



Australia's automotive industries

A core foundation of the Australian economy

Australian Industry Group submission to the Productivity
Commission review of post-2005 arrangements
for the automotive manufacturing sector

May 2002

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SUMMARY AND RECOMMENDATIONS

The key issues

The future development of Australia's automotive industries is of critical importance to the growth and wellbeing of the manufacturing industry and the Australian economy. Consequently Ai Group welcomes the review of the sector by the Productivity Commission.

Consistent with the terms of reference, Ai Group has identified a number of key issues for consideration and comment in its submission including:

- The importance of the automotive industries;
- The future of ACIS;
- Import tariff levels post 2005;
- Workplace relations; and
- Skills training.

Australia's automotive industries have gone through major adjustments in preparation for the fall in import tariffs on passenger motor vehicles and components to 10 per cent in 2005. While there has been some restructuring and consolidation, the industry has responded to this challenge by boosting exports, lifting production, and improving productivity and efficiency.

However, the ability of the automotive firms to survive and prosper beyond 2005 will be dependent on providing the right mix of assistance to automotive companies and addressing the issues highlighted within the Ai Group submission.

Importance of the automotive industries

Australian automotive industries are a vital component of domestic manufacturing. Despite its small size relative to the global market, the domestic automotive sector accounts for around 8 per cent of total manufacturing activity.

The automotive sector is an important provider of jobs, research and development and innovation. Manufacturing R & D activity in particular, a key driver of industry growth has been significantly boosted by the contribution of the automotive industry over the last decade. The sector has also contributed strongly to the improvement in the export performance of the manufacturing industry in recent years.

While this activity is significant in its own right, the importance of car and component manufacturers to the domestic economy is magnified by the complex linkages the sector has with other industries such as metal products manufacturing, chemicals, petroleum and coal products, and other non-manufacturing sectors such as finance, insurance, property and other business services.

For every \$1 spend on supplies produced within the automotive sector, an additional \$1.25 is generated in direct demand for related supplies from the rest of the economy.

Ai Group's mapping of the financial transactions of the four car producing companies and 103 component manufacturers shows a sector much larger than the traditional data would suggest, with over \$27 billion of sales, exports approaching \$7 billion and over \$1.4 billion in new investment. Indeed, the automotive industry is shown to have extensive links to other manufacturing activities, particularly among component manufacturers. It also highlights significant growth opportunities in exports and import replacement.

Any damage to the automotive sector can also damage the manufacturing industry and the Australian economy, which makes it crucial to get post-2005 assistance arrangements for the automotive industry right.

The future of ACIS

The goal of ACIS is to encourage investment and innovation in the Australian automotive industry to achieve sustainable growth in the context of increasing global competition.

Data compiled by the Ai Group suggests that in its short period of operation, ACIS has been effective in boosting investment and innovation within the Australian automotive industries, thereby making a significant contribution to the improved competitiveness of domestic motor vehicle manufacturers and components producers alike. The ACIS program has also achieved extremely high levels of support within the automotive sector, and should be continued as legislated, until 31 December 2005.

However, feedback from companies suggests there is a need for ACIS to be more flexible to the changing needs and circumstances facing the automotive industry. For instance, ACIS could provide better support for new entrants, while also targeting support for automotive component manufacturers to develop export markets and pursue import replacement strategies.

To assist the automotive companies in adapting to changing domestic and global economic circumstances, Ai Group believes an annual ACIS statement monitoring performance and impact should be prepared, with a view to facilitating increased flexibility in consultation with the industry.

Car and component manufacturers strongly support the continuation of an ACIS type program beyond 2005. Importantly, companies have indicated that a reduction of benefits under ACIS would have significant implications for production, investment and employment. Therefore, Ai Group views the

continuation of ACIS beyond 2005, with funding to be determined above the current threshold, as critical for the continued development of the domestic automotive sector.

Automotive companies have also highlighted the modulation of ACIS benefits as an ongoing concern. The \$2 billion cap means that the program's effectiveness could deteriorate as annual demands for import credits become greater with higher levels of production, investment and research and development.

In effect, car and component manufacturers may be penalised for their success in meeting the program's objectives. The elimination of modulation and/or consideration of an indexed funding program to reflect the industry's growth and success in meeting the program's objectives in any new ACIS-type program after 2005 would help to alleviate these concerns, and provide greater certainty to ACIS participants.

Import tariff levels post 2005

The automotive sector has been progressively planning for a reduction in import tariffs on PMVs and components to 10 per cent in 2005. The industry has responded positively to this challenge by lifting production, productivity and efficiency to ensure the industry remains competitive after 2005.

However, motor vehicle manufacturers and automotive component manufacturers have indicated that further reductions in tariffs below 10 per cent after 2005 could jeopardise future production and investment in Australia. Ai Group strongly recommends the continued application of tariff rates at 10 per cent after 2005.

Reducing tariffs below 10 per cent in the absence of similar action among other automotive producing countries to lower tariff and non-tariff barriers,

would lead to a deterioration of Australia's competitiveness as a destination for investment, thereby threatening the future of the domestic automotive production.

As such, there should be no consideration of tariffs below 10 per cent in the absence of moves among other automotive producing countries to reduce tariff and non-tariff barriers to trade.

Industrial relations

The recent industrial dispute at Walker Australia which interrupted supply in the automotive sector highlights the precarious industrial relations environment in the automotive industry.

"Just-in-time" supply arrangements and a large number of sole suppliers mean that an industrial dispute in a single component manufacturer can disrupt the whole industry within hours.

Since August 2001, at least four separate industrial disputes have either interrupted supply or threatened supply in the industry. The disputes at Tristar in August 2001 and Walker in May 2002 resulted in the loss of hundreds of millions of dollars of sales.

The uniqueness of the industry requires that better industrial relations solutions be found to enable issues to be resolved before they develop into disputes and to enable industrial disputes to be swiftly dealt with. Otherwise, vehicle manufacturers may decide to source their component parts offshore, seriously damaging the Australian economy.

Having been directly involved in representing automotive employers in numerous automotive industry disputes – including the Tristar and Walker

disputes – Ai Group has identified a number of issues that need to be addressed without delay.

Union and award structures within the automotive industry must be reformed as a matter of urgency. The lack of cooperation between factions of the AMWU, and a lack of logic regarding the dividing line between the coverage of the two main awards in the automotive industry operates to the disadvantage of employers and the industry as a whole.

Just-in-time supply arrangements and the nature of supply chains in the industry necessitate a more efficient means of settling disputes. Many small component suppliers do not employ managers with detailed industrial relations knowledge. Just-in-time supply arrangements mean that an industrial relations dispute at a small component supplier can quickly interrupt supply in the industry. For this reason, the industry would benefit from more suitable industrial relations training programs for union delegates within automotive component suppliers, with training overseen by a genuinely independent body.

In addition, Ai Group believes there would be benefits from an automotive industry avoidance of disputes procedure or code of practice, outlining a staged process for resolving disputes adhered to by employers and unions alike. Such a procedure would help to avoid the unnecessary and potentially massive costs associated with industrial disputes in the automotive industry.

Ai Group also recommends several amendments be made to the *Workplace Relations Act*. These include:

- Providing the Australian Industrial Relations Commission (AIRC) with enhanced powers to suspend or terminate bargaining periods;
- Outlawing protected industrial action in pursuit of pattern bargaining;
- Providing the AIRC with the power to order a cooling off period;
- Introduction of secret ballots before protected action can be taken;

- Outlawing protected industrial action in all circumstances during the life of a certified agreement.

Central to these recommendations is the Ai Group position that the maintenance of an efficient and fair system of enterprise bargaining is essential for the automotive industry. To ensure this, industry representative bodies and the unions should explore various industry matters of mutual interest to develop initiatives of benefit to the industry.

Given the enormous losses that can result from unprotected industrial action, there is a need to ensure that the issuing of Section 127 orders to stop industrial actions are not unnecessarily delayed and are complied with by the affected unions. This can be achieved by requiring the AIRC to hear and determine Section 127 applications within 24 hours of lodgement and giving it powers to suspend the registration of a union for non-compliance.

Implementing the recommendations of the Ai Group will help to ensure the industrial relations environment in the automotive industry does not disrupt production and investment within the sector as it has done in the past.

Skills training

Ai Group has addressed a number of issues viewed as critical to the skills and development of the automotive workforce. A summary of the main issues affecting the industry is provided below.

A key competitive advantage of domestic automotive producers has traditionally been the skills and knowledge of the Australian workforce. In general, it appears as though most automotive companies regard the skills of the workforce as reasonably strong. However, finding new avenues and improving existing mechanisms for training and development is critical for the sector if it is to maintain its competitive advantage in this area.

Given the importance of national training packages and advisory arrangements to government, and in light of industry developments, it may be necessary to review the current training advisory arrangements to ensure that training arrangements are sufficiently focussed on the skill requirements of the automotive industries.

A review of current training advisory structures to ensure that training arrangements reflect current industry requirements should be the first step in improving training and development methodologies.

Symptomatic of the struggle facing the manufacturing industry in general, employers within the automotive sector report a lack of quality young people seeking employment within the sector, particularly within the traditional trades.

For automotive producers to attract young skilled labour, it is important that the automotive sector is included within a broader promotional campaign on the manufacturing industry to increase the knowledge of various sectors of the community on the changes in the industry and opportunities available to young people.

While it is important to attract and train new entrants, rapidly changing technology means it is just as crucial to continue to develop and educate the existing workforce. Small and medium sized firms have found it difficult to keep pace with larger firms in respect of ongoing training. Therefore, current Government funding arrangements must be modified to take into account this discrepancy if the domestic automotive industry is to maintain and increase the competitive advantages it enjoys through the skills of its workforce.

Recommendations

In order to facilitate the continued development of a sustainable and competitive automotive industry to the end of the decade, Ai Group recommends:

Automotive Competitiveness and Investment Scheme (ACIS)

Rec 1 The continuation of the current ACIS program as legislated until 31 December 2005.

Rec 2 The introduction of an annual ACIS statement monitoring performance and impact, with a view to facilitate increased flexibility in consultation with the industry.

Rec 3 The introduction of a new ACIS program to extend from 2006 to 2010, with appropriate program funding to be determined above the current ACIS threshold.

Rec 4 Any new ACIS program beyond 2005 considers elimination of modulation and/or an indexed funding arrangement to reflect the automotive industry's growth and success in meeting the program's objectives.

Automotive Tariffs

Rec 5 The import tariff on PMVs and components remains at 10 per cent after 2005.

Rec 6 No reduction of import tariffs below 10 per cent be contemplated until tariff and non-tariff barriers in overseas countries are reduced to at least the equivalent of Australia.

Industrial Relations

- Rec 7 Union and award structures within the automotive industry be reformed.*
- Rec 8 Suitable training programs for union delegates be developed and overseen by a genuinely independent body.*
- Rec 9 Suitable industrial relations training programs be developed for automotive component suppliers.*
- Rec 10 An automotive industry avoidance of disputes procedure or code of practice be developed and a commitment obtained from all unions in the industry, together with employer representatives, to adhere to it.*
- Rec 11 Additional grounds be available to the Commission to suspend or terminate a bargaining period. The additional grounds are, where protected action is:*
- Causing significant damage to an enterprise; or is*
 - Significantly endangering the welfare of employees in an enterprise; or is*
 - Causing significant damage to an industry or industry sector (eg. The automotive sector) or an important part of an industry or industry sector; or is*
 - Significantly endangering the welfare of employees in an industry or industry sector or an important part of it.*
- Rec 12 Protected action be outlawed for the purposes of pattern bargaining.*

- Rec 13 The AIRC be given the power to establish a cooling off period in appropriate circumstances.*
- Rec 14 Secret ballots be mandatory before protected action can be taken.*
- Rec 15 The Workplace Relations Act be amended to clarify that protected action cannot be taken prior to the expiry date of a certified agreement.*
- Rec 16 Industry representative bodies, such as Ai Group and the ACTU, should explore various industry-level matters of mutual interest and endeavour to develop worthwhile initiatives of benefit to the industry.*
- Rec 17 The AIRC be required to hear and determine s.127 applications within 24 hours of their lodgement and, if it is not able to determine an application within 24 hours, to issue an interim order, unless it is satisfied that it would not be in the public interest to do so.*
- Rec 18 The AIRC be required to insert a provision in s.127 orders (where such a provision is sought by the applicant) which provides that a separate breach of the order occurs for each day that the order is not complied with, unless the Commission is satisfied that it would not be in the public interest to do so.*
- Rec 19 The AIRC be given the power to suspend the registration of a union (perhaps for a relatively short period for an initial offence) on the ground that it has failed to comply, or failed to ensure that its members comply, with AIRC orders or avoidance of disputes clauses in awards or certified agreements.*

Skills Training

- Rec 20 Federal and State Governments review current training advisory structures to ensure that training arrangements reflect current industry requirements.*
- Rec 21 Training providers explore the opportunities available to increase the involvement of different sectors and smaller businesses in education and training activity.*
- Rec 22 Federal and State Governments focus on avenues to improve relationships between training providers and industry including providing the necessary infrastructure (changes to award arrangements) to facilitate return to work and other professional development programs for teachers.*
- Rec 23 The Federal Government change current funding arrangements to ensure that the existing workforce has access to public funding for training to meet new skill requirements.*

THE KEY ISSUES

Australia's automotive industries are a core foundation of the manufacturing sector and the national economy. The four major domestic automotive producers (Holden, Ford, Toyota and Mitsubishi) along with over 150 tier-one component companies, make up about 8 per cent of Australia's manufacturing sector.

A few key features of the industry in 2002, based on data assembled by the Australian Industry Group that highlight the importance of the sector are:

- About 772,600 private motor vehicles sold annually, of which around 360,000 are produced domestically.
- Total sales by the four major vehicle producers exceeds \$16.7 billion (including sales of imported cars), with Australia's automotive component manufacturers adding around an additional \$10 billion to sales.
- Over 58,000 people employed in automotive firms, of which 65 per cent are employed by component manufacturers.
- Export sales currently approaching \$6 billion (and likely to rise to \$7 billion in 2002), of which 75 per cent represent exports of motor vehicles.
- An estimated \$1.4 billion of new investment by the automotive sector, roughly equivalent to around 17 per cent of all manufacturing investment.
- Over \$420 million on research and development (R & D), equivalent to 17 per cent of all R & D expenditure by manufacturing.
- Around \$6 billion (in 1996/97) of intermediate supplies purchased from sources outside the automotive industry.

Indeed, for every \$1 spent on supplies produced within the automotive sector, an additional \$1.25 is generated in direct demand for related supplies from the rest of the economy.

The automotive sector is also important for regional economies, where the industry is concentrated in the cities of Melbourne, Adelaide, Albury, Geelong, Bendigo and Ballarat.

Productivity Commission review

Given its importance, the future development of Australia's automotive industries is of critical importance. Consequently Ai Group welcomes the review of the sector by the Productivity Commission.

With the four automotive companies operating within a global strategic framework, the key policy issue for the Australian Government is ensuring that Australia, which makes up little more than one per cent of the global automotive market, continues to be a sufficiently attractive and competitive site to produce motor vehicles and components. As the Prime Minister recently stated,

“You’ve got a world industry, the motor vehicle manufacturing industry is a world industry now and we have to decide whether we want some of the action in Australia or whether we’re [it is] allowed to be scattered to the four winds and go elsewhere.”

The Productivity Commission has been asked to report on post-2005 Commonwealth assistance for the domestic automotive manufacturers. Under the Terms of Reference, the Commission has been requested to focus on the following issues:

- Evaluate the outcomes of the Automotive Competitiveness and Investment Scheme and the reform of automotive tariffs;
- Assess the interdependence between vehicle assemblers and component producers;

- Identify strengths, weaknesses and opportunities for the sector including major impediments to its long term viability;
- Examine the impact of changes in road safety and environmental requirements; and
- Report on progress in trade liberalisation of the automotive sector in existing and prospective export markets.

Ai Group's submission reports the view of automotive companies on these matters. In summary, the industry is united in its support for the continuation of the ACIS scheme and maintenance of import tariffs at planned 2005 levels, which will fall from 15 per cent to 10 percent.

Ai Group's submission also includes a special economic flow analysis of the relationship between the four car manufacturers and over 100 component manufacturers, covering financial transactions in excess of \$27 billion. This analysis complements (dated) input-output data on the relationship between the automotive industry and the broader economy.

Key issues

Consistent with the Terms of Reference, Ai Group has identified a number of key issues for consideration and comment in its submission.

Issue 1 Importance of the automotive industries

Australia's automotive industries are not only important in their own right, but have critical links to the rest of manufacturing and the Australian economy. Understanding these links is important in understanding why it is critical to get Australia's post-2005 arrangements right. Significant damage to the automotive industry will critically damage manufacturing and the Australian economy.

Issue 2 The future of ACIS

Current arrangements for the automotive industry came into effect on 1 January 2001. Under the Automotive Competitiveness and Investment Scheme (ACIS), motor vehicle producers, component parts manufacturers, machine tool producers and automotive service providers can earn import duty credits for production, investment or research and development. The program is capped at \$2 billion over five years.

The critical issue is what will be the nature of the assistance, if any, to be provided to the automotive sector post-2005. While the automotive industry has long lead times in planning production cycles, and therefore a decision is required this year, the difficulty in making such a decision is that ACIS is only one year into its five year term. Industry support for ACIS however must figure prominently in this calculation.

Issue 3 Import tariff levels post 2005

The import tariff on cars, wagons and most components currently stands at 15 per cent. In 2005, the tariff will fall to 10 per cent. The tariff on light commercial vehicles and four wheel drives is 5 per cent and will remain unchanged until 2005. Leaving aside the credits obtained by the industry under ACIS, the Federal Government is estimated to collect over \$1 billion in customs duty from imported cars.

The critical issue facing the industry is whether tariffs will stay at 10 per cent after 2005 or move downwards. Related to this is the level of tariff and non-tariff barriers that will apply to our major trading partners.

Issue 4 Workplace relations

The recent Walker dispute over protection of workers entitlements has yet again highlighted the precarious environment automotive firms operate under in the current industrial climate. "Just-in-time" supply arrangements mean that

an industrial dispute in a single component manufacturer can disrupt the whole industry. The uniqueness of the industry means that a better industrial relations solution is required to swiftly deal with industrial disputes.

Otherwise, the consequence could be that car manufactures will look offshore to supply component parts, seriously damaging the economy.

Issue 5 Skills training

One of the competitive advantages of the Australian automotive industries is its access to a highly skilled workforce. Keeping pace with technology changes and increasing the technical and core skills of the workforce has been a priority for the industry.

Finding new avenues for training is critical for the automotive industry if it is to retain a competitive advantage. Ai Group sees an urgent need to re-examine the current structure for skills training within the automotive industry and more broadly across all industry training. The role of Training Boards is critical to this review as it may be appropriate to consider new models.

IMPORTANCE OF AUSTRALIA'S AUTOMOTIVE INDUSTRIES

Australia's automotive industries are a vital component of domestic manufacturing. Despite its small size relative to the global market, key macroeconomic indicators of industry performance such as employment, turnover and investment show that the sector is a key contributor to the growth and wellbeing of the manufacturing industry and the Australian economy.

As well, an Ai Group analysis of economic transactions of over \$27 billion within the automotive industries and beyond to the broader economy, highlights the impact of these industries on the national economy.

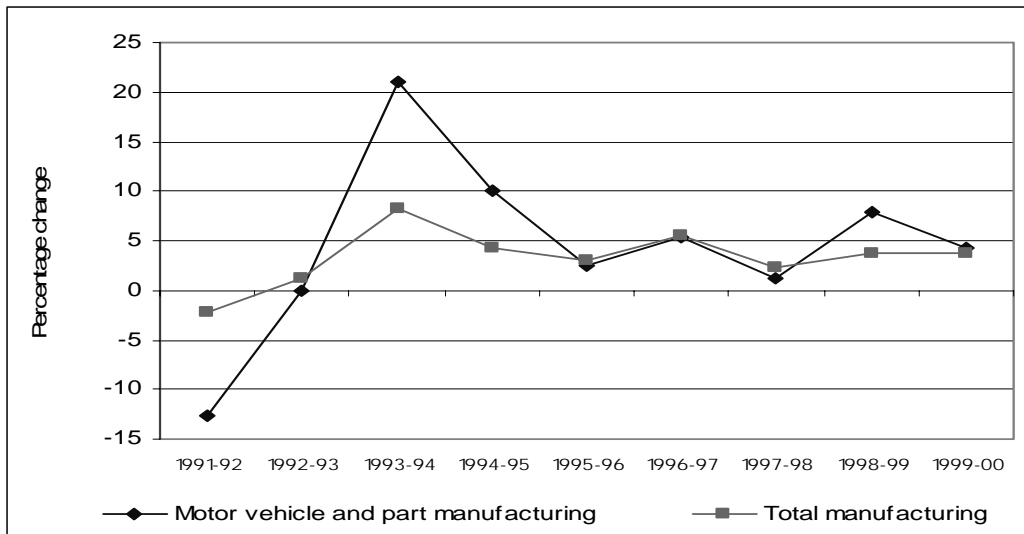
Macro-economic indicators

Turnover

Total turnover in the automotive industry was \$17,435 million in 1999-2000. This accounted for 7.6 per cent of total manufacturing turnover, up on 7.1 per cent recorded in 1990-91. The automotive industry has generally outperformed other sectors of manufacturing, particularly in 1993-94 when turnover increased by over 21 per cent (chart 1). Overall, the automotive sector grew by 43 per cent over the decade compared to 33 per cent for all manufacturing.

The fastest growing component of the automotive industry has been the automotive and electrical equipment component manufacturers which grew by over 50 per cent over the decade.

Chart 1 Turnover – annual percentage change

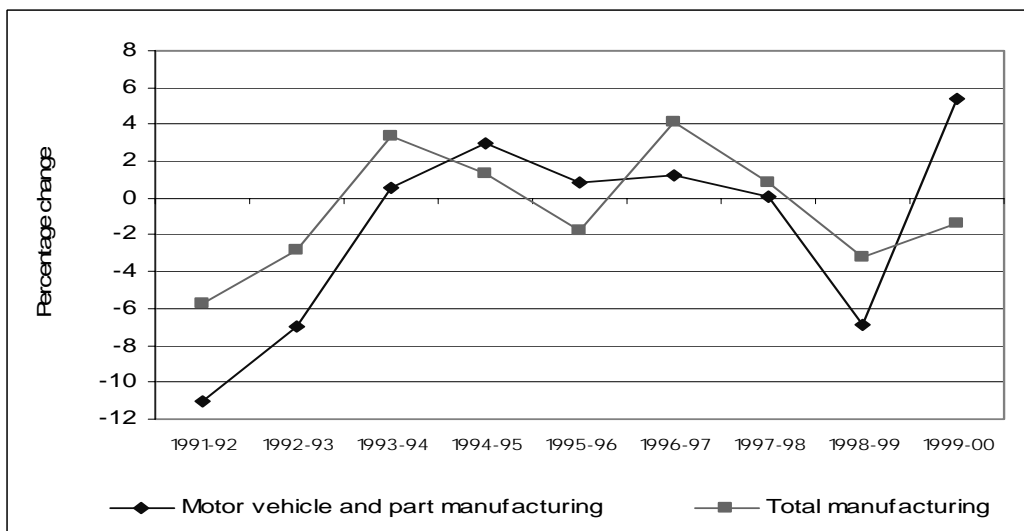


Source: Australian Bureau of Statistics, Manufacturing Industry, Australia (8221.0)

Employment

Australia’s automotive industries employed almost 55,000 persons in June 2000. As a proportion of total manufacturing, the sector accounted for 6.0 per cent of total employment in June 2000, compared to 6.6 per cent in June 1991. The lower employment share relative to its size (as measured by turnover) reflects both the capital intensive nature of activity and higher labour productivity.

Chart 2 Employment – annual percentage change



Source: Australian Bureau of Statistics, Manufacturing Industry, Australia (8221.0)

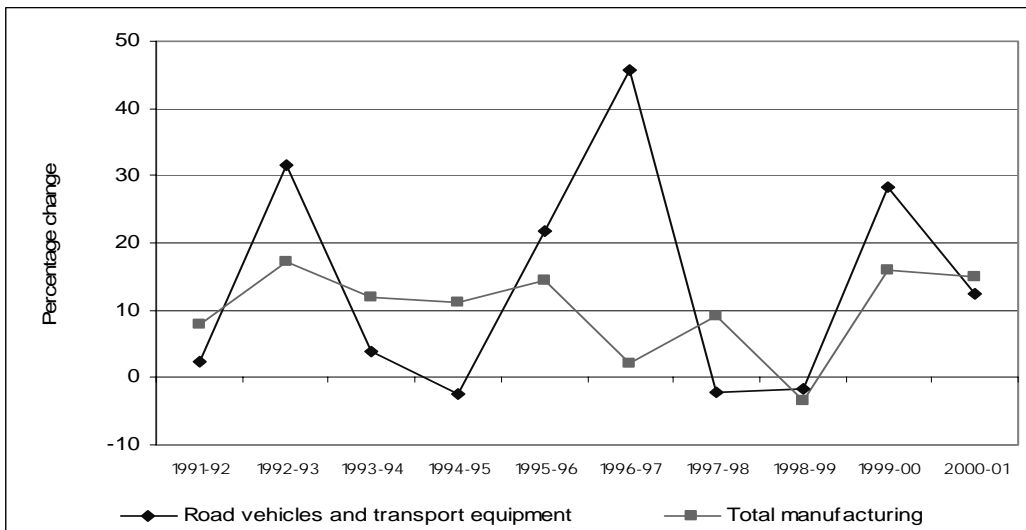
Employment growth trends in automotive firms displayed a strong correlation with overall manufacturing employment in the period from 1991-92 to 1999-2000 (chart 2). Strong job growth however in recent years reflects the rapid growth in car sales and exports.

Exports

The value of road vehicle and other transport equipment exports was over \$5 billion in 2001-02, which accounted for 15.8 per cent of manufactured exports, up on the 12.2 per cent recorded in 1990-91. This is an outstanding achievement given the size of the sector in manufacturing.

In this period, automotive exports have grown by over 230 per cent well above the growth rate in all manufactured exports (160 per cent), making a strong contribution to Australia’s trade performance (chart 3).

Chart 3 Exports – annual percentage change



Source: Australian Bureau of Statistics, International Merchandise Trade, Australia (5422.0)

Export growth over the 1990s reflects a greater propensity among motor vehicle manufacturers to expand offshore in order to reap benefits of scale

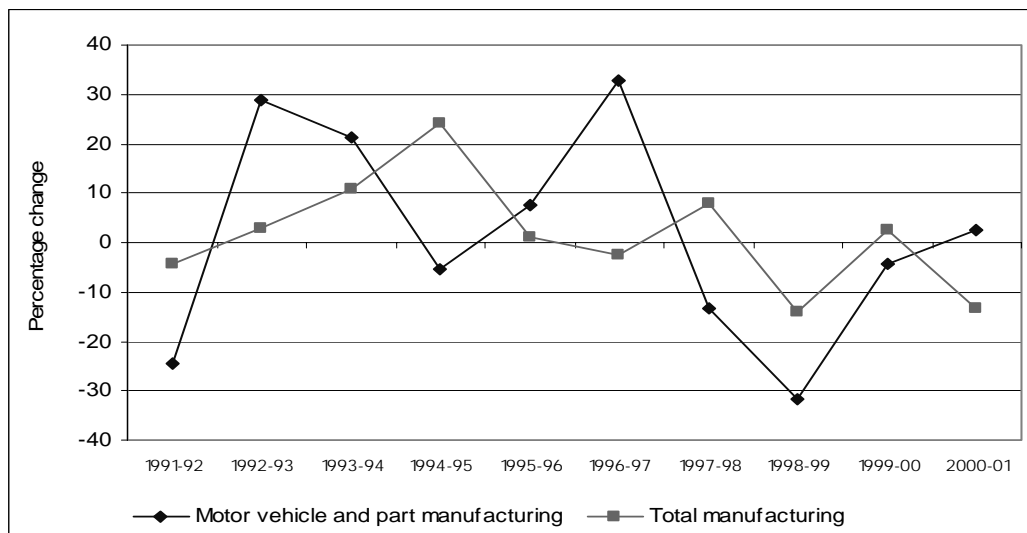
and enter new markets. Indeed, growth in exports of road vehicles was the strongest by 350 per cent. Component manufacturers have shown less growth over the period, increasing by only 83 per cent. Despite the low dollar, this weaker performance has been due to Australian component exports falling by one-third over the last three years.

Capital expenditure

Total capital expenditure within the automotive industry was \$609 million in 2000-01. This represents about 7.3 per cent of all manufacturing investment.

While capital expenditure within the sector has eased since reaching a high of over \$1 billion (or 10.3 per cent of total manufacturing capital investment) in 1996-97 (chart 4), this reflects the cyclical nature of investment among the major vehicle manufacturers, as it does across manufacturing more broadly.

Chart 4 Capital expenditure – annual percentage change



Source: Australian Bureau of Statistics, Private New Capital Expenditure, Australia (5625.0)

Recent data collected by Ai Group from automotive companies suggests that under ACIS investment levels will rise substantially this year, to over \$1.1 billion, equivalent to 17 per cent of manufacturing investment. This is in

contrast to other manufacturing sectors, where new investment is expected to remain sluggish through 2002.

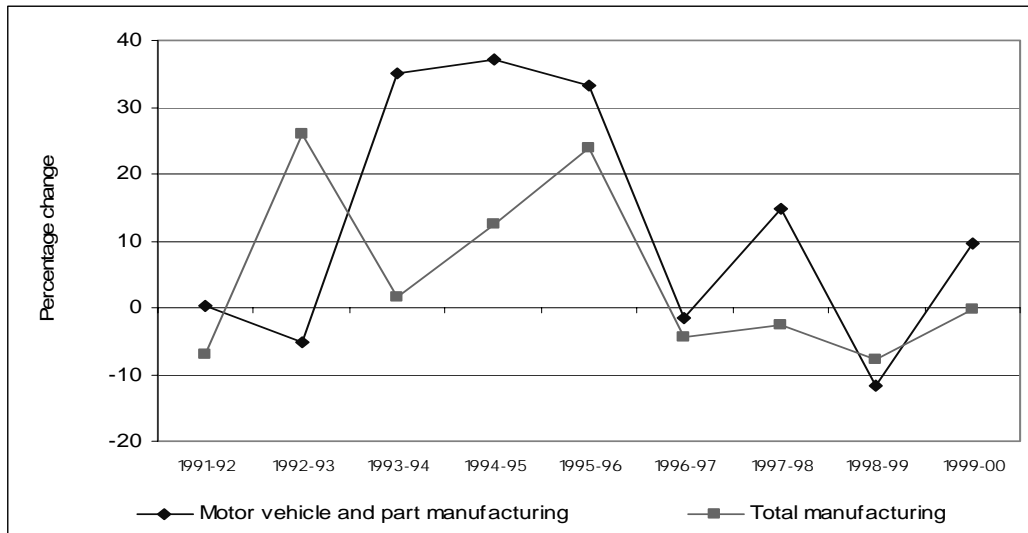
Research and development

The automotive industry makes a significant contribution to manufacturing research and development, a key driver of industry growth. While accounting for less than 8 per cent of industry turnover, the automotive industry accounted for 17 per cent of total manufacturing R & D expenditure in 1999-2000.

In the period from 1990-91 to 1999-2000, R & D expenditure in the automotive industry increased by 160 per cent, compared to an overall manufacturing average of 42 per cent.

R & D expenditure within the automotive industry displayed high levels of growth in the mid 1990s, reaching a peak of 37.2 per cent in 1994-95 (chart 5).

Chart 5 R & D expenditure – annual percentage change



Source: Australian Bureau of Statistics, Research and Experimental Development, Australia (8104.0)

Industry supply linkages

The importance of automotive manufacturers to the domestic economy is magnified by the linkages the sector has with other industries such as metal products manufacturing, chemicals, petroleum and coal products, and other non-manufacturing sectors.

Input-output tables produced by the Australian Bureau of Statistics (ABS) provide an insight into the importance of these linkages.

A substantial proportion of total supplies provided to the sector are supplied from within the industry itself. In 1996-97, this accounted for over \$4.6 billion, or 44.2 per cent of total supplies to the automotive industry (table 2). Much of the trade flows within the motor vehicle and parts sector is attributable to transactions between automotive component manufacturers and car manufacturers – which is addressed by the recent Ai Group survey of the automotive industry (see below).

Table 1 Supply chain relationships in automotive industry, 2002

Users \ Suppliers	Car Manufacturer	Component Suppliers	Other Manufacturers	Non Manufacturing Suppliers	Overseas
Car Manufacturer	0%	60%	3%	16%	21%
Component Suppliers	4%	11%	35%	22%	28%

The Ai Group survey which relates to the current year provides some insight into these flows (Table 1), particularly in regard to intra-industry and overseas supply chains. The four automotive manufacturers gain 60 per cent of their supplies from component manufacturers, while component suppliers not surprisingly only obtain 11 per cent from component suppliers, pushing down the overall average as reflected in the input-output tables. While there is considerable variation across car and component manufacturers, over one-fifth of supplies are directly sourced from overseas (not shown in the input-

output tables), highlighting the opportunities for import-replacement within the industry.

Table 2 Supplies to the automotive industry, 1996-97

Industry	Total supplies (\$ million)	Percentage of total supplies
Mining	14.1	0.13
Manufacturing		
Food and beverages	3.0	0.03
Textiles, clothing and footwear	43.1	0.41
Wood and paper	27.1	0.26
Printing, publishing and recorded media	54.2	0.52
Petroleum, coal, chemicals	758.5	7.22
Non-metallic minerals	86.5	0.82
Metal products	1,846.1	17.56
Motor vehicle and parts etc	4,648.8	44.23
Other machinery and equipment	450.9	4.29
Other manufacturing	110.5	1.05
Total	8,028.7	76.38
Utilities	156.2	1.49
Construction	0.3	0.00
Wholesale trade	474.9	4.52
Retail trade	6.0	0.06
Repairs	32.1	0.31
Accommodation, cafes and restaurants	106.8	1.02
Transport and storage	250.1	2.38
Communication services	77.1	0.73
Finance, insurance, property and other business	1,185.7	11.28
Government and defence	51.2	0.49
Education	15.6	0.15
Health and community services	13.1	0.12
Cultural and recreational services	56.0	0.53
Personal and other services	43.6	0.41
Total	10,511.3	100.00

Source: Australian Bureau of Statistics, Input-Output Tables, Australia (5209.0)

Other key suppliers to car and component manufacturers include metal products manufacturing, which provided goods and services to the value of over \$1.8 billion in 1996-97 (or 17.6 per cent of total supplies to the automotive industry), and the petroleum, coal, chemicals and associated products sector, which supplied goods and services to the value of \$759 million in 1996-97 (or 7.2 per cent of total supplies to the automotive industry). As a rough guide, these supplies represent about 2.5 per cent and 5 per cent respectively of the total turnover within these two sectors.

In total, manufacturing firms supplied goods and services to the automotive industry to the value of over \$8 billion in 1996-97. However, the automotive industry also has significant linkages outside of manufacturing. For example, the finance, insurance, property and other business services industry supplied goods and services to the value of over \$1.1 billion in 1996-97 (or 11.3 per cent of total supplies to the automotive industry).

Demand originating in the automotive industry has a direct impact on other sectors of the domestic economy in terms of activity and therefore, employment. In summary, for every \$1 spend on supplies produced within the automotive sector, an additional \$1.25 is generated in direct demand for related supplies from the rest of the economy.

Accordingly, in assessing the overall importance of the automotive industry to the Australian economy, one must take into account the important linkages the sector has to a wide range of industries.

Automotive financial transactions

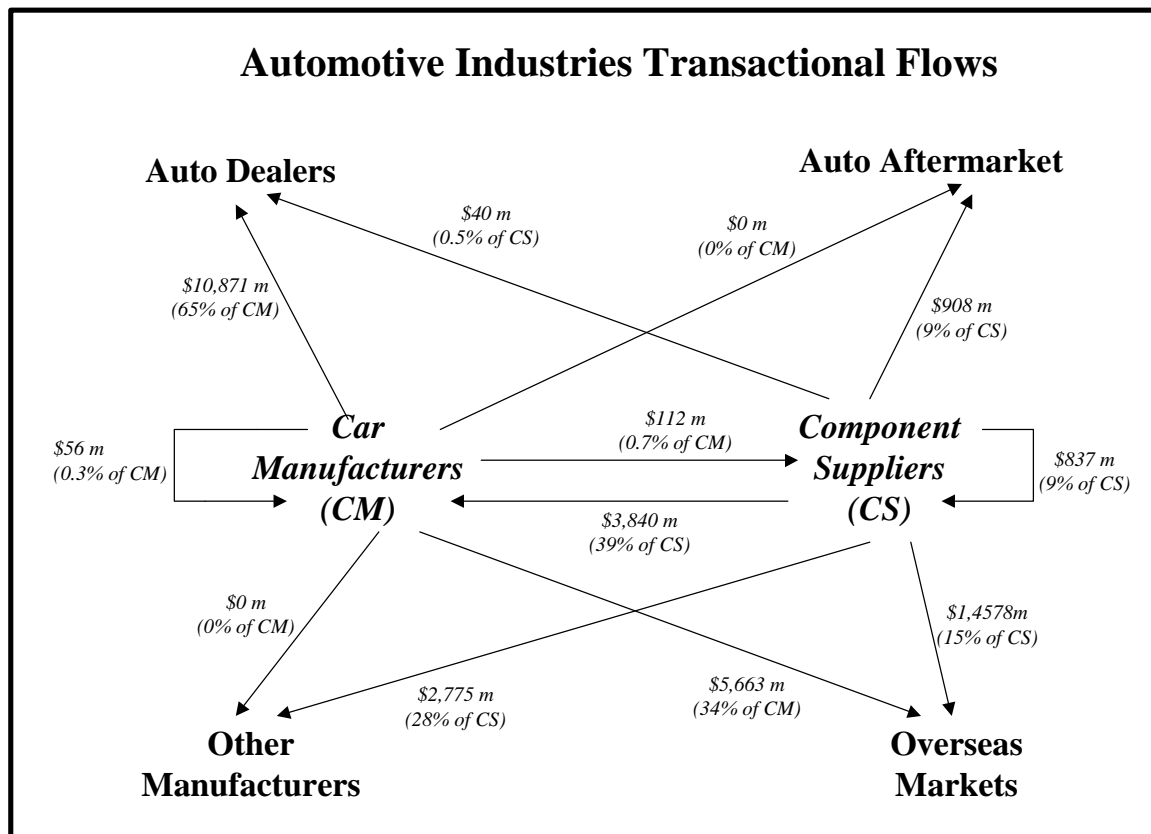
While the ABS input-output published tables provide a useful insight into the links between the automotive sector and the broader economy, it only has limited data on the link between the four car manufacturers and the 150 component suppliers.

In order to fill this gap, Ai Group undertook a survey of car and component manufacturers. In total, the responses cover all four car manufacturers and 103 automotive component suppliers covering financial transactions of approximately \$27 billion.

Chart 6 maps out the sales transactional flows between the four car manufacturers, 103 component suppliers and the rest of the economy. For

the car manufacturers, sales are split one-third towards the overseas markets and two-thirds towards the domestic market. For component manufacturers, while they have strong supply chain links to the automotive industry, their sales market is diverse, with about 40 per cent of products sold to the four car manufacturers. Around 28 per cent of all component sales were to manufacturers outside the automotive industry, highlighting an important path for economic spillovers into the rest of the manufacturing sector, including technology, skills, investment and product innovation.

Chart 6 Automotive Industries Transactional Flows, 2002



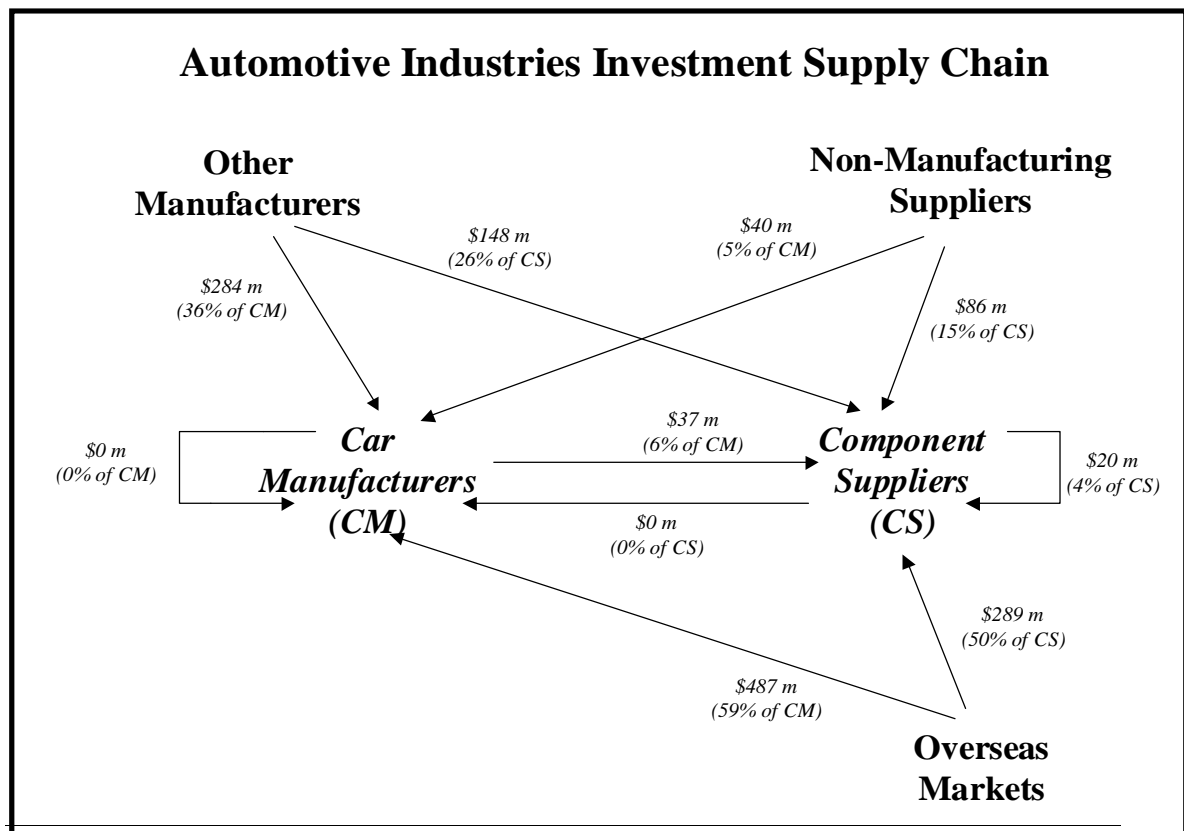
Again, unlike the (three) car manufacturers who are exporting 34 per cent of their goods to overseas markets, only 15 per cent of component products are destined for overseas markets. If automotive component producers are to

continue to thrive and be efficient to meet the needs of the growing domestic automotive manufacturers, then the export propensity of the sector needs to be lifted substantially. Clearly, there is significant opportunity for a targeted approach to lift this performance.

The importance of spillover effects from the automotive industry is made even more evident when investment flows are considered. Chart 7 maps the investment supply chain for the survey companies, a total of \$1.4 billion in 2002. The four car manufacturers account for 58 per cent of investment and the component suppliers the remainder (42 per cent).

Over 31 per cent of all investment in the automotive industry in 2002 is sourced from companies outside the automotive industries. Non-automotive manufacturing provides the largest source of investment, accounting for 36 per cent (\$284 million) of the investment of car companies and 26 per cent (\$148 million) of component suppliers.

Chart 7 Automotive Industries Investment Flows, 2002



Investment also provides a valuable source of transfer of overseas technology into the automotive industries and more broadly, the economy with 59 per cent of car companies and 50 per cent of component suppliers' investment being sourced from overseas.

The investment data assembled by the Ai Group does lend itself to the conclusion that ACIS is contributing to a significant lift in investment and technology transfer.

In total, the data assembled establishes the car and component industries as a core foundation of the Australian economy. It also highlights the importance of the Federal Government getting the right mix of tariffs, industry assistance and other supports to further grow the industry and strengthen the Australian economy.

THE AUTOMOTIVE COMPETITIVENESS AND INVESTMENT SCHEME (ACIS)

The Scheme

Introduced on 1 January 2001, ACIS replaced the Export Facilitation Scheme as a support mechanism for the domestic automotive industry.

ACIS is aimed at improving the investment performance and competitiveness of domestic automotive companies in light of Australia's commitment to free trade by 2010, under the Bogor Declaration. The ACIS program is due to expire on 31 December 2005, with funding capped at \$2 billion over the five year duration of the scheme.

Under ACIS, automotive firms may claim credits based on either production quantities (called production credits, for motor vehicle producers only) or based on investment levels (called investment credits, and available for all automotive companies).

For the purposes of ACIS, automotive companies include:

- Motor vehicle manufacturers;
- Automotive component producers;
- Automotive machine tools and tooling producers; and
- Automotive service providers.

Companies need to be able to demonstrate a long term commitment to the Australian automotive sector through the development of a five year plan, in order to be eligible for ACIS funding.

Credits may be used to meet an import duty liability with the Australian Customs Service on eligible vehicles and automotive components, with

benefits capped at 5 per cent of the value of automotive product sales in the previous calendar year (the “sales cap”).

The importance of ACIS to the automotive industry is reflected in high rates of utilisation among companies. According to a survey of the automotive industry by the Ai Group, all motor vehicle manufacturers and 75 per cent of automotive component manufacturers have gained import credits under ACIS.

In 2001, ACIS credits earned by the four car manufacturers totalled \$247 million, while component manufacturers earned a total of \$223 million. Combined with other eligible companies, expected credit earned over the life of the program far exceeded available funds, capped at \$2 billion (the “fiscal cap”), requiring the funds to be modulated. This is in addition to the “sales cap”.

The issues

As stated in the *ACIS Administration Act 1999*, the purpose of the program is to “provide transitional assistance to encourage competitive investment and innovation in the Australian automotive industry in order to achieve sustainable growth, both in the Australian market and internationally, in the context of trade liberalisation”.

Three issues are therefore critical to the current review of automotive assistance beyond 2005 by the Productivity Commission. These are:

- The effectiveness of ACIS program;
- The extent of modulation; and
- The nature of post-2005 industry assistance.

Given that the program has been in operation for only one year, any assessment cannot be too prescriptive as the nature of demand and supply

conditions may change over the years. Consequently, any assessment must also consider the scope for flexibility in the program over the years ahead.

The views of companies

Feedback from the survey indicates that ACIS has had a positive impact on company performance, particularly for investment and production (table 3).

Among motor vehicle manufacturers, three out of the four major producers indicated that production levels were higher due to ACIS (one reported unchanged production), while all reported that investment had increased as a direct result of ACIS. This assessment is supported by data collected on sales, exports and investment (reported in the previous section).

Three of the major motor vehicle manufacturers indicated that employment had increased due to ACIS (one reported unchanged employment), while two stated that export and import quantities had increased (two indicated export and import levels were unchanged).

Automotive component manufacturers also reported that ACIS has had a major impact on company performance. Of these firms, production was higher among 65 per cent of companies due to ACIS (unchanged among 35 per cent), while investment was higher among 88 per cent of firms (unchanged for 12 per cent).

Almost three-quarters (72 per cent) of automotive component companies utilising ACIS reported employment levels were higher as a result (27 per cent of firms reported unchanged employment).

ACIS has also had a positive impact on exports for 40 per cent of automotive component producers, while imports were higher for 11 per cent, and lower for 24 per cent (imports were unchanged for 65 per cent).

The industry is united in its support for a continuation of ACIS beyond 2005. All motor vehicle manufacturers and 98 per cent of automotive component manufacturers believe ACIS should continue beyond 2005.

Table 3 Impact of ACIS on selected items

Sector	Production	Imports	Investment	Exports	Employment
Motor vehicles					
Increase	75%	50%	100%	50%	75%
Decrease	0%	0%	0%	0%	0%
No change	25%	50%	0%	50%	25%
Components					
Increase	65%	11%	88%	40%	72%
Decrease	0%	24%	0%	0%	1%
No change	35%	65%	12%	60%	27%

An elimination of ACIS would have a significant impact on the ability of automotive companies to sustain current performance, particularly in terms of R & D activity and other investment.

Motor vehicle manufacturers were universal in their opinion that a reduction or an elimination of ACIS after 2005 would result in a decrease in investment.

According to one car manufacturer, “(The) elimination of ACIS would significantly slow our expansion/investment plans and would impact on activities related to new product development”.

Two major motor vehicle manufacturers were concerned about the impact a reduction or elimination of benefits under ACIS would have on the development of new models.

Another car manufacturer stated, “A reduction or elimination of benefits under ACIS after 2005 would make it much more difficult to compete with overseas locations for investment that is essential for continued growth”.

The final impact of a reduction in ACIS benefits would be largely dependent upon the magnitude of the fall in assistance. However, it is clear that motor vehicle manufacturers view the scheme as crucial to maintain competitiveness and sustain investment.

These sentiments were also reflected among automotive component manufacturers, where a combined 55 per cent of firms indicated that the most significant impact of a reduction of assistance under ACIS would be a decrease in R & D expenditure or other investment activity. Declining company competitiveness was the key concern for 13 per cent of component manufacturers, while 9 per cent viewed a fall in employment as the most significant impact of a reduction in ACIS benefits.

The major change identified by motor vehicle manufacturers to improve ACIS was with respect to modulation. While most called for an elimination of modulation, the motor vehicle manufacturers are clear in their view that there needs to be more certainty with respect to benefits actually received under the ACIS program. Due to the large size of the domestic car producing companies, modulation can have a significant impact on the size of ACIS credits.

Automotive component manufacturers also believe that an elimination of modulation is the single most important modification that could be made to ACIS. Many firms also highlighted the need for administrative requirements to be reduced, and for the definitions within the ACIS guidelines to be made clearer.

The depreciation of the Australian dollar over 2001 has also eroded the real value of ACIS credits. The Australian dollar depreciated from around US\$0.56 in January 2001 to under US\$0.51 by the end of the year. As credits have an equivalent dollar value, the real benefits to the automotive industry of the ACIS scheme declined by around \$180 million over the course of 2001

(based on the \$2 billion benefit over five years). This must be taken into account when determining future funding arrangements under the program.

The most critical issue in the review of post-2005 industry arrangements for the automotive industry is what will be the nature of assistance to be provided to the automotive industry post-2005. While the industry would benefit most from a rapid decision on this issue due to long lead times for production cycles, the ACIS program has only been in operation for one year, making it difficult to assess the value of any changes to assistance arrangements.

However, industry is clear in its view that a continuation of ACIS is crucial for the future prosperity of the domestic automotive industry, and this must figure prominently in this calculation. ACIS has already delivered benefits for the automotive industry in terms of production, investment and employment. However, this does not preclude adjustments being made to enhance the value of the program to the automotive industry.

Going forward

The above analysis has highlighted the importance of ACIS in sustaining growth in Australia's automotive industries. While strong consumer demand (including exports) and a robust domestic economy have been powerful drivers of success in Australia's domestic automotive producers, ACIS appears to be delivering additional benefits to the sector and the Australian economy.

Production and exports are up, investment and R & D have lifted, and the industry remains competitive. It would appear that ACIS is working as intended by the legislation.

Indeed, critical to ACIS, is that companies in the automotive industries view investment, including R & D activity, as a key driver of growth over the next

five years. Two of the four major domestic motor vehicle manufacturers ranked it as the most important factor in improving future company performance over the next five years. The remaining two companies ranked investment among the top three drivers of future growth.

Given concerns among domestic motor vehicle manufacturers about the negative impact on investment of a reduction in tariff and non-tariff assistance, the future growth of the automotive industries is largely dependent on continued support under ACIS, and a tariff rate on imported PMVs and components of no lower than 10 per cent at least until 2010.

Other important drivers of growth over the next five years according to motor vehicle manufacturers include:

- Increased exports;
- Increased research and development activity; and
- Domestic market expansion.

Automotive component manufacturers also view increased investment as a key contributor to company performance over the next five years. Almost one-quarter of automotive component companies (23 per cent) indicated increased investment would be the key factor driving improved company performance.

A reduction of benefits under ACIS, or a reduction in the tariff rate on PMVs and components to below 10 per cent would adversely impact on investment within the automotive component sector and retard future growth opportunities, given that the Ai Group survey of the automotive industry revealed that 55 per cent of component manufacturers believe the most significant impact of a reduction or elimination of benefits under ACIS would be a reduction in R & D and other investments.

Consequently, given the importance of investment and ACIS to the future of the automotive industries, Ai Group recommends:

Rec 1 The continuation of the current ACIS program as legislated until 31 December 2005.

Nevertheless, there is a need for ensuring some flexibility in the program to respond, in consultation with industry participants in the program, to changing needs and circumstances in the years ahead. Areas for improved flexibility could include providing adequate support for new entrants, including those attracted from overseas; better targeting of support for automotive component manufacturers to pursue both import replacement and export development (where there is under-performance) and to respond to changing domestic and global economic conditions.

The entry of new component manufacturers from overseas raises particular concerns where both ACIS administration regulations, requiring new entrants to have a two year history of domestic production before receiving ACIS credits, and complicated legislative requirements limiting the Federal Government's ability to respond quickly to state government funding initiatives to attract new entrants, disadvantages Australia relative to other competing countries.

Resolving these issues may require the Federal government to consider additional funding for specific initiatives. Consequently, Ai Group recommends:

Rec 2 The introduction of an annual ACIS statement monitoring performance and impact, with a view to facilitate increased flexibility in consultation with the industry.

The automotive companies through the Ai Group survey have shown they support the continuation of an ACIS type program beyond 2005. Any future

program would need to be negotiated with the industry to ensure that all parties are committed to further strengthening the competitiveness and growth of the sector. While the Productivity Commission review is part of the process, the Federal Government will need to consider the views of the Automotive Council and consult directly with industry. Having said this, Ai Group would not support any on-going program which reduced the level of current support, given the program's success and level of demand. Consequently Ai Group recommends:

Rec 3 The introduction of a new ACIS program to extend from 2006 to 2010, with appropriate program funding to be determined above the current ACIS threshold.

Modulation remains an on-going concern. The program cap of \$2 billion means that the program's effectiveness could dissipate as annual demands for import credits become greater with higher levels of production, investment and research and development. Currently there is a \$600 million shortfall in ACIS credit making modulation necessary. In effect, car and component manufacturers are being penalised for their success in meeting the program's objectives. Already exchange rate movements have lowered the value of the program by something in the order of \$180 million.

The only remedy would be for the funding cap to be removed. However, both car and component manufacturers committed to ACIS with modulation at the time of the program's development. It would therefore appear difficult both financially and politically to eliminate modulation under the current program. However, resolving these problems should be a prime consideration for any replacement program after 2005. This may require the elimination of modulation and/or consideration of an indexed funding arrangement which takes into account such factors as the level of production, investment and R & D, the number of eligible companies, movements in prices, and the exchange rate.

Consequently, Ai Group recommends:

Rec 4 ***Any new ACIS program beyond 2005 considers elimination of modulation and/or an indexed funding arrangement to reflect the automotive industry's growth and success in meeting the program's objectives.***

AUTOMOTIVE TARIFF REGIME

Current arrangements

In 1997, the Federal Government announced that the tariff rate on passenger motor vehicles (PMVs) and most components would fall from 15 per cent (the tariff rate since January 2000) to 10 per cent on January 2005. The tariff on light commercial vehicles and four wheel drives is 5 per cent and will remain unchanged until 2005.

The critical issue facing the industry is whether tariffs on PMVs will remain at 10 per cent after 2005 or move downwards.

Decisions about the level of tariffs to apply post 2005 must be viewed in the context of high levels of support (including tariff and non-tariff measures) among other regional economies. This is particularly relevant within the Asia region, which accounts for around one-third of worldwide motor vehicle production. With all other things being equal, the decision about where to invest will be made on the basis of the relative benefits offered by tariff and non-tariff barriers in different regions.

Overseas regimes

On the basis of import tariffs on PMVs alone, Australia remains below the world average, and well below the average among Asian nations. Malaysia and Thailand in particular, apply extremely high tariffs on imported motor vehicles (table 4).

The development of export markets and an increased ability to attract investment is crucial for the future development of the Australian automotive industry. However, this will be difficult to achieve should further tariff

reductions occur after 2005 in the absence of similar progress among other regions to reduce tariff and non-tariff barriers.

Table 4 Import tariff regimes on cars in selected regional markets

Country	Tariff	Non-tariff assistance level
Australia	15%	Low
Malaysia	140% to 300%	Very high
Japan	0%	High
USA	2.5%	Moderate
European Union	10%	Low
Canada	6%	Low
Korea	8%	Very high
South Africa	23-40%	Low
Thailand	60-80%	High

Despite commitments under APEC to reduce trade barriers, recent signals suggest some south-east Asian nations (notably Malaysia and Thailand) are reluctant to significantly reduce tariffs on motor vehicle imports.

Impediments to free trade also include non-tariff barriers, which have effectively helped to create significant trade barriers among motor vehicle producing countries such as Japan, Malaysia, Korea and Thailand.

For instance, while Korea and Japan have relatively low import tariffs on PMVs (in the case of Japan, none), both encounter very little import penetration.

Korea imposes local content restrictions (so too does Malaysia), while Japan has complex local design rules and distribution systems. Both of these mechanisms act as a barrier to imports, with import penetration of the Korean auto market below 1 per cent, and below 5 per cent for Japan.

When overall assistance is viewed in terms of tariff and non-tariff measures, the Australian automotive industry gains relatively little assistance in

comparison to most other car manufacturing regions, particularly south-east Asian countries.

The views of companies

The Ai Group survey of the automotive industries revealed that all car producers are against further reductions in tariff rates after 2005, while a large proportion of automotive component manufacturers are also against any further reduction (table 5).

Table 5 Support for tariff on PMVs and components below 10 per cent after 2005

Sector	YES	NO
Motor vehicles	0.0%	100.0%
Auto components	16.7%	83.3%

Companies revealed that a reduction of import tariffs below 10 per cent by 2010 would have a significant negative impact on production, investment and employment.

All motor vehicle manufacturing firms indicated that production, investment and employment would decline should tariffs fall below 10 per cent by 2010 (table 6). In addition, two major motor vehicle producers indicated exports would fall.

These findings were consistent with responses from the automotive component manufacturing sector. A significant majority of these firms indicated that production would decline (92 per cent), with falls also predicted for investment (85 per cent of firms) and employment (89 per cent of firms) should tariffs fall below 10 per cent prior to 2010.

Most automotive companies also indicated that selling prices would fall, while imports and competition would increase should tariffs be reduced further by 2010.

Table 6 Impact of tariff reduction to below 10 per cent by 2010

Sector	Production	Selling prices	Competition	Imports	Investment	Exports	Labour productivity	Raw materials	Employment
Motor vehicles									
Increase	0%	0%	100%	100%	0%	0%	25%	0%	0%
Decrease	100%	75%	0%	0%	100%	50%	0%	75%	100%
No change	0%	25%	0%	0%	0%	50%	75%	25%	0%
Components									
Increase	2%	22%	76%	83%	2%	4%	7%	34%	2%
Decrease	92%	62%	7%	7%	85%	33%	33%	13%	89%
No change	6%	16%	17%	10%	13%	63%	60%	53%	9%

A reduction of import tariffs below 10 per cent by 2010 would severely jeopardise the current commitment of all four motor vehicle manufacturers to continue producing at current levels within Australia.

All motor vehicle manufacturers indicated that if import tariffs fell below 10 per cent by 2010, they were unsure as to whether the company would continue to operate within Australia.

Among automotive component manufacturers, a combined 28 per cent indicated they would stop producing altogether or move current operations offshore should tariffs fall below 10 per cent by 2010. An additional 39 per cent of companies indicated they were unsure whether they would continue to produce in Australia.

As a core foundation of the Australian economy, such uncertainty and adjustment within the automotive industry would have significant implications for the future survival and performance of the industry in Australia, and have detrimental flow on effects to the rest of the domestic economy.

Going forward

The tariff on PMVs and most components is set to fall from 15 per cent to 10 per cent in 2005. The automotive industries have been progressively planning for this change and have responded by lifting production, productivity and efficiency to ensure they remain competitive after 2005.

Whether the industry could respond as successfully to a lower regime after 2005 remains uncertain. Companies had indicated that their viability may well be threatened, and indeed, two-thirds of companies were unsure they could continue to produce and invest in Australia with lower tariffs.

Econometric modelling undertaken for the last automotive review raised doubts about the size of economic gains relative to offsetting costs to be derived from each incremental lowering of tariffs, particularly below 10 per cent.

As well, a number of overseas automotive producing countries remain behind Australia in terms of winding back their tariff and non-tariff regimes. It should be questioned whether Australia should move quickly to zero tariffs if its competitors are unlikely to meet this goal (for 2010) under the APEC Bogor Agreement.

Ai Group therefore recommends that:

Rec 5 The import tariff on PMVs and components remains at 10 per cent after 2005.

The Australian Government should also continue to look for opportunities to improve Australian car and component firms' access to overseas markets through trade negotiations for improved market access, bilateral agreements and trade missions. This was considered particularly important for two of the car companies and 15 per cent of component manufacturers who rated trade

barriers in the Ai Group survey as major impediments to the long term viability of the domestic automotive industry.

Other important barriers according to motor vehicle manufacturers include the:

- Extent of government support;
- Competition from emerging overseas markets; and the
- Industrial relations environment

as discussed throughout relevant sections of this submission.

Ai Group therefore recommends that:

Rec 6 No reduction of import tariffs below 10 per cent be contemplated until tariff and non-tariff barriers in overseas countries are reduced to at least the equivalent of Australia.

INDUSTRIAL RELATIONS

Introduction

The recent industrial dispute at Walker Australia which interrupted supply in the automotive sector highlights the precarious industrial relations environment in the automotive industry.

“Just-in-time” supply arrangements and a large number of sole suppliers mean that an industrial dispute in a single component manufacturer can disrupt the whole industry within hours.

Since August 2001, at least four separate industrial disputes have either interrupted supply or threatened supply in the industry. The disputes at Tristar in August 2001 and Walker in May 2002 resulted in the loss of hundreds of millions of dollars of sales.

The uniqueness of the industry requires that better industrial relations solutions be found to enable issues to be resolved before they develop into disputes and to enable industrial disputes to be swiftly dealt with. Otherwise, vehicle manufacturers may decide to source their component parts offshore, seriously damaging the Australian economy.

Over the next few months, Ai Group will be engaging in an extensive consultation process with its members and other stakeholders in the automotive industry. Ai Group will analyse the current industrial relations environment in the industry and develop reform proposals. For this reason, Ai Group is not able to set out its definitive views on industrial relations within the automotive sector in this submission. However, Ai Group has set out its views on many relevant issues in the sections below. These views are based upon Ai Group’s extensive experience in industrial relations matters in the automotive sector.

Dispute avoidance and settlement in the automotive industry

Disputes in the automotive sector invariably attract significant publicity and therefore it is likely that many perceive that the level of industrial disputation in the automotive industry is high, compared to other sectors. However, official statistics show that:

- The overall level of industrial disputation in Australia is the lowest since records began in the 1960s;
- The level of disputation in the automotive sector is significantly lower than several other sectors such as building and construction and mining.

Despite this, the level of industrial disputation in the automotive sector remains unacceptably high. The industrial disputes which have occurred over the past nine months have led to vehicle manufacturers and component suppliers reducing annual leave and long service leave balances and bringing forward rostered days off to minimise supply disruptions. While this strategy has reduced the impact of recent disputes, it has also reduced the ability of companies to deal with any further industrial disputes over the coming months.

Having been directly involved in representing automotive industry employers in numerous automotive industry disputes – including the Tristar and Walker disputes – Ai Group believes that the following issues need to be addressed without delay:

- Union and award structures in the automotive industry need to be reformed.
- Union delegates need to be better trained.
- There would be benefit in managers of component suppliers attending appropriate industrial relations training programs.

- An automotive industry avoidance of disputes procedure or code of practice should be developed.

Union and award structures in the automotive industry

The automotive industry in Australia remains highly unionised.

The Australian Manufacturing Workers Union (AMWU) – registered as the Automotive, Food, Metals, Printing and Kindred Industries Union - is the main union in the industry. This union was formed through the amalgamation between 1989 and 1993 of several former unions including the:

- Amalgamated Metal Workers Union;
- Association of Draughting, Supervisory and Technical Employees;
- Vehicle Builders Employees Federation of Australia;
- Printing and Kindred Industries Union;
- Confectionary Workers Union of Australia;
- Food Preservers Union of Australia.

Since the amalgamation, the union has been structured around the following divisions:

- Metal Division;
- Vehicle Division;
- Printing Division;
- Food Division.

Each division is headed up by an Assistant National Secretary. The National Secretary of the Union has responsibilities which extend across all divisions.

Despite the above apparent logical structure, the union is racked by factional in-fighting and inter-divisional rivalries. Such lack of cohesion has a negative impact upon automotive industry employers.

The highly militant *Workers First* faction controls the Metals Division of the AMWU in Victoria but not the national leadership of the AMWU, nor the national leadership of the Metals Division of the union. The *Workers First* faction appears to have little interest in cooperating with employers and adopts a highly militant approach. Officials of the *Workers First* faction have shown little regard for the rule of law.

The Vehicle Division, while a tough representative body, demonstrates a more cooperative approach and appears to understand that its members success depends upon the profitability and efficiency of employers in the industry.

The overwhelming majority of union members amongst the vehicle manufacturers belong to the Vehicle Division of the AMWU. Employees of the vehicle manufacturers are engaged under company-specific awards (together with enterprise agreements).

In the automotive component sector, there is little logic regarding the demarcation line between the membership of the Vehicle and Metal Divisions of the Union. The different Divisions maintain membership within different enterprises based on the historical coverage of the former Amalgamated Metal Workers Union and Vehicle Builders Employees Federation of Australia. In Victoria, most of the automotive component companies are covered by the Metal Division of the AMWU. A small number are covered by the Vehicle Division.

Similarly, there is little logic regarding the dividing line between the coverage of the two main awards in the industry – the *Metal, Engineering and Associated Industries Award 1998* and the *Vehicle Industry Award 2000*. The Metal Division of the AMWU is responsible for the *Metal, Engineering and Associated Industries Award 1998* and the Vehicle Division is responsible for the *Vehicle Industry Award 2000*. Ai Group is party to both awards.

Each award contains wording which endeavours to clarify the dividing line between coverage of each award.

Clause 1.5 of the *Vehicle Industry Award 2000* contains the following provision:

“this award shall not apply.....to an employer who, on 12 July 1971, was engaged in the manufacturing and/or assembling of metal parts, components or accessories of motor vehicles and was bound to observe in relation thereto the award made under the Act known as the Metal Trades award 1952(2), as varied, or the Metal, Engineering and Associated Industries Award 1998”.

Schedule B of the *Metal, Engineering and Associated Industries Award 1998* contains the following provision:

“This award shall not apply to employers who are parties to and bound by the award known as the Vehicle Industry Award 1982 or any award subsequently made to replace it insofar as such employers are bound to observe that award towards their employees.”

The lack of cooperation and factional differences between the Vehicle and Metal Divisions of the AMWU, operates to the disadvantage of employers and the industry as a whole. If all AMWU members in the automotive sector belonged to the Vehicle Division of the AMWU (rather than being split between the Vehicle and Metal Division) it is logical to assume that the AMWU would be far more reluctant to organise strike action at a component supplier when a very large number of members of the same division of the union engaged by the vehicle manufacturers would be quickly stood down as a result.

Rec 7 *Union and award structures within the automotive industry be reformed.*

Training for union delegates

Ai Group believes that there would be benefit in union delegates in the automotive sector receiving better training. It is in the interests of the industry that shop-floor union representatives, have a good understanding of such aspects as:

- The nature of the automotive industry, its export performance and contribution to the Australian economy;
- The nature of global competition in the automotive industry;
- The importance of adhering to avoidance of disputes procedures;
- Enterprise bargaining laws; and
- Co-operative dispute resolution techniques.

Unfortunately, at the present time, the AMWU is developing training programs for its delegates which Ai Group believes do not contain appropriate content. The content of such training programs was considered in detail during a recent long-running case involving an AMWU application to vary the *Metal, Engineering and Associated Industries Award 1998* to insert trade union training provisions. A decision was handed down in the case by Justice Munro of the Australian Industrial Relations Commission (AIRC) in April 2001¹. Justice Munro decided to vary the award to provide an entitlement to employee representatives to attend trade union training programs. However, the AMWU's argument that it should have the sole responsibility for determining the content of the courses was rejected. After all, in most circumstances, delegates are paid by their employers for the time spent attending the courses.

With regard to course content, Justice Munro said:

"I do not accept that only courses agreed by the employer may be attended, although it is preferable that be so. However, I have not adopted the AMWU's proposed test, namely courses approved by it. Nor will the provisions limit the courses to those provided by TUTA or any particular institution. Instead, courses that may be jointly approved by the unions and one or more of the peak employer organisations will automatically qualify. In the absence of agreement, or the availability of such a course, the dispute resolution procedure, as modified will be available to resolve differences. I would be disposed to have some issues about the character of particular courses resolved by a Board or Reference process. However, that process is also cumbersome. I raise that possibility. The parties might themselves suggest a formula that will minimise unnecessary disputation about the character of suitable courses." (para 74).

On more than one occasion, Ai Group has expressed its preparedness to discuss the issue of trade union training with the AMWU and to seek to develop an agreed process for the design and approval of course content. To date the AMWU has not been prepared to participate in such discussions.

Ai Group believes that there would be benefit for both employers and employees in the automotive industry if suitable training programs for union delegates were developed and overseen by a genuinely independent body.

Rec 8 *Suitable training programs for union delegates be developed and overseen by a genuinely independent body.*

¹ AIRC, PR903193

Industrial relations training for managers of component suppliers

The vehicle manufacturers employ high-level specialist human resource and industrial relations staff. However, many of the component suppliers, particularly the smaller ones, do not employ managers with detailed industrial relations knowledge. The “just-in-time” supply arrangements mean that an industrial relations dispute at a small component supplier can quickly interrupt supply in the industry. For this reason, the industry would benefit if the managers of automotive component suppliers attended suitable industrial relations training programs.

Rec 9 Suitable industrial relations training programs be developed for automotive component suppliers.

Automotive industry avoidance of disputes procedure or code of practice

Given the widespread implications and potentially massive costs associated with industrial disputes in the automotive sector, it is in the interests of all parties in the industry that every effort is made to resolve issues at the earliest time before they develop into industrial disputes.

There would be benefit in an automotive industry avoidance of disputes procedure or code of practice being developed and for all unions in the industry, together with employer representatives, committing to adhering to such procedure or code. This process is not unknown in the automotive industry. In 1988, Ai Group, the Federation of Automotive Products Manufacturers (FAPM) and the ACTU developed an avoidance of disputes procedure and all unions in the industry agreed to follow the procedure. The procedure involved a staged process for resolving disputes which ultimately led to disputes being notified to the AIRC if they were not able to be resolved between the parties. Importantly, the procedure involved a five day cooling-off period which commenced from the time that a dispute was notified to the

AIRC. The industry avoidance of disputes procedure was launched by the then Minister for Industry, Technology and Commerce, the Hon John Button MP.

Rec 10 An automotive industry avoidance of disputes procedure or code of practice be developed and a commitment obtained from all unions in the industry, together with employer representatives, to adhere to it.

Enterprise bargaining

In order for Australia's automotive industry to remain internationally competitive, it is imperative that vehicle manufacturers and component suppliers continuously improve productivity, efficiency and cost effectiveness. Enterprise bargaining has played an important role over the past decade in assisting companies in the automotive sector to become globally competitive.

Despite the successes achieved to date, there is a great deal more that needs to be done. In many workplaces, more flexible work practices are needed. Also, cultural improvements are still required in some enterprises to ensure that employees and their union representatives remain committed to enterprise and industry imperatives. Enterprise bargaining remains an essential tool for driving work practice reforms and achieving mature industrial relations at the workplace level.

Enterprise agreements in the automotive industry are expiring continuously and there is the ever present risk that a dispute over wages and conditions will interrupt supply. This factor is used by unions in the industry, such as the AMWU, to blame enterprise bargaining for the industrial relations problems which have been arising. The AMWU is pushing for genuine enterprise bargaining to be abandoned in the automotive sector and replaced with industry outcomes via pattern bargaining. Such an outcome would be highly

damaging for the industry. It is worth noting that in the building and construction industry where pattern bargaining has become entrenched, higher levels of disputation occur than in the automotive sector and the industry has experienced widespread industry-wide industrial action when key pattern agreements expire.

Enterprise bargaining should not be made the “scape-goat” for the industrial relations problems which have been arising in the automotive industry. While the current system of protected industrial action causes problems from time to time in the industry, in the two most damaging recent industrial disputes – the Tristar and Walker disputes – the unions and employees have taken unprotected, unlawful industrial action and ignored decisions and orders of the Australian Industrial Relations Commission and the Federal Court. Such unlawful actions cannot be permitted to continue.

While Australia’s enterprise bargaining system must remain, there are several changes which should be made to the *Workplace Relations Act* to improve the operation of the system in the automotive and other sectors. These changes include:

- Providing the Australian Industrial Relations Commission (AIRC) with enhanced powers to suspend or terminate bargaining periods;
- Outlawing protected industrial action in pursuit of pattern bargaining;
- Providing the AIRC with the power to order a cooling off period;
- Introduction of secret ballots before protected action can be taken;
- Outlawing protected industrial action in all circumstances during the life of a certified agreement.

These issues are dealt with below.

Providing the AIRC with enhanced powers to suspend or terminate bargaining periods

The AIRC needs to have more effective mechanisms available for dealing with industrial action in the automotive sector. Ai Group proposes that additional grounds be available to the Commission to suspend or terminate a bargaining period. The proposed new grounds are, where protected action is:

- Causing significant damage to an enterprise; or is
- Significantly endangering the welfare of employees in an enterprise; or is
- Causing significant damage to an industry or industry sector (eg. the automotive sector) or an important part of an industry or industry sector; or is
- Significantly endangering the welfare of employees in an industry or industry sector or an important part of it.

In Ai Group's view, demonstrating that protected action is causing significant damage to *"the Australian economy or an important part of it"*, places the hurdle too high. On many occasions, individual companies and industry sectors have suffered significant and lasting damage due to protected action but have not been regarded by the Commission as constituting *"an important part"* of the Australian economy.

Where a bargaining period is terminated for any of the above reasons the AIRC should have the power to arbitrate and make an award under s.170MX of the Act.

Rec 11 Additional grounds be available to the Commission to suspend or terminate a bargaining period. The additional grounds are, where protected action is:

- ***Causing significant damage to an enterprise; or is***
- ***Significantly endangering the welfare of employees in an enterprise; or is***

- **Causing significant damage to an industry or industry sector (eg. the automotive sector) or an important part of an industry or industry sector; or is**
- **Significantly endangering the welfare of employees in an industry or industry sector or an important part of it.**

Pattern bargaining

The pattern bargaining approach which the AMWU is seeking to entrench in the automotive sector is highly inappropriate and damaging. The union's strategy (which has thus far been unsuccessful) involves the following steps:

- | | |
|-------------------|--|
| <i>Step One</i> | Companies across the industry are forced to have a common expiry date for their enterprise agreements; |
| <i>Step Two</i> | Uniform bargaining periods are established across the sector; |
| <i>Step Three</i> | A template agreement is created; |
| <i>Step Four</i> | Employers are coerced to accept the pattern outcome. |

Step One – Common expiry dates

In the manufacturing sector in Victoria in 2000, the metal unions embarked upon a highly damaging and costly campaign to bring an end to enterprise bargaining. A large number of automotive component companies were targeted by the unions during this campaign.

The campaign ultimately failed but the metal unions are planning a new national pattern bargaining push in the manufacturing sector in early 2003. Ai Group understands that such plans include the establishment of a pattern agreement for the automotive components sector. For the past two years the AMWU has been pursuing a common expiry date of 31 March 2003 and it has succeeded in lining up the expiry dates of hundreds of agreements on this date, particularly in Victoria.

The following information was obtained from the Department of Employment and Workplace Relations' *Workplace Agreements Database* and was current as at 5 April 2002. It shows that the number of certified agreements in the metals sector which expire on 31 March 2003 is:

- X Nationally, 338 agreements covering 16,213 employees. Of these, 317 agreements covering 15,166 employees have the AMWU as a party.
- X In Victoria, 296 agreements covering 13,320 employees.

Within the Database, most of the agreements in the automotive industry would be categorised as falling within the metals sector, given the definitions used. Of course only a portion of the agreements which expire on 31 March 2003 relate to the automotive sector. However, the agreements of several large automotive component suppliers in Victoria expire on that date.

Step Two - Establishing bargaining periods across the sector

The *Workplace Relations Act* permits industrial action to be taken in pursuit of an enterprise agreement, subject to the establishment of a bargaining period at the relevant enterprise and the party seeking to take industrial action giving a prescribed period of notice to the other negotiating party, of the specific industrial action to be taken.

Despite the fact that the Act emphasises that the above process relates to bargaining carried out at the enterprise level, the AMWU and other unions in the manufacturing industry have devised a strategy which they argue gives them the ability to extend the right to take protected action to the industry level.

The unions have adopted the tactic of serving employers throughout the industry with bargaining notices in identical terms. Hundreds, or even thousands, of employers receive an identical notice at the same time, advising

them that the relevant union is seeking to negotiate an “enterprise” agreement with each one of them.

Step Three – Creating a template agreement

The unions seek to create a template agreement in various ways. Their preferred approach is to seek agreement with a relevant employer association in the hope that members of that association will accept the agreement. If this is not possible, the unions typically look for a group of companies or a significant individual company that they can place under commercial pressure.

However, a “willing” employer negotiator is not a critical part of the unions’ strategy. In the absence of a pattern agreement being reached with employers, the unions typically just draw up their own template “agreement” on the basis of what they believe they can force employers throughout the industry or sector to pay.

Step Four – Coercion of employers to accept the pattern outcome

Once the unions have developed their pattern agreement through the above three steps, they then endeavour to coerce employers to accept it through threatening or taking industrial action.

Campaign 2000 in the manufacturing industry in Victoria and the decision of Justice Munro of the AIRC

From 1998, the AMWU and the Communications, Electrical and Plumbing Union (CEPU) began refusing to sign any agreement in the manufacturing industry in Victoria which did not expire on 30 June 2000. By early 2000, approximately 500 agreements in the manufacturing industry had this expiry date, including a large number of automotive component suppliers’ agreements.

In November 1999, the unions scheduled state-wide stoppages to seek endorsement for their *Campaign 2000* log of claims. In response, Ai Group obtained orders from the AIRC and the Federal Court requiring the unions to call off the stoppages. When the orders were ignored Ai Group pursued contempt of court actions against the AMWU, the CEPU, the AWU and three officials. Arising from those proceedings, three officials were found guilty of contempt and Craig Johnston, the Victorian State Secretary of the AMWU and Dean Mighell, the State Secretary of the CEPU were each fined \$20,000.

Some of the unions' own literature about *Campaign 2000* clearly stated that they intended to ignore Court and Commission orders if necessary to achieve their objectives.

On this point, in handing down his decision in the contempt proceedings, Justice Merkel of the Federal Court said:

The rule of law in a democratic society does not permit any member of that society, no matter how powerful, to pick and choose the laws or court orders that are to be observed and those that are not. Maintenance of the rule of law in our society does not only require that parties are able to resort to courts to determine their disputes.....it also requires that parties comply with the orders made by the courts in determining those disputes.

Following Ai Group's refusal to force a common outcome on its member companies, the unions embarked upon a campaign to force individual companies across the manufacturing industry to capitulate.

From early 2000 the unions refused to meet with companies at the enterprise level and organised collective meetings of employers across various sectors, including the automotive components sector. Despite

threats of, and in some cases actual, industrial action, all but a very small number of employers refused to attend. After the sector meetings failed due to lack of attendance the unions tried to organise meetings across the whole industry. Despite their efforts and threats they could only convince a handful of companies, mainly in the contract maintenance and metals construction sectors, to attend.

Identical bargaining notices were served on approximately 1500 employers and in late-August 2000, all of these employers received identical notices of a state-wide stoppage (which supposedly related to the negotiation of their enterprise agreements). Vehicle manufacturers and component suppliers received such notices.

As soon as Ai Group became aware of the state-wide stoppage it made an application to the AIRC to suspend or terminate bargaining periods on behalf of a large number of employers. Despite this, the stoppage went ahead.

The proceedings before the AIRC continued for several weeks. Twice the unions withdrew all of the relevant bargaining periods in an unsuccessful attempt to stop the case proceeding.

In a significant decision, on 16 October 2000 Justice Munro of the AIRC terminated bargaining periods for all of the applicant companies on the basis that the unions had "*not genuinely tried to reach agreement*" with the companies². This removed the unions' right to take protected industrial action.

In his decision, Justice Munro dealt at some length with the rights of parties in respect of pattern bargaining. Some key questions were dealt with:

Is a union entitled to make common claims across an industry?

On this issue, Justice Munro held that:

"A common set of demands for conditions of employment, or for timing of negotiating rounds and outcomes is not sufficient in itself to establish that a negotiating party is not genuinely trying to reach agreement with the counterpart party".

and

"Industry-wide demands are often made by unions and sometimes pursued at national level. It is not the characteristic of the demand that may cause offence..... But advancement of such claims in a way that denies individual negotiating parties opportunity to concede, or to modify by agreement, cannot satisfy the test established by the Act".

Is a union entitled to refuse to accept any outcome other than the one that it is pursuing across an industry and take industrial action in pursuit of that outcome?

On this point, Justice Munro held that a negotiating party's conduct must evidence *"a genuine try to reach an agreement with the opposing negotiating party to whom the industrial action or bargaining period is specific"*.

If a negotiating party is *"trying to reach agreement with all, or an entire class of negotiating parties in an industry - all or none"* then the negotiating party is *"not genuinely trying to reach agreement with any negotiating party in the industry or class"*. However, in a particular case the issue is dependent upon matters of fact and degree.

Justice Munro appropriately concluded that protected action can only be taken if the parties have *"genuinely tried to reach agreement"* at the enterprise level. If a union is pursuing a pattern outcome and is refusing to accept any other outcome at enterprises throughout an industry or sector then the union is not

² AIRC, Print T1982

genuinely trying to reach agreement at the enterprise level and therefore any action taken is not protected. Further, this constitutes grounds for having the bargaining period suspended or terminated.

Legislative amendments to give employers in the automotive sector greater protection against damaging pattern bargaining campaigns

While the decision of Justice Munro provides greater clarity about the rights of parties to engage in protected action in pursuit of pattern bargaining, Ai Group believes that the Act needs to be amended to make it clear that protected industrial action only applies to the negotiation of enterprise agreements and not to pattern agreements pursued by unions across an industry or sector.

The approach taken in the *Workplace Relations Amendment (Genuine Bargaining) Bill 2002*, which is currently before the Senate, is consistent with the decision of Justice Munro in the *Campaign 2000* case. It preserves the right of unions to make common claims across an industry but requires that such claims be genuinely negotiable at the enterprise level. It prevents unions taking protected industrial action in pursuit of non-negotiable pattern outcomes.

Rec 12 Protected action be outlawed for the purposes of pattern bargaining.

Cooling-off periods

Ai Group strongly believes that the *Workplace Relations Act* should enable the Commission to establish a cooling-off period in appropriate circumstances.

Many serious dispute situations have arisen in the automotive sector which would have been assisted by a cooling-off period.

In the *Campaign 2000* proceedings, Justice Munro said:

"it appears to me in most disputes to be a matter for welcome that the parties resort to what are termed cooling-off periods.....the term cooling-off period I don't think is known to the Act at this stage, although some have sought to have it introduced.....The course of Campaign 2000 litigation before the Commission in all its aspects indicates that the cooling-off periods have in particular instances served some useful purpose in reaching agreement in some instances or at least in allowing the parties to back off from what would otherwise have emerged as dug in positions.."

In deciding to terminate the bargaining periods and order that no further bargaining periods be established for a six week period, Justice Munro said:

"The effect of that order and declaration is to attempt to force an end to the current phase of Campaign 2000 activity against the 33 employer applicants. Thereby, the order will allow an effective and unequivocal cooling-off period, free of bargaining periods until the end of November".

The *Campaign 2000* proceedings before Justice Munro demonstrate that the Commission has the power to order a cooling-off period in limited circumstances. However, in that case, Ai Group made application to suspend or terminate bargaining periods on 23 August 2000. The bargaining periods were eventually terminated by Justice Munro on 16 October 2000 after lengthy hearings over several weeks. This highlights the need for a fast and effective mechanism to be introduced into the Act to give the AIRC the power to order a cooling off period in appropriate circumstances.

The *Workplace Relations Amendment (Genuine Bargaining) Bill 2002* provides such a mechanism. The Bill appropriately leaves it to the

Commission to determine whether or not a cooling-off period should be established to assist the resolution of a particular dispute.

Rec 13 *The AIRC be given the power to establish a cooling off period in appropriate circumstances.*

Secret ballots

Ai Group's concern with compulsory secret ballots has been that in some circumstances they can polarise the position of parties and make disputes more difficult to resolve. However, having carefully studied the scheme of secret ballots proposed in the *Workplace Relations Amendment (Secret Ballots for Protected Action) Bill 2002*, which is currently before the Senate, Ai Group believes that the proposed process would operate as an appropriate precondition for the taking or organising of protected industrial action by employees and organisations or employees. Importantly, the process is to be overseen by the AIRC.

The Bill, if passed, would provide:

- That employees have the opportunity to vote without fear or favour in a fair and democratic ballot on whether they are prepared to lose wages through protected industrial action in support of enterprise bargaining claims;
- That no ballot would be ordered and therefore protected action would not be available if the AIRC finds that the relevant union/s and employees proposing to take industrial action have not genuinely tried to reach agreement with the employer prior to the application for a ballot.

The process set out in the Bill is sufficiently flexible to allow the AIRC the necessary latitude when issuing a ballot order to take account of the specific circumstances surrounding a ballot application.

Given the enormous costs associated with industrial disputes in the automotive sector and the potential for hardship being experienced by thousands of employees who may be stood down in other workplaces as a result of a dispute, there is a powerful argument that secret ballots should be mandatory before industrial action can be taken. Such ballots ensure that before any industrial action is taken, confirmation is obtained that the relevant employees genuinely support the taking of industrial action.

Rec 14 *Secret ballots be mandatory before protected action can be taken.*

Outlawing protected action during the life of a certified agreement

In February 2002, Justice Kenny of the Federal Court handed down a decision which has widespread negative consequences for companies in the automotive sector involved in enterprise bargaining.

In the *Emwest*³ decision, Justice Kenny ruled that protected industrial action is only prohibited during the term of a certified agreement in respect of matters specifically contained within the agreement.

This means that unless an agreement contains a carefully drafted term clarifying that the agreement is intended to prevent any protected industrial action being taken in pursuit of any claims for improved employment conditions during the life of the agreement, then a union may be able to initiate a bargaining period during the life of the agreement and take protected industrial action in pursuit of:

X claims relating to matters not dealt with during the negotiations; or

³ *Emwest Products Pty Ltd v AMWU* [2002] FCA 61 (6 February 2002). See www.austlii.edu.au/au/cases/cth/federal_ct/2002/61.html

X claims relating to matters dealt with during the negotiations but ultimately not included within the agreement.

The Emwest agreement contained a standard No Extra Claims clause but the Federal Court held that this did not prevent protected industrial action being taken over issues not covered in the agreement.

While the case related to a company with two enterprise agreements in place at the same time dealing with different issues, the decision's relevance extends far beyond such circumstances. The decision has negative implications for any company with an enterprise agreement.

Since the decision, many member companies have contacted Ai Group and expressed concern about the impact of the decision on their businesses. Already unions have initiated bargaining periods and pursued industrial action against several Ai Group member companies with current certified agreements, seeking to rely on the *Emwest* decision. The unions are also commonly raising the *Emwest* decision as a defence when companies pursue actions against them relating to unlawful industrial action. For example, the AMWU sought to rely on the *Emwest* decision during recent proceedings in the AIRC relating to the Walker dispute.

Given the threats that the decision poses to Ai Group members and to Australia's enterprise bargaining system, Ai Group has filed an application in the Federal Court seeking leave to appeal the decision. Ai Group's application will be heard before the Full Federal Court on 31 May 2002. The Federal Government has intervened in the proceedings in support of Ai Group's position. If Ai Group succeeds in convincing the Federal Court that it should hear an appeal then the appeal will be listed for hearing at a later date.

In addition to seeking to have the decision overturned in the Federal Court, Ai Group has met with the Federal Government, the Opposition and the Australian Democrats seeking their support for urgent legislative amendments

to address the decision. Ai Group is pressing for the *Workplace Relations Act* to be amended to ensure that the Act states in the clearest and most unambiguous terms that protected action cannot be taken by employees covered by a certified agreement, or their union representatives, prior to the expiry date of the agreement.

Rec 15 The Workplace Relations Act be amended to clarify that protected action cannot be taken prior to the expiry date of a certified agreement.

Industry-level matters of mutual interest between employers and employees/unions in the automotive sector

As outlined above, Ai Group believes that the maintenance of a system of enterprise bargaining is essential for the automotive sector. Further, Ai Group concurs with the principal object of the *Workplace Relations Act* which states that wages and conditions of employment are to be determined primarily at the enterprise level upon a foundation of minimum safety net standards. Also, protected industrial action should only be available for genuine enterprise bargaining and not for any form of multiple-employer bargaining.

Despite the above important principles, there are various industrial relations and other issues in the automotive sector which are not readily addressed at the enterprise level and can and should be addressed at the industry level. Examples of such issues could include measures to address industry skills shortages and the development of an industry code of practice for dispute avoidance.

There would be merit in industry representative bodies such as Ai Group and the Australian Council of Trade Unions (ACTU) exploring various industry-level matters of mutual interest to both employers and employees/unions in

the automotive sector. Various worthwhile initiatives could be developed through this process of benefit to the automotive industry.

Rec 16 ***Industry representative bodies, such as Ai Group and the ACTU, should explore various industry-level matters of mutual interest and endeavour to develop worthwhile initiatives of benefit to the industry.***

Compliance and Enforcement

Section 127 orders

Given the enormous losses which can result from unprotected industrial action in the automotive sector, employers need access to quick and effective mechanisms to bring unlawful industrial action to an end.

The issuing of orders by the Commission under s.127 of the *Workplace Relations Act* to stop or prevent industrial action is discretionary and instances have occurred of delays in having applications heard, delays in decisions being issued and a failure on the part of unions to comply with s.127 orders which are issued.

Ai Group proposes that the AIRC be required to hear and determine s.127 applications within 24 hours of their lodgement and, if it is not able to determine an application within 24 hours, to issue an interim order, unless it is satisfied that it would not be in the public interest to do so.

The AIRC should be required to insert a provision in s.127 orders (where such a provision is sought by the applicant) which provides that a separate breach of the order occurs for each day that the order is not complied with, unless the Commission is satisfied that it would not be in the public interest to do so.

Rec 17 ***The AIRC be required to hear and determine s.127 applications within 24 hours of their lodgement and, if it is not able to determine an application within 24 hours, to issue an interim order, unless it is satisfied that it would not be in the public interest to do so.***

Rec 18 ***The AIRC be required to insert a provision in s.127 orders (where such a provision is sought by the applicant) which provides that a separate breach of the order occurs for each day that the order is not complied with, unless the Commission is satisfied that it would not be in the public interest to do so.***

Measures to improve compliance with AIRC awards and orders

Given the current high level of non-compliance with s.127 orders and avoidance of disputes procedures in awards and certified agreements by unions, the Act should be amended to enable the AIRC to suspend the registration of a union (perhaps for a relatively short period for an initial offence) on the ground that it has failed to comply, or failed to ensure that its members comply, with AIRC orders or avoidance of disputes clauses in awards or certified agreements.

It is proposed that the Federal Court retain the right to cancel the registration of a union on the ground that it has continually failed to comply, or failed to ensure that its members comply, with AIRC orders or avoidance of disputes clauses in awards or certified agreements.

The above approach is consistent with the philosophy that if unions wish to have rights under the industrial relations system then they have responsibilities to obey the laws applicable to such a system.

Rec 19 ***The AIRC be given the power to suspend the registration of a union (perhaps for a relatively short period for an initial offence) on the ground that it has failed to comply, or failed to ensure that its members comply, with AIRC orders or avoidance of disputes clauses in awards or certified agreements.***

SKILLS TRAINING AND DEVELOPMENT

In the global marketplace, a key competitive advantage of Australian vehicle and component manufacturers is the skills of the Australian workforce. Keeping pace with technology changes and increasing the technical and core skills of the workforce has been a priority for the industry, evident in the investments made by car manufacturers on training, development and infrastructure.

Developments in the automotive industry have strongly influenced the nature of skill requirements and training provisions. There are now some significant challenges facing the various sectors of the industry with regard to training and skills development that require consideration by policy makers.

The role of workforce skills

Ai Group's survey of the automotive industries found that although there were variations amongst firms, skills of the workforce are not perceived as a large threat to the long term viability of the industry.

Firms were asked to rank in order of importance (from 1 to 9, with 1 being the most important) the factors viewed as the major impediments to the long-term viability of the industry. The results with regard to workforce skills are shown in chart 8.

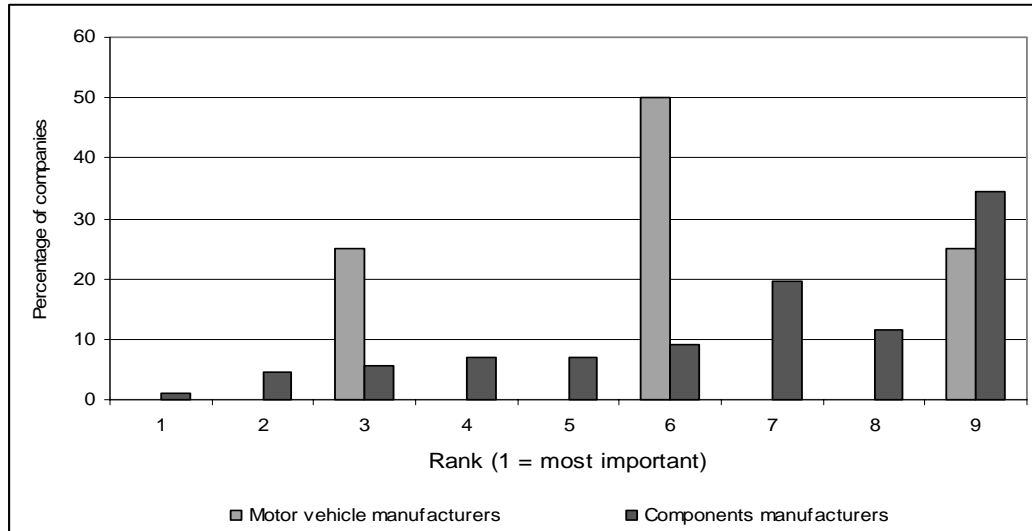
Key issues

The Training System and Advisory Arrangements

There have been significant changes to the education and training system over the last decade. The key aspects of those changes include the

development of national training packages based on industry competency standards, allowing for greater enterprise customisation of training delivery and user choice arrangements which have facilitated greater use of private providers of training.

Chart 8 Workforce Skills influence on long term viability



National training packages are developed by the relevant National Industry Training Advisory Board (ITABs). In the automotive sector there are two ITABs that have coverage for development of training. These are the Manufacturing, Engineering and Related Services Industry Training Advisory Body Ltd (MERSITAB) and Automotive Training Australia (ATA).

There is general confusion about coverage of the ITABs for training package purposes and for responsibility regarding the provision of advice to government on industry training needs. The industry has access to training packages developed by both ITAB's. Traditionally, coverage by the ITAB was determined by the applicable industrial instrument - the Vehicle Industry Award, the Metal, Engineering and Associated Industries Award or relevant registered enterprise agreements with links to skills and training clauses.

The most recent reports into skills shortages and a report by Automotive Training Australia on future skill requirements focus on the retail, service and repair sector, defined as "...those activities dealing with everything that happens to a vehicle from its sale as a new vehicle to its dismantling at the end of its useful life" (page 17, Futures Report, ATA, 2002). This creates some considerable concern about the current advisory structure arrangements, where significant parts of the automotive industry are not being fully considered in advisory arrangements.

Given the importance of national training packages, and advisory arrangements to government, and in light of industry developments, it may be necessary to review the current training advisory arrangements to ensure they continue to accurately reflect the skill requirements of the automotive industry. Ai Group therefore recommends that:

Rec 20 Federal and State Governments review current training advisory structures to ensure that training arrangements reflect current industry requirements.

Ai Group is currently establishing a Board of Advice on Education and Training to assist in the provision of information to the government on needs within industry. All major vehicle manufacturers and component manufacturers are members of the Ai Group and have expressed interest in being involved in the Board, including the possibility of a sector specific arm of the Board. Ai Group will be seeking assistance from the Commonwealth to facilitate this advice.

Changing skill requirements

Technology changes and the adoption of lean manufacturing management techniques have impacted significantly on the nature of work and skill requirements in the automotive industries. These changes were highlighted

through focus groups conducted for a study commissioned by the Australian Industry Group, and reported in *Training to Compete* (1999).

The changes have led to the development of new programs for non-trade areas such as the Engineering Production Certificate and the Vehicle Industry Certificate. They have also led to changes in skill set requirements in traditional areas of training, such as trade and post trade.

Expenditure on training

Unpublished ABS data on employer expenditure shows that there are significant differences amongst different sectors of the automotive industry with regards to expenditure levels on education and training and amongst firms of different sizes. These were referred to in the last Productivity Commission Inquiry Report in 1997.

Generally speaking there appears to be higher levels of expenditure on education and training by vehicle manufacturers than component manufacturers and those in the service sectors of the industry, and by larger firms than smaller businesses.

These factors raise considerable concern given that, as indicated earlier in this submission, 65 per cent of the 58,000 people in the automotive industry are employed by component manufacturers.

In addition to these factors, larger firms are undertaking training that is targeted to their requirements. This has been facilitated by changes to the training system, which have allowed manufacturers to become their own registered providers of training, and by making use of the flexibility and customisation allowed within National Training Packages.

Other firms within the industry that have traditionally relied upon larger businesses to provide a pool of skilled labour are now concerned that the new

training arrangements will not provide sufficient generic skills for application across the industry generally. This factor was noted in the report completed by the Automotive Working Group established by the former Department of Education, Training and Youth Affairs on *Skill Shortages in the Retail Motor Industry* (April 2000).

These concerns are not confined to the automotive sector and are generally applicable across all of manufacturing. They have raised considerable uncertainty about the future skill supply for the broader industry. It is however, imperative that the larger businesses are able to continue to access training that is relevant to their requirements in order to maintain their competitiveness in the global market.

Clearly there is a need to increase the amount of training being undertaken in other sectors of the industry. This will require a comprehensive response including exploration of new avenues of increasing involvement such as advice regarding the options available to industry; improved relationships with training providers; and investigations of incentive arrangements. It is therefore recommended that:

Rec 21 Training providers explore the opportunities available to increase the involvement of different sectors and smaller businesses in education and training activity.

Training provisions

Opening up the training market has allowed a number of registered private providers of training to become competitors with the more traditional training services delivered by the various state TAFE training institutions.

In the report by the Automobile Working Group, *Skills Shortages in the Retail Motor Industry* (April 2000), there were considerable criticisms made of the

various TAFE systems and in particular, their ability to keep pace with technological change.

In part, these criticisms may have influenced the establishment of private training provisions by the major vehicle manufacturers. At the same time, the skill shortage report noted concerns regarding the 'segmentation' of the automotive industry resulting from these changes as discussed above. These factors together were adding to the perceived increases in skill shortages within the industry. Ai Group therefore recommends that:

Rec 22 State Governments focus on avenues to improve relationships between training providers and industry including providing the necessary infrastructure (changes to award arrangements) to facilitate return to work and other professional development programs for teachers.

The capacity of group training arrangements, already well established in the industry, combined with front-end training arrangements may seek to alleviate some of these problems. Ensuring that financial incentives are in place to facilitate these arrangements among group training companies is necessary.

Attracting new entrants

Employers within the automotive industries report a lack of quality young people seeking employment within the sector, particularly within the traditional trades areas. The automobile industries sees attracting young people as associated with the general image of manufacturing. The role of secondary school careers advisers, as well as the more general view held by society, often misrepresents the opportunities available within the industry. Ways to address this image are currently being considered by a number of federal and state government agencies.

Secondary school links

The secondary school systems play a vital role in shaping a young person for the workforce. Studies undertaken by Ai Group in 1999 and reported in *Training to Compete*, showed that many in the manufacturing industry expect that the secondary school system will provide young people with general skills, such as language, literacy and numeracy to be able to participate in the workforce. In addition, many felt that secondary school systems were falling well short of the mark in providing young people with these necessary skills.

Initiatives to increase vocational education and training delivered in the school system have been met with support by members of the automotive industry. They provide significant opportunities to overcome some of the issues associated with the image of the industry and to introduce young people to the type of work the industry offers. However, considerable concerns exist about the quality of the training delivered through VET in schools, particularly where the delivery is solely based on provision by the school system. Ai Group recommends that:

Government funding, incentives and subsidies

The Government provides funding to assist in the provision of training for apprentices and trainees and through contracted training provisions in areas of identified skill shortage. It also provides assistance to employers through the incentives and subsidies provided by the Federal Government for New Apprentices.

In a rapidly changing technological environment, the up-skilling of the existing workforce is as important to Australian industry as the training of new entrants. This is necessary if car and component manufacturers are to maintain and increase the competitiveness they enjoy through the skills of the workforce. Government funding arrangements do not currently reflect these priorities. Much of the financial responsibility has been borne by large

businesses, however, small and medium sized firms report that they find it difficult to keep pace with the financial burden placed on them through these requirements. Consequently, it is recommended that:

Rec 23 Federal Government and State Governments change current funding arrangements to ensure that the existing workforce has access to public funding for training to meet new skill requirements.