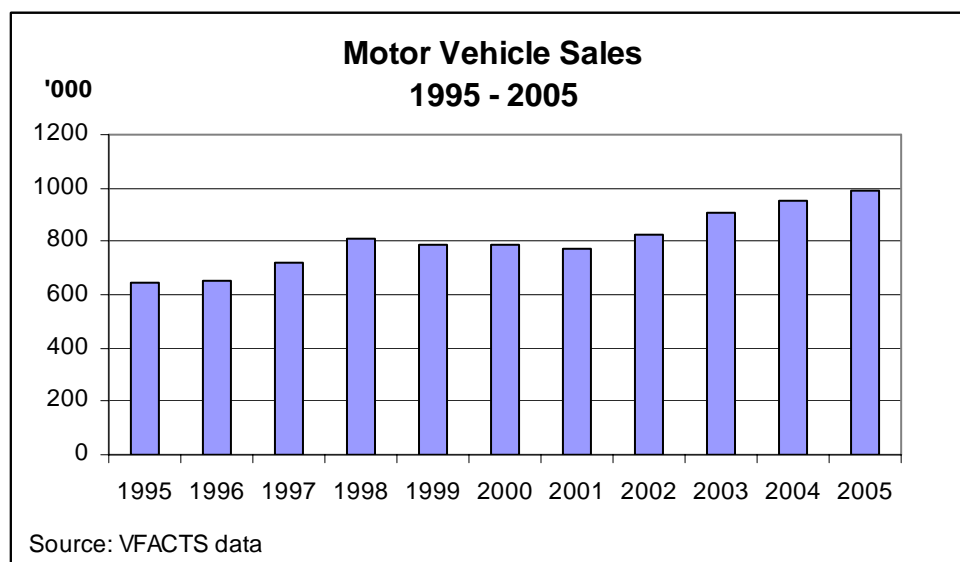
A number of international pressures on the supplier industry were identified by component manufacturers at the 2005 Federation of Automotive Products Manufacturers (FAPM) national conference, including global car building overcapacity, financial losses being incurred by vehicle and component manufacturers, rising commodity input prices and cost pressures from China and other low wage countries.

Other pressures identified include the small size of the domestic vehicle market, the dependence either totally or significantly of many suppliers on one vehicle manufacturer (raising the risk of business failure), competition for a limited pool of skilled people and higher import levels resulting from a strong Australian dollar.

Australian Domestic Passenger Motor Vehicle (PMV) Sales

In recent months, higher petrol prices have affected the composition of Australian vehicle sales, with an 18 per cent increase in small passenger vehicles in 2005 while at the same time large passenger motor vehicle sales fell by 15 per cent. It is becoming apparent therefore that this market segment, currently occupied by Australia's vehicle manufacturing industry, is in decline.

Australian motor vehicle sales are at an all-time high with back-to-back record years in 2004 and 2005.



A number of factors are contributing to this growth including low inflation, strong employment and high consumer confidence. In addition, the reduction of tariffs on passenger motor vehicles from 15 per cent to 10 per cent on 1 January 2005 and, as previously mentioned, the higher Australian dollar have resulted in higher import levels.

Against this backdrop of record sales is the paradox that the Australian-made share of the domestic automotive market has fallen from around 48 per cent a decade ago to less than 30 per cent today. As previously noted, this has been as a result of a change in consumer demand away from large passenger vehicles to smaller vehicles, as well as a trend towards sports utility vehicles.

In Summary

The automotive industry, including components manufacturing, represents an important part of the South Australian economy, especially when measured against several key indicators including Gross State/National Product, employment and exports. These benefits are further complemented by others including technology transfer, innovation and skills development.

Automotive manufacturing is however undergoing a period of significant evolution as it adjusts to changes in both the local and global environments. In particular, the industry is challenged by the need to respond to relatively rapid changes in exchange rates, oil prices and consumer preferences while at the same time the industry by its very nature is characterised by long lead times and capital intensive processes.

A highly visible aspect of the industry's adjustment has been the significant job losses experienced at Mitsubishi and GM Holden and the impact of this on the local component manufacturing industry.

While the terms of reference have not specifically addressed broader issues relating to industry support arrangements, this submission makes recommendations in the areas to promote the sustainability of the industry.

TERMS OF REFERENCE

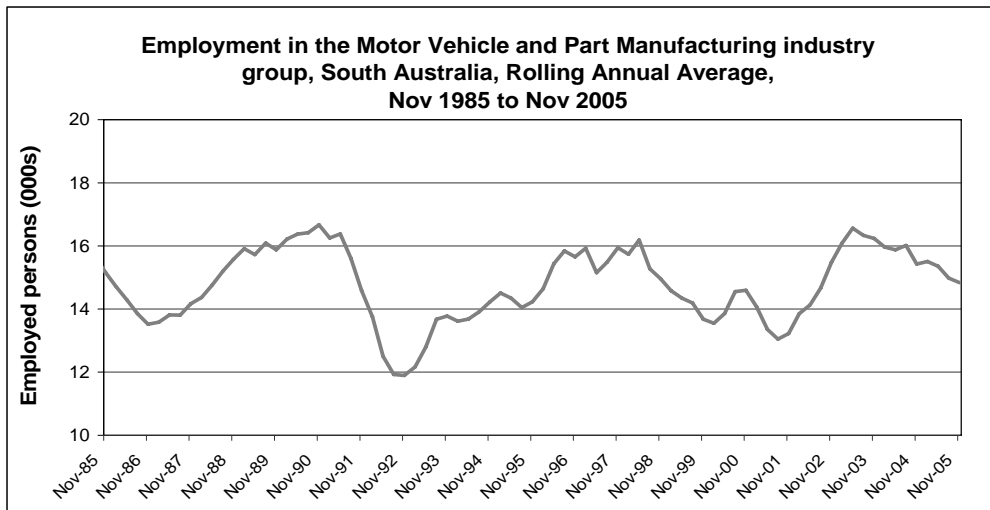
TERM OF REFERENCE 1: <i>Current and future employment trends in the industry</i>

In the November quarter 2005⁶ there were approximately 14,800 people employed in the Motor Vehicle and Part Manufacturing industry sector in South Australia, of which 98.5 per cent were employed on a full-time basis.

Employment in the sector is predominantly male, accounting for 89.3 per cent of the workforce.

Employment levels in South Australia's motor vehicle and component manufacturing industries have varied over the past twenty years between 12,000 and 16,000 persons. The following chart indicates a downward trend in the industry over the past two and a half years.

⁶ Average of the four quarters (February, May, August and November) to November 2005



Source: ABS (2005), Labour Force, Australia, Cat. No. 6291.0.55.001

This downturn can be partly attributed to a number of job reduction announcements in the automotive industry in South Australia over the past eighteen months.

In particular:

- Mitsubishi Motors Corporation announced a decision in May 2004 to close its Lonsdale engine plant and to seek voluntary redundancies from its Tonsley Park assembly plant, resulting in a reduction of 1,117 positions in the period to October 2005.
- ION Ltd announced in December 2004 that the company was to be placed into voluntary administration. This led to the subsequent closure of ION's cylinder head plant at Wingfield and the loss of 450 positions.
- GM Holden announced in August 2005 that it would revise volume projections and cease the third shift at Elizabeth, leading to a loss of 1,400 jobs. To date 950 people have been retrenched, with a further 450 expected by the end of February 2006.
- Air International announced in November 2005 the closure of its Golden Grove plant over an 18 month period, resulting in the loss of 370 positions in South Australia.

In contrast to this, the forthcoming release of the new VE Commodore has stimulated the development of a dedicated automotive supplier precinct at Edinburgh Parks, in partnership with the South Australian Government, on a 70 hectare site next to GM Holden's assembly plant at Elizabeth.

To date, 16 suppliers have established or have expressed a commitment to establish operations within the precinct to supply components for the VE Commodore. The expansion is expected to create approximately 800 new jobs in the region by the end of 2006.

TERM OF REFERENCE 2: <i>Emerging skills shortages and appropriate recruitment and training strategies</i>

Recent data from the National Centre for Vocational Education and Research shows 265,000 people commenced apprenticeships and traineeships nationally in the year to June 2005. Of these, 41,000 were in manufacturing but only 1,000 in automotive manufacturing. At 2.4 per cent, this level is considerably lower than the automotive industry's share of manufacturing employment at either the state level (14 per cent) or national level (6 per cent).

The South Australian Government has responded to the need for a highly skilled workforce by releasing the Workforce Development Strategy. This is the key policy statement for developing the South Australian workforce to 2010. It gives priority to increasing skill levels in the workforce, facilitating greater access to jobs for South Australians and improving workforce planning to meet future industry demand for skilled labour.

To achieve global competitiveness, the South Australian Government believes a continued investment in the skills and education of both new and existing manufacturing workers is essential.

In relation to up-skilling existing workers and the ageing of the manufacturing workforce, ABS data shows in 2002 that the manufacturing workforce was dominated by the two age groups 25-34 and 35-44 years, which together made up 52 per cent of the manufacturing workforce compared to 48 per cent for all industries. Over the last ten years, the proportion of manufacturing workers aged 15-19 has fallen from 5.2 to 3.8 per cent, while the proportion aged 55 and over is up from around 8 to 13 per cent.

This imminent decline in the manufacturing skills pool needs to be offset by providing existing workers with up-skilling opportunities as well as focussing on the recruitment of new entrants. Such activity is crucial to improving industry competitiveness.

Current Training and Recruitment Initiatives

The South Australian Government is working with schools, TAFE, universities and other training providers to develop and deliver a range of training strategies as discussed below.

SA Manufacturing Up-Skilling Program

The *SA Manufacturing Up-Skilling Program* has been designed to support businesses to ensure that a skilled workforce is available for the State's manufacturing sector. The program encourages manufacturers, including those in automotive component manufacturing, to up-skill existing employees' technical skills and to provide literacy and language training for recently employed skilled migrants.

Manufacturers can apply for assistance up to \$1,200 per employee (maximum of \$5,000 per business) to provide training in areas such as:

- Advanced technical skills;
- Lean manufacturing and Six Sigma;
- Total Productive Maintenance (TPM);
- Project or maintenance management;
- Virtual manufacturing and design.

The program encourages the delivery of new, industry relevant, accredited training with a Registered Training Organisation or university in South Australia.

Automotive Pre-Vocational Training

The State Government also recently established a Northern Automotive Workforce Development Program to provide training for around 300 persons in the northern Adelaide region, which continues to grow as Holden prepares to manufacture the VE Commodore, due for release in mid-2006.

The region has a relatively high unemployment rate ranging from 8.5 per cent in Gawler to 14.5 per cent in Playford (2001 census data), with many supplier companies having advised the State Government they do not believe they will be able to fill positions from the pool of unemployed persons in the region due to skills requirements.

Some preliminary training is therefore being provided to prepare prospective employees for work in the automotive industry in the areas of pre-employment training, vehicle builder's certificate, forklift driver training and first line management.

Auto Engineering Degree

The State Government is providing financial support to the University of Adelaide to deliver a new Automotive Engineering Degree in partnership with component manufacturers. This initiative is responding to a recognised need for high level engineering skills tailored to the automotive industry.

The inclusion of engineers as an occupation in demand under Australia's skilled migration program indicates however there is a need for more training places to be made available for engineers at universities, with increased funding required from the Commonwealth Government.

School to Industry Programs

The South Australian Government supports a number of initiatives to promote manufacturing and engineering skills and career paths within the secondary school system in South Australia. The major programs currently in place include:

- Engineering Pathways Program

The Engineering Pathways Program builds competencies from the National Metals and Engineering Training Package into South Australian Certificate of Education (SACE) subjects giving years 11 and 12 students the opportunity to gain final high school qualifications and a vocational engineering qualification.

- Northern Advanced Manufacturing Industry Group (NAMIG)

NAMIG is an industry-led initiative established to promote career paths for school students into local advanced manufacturing companies including automotive component manufacturers in Adelaide's northern suburbs.

- Schools Innovation Design Challenge

This program, auspiced by Re-Engineering Australia, focuses on developing the creativity and innovation of high school students through a structured engineering design project based on the making of a model racing car using CAD / CAM software, CNC machines and Computer Fluid Dynamics technology.

Competitive Manufacturing Program

A unique program utilising the Competitive Manufacturing Training Package was launched as a pilot in April 2005 to skill 25 manufacturing workers to Certificate IV in Competitive Manufacturing. Several automotive component suppliers are participants in this program which is project based with individual skills development, teamwork, shared outcomes and flexible learning methods employed.

Skilled Migration Program

The South Australian Government, through Immigration SA, actively supports the entry of skilled workers to meet the needs of local businesses.

Immigration SA utilises the following Commonwealth Department for Immigration and Multicultural and Indigenous Affairs (DIMIA) visa programs to respond to South Australia's specific demands and shortages for skills:

- Regional Sponsored Migration Scheme (RSMS)

The RSMS allows South Australian employers to nominate people from overseas or temporary residents already in Australia to fill skilled vacancies that cannot be filled from within the local labour market.

South Australia is the national leader in utilising RSMS. In 2004-05, the State certified 505 employer nominations. Of these, 54 were made by the

automotive component manufacturing industry, mainly in the field of engineering and trades.

- State Territory Nominated Independent (STNI) Scheme

The STNI allows the South Australian Government to sponsor skilled migration applicants whose skills are considered in demand in the State and are willing to settle in South Australia. The current list from which the State is able to nominate includes a number of occupations, such as Engineer, Fitter and Turner, Metal Machinist, Welder and Toolmaker, that would provide skills to the automotive component manufacturing industry. During 2004-05, a total of 1,145 principal nominations were made under the overall program.

- Regional 457

The Regional 457 visa allows South Australian employers who cannot find skilled workers in the local labour market to quickly access these skills from people overseas using a temporary visa. This category also provides for exemption from the minimum skill and/or minimum salary levels required by a standard 457 visa. In 2004-05, Immigration SA certified 151 cases for the overall program.

In addition, the South Australian Government continues to work closely with DIMIA to facilitate the entry of migrants under other existing visa arrangements or to develop new policy to respond to employer demands for skilled workers. As an example, the State has worked with Hirotech Australia and DIMIA to bring in the company's offshore experts to train local South Australian workers by using temporary 457 visas.

TERM OF REFERENCE 3: <i>Labour adjustment measures required to assist redeployed and affected workers</i>

Rationale for Labour Adjustment Programs

When major changes occur with little notice in regional labour markets, governments can intervene to assist individuals while the labour market adjusts to workforce changes over a longer period of time.

The South Australian Government has developed a labour adjustment program response for workers facing retrenchment and disadvantaged job seekers when existing employment and training services cannot respond to the scale or impact of downsizing by local industries. Labour adjustment initiatives aim to minimise periods of unemployment by reducing the time taken to find suitable alternative work.

Labour Adjustment in the Automotive Industry

Large scale retrenchments at Mitsubishi and GM Holden have led the South Australian and Commonwealth Governments to jointly implement significant labour adjustment programs to provide assistance to affected workers and their families.

Mitsubishi Labour Adjustment Package

The first package of support was for workers at Mitsubishi under the Mitsubishi Labour Adjustment Package. Outcome data from the Mitsubishi Labour Adjustment Package indicates that at 25 November 2005:

- 1,117 workers had exited Mitsubishi, 936 had registered for services, of which 675 individuals had found alternative employment.
- 22 individuals had been placed in full-time education;
- Mitsubishi estimated that 20 per cent of those retrenched chose to retire.

Workers also received assistance under the State Government support package. Of those who left Lonsdale, 380 utilised financial counselling services and 406 resume preparation and career counselling. Of those who left the Tonsley vehicle assembly plant, 311 utilised services in financial counselling. Services provided in the 2004-05 and 2005-06 financial years were valued at \$383,485.

In addition, an innovative project was implemented by Mitsubishi to recognise the current skills of some workers whose formal qualifications did not match their actual skills. 120 workers participated in the program with 99 gaining full qualifications against the Australian Qualification Framework.

Skill recognition occurred in Frontline Management, Electro Technology, Automotive Manufacturing, Production Engineering and Metrology. The project methodology focused on assessment of workers' skills in the workplace and is now available as an additional tool in recruitment and training in the company.

The South Australian Government also provided funding to Flinders University to undertake a longitudinal study of workers who left Mitsubishi to gather data about their health and well-being. The study includes data collection on labour market activities and income levels post retrenchment. The study has a sample of 400 of the 1,117 retrenched workers. Although there are no published reports of the research to date, the researchers have found after two rounds of interviews that the workers:

- were satisfied with the information about and access to services provided to them prior to retrenchment;

- felt competent to endure their change in labour market status and search for alternative work because they had a plan to follow when their employment ceased;
- had ongoing support during their job search process.

To date there has been no recognisable demand on regional community and health services by Mitsubishi workers or their families that can be directly attributed to their post retrenchment situation.

Holden Labour Adjustment Package

The second package of support was implemented in the final quarter of 2005 when GM Holden announced the cancellation of its third shift. The size and timing of this adjustment prompted the Commonwealth and South Australian Governments to establish a \$10 million Holden Labour Adjustment Package to provide labour market programs for affected workers using a similar approach to the Mitsubishi package.

Under the Holden package the South Australian Government contributes to services provided to workers including:

- Skill assessment and recognition services;
- Accelerated training (where possible) to enable workers already in training to gain a qualification earlier than currently planned;
- Specific skill development for workers to meet new industry demand in existing skill shortage areas;
- Training to enable redundant workers to increase or tailor their skills a specifically identified new job with an alternative employer.

At the time of writing, insufficient time had elapsed to provide reliable statistical information about the outcomes for the workers affected by the retrenchment.

The South Australian Government is also providing support to a further 200 workers identified for retrenchment at the Castalloy plant of Ion Limited at North Plympton.

The Structural Adjustment Fund for South Australia (SAFSA)

SAFSA is a \$45 million fund jointly established by the Commonwealth and South Australian Governments to assist companies with projects that will have a positive impact on the South Australian economy. The establishment of the fund followed Mitsubishi's announcement to close the Lonsdale engine plant and reduce the Tonsley Park workforce.

A high-level Task Force has been established to provide advice to the Federal Industry Minister, the Hon Ian MacFarlane MP and the South Australian Deputy Premier, the Hon Kevin Foley MP, on the merit of funding applications.

To date eight projects have been supported by the Task Force. The following table summarises the automotive suppliers that have received project approval:

SAFSA Automotive Industry Grants

Company	SAFSA funding	Investment	FTEs
Cubic Pacific	\$0.95m	\$2.97m	35
Alloy Technology International	\$1.81m	\$6.76m	32
Intercast & Forge Pty Ltd	\$2.5m	\$18m	80
PBR Australia Ltd	\$1.5m	\$18m	40
Totals	\$6.76m	\$45.73m	187

- **Cubic Pacific** - a first tier supplier to Holden has established a print decorating line in its new painting facility in Edinburgh Park using licensed technology from Japan. With an investment of \$2.97 million, 35 additional new full-time equivalent positions have been created. This project received approval for \$954,000 from SAFSA.
- **Alloy Technology International** - will establish a foundry in Wingfield with a research and development laboratory for developing light metal manufacturing for the automotive industry. ATI has signed a memorandum of understanding with the University of South Australia's Advanced Manufacturing Centre of Excellence and CSIRO. An investment of \$6.763 million will create 32 new full-time equivalent positions and has received approval for \$1.812 million from SAFSA.
- **Intercast & Forge** – a foundry based in the Wingfield Cast Metals Precinct that will establish a new cast metals moulding line to produce cast iron components for the automotive and rail industries. This will generate 68 new full-time equivalent positions.
- **PBR** - an automotive component manufacturer based in Victoria has leased space to manufacture and assemble brake and suspension components for the Mitsubishi 380. It is also preparing to install new equipment to manufacture other components at Lonsdale for Holden's new Commodore, due to be released in mid-2006.

TERM OF REFERENCE 4: <i>Measures to support skills development, innovation and investment in the industry</i>

South Australian Manufacturing Strategy – *Global Horizons, Local Initiatives*

The State Government's manufacturing strategy, *Global Horizons, Local Initiatives*, was launched in June 2005 and establishes a framework to promote the future growth of the manufacturing sector in South Australia. Key objectives in the framework include:

- maintaining South Australia as the most competitive business location in Australia for the sector as a whole;
- differentiating ourselves internationally as a destination for innovation investment;
- providing attractive career paths for people of all ages;
- ensuring that the sector makes a significant contribution to our export target of \$25 billion by 2013;
- providing infrastructure that is timely and efficient; and
- becoming more sustainable and being recognised for it.

The future of manufacturing, including automotive, in South Australia depends on a shared commitment and understanding about the sector's future by a number of key stakeholders including industry, workers, governments, universities, research providers and the broader community.

Innovation is a priority area for the South Australian Government, evidenced by the recent establishment of a Centre for Innovation.

Centre for Innovation

The South Australian Government has recognised the need to lift the technological intensity of Australia's industrial base and accelerate new product development and commercialisation. In addition, small to medium enterprises (SMEs) must become more adaptive and push towards flexible production systems which are required due to shortening life cycles and the application of new technologies. Manufacturing in particular, is becoming more knowledge intensive and dependent on international supply chains.

In response, the South Australian Government has established a Centre for Innovation to work with existing industries, particularly SMEs, to retain and create jobs, to gain access to new skills and technologies and to develop new products and processes for new and existing markets.

The Centre for Innovation is a unique model in the regional innovation landscape in South Australia, creating partnerships between business, universities and Government to lift industry's performance in terms of innovation and commercialisation.

In brief, the Centre will provide the following services:

- Innovation support to enterprises through a range of advanced tools and techniques;
- Commercialisation support for early stage high potential companies;
- Collaboration with universities and research institutions as well as private sector service agencies;
- Promoting cultural change through awareness and information brokerage.

The Centre will operate in support of both manufacturing and service sector companies targeting enterprises with growth potential or the imperative to adopt innovation as a competitive edge. Government will provide product and specialist resources in the metropolitan and regional areas to tailor programs to the needs of local industry.

Examples of specialist programs to be delivered include supply chain and logistics management, accelerated product development, lean design and lean manufacturing techniques, process engineering, the Techfast Program and a commercialisation advisory service.

The automotive industry will be a major area of focus for the Centre for Innovation.

Edinburgh Parks Automotive Precinct

The State Government has invested over \$24 million to provide land and infrastructure at Edinburgh Parks Automotive Precinct to enable automotive component suppliers to deliver components direct to the GM Holden production line.

The precinct has been modelled on overseas supplier parks and will lead to increased integration between the activities of GM Holden and their suppliers, resulting in reduced logistics and inventory costs.

GM Holden has also contracted for the operation of a Logistics Optimisation Centre within the Park to act as an inwards goods store for imported components.

The component manufacturers are also part of an Automotive Suppliers Group that has been formed by the Northern Adelaide Economic Development Alliance to enable the companies to address issues of common interest such as the road networks, staff training and development, childcare and medical facilities at Edinburgh Parks.

Export of Motors Agreement

The South Australian Government facilitated the development of a landmark Export of Motors Agreement between the Maritime Union of Australia (MUA) and the Transport Workers Union of Australia (TWU).

This was finalised in May 2005 when unions signed a Statement of Intent to exempt the export of motor vehicles manufactured in South Australia from state or national industrial disputation. The Statement also applies to component imports used in the production of export vehicles.

The South Australian Government has supported the initiative along with automotive manufacturing and logistics companies. The Statement differentiates South Australia from other states and countries, further promoting the State's positive industrial relations environment.

SA High Level Automotive Task Force

The South Australian Government is currently seeking interest from the State's automotive industry in developing clear actions to improve the international competitiveness of the industry. A proposal to establish a High-Level Automotive Industry Working Group, to be chaired independently by a person with significant industry experience, is being discussed with vehicle manufacturers, suppliers, other manufacturers and unions.

The particular areas of focus for the SA High Level Automotive Working Group are likely to include:

- increasing the uptake of innovation in business practices, processes and new technologies;
- expanding Australian automotive involvement in global research, design and development;
- developing export opportunities;
- identifying skills shortages and workforce development needs.

Automotive Co-operative Research Centre

The University of South Australia is the South Australian node of the newly formed Co-operative Research Centre (CRC) for Advanced Automotive Engineering. The South Australian node is investigating the feasibility of a lightweight, energy efficient, low emissions vehicle. If feasibility is validated the formation of a consortium to commercialise the product may be pursued.

Cross Skilling / Up-Skilling

Labour adjustment measures have demonstrated that realignment processes may include up-skilling and cross skilling for the remaining workers, due to skills gaps created by the exiting workforce. The South Australian Government has provided financial support for such activities at both Mitsubishi and ION Ltd as follows:

- Mitsubishi developed and delivered a course in designing, negotiating and managing service level agreements for its first and second tier suppliers to facilitate its new purchase and supply arrangements for the Mitsubishi 380 model.
- To retain workers at Ion Ltd, the South Australian Government funded specific recognition of skills processes as part of the re-skilling of workers for production activities that would remain in the factory.

As previously noted, the South Australian Government recently launched the *SA Manufacturing Up-Skilling Program* to support manufacturers up-skill existing workers in the areas of advanced technical skills, lean manufacturing, quality management, project management, virtual manufacturing and design.

A SUSTAINABLE FUTURE

While implementing cost-down and waste reduction strategies are an important short-term source of competitive advantage for the automotive industry, long-term sustainability is likely to involve implementation of a broader range of strategies such as:

- Developing next generation motor vehicles and components for world markets by expanding Australian automotive involvement in global research, product development and design and leveraging Australia's capacity for highly efficient low scale production;
- Building supplier capability through innovation focussed on value-adding technologies, product and process improvement, developing and commercialising intellectual property developed locally and overseas;
- Increasing supplier production volumes through export development.
- Intensifying research and development efforts in relation to new materials, alternative fuels and intelligent transport systems that focus on passenger safety and comfort.

The South Australian Government has already committed to the development and implementation of a Supplier Improvement Program in partnership with the component manufacturing industry.

The establishment of the national Automotive Industry Strategic Group may provide a timely opportunity to pursue this initiative on a national basis.

While the terms of reference for the inquiry do not address matters of international trade or financial assistance provided by the Automotive Competitiveness and Investments Scheme (ACIS) scheme, the following comments are made.

The South Australian Government supports the continued operation of the ACIS scheme to transition the industry to a lower tariff environment. To promote a sustainable future for the industry will however require increased efforts to intensify research and development in areas such as new materials, alternative fuel sources and intelligent transport systems, which could be facilitated through amendments to the ACIS and R&D Tax Concession schemes. At present, the Australian automotive industry does not receive any financial support for research and development undertaken in Australia where the intellectual property owner is based overseas. The eligibility requirements for the R&D Tax Concession and ACIS scheme should be amended to enable research and product development to occur in Australia for intellectual property that is not owned in Australia.

With respect to international trade, the South Australian Government believes the Commonwealth Government has an important role to ensure the Australian automotive industry is adequately accounted for in future international trade negotiations in the areas of intellectual property and transparency of financial incentives and general business practices.

RECOMMENDATIONS

Recommendation 1

A sustainable automotive component manufacturing industry will be dependant on suppliers investing in technical capability development. Governments can contribute to the future competitiveness of the industry by supporting programs that assist automotive suppliers in developing and enhancing these capabilities.

It is therefore recommended that the Commonwealth Government resource a national program to develop supplier capability, including in the tier two and three levels, through lean manufacturing, new product development and process improvement.

Recommendation 2

Improving industry competitiveness will depend on the development of a highly skilled workforce, particularly in areas such as advanced trades and professional engineering.

It is therefore recommended that the Commonwealth Government increase resources for both the up-skilling of existing workers in the automotive industry at post-trade, technician and professional engineering levels in addition to increasing funds for engineering places within the university system.

Recommendation 3

The Automotive Competitiveness and Investments Scheme has been designed to transition the automotive industry to a lower tariff environment. A sustainable future for the industry must however involve increased efforts to intensify research and development in areas such as new materials, alternative fuel sources and intelligent transport systems. This could be facilitated through amendments to the ACIS and R&D Tax Concession schemes which currently provide no financial support for research and development undertaken in Australia where the intellectual property owner is based overseas.

It is therefore recommended that the eligibility requirements for the R&D Tax Concession and ACIS scheme be amended to enable research and product development to occur in Australia for intellectual property that is not owned in Australia.

Recommendation 4

The South Australian and Commonwealth Governments have successfully implemented labour adjustment initiatives over the past eighteen months in the automotive industry to assist workers with skills assessment, accelerated

training and skills development for new automotive and non-automotive employment opportunities.

It is therefore recommended that the Commonwealth Government be ready to implement, in partnership with State Governments, similar programs should further industry rationalisation occur.

Recommendation 5

The Australian automotive industry faces external challenges in many markets through a lack of intellectual property protection. In addition, the industry competes against subsidisation of comparable industries in other countries which can distort fair market access.

It is therefore recommended that the Commonwealth Government ensure the Australian automotive industry is adequately accounted for in future international trade negotiations in areas of intellectual property, transparency of foreign country financial incentives and general business practices.