

The Australian automotive components industry

- 3.1 Understanding the context and factors shaping the automotive component industry is integral to identifying its future opportunities. This chapter gives an overview of the Australian automotive components manufacturing industry, including a discussion of the major domestic and global changes affecting the industry, revenue sources, local content levels and relationships along the supply chain.
- 3.2 To meet the challenges of change, the industry is reliant on a trained and adaptable workforce. A discussion is given on the current workforce profile, the education and skill levels available to the industry and its dependence on effective workplace relations mechanisms.
- 3.3 Integral to building and maintaining a strong workforce is ensuring that employees are suitably trained. The automotive components industry utilises a combination of formal and on-the-job training practices and the chapter examines both of these to identify gaps in training provision.

Size and structure of the automotive components industry

- 3.4 The Australian automotive and automotive component manufacturing industries have been vital in the history of Australia's nation building. They have contributed to economic development, make a significant investment in research and development (R&D), and are sizeable employers.

- 3.5 To service a country in need of an effective transport system, the capacity of the Australian automotive industry developed early, following closely the development of the automobile. Throughout the 1950s and 60s high import costs (including transportation costs, high import tariffs and local content requirements) led to the development of a vibrant local components industry.
- 3.6 International pressures, such as rising oil costs and a downturn in global trade during the 1970s, impacted on the viability of the local industry. This led to the introduction of import quotas and an increase in import tariffs which assisted in stabilising the industry. However, the introduction of export facilitation later that decade 'effectively allowed exporters to exchange automotive exports for component imports without affecting 85 per cent local content achievement.'¹
- 3.7 The 1980s saw a reduction in government protection and policy of industry rationalisation. Internationally, big automotive companies were also rationalising and Japan made a strong competitive entrance into the market. Japanese lean production methods were to later revolutionise the role and function of the components industry.
- 3.8 Component companies were also consolidating, and the 1990s saw 'the maturation of many component companies to become major component and technology exporters.'²
- 3.9 Today the motor vehicle production at the four major companies is supported by a complex and diverse supply chain of component and tooling manufacturers.
- 3.10 The industry is an important contributor to the Australian economy. With exports valued at nearly \$4.7 billion (vehicles and components), the automotive industry accounts for 6 per cent of total manufacturing activity and 0.7 per cent of total economic activity.³ Within that, automotive components are the only elaborately transformed manufactured good in Australia's top ten principal merchandise exports.⁴
- 3.11 In addition, the industry makes a significant contribution to product, process, technological innovation and R&D in Australia: 'In 2002-03, Business Expenditure on R&D by Australian automotive companies totalled \$731 million.'⁵

1 Australian Automotive Intelligence, *Automotive Intelligence Yearbook 2006*, March 2006, p. 8.

2 Australian Automotive Intelligence, *Automotive Intelligence Yearbook 2006*, March 2006, p. 9.

3 Australian Bureau of Statistics (ABS), *Year Book Australia 2005*, January 2005, Cat. No. 1301.0, pp. 547-51.

4 Department of Employment and Workplace Relations (DEWR), *Submission No. 11*, p. 5.

5 Victorian Government, *Submission No. 24*, p. 3.

- 3.12 The fortunes for component manufacturers are highly integrated with those of the vehicle producers. In 2004, 91 per cent of total component sector sales, valued at \$7.1 billion, were to the four Australia motor vehicle producers. Component sector sales increased to \$7.3 billion in 2005 but domestic sales to the motor vehicle producers dropped slightly to approximately 90 per cent of this total.⁶ Total sales for the four vehicle producers are valued at approximately \$17 billion per year.⁷
- 3.13 Employment and production at the four motor vehicle producers is outlined in Appendix D.
- 3.14 In those states where automotive manufacturing is concentrated, it forms a significant part of the state economy:
- automotive manufacturing contributes 2.4 per cent of South Australia's Gross State Product 'generating exports worth almost \$1.2 billion in the year to November 2005 and providing direct employment for around 14 800 people.'⁸
 - in 2001-02, automotive manufacturing contributed \$2.6 billion to the Victorian state economy and contributed 1.4 per cent of Gross State Product and providing employment for over 14 800 people.⁹

Changes affecting the components industry

- 3.15 While the automotive industry forms a significant part of the Australian economy, in terms of the global vehicle industry Australia is a minor participant, contributing only 0.6 per cent of global automotive production.¹⁰ Regardless, the Australian automotive industry is not immune to international competitive pressures. As all four of the vehicle manufacturers are owned by major multinational companies, business decisions are made on a global level and not necessarily in consideration of the sustainability of local industries.

6 Federation of Automotive Product Manufacturers (FAPM), *Member Totals for Year Ending 30 December 2005*.

7 DEWR, *Submission No. 11*, p. 4

8 South Australian (SA) Government, *Submission No. 5*, p. 3.

9 Data provided by Department in Innovation, Industry and Regional Development (Victoria), 1 November 2006; Victorian Government, *Submission No. 24*, p. 10.

10 DEWR, *Submission No. 11*, p. 5.

- 3.16 Because of this, any challenges at a global level pose a serious threat to the Australian industry's viability. The primary challenges to the Australian automotive industry are:
- the global corporate environment providing competitive challenges to parent companies;
 - integrated global supply chain management used by parent companies to centralise sourcing, pricing and quality control;
 - the emergence of China, India and Thailand, coupled with tariff and non-tariff barriers, to Australian imports;
 - the rising cost of fuel driving down consumer demand for large passenger vehicles;¹¹ and
 - exchange rate risks due to the high price for raw materials and the commodity-linked exchange rate.¹²
- 3.17 These pressures are being felt in a deterioration of the competitive position of locally made vehicles and 'an overall deterioration in retail price competitiveness for the locally manufactured vehicles of around nine per cent' amounting to sales losses of 50 000 units.¹³ The export market is also deteriorating under the appreciation of the Australian dollar. In 2005 this resulted in a drop in sales of 18 000 units from previous highs.¹⁴
- 3.18 As the fortunes of the component industry are so closely interlinked with the motor vehicle producers (MVPs), these sales downturns are being felt along the supply chain. The most significant threat to the component industry is the competition provided by imports.
- 3.19 Automotive imports, including components, increased from \$6.14 billion in 1989-90 to \$19.90 billion in 2002-03. This equates to an increase of 224 per cent. Over the same period, the total industry value added¹⁵ fell by five per cent. This indicates a significant downward shift in the value of the industry against imports, where 'in 1989-90 total value added was equal to 85 per cent of imports, but by 2002-03 this had fallen to just 25 per cent.'¹⁶

11 Federal Chamber of Automotive Industries (FCAI), *Submission No. 27*, p. 2.

12 Australian Industry Group (Ai Group) and Engineering Employers Association, South Australia (EEASA), *Submission No. 26*, p. 4.

13 FCAI, *Submission No. 27*, pp. 2-3.

14 FCAI, *Submission No. 27*, p. 5.

15 Industry value added is a measure of the net value of production in an industry.

16 Australian Expert Group in Industry Studies, University of Western Sydney (AEGIS, UWS), *Submission No. 15*, p. 2.

3.20 The decline in local manufacturing and the increase in imports has serious implications for Australia's position as a competitive nation, not only in terms of manufacturing but also in relation to our capacity to support innovation and R&D. Dr Phillip Toner, of the Australian Expert Group in Industry Studies at the University of Sydney, submitted that:

These adverse trends in the automotive industry are part of a larger deterioration in the performance of Extensively [elaborately] Transformed Manufactures (ETMs) in Australia of which the automotive industry is an important part ... In 2004-05 Australia imported \$110bn of ETMs and exported \$24bn in ETMs resulting in a trade deficit in ETMs of \$85bn. This is equivalent to nearly 10 per cent of GDP. Australia's deficit in automobiles and parts is the equivalent of 2 percent of GDP. Over the last four years, the level of ETM exports actually declined.

The inference to make from these data is that not only is Australia becoming less competitive in the manufacture of automotive products but this is part of a larger trend which has seen the nation's ETM performance deteriorate markedly, especially over the last four years. It is clear that current policies for the promotion of ETM exports, in terms of skills, R&D, innovation and investment need to be re-evaluated.¹⁷

Component sector revenue sources

3.21 Despite growing international pressures and import threats, revenue growth for the component sector has been reasonably strong. Although heavily dependent on the domestic MVPs, the component sector has diversified its revenue base. The Federation of Automotive Product Manufacturers (FAPM) reports that changes in revenue sources in the ten years from 1994 to 2004 were:

- the original equipment (MVP) domestic market increased from 54 to 62 per cent;
- original equipment exports fell from seven to six per cent;
- domestic aftermarket sales fell significantly from 35 per cent to 14 per cent;
- export aftermarket sales fell from four to one per cent; and

17 AEGIS, UWS, *Submission No. 15*, p. 2.

- by 2004, 17 per cent of revenues were derived from automotive specific activity other than manufacturing.¹⁸

3.22 International competitive pressures are rapidly increasing and consequently sustained diversification of the sector's revenue base will continue to be a priority for the industry.

Local content levels

3.23 The Committee is concerned that global purchasing models will continue to erode the local content in Australian vehicles. Conservative estimates put the decline in local content at five to six per cent based on known contract losses in 2005 and 2006¹⁹ although evidence to this inquiry suggested it was much higher.

3.24 There is no longer any reporting of the percentage of local components used in locally produced vehicles and the Committee is surprised by this. While the Committee heard consistent reports of declining local content, the lack of any reporting requirements means this cannot be confirmed through verifiable figures.

3.25 However, as an example, the Committee heard consistent and seemingly reliable evidence that the local components have fallen from over 70 per cent in the previous model to approximately 55 per cent in the new GM Holden VE Commodore.²⁰

3.26 GM Holden disputed these figures stating:

GM Holden does not accept these figures ... GM typically does not quote the proportion of local content for a number of reasons, chief among them the great difficulty that exists in identifying a consistent measure. There are also significant competitive sensitivities.²¹

3.27 The Committee notes GM Holden's concerns although remains concerned about the implication of the decline in local content on the supply chain.

18 FAPM, *Submission No. 16*, pp. 11–12

19 Ai Group and EEASA, *Submission No. 26*, p. 8

20 Australian Manufacturing Workers Union (AMWU), *Submission No. 17*, p. 21; Victorian Government, *Submission No. 24*, p. 5; Mr D. Cameron, AMWU, *Transcript of Evidence*, 26 June 2006, p. 22; Mr P. Upton, FAPM, *Transcript of Evidence*, 26 June 2006, p. 61; Mr A. Haermeyer MP, Minister for Manufacturing and Export, Victorian Government, *Transcript of Evidence*, 26 June 2006, p. 76.

21 Mr K. Aquilina, National Manager, Government Relations and Policy, GM Holden. Correspondence dated 12 July 2006.

- 3.28 Both Ford and Toyota indicated a firm commitment to the local industry and developing local supply chains. This is reflected in the reported levels of local components of around 80 per cent.²²
- 3.29 The Committee was told that the Australian Government Minister for Industry, Tourism and Resources has:
- made it clear to the car industry that in return for the support the government gives them – and they get a lot of support – he expects the component industry to be given full, fair and reasonable opportunity to supply to them. At the end of the day, it is not something we can force. We cannot enforce levels of local content. That would be something that is not compatible with our World Trade Organisation obligations.²³
- 3.30 The support given to the automotive industry under the Automotive Competitiveness and Investment Scheme (ACIS) and subsequent accountability measures are further discussed in Chapter 5.
- 3.31 The reduction of diversity of local markets for the components industry will lead to the formation of single line supply chains which are not responsive to the changing global marketplace. It was submitted to the Committee by the Australian Manufacturers Workers' Union (AMWU) that there is a 'climate of fear based on the complete control that the ... [MVPs] have over the component sector within Australia.'²⁴
- 3.32 The Committee has no evidence regarding any inappropriate actions on the part of MVPs. However, some manufacturers were reticent about speaking to the Committee citing fears of retribution through loss of contracts. The Committee is unable to comment on these issues as, despite intimations of fear and control taking place within the industry, no evidence was received on record.
- 3.33 The operational capacity of both sectors is so closely integrated that the failure of one part of sector can be felt across the supply chain. Global changes in the automotive industry make it apparent that it is not sustainable for the MVPs to determine the conditions under which the entire Australian industry must work.
- 3.34 The Committee affirms the importance of a diverse and openly competitive market that recognises connections and responsibilities across

22 Ford Motor Company of Australia, *Submission No. 4*; Toyota Australia, *Submission No. 9*; AMWU, *Submission No. 17*, p. 21.

23 Mr K. Pettifer, Department Industry, Tourism and Resources (DITR), *Transcript of Evidence*, 15 June 2006, p. 4.

24 Mr D. Cameron, AMWU, *Transcript of Evidence*, 26 June 2006, p. 20.

the supply chain, provides opportunity for a range of industry players and encourages innovation.

Integrated supply models

3.35 There are successful examples of suppliers integrating more closely with vehicle manufacturers. One innovative model of supplier integration is the Edinburgh Parks Automotive Precinct (Edinburgh Parks) in South Australia.

3.36 Edinburgh Parks is described by the South Australian Government as follows:

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

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

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

The component manufacturers are also part of an Automotive Suppliers Group that has been formed by the Northern Adelaide Economic Development Alliance to enable the companies to address issues of common interest such as the road networks, staff training and development, childcare and medical facilities at Edinburgh Parks.²⁵

3.37 The Committee visited Edinburgh Parks in May 2006, while suppliers were preparing for the commencement of operations to service the new Holden VE Commodore. The Committee was impressed by how well the development enabled component manufacturers to service the just-in-time production model.

3.38 However, beyond the just-in-time production model, the co-location of manufacturing offers many more opportunities than are currently being explored. While the manufacturers located at Edinburgh Parks were collaborating on recruitment and some training, the model also lends itself to collaboration on wider employment issues such as training, the

25 SA Government, *Submission No. 5*, p. 16.

provision of services (such as childcare) and joint employment opportunities for consultant staff such as business engineers.

- 3.39 The Edinburgh Parks model has been heavily supported by the South Australian Government and this has afforded a measure of leadership to assist industry, local, state and federal government agencies, and training facilities to work collaboratively. The Precinct also hosts Defence, logistics, general and service industries. There may be further opportunities to work with these industries on shared business issues.
- 3.40 This model of development reflects global manufacturing models and similar just-in-time supplier models are being utilised by other individual component manufacturers in both South Australia and Victoria. However, the Committee notes concerns of some that declining local content and lack of contract security will limit the capacity for future development of these models.²⁶
- 3.41 The lack of contract security discourages component manufacturers from taking business risks. The Ajax Fasteners' crisis discussed in the previous chapter highlights this point. Without contract security, component manufacturers have no ability to plan for future production or employment levels, placing the supply chain in a high degree of uncertainty.

Relationship to the aftermarket

- 3.42 Between 1994 and 2004, domestic aftermarket sales fell from 35 to 14 per cent and export aftermarket sales fell from four to one per cent of component sector revenue.²⁷
- 3.43 Despite this, the component manufacturing industry remains an integral part of the supply chain for the aftermarket. Aftermarket manufacturers operate across the automotive supply chain. They produce, distribute and retail automotive parts and accessories to the value of approximately \$8.1 billion per annum and employ approximately 35 000 people.²⁸

26 Mr L. Piro, Department of Trade and Economic Development, SA Government, *Transcript of Evidence*, 1 May 2006, p. 32.

27 FAPM, *Submission No. 16*, pp. 11-12.

28 AAAA, *Submission No. 18*, pp. 3-4.

- 3.44 A reduction in both component manufacturing and local content will continue to reduce the size of the aftermarket. The Australian Automotive Aftermarket Association (AAAA) is concerned that further reduction in the local market will lead to increased off-shoring:

It is the view of the AAAA that maintaining a local vehicle manufacturing industry in Australia is critical to the long term viability of most automotive aftermarket manufacturing as original equipment manufacturing provides the volumes and economies of scale to justify local production and research and development. In many cases there is insufficient volume in the pure aftermarket to sustain the level of investment (and re-investment) to develop and manufacture products locally. As such we are now seeing many purely independent aftermarket suppliers shifting some or all of their production offshore in order to remain competitive. Without local vehicle manufacturing we would anticipate many manufacturers that service original equipment and aftermarket to follow this trend.²⁹

- 3.45 The AAAA noted that for R&D to be viable, it must be co-located with manufacturing. Although companies are currently making efforts to keep R&D in Australia, this is unlikely to be sustainable as manufacturing continues to move off-shore. The issue of R&D support is further discussed in the chapter on investment and innovation.

- 3.46 The Institute of Automotive Mechanical Engineers noted concerns the increased use of imported parts was blocking local suppliers out of the market:

[The] automotive service and repair industry has noted an unhealthy situation related to obtaining technical information from vehicle manufacturers that has become increasingly serious in recent years. In addition, some components have become difficult (if not impossible) to obtain and in many instances are provided at unrealistically high prices.³⁰

29 AAAA, *Submission No. 18*, p. 5.

30 Institute of Automotive Mechanical Engineers, *Submission No. 3*, p. 2.

Employment

- 3.47 Despite the challenges facing the automobile and automotive components industry, they remain major Australian employers. The industry has experienced some workforce fluctuations in recent years and will continue to experience these in the near future. However, the ability to predict future employment trends is hampered by limited and inadequate data.
- 3.48 From available data, it is known that the industry's workforce tends to have higher education and skills levels than general industry levels. The automotive industry continues to be a major contributor to the wider skilled workforce through its contribution to on-the-job training.
- 3.49 Employment, education and skills levels are also dependent on effective workplace relations arrangements. The following section of the report discusses these issues in further detail.

Workforce profile

- 3.50 According to the most recent available census data (2001), the automotive industry as a whole employed 62 660 people, 24 424 of which were employed by the automotive component manufacturing sector.³¹
- 3.51 The Australian Bureau of Statistics (ABS) no longer disaggregates data on the automotive industry to the component manufacturing sector. Therefore it is difficult to undertake accurate labour market analysis given the differences in employment levels in the separate parts of the sector.
- 3.52 The most accurate automotive component industry employment figures come from the FAPM which undertakes an annual membership survey to gauge employment and sales figures.³²
- 3.53 As at 30 December 2005, the components sector employed 22 745 employees, down from 27 935 the previous year. Significant redundancies have also taken place throughout 2006 so it can be projected that the actual employment figure is lower again. From member surveys, FAPM predicted that from 2004 to 2006 there would be a net loss of 12 per cent of the component workforce.

31 Department of Industry, Tourism and Resources (DITR), *Key Automotive Statistics 2004*, p. 35

32 FAPM estimates that 99 per cent of all component manufacturers hold membership.

- 3.54 The majority of employment is centred in Victoria, comprising 74 per cent of total employment³³. Employment in South Australia increased from 13 to 20 per cent of the national share (2004 to 2005)³⁴, whereas that in New South Wales and Queensland fell from 12 to seven per cent of total national automotive employment.³⁵
- 3.55 Based on data collected at the 2001 census, 77.9 per cent of component sector employees are male, which is significantly higher than the average for all industries at 54.8 per cent. In addition:
- 54 per cent of employees were aged 25 to 44, which was higher than the all industry average of 49 per cent; and
 - the employment share of persons aged 45 and over was 35 per cent, only slightly higher than the all industry average (34.3 per cent). The share for those workers aged 15 to 19 was 2.7 per cent, significantly lower than the all industry average of 6.6 per cent.³⁶
- 3.56 Not only is the industry a significant employer, but each job has a multiplier effect – studies estimate that for every job created in the automotive industry, 6.5 jobs are created in supply and consumer industries.³⁷
- 3.57 Since the 2001 census there has been significant change in labour market conditions. National employment growth has been robust, in particular in the 12 months to December 2005, increasing by 2.1 per cent.³⁸ As at September 2006, the national unemployment rate stood at a record low of 4.8 per cent.³⁹
- 3.58 As Figure 3.1 demonstrates, general employment growth has not been reflected in the manufacturing sector as a whole, which ‘recorded the second largest fall in employment (in percentage terms) of any industry’, down by 2.6 per cent. Manufacturing moved from the largest employing industry in 1990 to the third largest in 2005, experiencing significant fluctuations over this time.⁴⁰

33 This figure incorporates Tasmanian employment.

34 This figure incorporates Western Australian employment.

35 FAPM, *Submission No. 16*, p. 7; FAPM member totals for year ending 30 December 2005.

36 DEWR, *Submission No. 11*, p. 13.

37 AMWU, *Submission No. 17*, p. 4.

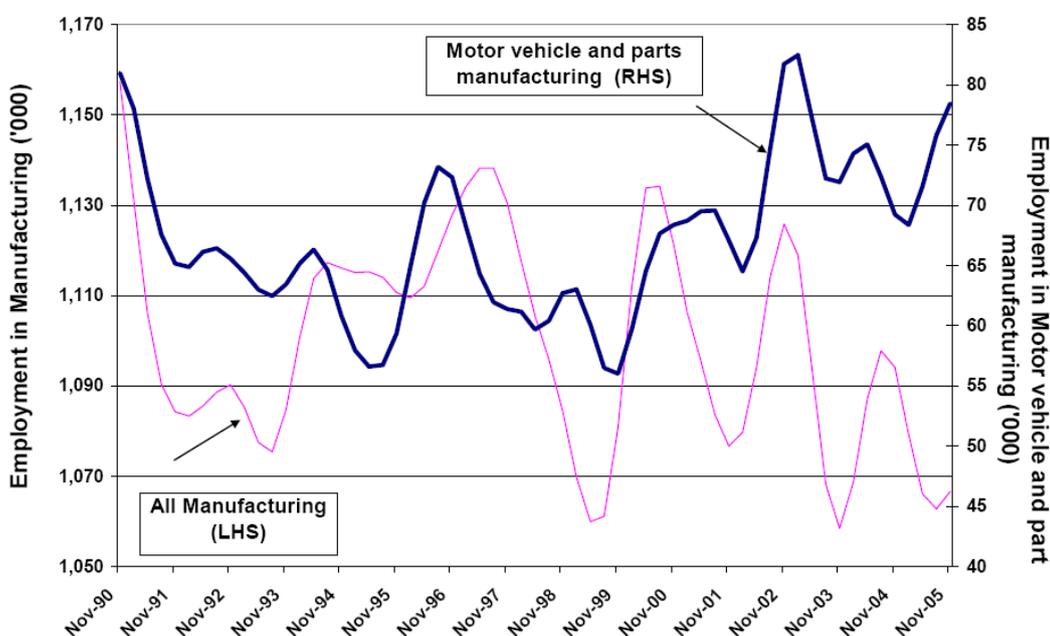
38 DEWR, *Submission No. 11*, pp. 10–11.

39 ABS, *Labour Force Australia*, October 2006 (cat no. 6202.0).

40 DEWR, *Submission No. 11*, pp. 10–11.

- 3.59 There was some strengthening in employment in the motor vehicle and parts manufacturing sector over 2005, despite downsizing by some MVPs and the reduction in the automotive tariff.
- 3.60 The Department of Employment and Workplace Relations (DEWR) cautions that the predicted softening in new motor vehicle sales and the decline in automotive component exports will put pressure on employment in the automotive component sector.⁴¹ The Committee notes that this has been borne out over 2006 with a number of reported component sector redundancies.

Figure 3.1 Employment in manufacturing and the motor vehicle and parts manufacturing sector, November 1990 to November 2005, trend data



Source: DEWR, Submission No. 11. Based on ABS Labour Force, detailed data release (Cat. No: 6291.0.55.001), December 2005.

- 3.61 The lack of adequate disaggregated data for the motor vehicle and parts manufacturing sectors means employment changes cannot be tracked nor trends predicted in component manufacturing as opposed to vehicle manufacturing. Data collected at state level indicates that there is a serious negative employment trend that is not being statistically recorded.⁴²

41 DEWR, Submission No. 11, pp. 12-13.

42 SA Government, Submission No. 5; Victorian Government, Submission No. 24.

- 3.62 Given the critical importance of the automotive component industry to the economy, there is an urgent need for comprehensive data to be collected about employment in this sector in order to determine the future employment trends and appropriate sector policies.

Recommendation 1

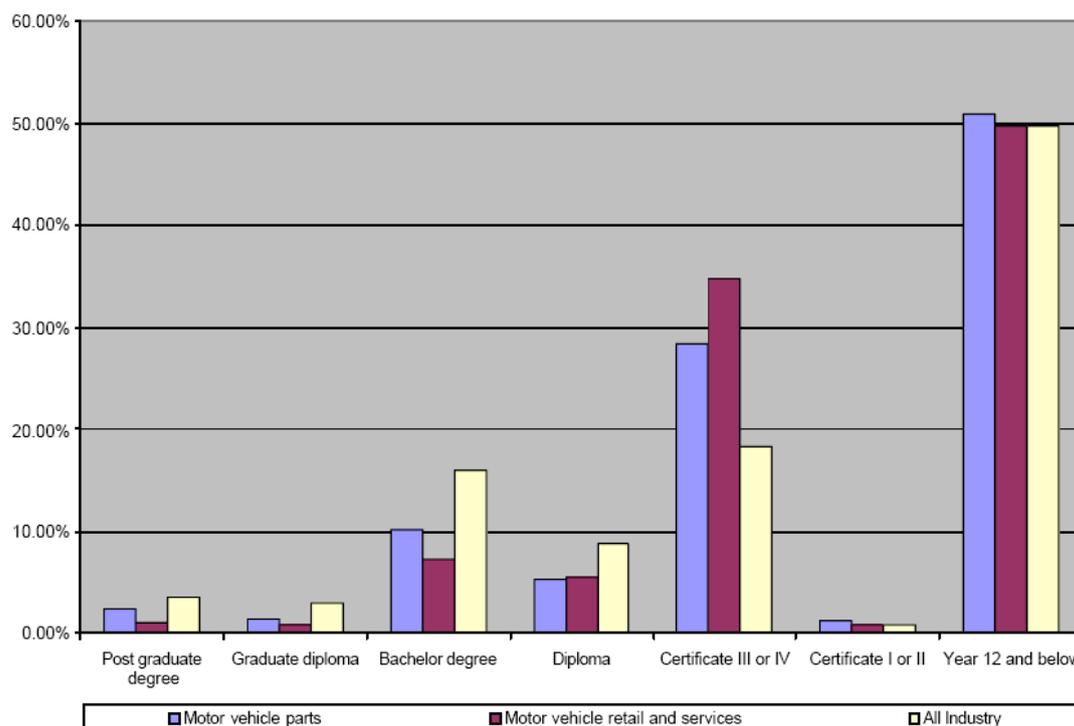
The Committee recommends that the Australian Bureau of Statistics publish disaggregated data on the automotive industry to the level of the automotive component manufacturing sector.

Education and skill levels

- 3.63 Due to the lack of disaggregated data, it is difficult to ascertain the educational attainment of workers in automotive component manufacturing as a sector.
- 3.64 However, 2001 data on the automotive industry (motor vehicle and parts manufacturing) indicates the following attainment levels:
- nine per cent hold a bachelor degree or higher, compared to the all industries average of 21 per cent;
 - 32 per cent hold skilled vocational qualifications, which is higher than both manufacturing (25 per cent) and all industries average (15 per cent); and
 - other post-school qualifications (including basic vocational training) were on average with all industries average at 16 per cent;
 - 56 per cent of all workers had some form of post-school qualification.⁴³
- 3.65 Despite the recent downturn in employment, educational attainment levels remain at similar levels. The employment data demonstrated in Figure 3.2 indicates that vocational education and training qualifications held by automotive industry employees continues to be higher than general industry levels.

43 Productivity Commission, *Review of Automotive Assistance Inquiry Report*, Report No. 25, August 2002, p. 72.

Figure 3.2 Automotive industry employment by qualification level



Source Monash Centre of Policy Studies, September 2005. Cited in *Automotive Training Australia, Automotive Industry Skills Report*, May 2006, p. 51. NB 'Motor vehicle parts' refers to motor vehicle and parts manufacturing.

3.66 A substantial part of the skills acquired by workers in the automotive industry is by on-the-job training. Therefore, formal qualification data does not reflect the true nature of skills available in the automotive industry. It has been observed that because of the on-the-job training that takes place, it is not appropriate to consider automotive workers as unskilled.⁴⁴

3.67 In its 2002 review of automotive assistance, the Productivity Commission found that:

The skill base available to the 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. Moreover, other industries and activities have benefited from the skills development that has taken place in the automotive sector.⁴⁵

44 *Automotive Training Australia (ATA), Vocational Education and Training in the Automotive Industry, 2004-2007*, December 2004, p. 16.

45 Productivity Commission, *Review of Automotive Assistance Inquiry Report*, Report No. 25, August 2002, p. 71.

Workplace relations

- 3.68 The automotive industry has a history of labour organisation, with traditional vertical management structures and skill demarcation. The introduction of lean production methods changes the traditional structure of the automotive workplace and can deliver a productive workplace or, in an adversarial culture, drive a wedge in productivity.⁴⁶
- 3.69 A recent *Asia Pacific Business Review* article notes that productive systems are also dependent on effective national industrial relations systems and vocational training systems, and therefore on Government, industry and employee (including union) collaboration. The article also notes that the interpretation of 'lean production' differs between companies and so how workplace relations will be affected will similarly differ.⁴⁷
- 3.70 Lean production methods create a higher level of interdependency across the supply chain which means that industrial disputes at any level are widely felt. The Institute of Public Affairs Work Reform Unit reported:
- Domestic assembly, like all car manufacturers worldwide, operates on tight 'just in time' delivery schedules, where product is manufactured and delivered almost immediately. The process results in low tolerance of error, inventories are minimal, margins are extremely tight and delays can quickly cascade into industry-wide shut downs.⁴⁸
- 3.71 Ai Group, FAPM and KPMG research indicates a number of issues affecting competitiveness. The AMWU note that industrial issues (which include pay increases and work ethic) are not the priority issues affecting competitiveness. Lower labour costs in developing countries, purchasing strategies of MVPs and the cost of raw materials are reported as more pressing issues.⁴⁹

46 G. P. Maxton and J. Wormald, *Time for a Model Change: Re-engineering the Global Automotive Industry*, Cambridge University Press, 2004, pp. 103-15.

47 R. Gough, M. MacIntosh and B. Park, 'The Influence of Decentralised Bargaining Systems on the Introduction of Continuous Improvement Practices in Australian Automotive Components Companies', *Asia Pacific Business Review*, vol. 12, no. 2, April 2006, pp. 209-211; 222.

48 The Institute of Public Affairs Work Reform Unit, 'The Capacity to Manage Index Report 3: The Australian Automotive Industry', *IPA Review*, vol. 55, no. 2, June 2003, p. 19.

49 Ai Group, FAPM and KPMG, *The Victorian Automotive Components Industry: Competitiveness, Profitability and Future Strategies*, March 2005, p. 17; AMWU, *Submission No 17*, p. 23.

3.72 The Australian Centre for Industrial Relations Research and Training (ACIRRT)⁵⁰ reports:

Our analysis of registered enterprise bargaining agreements [in the automotive industry] shows that, at a practical level, unions and employers are grappling with the dynamics of coordinated flexibility. This is an approach to labour market regulation that is increasingly recognised as associated with superior economic and equity outcomes.⁵¹

3.73 Industrial disputes at an individual company level can have a widespread effect across the automotive supply chain. However, in many instances component manufacturers are unable to match wages and conditions offered by MVPs which can lead to difficulties in enterprise bargaining agreement (EBA) negotiations. Flexdrive Cables Pty Ltd explained:

During the last round of EBA negotiations the industry was in a buoyant period. The unions were therefore in a strong position to secure good wage outcomes. ... [MVPs] apply intense pressure to ensure that no protected action undertaken during EBA negotiations impacts their production like activity. On the other hand the ... own EBA agreements foster unrealistic expectations that the component sector, already under significant cost pressure, is generally unable to meet.⁵²

3.74 MVPs are able to offer higher wages due to higher profit margins and funded in part by the savings achieved through component cost downs. MVPs may also be unwilling to recognise rising employment and commodity costs in contracts, placing intense pressure on component manufacturers during workplace negotiations.

3.75 The significant changes in component manufacturer contract arrangements with MVPs, including the pressures placed on profit margins by cost downs, will mean that future EBA negotiations are likely to be significantly affected:

Subsequent to the finalisation of our last EBA, contracts have been tendered and awarded for many parts on future models. The next round of EBA negotiations will need to take into account the significant price reductions already committed in winning this new business. The current round of new EBA negotiations will be

50 Known now as 'Workplace Research Centre'

51 Australian Centre for Industrial Relations Research and Training (ACIRRT), *A Critique of the Productivity Commission's Review of Automotive Assistance*, October 2002, p. 27.

52 Flexdrive Cables Australia Pty Ltd, *Submission No. 14*, p. 5.

very difficult for all parties given the state of the market, and enormous cost pressures on the industry globally.⁵³

3.76 The realities of contract negotiations also create inequitable bargaining positions between individual component manufacturing companies who may be supplying to multiple MVPs. As such there is:

no single coherent approach to the way in which their [workplace bargaining] performance can be measured. This leaves managers to respond quite pragmatically to different and possibly competing expectations in terms of cost down, quality, and other aspects of performance.⁵⁴

3.77 Workplace relations arrangements have the capacity to contribute to a high performance workplace model when undertaken in such a way that accommodates management ideas and employee involvement in productivity improvement. However, in order to achieve a supply chain that is not disrupted by industrial action, MVPs need to consider the pressures that purchasing arrangements place on component manufacturers.

Training systems and models

3.78 An effective industrial relations system is necessary for the implementation of training systems that provide entry to employment and career pathways. Occupation structures change over time, resulting in changes to skill needs. It is important that occupation and award classification structures have the flexibility to meet evolving employment and training needs.⁵⁵

3.79 In Australia, the training system is reliant on the co-operation of the Australian, state and territory governments and industry leadership.

3.80 Training in the automotive components industry currently takes place both through the formal training system and through informal on-the-job training.

3.81 Although formal training mechanisms are an important avenue for entrance into a career in the automotive industry, low participant numbers

53 Flexdrive Cables Australia Pty Ltd, *Submission No. 14*, p. 5.

54 R. Gough, M. MacIntosh and B. Park, 'The Influence of Decentralised Bargaining Systems on the Introduction of Continuous Improvement Practices in Australian Automotive Components Companies', *Asia Pacific Business Review*, vol. 12, no. 2, April 2006, p. 222.

55 Mrs L. Yilmaz, Victorian Automotive Chamber of Commerce (VACC), *Transcript of Evidence*, 21 March 2006, p. 2

indicates that industry investment is primarily in on-the-job and in-house training. Automotive Training Australia (ATA) states:

‘Continual learning’ epitomises the industry, and there is a substantial non-funded industry contribution to life-long learning activities. The manufacturing sector of the industry is leading edge and is exposed to intense global competition; as a consequence, the upgrading of skills of the existing workforce is paramount.⁵⁶

- 3.82 The reliance on on-the-job training means that industry/provider partnerships are an essential component to the provision of training. The ATA questions the ability for providers meet the challenges facing skills ‘in the absence of widespread industry partnerships.’⁵⁷

Component industry training practices

- 3.83 Despite the industry’s reliance on on-the-job training there is very little information available regarding the actual training taking place within the industry outside of the formal vocational education and training (VET) system.
- 3.84 The Committee notes that the national VET plan for the automotive industry released by ATA in December 2004 does not contain any data on the current state of industry contribution to training.
- 3.85 However, the ATA does note that due to reliance on on-the-job training:
- The industry makes a substantial contribution to training and development in its own right. In the case of many enterprises this contribution significantly exceeds publicly funded contributions.⁵⁸
- 3.86 The FAPM advises that improvement is needed in the areas of training hours per employee, training effectiveness and training alignment with business objectives. FAPM has found that these issues are becoming increasingly significant, with deterioration occurring markedly each year.⁵⁹
- 3.87 The automotive components industry spends slightly more on training as a percentage of the average wage per year (\$625 or 1.3 per cent of the average wage) than the manufacturing sector as a whole (\$645 or 1.2 per

56 ATA, *Vocational Education and Training in the Australian Automotive Industry, 2004–2007*, December 2004.

57 ATA, *Vocational Education and Training in the Australian Automotive Industry, 2004–2007*, December 2004, p. 32.

58 ATA, *Vocational Education and Training in the Australian Automotive Industry, 2004–2007*, December 2004, p. 34.

59 FAPM, *Submission No. 16*, p. 19.

cent of average wage). As an average, 'employees in the automotive components sector receive 6.25 hours each per year of training'.⁶⁰

3.88 Even though expenditure is greater, it is not necessarily on skills development but rather on training to comply with regulatory requirements (such as occupational health and safety training), and internal processes.⁶¹ This is supported by FAPM's findings that of all areas requiring improvement training alignment with business objectives has experienced the most significant decline.

3.89 Notwithstanding, smaller companies rate training outcomes as more effective than larger companies, even though larger companies deliver significantly more training hours. This is thought to be because larger companies need to devote more training hours to technological advances, whereas smaller companies are able to align training more closely with business priorities. This outcome is also represented through exporting and non-exporting companies:

The hypothesis is that one segment of companies, exporters, are compelled to undertake training ... set by the more sophisticated expectations of their international customers. Conversely, non-exporting companies have greater freedom to choose their training needs and choose to do less, but more effective training.⁶²

3.90 The Committee notes that typically the burden for training graduates, apprentices and trainees was held by larger companies. This commitment to training has declined, leading to a general reduction in apprenticeship levels.⁶³ The AAAA reported:

In the past larger automotive manufacturers have carried the training burden for the industry by taking on graduates, apprentices and trainees each year in the knowledge that many of these employees will leave and filter into small and medium size enterprises. The increased global competition, resulting in decreased margins in the industry mean[s] that companies, regardless of their size, can no longer absorb the full cost of training and development of staff that are not fully productive and remain competitive.⁶⁴

3.91 Small businesses in particular find it difficult to take employees off lean production lines for training. Throughout this inquiry the Committee

60 FAPM, *Submission No. 16*, pp. 19–20.

61 Automotive Training Victoria, *Submission No. 6*, p. 5.

62 FAPM, *Submission No. 16*, p. 22.

63 AAAA, *Submission No. 18*, p. 7.

64 AAAA, *Submission No. 18*, p. 7.

noted a decreased ability by small businesses to invest in training due to the impact this has on production and wage costs.

3.92 Mr Darren Hugo of Flexdrive Cables Pty Ltd explained:

We have to make sure that that training program is going to deliver results for us as an organisation as well as increase the skill base of the individuals undertaking the training. How do we then replace the lost time in production? Obviously, you need to make up that time. We are running very lean operations, as a whole, and taking time out to do training means incurring overtime premium rates.⁶⁵

3.93 The Committee is concerned about the inability to invest in training as a strong skills base is integral to the automotive components industry's capacity to compete in a global market. Given that there are significant obstacles to investing in training, an alternative model of training delivery needs to be investigated.

3.94 The sector is made up of a number of small businesses that individually may not have the capacity to invest in provider partnerships. Therefore a collaborative training approach is essential. Automotive supply chain companies are not necessarily in competition with each other and are therefore afforded greater opportunities to be at the leading edge of training innovation and so they have the capacity to create an economy of scale across a number of companies.

3.95 ATA has found that:

Small businesses face the dual problem of maintaining their internal capital and technical infrastructure together with the need to maintain the skills currency of their employees. Industry evidence points to the fact that there is increasing rationalisation of small business as the technical and capital demands of the modern industry are placing increasing pressure on small businesses and their ability to remain competitive.⁶⁶

3.96 A collaborative approach to training provision may alleviate some of these pressures. However, the individual company approaches to training and the current nature of industry training packages (which focus on discrete sectors of the industry) are indicative of how companies do not consider themselves part of a supply chain where each company is integral to the industry's survival.

65 Mr D. Hugo, *Transcript of Evidence*, 26 June 2006, p. 56.

66 ATA, *Vocational Education and Training in the Australian Automotive Industry 2004–2007*, p. 25.

- 3.97 The Committee considers that this narrow approach is not in the best interests of the industry and there is a need to develop more creative approaches to accessing both training opportunities and the range of state and federal government incentives available for training provision.

Governments' education and training responsibilities

- 3.98 The Australian education and training system is based on a collaborative approach, delivered jointly by the Australian, state and territory governments. Broadly, the Australian Government's responsibilities are:

- providing funding to non-government schools and to State and Territory governments for government schools, to support agreed priorities and strategies;
- providing funding through the Department of Education Science and Training (DEST) to states and territories for the delivery of Vocational Education and Training (VET) programs and services, and support for VET infrastructure;
- being the primary funding source for, and developer of policy related to, the higher education sector; and
- providing financial assistance for students.⁶⁷

- 3.99 State and territory governments have responsibility for:

- having constitutional responsibility for the provision of schooling to all children of school age;
- having the major financial responsibility for government school education, and contributing funds to non-government schools;
- regulating both government and non-government school activities and policies;
- determining school curricula, course accreditation, student assessment and student awards for both government and non-government schools;
- administering and delivering VET and school education in government schools;
- administering and funding TAFE institutes for the delivery of VET programs and services;
- funding other registered training organisations for the delivery of VET programs and services, including community education providers and private providers;
- regulating the delivery of VET services, including conducting quality audits, coordinating the registration of training organisations and managing the accreditation of nationally recognised education and training programs; and

67 Productivity Commission, *Report of Government Services 2006*, p. B.2-3.

- being responsible for legislation relating to the establishment of universities and the accreditation of higher education courses.⁶⁸
- 3.100 Under the agreement between the governments for the delivery of VET, the national priorities are:
- improving the system's responsiveness to rapid changes in demand for skills development and addressing skills shortages, especially in traditional trades and in emerging industries;
 - delivering improved outcomes for employers, individuals and communities;
 - improving quality;
 - increasing participation and up-skilling mature age workers; and
 - encouraging greater re-engagement in training by Australians who are not fully participating in the labour market.⁶⁹
- 3.101 The effectiveness of the governments to achieve these objectives is reliant on collaborative support, involvement and leadership of the industry.
- 3.102 All formal vocational and technical education is based on industry endorsed training packages which contain competencies and qualifications describing the 'skills and knowledge needed to perform effectively' in the workforce.⁷⁰
- 3.103 The training package directly related to the automotive component manufacturing industry is:
- Automotive Industry Training Package (AUM00).
- 3.104 Other training packages providing training pathways into the wider automotive industry are:
- Competitive Manufacturing Training Package (MCM04);
 - Metal and Engineering Training Package MEM98 (to be replaced by MEM05);
 - Electrotechnology Industry Training Package (UTE99);
 - Transport and Distribution Training Package (TDTO5); and
 - Automotive Industry Training Package – Retail Service and Repair.⁷¹

68 Productivity Commission, *Report of Government Services 2006*, p. B.2-3.

69 Department of Education and Training (DEST), *Submission No. 31*, p. 2.

70 DEST, *Submission No. 31*, p. 3.

71 Automotive Training Victoria, *Submission No. 6*, p. 10; DEST, *Submission No. 31*, p. 3.

School-based training and apprenticeships

- 3.105 As Australia has one of the highest tertiary completion rates among OECD countries (45 per cent of the population),⁷² attracting school-leavers into trade skills is an increasing challenge.
- 3.106 Although 265 000 people commenced apprenticeships and traineeships in the year to June 2005, only 2.4 per cent were in automotive manufacturing. This is considerably lower than the national automotive industry employment level of 7.4 per cent.⁷³
- 3.107 DEST reports that 2 205 participants have commenced apprenticeships in the automotive sector under the Australian Apprenticeships Access Programme since July 2002. Of these, 1 123 were placed in employment and/or further education and training. The total number still employed at 13 weeks after placement was 831.⁷⁴
- 3.108 The employment share of employees across the automotive industry aged 15 to 19 is 2.7 per cent which is significantly lower than the all industry average of 6.6 per cent.⁷⁵ It is extremely concerning that apprenticeships and traineeships are either not being offered or taken up in this sector, especially given projected future skill shortages in the sector.
- 3.109 The Australian Government has acknowledged the need for increased apprenticeships in areas experiencing skills shortages. A range of initiatives commenced in July 2005 aimed at facilitating access to apprenticeships, including:
- open 24 new Australian Technical Colleges, aimed at increasing the number of New Apprentices in the traditional trades;
 - provide a further 4 500 pre-vocational training places in trades;
 - fund an additional 7 000 School-Based New Apprentices through Group Training Organisations;
 - provide for an additional 20 000 places in the New Apprenticeships Access Programme, specifically targeting industries and regions experiencing skill shortages;
 - supply tool kits up to the value of \$800 to around 34 000 New Apprentices each year who enter a New Apprenticeship in a trade where skills are in demand;
 - extend the Living Away From Home Allowance paid to New Apprentices to the third year of their New Apprenticeship; and

72 Organisation for Economic Co-operation and Development (OECD), *Science, Technology and Industry Scoreboard 2005*, p. 46.

73 SA Government, *Submission No. 5*, p. 8; AMWU, *Submission No. 17*, p. 26.

74 DEST, *Supplementary Submission No. 31.1*, p. 5.

75 DEWR, *Submission No. 11*, p. 13.

- provide a Commonwealth Trade Learning Scholarship of \$500 to New Apprentices undertaking skill needs trades at the end of each of their first and second years of their New Apprenticeship.⁷⁶

3.110 Fourteen of the Australian Technical Colleges being established will be offering automotive competencies by 2008. The locations of these colleges are as follows:

- Victoria:
 - ⇒ Eastern Melbourne (Ringwood)
 - ⇒ Bendigo
 - ⇒ Gippsland
 - ⇒ Geelong
 - ⇒ Sunshine
- South Australia:
 - ⇒ Northern Adelaide
- New South Wales:
 - ⇒ Port Macquarie
 - ⇒ Hunter
- Queensland
 - ⇒ Gladstone
 - ⇒ Gold Coast
 - ⇒ North Queensland (Townsville)
 - ⇒ North Brisbane
- Western Australia
 - ⇒ Perth South
- Tasmania
 - ⇒ Northern Tasmania (Launceston and Burnie).⁷⁷

3.111 The Colleges are anticipated to make a significant difference to entry paths to apprenticeships that traditionally require a post-secondary school commitment over many years, with low wages.

⁷⁶ DEWR, *Submission No. 11*, p. 22.

⁷⁷ DEST, *Supplementary Submission No. 31.1*, p. 14.

3.112 The Colleges are expected to be responsive to local industry needs. DEST reports:

This automotive training offered will currently include competencies for mechanics, auto electricians, panel beaters and vehicle painters. Should the local industry identify manufacturing of automotive components as a skills needs area it is expected that the Colleges will respond accordingly with appropriate training delivery.⁷⁸

3.113 As the Colleges are a new initiative, the automotive components industry has an ideal opportunity to engage with the curriculum and ensure that training will meet current and future needs. The Committee strongly encourages the industry to take up this opportunity to engage in the establishment of the training curriculum.

3.114 The States have also acknowledged the importance of vocational education and training and have established a number of pathways for students to enter trades careers, including:

- In South Australia, ten trade schools will be established within existing high schools in areas with a concentration of industries such as manufacturing and advanced technology. The South Australian Government also has a range of incentives and support programs both for employers and young people entering employment or traineeships and apprenticeships.⁷⁹
- Following a review of the state vocational education and training system, the Victorian Government has increased funding to:
 - ⇒ pre-apprenticeship places;
 - ⇒ prioritising engineering and automotive training;
 - ⇒ mature-age priority training;
 - ⇒ the expansion of specialist training centres and networks, including the:
 - ⇒ Specialist Centre for Automotive Design, Docklands Campus, Kangan Batman TAFE; and
 - ⇒ Specialist Provider Network for Competitive Manufacturing, Centre for New Manufacturing (Convenor), Swinburne University of Technology (TAFE Division) which has convened a network of specialist providers in new manufacturing known as the Advanced Technology Training Capability Alliance; and

⁷⁸ DEST, *Submission No. 31*, p. 11.

⁷⁹ SA Government, *Supplementary Submission No. 5.1*, p. 21.

⇒ a campaign to promote careers in the manufacturing industry.⁸⁰

- Alongside school-based new apprenticeships, the NSW Government, in partnership with industry, offers two training programs focussed on the automotive industry. The Jumpstart and T3 programs offer students the opportunity to undertake a traineeship and paid employment in the automotive trades while completing the Higher School Certificate (HSC). In addition, students are able to undertake automotive courses delivered by TAFE NSW as part of their HSC course.⁸¹

3.115 As illustrated, the Australian and state governments have a number of initiatives aimed at providing links from school to work and vocational and technical education. However, the industry also needs to be proactive to attract and retain apprentices. At this stage it is too early to determine if these initiatives will address the training and apprenticeship challenges that the industry has to face.

3.116 The Victorian Automobile Chamber of Commerce (VACC) suggests that an automotive industry-wide strategy for employing apprentices would be of benefit. Such a strategy would allow unsuccessful apprentices to be job-matched in other areas, therefore maintaining their interest in the industry as a whole.⁸²

3.117 The Committee considers that the introduction of technical colleges and other training and apprenticeship measures by the state and Australian governments are a significant positive measure. They will assist to counter negative stereotyping of the industry and promote the trades as a sound and lasting career option.

3.118 A further key element to attracting apprenticeships and school leavers is the establishment of school-based vocational education programs and career pathways that link to secondary schools. Mr Peter Smith of the Bus Industry Confederation (BIC) illustrated this point:

Normally, after doing work experience, they become my next year's apprentices. I have an easy track to get apprentices. Everyone around me says they cannot get apprentices, but they will not put the effort into the schools and they will not have work experience. There is a company down the road that is heavily into the truck and automotive area. He says work experience is a waste of time. I just laugh at him because I get my workforce and retain

80 Victorian Government, *Submission No. 24*, p. 21; Additional information provided by the Victorian Department of Innovation, Industry and Regional Development, 9 November 2006.

81 New South Wales Government, *Supplementary Submission No. 20.1*.

82 VACC, *Submission No. 13*, p. 3.

them, whereas he has difficulty getting his workforce. I think that is where the homework needs to be done.⁸³

- 3.119 The BIC has acknowledged that, in the past, it has not had an adequate focus on promoting career pathways and is now working proactively to develop a career pathways strategy. This will include a national strategy for apprenticeships and job retention.⁸⁴
- 3.120 The Committee commends the BIC for this strategy and is of the opinion that a similar strategy is necessary for the automotive components industry more broadly.

Local learning and employment networks

- 3.121 The Committee was made aware of industry-led projects that are proving to be successful in engaging young people with the manufacturing industry and further education.
- 3.122 For example, the Victorian Local Learning and Employment Network (LLEN) has been established to 'foster local partnerships between schools, industry, government and community organisations to improve education and employment outcomes for young people.'⁸⁵
- 3.123 The LLEN is supporting initiatives such as the Automotive Manufacturing Technology Centre (AMTC) situated on the grounds of Ringwood Secondary College. The AMTC delivers automotive studies including the Certificate II Automotive to students in the local schools cluster.
- 3.124 In 2006, Ringwood Secondary College was involved in the successful tender to establish the Australian Technical College – Eastern Melbourne (ATCEM) and the AMTC now accommodates the delivery of the ACTEM Certificate III Automotive Mechanical Technology. The local automotive industry is involved with the ACTEM and there is scope to delivery automotive manufacturing apprenticeship programs if deemed necessary.⁸⁶
- 3.125 The BIC referred to its involvement with the South East Local Learning and Employment Network (SE LLEN). The SE LLEN promotes careers in the manufacturing industry to secondary school students in the Victorian regions of the Greater Dandenong, Casey and Cardinia. Manufacturing provides 23 per cent of employment in this region.⁸⁷

83 Mr P. Smith, BIC, *Transcript of Evidence*, 30 March 2006, p. 7.

84 Mr M. Apps, BIC, *Transcript of Evidence*, 30 March 2006, p. 12.

85 Victorian Government, *Supplementary Submission No. 24.1*, p. 4.

86 Mr Terry Hutton, ACTEM Executive Manager, correspondence dated 22 August 2006.

87 BIC, *Submission No. 21*, Attachment 1.

- 3.126 Through the support of local manufacturing businesses, SE LLEN focuses on 'awakening interest in a career in manufacturing' by providing a 'local driver to the involvement of significant numbers of local young people in manufacturing careers.'⁸⁸
- 3.127 The BIC acknowledged the importance of industry involvement in leading vocational education strategies noting that 'vocational programs are the new employment market for businesses seeking apprentices, trainees and entry-level workers.' It also noted that programs such as those offered by LLEN that engage young people in the manufacturing industry and expose them to potential careers are essential to promoting a positive image of the industry and addressing negative stereotypes.⁸⁹
- 3.128 The BIC also commented that the automotive component industry has been a strong supporter of the manufacturing promotional activities and student involvement through the SE LLEN program.

Support for up-skilling

- 3.129 Criticism has been made that the training system does not have systems, other than the apprenticeship scheme, to support funding for up-skilling workers, nor is funding provided when a qualification is not completed.⁹⁰ This is particularly important for individuals who may only need a part qualification or to upgrade certain skills.
- 3.130 In addition, the traditional apprenticeship model is not attractive to individuals who are already employed and up-skilling or to individuals who have been in the workforce in other industries but who want to move into trades.⁹¹
- 3.131 In light of the large pool of displaced workers as the result of industry redundancies, the Committee notes that there is an urgent need for improved training incentives for mature-age workers. These incentives need to include measures that will attract individuals already in the workforce to consider careers in the trades, recognising that apprentice wages and the length of courses are a serious disincentive.
- 3.132 As the inquiry was near completion, the Prime Minister announced *Skills for the Future*, an \$837 million investment package of skills initiatives. The package provides:

88 BIC, *Submission No. 21*, Attachment 1.

89 BIC, *Submission No. 21*, Attachment 1; Mr M. Apps, BIC, *Transcript of Evidence*, 30 March 2006, p. 12.

90 Ai Group and EEASA, *Submission No. 26*, p. 13.

91 Mr P. Murphy, Kangan Batman TAFE, *Transcript of Evidence*, 21 March 2006, p. 28.

- work skills vouchers (\$408 million)
 - support for mid-career apprentices (\$307 million)
 - business skills vouchers for apprentices (\$12 million)
 - more university engineering places (\$56 million); and
 - incentives for higher technical skills (\$54 million).⁹²
- 3.133 Work skills vouchers provide incentives to improve basic skills such as literacy and numeracy or to undertake vocational certificate courses. Basic skills have been identified as a medium to long-term skills need within the automotive industry.⁹³
- 3.134 Mature-age apprentices will be assisted by the incentives for individuals to take up mid-career trade apprenticeships in occupations in demand. This incentive will greatly assist workers in the automotive industry who need formal recognition and/or upgrading of skills obtained through on-the-job training. All apprentices will also have access to support to help them gain business skills.
- 3.135 Higher technical skills are being supported through the additional funding provided for training to the Diploma and Advanced Diploma level. The most significant part of this announcement for employers struggling to provide training in the automotive components industry are changes to funding criteria that:
- remove the rule preventing workers with prior qualifications from eligibility; and
 - opens the program to an employers existing workforce, not just new employees.
- 3.136 The Committee welcomes these announcements and is of the opinion that they will greatly assist access to training in the automotive components industry.

92 Prime Minister of Australia, Policy Announcement, *Skills for the Future*, 12 October 2006.

93 Automotive Training Victoria, *Submission No. 6*, p. 7.

Coordinating industry-based training

- 3.137 There are formal mechanisms for the industry to become involved in the training system. Primarily this is by participation in industry arrangements through industry skills councils which have:
- direct input to high-level training policy and delivery through a direct line of advice to the Ministerial Council on Vocational and Technical Education;
 - direct input to quality assurance and national consistency through representation on the National Quality Council, a committee of the Ministerial Council on Vocational and Technical Education;
 - determining relevant skills needs for the industry and defining the competencies required in the workplace; and
 - direct input to planning decisions through a clearly defined role in developing the States' annual plans for training provision.⁹⁴
- 3.138 The two training packages⁹⁵ covering the automotive industry are administered by Automotive Training Australia Pty Ltd (ATA). ATA holds the contract to administer these packages even though it is not an industry skills council. This approach is supported by both the Federal Chamber of Automotive Industries (FCAI) and the Motor Trades Association.⁹⁶
- 3.139 The industry skills council representing the manufacturing industry is Manufacturing Skills Australia (MSA). MSA administers a range of training packages relating to metals, engineering, process and competitive manufacturing that are accessible by the automotive components industry.
- 3.140 The Committee was disappointed that, considering the key role of ATA and MSA in representing the industry, neither made a submission to this inquiry.⁹⁷ The Committee agrees with the concerns expressed by the FCAI that the current industry skills advisory arrangements are not adequately addressing nor representing the skills requirements of the industry as a whole.⁹⁸
- 3.141 In the ATA's May 2006 report *Automotive Industry Skills Report* it states the plan to move towards stand-alone recognition in the industry skills

94 DEST, *Submission No. 31*, p. 3.

95 Automotive Industry Manufacturing Training Package (AUM00) and the Automotive Industry Training Package – Retail, Service and Repair (AUR05).

96 DEST, *Submission No. 31*, p. 3

97 The Committee notes with thanks the submission received from Automotive Training Victoria.

98 FCAI, *Submission No. 27*, p. 8.

council framework.⁹⁹ Despite ATA's stated plan, DEST told the Committee that the current contract was conditional on ATA working towards joining an established industry skills council by the end of 2006. As at October 2006, DEST was unable to report any action taken by ATA to achieve this.

3.142 The ATA has declined to join the MSA or any other industry skills council due to concerns held by the major stakeholders that:

- training packages continue to link qualifications and award-based classification structures;
- industry skills councils governance arrangements 'reinforce pre-existing patterns of industrial representation' rather than reflecting the skills requirements of industry; and
- inequitable industry contribution to the cost of administering national industry training advisory arrangements.¹⁰⁰

3.143 Both the lack of submission from some parties and the evidence that was received indicates that there is an urgent need for representation at the industry skills council level that:

- minimises the sectoral nature of training packages; and
- ensures the development of training standards that encourage integration along supply chains.

3.144 In addition, it is essential to clarify the position of the ATA and the MSA in representing the needs of the automotive components industry.

3.145 A further important aspect in industry-based training is equitable involvement for stakeholders across the automotive supply chain. While the needs of employers across the supply chain are different, it is possible to deliver tailored training in transferable skills. Accordingly, training packages should be aligned in such a manner that will allow training to take place across the supply chain addressing both specific and transferable skills.

3.146 Because of the close connection between the vehicle and parts manufacturing and repair, services and retail (RS&R) sectors both in terms of skills and sectoral dependence, calls have been made to more closely align the training packages of the two sectors to facilitate the movement of workers between them.¹⁰¹

99 ATA, *Automotive Industry Skills Report*, May 2006, p. 8.

100 FCAI, *Submission No. 27*, p. 8.

101 Institute of Automotive Mechanical Engineers, *Submission No. 3*, p. 2.

- 3.147 Unfortunately, the redundancies that have taken place at MVPs (discussed in Chapter 4) have not necessarily translated into redeployment into comparable parts of the industry, such as the RS&R sector. This is in part due to the difference in training practices resulting in many skills not being formally recognised within the qualification frameworks.
- 3.148 This is concerning considering the downturn in employment that has occurred in recent years. It is important that retrenched workers have avenues for formal recognition of training and skills. Therefore industry VET plans should be addressing avenues for recognition of the substantial informal on-the-job training that takes place within the industry.
- 3.149 Further discussed in Chapter 4 is the necessity for reskilling arrangements to recognise the needs of workers displaced as a result of redundancies across the industry. The VACC submitted to the Committee that labour adjustment measures were hampered by a 'lack of understanding which skills were transferable to another sector of the vehicle industry.'¹⁰²
- 3.150 It is unfortunate that redundancies may continue to be a feature of the automotive industry. However, a continued failure to recognise this in training and skills-recognition arrangements means that highly skilled workers will be lost to the industry.
- 3.151 Clearly, there is a need to ensure that automotive training arrangements adequately address the changing needs of the whole industry, including:
- recognition of the substantial informal on-the-job training that takes place;
 - recognition of the large pool of displaced workers within the industry needing assistance to retrain; and
 - integrated training across the supply chain to facilitate transferability across industry sectors.
- 3.152 The Committee is concerned that the lack of national industry leadership on skills issues is stifling innovative approaches to a multi-sectoral training approach.

102 VACC, *Submission No. 13*, p. 3.

Recommendation 2

The Committee recommends that, as a matter of priority, the Department of Education, Science and Training clarify the position of Automotive Training Australia and Manufacturing Skills Australia in representing the needs of the automotive components industry.

The Committee further recommends that the Department of Education, Science and Training review the status of Automotive Training Australia giving consideration to:

- its position with or as an industry skills council;
- its capacity to adequately represent the training needs of the sector; and
- measures to ensure that there is equitable involvement and representation of industries across the automotive supply chain.

Recommendation 3

The Committee recommends that the Australian Government Minister for Vocational and Technical Education, raise as a matter of priority at the next Ministerial Council on Vocational and Technical Education the issue of skills and training within the automotive components manufacturing industry in order to establish a unified and coordinated approach across all levels of government to the skills and training needs of the industry.

Recommendation 4

The Committee recommends that the Department of Education, Science and Training ensures that the automotive industry manufacturing training packages review take into account:

- processes for recognition of on-the-job training;
- access to these and other such arrangements for any future displaced workers;
- current skills needs and strategies to address future skills shortages within the industry; and
- integrated training across the supply chain to facilitate transferability across industry sectors.

Innovative sector training models

Northern Advanced Manufacturing Group

- 3.153 In Adelaide, the Committee heard from the industry-led Northern Advanced Manufacturing Industry Group (NAMIG) 'Concept 2 Creation' Program. This is an industry-led group and industry has displayed significant commitment to its continued success.
- 3.154 The NAMIG program services the Playford–Sailsbury area of Northern Adelaide, an area that is reported to be below the national, South Australian and Adelaide average in 'measurements of employment, welfare dependency, and education, skill and income levels.'¹⁰³
- 3.155 The program 'arose from the identification of a substantial skills need and high unemployment dichotomy in northern Adelaide'. It is based on the philosophy of 'facilitating an enduring culture of industry engagement with education and training providers.'¹⁰⁴

103 M. Elliot, P. Sandeman, and H. Winchester, *Embedding Community Engagement: Northern Adelaide and The University of South Australia*. Paper presented at the Australian Universities Community Engagement Alliance (AUCEA) Conference, July 2005, accessed 5 September 2006, <unisa.gov.au> .

104 Ms A. Cinnamond, NAMIG, *Transcript of Evidence*, 2 May 2006, p. 16.

- 3.156 General unemployment levels in Northern Adelaide are 5.6 per cent which is slightly above the national average.¹⁰⁵ However, youth (those aged 15–24 years) unemployment levels in the region are significantly above the national youth unemployment rate of 14.8 per cent. In 2001, the highest youth unemployment rates in Adelaide were reported in the Playford–Elizabeth and the Playford–West Central areas at 34.4 per cent and 33.4 per cent respectively.¹⁰⁶
- 3.157 The Committee heard anecdotal evidence that there is a high degree of second and third generation unemployment in this area which generally lowers the capacity for young people to gain the skills to participate in the labour market. These are regions of Adelaide that the automotive component manufacturing industry draws heavily on for its workforce. Consequently, such levels of non-participation in the labour market should be of serious concern to the industry.
- 3.158 One aim of the NAMIG program is to raise the generic employability skills of participants. Ms Claire Hogarth, Deputy Chair of NAMIG and representative of Futuris Automotive, told the Committee that Futuris struggled with recruitment in the area due to the limited number of individuals successfully completing selection processes. Following the completion of the first program, Ms Hogarth noted that:
- From my perspective, something that came out of that as a positive was that some of those young students are starting to think outside the square. They are starting to use their initiative. They are starting to use some problem solving. When they go into the marketplace those people will stand out from the rest of the applicants, I would say.¹⁰⁷
- 3.159 The project engages students in a ‘product life cycle’ approach to learning:
- by helping schools and students to develop the knowledge, understanding and appreciation of advanced manufacturing processes and possibilities through a problem based learning approach.¹⁰⁸
- 3.160 The significant commitment demonstrated by the industry has resulted in an increase in enrolments in the program from 120 students in 2005 to 450 in 2006. Although it is too early for the project to fully realise employment

105 DEWR, *Submission No. 11*, p. 16.

106 ABS, *Census of Population and Housing: Selected Education and Labour Force Characteristics for Statistical Local areas, South Australia*, April 2003, Cat. No. 2017.4

107 Ms C. Hogarth, NAMIG, *Transcript of Evidence*, 2 May 2006, pp. 18–19.

108 Ms A. Cinnamond, NAMIG, *Transcript of Evidence*, 2 May 2006, p. 17.

outcomes, the results for students engaging in the curriculum are already evident:

There was this level of enthusiasm and reality, the body language – you cannot hide body language. These students had extremely positive body language when they were presenting these projects. To me, it can be summarised by saying that, for many of these kids, the light is switched on.¹⁰⁹

- 3.161 The Committee considers that projects such as NAMIG are essential to addressing labour market skills relevant to the manufacturing industry. Projects of this nature will affect positive long-term change in regions adversely affected in the downturn in automotive manufacturing employment and will contribute to change the overall perception of the industry.
- 3.162 Representatives from the NAMIG project and the BIC both noted that teacher perceptions were a significant obstacle to encouraging students to consider careers in the manufacturing industry so an essential part of any school-based program is to gain the support of teachers in the infant stage of the program.¹¹⁰
- 3.163 Based on the importance of the automotive industry to the Adelaide area and the need to maintain the viability of the Australian automotive industry, the Committee concludes that it is important to ensure the continuation of the NAMIG program.
- 3.164 Further, the Committee considers that there is strong evidence for the program to be piloted in other areas of concentrated manufacturing employment. This will support and encourage young people to pursue vocational education and training aimed at a career in the manufacturing industry.

¹⁰⁹ Dr L. Wood, NAMIG, *Transcript of Evidence*, 2 May 2006, p. 25.

¹¹⁰ Mr P. Smith, BIC, *Transcript of Evidence*, 30 March 2006, p. 2; Dr L. Wood, NAMIG, *Transcript of Evidence*, 2 May 2006, p. 26.

Recommendation 5

The Committee recommends that the Australian Government pilot the ‘Concept 2 Creation’ Program as developed by the Northern Advanced Manufacturing Industry Group in other areas of concentrated manufacturing employment and consider mechanisms to ensure access to ongoing funding for these programs.

National teaching foundry

- 3.165 The industry is in need of innovative and collaborative training models that provide ongoing professional development at an affordable cost to industry. The constraint of affordability means that training needs to target a sizeable pool of students. Currently, because of the size and dispersed nature of the industry, some training centres struggle to develop and maintain courses across low and/or nationally dispersed student numbers.¹¹¹
- 3.166 However, the Committee notes these innovative training models are currently being developed.
- 3.167 The Australian Die Casting Association (ADCA) and CAST Cooperative Research Centre (CRC) provides national leadership in specialist metallurgical training in recognition of the nationally dispersed students in the trade and the economic prohibition to numerous organisations offering training in this area.
- 3.168 ADCA has been proactive in working with the industry to develop training models that will be responsive to industry needs. It was submitted to the Committee that:

there are educational resources and systems within Australia that are workable for addressing the skill shortages of metallurgical training at the shop floor and university level. But we are struggling and we need to focus those resources in a national centre of excellence – or a demonstration foundry – teaching environment. ADCA strongly recommends that it be done in Victoria, mainly because the overlap of smelters, automotive components and die casters who are in ADCA’s membership is focused in Victoria.¹¹²

111 Australian Die Casting Association (ADCA) and CAST Cooperative Research Centre, *Submission No. 22*, p. 4.

112 Mr M. Lee, ADCA, *Transcript of Evidence*, 26 June 2006, p. 4.

- 3.169 Such a demonstration foundry would not only significantly increase the training available to the component manufacturing industry, but also to the aluminium smelter sector and steel foundries. It would also establish Australia as a world-class training centre in this area.¹¹³
- 3.170 Although the teaching resources would be centralised, training would be delivered by distance education and by face-to-face delivery at the trainee's workplace through a 'travelling lecturer' program. This would ensure that students are also appropriately trained on the machines they will be using in their employment. ADCA considers this to be a more effective learning model than classroom style teaching.¹¹⁴
- 3.171 The Committee notes that there is widespread industry support for a national teaching foundry to service the casting industries and strongly supports the call for the centralisation of training resources to support its development.

Recommendation 6

The Committee recommends that the Australian Government support the consolidation of existing training resources to enable the establishment of a centralised teaching foundry to service the casting industries.

Automotive Centre of Excellence

- 3.172 A further innovative sector training model is the Automotive Centre of Excellence (ACE) in Melbourne, which is consolidating automotive training facilities.
- 3.173 The ACE is being developed in Melbourne in partnership with the Victorian Government, Kangan Batman Institute of TAFE. Stage one of the ACE, opened in September 2006, brings together automotive training and R&D facilities, but has the capacity to become a centralised showcase for all automotive products and services.
- 3.174 Stage one of the ACE has been fully funded in partnership with the Victorian Government, Kangan Batman TAFE and a number of private and industry partners. It will:

113 Mr M. Lee, ADCA, *Transcript of Evidence*, 26 June 2006, p. 4.

114 Mr M. Lee, ADCA, *Transcript of Evidence*, 26 June 2006, p. 8.

house the Automotive Body Trades training group ... Certificate II pre-apprenticeship program and components of the automotive diploma program, plus staff and student amenities, café, [and] customer service centre.¹¹⁵

3.175 The ACE is discussed further in Chapter 5.

Committee comment

3.176 The automotive components industry is facing a continued period of change in employment and manufacturing practices due to the global challenges facing the entire automotive industry. Traditional relationships between MVPs, component manufacturers and the aftermarket are changing and so too must management and workplace relations practices.

3.177 Nevertheless, alongside the downturn in employment there is a continued need to ensure that sector training practices are focussed on ensuring that the industry has the skills needed to face future challenges.

3.178 The industry must take the lead in developing training models that are of benefit to it. In addition, there is a need for industry to recognise interdependencies along the supply chain and seek innovative models for collaborative training. Addressing these issues is a necessary foundation step in ensuring a mobile and adequately trained workforce.

3.179 Skills shortages, mobility of skills across the sector and labour adjustment measures are discussed in the following chapter.

115 Automotive Industry Strategic Action Group Project Report, *Support for the Automotive Manufacturing Industry through ACE and Related Initiatives*, August 2005, p. 23.