



New South Wales

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M0503112

The Secretary
Standing Committee on Employment,
Workplace Relations and Workforce Participation
House of Representatives
CANBERRA ACT 2600

Dear Sir

I refer to the recent letter from Phillip Barresi MP, Chair of the Standing Committee on Employment, Workplace Relations and Workforce Participation of the House of Representatives of the Parliament of Australia, seeking input on the issues raised by the Committee's inquiry into employment in automotive component manufacturing. I welcome the opportunity to contribute to the Committee's deliberations.

In the context of the NSW experience, my comments relate in particular to two of the issues raised in your letter: current and future trends in employment, and the need for effective measures to support innovation in the industry.

Introduction

Automotive component manufacturing and the suppliers to component manufacturers together represent a significant part of the manufacturing base of NSW. The sector is recognised by governments at all levels as a key driver of the manufacturing sector.

The Commonwealth Government's Automotive Action Agenda was announced in 1998 to assist the industry to adjust to the considerable external pressures on its viability. Current industry trends indicate that the measures in the Automotive Competitiveness and Investment Scheme [ACIS], the principal incentive scheme under the Action Agenda, may not be the right ones for 2006. As the Agenda has been funded to 2015, an important opportunity exists to adjust the assistance measures now, to support the industry in securing its future and, with it, the jobs of some 60,000 Australians.

While automotive manufacturing is conducted in Australia by vehicle assemblers based in Victoria and South Australia, the component manufacturers supplying these assemblers, many in NSW, are integral to the creation of competitive local vehicles. Cost-competitive, knowledge and skill-

intensive component supply businesses are in many cases exporters in their own right, using local car assembly as the proving ground for the development of globally competitive products, as well as being suppliers to the car assemblers who exported Australian cars worth around \$3 billion in 2004-05.

NSW's interest in the maintenance of employment in the component sector also arises because of the regional clustering of automotive component production in centres away from major metropolitan areas. The limited alternative employment options for such specialised workers in those regional areas means that the impact of company downsizing and closures is acutely felt in regional economies, which depend on a narrower economic base than metropolitan areas and have fewer alternative job opportunities.

For these reasons NSW supports the Standing Committee's position that there is a need to support the competitiveness of automotive component manufacturing. Firms in this sector merit continued support under the Automotive Action Agenda to adapt to structural change and globalisation through incentives to further invest in productivity improvement and innovation. Proposals to redeploy automotive component skilled jobs to other manufacturing sectors are not, by themselves, adequate responses to the downsizing in the number of component manufacturers that has recently been in evidence, given the economy-wide disadvantages of shrinking capacity in automotive component manufacturing.

Overview of issues impacting the automotive components industry

Challenges facing the sector are well-known, and include:

- Reduced tariff protection for domestic car-making has reduced demand for locally manufactured components;
- Rapidly changing technologies that may be cost-prohibitive to adopt in the absence of demand certainty;
- Historically high value of the Australian dollar, which has dampened export growth and reduced competitiveness against offshore suppliers;
- Strong rises in petrol prices and environmental and energy management policies are reducing the market for six and eight cylinder vehicles in local and overseas markets;
- Global over-supply in vehicle production capacity, and protected automotive industry expansion in emerging economies.

The interplay of these factors has created intense competition in the markets of NSW component manufacturers, leading to some business closures, the consequent loss of jobs and growing concerns over the continued viability of other major firms in the sector.

NSW automotive component industry

Direct employment in automotive component manufacture in the State is reported by the Australian Bureau of Statistics to be 9,400, as at November 2005. However compared to the late 1990s the rate of growth is flat and losses are anticipated in NSW in 2006 from announced company closures.

The industry is important to regional development, with significant employment in Albury [ION] and Taree [Schefenacker], to name only two larger firms.

The sector's importance also arises from its base for technologies that are diffused to other industries, and may otherwise be lost to the country. For example, a high pressure die-casting operation at Prestons in western Sydney sells about 80 per cent of its product to the automotive industry in Victoria and South Australia. The balance of its production includes componentry for the white-goods sector and heat sinks for the electronics industry, where dimensional stability and accuracy are critically important. Without the automotive components work this business is unlikely to continue, as the demand from the other sectors it supplies is inadequate to sustain the capital invested required as technologies change.

NSW has a number of firms that supply inputs such as rubber, glass and steel to finished components assemblies. While these firms are not wholly dependent on the auto sector, the limits on local demand for other applications mean that the downward trend recently apparent in local component manufacture is a threat to many other manufacturing jobs, and to the retention of technological capability.

Another less visible impact of the automotive components industry is the productivity improvements seen in the operations of the supply chain to firms supplying car assemblers, who have faced continuous pressure on unit costs to compete with overseas branches of the same car companies and from other imported vehicles, and have passed this pressure down to second and third tier suppliers.

Since tariffs were first reduced for passenger motor vehicles in the mid 70s, the Australian auto sector has responded with a focus on cost and process-efficiency that has been responsible for the diffusion of many important business and production processes to small and medium firms supplying directly or indirectly to the automotive assemblers. The high-end engineering requirements of the automotive sector and the intense competition for contracts create a ripple effect of continuous improvement in other areas of Australian manufacturing.

NSW Government Actions

The NSW Government, through the Department of State and Regional Development, works with auto component firms to support sustainable growth in the sector. It has been active in supporting productivity improvements, and in assisting firms to adjust to structural changes in global markets, to avoid job and skills losses.

Collaboration with industry organisations such as the Welding Technology Institute of Australia and Austool has seen government resources support targeted advice to firms on the latest in technical and business practices for the manufacturing sector. Technology diffusion groups, lean network activity

and university outreach to industry programs have also benefited manufacturers linked to the auto sector.

As well, the NSW Government has implemented effective measures to assist companies and communities facing closures or downsizing as a result of competition. For example, the Department is currently working closely with ION at Albury to identify a prospective purchaser for the business, to ensure continued employment for its 520 employees. Since Gates Rubber at Nowra announced that operations would cease in July 2006, with the loss of 130 jobs, the Department has been working with agencies and other employers in the region to identify alternative employment for the displaced workers.

These actions are not designed to turn the tide of global competition, and nor is it our policy that uncompetitive businesses should be maintained through the tax base. However, with the economy-wide benefits generated by the manufacture of auto components, it is our view that support should be finetuned to more effectively meet the current and future needs of the industry. In particular, the national strategy for the automotive industry should be adjusted to make it easier for small and medium business in the automotive components sector to access funds already set aside by the Commonwealth for the industry.

State and national action

The NSW Government participated in the recent National Manufacturing Summit, which brought together business, industry bodies, unions, the academic and research sectors and State and Territory Governments to address challenges faced by manufacturing. At its conclusion the Summit called for engagement between government, industry and unions agreed, *inter alia*, to:

- Develop a strategic action plan for manufacturing for Ministers to consider in September 2006
- Establish a national manufacturing forum
- Call an annual meeting of Ministers to drive the agenda, and
- Call on the Commonwealth Government to collaborate with State and Territory Governments on the future of manufacturing.

The Standing Committee should consider how this agenda can be utilised to address its recommendations in relation to the auto components sector.

In October 2005, at the most recent meeting of Ministers responsible for regional development, the Regional Development Council, NSW argued for a national framework to address the Australia-wide decline in regional manufacturing.

As a result of the Regional Development Council's deliberations, NSW will chair an officials group to investigate issues including:

- Better co-ordinated responses to manufacturing closures
- Collaborative programs to improve company competitiveness

- Opportunities to work together to attract new manufacturing investment to regional Australia.

The Standing Committee's input to the Regional Development Council's work in this area would be most useful, given that the result of the inquiry into automotive components is likely to have relevance for many significant regional companies.

Conclusion

The Standing Committee's inquiry is welcomed, coming as it does at a time when the survival of a significant automotive component manufacturing industry appears, from recent announcements, to be at risk. Measures the Committee may recommend, such as tailored approaches for the sector to access international market information, technology acquisition and diffusion, flexible manufacturing processes, and training services, are potentially important to enhancing the industry's competitiveness.

NSW suggests that the most important task for the Committee is to review the approach to assistance for automotive components firms currently available under the Automotive Action Agenda, and to devise more effective ways to ensure the continued presence of competitive automotive component firms and the employment they provide. While it is self-evidently a requirement to find new jobs for displaced skilled workers, the Standing Committee should focus on measures to support investment in innovation in the automotive component industry. With adequate demand for their products, these companies have shown themselves to be efficient and responsible trainers of skilled employees.

The NSW Government would be pleased to help engage firms in the sector in improving the Commonwealth's automotive industry development program so that it responds to the contemporary needs of the component sector.

I look forward to the Committee's report. If you require further information in relation to this submission please contact Mr George Totidis in my office on (02) 9228 3777. Thank you for the opportunity to contribute the Committee's inquiry.

Yours sincerely



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