

VACC Submission to the Review of the Australian Automotive Industry 2008

VICTORIAN AUTOMOBILE CHAMBER OF COMMERCE



Review of the Australian Automotive Industry - VACC submission

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Victorian Automobile Chamber of Commerce (VACC)

VACC is the peak industry body (since 1918) for the Victorian and Tasmanian retail automotive industry – representing 5,500 members across 20 industry sectors and employing over 40,000 Victorians and Tasmanians in the automotive retail, service and repair sector (RS&R).

1. Introduction

The nexus between the manufacturing and RS&R sectors is profound: each is sustained from a common skills pool; each are key components of a competitive, modern economy; and each share a common past and an integrated future.

The same nexus is seen in the specialised component and aftermarket manufacturing sector (of corporates, SMEs and micro-businesses) supplying both motor vehicle producers (MVPs) and the Australian community, and seen in the engineering, design and traditional trade skills fostered by a clever economy with a strong, capable, internationally competitive manufacturing base.

Historically, many of Australia's best-known local automotive manufacturing brands grew from an entrepreneurial RS&R sector – a fact now carried in names such as Holden, Ryco, PBR, Monroe, Bendix, etc., and also in past brands such as Fisher, Flood and Tarrant.

This nexus is supported by Australia's engineering and trade training sector, the incubation of skills and capability and the 'spill-over' effect into other industrial sectors (the mobility of excellence).

The automotive manufacturing sector, being Victoria's largest industrial sector, provides the momentum, critical mass and energy for a broadly diverse, multi-disciplinary, highly technological and innovative industrial base. As such, it is VACC's view that the retention of a competitive automotive manufacturing base, and the retention of Ford, Holden and Toyota plus their myriad component suppliers, is critical to the future of Australia, to Australian industry, and in the best interests of the Australian economy and community.

The task for Government is to provide the policy settings to ensure that Australia retains this key industry of elaborately transformed manufacturing product.

Its future is bound into Australia's future in exports as a smart economy.

"It is self-evident that other Australian manufacturers, from other industry sectors, will find a more ready acceptance within the North American market as a result of the success, and recognised engineering excellence, of the

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Pontiac G8; its success promotes a more-broader recognition of Australian manufacturing and design capability generally,” David Russell, VACC.

Globally, all top ten economies (by GDP) have an indigenous automotive manufacturing sector; no economy has moved into the top ten (by GDP) without the irresistible drive, the sheer weight of momentum and industrial diversity, of an automotive manufacturing sector.

VACC firmly supports the retention of a local automotive manufacturing industry, and commends this Submission – detailing points of discussion with a common relevance to the RS&R and automotive manufacturing sectors - to the Review Panel.

Also attached is VACC’s comprehensive Report of the future of the RS&R sector in Australia¹ for the Panel’s additional information.

¹ Horizon 2015 – Changes and Challenges for the Retail Automotive Sector (2006 VACC/Accenture)

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2. A sustainable industry

THE RETENTION OF A COMPETITIVE AUTOMOTIVE MANUFACTURING BASE IS SUSTAINABLE, DESERVING OF THE SUPPORT OF GOVERNMENT IN R&D AND IN ACCESSING EXPORT MARKETS, CRITICAL TO THE FUTURE WELL-BEING OF AUSTRALIAN INDUSTRY, AND IN THE BEST INTERESTS OF THE AUSTRALIAN ECONOMY AND COMMUNITY.

VACC Recommends:

- The retention of the 10% tariff beyond 2010
- The retention and extension of research and development support, and export assistance and development programs, to the sector
- The retention and support of three local motor vehicle manufacturers (Ford, Holden & Toyota)
- The extension and simplification of qualification processes for export assistance programs for smaller manufacturers and niche automotive suppliers

As niche producers of large rear-drive platforms and larger ‘family’ saloons, utilities and wagons, with globally integrated engineering, design and development centres, and with growing export acceptance despite immediate-term currency difficulties, the industry is sustainable.

While Australian buyers are trending away from indigenous brands, Toyota, Holden and Ford, respectively, hold the top three sales places in the Australian Market².

Arguably, no other automobile manufacturing country consistently produces such dynamically capable, robustly engineered, and relatively inexpensive larger vehicles. Its export success with these vehicles is driven by high value products and lean and efficient (by world standards) development cycles.

Should production move away from larger family vehicles to smaller cars?

While the small car share of the market is rising, there is no evidence that Australian car buyers will buy greater numbers of *locally* built smaller cars (than, say, Commodores or Falcons). While there has been a clear shift in sentiment in the Australian market, the iconic ‘Aussie six’ remains the dominant vehicle of choice for Australian families and, in particular, for regional buyers.

Success will continue to be found in the niche Australian cars currently fill. While exports are the key, it is VACC’s view that the greater development and wider acceptance of LPG has

²VFACTS April 2008

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potential to provide a key competitive advantage (for its low cost and environmental benefits) to local manufacturers in the Australian market. (*Refer Section 5 of this Submission.*)

And while our local industry is relatively small by world standards, it is not unsustainable. Subaru, for instance, produces 590,000 vehicles annually from a variety of platforms. From one platform, Toyota Australia produced 139,000 cars for 2007, while Holden production reached 108,000 vehicles. Excluding commercial vehicles, Australian plants collectively produce more cars than Austria, Sweden, and Argentina, and as many as produced in Taiwan.

(Additionally, the value of exports from Holden's Engine (plant) is approaching \$600million with these engines now found in Alfa Romeo, Saab, Opel, and Isuzu.)

Retaining and growing this vital industry will not be easy. But what is apparent, and underscored by VACC's *Horizon 2015* Report on the future of the motor industry, is that quality niche players are best-placed for the future.

Australia must retain the three local manufacturers; TOYOTA, GMH and FORD if it is maintain the volumes (and, thus, competitiveness) to sustain a critical mass of suppliers.

It is VACC's considered view that, in the context of an Australian dollar that has appreciated 60% against our major trading partners since 2001, retention of the current tariff of 10% beyond 2010 is appropriate.

"Cutting to a 5% tariff, and the eventual elimination of all duties would leave Australia's car market one of the world's least protected. Almost every (vehicle manufacturer) that exports to Australia does so from a protected market." The late Geoff Polites, Auto Industry News, 2001.

Extend and simplify export assistance program qualification processes for smaller manufacturers and niche automotive suppliers

While VACC recognises that the greater focus of the Review rests on the challenges facing MVPs and Tier One and Tier Two component suppliers, it is VACC's view that smaller manufacturers and niche automotive suppliers are commonly overlooked in discussions of Australia's automotive manufacturing future.

VACC recommends:

- That the application and qualification processes for access to Government assistance for R&D and Export Market Development Grants (EMDG) be simplified and broadened to enable easier access by smaller, SME niche manufacturers.

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- That these changes be supported by a thorough marketing program, reaching right through the industry, advising and informing of the range of support and assistance available to them

To support these recommendations and to assist the Review to recognise the particular challenges of SME manufacturing, VACC provides the following case studies and comments from company principals:

Case Study 1. Motec

Richard Bendall is a founding partner of Motec, a designer and supplier of motor racing electronic components for engine management, data logging, instrumentation and related products. Motec employs 34 people with annual sales of approx \$24,000,000 with approx 80% of production exported globally.

Despite attempting to take advantage of Export Marketing Development Grants (EMDG), Richard's experience is that "small manufacturing businesses survive in export despite government assistance, not because of it, due to the great administrative difficulty in making the application. For assistance to be useful, it would have to be far more geared to the needs of very small businesses and needs to be far less administratively demanding."

Case Study 2. Albins Off Road Gear

Albins Off Road Gear employs 40 people in Delacombe, Victoria, in the manufacture of off-road racing transaxles, with sales of \$9.5 million of which over 80% is exported, mainly to the USA.

Albins is a success story for Government assistance to a small niche manufacturer.

Albins founder, Ivan Albins, targeted the USA off-road racing market early in the company's history. Part of this business strategy was to seek government assistance for R&D and export market development.

According to Albins partner, Steven Nicholson, "We were successful in both exporting products and gaining export assistance because of a great deal of support from local people from the Department of Innovation and Regional Development who went out of their way to get the facilitation that was available."

Albins found it was not eligible for R&D grants but intends to restructure the business in future to seek further assistance.

Case Study 3. ARB

ARB Corporation Ltd of Kilsyth, Victoria, is a manufacturer and distributor of 4 wheel drive *automotive* aftermarket components with manufacturing plants in Australia and Thailand employing a total of 770 people, including 600 people in Australia. The ARB product range includes suspension components, bull bars, nudge

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bars, tow bars, differential air lockers, air compressors, canopies, winches and related items with total sales of \$146,000,000 in 2006/07, 15% of which is exported to the USA with another 15% to 80 other countries.

Having been an exporter for 20 years, ARB have previously qualified for grants under the Export Facilitation Scheme (EFS) and Export Market Development Grants (EMDG), but now does not meet the requirements of the current Automotive Competitiveness & Investment Scheme (ACIS).

Kim Elliott, the National Sales Manager, maintains that government assistance was generally helpful 8-10 years ago when developing new export markets, but during the last 5 or so years ARB has had to meet all its own expenses. According to Kim, “The development of new Asian, South American and Eastern European markets is difficult with substantial financial and time costs and done largely without government assistance. It would be beneficial to ARB if future automotive export incentive schemes were to allow ARB to recoup some of these expenses.”

ARB continues to receive research and development grants under the Research & Development Grant Scheme.

Case Study 4. OKA

OKA / Reymer Pty Ltd is a West Australian truck manufacturer of light 4 wheel drive vehicles for mining and recreation applications. OKA would normally employ 46 people and build 100 vehicles per year, of which 20% would be exported.

Currently faced with overwhelming problems with the new Australian Design Rule compliance requirements for diesel engines, Managing Director, Arthur Gold is dismissive of many previous attempts to apply for Export Facilitation Grants. Arthur maintains that “the funding application cost as much as the grant would have been and was no help”. OKA is currently receiving vehicle by vehicle export credits which are very helpful, but would prefer that export assistance support was made simpler to be more useful to small businesses such as OKA.

Case Study 5. Hot Rod component manufacturing in Castlemaine

Hot Rodding is a \$100,000,000 industry in Australia, typified by small niche manufacturers servicing a thriving local market and growing export opportunity. Castlemaine in regional Victoria is a recognised centre for Hot Rodding, turning over approximately \$30,000,000 per annum in specialised Hot Rod components such as low volume steel and fibreglass body components, chassis and suspension parts, electrical, upholstery, and engine and transmission development.

Exports from Castlemaine, mainly to the USA, total around 7% of total production, amounting to approximately \$2,000,000 in value.

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“This market is growing rapidly but manufacturers are unable to access assistance from Government because they are too small to be able to put the effort into the complex grant application processes. The US hot rod market is approximately 13 times the size of the Australian market; there is a great opportunity for small Australian manufacturers to be given assistance in developing their business to capitalise on export opportunities there. There are some products that are revolutionary and will take the US market by storm if properly developed and marketed.” Larry O’Toole, principal of Graffiti Publications, a specialist publisher of magazines and books to the Hot Rod lobby.

Local manufacturing in the sector includes: Worthington (steel hot rod bodies); Diecrest Engineering; Soldatis Electrical components; Duece Customs; Rod City Repros

The Australian down-stream retail automotive sector is a key contributor to the Australian economy. Australia wide, retail automotive turnover is estimated at \$100.7 billion, or 58% of total automotive sector turnover³.

Retail employment exceeds manufacturing automotive employment. Nationally⁴ 219,219 are employed in the retail automotive sector compared to 65,540 in manufacturing. Retail employment represents 70% of total automotive industry employment. Therefore a profitable retail sector is crucial to sustaining the industry as a whole.

³ 2006 ABS cat 8155.0 Australian Industry - experimental estimates

⁴ Australia source ABS census 2006 cat 2068.0

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3. The LCT threshold

VACC IS OPPOSED TO THE SELECTIVE AND DISCRIMINATORY TAX ON LUXURY CARS. IN VACC'S VIEW, THE LUXURY CAR TAX DISTORTS THE MARKET AND PROVIDES A PARTICULAR DISINCENTIVE TO BUYERS OF VOLUME 'TOP-END' LOCALLY PRODUCED MODELS.

VACC Recommends:

- The abolition of the Luxury Car Tax (LCT)
- Or move the tax threshold to a new level of \$75,000 (to shift it away from volume-selling top-end luxury local models)

The LCT is a remnant of a time when sales taxes and other inequities existed, taxing products at different rates without sound policy objectives.

The Luxury Tax on cars priced over \$57,123 is to rise from 25% to 33% on the amount over the threshold, in addition to the 10% GST. In VACC's view, focusing on cars priced over \$57,123 is inequitable. No other product is taxed in this way.

Other high-priced consumer goods are not taxed as luxuries. International holidays, expensive homes, expensive restaurant meals and holiday homes are not taxed as luxuries. Other imported goods such as furniture, expensive artworks, Plasma televisions, jewellery, watches, and antiques are similarly not taxed as luxuries.

By increasing the Luxury tax, the Rudd Government is pre-empting the findings of the Brack's inquiry, and without industry consultation. If LCT is to be increased, in VACC's view, its consideration should form part of the Brack's Review process.

State stamp duty already taxes luxury cars at a higher rate than lower priced cars; therefore this is a double dip. An extra tax on higher priced cars is already collected by the States, some up to 6.5%.

Additionally, increased taxes on the 'best featured' vehicles cars will slow introduction of the safest cars onto the roads.

An increased LCT is another form of barrier to entry for imports and is likely to be seen by importers and our trading partners in other countries as a means of applying a non-tariff trade barrier.

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4. The affect of State and Territory taxes

STATE AND TERRITORY TAX BURDENS ADVERSELY AFFECT MOTOR VEHICLE AND COMPONENT PRODUCTION COSTS, AND, IN ADDING TO THE STICKER PRICE OF NEW VEHICLES, ACT AS A DISINCENTIVE TO SALE.

VACC Recommends:

- That stamp duty be repealed progressively to reduce government reliance on revenue derived directly from the sale of vehicles.
- The elimination of FBT from vehicles used by car dealer employees.

The cost of a vehicle is significantly increased by the application of State stamp duties and registration fees. GST is charged on the total value including State taxes; this is a double dip and a complexity that must be removed.

Payroll taxes, Fire service levies, land taxes, and WorkCover premiums are also applied by State Governments and impact on all levels of the automotive industry. Collections from these taxes have been rising while Governments continue to operate with surplus budgets. Retail Automotive businesses are burdened by these taxes and the cost of compliance.

Furthermore, stamp duties on vehicles should be removed as the GST is a more important source of revenue flow to the States. Stamp duty and Luxury Car Taxes add cost and distort the value of vehicles above the \$57,123 threshold.

Additionally, in VACC's view, the application of FBT to vehicles used by car dealer employees is effectively a tax on car dealer stock, and is inequitable. These vehicles are used by employees as 'demonstrators' to prospective buyers and should not be taxed as a private-use company vehicle.

Also, complex record keeping and pooling arrangements apply to the FBT on these vehicles. VACC recommends FBT on dealer stock be eliminated. It is effectively a tax on doing business by increasing the cost of holding stock.

5. LPG and the Green Car Innovation Fund

LPG IS A LOW-COST INDIGENOUS FUEL IN PLENTIFUL SUPPLY, ENVIRONMENTALLY-FRIENDLY (IN COMPARISON TO PETROL, ETHANOL AND DIESEL) AND EMINENTLY SUITED TO THE LARGER FAMILY CARS PRODUCED BY AUSTRALIA'S MOTOR VEHICLE MANUFACTURERS. AS SUCH, VACC RECOMMENDS IT RECEIVE THE STRONGEST SUPPORT OF GOVERNMENT THROUGH THE GREEN CAR INNOVATION FUND TO BETTER ASSIST ITS INTEGRATION INTO AUSTRALIAN MOTOR VEHICLE DESIGN AND MANUFACTURE.

VACC recommends:

- The broader adoption of LPG, and the integration of LPG fuel systems into vehicle design and manufacture, by motor vehicle manufacturers
- Increased manufacturing R&D incentive through targeted assistance programs, and the Green Car Innovation Fund, to encourage the wider adoption of LPG technologies by motor vehicle manufacturers for vehicles produced for Australian and New Zealand markets (and for freight vehicles to run on locally-produced compressed natural gas (CNG)).
- Stronger support from Government for the marketing of LPG, as the best alternative fuel for Australia, to Australian motorists
- Retention, at a higher rebate, of the LPG subsidy to new vehicle purchasers of LPG vehicles, and to aftermarket fitment.
- Development of higher tech aftermarket LPG systems, with additional R&D to speed development on the modification of ECUs to ensure that there are no unintended consequences on vehicle safety systems (such as ESP and ABS systems) when converting to LPG.
- Research to develop emission-tested kits for lower volume vehicles.

LPG – a mature technology for energy security and competitive advantage

In VACC's view, LPG makes sense as the home-grown fuel for Australia's vehicle manufacturing sector.

The price advantage of LPG over petrol and diesel (being around half the ULP pump price), means that the larger family saloons, utes, wagons and AWD vehicles produced by Australian vehicle manufacturers, when running on LPG, cost as little to run as a small imported diesel hatchback.

In VACC's view, because of outmoded negative perceptions of LPG persisting among motorists, manufacturers have not sought to fully utilise the market advantage wider acceptance of LPG will provide, nor to design specialised systems to seamlessly integrate with vehicle design, nor to actively and effectively promote the advantages of their LPG-fuelled vehicles to consumers or the fleet sector.

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Greater research, development and design support of LPG is necessary if it is to be seen as a seamless alternative to petrol, such as diesel has quickly become.

In VACC's view, LPG makes sense as *the* alternative fuel for Australia. Not only is LPG a 'cleaner fuel' (than petrol, ethanol and diesel) from an environmental perspective, but, as a locally-produced product in plentiful supply, it can play an important role in import substitution at a time when Australia's balance of payments problems are exacerbated by growing petrol and diesel imports.

As a mature product supported by proven, highly efficient technologies, LPG can offer solid environmental and economic benefits, and proven market share within an innovation strategy for energy security.

Australia produces around 3 million tonnes of LPG per annum. While some is exported, nearly two thirds of it is used domestically for auto LPG. Australia's production of LPG is projected to grow to 5 million tonnes by 2020 with supply outstripping demand until 2030.

The benefits of LPG are numerous:

LPG - Fuel attributes

- Most vehicles operating on LPG are dual-fuel vehicles capable of using both LPG or petrol
- LPG fuel systems are sealed and evaporative losses are negligible.
- Is easily transported and offers 'stand-alone' storage capability with simple and self contained LPG dispensing facilities, and minimal support infrastructure.
- LPG vehicles do not require special catalysts.
- Relative to other fuels, increases in future demand for LPG can be easily satisfied from both natural gas fields and oil refinery sources.
- LPG has negligible toxic components, low cold-start emissions (i.e. low green house gas effects) due to its gaseous state and lower peak pressure during combustion, which generally reduces noise and improves durability; noise levels can be less than 50% of equivalent diesel engines.
- LPG has lower particulate emissions, low levels of sulphur dioxide emissions which are the main cause of acid rain and lower noise levels relative to diesel, making it suitable for urban areas.

LPG – Economic benefits

Wider acceptance of LPG across the Australian vehicle fleet, and a commensurate reduction in Australia's reliance on imported petrol and diesel, will provide additional energy security as well as balance-of-trade benefits.

For car owners, at around half the pump price of petrol and diesel (around 65-70cpl price advantage over petrol and diesel), LPG is particularly cost-effective. For motorists, this translates to savings on fuel bills of around \$1500-\$1800 per year for drivers of a modern fuel-efficient 'family six' doing average kilometres (of 20,000 kilometres per annum).

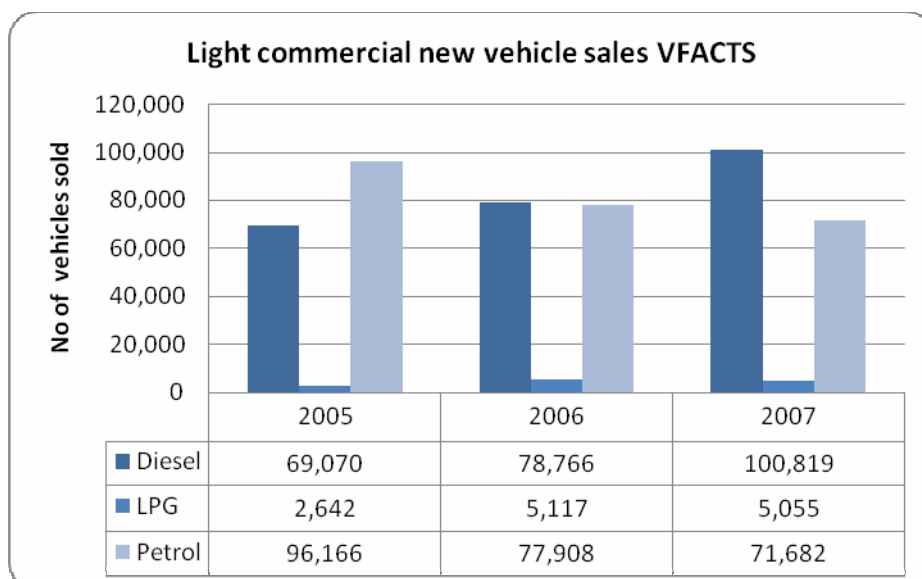
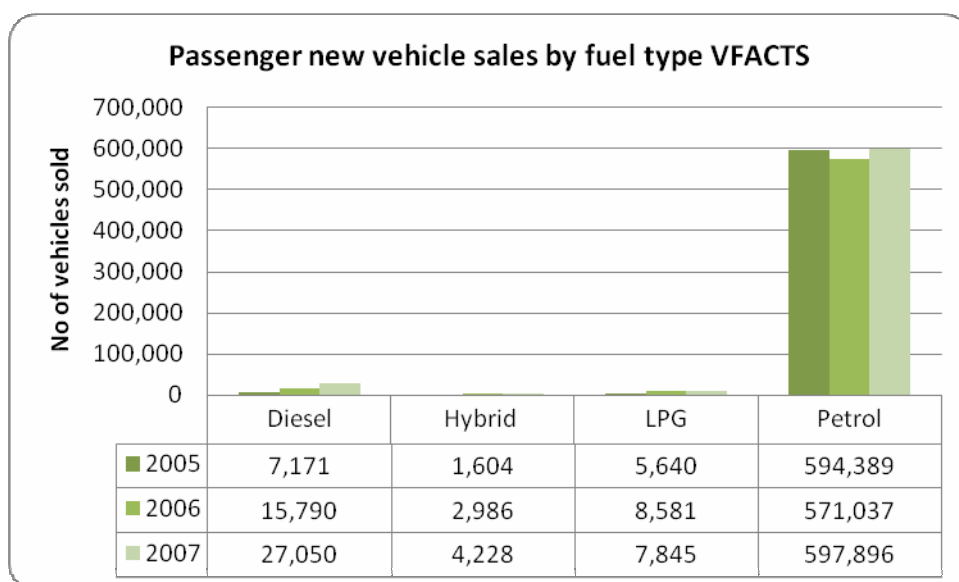
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Of course, the net economic gains of LPG will be compromised should current Federal subsidies be dropped or scaled down in the future.

Like other specialised industry sectors, the LPG industry has a number of niche manufacturers of automotive components (ACPs) supplying the sector and consumers. These manufacturers operate in alternative fuels component manufacture and conversion, and are not dependent on the three major Motor Vehicle Producers (MVPs). As such, they are self-sustaining and not subject to the market influences and fluctuations affecting vehicle manufacturers. Since LPG is a frontier alternative fuel with sustainable industry growth, these manufacturers should not be neglected by subsequent Review Findings.

Regrettably, LPG availability and its competitiveness as a cheaper fuel will be compromised with the introduction of a staggered excise in 2011.

Since the LPG vehicle scheme was introduced in 2006, around 120,000 motorists have invested in LPG run vehicles. Sales of new LPG passenger vehicles jumped 52% from 2005 to 2006 while sales of new light commercial vehicles over the same time increased 93.6%



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Most of the LPG market is found in Victoria which has around half the total Australian Market.

The Australian automotive LPG conversion industry is one of the largest in the world behind South Korea (1.8 million vehicles), Poland (1.4 million), Turkey (1.2 million), and Italy (1.1 million).

Australia's automotive LPG conversion industry has developed new LPG systems that meet not only required Euro 3 emission levels and, in many instances, the stringent Euro 4 levels, despite a lack of emission-testing facilities in Victoria (where most LPG systems developers are based). Consequently, Victoria's reputation in LPG conversion is world class.

Without suitable investment, LPG systems for the V6 Camry and Avalon vehicles may not have been developed. LPG's high quality technology has also meant a lucrative export market. For example, 20 out of 30 LPG systems approved by the Environment Protection Agency in the US in 2006 were developed in Australia, with a further six systems under approval.

Currently LPG conversions are carried out by over 1000 businesses Australia-wide and combined with equipment suppliers have over 4,000 employees generating around \$350 million per annum in the retro fit LPG sector.

There are over 600 accredited LPG conversion businesses in Victoria alone. Nationally, on average, nearly 6000 conversions are being carried out per month. Furthermore, total Australian sales of LPG during the financial year 2006-07 were 4,038 ML of which 2,335 ML (or 58 per cent) was for automotive use.

LPG technology uptake, according to *Horizon 2015* forecasts, is expected to grow.

A viable LPG market will depend upon the following strategies as advised by engineer, Dr Laurie Sparke⁵:

- Due to the size of the market and uptake of LPG in Australia, there is a need for manufacturing R&D to develop engines that run solely on Australian produced LPG. Ford is the only car maker to provide such a model and production is predicted to end in 2010.
- Increased attention to the development of freight vehicles to run on locally-produced compressed natural gas (CNG).

R&D is also necessary to:

- Develop emission tested kits for lower volume vehicles, not only for competitive and comparative advantage in the global market, but especially to meet the demands of the rise of increasingly sophisticated engines. The development of a four cylinder LPG Toyota Camry has responded to increasing public requests for small vehicle conversion.
- While the Australian industry is at the international forefront of technological development of LPG systems, additional research is needed to speed development on

⁵ Stanford, J Martin T March 2008 'LPG the answer to an inconvenient truth'

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the modification of ECUs to ensure that there are no unintended consequences on vehicle safety systems (such as ESP and ABS systems) when converting to LPG.

6. One issue requiring greater collaboration

THE ABILITY OF THE CRASH REPAIR SECTOR TO COMPETENTLY REPAIR VEHICLES TO MANUFACTURERS' SPECIFICATIONS IS COMPROMISED DUE TO ITS INABILITY TO GAIN SUFFICIENT ACCESS TO TECHNICAL REPAIR AND SERVICE INFORMATION, THUS POTENTIALLY COMPROMISING THE INTEGRITY OF VEHICLES IN USE BY AUSTRALIAN MOTORISTS. AS NEW VEHICLE TECHNOLOGIES AND CONSTRUCTION MATERIALS BECOME INCREASINGLY COMPLEX, THIS ISSUE IS INCREASINGLY CRITICAL. THE CURRENT PROLIFERATION OF MODEL CHOICE CANNOT BE SUSTAINED UNLESS VEHICLES CAN BE REPAIRED COMPETENTLY AND WITHOUT SAFETY RISK TO MOTORISTS.

VACC Recommends:

- That repair and service information be provided to the Smash Repair Industry by Vehicle Manufacturers and importers/distributors in a readily accessible manner and at reasonable cost

Technical information access

New technologies enable vehicle manufacturers to build more efficient, safe, and environmentally-friendly cars.

However, the competitiveness of Australia's crash repair sector is being compromised by inadequate access to technical repair information. As new vehicle technology becomes increasingly complex, commonly utilising high-tech metals in construction, space-age bonding agents, and with sophisticated electronics controlling vehicle behaviour and SRS systems, the necessity for accurate technical repair information has become increasingly critical. For the Smash Repair Sector, and the RS&R sector generally, gaining access to the required information, is problematic. The growing range of new vehicle models and model choice exacerbates the problems for this sector.

Moreover, the Motor Vehicle Insurance and Repair Industry Code of Conduct Clause 1.4(a)(i) spells out the obligation for Crash Repairers and Insurers to repair vehicles in accordance with manufacturers' specifications. (The Code is mandatory in NSW, voluntary in other States.)

In addition, in accordance with Clause 1.4(a)(ii) of the Code, Smash Repairers are also required to meet various State Regulations. (For example, in Victoria, under VSR25.)

For the crash repair sector, the potential exists for consumers to be exposed to risk through the inadvertent application of incorrect body repair procedures, bonding agents, or the incorrect reinstatement of electronics and SRS systems.

VACC research has found even basic technical information is difficult to obtain from many vehicle manufacturers.

One recent VACC survey found:

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- The need for service, repair and maintenance information is significant; almost half of those surveyed (47%) require information on a daily basis.
- 36% of respondents experience consistent difficulty locating essential service/repair or maintenance information. Of these, 39% need accurate, current information on specific models while another 28% seek European vehicle specification data
- 29% of respondents report seeking service or repair information that is completely unobtainable
- 72% of those surveyed consider computer-based diagnostic tools as the most important tools for their business

Hypothetically, even if information were readily available, amendments to the Millennium 2000 Copyright Act relating to the End User Licensing Agreements (EULA) Terms and Conditions prohibits printing or faxing content originating from CD or internet hosted information sites. While accessing content from CDs and sites that do not specify EULA terms and conditions is allowed, these instances are rare, with most global vehicle manufacturers using EULA terms.

Much of the online service and repair information is unavailable to repairers outside a manufacturer's network. Also, online technical information sites are increasingly subscription-based resources and typically priced beyond the reach of smaller repairers.

In September 2007, the introduction of a new regulation in the European Union, (EC) No1400/2002, outlined a number of measures to support repairer access to technical information and repair work. For the information and consideration of the Review Panel, the key points of these measures are as follows:

Essentially, (EC) No 1400/2002:

- Outlines the types of agreements available to firms based on the commercial relationship at each point of the supply chain, and specific industry practices.
- Encourages new vehicle distribution methods and better access to quality after sales servicing at competitive prices.
- Lets dealers choose whether to repair vehicles themselves or subcontract to another member of the manufacturing network. This can be a dealer who also conducts repair work or a sole repair business. Independent repairers and car dealers can also be authorised repairers without having to sell new cars **as long as quality standards are met.**
- **Emphasises non discriminatory information access from dealers to meet independent repairers' needs. (Article 4[2])**
- Stops authorised repairers from refusing to supply original spare parts to independent repairers
- Lets repairers find and use quality spare parts from other sources apart from the carmaker **with the exception of certain repairs such as a direct manufacturer contracts.**

Source: http://ec.europa.eu/comm/competition/sectors/motor_vehicles/legislation/legislation.html

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Attachment, Appendix 3: The Motor Vehicle Insurance and Repair Industry Code of Conduct.

7. The impact of ELV targets

THE AUTOMOTIVE MANUFACTURING (AND IMPORT) SECTOR HAS A CLEAR ENVIRONMENTAL, SOCIAL AND ECONOMIC ROLE TO PROTECT THE AUSTRALIAN ENVIRONMENT AND COMMUNITY WITH RESPONSIBLE ELV TARGETS. HOWEVER, THIS SHOULD BE INTEGRATED WITHIN COMPLETE NATIONAL LIFE-CYCLE POLICY AND PRODUCT-STEWARDSHIP MEASURES.

Around 600,000 End-of-Life Vehicles (ELVs) are retired from Australian roads each year. This is likely to increase to 750,000 by 2010. Of these, between 65% and 75% (by weight) are recycled.

It is VACC's view, that, while a focus on improved fuel economy and reduction in vehicle body-weight and emissions is important, Australian manufacturers and importers need to improve recycling performance of the vehicles they sell.

Two main categories of potential ELV environmental impacts are of concern:

- a. Pollution; such as land-filling from automotive shredder residue (ASR); poor environmental practices; and abandoned (dumped) vehicles;
- b. Resource loss through a failure to maximise ELV re-use and materials recycling.

VACC Recommends:

- A complete life-cycle approach for waste-reduction and resource use in the automotive sector, extended on a national scale;
- Co-regulatory product stewardship measures, i.e. levies, recycling funds, extended producer responsibilities that incorporate registration of recycling processes and 'take back' initiatives;
- Waste-reduction quality standards for ELVs, e.g. recycle 85% of ELVs by weight;
- That a national policy on ELVs be developed by the Australian Government and automotive industry stakeholders;
- Government support of the appropriate use of recycled automotive parts;
- Development of industry ELV statistics (vehicle de-registrations) through funding research to identify, measure and control the waste stream, and the development of deregistration controls;
- That vehicle importers, manufacturers and exporters (including those exporting to third world economies) be encouraged to support Australian ELV processes;
- That vehicle design integrates de-pollution/dismantling/recycling/re-use;
- Improved access to manufacturer vehicle technical data when dismantling/processing ELVs (for efficient handling, as well as managing hazards such as fluids, power, airbags, etc.);
- The reduction in ELV waste to landfill.

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8. Strategies to meet current and future skills demands

VACC BELIEVES SKILLS SHORTAGES WILL REMAIN A PROBLEM FOR THE INDUSTRY WITHOUT SIGNIFICANT INFRASTRUCTURE INVESTMENT IN TAFE TRAINING FACILITIES IN BOTH METROPOLITAN AND REGIONAL LOCATIONS, AND SIGNIFICANT ONGOING INVESTMENT IN EQUIPMENT AND 'LIVE WORK' TRAINING TECHNOLOGIES.

VACC ALSO BELIEVES NEGATIVE CAREER PERCEPTIONS CONTINUE TO PLAGUE THE AUTOMOTIVE SECTOR, FUELED, IN PART, BY LACK OF KNOWLEDGE WITHIN SCHOOLS, AND AMONG PARENTS, OF CAREER PATHS AND OPPORTUNITES WITHIN THE SECTOR.

VACC recommends:

- Increased levels of funding and Government support for TAFE training infrastructure and training equipment technologies to bring all automotive TAFE training facilities to the standard exemplified by the Automotive Centre of Excellence, Docklands;
- Additional training facilities in regional centres;
- Additional support to TAFE and training institutions to assist teaching staff to upgrade teaching skills for modern, complex automotive technologies;
- Increased marketing assistance to counter negative perceptions of careers in the industry and to increase the knowledge and understanding of the sector by Careers Advisors, parents and students;
- Better assessment processes for monitoring student skill levels (through VET and VCAL programs) to ensure basic skill levels are attained;
- Better monitoring of job-matching processes to ensure candidates are allocated to courses suited to their interests;
- Extension of eligibility for the new government wage subsidy for mid-career apprentices to extend to all apprentices over the age of 21;
- A fuel and accommodation subsidy for students in regional areas travelling long distances to study;
- Establishing an industry skills council to offer specialist advice for automotive skills training.

Training facilities

In VACC's view it is simply fact that many automotive TAFE training facilities are inadequate for a modern, innovative, technologically complex industry.

In many of these training facilities, students train on outmoded or obsolete equipment and have little access to modern diagnosis tools, maintenance and repair procedures.

Too many of these facilities also do not match the standards of a modern automotive workshop. At issue, in VACC's view, has been a reluctance by Governments over many years to adequately resource and equip trades training facilities, to provide appropriate levels

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of ‘consumables’ funding, and to build the specialised facilities required for a dynamic, modern industry.

Regrettably, due to the very large investments required, and the time-lag between investment and outcomes, the automotive sector is now suffering the effect of decades of systematic underfunding. Turning this around to produce an effect on skills shortages will not be easy.

Furthermore, there is evidence that teaching knowledge and skills have not universally kept pace with the pace of technological change in the industry.

These matters require the attention of Government if Australia is to retain an internationally competitive industry and RS&R sector.

Career Perceptions

In VACC’s view, skills shortages are, and will continue to be, an issue for the automotive industry (as identified by *Horizon 2015, VACC, 2006*).

With an ageing Australian workforce, and the emergence of new and complex technologies in vehicle design and operation, finding solutions to the skills challenge is a matter of growing urgency for both the manufacturing and RS&R sectors.

Also influencing skill shortages are low numbers of apprentices entering automotive industry sectors.

These shortages are caused by ‘poor career perception, poor wages and conditions, and retention problems with experienced staff. Retention rates remain an issue with over 40% of the workforce leaving the industry five years after joining.’^[1]

The industry will require the attention and direct assistance of Government if it is to counter negative perceptions of careers in the automotive sector. It cannot do this alone.

Table 6 Training rates of trades apprentices and trainees^(a), by selected occupation^(b), 1996–2006

Year	Occupation (ASCO) group								Total trades ^(c)
	Metal trades ^(c)	Automotive trades	Electrical & electronics trades	Construction trades	Food trades	Printing trades	Wood & textile trades ^(c)	Hairdressers	
Apprentices and trainees in-training ^(d) ('000)									
1996	20.9	23.8	15.4	24.8	16.2	3.2	5.2	9.6	125.4
1997	20.9	24.2	15.4	24.0	16.3	3.0	5.2	9.3	124.3
1998	20.3	23.7	15.6	24.4	18.3	2.5	5.2	9.3	124.8
1999	18.8	23.6	16.4	27.4	17.9	2.2	5.8	9.8	128.6
2000	16.6	23.1	16.6	29.0	18.4	2.2	5.7	10.0	129.3
2001	15.6	22.8	16.7	29.0	19.0	2.0	5.3	10.1	129.1
2002	15.8	23.1	17.5	31.4	19.4	1.9	5.5	10.5	134.2
2003	17.1	24.9	18.9	35.0	19.5	1.9	5.4	11.0	142.6
2004	19.1	26.8	22.3	40.4	21.3	1.8	5.4	12.0	158.6
2005	22.2	28.1	26.4	45.4	22.7	1.8	5.6	12.6	174.9
2006	23.8	27.9	29.6	47.9	22.8	1.6	5.4	12.6	181.2

^[1] VACC 2006 Horizon 2015

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9. An Industry Skills Council for a changing auto skills sector

INCREASING SKILLS SHORTAGES IN THE AUTOMOTIVE SECTOR, AND THE PARTICULAR TRAINING NEEDS OF THE INDUSTRY, NECESSITATE THE CREATION/CONTINUANCE OF AN INDUSTRY-SPECIFIC SKILLS COUNCIL FOR THE SECTOR.

VACC Recommends:

- An industry-specific Skills Council for the automotive industry.

In VACC's view, an Industry Skills Council, with separate governance and advisory expertise, will ensure specialist skills training needs are met to drive a sustainable future for the Australian Automotive Industry.

This is a matter of increasing importance in view of growing skills shortages across all automotive sectors, compounded by new advances in vehicle technology, an ageing workforce, and insufficient numbers entering the industry.

Its role will be to negotiate industry-specific training requirements for the Motor Vehicle Manufacturing and Repair, Services and Retail sector of the Automotive Industry. Given the size of the automotive industry, its diverse but highly specific training requirements, and the expanding vehicle model choice and technologies, its needs cannot be adequately addressed via the recommended alliances with the Manufacturing industry Skills Council or the Transport and Logistics Industry Skills Council.

Attached: Appendix 4: VACC Submission to the Victorian Parliament Education and Training Committee *Inquiry into Geographical Differences in the rate in which Victorian Students Participate in Higher Education.*

10. Summary of VACC Recommendations

A SUSTAINABLE INDUSTRY

VACC Recommends:

- The retention of the 10% tariff beyond 2010
- The retention and extension of research and development support, and export assistance and development programs, to the sector
- The retention of three local motor vehicle manufacturers (Ford, Holden & Toyota)
- The extension and simplification of qualification processes for export assistance programs for smaller manufacturers and niche automotive suppliers

THE LCT THRESHOLD

VACC Recommends:

- The abolition of the Luxury Car Tax (LCT)
- Or move the tax threshold to a new level of \$75,000 (to shift it away from volume-selling top-end luxury local models)

THE AFFECT OF STATE AND TERRITORY TAXES

VACC Recommends:

- That stamp duty be repealed progressively to reduce government reliance on revenue derived directly from the sale of vehicles.
- The elimination of FBT from vehicles used by car dealer employees.

LPG AND THE GREEN CAR INNOVATION FUND

VACC Recommends:

- The broader adoption of LPG, and the integration of LPG fuel systems into vehicle design and manufacture, by motor vehicle manufacturers
- Increased manufacturing R&D incentive through targeted assistance programs, and the Green Car Innovation Fund, to encourage the wider adoption of LPG technologies by motor vehicle manufacturers for vehicles produced for Australian and New Zealand markets (and for freight vehicles to run on locally-produced compressed natural gas (CNG)).
- Stronger support from Government for the marketing of LPG, as the best alternative fuel for Australia, to Australian motorists
- Retention, at a higher rebate, of the LPG subsidy to new vehicle purchasers of LPG vehicles, and to aftermarket fitment.
- Development of higher tech aftermarket LPG systems, with additional R&D to speed development on the modification of ECUs to ensure that there are no

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unintended consequences on vehicle safety systems (such as ESP and ABS systems) when converting to LPG.

- Research to develop emission-tested kits for lower volume vehicles.

ONE ISSUE REQUIRING GREATER COLLABORATION

VACC Recommends:

- That repair and service information be provided to independent repairers by Vehicle Manufacturers in an accessible and cost-effective manner

THE IMPACT OF ELV TARGETS

VACC Recommends:

- A complete life-cycle approach for waste reduction and resource use in the automotive sector, extended on a national scale;
- Co-regulatory product stewardship measures, i.e. levies, recycling funds, extended producer responsibilities that incorporate registration of recycling processes and 'take back' initiatives;
- Waste-reduction quality standards for ELVs, e.g. recycle 85% of ELVs by weight;
- That a national policy on ELVs to be developed by the Australian Government and automotive industry stakeholders;
- Government support of the appropriate use of recycled automotive parts;
- Development of industry ELV statistics (vehicle de-registrations) through funding research to identify, measure and control the waste stream, and the development of deregistration controls;
- That vehicle importers, manufacturers and exporters (including to third world economies) are encouraged to support Australian ELV processes;
- That vehicle design integrates de-pollution/dismantling/recycling/re-use;
- Improved access to manufacturer vehicle technical data when dismantling/processing ELVs (for efficient handling, as well as managing hazards such as fluids, power, airbags, etc.);
- The reduction in ELV waste to landfill.

STRATEGIES TO MEET CURRENT AND FUTURE SKILLS DEMANDS

VACC Recommends:

- Increased levels of funding and Government support for TAFE training infrastructure and training equipment technologies to bring all automotive TAFE training facilities to the standard exemplified by the Automotive Centre of Excellence, Docklands.
- Additional training facilities in regional centres.
- Additional support to TAFE and training institutions to assist teaching staff to upgrade teaching skills for modern, complex automotive technologies.

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- Increased marketing assistance to counter negative perceptions of careers in the industry and to increase the knowledge and understanding of the sector by Careers Advisors, parents and students
- Better assessment processes for monitoring student skill levels (through VET and VCAL programs) to ensure basic skill levels are attained.
- Better monitoring of job-matching processes to ensure candidates are allocated to courses suited to their interests.
- Extension of eligibility for the new government wage subsidy for mid-career apprentices to extend to all apprentices over the age of 21.
- A fuel and accommodation subsidy for students in regional areas travelling long distances to study.

AN INDUSTRY SKILLS COUNCIL

VACC Recommends:

- An industry specific skills council for the automotive industry.

11. Appendix

Appendix 1: (Supplied in hard copy to the Review Panel) *Horizon 2015 – Changes and Challenges for the Retail Automotive Industry*: a thoroughly researched view of the future the retail automotive industry produced by VACC/ Accenture.

Appendix 2: Full text of letter and supporting notes to Section 4. LPG AND THE GREEN CAR INNOVATION FUND; Australian Alternative Fuels Registration Board (AAFRB).

Appendix 3: *The Insurance and Smash Repair Industry Code of Conduct*. For the review Panels reference when considering Section 6 of this Submission: ONE ISSUE REQUIRING GREATER COLLABORATION

Appendix 4: VACC Submission to the Victorian Parliament Education and Training Committee *Inquiry into Geographical Differences in the rate in which Victorian Students Participate in Higher Education*.