

**House of Representatives Standing Committee on Employment,
Workplace Relations and Workforce Participation Inquiry into
Employment in the Automotive Component Manufacturing Sector**

Victorian Government Submission

1. Introduction

The Victorian Government welcomes the opportunity to provide a submission to this important and timely inquiry into employment in one of Australia's most strategically significant manufacturing sectors.

The inquiry comes at a time of widespread and growing concern about the vulnerability of Australia's automotive manufacturing industry to both domestic and international pressures.

This submission begins with a broad analysis of the Australian and Victorian automotive industry – its importance; recent performance; and broad future prospects. It then addresses current and future employment trends in the automotive components sector, emerging skills and labour adjustment issues, and the future support required for skills development, innovation and investment in the industry.

The Victoria Government believes that the Federal Government must become more proactive in leveraging Victorian Government assistance for the industry to foster growth (through greater investment in innovation, R&D and niche industries) and support employees affected by changing skill needs and reduced employment. Moreover, it is imperative that a national approach towards industry policy is adopted to ensure the manufacturing and technology base of this very strategic industry can survive and grow in the coming years.

Of significant concern are potential constraints on the industry's commitment to skill formation (not the least being WorkChoices, the Federal Government's new industrial relations framework). Ensuring an appropriate skill base for the industry into the future will require sustained and systematic effort by all parties - State and Federal Governments and the automotive industry itself.

Also problematic is the lack of reliable data on employment within the automotive components sector (as opposed to the automotive industry as a whole) and the experiences of displaced workers. This hinders understanding of the state of the industry and requires more work to measure employment trends and survey the experience of retrenched automotive component industry workers.

The Victorian Government is committed to working with the automotive industry to maximise the opportunity for long term growth and is currently undertaking extensive research expected to culminate in a long term Victorian Government Strategy for the industry. It is intended that this document will be developed in consultation with the industry and completed by September 2006.

The importance of the industry

The automotive industry is the largest manufacturing sector in Australia and is central to Australia's ambitions to become an innovative, knowledge based economy. Its significance to Victoria and Australia is clear given its strong export and innovation performance relative to other industries; capacity to catalyse transformation across the economy; and linkages and inputs to other sectors (as illustrated by the examples presented at Figure 1 overleaf).

The strategic importance of the automotive industry lies in its ability to transform raw knowledge into wealth creation through product, process and technological innovation. In 2002-3, Business Expenditure in R&D (BERD) by Australian automotive companies totalled \$731 million, up \$166 million from 2001-2. The strategic role of the industry within regional, national and global innovation systems attests to why there is fierce global competition to attract, build and retain automotive investment.

To retain a competitive automotive industry in Victoria and Australia, local automotive component manufacturing capability is critical. There are currently 180 automotive component manufacturers nationally, 120 of which are located in Victoria. The ability of these component manufacturers to compete globally, innovate, attract investment and thrive in global supply chains is fundamental to the future of automotive manufacturing in Australia.

Figure 1

Automotive Industry linkages to other sectors

The tooling segment of the precision engineering industry has important linkages with the automotive industry to manufacture and supply a range of vehicle components. The segment directs approximately 65 per cent of its output to automotive assemblers or their tier 1 suppliers. The industry is increasingly concentrated in Victoria, employing 7,000 people. Victoria's share of national output for the industry is currently 45 per cent and increasing. Its share of precision engineering exports is 60 per cent.¹

The automotive market is also the second most important market for Victoria's metal fabrication industry with 14 per cent of total output directed to vehicle producers and their direct suppliers. It is estimated that the metal fabrication industry employs 4,200 people directly servicing the automotive industry.² These strong industry linkages create export opportunities for supplier industries and broaden the skills and innovation capabilities base of the economy.

Component manufacturers are categorised into tier 1 through to tier 4 suppliers to the Original Equipment Manufacturers (OEMs). The tier a component company falls into is dependent on what stage of production process it fits. Figure 2 (overleaf) illustrates each of the tiers in an example supply chain.

OEMs depend on an effective local automotive components sector for their ongoing supply and product development. This is particularly true in Australia's case given the small size of the domestic market and distance from its major export markets. Given this, it is unlikely that vehicle manufacturers would manufacture and assemble vehicles in Australia without a competitive local automotive components sector.

¹ The Victorian Precision Engineering Industry Strategic Plan June, 2002.

² The Victorian Metal Fabrication Industry Strategic Plan June, 2002.

Figure 2

	Description	Example
Tier 1	A company which holds a contract with a vehicle manufacturer to design and manufacture production components to the vehicle manufacturer	Araco Pty Ltd, designs and fabricates complete interiors which includes seating assemblies to the Toyota production facility.
Tier 2	More commonly a manufacturer who makes and supplies a component which is incorporated by a Tier 1 supplier into the final assembly they deliver to the OEM	DMG Industries Pty Ltd Plastics designs and mould plastic parts as requested by Araco for the manufacture of seats.
Tier 3	A supplier of materials or components used by a Tier 2 supplier.	Marplex blends and manufactures the injection moulding polymers used by DMG to mould the seat components.
Tier 4	A supplier of materials or components used by a Tier 3 supplier.	BASF supplies purchase various base polymers, fibres or additives and colouring material to Marplex for blending into a client specific moulding material.

Recent performance

Vehicle production in Australia has been relatively steady over the past five years, remaining consistently above 320,000 vehicles per annum and reaching over 400,000 cars per annum in 2002 and 2003. Cars have been produced for both domestic and export markets and, with the exception of the 4 cylinder Toyota Camry, have all been 6 or 8 cylinder (placing them in the large car category).

Steady vehicle production masks two disturbing trends within the industry:

i) Reductions in the Australian made content of locally produced vehicles

The sourcing policies of both Holden and Ford have resulted in lower local content levels and limiting local suppliers' access to the overseas operations of the vehicle producers.

Holden, for example, has recently completed the quotation and contract placement process for its VE Commodore - the 2006 replacement for the existing VZ range. As a result, Victorian companies lost 22 contracts held for production of the VZ model and won 8 new contracts. Local content is expected to fall from 73 per cent on the VZ model to 56 per cent on the VE model as a consequence.

Price is not the only reason why contracts have not been renewed with local suppliers. Other reasons cited include:

- an inability to provide the latest in design,
- a reliance upon out of date technologies, and
- failure to project manage the introduction of the new model components.

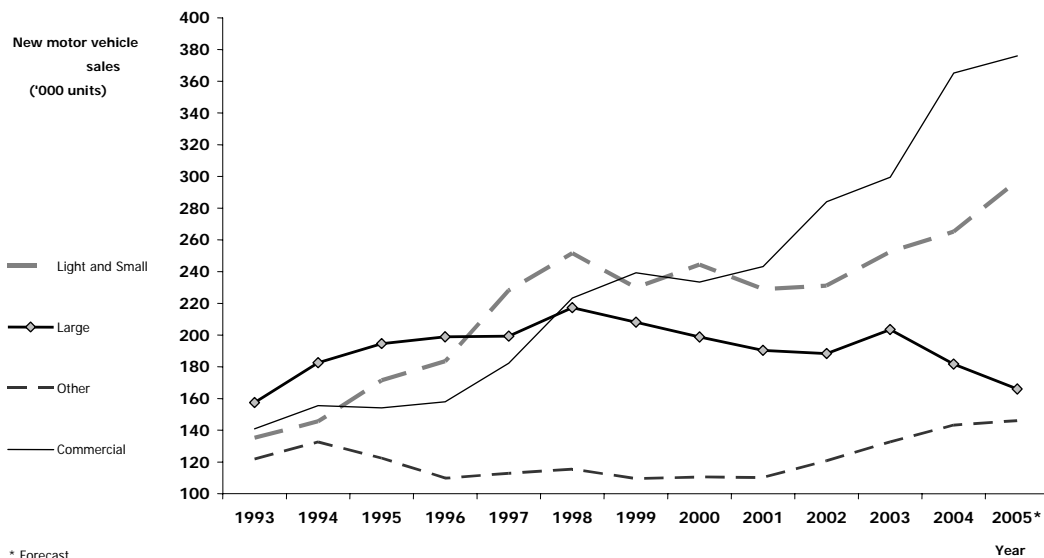
These deficiencies suggest some fundamental issues of non-competitiveness within the local automotive component sector, which may lead to a vicious cycle in terms of their ability to break into global supply chains.

ii) Slowing sales of locally made vehicles

Of concern, however is that, domestic purchasing of Australian cars is has decreased significantly, despite growth in demand for motor vehicles generally. The Australian made share of total new vehicle sales in Australia has fallen markedly over the past 5 years to just 26.4 per cent.

Meanwhile, with 14 successive years of economic growth, demand for new vehicles by Australian consumers is growing. However, this demand is increasingly being met by imported vehicles with light and small vehicle sale volumes outstripping large vehicle sales (illustrated by Graph 1). This trend is likely to continue for reasons including changing demographics, increased petrol costs, heightened concern for the environment and increased consumer choice of imported vehicles.

**Graph 1 Australian new passenger motor vehicle sale trends
1993 - 2005***



Although declining domestic sales of locally made vehicles are being offset by increases in vehicle exports, higher imports have resulted in a deterioration of Australia’s automotive trade balance. Between 1995 and 2005, imports of all types of automotive products (vehicles and components) surpassed Australia’s automotive exports. The table below lists this disparity. While the ratio of imports to exports has fallen, the deficit has widened from \$7.6 billion to \$15.6 billion. Interestingly, the deficit in components trade has been relatively static over the entire period.

The dependence of local component manufacturers on local OEMs is illustrated by the relatively low value of component exports. In 2005, the majority of Australia’s total automotive exports were motor vehicles, nearly 6 times larger in value than component exports. Motor vehicle exports grew by a compounded annual rate of 37 per cent between 1995 and 2005, increasing from \$0.64 billion to \$3.05 billion. While there has been some growth in components exports over the past year, this comes from a very low base.

Table 1

		EXPORTS / IMPORTS					
		Vehicle exports* (\$b)	Vehicle imports* (\$b)	Components exports (\$b)	Components imports (\$b)	Total auto exports** (\$b)	Total auto imports** (\$b)
YEAR	1995	0.64	6.49	0.38	1.75	1.07	8.67
	2000	2.04	9.75	0.71	2.27	2.8	12.78
	2005	3.05	16.09	0.72	2.28	3.92	19.56

Source: ABS, 5368.0 International Trade in Goods and Services, Australia

* Motor vehicles principally designed for transport of persons and goods; special purpose motor vehicles, road motor vehicles and public transport vehicles

** All vehicles; components; motorcycles; trailers and semi-trailers; other vehicles not mechanically propelled; and specially designed transport containers

Future prospects for the automotive industry

Prospects for the components industry must be considered in the context of broader trends affecting the automotive industry. These include:

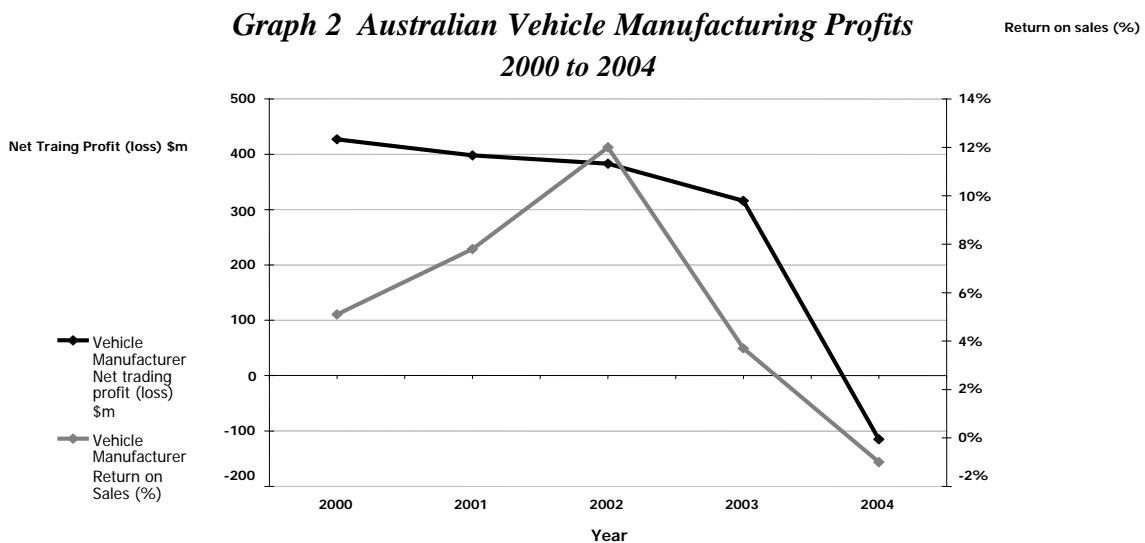
i) Changes to Australian Government support for the automotive industry.

In 2002, the Productivity Commission conducted an inquiry into the future assistance to the automotive industry post 2005. The inquiry modelled the effect of changes to the Automotive Competitiveness and Investment Scheme (ACIS) and reductions in the tariff. The Commonwealth subsequently legislated a new assistance regime for the industry that would significantly increase competitive pressures in the industry and as predicted by the PC's modelling, result in a significant loss of jobs for the industry.

ii) Rationalisation of the industry as a result of over supply.

The AiG, FAPM and KPMG report, *The Victorian Automotive Components Industry, Competitiveness, Profitability and Future Strategies*, states that increased global cost competition in the automotive industry has also been accelerated by global over-supply. This could be a consequence of vehicle manufacturers focussing on balancing production capacities and maintaining or growing market share in the face of increasing market competition. According to the report, executives consider that the increased level of global competition for supplier contracts for models to be developed over the next 5 years may severely reduce the number of locally manufactured components appearing in the new vehicles.³ Furthermore, many local executives question whether the current number of domestically built models can be sustained beyond the five-year timeframe, and also the extent to which they are likely to include locally supplied components.⁴

The graph below shows trends in motor vehicle manufacturer profits and returns in Australia. The trends are consistent with those observed in the US. They also provide some insight into why component suppliers are facing increased pressure to keep price to a minimum.



³ AiG, FAPM and KPMG, *The Victorian Automotive Components Industry, Competitiveness, Profitability and Future Strategies*, March 2005, p.12.

⁴ *ibid*

iii) Global Sourcing

The viability of the components industry is overwhelmingly dependent upon the decisions of OEMs.

Worldwide, OEMs are trending towards global purchasing arrangements, whereby purchasing decisions are made globally rather than locally. The result has been a consolidation of components suppliers to increase scale and reduce the number of suppliers.

Like many OEMs, both Ford Australia and General Motors–Holden are now applying purchasing policies determined by their head offices in Detroit. These policies call for all new purchasing contracts to be compared with, and wherever possible, awarded to suppliers operating in low cost countries such as China, India or Eastern Europe. Automotive parts, especially those requiring low skills, are increasingly being sourced from overseas. Consequently, Australian automotive components companies can no longer depend solely on local OEMs. Thinking globally and building supply chains with overseas companies is becoming increasingly important.

Toyota Motor Corporation Australia and Mitsubishi Motors Australia Limited are taking a significantly different approach to global sourcing policies. Both companies operate supplier development programs with local suppliers to identify savings, improve capabilities and ensure a degree of international competitiveness. These programs provide opportunities for Australian component companies to break into global supply chains.

iv) Changing consumer preferences.

Also critical to the prospects of the industry are the changes in consumer preferences that are placing pressures on sales of domestically produced vehicles. These changes are prompted by changing demographics, recent oil price increases and the increasing affordability of imported vehicles (given global oversupply, the high Australian dollar and tariff reduction).

v) Free trade agreements.

Victorian automotive component companies are facing pressure from the impacts of Australia's unilateral tariff reduction, the Thailand and US Free Trade Agreements (FTAs) and the strong growth of the Chinese automotive industry. Further FTAs can be expected to exacerbate this pressure.

The Australia-Thai FTA, in particular, has had a major influence. The FTA has prompted Japanese companies to expand their operations in Thailand in order to take advantage of the zero tariff entry into Australia not available to Japan. This places further pressure on domestic producers as widely recognised Japanese brands are imported into Australia at very competitive prices.

Conversely, the reduction of tariffs in Thailand and the US also presents Australian automotive component companies with new export opportunities although it is worth noting that Australian exports since 1 January 2005 have not risen in these markets.

Opportunities also exist for the FTAs with China, Malaysia and ASEAN to deliver transitory preferential market access for Victorian automotive component companies. Such access would be transitory because China and ASEAN are currently negotiating FTAs with other countries (such as ASEAN and Japan). A failure by the Australian Government to secure preferential access may damage Australia's export prospects as competitors will have lower cost access to these markets in future.

Conclusion

- **The automotive industry is a highly strategic sector within the Australian economy and a key driver of manufacturing innovation with strong linkages to other manufacturing sectors.**
- **The automotive components sector is essential to the retention and ongoing development of the Australian automotive industry. It is unlikely that the Passenger Motor Vehicle sector will manufacture and assemble vehicles in Australia without a competitive Australian automotive components sector.**
- **Automotive components companies are facing increasing global pressures requiring a more strategic approach to their business if they are to survive the future.**

2. *Current and future employment trends in the industry*

An examination of current and future employment trends in the automotive components industry is made difficult by a lack of reliable data.

In 2000-2001, the ABS ceased to collect data on automotive manufacturing employment that split vehicle production and component production. At this time, 54,487 people were employed in the Australian automotive manufacturing industry. About half of these (27,709) were located in Victoria, of which over half (14,825) were employed in components manufacturing.

Since 2001-2, the ABS has collected employment data on the motor vehicle and parts industry as a single group. This method makes it impossible to distinguish trends in vehicle component manufacturing employment as opposed to vehicles. The current method of data collection is also inconsistent with the previous method of 2000, with the basis of the data changing from manufacturing establishments to management units, thereby adding separate head offices, parts distribution etc. to the employment data. As a consequence of these changes, it is impossible to reasonably track trends over time or to distinguish trends. For example, the most recent employment data for Victoria shows that employment is now at 39,000, a rise of 40% since 2000/01. However, it is unclear to what extent this rise can be attributed to changes in collection methodology or actual rises in manufacturing employment. Moreover, there is no way of distinguishing between employment changes in vehicle manufacturing and component manufacturing.

Job losses

In the absence of reliable employment data, Victorian case studies are presented below to demonstrate what the Victorian Government believes is a serious negative employment trend that, although not yet statistically recorded, is being felt within the automotive components sector. These case studies demonstrate in particular, the impact of the shift by OEMs to award low skilled, high volume contracts to low wage developing countries such as Eastern Europe, India and China. The prospects of further such examples has been heightened as a result of the massive cutbacks announced by North American vehicle producers (Ford 25,000 and GMH 30,000), which is causing considerable nervousness in the industry.

Silcraft

Silcraft has been an automotive components manufacturer since 1960. It is a tier 1 supplier to local OEMs and produces a range of plastic and metal components including wheel covers, grilles and assorted body trim and badges.

In November 2005, Silcraft announced that it will terminate 460 jobs at its Mount Waverley plant over 2006, with the plant expected to cease operations by the end of the year.

Autoliv Australia

Autoliv Australia, manufacturer of seatbelts and airbags for the automotive sector, has announced a series of redundancies at its Campbellfield plant and the imminent closure of its subsidiary in Thomastown, Webco Pty Ltd by 31 December 2006. Job losses are expected to total 565 from both plants and are the result of a lost VE Holden contract that was awarded to TRW Europe, GMH's worldwide preferred supplier.

Trico Products

Established in Victoria in 1958, Trico Products is a subsidiary of the US parent Trico Products Inc. It is Australia's only manufacturer of original equipment windscreen wiper arms and blades for the local vehicle industry. The company is also an important supplier of wiper linkages and holds a substantial share of Australian replacement market for wiper blades, arms and screen care accessories.

OEMs account for the majority of Trico Products' business, although the firm also supplies to Australian truck, bus and coach manufacturers and a variety of tram, train, tractor, tugs and container crane manufacturers. Cost pressures imposed by OEMs have prompted the relocation of Trico's manufacturing operations to China, resulting in 158 redundancies at its Springvale plant.

These and a number of other prominent announcements have been made over the past 12 months of large scale redundancies in the Australian automotive components sector. According to the Australian Manufacturing Workers' Union, 4,700 jobs have been lost in the sector since 2002. These losses are not clearly reflected in ABS statistics, given the change in data collection methodology.

The Federation of Automotive Product Manufacturers (FAPM) estimates that the loss of contracts from Australian Tier 1 suppliers to overseas suppliers for the new models will cost approximately 2,000 further jobs, most of which are in Victoria and SA and will go between mid 2005 and mid 2006. The impact of such large scale job losses would be considerable on the regions in which they occur.

Major contract losses by Victorian companies to overseas suppliers during the recent contract process of GMH for the VE Commodore were:

- Autoliv, replaced by TRW Europe, (seatbelt and airbag systems) - loss of 300 + jobs with a further 300+ contract jobs to be phased out as work is transferred to their Korean plant;
- Calsonic, replaced by Behr China (under-dash assy) - loss of approximately 180 jobs;
- Pilkington, replaced by St. Gobain Thailand (glass) - possible loss of 260 jobs plus;
- Trico, replaced by Valeo China (wiper system) - loss of 158 jobs;
- Air International, replaced by Hella Germany (throttle pedals) - job loss yet to be determined;
- Bluescope, replaced by Tegal China (steel) - job loss yet to be determined;

- Yasaki, replaced by Denso USA (electrical modules) - job loss yet to be determined.

In addition to the job losses to the direct component suppliers (Tier 1 suppliers) shown above, there will be further losses as the sub-contracting suppliers (Tier 2 suppliers) cut back their workforce to reflect the loss of business.

Of the current vehicles manufactured locally, the Falcon has the highest level of Australian content, ranging from 70 per cent to 90 per cent depending upon models. Initial indications are that the new 'Orion' may be able to achieve Australian content of 60 per cent to 85 per cent. The loss of local business and jobs as a result is therefore not expected to be as great as those associated with the VE Commodore.

Ford has recently commenced the quotation and contract placement process for its new model and is seeking to reduce costs. To date, the only known major contract loss to an overseas supplier is for transmissions that have until now been supplied by the recently sold Ion transmission plant at Albury which employs 200 workers.

Conclusion

- **Globally, employment in the industry is being significantly affected by a number of dramatic and rapid changes, including increasing global sourcing, changing consumer preferences and the proliferation of Free Trade Agreements. These trends are combining to create significant commercial pressures for Australian components manufacturers, as well as some opportunities.**
- **Data on employment in the automotive components sector is no longer collected by the Commonwealth. Information provided to the Victorian Government by the industry indicates that commercial pressures are having significant negative impacts on employment. However, there is an urgent requirement for more comprehensive data to accurately measure this impact and to determine likely future employment trends.**

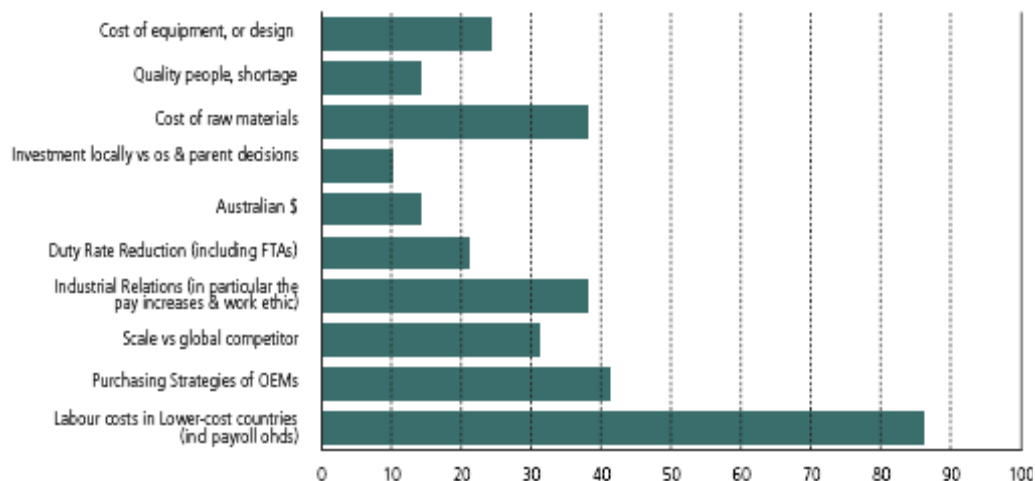
3. Emerging skill shortages and appropriate recruitment and training strategies

Skill shortages

Industry advice to the Victorian Government is that while there are some skill shortages at present, this is not currently a major issue for the automotive components industry. The most recent industry skills report from Automotive Training Australia (December 2005) notes that there are currently no significant attraction or retention issues in the automotive components manufacturing industry. Likewise, as illustrated at Figure 3, companies participating in the recent Victorian Government sponsored FAPM/AiGroup study indicated that concerns about a shortage of quality people are a relatively low priority, compared with other issues impacting on their competitiveness.

Figure 3

Case study participants' responses on the issues that most affect their competitiveness.



Source: AiG, FAPM and KPMG, *The Victorian Automotive Components Industry, Competitiveness, Profitability and Future Strategies*, March 2005, p.17.

Skills shortages are, however, apparent within the industry in some specific areas.

The FAPM study, for example, identified shortages in:

- engineers (with industry design experience, as well as process engineers);
- experienced tradespeople (electricians, fitters, tool makers);
- finance and sales professionals; and
- generic skill gaps or deficiencies in 'soft skills'. To quote one case study participant:

'The people employed were not perceived as having high problem solving skills nor the right attitude to tackle new problems, preparing only to manage tasks that they have previously experienced'.⁵

As shown below, the most recent Skills in Demand list published by DEWR (October 2005) also includes a number of occupations within the automotive components manufacturing industry.

Trades	Professional
<p><i>Engineering trades</i> Metal Fitter Metal Machinist Tool Maker Metal Fabricator Welder Sheetmetal worker</p> <p><i>Other trades</i> Electronic instrument trades</p>	<p>Electrical Engineer IT specialisations</p>

The level and mix of skills likely to be needed by automotive component manufacturers in the medium and longer term will be strongly influenced by trends impacting on employment (for example, global sourcing, rationalisation, increasing competition and changing consumer preferences)

At the National Manufacturing Summit 2005, facilitated workshops were conducted on the topic ‘Skills for Our Manufacturing Future’. Industry stakeholders concluded that, in future, manufacturing will need:

- higher level technical skills – manufacturing will increasingly have to adopt more complex technology, and produce to higher technical standards;
- higher level 'soft' skills – communication, teamwork, ability and willingness to learn – more of the workforce in manufacturing will deal with customers, engage and manage partners and work in project teams to solve problems;
- higher level strategic and management skills – companies need to plan for the future better, including how to meet their skill needs, and more actively develop strategies for becoming world competitive;
- new skills – logistics, financial management, cultural understanding etc – as firms seek to respond faster and more fully to customers’ needs, they need to operate in new areas, or have the skills in house to manage partners; and
- more frequent updating of skills – the pace of technological change and shifts in customer demands means that skills will need to be updated much more frequently.⁶

The need for higher level skills (in particular at AQF levels III-V) has been identified by the Victorian Government as being a high priority for Government funded training for the automotive manufacturing sector over the next three years. As reported by Automotive Training Victoria, the automotive manufacturing sector will need training at AQF III-V in order to up-skill the workforce and take advantage of new and emerging technology and opportunities in niche markets⁷. It is anticipated

⁶ National Manufacturing Summit 2005, Report of the “Skills for our Manufacturing Future” Workshop, www.nationalmanufacturing.org.

⁷ Automotive Training Victoria, Change Driver report, December 2005.

that the majority of the 270 new entrants per annum entering this sector in Victoria will be trained at these higher AQF levels.

In light of the numerous contracts recently lost to overseas competitors and the growing importance of globalised business operations, it is arguable that enhanced generic management and project skills are also priority needs for the industry.

Conclusion

- **The Victorian Government believes there are emerging skill shortages in the industry in some specific areas such as engineering. In addition, more generic management and project skills are required to enable the industry to adapt to increasingly globalised business operations.**

4. Labour adjustment measures required to assist redeployed and affected workers

It was acknowledged by the Productivity Commission in 2002 that the automotive industry would face job losses in the coming years, as a result of the reductions in tariffs and amendments to ACIS that have now taken place. The Victorian Government has advocated that it is essential that the Commonwealth Government has appropriate labour market programs in place to assist the industry in its adjustment prior to any policy implementation. However, there is little evidence that this has occurred.

The Victorian Government firmly believes that it is incumbent on governments to ensure that there is sufficient information to understand the impacts of major industry changes, especially when changes have occurred as a result of altered policy settings. It is particularly important for this to occur prior to the contraction of the industry, as workers are most likely to be re-employed if they seek work and/or retrain *prior* to being retrenched. Such assistance needs to take the form of ongoing assistance in finding alternative employment, and in dealing with the vast array of employment providers, training providers and job search networks.

There are a number of best practice models that could assist the Commonwealth Government in tailoring packages to suit the individual needs of automotive component workers, who may have low skill transferability and may lack English proficiency. As many of the companies have a 6 to 12 month lead time on the closure announcements, the Victorian Government believes that investment in up-skilling affected employees before their employment ceases is the critical element of the structural adjustment required.

There are many examples of planned labour market adjustment programs that have mitigated the impacts of policy change or unpredicted events. Two such examples are outlined below.

Bradmill Undare Group

Another labour market assistance package which met with considerable success was implemented in response to the closure of a manufacturing company, the Bradmill Undare Group. Again, the critical component of the policy, *Life After Bradmill*, was that it assisted employees in the transition period, by providing assistance while they were still employed. The project was funded by the receivers of the company, and involved the employment of three project officers to deliver a range of services to 410 retrenched workers. The project ensured that workers received specialised and individual assistance to return to work, access further education and training, or to make a smooth transition to retirement. Over 70% of workers returned to the workforce and this was in areas of relatively high unemployment (the western region of Melbourne and a rural area of Victoria).

Our Forests, Our Future

In 2002, the Victorian Government implemented a labour market adjustment scheme as part of the *Our Forests, Our Future* Program. The Victorian Government knew this policy would result in significant job loss in Victoria's forestry industry. It therefore implemented an industry transition program at the same time as the introduction of the policy. A package worth \$80m was provided for the industry (\$36m for worker assistance), which has been used to:

- compensate retrenched workers (over and above award entitlements);
- provide relocation assistance to ex-employees;
- fund an incentive scheme for employers in other industries to employ ex-forestry workers;
- enable forestry workers to retrain; and
- offer counselling and training to employees both pre-and post-closure of firms in the industry.

The scheme has led to the re-employment of over two thirds of those retrenched, and has enabled 600 workers and their families to remain in regional Victoria.

Information gathered on the post employment experience of retrenched workers provides Governments with vital information. In the case of the Textile Clothing and Footwear industry, surveys by Victoria University and subsequently by Monash University⁸, were undertaken to map the success of employees in seeking new employment following large scale retrenchments. This information monitored the effectiveness of structural adjustment assistance and provided valuable data on the longer term impacts of changes to the industry.

Although firmly of the view that such initiatives are best undertaken at a national level, the Victorian Government has undertaken a number of programs to assist workers that have been adversely affected by changing industry.

The Victorian Government recently launched a new program - *Workforce Participation Partnerships* - that has several target groups of jobseekers facing significant barriers to employment including:

- retrenched workers with limited labour market opportunities; and
- older jobseekers (aged 45 years & over).

This program aims to increase sustainable employment opportunities for Victorians facing significant barriers to work and to address areas of emerging labour and skill shortages. Over \$24 million has been allocated to the program in 2005-06 and 2006-07 to encourage the development of partnerships between a wide range of stakeholders at local, regional and state levels. The program supports creative and flexible solutions to meet skill needs.

The Victorian Government, through the *Moving Forward* Action Plan for Provincial Victoria, is also providing \$3.3m over three years for targeted initiatives to skill up and secure work for jobseekers facing barriers to employment in regional areas. The Government will work with industry, employers, councils, unions and community groups to develop and fund mechanisms to fill vacancies in manufacturing in western Victoria and the transport and distribution sector in the North East. Eligible

⁸ The Long Goodbye: TCF workers, unemployment and tariff deregulation, Centre for Work and Society in the Global Era, August 2003 – commissioned by the Department of Innovation, Industry and Regional Development, Victoria.

jobseekers will have access to training and practical assistance to gain the skills and abilities to secure ongoing employment.

The Victorian Government also funds and administers the *Skill Up* program as a rapid response program to retrain workers who are retrenched as a result of a major industry downturn or workplace closure. The training is aimed at helping retrenched workers to upgrade their skills or develop new ones so they can re-enter the workforce as soon as possible. \$5 million over 4 years has been allocated to the program.

To date, *Skill Up* services have been made available to workers from eight automotive component manufacturers providing over 1,100 funded places. Approved enterprises are: GUD Automotive, Trico Products, Autoliv Australia, Calsonic, Silcraft, Kozma industries, Pilkington and Robert Bosch. It is anticipated that over 400 people will access training through these places. The Department of Education and Training is also in consultation with a number of other automotive component manufacturers where retrenchments are anticipated this year.

Conclusion

- **In redesigning its assistance measures for the automotive industry in 2002, the Productivity Commission's modelling indicated there would be employment losses. As the available data indicates, this is now a reality. The Commonwealth should offer specific structural adjustment assistance to affected employees as has been provided in other sectors such as TCF.**
- **It is essential that the Inquiry recommend the commissioning of a national survey of retrenched workers in the automotive components sector to determine their post employment experience.**

5. Measures to support skills development, innovation, and investment in the industry

Skills development

Despite there currently being relatively little concern about skills shortages within the industry, a strategic long-term agenda for the industry must include a long-term commitment to skill formation and appropriate training strategies. As noted by the Productivity Commission in 2002, skills are paramount to the automotive industry:

'The skill base available to the (automotive) industry is widely regarded as integral to its growing innovativeness and flexibility and to the improvements in its productivity and quality over the last decade'.⁹

Notwithstanding new and increased skill requirements, there are a range of factors that have potential to work against a long-term commitment by the industry to skill formation. These factors - compounded by an increasingly competitive and uncertain business environment - include:

- i) The Federal Government's new WorkChoices legislation;
- ii) Issues within the Vocational Education and Training (VET) system;
- iii) Limited capacity for workforce planning among small firms.
- iv) Unmet demand for higher education courses (engineering in particular) and under-developed linkages between industry and universities.

i) WorkChoices – the new industrial relations framework

There are a number of aspects of the proposed Federal WorkChoices legislation which have the potential to adversely affect mechanisms for skills development in the automotive component sector in Victoria.

Any consideration of skills issues in the sector must have regard to the recent changes in the Federal industrial relations framework and environment. The principal of these is the substantial reduction envisaged in the scope of award provisions relating to pay and classification structures, and the associated diminution of the role of the Australian Industrial Relations Commission (AIRC) in dispute resolution. The existing classifications, work level definitions, competencies, and their links to the award pay structures in the automotive industry have played a major role in the development of skill-based career paths for employees over the last 15-20 years. The AIRC has accumulated expertise on skill development as part of its functions to maintain awards and assess work value, and it has been able to assist parties in resolving any disputes in this area. The removal of these provisions from awards will diminish the focus of workplace parties on a clear and agreed framework for skill development in the future.

Further, WorkChoices will introduce new barriers to union representation of employees at the workplace level, such as restricted right of entry, more onerous bargaining processes, and prohibition of leave for union training. Much of the impetus for skill formation in the automotive industry has come from unions and their

⁹ Productivity Commission, Review of Automotive Assistance. Inquiry Report, Report No. 25, August 2002.

delegates pursuing the application of the award structures at the enterprise level, either through bargaining outcomes or separate negotiations, to allow employees to acquire and be rewarded for skills and competencies relevant to their day-to-day work. WorkChoices has the potential to undermine the stability and cooperativeness of workplace relationships, and make employers less prepared to invest in skill development in the longer term. Furthermore, the complexities and uncertainties surrounding WorkChoices necessarily create a focus on understanding and attempting to meet WorkChoices compliance provisions. This also has the potential to deflect employers' attention from skill development.

While many workplaces in the automotive component sector may choose to remain on collective industrial arrangements, the stronger incentives under WorkChoices for employers to use individual agreements will make it more difficult for parties to develop cohesive skill development programs at the enterprise level.

ii) The Vocational Education Training (VET) system

The Victorian Government recognises that a high quality, efficient and responsive VET system has an important role to play in enabling Victorian industries, including the automotive components sector, to meet current and future skill needs. Accordingly, it remains committed to building the Victorian VET system's reputation for excellence through investment, innovation and reform.

In 2002, the Minister for Education and Training, Lynne Kosky MP, published her Ministerial Statement 'Knowledge and Skills for the Innovation Economy'. The Statement set the policy framework for Victoria's VET system, ensuring a strong network of training providers, close links with enterprises and support for specialisation and innovation. The automotive industry has benefited from initiatives announced in the statement. One such example is provided below.

The Automotive Industry Liaison Agent Initiative (ILA)

The aim of the Automotive ILA, based at the Swinburne University of Technology (TAFE Division), is to address skill gaps and training related difficulties that may be impeding the growth and competitiveness of Victorian automotive SMEs.

The Automotive ILA has cultivated collaborative relationships with key stakeholders including Automotive Training Australia, Federal Automotive Product Manufacturers, Australian Industry Group, Australian Manufacturing Technology Institute Limited and many TAFE and private RTO training providers, as well as numerous individual organisations in the automotive manufacturing SME sector.

In 2005, the Victorian Minister for Education and Training announced an independent inquiry into VET to explore how the system could play a greater role in helping the Victorian economy to meet current and emerging challenges. A number of the inquiry terms of reference cover issues of importance to the automotive components manufacturing industry, namely:

- The appropriateness of current apprenticeships and traineeships;

- The effectiveness of vocational education in schools (including VET in the VCE, School Based New Apprenticeships and the Victorian Certificate of Applied Learning);
- Training models and associated resources required to meet the needs of the full range of VET students (including mature age workers);
- The role of VET in overcoming skill shortages, increasing workforce participation and increasing industry productivity;
- Strategies to improve access to information on training providers for clients of the VET system.

The inquiry report was released on 20 February 2006 and, alongside the Workforce Participation Strategy, has informed the development of the Government's strategy to improve the education and skills of the Victorian workforce, *Maintaining the Advantage: Skilled Victorians*.

'*Maintaining the Advantage: Skilled Victorians*' was launched on 7 March 2006 and provides more than \$240 million over four years for new and expanded education and initiatives. It involves the largest ever injection of funds to increase skills in Victoria and responds to the demand for higher qualifications and skills in an increasingly competitive and global economy. Initiatives in '*Maintaining the Advantage*' of most relevance to the automotive components manufacturing industry are summarised below.

Expanding opportunities for young people (\$33.22m) – an additional 4,500 pre-apprenticeship places. Engineering and automotive are priority areas.

Mature-Age Priority Training (\$10.88m) – 1800 places for 35-64 year olds to access Certificate III training and above.

Industry Skills Advisers (\$2m) – assistance for competitive and advanced manufacturing (automation) companies will be prioritised.

Higher Skills (\$42.26m) – an additional 3,500 VET places in higher level qualifications in key occupations and industries (including engineering).

Expanding Specialist Training Centres and Networks (\$3m) – includes the establishment of an automotive design specialist centre and a VET specialist network for competitive manufacturing.

Business Skills for the Future (\$10.57 m) – detailed overleaf.

Careers in Manufacturing Campaign (\$1m) – to challenge stereotypes about the industry and help to encourage the uptake of manufacturing apprenticeships.

The significant initiatives of the Victorian Government in VET must be complemented by a truly national approach to reform in order to maximise the contribution of VET to industry productivity and workforce skills.

Victoria will continue to drive change through the Council of Australian Governments (COAG). The National Reform Agenda agreed by COAG on 10

February 2006 represents an historic opportunity, as does the broad VET reform that will be pursued by the VET Ministerial Council throughout 2006. Of particular interest to Victoria, and relevant to the automotive components manufacturing industry, are the initiatives agreed by COAG to improve apprenticeships, training and skills recognition and alleviate skills shortages. Effective implementation of these initiatives - and the broader reform agenda - will require the sustained commitment and collaboration of the Federal Government, along with the other states and territories.

The Commonwealth Government also needs to ensure that automotive components manufacturers are appropriately represented in Federal industry training advisory arrangements. The Victorian Government is concerned about the uncertain status of Automotive Training Australia, its funding being assured only until end 2006.

iii) Workforce planning

For automotive component manufactures seeking to ensure that they have the right people with the right skills at the right time, workforce planning and investment in skill formation are essential. However, given the immediate competitiveness pressures and volatility confronting the industry, it is arguably a considerable challenge for automotive component manufacturers to plan for and invest in training to meet future and long-term skill and training requirements.

A focus on immediate competitiveness pressures discourages consideration of future skill needs at both a firm and industry level. Small businesses also often lack capacity for workforce planning and adequate understanding of the training system. As noted by industry stakeholders at the National Manufacturing Summit 2005:

*'Employers recognise that many do not plan well to meet their skill needs. Some do not link their workforce development planning to their strategic plans, some do not know the full range of skills they have available and some do not plan for development expenditure...They also recognise that they need to do more to upskill their non-entry level workforces if they are to meet the skill challenges of the future.'*¹⁰

The Victorian Government recognises the need to support businesses to plan and invest in skilling their workforce. It recently announced a new \$10m 'Business Skills for the Future' initiative which will help Victorian businesses and manufacturers in particular to avoid and or overcome skills shortages and gaps through robust workforce planning and better access to training. The initiative will assist individual enterprises to access and act on their skill development and training needs. Manufacturing enterprises will be targeted as a priority and services will focus on workforce planning; strategies for attracting and retaining a skilled workforce; options for skilling; requirements for cost-effective training investments; and referral to related service providers. Practical financial assistance will also be provided to upskill and reskill existing employees to meet needs identified in a skill development/training plan.

¹⁰ National Manufacturing Summit 2005, Report of the "Skills for our Manufacturing Future" Workshop, www.nationalmanufacturing.org.

iii) Unmet demand for higher education courses and under-developed linkages between industry and universities

There is also scope for greater collaboration between Australian universities to enhance higher education for the automotive industry. As noted by the Automotive Industry Strategic Advisory Group established by the Victorian Government:

‘There is clearly an opportunity for universities to work together to bring critical mass and complementary skills to bear on the issues of the automotive industry and manufacturing. Many respondents consider there to be a need for a strategic plan, to ensure university support of the manufacturing industry, and a change in policy to promote a shift back to manufacturing.’¹¹

Innovation

Appropriate levels of funding and policy settings are essential to encourage and foster continued increases in innovation and skills capabilities. Research and Development is the fuel for innovation. It is imperative that the levels of Commonwealth support for R&D is sufficient to build and develop our knowledge intensive industries such as the automotive components sector.

State Government support for innovation in the automotive industry

This is an area where the Victorian Government has taken an active and decisive role, through initiatives such as the \$310 million Science, Technology and Innovation (STI) Infrastructure fund.

The Victorian Government has funded a number of innovation projects through the STI Initiative. These include:

- *Victorian Partnership for Advanced Computing (VPAC)*
- *Victorian Centre for Advanced Materials Manufacturing (VCAMM)*
- *Advanced Centre for Automotive Research and Testing (ACART)*

As a participant in the AutoCRC, the Victorian Government contributes to the nation’s principal, industry-led, collaborative R&D organisation for the advancement of an internationally competitive and sustainable automotive industry. The AutoCRC is about adding intellectual capacity and value to support the development of fast and flexible manufacturing. It has a specific focus on product design, engineering and development, with the aim of getting to market in 12-24 months (not the usual 5 years) through the removal of physical prototypes and virtual certification.

Victoria is a partner in the Automotive Centre of Excellence (ACE) at Docklands, having announced \$14 million to relocate automotive training programs from Kangan Batman Institute of TAFE’s Richmond and Coburg campuses to the new site. Stage One construction is scheduled for completion in June of 2006.

ACE Docklands will be a state-of-the-art facility, that will utilise the latest technology and equipment and offer the very best in training and resources for the

¹¹ VCAMM, Automotive Industry Strategic Action Group Report, September 2005, p.67.

automotive industry. It will offer many exciting possibilities for programs that industry has advised it needs such as design, IT and management.

The Victorian Government has also initiated and funded the Innovation Insights Program. This program provides manufacturers with opportunities to gain an understanding of high performance organisations within the Victorian automotive manufacturing industry through targeted study tours. Ford, Holden and Toyota have participated, hosting 120 Innovation Insights visits for more than 2000 participating companies.

These State initiatives provide a raft of activities for the Federal Government to leverage in a national approach to fostering growth in R&D. However, Australia currently lags behind other OECD countries threatening the future of our own industry to compete in the long term.

Automotive Competitiveness and Investment Scheme

The Federal Government's source of assistance for automotive industry innovation is through the Australian Competitiveness Investment Scheme (ACIS). While the Victorian Government recognises the benefit of this scheme, a number of criticisms have been raised in relation to the allocation and use of ACIS in recent times.

As outlined by AiG, FAPM and KPMG in their report entitled, *The Victorian Automotive Components Industry, Competitiveness, Profitability and Future Strategies*, Victorian automotive component manufacturers believe ACIS should be applied to the whole industry, not specifically diverted to OEMs. They also consider that OEMs should not be provided with support to develop products that utilise imported components.¹²

The Automotive Industry Strategic Action Group (AISAG) project report¹³ presents a stronger view in its report, contending that the current structure of ACIS in awarding duty credits to OEMs for innovation has significantly contributed to an increase in imported components at the cost of local component producers.

The Victorian Government believes that these issues warrant further investigation to ensure that the current ACIS structure aligns with the changing needs, challenges and requirements of the whole automotive industry.

Investment

The Victorian Government places a high priority on investment attraction and encourages an enhanced and coordinated national approach to promoting Australia as a competitive location for automotive investment.

Invest Victoria, the Victorian Government's primary investment attraction agency, actively promotes Victoria's key strengths in automotive components manufacturing,

¹² AiG, FAPM and KPMG, *The Victorian Automotive Components Industry, Competitiveness, Profitability and Future Strategies*, March 2005.

¹³ Automotive Industry Strategic Action Group Project Report: *Support for the Automotive Manufacturing Industry through ACE and related activities*, Victorian Centre for Advanced Materials Manufacturing, December 2005.

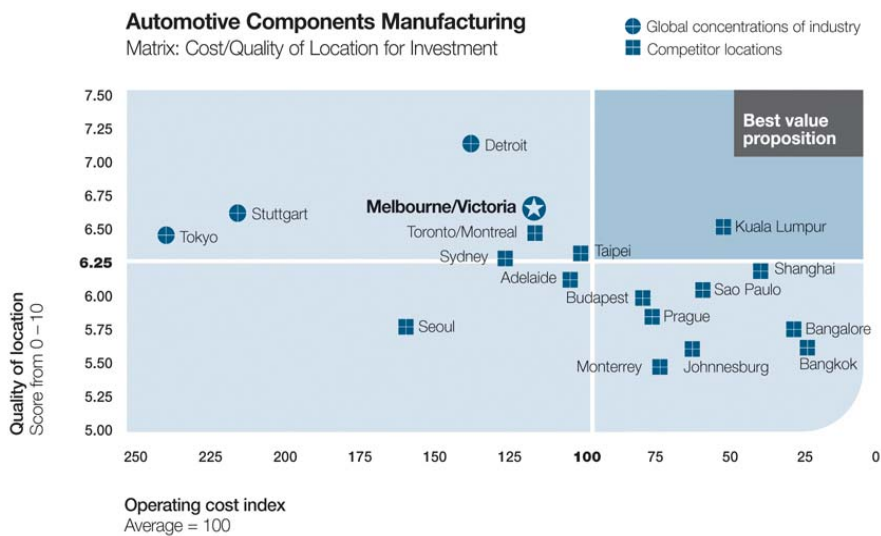
specialist manufacturing, and automotive design internationally, to potential and existing investors.

To support its efforts, Invest Victoria regularly commissions IBM Consulting (Brussels) to provide update reports on Victoria's competitive position for various industry sectors compared to benchmark locations.

These reports identify the main location drivers for specific industry sectors. The main location drivers identified for automotive component manufacturing are operating costs, site availability, financial support, availability of qualified manufacturing staff and access to customers. This knowledge provides a sound basis for devising an approach seeking automotive component investment.

The 2005 update found that while the Victorian vehicle component manufacturing sector still offers the highest quality levels for automotive components manufacturing in the Asia Pacific region, the competitive positioning of locations such as Malaysia and China have been improving over time. These locations offer cost structures almost half those of Australia. The chart below illustrates the comparative cost and quality positions of various global locations for automotive components investment. International investment projects in the automotive sector are dominated by China, India and Thailand within the Asia Pacific.¹⁴ The Victorian Government expects that we will continue to see increasingly tough competition from other Asian manufacturing locations going forward.

Graph 3

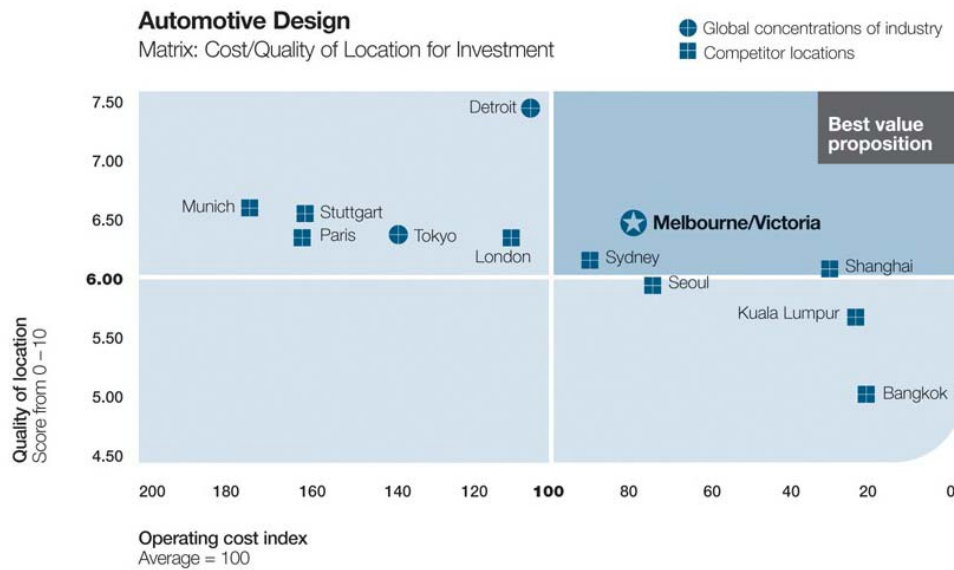


Source: IBM Benchmarking Study 2005 commissioned by Invest Victoria, Department of Innovation Industry and Regional Development, Victorian Government.

The 2005 update also found that Victoria is well placed as a global location for automotive design due to a combination of high quality location factors such as skills levels and R&D with operating costs well below those of other high quality locations in Europe and Japan. (See chart below.) This indicates that while our historic competitive advantage in components manufacturing may be eroding, there is potential for us to build globally competitive strengths in the innovative and design end of the sector.

¹⁴ China accounted for over 50% of all investment projects tracked by Invest Victoria in 2005, followed by India 20%, and Thailand 15%.

Graph 4



Source: IBM Benchmarking Study 2005 commissioned by Invest Victoria, Department of Innovation Industry and Regional Development, Victorian Government.

A key policy imperative for the Australian automotive sector will therefore, be to ensure that we ‘move up the value chain’ in order to remain globally competitive. This will require investment in ongoing innovation and up-skilling of our current workforce to keep pace of global automotive sourcing trends.

Successful firm strategies for innovation and investment

Whilst Government plays a crucial role in creating an environment that encourages business innovation and investment, individual firms must also plan and invest for their future success.

The local industry understands that to remain competitive they will need to minimise costs within their production processes as soon as possible. This will require addressing a number of challenges such as;

- the rising costs of raw materials;
- appreciation of the Australian dollar;
- cost of design;
- value of investment in Australia;
- difficulties in sustaining domestic demand,
- labour costs; and
- shifting purchasing patterns of major customers.

There are a number of companies that have countered potentially disastrous outcomes arising from supply chain decisions or cost pressures by putting strategies in place to ensure their ongoing survival. It is these companies that industry and government can learn from to better enable the development of similar approaches required in an increasingly competitive environment.

PBR Australia

PBR was established in 1927 and has 1600 employees worldwide. PBR Australia manufactures and supplies lightweight braking systems to leading vehicle and system manufacturers around the world and has been selling the bulk of its production to General Motors, North America, which fits 60 per cent of its vehicles with PBR technology.

The company recognised in the early 1990s that competing internationally required innovation, manufacturing excellence, product quality, logistics and service standards.

PBR has implemented an infrastructure that fosters the ongoing development of innovative ideas and challenges conventional thinking. As a result, PBR brakes are now used for over 60 different models of cars across Australia, Asia and North America. To achieve this success PBR:

- ships product half way around the world to leading vehicle manufacturers;
- delivers rapid design solutions through its 24 hour global design team;
- utilises a self-developed model for high-quality localised production;
- provides representation in Australia, North America, Japan, Malaysia, Thailand, Germany and Italy;
- works with a highly competitive global supply base;
- produces high quality products in line with ISO/TS16949 international quality standards;
- produces products under licence in China , Japan , Korea , Turkey , Brazil and North America; and
- possesses a comprehensive understanding of the importance of supply chain management.

MTM Pty Ltd

MTM Pty Ltd is a medium sized privately owned company that was established in Victoria in 1965. It currently employs approximately 250 people, and has an annual turnover of \$45 million. The company supplies exclusively to the automotive industry and has domestic contracts with Holden, Ford, Toyota and Mitsubishi. The company's in-house manufacturing capabilities include full design, engineering, tooling, metal stamping, plastic injection moulding, welding and assembly operations for a wide range of automotive products.

The company has pursued a strategy to maintain diverse customer contracts (avoiding putting all its eggs in one basket), balanced product volumes and, as close as possible, sought to achieve a balance between domestic and export sales. In order to pursue export sales, the company developed two of its existing products to suit vehicles produced by overseas vehicle makers targeting the "Big 3" in North America. This initiative led to a contract with General Motors North America in 1997 for 200,000 parts per annum and has since grown to 3 million per annum. Other export initiatives include a new joint venture recently established in China and active pursuit of new business in Europe Asia and South Africa.

Hook Plastics

Hook Plastics is a family owned moulding company providing a full in house service from part design to tool and component manufacture and supply. The company has been in operation since 1939 and has grown to become a world class operation specializing in international standard precision high visibility assemblies for the automotive, electronics, telecommunications and appliance industries.

Currently employing around 160 personnel, Hook services local OEM customers both Ford and GM-Holden in a first and second tier capacity with instrument panel vent assemblies, door handles and other colour key components.

Like many manufacturers, Hook faced a number of challenges over the years to remain competitive. During this time the company realised that manufacturing for the domestic market offered little growth opportunities for the future.

The company therefore undertook a strategy to position itself as a supplier of world class plastic mouldings and assemblies to local divisions of export-oriented multinational companies. In some instances, the company exports to the overseas affiliates of its customers, but through arrangements with the local affiliates. The company had previously been supplying mouldings to a local division of Siemens for supply to Telstra and also to meet Siemens' export contracts.

Other local customers such as Robert Bosch and Delphi have provided a stepping stone to export work that has complemented local volumes. The opportunity of this work has kept Hook Plastics on track in a difficult economic market.

The strategy has resulted in higher production and sales volumes. The company's bargaining power has increased and it is now in a much better position to meet the demanding requirements of its multinational customers.

The main ingredients for success shown by these case studies are:

- ability in design, engineering and developing innovative products in-house;
- recognition that export sales are extremely important to balance domestic contracts;
- initiative to identify new product opportunities;
- high quality process and products;
- diversifying the customer base to minimise vulnerability;
- capitalising on existing supplier relationships with multinational companies; and
- designing and developing appropriate products and proactively pursuing overseas car assemblers.

Factors for future success

The future of the automotive components industry beyond the next 5 years is not easy to predict. Careful and realistic planning will need to occur to realign the

industry to withstand fierce competition from overseas suppliers and the potential rationalisation of Australia's current vehicle manufacturing capacity.

Much of the industry's future success will rest on its own innovativeness, level of technology, access to global supply chains, product quality and desirability. However, Governments will play a critical role by providing:

- an environment that fosters continued enhancement in the industry's technology, innovation and skills capabilities;
- measures to support firms to invest in equipment that enables responsiveness to market demands for high volume, high quality products;
- improved market access to global supply chains to embed Australian suppliers and increase the industry's volume growth; and
- a constructive, collaborative approach to fostering continued labour productivity and skills improvement.

Conclusion

- **The Victorian Government is concerned about the potential for the new WorkChoices legislation to adversely affect ongoing skills development within the industry.**
- **A national approach to workforce planning is required to encourage sustained investment in skill formation for the long-term.**
- **The Victorian Government currently supports a number of programs and activities which assist the sector. The Commonwealth should better leverage the activities of State Governments in encouraging R&D as a key driver of innovation and competitiveness within the industry.**
- **Commonwealth R&D incentives should be provided at a level commensurate with Australia's competitors.**
- **The Automotive Competitiveness and Investment Scheme (ACIS) is a valuable source of assistance for innovation in the automotive industry. However, the Inquiry should consider the need for a review of the Scheme to ensure that it encourages R&D within Australia and not inadvertently provide incentives to use imported products.**
- **The Inquiry should examine the strategies of a number of successful Australian automotive component companies in order to identify the key factors that are enabling them to compete effectively in an increasingly globalised environment.**

6. Summary of key points in the submission

General

- The automotive industry is a highly strategic sector within the Australian economy and a key driver of manufacturing innovation with strong linkages to other manufacturing sectors.
- The automotive components sector is essential to the retention and ongoing development of the Australian automotive industry. It is unlikely that the Passenger Motor Vehicle sector will manufacture and assemble vehicles in Australia without a competitive Australian automotive components sector.

Current and future employment trends in the industry

- Globally, employment in the industry is being significantly affected by a number of dramatic and rapid changes, including increasing global sourcing, changing consumer preferences and the proliferation of Free Trade Agreements. These trends are combining to create significant commercial pressures for Australian components manufacturers, as well as some opportunities.
- Data on employment in the automotive components sector is no longer collected by the Commonwealth. Information provided to the Victorian Government by the industry indicates that commercial pressures are having significant negative impacts on employment. However, there is an urgent requirement for more comprehensive data to accurately measure this impact and to determine likely future employment trends.

Emerging skill shortages and appropriate recruitment and training strategies

- The Victorian Government believes there are emerging skill shortages in the industry in some specific areas such as engineering. In addition, more generic management and project skills are required to enable the industry to adapt to increasingly globalised business operations.

Labour adjustment measures required to assist redeployed and affected workers

- In redesigning its assistance measures for the automotive industry in 2002, the Productivity Commission's modelling indicated there would be employment losses. As the available data indicates, this is now a reality. The Commonwealth should offer specific structural adjustment assistance to affected employees as has been provided in other sectors such as TCF.
- It is essential that the Inquiry recommend the commissioning of a national survey of retrenched workers in the automotive components sector to determine their post employment experience.

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

- The Victorian Government is concerned about the potential for the new WorkChoices legislation to adversely affect ongoing skills development within the industry.
- A national approach to workforce planning is required to encourage sustained investment in skill formation for the long-term.
- The Victorian Government currently supports a number of programs and activities which assist the sector. The Commonwealth should better leverage the activities of State Governments in encouraging R&D as a key driver of innovation and competitiveness within the industry.
- Commonwealth R&D incentives should be provided at a level commensurate with Australia's competitors.
- The Automotive Competitiveness and Investment Scheme (ACIS) is a valuable source of assistance for innovation in the automotive industry. However, the Inquiry should consider the need for a review of the Scheme to ensure that it encourages R&D within Australia and not inadvertently provide incentives to use imported products.
- The Inquiry should examine the strategies of a number of successful Australian automotive component companies in order to identify the key factors that are enabling them to compete effectively in an increasingly globalised environment.

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