

Chapter 3

Sales, service and repair sectors

3.1 This chapter explores issues relating to the sales, service and repair sectors. It also examines issues related to the training and the maintenance of a workforce to support these sectors.

Background

3.2 Demand for new vehicles and maintenance services has risen consistently as an ever increasing number of vehicles traverse Australian roads. There are over 17.6 million motor vehicles in Australia and the number of registered motor vehicles is increasing by 2.5 per cent annually, or by around 450,000 vehicles per year.¹ Almost all of these vehicles require servicing and some vehicles may need significant repairs or even replacement.

3.3 Notwithstanding the significant demand for services, many businesses within the downstream automotive sectors are expected to face significant adjustment, or complete restructure, in the short to medium term. According to the MTAA, change is being driven by a number of factors including:

...globalisation, environmental protection policy, rapid technology advances, workforce shortages and changing skill requirements, shifting consumer behaviours and the maturation, or decline, of business life-cycles...²

3.4 And these structural changes are resulting in the following effects already being felt within the industry:

- the decline of independent businesses, particularly within the automotive repair sector;
- the concentration of market power through the emergence of new business models;
- constant technological change; and
- challenges with job roles, skills development and training.³

3.5 While some of these developments are essentially the product of a competitive marketplace, stakeholders have raised concerns that businesses in some sectors are being adversely affected by the emergence of vertically integrated and dominant firms that are exerting market power by dictating contract terms.

3.6 But parts of the downstream automotive sector are facing different sets of challenges and, as such, it is prudent to consider them separately.

1 Australian Automotive Aftermarket Association, *Submission 5*, p. 2.

2 *Submission 30.1*, p. 33.

3 MTAA, *Submission 30.1*, p. 33.

Sales

3.7 The authorised dealer network generates revenue in excess of \$72 billion and employs over 66,000 people in more than 4,700 dealerships.⁴

Franchising

3.8 The Australian new car market is the most open and competitive in the world where 67 brands offering over 400 models compete for annual sales of just over 1.1 million new car sales.⁵ By comparison, the average number of sales per brand is double in Canada, almost three times higher in the United Kingdom and more than 15 times higher in the United States.⁶

3.9 While this vast array of choice at competitive prices is of benefit to consumers, it means that margins on new car sales in Australia are relatively low. According to Mr Steven Moir from the Motor Trades Association of Western Australia:

The dealership we were at this morning is probably a \$10 million to \$15 million establishment. It did not have a lot of choice in that investment. He [the franchisee] has to make that investment to keep that franchise. Now, you would have to sell a lot of cars to get a return on that investment.⁷

3.10 As such, dealerships are increasingly reliant on all aspects of their business, including servicing and car parts sales, to remain viable and get a reasonable return on their investment.⁸

3.11 And concerns were raised about the conduct of franchisors. Mr Moir submitted that:

There is also no doubt that there is harsh and what I would consider unconscionable conduct being carried out now by franchisors. If I use the motorcycle industry as an example: we had a meeting of motorcycle franchisees last month. The majority of those people were asked to sign two-year contracts, which required up to a million dollars' investment in their franchises. This is simply not a viable business model going forward...

It is fair to say that that behaviour also transposes across to automotive dealers.⁹

4 Australian Automotive Dealer Association, *Submission 3*, p. [1]; Federal Chamber of Automotive Industries, *Submission 9*, p. 7.

5 Federal Chamber of Automotive Industries, *Submission 9*, p. 2; Motor Trades Association of Australia, *Submission 30.1*, p. 14.

6 Federal Chamber of Automotive Industries, *Submission 9*, pp. 2–3.

7 *Committee Hansard*, 8 October 2015, p. 8.

8 MTAA, *Submission 30*, p. 19.

9 *Committee Hansard*, 8 October 2015, p. 8.

3.12 While the introduction of the Franchising Code of Conduct earlier in 2015 was seen as a positive move in terms of increasing the transparency of agreements and empowering both sides of the franchise equation, it is likely that many franchising issues will continue to persist, particularly given the Code of Conduct was not retrospective.¹⁰

Recommendation 9

3.13 Given the consolidations and closures in the automotive and related industries, the committee recommends that a close examination of the operation of the Franchising Code of Conduct be undertaken as part of the next scheduled review of the code, with particular regard to the automotive sectors, including new cars, motorcycles, farm and industrial machinery and fuel retailing franchising arrangements.

Parallel imports

3.14 Concerns about parallel vehicle imports and regulatory restrictions on importation have been raised by various stakeholders.¹¹

3.15 The parallel vehicle import issue has been considered by a number of inquiries over the last 5 years including the Productivity Commission's *Review of Australia's Automotive Manufacturing Industry*, the Harper *Competition Policy Review* and the Department of Infrastructure and Regional Development's *Review of the Motor Vehicle Standards Act*.

3.16 The Productivity Commission (PC) recommended that restrictions on the importation of second-hand vehicles be progressively relaxed with net benefits to the community primarily arising from lower prices and/or improved product specification (vehicle features) as well as increased product choice and availability for vehicle buyers.¹² That said, the PC also recommended that any changes to the existing importation framework:

- not be implemented until local vehicle manufacturing ceases in 2018;
- give reasonable advance notice to affected individuals and businesses;
- be preceded by a regulatory compliance framework that includes measures to provide appropriate levels of community safety, environmental performance and consumer protection;
- be limited to vehicles imported from countries that have design standard which are consistent with those recognised by Australia; and

10 *Committee Hansard*, 8 October 2015, p. 8.

11 See, for example, Insurance Australia Group, *Submission 21*; Australian Fleet Lessors Association, *Submission 25*; and National Automotive Leasing and Salary Packaging Association, *Submission 26*.

12 Productivity Commission, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, March 2014, p. 160.

- be initially limited to vehicles manufactured no earlier than five years prior to the date of application for importation.¹³

3.17 In addition, a recommendation was made to accelerate the harmonisation of Australian Design Rules with the United Nations Economic Commission for Europe (UNECE) Regulations and the mutual recognition of other appropriate vehicle standards. Further, all Australian governments should justify any existing and future jurisdictional deviations from UNECE Regulations through comprehensive and independent cost benefit analysis.¹⁴

3.18 Similarly, the Harper Review concluded that relaxing parallel import restrictions would deliver net benefits to the community, provided appropriate regulatory and compliance frameworks and consumer education programs were in place. It endorsed the PC's recommendation that parallel import restrictions on second-hand cars should be removed, subject to the transitional arrangements outlined by the PC.¹⁵

3.19 The Department of Infrastructure and Regional Development released a discussion paper in September 2014 but has yet to release a final report.¹⁶ The Assistant Minister for Infrastructure and Regional Development, the Honourable Jamie Briggs, announced in April 2015 that:

Cabinet has now agreed to consider possible options to reduce restrictions on the personal importation of new vehicles after further public consultation is undertaken. The Australian Government is not inclined to take the same approach with used vehicles.¹⁷

3.20 Insurance Australia Group was supportive of the government's proposed approach to increase competition in the new car market but noted that this change could delay servicing and smash repair times for some vehicles if parts supply and availability is limited.¹⁸

3.21 A number of stakeholders opposed the relaxation of regulations restricting the second-hand vehicle imports and questioned whether there would actually be a net benefit to consumers and the economy from such reforms. According to the Australian Fleet Lessors Association (AFLA):

13 Productivity Commission, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, March 2014, p. 163.

14 Productivity Commission, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, March 2014, p. 163.

15 Professor Ian Harper, Peter Anderson, Su McCluskey and Michael O'Bryan QC, *Competition Policy Review*, Final Report, March 2015, pp. 177–178.

16 Department of Infrastructure and Regional Development, *Review of the Motor Vehicle Standards Act 1989*, https://infrastructure.gov.au/vehicles/mv_standards_act/ (accessed 10 September 2015).

17 *Motor Vehicle Standards Review—Safer roads and better cars*, Media Release, 16 April 2015.

18 *Submission 21*, p. 6.

Should the Government materially alter existing policy in the importation of second-hand vehicles in Australia it has the potential to produce profound and long lasting direct and flow-on impacts.¹⁹

3.22 AFLA noted that the Australian car market is one of the most competitive in the world and the benefits from relaxing second-hand imports restrictions may be limited.²⁰ They questioned the assumption that prices for second-hand vehicles would be lower and went further to suggest that, over the course of ownership, consumers may be worse off if vehicles are compliant with Australian Design Rules but are not fit for Australian conditions and require modification or repair.²¹

3.23 The National Automotive Leasing and Salary Packaging Association (NALSPA) submitted that the overall costs of owning an imported vehicle may be higher in the long run:

...a consumer buying a personally-imported new vehicle or an imported second-hand vehicle is likely to face a range of issues, including potentially higher repair, maintenance and insurance costs, as well as difficulties in determining whether such a vehicle is 'fit for purpose' for Australian conditions.²²

3.24 The MTAA contended that:

...consumers who buy vehicles sourced directly from overseas are often immune to the caution that is usually applied and available when buying a car through a regulated environment which provides protection. Equally on the promissory note of cheaper costs, consumers can be blind to the many complex customs, transportation, finance, insurance, warranty and service and repair support issues that may arise.²³

3.25 In response to the Productivity Commission's findings, Mr Robert Bryden highlighted a number of downsides to the parallel importation scheme used in New Zealand—the administration costs are significant, unscrupulous operators can emerge, 'used' cars may undermine the legitimate new car market, and new car prices may increase.²⁴

3.26 Given the concerns raised, the committee does not support the widespread relaxation of restrictions and requirements on the parallel importation of new and used vehicles. It considers that the potential detriment to consumer welfare from relaxing these restrictions outweighs any potential benefits.

19 Australian Fleet Lessors Association, *Submission 25*, p. 2.

20 Australian Fleet Lessors Association, *Submission 25*, p. 3.

21 For example, cars may require modifications to fuel systems, cooling capacity, suspension and/or tyre specifications to suit Australian conditions.

22 *Submission 26*, p. 8.

23 *Submission 30*, p. 31.

24 *Submission 38*, p. 4.

3.27 The committee notes the Australian Government's response to the Harper Review not to relax parallel import restrictions on second-hand vehicles:

Following consultation as part of the review of the *Motor Vehicles Standards Act 1989* and having regard to consumer protection and community safety concerns, the Government has decided not to proceed with reducing parallel import restrictions on second-hand cars at this time.²⁵

3.28 While the committee welcomes this announcement, it is not clear whether the government is still considering relaxing the restrictions on the parallel importation of new vehicles, where the same concern regarding consumer protections apply.

3.29 However, the committee considers that there may be scope for reforming the processes associated with the importation of specialist and enthusiast vehicles. These issues are considered in chapter 5.

Recommendation 10

3.30 The committee recommends that the current restrictions and requirements on the parallel importation of both new and used vehicles be maintained.

Servicing and repairs

3.31 The servicing and mechanical repair sector has been subject to a variety of factors which are making it increasingly difficult for the traditional small business service model to be sustainable. Some of the main factors contributing to remaining viable include:

- rising business operational and administrative costs;
- the adoption of longer vehicle warranties and fixed price servicing for virtually all vehicle brands (up to 7 years for some models);
- technological change and difficulties for independent repairers to access relevant information from manufacturers and dealerships; and
- the requirement to invest in costly capital equipment and the continual upgrading of skills to diagnose, service and repair ever changing and complex vehicles and components.²⁶

3.32 Many of these issues affect independent repairers disproportionately and these independent repairers make up a significant proportion of repairers in Australia.²⁷

3.33 The MTAA reports that small businesses have taken a variety of different approaches to adapt to this new business environment:

Some independent mechanical repairers have decided it is already too hard and have adapted to changing circumstances by specialising in one or a few

25 *Australian Government Response to the Competition Policy Review*, 24 November 2015, p. 13.

26 MTAA, *Submission 30.1*, p. 33.

27 Commonwealth Consumer Affairs Advisory Council, *Sharing of repair information in the automotive industry*, 27 November 2012, p. 28.

marques and making the necessary investment in the specific training, tools, equipment and facilities to service those marques. Some have already left the industry, while others are trying to survive by maintaining current business models and practices, despite them becoming increasingly unsustainable.²⁸

3.34 Other industry participants are diversifying to remain viable. Mr David Roscio, founder of KPM Motorsport, told the committee that:

We saw 10 years ago that we needed to move away from normal car work, because that will be dead in the next 5 to 10 years. We moved into tuning and supporting motorsport vehicles...

We have seen the writing on the wall, firstly, with the workshop and now the aftermarket. So we have been diversifying in several areas.²⁹

3.35 The 'one-stop-shop' model of service repair is under significant pressure and the role for independent mechanical repairers to provide competition and consumer choice is becoming increasingly difficult to maintain. Increasing specialisation is also having flow on effects for the workforce as discussed later in the chapter.

3.36 And this situation is only going to intensify as technological developments are increasingly incorporated in automotive applications:

As vehicle technologies evolve further and with the increased adoption of hybrid and battery electric vehicles over time, it is likely that there will be a greater segmentation of skills within the automotive industry, with narrower and deeper specialisations in vehicle brands or technologies becoming the norm.³⁰

3.37 The Commonwealth Consumer Affairs Advisory Council (CCAAC) has noted that:

...the viability of the independent repair sector is in the interests of consumers, repairers and manufacturers.³¹

3.38 It is likely that this may have significant implications for securing servicing and mechanical repairs in regional and rural locations.

Access to information

3.39 Another emerging issue of concern for independent repairers, and ultimately the consumer, is how can the information needed to service and repair contemporary motor vehicles be reliably accessed and at what cost. The MTAA reports that independent vehicle repairers (both mechanical and smash repairers) are effectively

28 *Submission 30.1*, p. 35.

29 *Committee Hansard*, 1 October 2015, pp. 38–39.

30 MTAA, *Submission 30.1*, p. 36.

31 *Sharing of repair information in the automotive industry*, 27 November 2012, p. iv.

prevented from accessing repair and servicing information from motor vehicle manufacturers.³²

3.40 The committee notes that a review of this issue was undertaken by the CCAAC in 2012. The review concluded that:

...the accessibility of repair information has the potential to become a barrier to entry in this market going forward.³³

3.41 The CCAAC encouraged the industry to expedite the development of an industry-led outcome within a reasonable period of time that ensures there is an avenue to reasonably access repair information.³⁴

3.42 The committee notes that the members of the Federal Chamber of Automotive Industries (FCAI), the MTAA, the Australian Automobile Association, the Australian Automotive Aftermarket Association (AAAA) and the Australian Automotive Dealer Association (AADA) signed an *Agreement to Access Vehicle Service Repair Information* (the Agreement) in December 2014.³⁵ The Agreement aims to provide a safeguard to consumers that service and repair information is available in a timely manner to the repairer of their choice at a fair and reasonable cost. The Agreement set a 12 month timeline to review whether it has made a meaningful impact on the availability of repair and service information.

3.43 In addition, the Federal Chamber of Automotive Industries released the *Voluntary Code of Practice—Access to Service and Repair Information for Motor Vehicles* (the Code) in February 2015. The objectives of this code include the provision of an information pathway and a fair means of access to repair information that may be used by parties outside the Authorised Dealer network. An initial review of the Code must be conducted within 18 months of commencement.³⁶

3.44 Reflecting on the progress made, the MTAA submitted that:

Although there has been progress towards such an outcome, there is a need for continual monitoring of the capacity of independent vehicle repairers to have access (at reasonable cost) to vehicle manufacturing repair and service information. Without such information, consumer choice will be limited and independent business restricted to servicing and repairing old cars.³⁷

3.45 The AAAA reported in September 2015 that only nine of the 68 car brands sold in Australia were offering some level of data access. The AAAA has also set up

32 *Submission 30.1*, p. 36.

33 *Sharing of repair information in the automotive industry*, 27 November 2012, p. iv.

34 *Sharing of repair information in the automotive industry*, 27 November 2012, p. 29.

35 *Agreement to Access Vehicle Service Repair Information*, December 2014, http://www.fcai.com.au/library/publication/agreement_on_access_to_service_and_repair_information_for_motor_vehicles.pdf (accessed 26 November 2015).

36 FCAI, *Voluntary Code of Practice—Access to Service and Repair Information for Motor Vehicles*, February 2015, p. 2.

37 *Submission 30.1*, p. 37.

an online incident reporting portal to allow repairers to monitor how well vehicle makers are meeting their obligations under the Agreement.³⁸

3.46 Given that the industry has worked together to develop a voluntary solution, the committee considers it prudent to give both the Agreement and Code a period of time to be implemented before a formal and independent evaluation is undertaken. As such, it considers that CCAAC should undertake a follow-up review of access to repair and service information beginning no later than three years after commencement of the Code.

3.47 It behoves industry to gather evidence of any systemic failing of the Agreement and Code and to present these findings to the relevant authorities. In the face of such evidence, a more timely review of these arrangements may be warranted. The committee notes the work of the AAAA in setting up an online incident reporting system, which helps to address this requirement.

Recommendation 11

3.48 The committee recommends that the government continues to work with industry to ensure suitable access to manufacturer information by independent automotive service and repair businesses. The committee notes the progress that has been made through the Voluntary Code of Practice for Access to Service and Repair Information for Motor Vehicles (the Code) and recommends that the Commonwealth Consumer Affairs Advisory Council undertake a review of the Code no later than three years after commencement.

Service and repair warranties

3.49 The issue of who is responsible for service and repair warranties was raised by some stakeholders in submissions and during the committee's visit to downstream businesses.

3.50 These concerns relate to the operation of Australian Consumer Law with regard to which party bears responsibility when replacement parts fail. The Engine Reconditioners Association of Victoria (ERA Victoria) submitted that:

...the current law actually disadvantages the consumer, and helps the importers and suppliers avoid responsibility in regards to warranty by placing the onus and expense back on the engine reconditioner.³⁹

3.51 Similar concerns were raised by the owner of an independent mechanical service establishment who told the committee that consumers purchased parts from a third party and when they asked his business to fit the part, it was his business that was ultimately responsible if the part prematurely failed.

38 *Holden Leads in Sharing Repair Data with Workshops*, 24 September 2015, <http://www.aaaa.com.au/news.asp?id=217> (accessed 26 November 2015).

39 *Submission 33*, p. [3].

3.52 These two examples appear to be representative of a systemic issue with how the Australian Consumer Law is applied to the automotive sector. The issue was succinctly described by the ERA Victoria:

Cars or trucks are far from the simple item that can be replaced with another from stock or returned and refunded in full...

Automotive warranty issues are complicated; they involve complex manufactured goods within which even a small defect can cause failure.⁴⁰

3.53 And it is the repairers that are not getting fair treatment as consumers and part suppliers are protected:

The overall result is that the repairer is actually taking on the risk of ACL guarantee costs which should be borne by the replacement part manufacturer/importer. Often the repairer does not contribute in any way to the failure of the part yet bears much of the consequences and costs to rework the job and ensure that the ACL protects the consumer.⁴¹

3.54 The committee notes that a review of the Australian Consumer Law will commence in 2016 and considers that this issue should be part of that review to establish whether the law is operating in a way that unfairly disadvantages automotive servicing and repair businesses.⁴²

Smash repairs

3.55 A number of stakeholders indicated the difficulties facing the smash repair industry, predominantly related to the market power of insurers, vertical integration and the supply of 'safe' parts, and access to information (as discussed above).

3.56 A number of participants highlighted the unconscionable conduct and misuse of market power by some car insurers (which are effectively the purchases of smash repair services on behalf of their customers). Mr Geoffrey Gwilym, Executive Director of the Victorian Automobile Chamber of Commerce, outlined how the car insurance market has become increasingly concentrated:

If you went back 20 or 30 years there might have been 40 insurers in the market and there were relationships between insurers and repairers...

It looks and appears that we are heading towards an environment of two or three dominant insurers in the market.⁴³

3.57 According to the MTAA, two powerful players effectively control 80 per cent of the market. In addition, these insurers are vertically integrating their activities by

40 *Submission 33*, Attachment 1, p. 4.

41 *Submission 33*, Attachment 1, p. 4.

42 Australian Consumer Law, *Review of the Australian Consumer Law*, <http://consumerlaw.gov.au/review-of-the-australian-consumer-law/> (accessed 21 November 2015).

43 *Committee Hansard*, 8 October 2015, p. 4.

'writing off' cars, harvesting their parts to supply the repairers and then are also involved in running some repair shops.⁴⁴

3.58 As a result, the dominant insurers dictate the prices they are prepared to pay for work, they can also effectively determine the availability of work and the quality of the repairs allowed.⁴⁵ Mr Gregory Patten, Chief Executive Officer of the Motor Traders' Association of New South Wales, summarised the situation:

There are large controlling and influential insurance companies who now control the policy holders. They direct where the work goes and they also formulate agreements with some repairers so that individuals cannot compete in a fair and open marketplace to win work. We have found that part of the arrangements that are now being put in place today...allows insurance companies to set unrealistic repair rates. That encourages a lot of small businesses to do work probably not at a professional and acceptable standard, but they need to do this to keep their doors open to keep employing staff.⁴⁶

3.59 Of particular concern to the committee was the implication that the safety of repairs was being compromised by the market power of insurers. In this regard, Mr Patten provide some examples:

In the modern-day technology, the older types of technique of stretching out chassis rails...with the new materials weakens the materials, and they really need to be replaced. But to meet that dollar value of the repair cost, a few repairers might carry out the older technologies and older methods of repair. Therefore, once the vehicle is back on the road, those major components do not have the strength in them anymore.⁴⁷

3.60 Similarly for repairs to door skins:

Instead of replacing a whole door shell that has an intrusion bar in it, if the car has been hit on the side and it has intrusion bars, the [repair] allowance might be to replace the door skin and not the actual intrusion bar.⁴⁸

3.61 For its part, Insurance Australia Group submitted that:

Repairers conducting repair work authorised by IAG have autonomy to order, procure and fit the necessary parts in accordance with the above guidelines. There are some circumstances where IAG may specify to a repairer that a particular type of part be fitted (for example, new genuine parts in newer cars) before issuing an authority to proceed with repairs. However, once IAG has assessed a proposed repairer quote and issued an

44 *Submission 30.1*, p. 54; Mr Geoffrey Gwilym, *Committee Hansard*, 8 October 2015, p. 5.

45 *Submission 30.1*, p. 54.

46 *Committee Hansard*, 8 October 2015, p. 3.

47 *Committee Hansard*, 8 October 2015, p. 3.

48 Mr Greg Patten, *Committee Hansard*, 8 October 2015, pp. 3–4.

authority to proceed, the sourcing of the replacement parts specified and their installation lies with the repairer.⁴⁹

3.62 The issues affecting the sustainability of the smash repair industry and the relationships between repairers, insurers and car parts suppliers are complex and very difficult to unbundle. The committee considers that a more comprehensive and systemic review of the structure, conduct and performance of the smash repairs market is warranted and should be undertaken as a matter of priority.

Recommendation 12

3.63 The committee recommends that an independent inquiry into the smash repair industry be undertaken to examine the relationships between insurers, parts suppliers and smash repair businesses, and inform an appropriate policy response.

Automotive skills and training

3.64 A flexible and appropriately skilled workforce is an important contributor to a well-functioning automotive industry. Continued investment in human capital is essential to meet the demands of Australian consumers and the requirements in keeping the national vehicle fleet moving.

3.65 But within the downstream automotive industry, there have been persistent skill shortages for over a decade.⁵⁰ The *Automotive Environmental Scan 2015*, the most recent industry report by Auto Skills Australia, concluded that:

A national shortage of approximately 16,359 people is forecast as at October 2014. Vehicle mechanical and vehicle body trades account for the bulk of this [shortage]...⁵¹

3.66 And there is an expectation that these workforce shortages will deepen as economic conditions improve. The MTAA reports that some of the key reasons for the continued labour shortages include competition for workers from other industries, the overall poor quality of many available candidates, and a lack of practical hand skills or exposure to basic trade technologies in school years.⁵²

3.67 As a result, the main workforce challenges faced by the industry are:

- attracting skilled workers;
- achieving productivity improvements with the current staff and skills base;
- adoption of higher skill levels across the workforce (including upskilling); and
- facilitating the uptake of mature age workers and training.⁵³

49 *Submission 2*, p. 3.

50 Mr Geoffrey Gwilym, *Committee Hansard*, 8 October 2015, p. 7.

51 Auto Skills Australia, *Automotive Environmental Scan 2015*, p. 3.

52 MTAA, *Submission 30.1*, p. 39.

53 MTAA, *Submission 30*, p. 20.

3.68 As in other parts of the automotive industry, technological change will profoundly reshape roles in the automotive workforce and the skills required by workers to undertake these roles. At the heart of this change is the increasing complexity and incorporation of new technologies in vehicles.

The increasing complexity of motor vehicles—as evidenced through the merging of electronic and mechanical technologies, intelligent transport systems, navigation, tracking and infotainment systems and the embedded network of computerised controls that manage these technologies—is placing greater demands on the skills base and workforce.⁵⁴

3.69 And as a result, automotive trade specialists will increasingly need to be multidisciplinary—part mechanical engineer, part chemical engineer, part structural engineer, part computer engineer, part mathematician, as well as specialising in hydraulics, diagnostics, information technology, electrical systems and other systems.⁵⁵

3.70 The rate of technological change means that it is difficult for even an experienced technician to keep up with the required technological knowledge without constant upskilling and training.⁵⁶ This has flow-on effects to the quality of the service that is delivered to the consumer.

A key problem area within the current skills base...is the absence of effective practical skills in vehicle diagnostics. This involves troubleshooting or fault-finding skills, along with the appropriate action to repair the problem. Even with the use of diagnostic scan tools in modern vehicle servicing, there is still a large element of misdiagnosis or failure to adequately pinpoint the real source of particular vehicle problems. This failure has led to a culture of parts replacement within the industry...⁵⁷

3.71 And such issues are only going to become more prevalent in the future as the complexity of vehicles increases.

Formal training mechanisms

3.72 Given the technological change and new business models facing the industry, it is imperative that skills development and formal training mechanisms equip workers with the knowledge and practical skills to undertake their roles. Some of this training is undertaken through the formal mechanisms, some is achieved through vehicle manufacturers but the vast majority is undertaken 'in-house' by employers directly.

Vocational education and training (VET)

3.73 The national vocational education and training (VET) system provides the framework through which industry and registered training organisations collectively deliver training and assess the competency of individuals. This system provides the

54 MTAA, *Submission 30*, p. 18.

55 MTAA, *Submission 30*, p. 21.

56 MTAA, *Submission 30.1*, p. 41.

57 MTAA, *Submission 30.1*, p. 41.

structure for training and assessment pathways that enable the growth of organisations and individuals through vocational skills development.⁵⁸

3.74 However, the use of VET training systems remains divided with just over half of all businesses choosing not to engage with the system. Consultations by the MTAA with employers raised significant issues relating to the quality, diversity and delivery of formal VET qualifications across Australia:

Employers have expressed concern over the general quality of training, lack of delivery or training provider options in most regions, lack of available technology and infrastructure with training providers, limited collaboration across the industry and public providers, limitations on post-trade training.⁵⁹

3.75 Concerns were also raised of a disconnect arising between the training provided at some registered training organisations and what is required in the workplace.⁶⁰

3.76 But the structure and delivery of VET training in the automotive industry is changing in some states. Mr Moir indicated that new delivery models were being implemented:

In New South Wales and Western Australia we have moved away from the traditional TAFE model of delivery to an employment based delivery model. This has a couple of advantages. One is that the apprentice is trained in the workplace by a qualified trainer. It also assists in keeping up to date with the latest technology that is coming in to the industry.⁶¹

3.77 It would appear that the VET system as it applies to the automotive industry should be reviewed to ensure that qualifications and training are recast to align more closely with future automotive and consumer requirements. In doing so, it is important that the adoption of new qualifications and training standards is flexible enough to incorporate appropriate skills as required for emerging technologies.

Apprenticeships

3.78 In addition to the VET system, apprenticeships are an important mechanism by which people enter the industry and receive training. According to the MTAA:

Employers are strongly supportive of the apprentice system linked to competency based progression and a national qualification framework.⁶²

3.79 Given the relatively low attractiveness of the automotive industry, facilitating the uptake of apprenticeships by older workers may be one way to address current shortages and meet future demand. Despite an appetite for employers to take on older

58 Auto Skills Australia, *Automotive Environmental Scan 2015*, p. 67.

59 MTAA, *Submission 30.1*, p. 41.

60 MTAA, *Submission 30.1*, p. 40.

61 *Committee Hansard*, 8 October 2015, p. 8.

62 *Submission 30.1*, p. 42.

workers as apprentices, it is difficult to do so when there is limited support from governments and employers have to pay adult apprentice wages over the four year training period. According to Mr Gwilym:

There are many adults who do seek to transition into industries like automotive, and often there are barriers at the state level, and this is normally found in terms of, 'You already have a high-level qualification; we can't fund you to do an apprenticeship'...

All that stuff needs to go. There need to be exemptions for adults coming into apprenticeship, who transition.⁶³

3.80 The retention of apprenticeships is also a significant factor contributing to workforce shortages. Traditionally, only around half of automotive apprentices actually finish their training. In response, some of the industry skills councils developed a national mentoring program to boost apprentice retention. Mr Moir outlined the effect that program had:

...in Western Australia's experience, we had three mechanical trained people doing our mentoring. They were also qualified mentors. The success rate was well into high 80 per cent retention as opposed to the traditional 50 per cent, so it did have a very real effect on turning it around predominantly in the areas where a lot of these young people were suffering at home. The mentors were able to help them manage that plus the work-life process.⁶⁴

3.81 Despite the success of this program, the government has decided to roll the program into the apprenticeship centres program. Mr Gwilym was not supportive of the change noting that:

Our [MTAA's] view is that that [change] will not provide the outcomes that we need...It will not be facilitated by automotive people; it will be facilitated, potentially, by people who are selling cake decorating in the morning, welding at lunchtime and underwater spaghetti knitting in the afternoon.⁶⁵

Committee view

3.82 The committee believes that reforming training systems for the automotive industry is necessary to ensure that Australia has enough skilled workers to meet the demand for automotive services. Developing and implementing strategies and actions to address workforce sustainability challenges and technological change should be a priority for the proposed Automotive Industry Taskforce (Recommendation 1).

3.83 The committee is also concerned that the future of Auto Skills Australia is unclear given the important role that this organisation has played, and will continue to

63 *Committee Hansard*, 8 October 2015, p. 7.

64 *Committee Hansard*, 8 October 2015, p. 3.

65 *Committee Hansard*, 8 October 2015, p. 2.

play, in understanding the automotive workforce and identifying trends and future needs.

Recommendation 13

3.84 The committee recommends that the government recognise the vital role of training in this sector and support a comprehensive, industry-wide approach to assist the automotive sector to redesign and implement training courses that reflect the needs of employers and give workers the skills they require.

3.85 Due to the unprecedented structural adjustment across all sectors of the automotive industry, changes to training and skills development VET packages in the automotive fields should be put on hold for a period of 12 months. During this time, Auto Skills Australia and a coordinated alliance of national industry sectors should undertake the necessary work to recast all qualification requirements, including for new skills occupations. Owing to their national reach and previous experience, the committee suggests that the Motor Trades Association of Australia is the most suitably qualified organisation to led and coordinate this work.

Recommendation 14

3.86 The committee recommends that the government, through the Council of Australian Governments (COAG), work with state and territory governments to identify and address barriers for mature workers seeking to enter the automotive industry as apprentices.

Recommendation 15

3.87 The committee recommends that the mentoring program for automotive apprentices developed under the Australian Apprenticeships Mentoring Program and the Australian Apprenticeships Advisers Program be reinstated.