



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

**INQUIRY INTO POST 2005 ASSISTANCE ARRANGEMENTS
FOR THE AUTOMOTIVE MANUFACTURING SECTOR**

**MR G. BANKS, Chairman
MR P. WEICKHARDT, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT ADELAIDE ON FRIDAY, 26 JULY 2002, AT 9.08 AM

Continued from 25/7/02

MR BANKS: Good morning, ladies and gentlemen. Welcome to the second day of the commission's hearings here in Adelaide for our Inquiry into Post 2005 Assistance Arrangements for the Automotive Industry. We're fortunate this morning in having Mitsubishi Motors Australia Ltd appearing. Welcome to the hearings. Can I ask you, please, to give your names and your positions with the company.

MR PHILLIPS: My name is Tom Phillips. I'm president and CEO of Mitsubishi Motors Australia Ltd.

MR BREUGEM: My name is Tony Breugem, and I'm the director of corporate operations and human resources, Mitsubishi Motors Australia Ltd.

MR COSGRAVE: John Cosgrave, special counsel to Mitsubishi Motors.

MR BANKS: Good, thank you. Thanks very much for attending. Thank you for the submission you provided the first time round, and also you have provided some notes for your presentation here today which have been quite useful to us. As discussed, I will give you the opportunity to summarise the main points you want to make.

MR PHILLIPS: Mitsubishi Motors welcomes the opportunity today to discuss a range of issues arising out of the commission's position paper. The commission refers on a number of occasions in its paper to the finer judgments that have to be made now in relation to future assistance. This observation accords with the view of Mitsubishi Motors and its shareholders that the policy outcomes of the current review will be the key influence on whether the Australian automotive industry completes a successful transition over the next decade to global integration and competitiveness.

We are mindful, however, that the process of respondents putting forward their opinions to the commission of necessity tends to focus on policy proposals where there is disagreement. In this regard we would like to stress at the outset that MMAL found the commission's position paper a thoughtful and constructive contribution to the consideration of future assistance arrangements for the industry. We are particularly encouraged by the commission's recognition that reducing remaining assistance too quickly after 2005 could put at risk production that might become internationally competitive in the longer term under a more gradual transition process.

In terms of the commission's position paper MMAL supports the commission's proposals to establish the 10-year policy path, establish separate funding pools for vehicle producers and their suppliers, exclude broader goals such as environmental or industrial relation outcomes as criteria for the receipt of ACIS benefits, maintain

the specific tariff on second-hand vehicles, leave present government fleet purchasing policy undisturbed, maintain present tariff levels on four-wheel drives and light commercial vehicles and continue present eligibility criteria for participation in the scheme.

In relation to the following issues, MMAL acknowledges the cogency of some elements of the commission's observations but does not support its proposals without qualification: the objective of ultimately aligning assistance to the automotive industry with that applying to other manufacturing industries, the timing of any reductions to the 10 per cent tariff, the funding of ACIS after 2005 limiting design changes to ACIS. MMAL opposes the following proposals of the commission: the capping of all ACIS benefits and the 65:35 split of total ACIS benefits between vehicle producers and suppliers respectively.

MMAL draws attention to the following issues not addressed in the commission's report: the differential impact on budget outcomes of ACIS support for vehicle production for the domestic market compared to support for other qualifying ACIS activities, the significance of the exclusion of the vehicle producers from the tariff concession scheme, the uncoupling of rates of support for production from prevailing tariff rates, and the impact of differential ACIS benefit rates for similar activities. Elaboration of these issues and other matters relating to workplace relations considerations are contained in the paper lodged with the commission earlier this week. We now welcome any questions on the views expressed in that document.

MR BANKS: Thank you very much. I guess a first question really to ask you, Tom, is how you see the future for Mitsubishi. Clearly there have been some turbulent times in the past and some changes recently.

MR PHILLIPS: Yes.

MR BANKS: We will perhaps give you an opportunity of saying how you see the future, including the export situation for the company.

MR PHILLIPS: The good news is we can see a future. As you know, going back to late April we were given ahead for a new project - a new car starting in 2005. That's something we have worked for over the last couple of years and, quite frankly, it was in doubt until we were able to make that announcement at that time. It has been a period where we have had to go through significant restructuring to demonstrate very clearly to our shareholders that we can run a responsible, viable business. Fortunately we've been able to do that. Whilst the future I'd say is looking very good, as we speak today I'd say we're having a tough time in the marketplace, and it probably won't get any easier towards the end of this year as new models come

into the market, particularly our three main competitors. Again, that is not something that is a surprise to us and not something that we haven't tried to plan around as well.

We are doing particularly well this year with our exports and we will have a record year. Back in 2000 we did just under 12,000 exports, last year was just over 19,000 and this year it should be around 24,000. That has been very strong for us, and most of the business - of the 24,000 probably 16,000 will go the US - so that has maintained a very strong base for us. It's a very good profit base. Actually this year because we're really maximising what we have now with our production in the factory, we took the action of actually - we had extra export orders. We started the year with a plan for exports of around 19,000. We've got it up to 24,000. What that has meant in actual fact is we have transferred some domestic into the export market. That is having some small impact on us as far as market share is concerned, particularly in the first quarter, when we took some of that action, and it will probably will have an effect also in the last quarter.

But overall I think we're looking forward to also receiving some new products from MMC. One of the good things that has happened to us, apart from the announcement of this new project, is that MMC has also had quite a significant turnaround. To have your parent now in reasonable shape and now planning very strongly for the future with lots of new models, is a very significant thing for us. We will start to see the first of those new models coming into Australia in January-February next year. So that will start to be what I consider to be a real turning point in the marketplace for Mitsubishi.

Prior to June next year we will launch a very significant change to our own car, which will be I think a sensational product. As I said, in 2003 we will start to benefit from some new models and some significant upgrades. This year, whilst I said things are reasonably tough, we're ahead of our financial budgets through to the end of June and we will certainly finish up where we need to be, I'd say, by the end of the year, primarily because most of our exports are going into the second half of the year, anyhow. So it's a struggle but we're in reasonable shape.

MR BANKS: In terms of your export potential, over time, in broad terms where do you see - you mentioned the US as now I think a significant market?

MR PHILLIPS: I think the export side of it is probably where we're really going to kick some goals with our new product. My own honest personal view is that I don't see us doing less than 60,000 exports from 2007 onwards, and that's not just the US. Under the program with the new car, we have a commitment from the US for at least 25,000 a year. We're getting our act together more and more into the Middle East as well. I think we have the opportunity to sell our car into Japan. What we're going to

be building in fact is really a flagship for the entire Mitsubishi brand.

As far as I'm concerned, every country is at our mercy, so we won't leave any stone unturned to try and sell it anywhere. There are many opportunities which will come out as we go forward, but I think the export side of it is going to be the real winner for us with the new product.

MR BANKS: Thank you. I guess people are generally conscious that Mitsubishi received some government funding in the course of this inquiry, which we have acknowledged in the report.

MR PHILLIPS: Yes.

MR BANKS: We maybe will just give you the opportunity to talk about what that funding was for and how viable that project is or would have been, I guess, without that funding.

MR PHILLIPS: Yes. I think it has been well documented that we received support of \$35 million from the federal government, which will come to us through the years 2004 and 2005. We have also received funding - or we will receive funding from the South Australian government of \$40 million - the last amount of that will be paid in 2006. It is pretty well spread out over the period of the development program and the launch phase of the new product.

We have a situation with our shareholders as far as funding is concerned. We had various requirements to meet as far as return. We didn't quite make the grade and things were looking quite ominous there for us, but the support we've had from the government I think has been very vital in us getting the go ahead. The significant thing, I think - and I keep trying to get the message across that this is not a hand-out because in actual fact we are giving a heck of a lot back. As I said, one of the big pay-backs is going to be what I see as a tremendous increase in our export capability.

But the other side of it is that we now have permission from our parents to move a lot of the R and D activity that would normally be done in Japan into Australia. The upside of that also is that whilst everything we have done at this stage has been primarily based on work for our own products, I think we're now getting reasonably warm feelings that we'll probably end up doing some work for other countries. We already have a project for another country which we're assessing right now. One of the things that is holding us back, quite frankly, is right now we don't have the capability to do it because we're about to undergo quite a significant recruiting process to bring people on board. Whether this other project can wait until we do that I'm not quite sure, but I think it's a fair indication that our shareholders are now taking a very positive view about what we do have to offer and. As far as the

R and D side of it is concerned, that will go beyond anything we've factored in which helped generate the government support in the first place, so that's looking pretty good.

I think the other side of it - when you're looking at the government support - the choices that MMC had were really to - there was a car that was going to be built in Japan, a six-cylinder base car, which could have easily been shipped into Australia. If we'd pulled out of manufacturing six-cylinder cars in Australia that didn't mean to say that we were going to pull out of selling six-cylinder cars in Australia. We would have still competed in that large six-cylinder market, so the effect of us pulling out on the other manufacturers, I think, would probably have been fairly minimal because they would have picked up the business that goes to governments, for example, where they stipulate purely Australian built. We would have missed some - that might have been 4000-odd vehicles a year - but we still would have been a very good competitor in the large six-cylinder market.

The other part of it was also that this car we are going to build here, one form of it will be built in the US, so the other alternative was to ship it in from the US. We have to overcome some of the issues there to prove our case to be more viable than either of those alternatives which, with the support of the government, we were able to do.

MR BANKS: You would be conscious of the focus of this inquiry in terms of the general assistance arrangements, the tariff and the ACIS program and so on.

MR PHILLIPS: Yes.

MR BANKS: Could you envisage situations in which you would be seeking more support, such as the \$85 million that was recently provided?

MR PHILLIPS: No. I can't see that, no. We now have a program and, whilst we were put through the hoop by the government, I can assure you we were really put through the hoop by our shareholders, too - to make sure that every figure we had in there was achievable and the business was going to be viable. There was never any thought - and, quite frankly, the government has made that very clear to us anyhow, "Don't come back" - but we have no intention of that, and certainly as I said, if things go the way we see them going, then we are going to be a very strong, viable company into the future.

MR BANKS: Thank you.

MR WEICKHARDT: Can I go to one of the first points in your submission, where you talk about the preference you have that the tariff might be maintained at

10 per cent, subject to reviews as to progress by other countries in terms of opening their market, or the degree of protection that they were enjoying. I guess we have been mindful, as we have talked to the industry about their desire for clarity and certainty, that that process would seem to introduce the uncertainty of a sort of continual review process with the criteria for judging when enough had happened to make any change to the tariff level. How do you actually see that working and do you see that being a helpful process or an unhelpful process in your desire for long-term certainty and the ability to plan ahead, knowing what the protection regime will be?

MR COSGRAVE: I think the view we would take is largely in accord with the FCAI position, which was advanced to you yesterday morning. Some of us were present through that hearing and heard the discussion. We would have thought that essentially when a level playing field emerges - to use a shorthand term - would be a judgment call and would not be a matter of great science. We're not hanging out for the tariff in Uzbekistan to come down to 10 per cent. But we do take an interest in US levels of tariff, we take an interest in European levels of tariff and, of course, particularly Asia Pacific in terms of market access. Our position broadly would be that we would be looking to the time when, whilst there would be no doubt numerous exceptions around the world particularly perhaps in the developing countries, that we were looking at a narrowing of differentials to assistance regimes around the world to a tolerable level..

That then leads to the question of whether the judgment call is something at the time made by government, undoubtedly with input from industry, or it's a fit subject for review. We've got an open mind on that. We don't see it either way promoting a great degree of uncertainty because to some extent we - and members of FCAI, or the car manufacturers - are essentially sticking their neck out and saying when that point in time comes we believe that that's the trigger for what the commission and government's ultimate objective is - that is to bring us back to the level of assistance for manufacturing generally.

MR WEICKHARDT: I guess not all the industry is exporting and therefore not all the industry will take advantage of the levelling of that playing field. Yet you could paint a picture of somebody who had just made an investment, believing that the tariff was going to remain at 10 per cent, and then suddenly somebody says, "Well, because the United States or Europe have just changed their tariff level, we're slamming ours down to 5 per cent, and you always knew that was a possibility but it suddenly happened because of something outside our control." You can picture that being, if you like, just as unfair as a process where Australia moves unilaterally.

MR COSGRAVE: Yes, although I think somebody making a substantial investment against the background of a government decision - a significant emphasis

presumably of any announcement of that decision - would be what the ultimate objective was and it wasn't a question of if, but when. There are judgment calls to be made by people investing in that environment and essentially you assess the risk and if your judgment of the risk proves faulty I can't see any Australian government seeking to hold the waters back in that situation.

MR BANKS: Yes, I guess I made the point yesterday that, in some ways, the fact that Australia is in the position of having to signal what it's doing some years out has been brought about by the industry itself wanting to have the review right now. So it's sort of between a rock and a hard place on that one.

MR COSGRAVE: Yes.

MR BANKS: The only other point I'd make is that in your submission you talk about Asia-Pacific reaching broadly comparable levels and to the extent that that includes the developing countries within that grouping - I mean, the Bogor agreement has a 10-year difference in commitment built in, so in a sense again you're really saying, "Scrap the Bogor commitment" - and it's not clear to me yet that the government would take the same view - but is that effectively what you're saying?

MR COSGRAVE: No, I guess we would put a different emphasis on it. If the Bogor commitments are met by all the parties in the currently designated time frame I think we'd concede that that is the level playing field that we're talking about.

MR BANKS: Okay.

MR COSGRAVE: The trigger.

MR BANKS: So in a sense because 2020 comes 10 years after 2010, you're envisaging that would simply be them putting in or signalling a plan do to that; a more - - -

MR COSGRAVE: I think we have to make allowance for the different time line for developing countries and I believe we have to live with that. Now, of course, the significance of developing countries is diminishing as certain key countries drop off that list.

MR BANKS: Yes.

MR COSGRAVE: But, yes, if we get to a situation in 2010 where the non-developing countries have moved themselves to comparable assistance regimes around the 5 per cent level, that would be a trigger.

MR BANKS: Perhaps just while we're at this level of generality, maybe get you to articulate your view of how you see ACIS complementing the tariff. We put the view quite strongly in the position paper, which is an extension of the rationale for the first period of ACIS, that it is there as a kind of facilitator to allow the industry to make the adjustments it needs to make to prepare for reductions in the tariff. I guess what you're proposing here is a somewhat slightly different view, because whether the tariff itself changed you see as being contingent on other things, meanwhile ACIS would apply. So I'll just give you the opportunity to talk about how you would see the role for ACIS in that kind of scenario.

MR COSGRAVE: We don't have a great deal of difficulty with the various options proposed by the commission in relation to timing. It would seem to us to be quite appropriate against the background of the degree of uncertainty that we've identified or you've pointed out in relation to our position on the tariff, but that nevertheless, for planning purposes 2010 still seems - or is still acceptable to us as a significant date in the ACIS calendar. Its significance, depending on which option you prefer, can be in the context of ACIS concluding it in 2010, or alternatively, under other options, diminishing in 2010 in terms of the rate of return to participants.

I should say in passing, and I'm sure we're getting questions on the particular issue in due course, but of course we're responding in the context of that element of ACIS. We don't regard ACIS as monolithic and it tends to be always talked about in monolithic terms. But we're essentially talking about those benefits under ACIS that don't relate to production of the Australian market which we believe is a totally separate issue and is and has historically been tariff linked.

Returning to the main point, Gary, the proposal to set an ACIS program for 10 years of course we support, because we asked for it and we're very appreciative of the commission's response to the 10-year planning path requests that you received. So we would see, whilst ACIS and the tariff have been interlinked in a variety of ways, that it may well be that the ACIS pattern is set in stone by a government decision towards the end of this year, but the tariff decision is still left conditional on the events we've just been talking about - but we could live with that.

MR BANKS: You could live with that? Yes, I guess what we've got to think about is whether that's still a coherent rationale - - -

MR COSGRAVE: Indeed, sure.

MR BANKS: - - - and people can differ on those things. Perhaps just coming back to your submission, clarifying a couple of points, you say on page 5, the second dot there, that calculation by the commission of the quantum of funding for option 1 - this is in ACIS - should be subject to the same net present value factor as is proposed

for the other two options, and we did envisage it that way. I guess in our final report we would obviously have a bit more detail in there as to what the numbers were.

MR COSGRAVE: Right.

MR BANKS: But we did see that initial - that 2.8 would have the same MVP factor applied to it. The second point you make there I guess we also acknowledged in relation to looking at two-thirds of the quantum related to the tariff, and we weren't thinking as precisely as this in terms of just that component that's already directly linked to the tariff, but rather a broad sense of scaling down ACIS broadly in relation to tariff assistance. But if you have further comments to make on that, we'd appreciate that.

MR WEICKHARDT: Just building on that point, if you make the assumption that the MVP calculation is done in exactly the same way, do you have a preference between the three options that were described as all the money over five years versus the money over 10 years, or a step down?

MR COSGRAVE: We have a fourth preference which draws from both of those. The key element of that preference would be to focus as a motor vehicle producer and as a member of a group of motor vehicle producers, on what the motor vehicle producers' part of it is. To some extent there is some presumption on our part when you get into numbers like 2.8 billion and that, and who gets what out of it, so certainly our starting point, as you will see from other parts of the notes we put before the commission, would be the 1.3 billion for motor vehicle producers.

We would seek two possible ways in relation to that 1.3 billion moving ahead, again in net present value terms. As I say, our fourth preference - two subsets of it - would be to look at that 1.3 billion over a 10-year period and give it a 1.5 factor to cover that 10-year period and adopt the commission's suggested methodology in one of its options to go two-thirds, one-third in relation to that. Quite clearly, in talking about the 1.3 billion I am talking about an uncapped part of ACIS and we haven't yet discussed the other issues in relation to domestic production.

To that extent that ACIS for domestic production was quarantined in its entirety - that is, the 25 per cent was uncapped - that of course would be drawing something out of the current capped element of the scheme, so we accept that there could be an argument that instead of 1.3 billion your starting point would be 1.3 less an amount attributable to the 10 per cent domestic production that currently exists, which we'd estimate on current numbers is about 300 million. So that would bring you back to 1 billion - again, 1.5 times that, delivered in the way that I've mentioned before. So our focus tends to be more on the MVP thing.

MR WEICKHARDT: Can I just clarify that. Let's leave the quantum entirely aside for the moment.

MR COSGRAVE: Yes, sure.

MR WEICKHARDT: And the method of getting there. You're, I think, suggesting that you prefer the two-thirds over five years and a third over the second five-year period.

MR COSGRAVE: Yes.

MR WEICKHARDT: What was the 1.5 factor?

MR COSGRAVE: That, I guess, is the heart of the fourth option. We believe that in replicating the notion of the traditional tariff linkage and indeed the comments that the commission received that people - or evidence that you'd received tended to suggest that the tariff and ACIS were of around about equal value - that we would, in seeking a 10-year period for ACIS, look for half of that period at rates that presume a 10 per cent tariff and half at rates that presume a 5 per cent tariff. So obviously we are upping the ante in our fourth option and, in terms of the general principles that the commission has adopted, where you have calculated as I understand it a number, and essentially offered it over a five-year period or a 10-year period, the number doesn't change. That's the 1.5 factor.

MR WEICKHARDT: I think I understand that.

MR BANKS: You will be coming back with more detail on those - - -

MR COSGRAVE: Certainly.

MR WEICKHARDT: Just in regard to the production 25 per cent number, which you point out has sort of origins in the DFS scheme or DFA scheme, you point out there really is no tariff concession system in the auto area, but that this could be broadly seen to be equivalent to that.

MR COSGRAVE: Yes.

MR WEICKHARDT: Do you have a view as to whether or not it would be better for the automotive industry to have a tariff concession system and therefore be on exactly the same basis as the rest of the manufacturing industry?

MR COSGRAVE: Our clear view is that it would not be preferable. The primary reasons for that are the reasons why the so-called automatic by-law, later called the

DFA, was first introduced. There were two main reasons advanced at that time, but certainly the first one is the key one. It does promote enormous uncertainty in any industry dealing to any significant degree with the tariff concession system. It would be particularly the case in the automotive industry; levels of uncertainty, not just for the four motor vehicle producers, but substantial uncertainty for the component producers as well.

As the commission has observed in a number of reports over the years on the tariff concession system, it is not a costless system in terms of administration. I think the last estimate by the commission was \$6 million a year and I think that was an estimate of cost to industry and it didn't include cost to government of administering the scheme, which is pretty significant as well. I would suggest with a reasonable level of confidence that if the automotive industry became part of that system it would blow that estimate way out of the water, because we would probably dwarf, as a user of the system, all other industries combined - I would imagine - in terms of complexity and time.

The second thing put forward originally, which was a matter of concern and, in fairness probably, for the record, deserves a mention from the point of view of component producers, was the concern of government at that time, of the leverage that the motor vehicle producers had over the component producers. As the tariff concession system has changed a little from time to time, but is now back on the basis of essentially a no-objection system, the potential for leverage on a component producer not to object to a particular tariff concession application has to be conceded as a point to be considered.

MR WEICKHARDT: Leverage is probably applied in other ways now.

MR BANKS: In terms of the 1.3 billion you were talking about - I'm just trying to look for it - you talk about maintaining the integrity of the original conception of the allocation of ACIS between component producers and motor vehicle producers.

MR COSGRAVE: Yes.

MR BANKS: I'll maybe just get you to elaborate a little bit on that. I guess we were looking more at what has eventuated as perhaps a better basis for thinking what should go forward, partly on the basis, as you say, that we didn't see any scientific precision in what had happened before and our understanding of how those numbers were arrived at in forming that view. But we will perhaps give you the opportunity to elaborate on that.

MR COSGRAVE: I suppose the first point, Gary, would be that I think for those of us who participated through the early days of the exercise and later on, whilst I

don't think the word "scientific" would have sprung to mind in terms of the process we were in, we all thought we were involved in a very real process that was an issue of principle first advanced by the government and accepted by the industry, and on which ACIS and the various versions of it, were developed. Certainly from the motor vehicle producers' point of view we had no cause for concern until a very late stage, because we consistently updated our estimates collectively for 2001-2005 and were, at all relevant times - by that I mean all the times before the legislation was passed, the administration regulations were passed, about 18 months after that - at all relevant times our estimates were significantly below 1.3 million. Of course, we didn't have access to estimates of the component producers.

So we moved forward with a reasonable level of confidence and the separate funding, which was also an original element of the government decision, basically was put to one side, partly for the usual bureaucratic reason that it was going to be pretty difficult, but partly on the assurances given to us of, "Don't you worry about that. There's not going to be a problem. There is never going to be any modulation." In fact the modulation balloon did not go up, to the best of my recollection, until about November 2000, just a couple of months before the scheme started when it was for the first time acknowledged to us by officials, to a collective industry group, that modulation was starting to emerge as a bit of a worry. Even at that time our collective estimate for the motor vehicle producers was still below 1.3 billion.

There's a bit of angst about it, Gary - as to those origins - and what has happened since. I suppose that is linked to what we would see as a pretty significant shift in effective rates of assistance from one sector to the other, which of course the commission had identified in 96 - that tend, for a variety of reasons set out in that report, to inevitably provide higher levels of assistance to the component producers. I suppose that's against the background of that inquiry, where a number of component producers had indicated that they were conscious of the fact that their major concern was assistance to vehicle producers to ensure that they remained in play and the rest was not necessarily essential to their operations. I should stress not all component producers asserted that, but a number did. The 1 point 3 and 0.7 - which has the unfortunate coincident of being 65:35, which is the same ratio you came up with a totally different context - is pretty dear to our hearts.

MR BANKS: The component guys, I think, would make a case - indeed one of them did yesterday - that the continuum, or the dividing line between an MVP's activities and a component manufacturer's activities is moving all the time, that more risk, more production, more modularisation is being pushed by the MVPs their way. They would argue that more value added is now being created by the component industry and the tier 1 or the tier point 5 guys, and therefore it would be just that they did receive a greater share of the cake than had been originally envisaged. What is your view on that?

MR COSGRAVE: There are some elements that I would like to comment on. Tony may want to say something about that as well.

MR BREUGEM: Can I just ask on the tier 1s or tier point 5s, what was your point?

MR WEICKHARDT: Simply that I think their point is that if you looked at the amount of activity that was going on historically, the divide between the activity between an MVP and an ACP is moving and that's because more work is being outsourced by the MVPs; that they are therefore creating more value adding, they're having to do more R and D, they're having to take more risks themselves, they're having to make more investment in themselves and therefore they are entitled to a greater share of the cake. You know - this is a Mandy Rice-Davis comment - "They would say that, wouldn't they?" But I have some sympathy for their comment.

MR BREUGEM: I think this is an issue that will be debated. Certainly in our case we are really highly integrated at the moment and we see a need to shift away from that position. So I think the reliance, from Mitsubishi's perspective, with the supply chain will increase over the period. So the issues that you've raised will certainly come up in those discussions. A supply chain is no longer just a supplier of a part. They're a supplier of a complete service, including R and D, functionality and the part itself. So, yes, I think that is a significant change that's happened over the last five years probably. It certainly will increase over the next 10. So the issue of a slice of the pie is something obviously that the supply chain people will have a different view than we will, but I think at the end of the day it will come back to discussions between the two parties reaching an agreement on the price and what we pay for the service they're providing. Yes, I agree with your statement.

MR WEICKHARDT: They also made the point that - perhaps for the reason that John was alluding to originally about the TCS - they'd prefer that the split was not sorted out with - what did you say - the leverage the car companies had over the component suppliers, but rather using some more scientific process. I guess it would be useful for us to have some guidance for government as to how they might at least think about that.

MR COSGRAVE: I think the point I'd add - because I think it's too frequently overlooked - is that there is a general assumption that the local content requirements of our historical assistance arrangements ceased in 1988. That's certainly true, in the sense that a mandated local content requirement was dropped from their motor vehicle plan, but in effect of course the component producers still benefit from not a local content imperative, but a very strong pressure on the four motor vehicle producers to keep their content as high as they possibly can, because the cost of not

doing so is very significant, because you're immediately reducing the application of ACIS benefits to your range of imports, including the built-up vehicles.

So particularly under the present arrangements, if you drop below 25 per cent local content, there is an immediate shift of assistance to the component producers, because a vehicle producer in question at below 75 per cent is starting to have to pay duty again on his imported components. Certainly, as a matter of principle and in general discussions, it seemed to us that the other three car companies were moving pretty much along the same lines as us.

We have an active campaign to actually increase our local content and, indeed, we went to the trouble of introducing a program - which I think was called a combi-pack program, from memory - where we actually set up a display here in Adelaide of all the imported components that we were using and invited suppliers from all around Australia to visit that display and, if they felt they were capable of supplying any of those, to put in a range of proposals. We had a very substantial number of visitors and a very substantial response.

That's not the only example that we could cite of chasing higher levels of local content, but it was part of a campaign that we're involved in of trying to get the content up as high as possible. That's not to say there's not all sorts of creative tensions and differences in viewpoints between ourselves and the component producers, but the advantages and disadvantages aren't all flowing one way. They flow in a variety of ways.

MR BANKS: When you're talking about modulation and design issues on page 8, you say, "Depending on the rates and time profiles ultimately introduced for ACIS funding after 2005, the potency of the 5 per cent cap may be significantly reduced, resulting in a requirement for even more draconian rates of global modulation." Could I just get you to elaborate on that. It wasn't quite clear to me - particularly in a context of a declining tariff, whether that was likely to be true.

MR COSGRAVE: Yes. It came out of what was almost, I think, a chance remark where, in terms of reviewing the operation of ACIS, we have occasional meetings with the department. Of course a lot of that is related to modulation issues and whether their regime is robust enough and all that sort of thing. It just happened to emerge in discussion that in fact a lot of the audit work the department is doing turns out to be fruitless audit work in areas where, whilst they might find mistakes have been made and ACIS benefits have been claimed that shouldn't have been claimed, there is actually no consequence because of it, because the particular ACIS client is well above their 5 per cent sales cap and so there's no actual effect in terms of benefits due to him.

The figure mentioned was 2 to 3 hundred million dollars that was being forgone by primarily the component sector, in terms of excess over their 5 per cent caps, so quite a sizeable number. It seems to us, if you carry that into the future and the levels of activity remain robust, you've got a situation - particularly with a declining tariff rate - where the likelihood of hitting the 5 per cent cap is possibly reduced.

MR WEICKHARDT: Can you just help me with that? I'm not sure I follow why, for those component guys, that's going to change the 5 per cent cap.

MR COSGRAVE: No, actually I think you're right. The point is valid in relation to the MVPs, yes, but not to the component producers. It won't affect that. In relation to the MVPs, you're quite correct, because the production element, which is currently factored in at 3.75 per cent, will drop to 2.5 per cent. It would reduce potency there, but not in relation to that.

MR BANKS: If your view still stands that it might be preferable to review the parameters on ACIS rates of return - you've got here on ACIS investment activities - will you be proposing to come back with some suggestions on that?

MR WEICKHARDT: Maybe you can elaborate now as to why that might be a better way. Mathematically, if it ends up the same answer, so what, sort of thing.

MR COSGRAVE: I guess the "so what" in our view would be the certainty. If the rates of return were reduced to a level which the major parties, government and industry felt would be within whatever cap was set, the planning process is simplified in that sense; that you are reasonably sure of getting the legislative rates without modulation. On the other hand, because - whilst you're in complete control of what you're doing you're not sure what everybody else is doing - and if you embark on a particular projection, let's say, with the expectation that you're going to get a 10 per cent return on it, and investment expenditure of the industry as a whole goes through the roof, you will find your ultimate return is only 7.5 per cent and the shareholders are asking why.

If, from day one, the rate is - let's say 7.5 per cent and everybody is agreed that whatever happens in the industry you're unlikely to go over the cap that has been set with that sort of rate - it would just provide you with a slightly greater planning certainty. We would see that as the rationale, if you like, to considering the alternative to just go in with already tried numbers that we know are going to produce .7 per cent modulation.

MR WEICKHARDT: On the other hand, if the number is known to cap out, assuming - and this might not be a valid assumption - that the shares between the

various people don't change, I would have thought that there's an absolute certainty that you will get X thousand dollars a year. It might not be 10 per cent, it might not be 7 per cent, but it's X thousand dollars a year so there is a sort of certainty about what the number would be.

MR COSGRAVE: I totally agree. It's the assumption you make which promotes the uncertainty.

MR WEICKHARDT: About the relative shares, you mean?

MR COSGRAVE: If somebody comes in with an unanticipated mass of activity, that is obviously going to impact on everybody else's shares.

MR WEICKHARDT: Just on ACIS and the comments you make about the artificial exclusion of own use R and D - I understand you get own use R and D if you act effectively as a component supplier to yourself or to somebody else, but you don't get R and D for your own activities as an MVP. Are you suggesting that you would like to see some of the production credit taken away and biased more towards an R and D benefit? That is, I think, what one of your competitors suggested they'd like to see. Or are you saying you want the production credit and some more R and D?

MR COSGRAVE: There is an obvious link between the two issues. I suppose there's a further possibility to put on the table, and that is that if there's an extension to own use R and D for MVPs, clearly there might be a question about the rate of return for R and D, including own use and not for own use. That would be another approach to the issue. We have an open mind for very good reasons that I will mention in a moment, on the shifting of emphasis of benefits from production to investment activities, particularly investment in R and D.

The very good reasons are that for the matters referred to by Tom in his opening address, we're simply not on top of the numbers yet that will be carrying us through into that 2005 to 2010 period. We would expect, with the number of projects that are being discussed, we will be in that position quite shortly, but I suppose self-interest is one of the matters that one has got to take into account in formulating attitudes to the assistance regime from MMAL's point of view. We've got an open mind at the moment in terms of that shift of emphasis of benefits.

The own use proposal is certainly one that our shareholders are very anxious about in that they are unconvinced by the reasons given as to why you would differentiate between the R and D undertaken here in Adelaide, in relation to current product or future product for the Australian market, and other activities for R and D activities for outside clients. We have explained as best we can the rationale but

have yet to convince them that it's reasonable. It is an issue that I suspect will be part of our final submission. We will elaborate a little at that time.

MR BANKS: Were there other points on ACIS you want to develop? I was going to go on to your comments about workplace relations.

MR COSGRAVE: No. I think the key point which Tom mentioned in his opening address is this need, at least conceptually, to quarantine what one does about production benefits for the domestic market from the rest of ACIS. We feel lumping it all together simply is trying to mix apples with oranges for no good purpose. I suppose the key point behind that would be that the very capping of ACIS was originally identified by the Prime Minister as an exercise in fiscal responsibility - they were the words he used - and other people have used similes for that term in the justification of the decision to cap in the first place. In our view the capping of the production benefits for the domestic market has no impact on fiscal responsibility at all. If you cap them, as we've now seen, you provide a significant windfall benefit to the government and the component producers.

MR BANKS: You would agreed that, in relation to investment in R and D, there is an issue of fiscal uncertainty there - - -

MR COSGRAVE: Indeed.

MR BANKS: As you have been, in a sense, complaining about it just before.

MR COSGRAVE: Sure.

MR WEICKHARDT: Is your position that you think the production credit should continue indefinitely regardless of what the tariff level is?

MR COSGRAVE: If the tariff level hit zero - - -

MR WEICKHARDT: Obviously if it hit zero as an academic exercise, but we have not foreshadowed that.

MR COSGRAVE: No. We believe that it's still relevant at a 5 per cent tariff, yes.

MR WEICKHARDT: I understand the mathematics of your argument that it is, if you like, self-funding but it's a benefit that this industry would get that no other industry would get.

MR COSGRAVE: But we don't get the tariff concession which all industries do get.

MR WEICKHARDT: That's at 5 per cent with a full 2 per cent.

MR COSGRAVE: Yes. We would have to concede there's an argument. Australia has obviously gone to an enormous amount of trouble, an enormous amount of cost over a long period of time to have something called a DFA and elaborations of that DFA when all other countries handle the matter quite happily by a differential tariff between components and vehicles. It is true, I think in terms of all the relevant comparisons - they all have differentials but, Japan aside, the US does have a 2.5 per cent tariff on components and Europe has about 3.5 per cent. So, yes, there is an argument that by the time you get down to 5 per cent you're very close to the 3 per cent concession rate.

I suppose our obvious response at that stage is that we agree with the commission who have stated on a number of occasions that there shouldn't be a 3 per cent tariff under the tariff concession scheme, so that the proper comparison would still be the full 5 per cent.

MR BANKS: You mentioned in your submission that you've estimated that if industry had access to the tariff concession system it would cover components to a value of around 22 per cent.

MR COSGRAVE: Yes, actually my apologies. I meant to make a correction at the start - the numbers correct. That's MMAL's estimate and we've literally just completed earlier this week a very elaborate exercise to put that figure before the commission. That's our outcome and we believe that there would be variations between the four producers, but they would be unlikely to be substantial.

MR BANKS: Okay. You've got some remarks here on workplace relations and I thought it might be useful to explore some of those. In particular you say that - and I'm quoting from your submission on page 9:

The global and domestic competitive environment needs to be understood by all stakeholders to facilitate the competitive and economic outcomes that are essential if their particular enterprise is to include its competitive position.

You talk about your experience being that constant effort, training and development and the provision of information to employees and the unions about all the relevant influences on your competitiveness is imperative to engage those stakeholders in the process of continuous improvement. You go on to say it's an area, particularly in some of the smaller components suppliers, where substantial improvement is required. Could I just get you to elaborate - probably not naming names - but are

you talking there in the sense that management is not doing its job in some of these component manufacturers? Is that the - - -

MR BREUGEM: Maybe not exactly doing their job - - -

MR BANKS: How would you see the way forward?

MR BREUGEM: Maybe not doing their job in the human resources side, Gary. As a group the automotive industry recently turned to the Automotive Council and looked at various reports and surveys that had been done, some particularly in Victoria. Whilst the industry is very good at task management, generally we can say we're not that good at the people side of the management. So the focus is on driving the business but sometimes neglecting the other side.

I think from Mitsubishi's position we will be including, in our supplier selection and management, in the future a lot more stringently that part of the approach from the suppliers. A lot of them don't necessarily employ specialists in the area of the industrial relations and human resources; it's tacked on to someone's job. It's not seen as a particularly necessary function; it's an afterthought. I hate to say that, but I've actually talked to some suppliers who actually suggest that is exactly the case. There is actually a trend towards removing the human resource function and tacking it on to other areas.

So I think from our perspective - and certainly just coming back from Europe - it is a similar thing. It is a critical function in any organisation. If you can't have someone there as a resource because of the size of your workforce, it's certainly worth having someone there in an advisory capacity on a regular basis to make sure you attend to that side of the business. We believe strongly that there is a lot of improvement we can make and should make.

MR BANKS: Would you see this as an inhibitor to your company relying more on components produced outside your own operations? I understand that probably more of the car is made by Mitsubishi within your own plant than would be true of your competitors.

MR BREUGEM: I can't, at this point, say it's an inhibitor but it will be a factor that we will consider. Any situation which arises which disturbs production, you go back and have a look at what happened and you can always draw a conclusion in hindsight as to why. I think the reality is that we will be ensuring that there is a more proactive point to the human resource management within any organisation that Mitsubishi will do business with in the future. So rather than inhibit it, it's something we will be promoting.

MR BANKS: How much difficulty for Mitsubishi have these recent stoppages caused in component suppliers? Again, I'd be interested in your view and I will be asking the other assemblers as well, as to how those stoppages had affected them.

MR BREUGEM: I'll be very frank with you, the two in particular - the Walkers dispute and BHP - were significant. The Walkers dispute - we continue to build cars without parts for one reason only and that is that we had a ship to meet for an export requirement and as Tom has indicated, exports are critical to the future of our company. So with the help of our workforce we managed to recover those cars in time and when the dispute finished we made that ship. The BHP dispute - I was actually overseas during that one - it did impact on us. I think we had one day we had shift to accommodate the BHP dispute and, of course, some disruption down the line as well but, again, the export requirement was a critical factor in our decision to keep going.

I think the other thing is that it's not so much the fact of the shutdown; it's what you have to do to manage the dispute during the currency of it. It drags so many people away from the functions they're normally there to do, just to try and keep the place going, that it is just a huge disturbance on the effectiveness and efficiency of the organisation. So even if we get through, there's still a cost. We don't actually quantify that cost but it is still a big cost.

Just for the commission's understanding, at Mitsubishi one of the reasons that we're able to address some of this is that we - through our enterprise agreements you may have noticed that we've introduced a nine-day fortnight. That nine-day fortnight provides us with flexibility, so that in the case of a dispute which affects our supply chain, we are able to shift days around. So from our point of view we can generally recover a lost production day by just moving a day here and saying, "Okay, take the day off and we'll work the day later," and there is no impact on the employees' wages and we try to sustain our production level.

I think the issue is that the last two disputes have created disservice, because our reliance on exports has got to the stage now where that day has to be worked within the currency of when the ship arrives to get those cars. So whilst we've generated a degree of flexibility to manage it, it's something we don't like using regularly, clearly. Just in case it's a wonder why can Mitsubishi sometimes keep going, it is because that's how we do it. We have some flexibility, that the others don't, built into our process to assist us in that regard.

MR BANKS: Yes. I understand that in relation to Walkers and the exhaust, that you were able to actually assemble cars and fit the exhausts later, which I'm not sure the other manufacturers could have contemplated. In some respects I guess you've got a little bit of insulation from some of that vulnerability that impacts on the others

who are outsourcing a larger proportion of their vehicles, but how would you see the future if these -you know, we've had mention of the prospect of further EBAs being negotiated next year, and stoppages and so on. How would you see the future for Mitsubishi if this was happening more systematically with your upstream suppliers?

MR BREUGEM: It's simply unsustainable. You can't run a company or an industry like ours on the basis of frequent stoppages. It just doesn't work. Reliability is the key factor in terms of performance. To win an export market, it's very hard to win it and it's very easy to lose it. I remember when I joined Mitsubishi many years ago that the then CEO regularly came back with perceptions of overseas shareholders and various customers of the industrial relations environment in Australia and it wasn't very good.

During the 90s I think generally we made significant improvement. We're undoing all that good work right now. It's not a good environment and, as I said, if there is any belief that there was a failure to deliver on a regular basis on an export component, then you can lose that market. So people need to understand the consequences of what has happened. It simply is unsustainable.

MR WEICKHARDT: When you benchmark against the other companies in the group internationally, is the level of disruption that's being experienced due to either industrial action in your organisation or in your suppliers' organisations worse than those occurring internationally?

MR BREUGEM: I've got to be honest, it's something we haven't actually addressed in terms of a benchmark issue - the stoppages. From our point of view we haven't had any. I guess lately, because of the regularity of the event, our shareholders are aware that maybe we're not stopping but there's a threat to production and it has started to cause the comments to come. They are aware, they work at the auto industry around the world, they know what is happening, but it's certainly something within the Australian system that supply chain management leaves a lot to be desired, from their point of view, at this present time.

MR PHILLIPS: You certainly don't get it overseas. You don't get it in Japan and unless the problem (indistinct) the US and that seems to be running fairly smoothly. (indistinct) any issues over there (indistinct) but we're fairly unique.

MR WEICKHARDT: Can you elaborate more generally - apart from the issue you've referred to in terms of training and some of the other things you've put in your submission as to the way forward - you see this issue is going to be tackled most effectively in Australia?

MR BREUGEM: I wish I had an answer. I agree with some of the

recommendations that you have made and the comments you have made in your position paper. Frankly speaking, a lot has happened in 10 years in the industry within the union. There has been significant change within the unions that is perhaps not recognised: the amalgamations that have taken place, the change in union membership issues and the Workplace Relations Act has thrown a number of other issues into it as well. The nature of the industry is changing, so I guess we have to look at the framework and say, "Does it fit the model that the auto industry is trying to cover?"

Simplistically, the issue about an industry union gets raised. Would that solve the problem? It might. I think it would be a preference to have one union and certainly, just coming back from Europe, that seems to occur in Europe - there is one union operating within the industry - certainly a dominant union. But that's also in the context of different laws and regulations. Again it comes back to the leadership. You can have anything you like. It's a matter of the leadership that operates within that particular framework. Unless they have a common goal in the view of the industry and what needs to be done within the industry and the impact of some of the decisions that they could make, then you're still going to have that problem.

I guess from our point of view and hopefully, I think, certainly all the others, I think we try and do a lot of work with our employees to understand our needs and our objectives and what we need to do and the ramifications of some of the things if we don't achieve them. I've got to say that there's probably a lot of improvement we can make in that regard as well, but we have a fairly challenging road forward to bring this model - not only build this model, but obviously this is an opportunity to rebuild our company and to make it economically and internationally sustainable and viable. So we need to engage our workforce in that process and we need to engage the union in it as well. We do a lot of work to make sure that happens, and it is - I have to say from my position, 20 years in industrial relations, it's the understanding of the leadership of the union and what needs to be done is a key factor in anything you do.

As I said, I don't have the answer but there certainly needs to be some dialogue about what is happening at the moment between all the interested parties to see what the outcome can be. On the one hand we have got the union asking for an approach to achieve their goals, and perhaps the employers are saying, "Well, we're going to go the other way and change the act to strengthen the provisions by which you can't achieve your goals" - so somewhere there has got to be a coming together.

MR BANKS: Maybe the entitlements issue has sort of loomed large in some of these stoppages and disruptions. There are different views on that. Some would argue that they should be appropriately thrashed out at the enterprise level. Others would see it as a bigger issue than any particular enterprise you would have to deal

with by itself, but I just ask you to comment on that.

MR BREUGEM: Which one, Gary?

MR BANKS: I am talking about the question of (indistinct) being the AMWU's version of it - but the broader issue of entitlements and redundancy provisions in particular.

MR BREUGEM: It's a very difficult issue to argue when you talk about employees' entitlements. No-one is going to say that there shouldn't be something to protect where an industry does go into liquidation, or a company goes into liquidation. That is something you can't solve at the enterprise level. The government has put in the gears program, it's currently a regulation. Maybe it doesn't meet all the requirements that the union would like to satisfy itself, but it has taken a position. Perhaps there is more discussion to be taken about the parameters of that.

I think also unfortunately in Australia the issues come at a time when we have seen some collapses, which lends weight to the issue that this is something that needs to be taken on board and run with. Again, I think people need to stand back and say, "Is that a reality?" Statistically, how many people are actually affected by a company going into liquidation and not receiving their benefits, and are we trying to kill an ant with a sledgehammer when we don't really have to. Again there needs to be dialogue but, at the same point, I don't think it is assisted by the unions putting in what I would perceive to be extra claims, which add costs. On the one hand they are trying to protect the workers' entitlements but actually what they are trying to do is increase them. Therefore that is where you are going to get the employer saying, "No."

So what are we trying to do: to protect existing entitlements and how to protect workers if a company does go into liquidation is something, I think, no-one would argue with. To try and do it across an industry and lift the benefits across the industry and put additional costs into companies is a different issue altogether.

MR BANKS: I don't think we have any more questions. My understanding is that you will come back to us with a more developed submission in response to the position paper. Is that right?

MR COSGRAVE: Yes.

MR BANKS: It may be that when we get that we might find that we need to get back to you and ask you a bit more about it. Were there any other comments that you wanted to make this morning?

MR PHILLIPS: I think we have finished. Thank you very much.

MR BANKS: Thanks again for attending the inquiry. We will break now for a few minutes. Thank you.

MR BANKS: Our next participants this morning are the United Trades and Labor Council. Welcome to the commission's hearings. Could I ask you, please, to give your names and your positions or affiliations, please.

MS GILES: I'm Janet Giles, the secretary of the United Trades and Labor Council in South Australia.

MR EVANS: Tony Evans, industry development officer.

MR MacRAE: Boyd MacRae, LHMU shop steward, Bridgestone.

MS COOPER: Carolyn Cooper, Kirwin cleaning industries out of Mitsubishi, AMWU.

MR BANKS: Thanks very much for attending this morning and for providing a submission which we've had a look at. Why don't you give an overview of the points you want to make and then we can ask some questions perhaps after that.

MS GILES: I will just start by talking about the council and who we're representing. The Trades and Labor Council in South Australia is the peak body of the trade union movement in South Australia. We have over 30 affiliate unions representing about 100,000 union members. We represent the broad issues facing working people in South Australia. I've got a particular interest about the future of the automotive industry and the components industry that come off that industry.

The unions affected directly by this commission hearing and who we are representing this morning are the Association of Professional Engineers, Scientists, Managers of Australia, the Australian Services Union, the Australian Manufacturing Workers Union, the Australian Workers Union, the Communications, Electrical and Plumbing Union, the Liquor, Hospitality and Miscellaneous Workers Union, and the Construction, Forestry, Mining and Engineering Union, which are all quite large and significant unions in this state. The submission that we're giving this morning is a collective view of the union movement in South Australia and that's the basis of what we're talking about this morning.

MR BANKS: Good, thank you.

MS GILES: In summary, the position we hold is a pretty straightforward position. The UTLC's interest in the inquiry is the living standards and employment prospects of South Australians. We want to draw particular attention to the impact of the auto and components industry in South Australia because we believe South Australia has got particular issues and we want to highlight those. I know the ACTU and the AMWU in Melbourne will be giving further evidence next week but we want to

focus specifically on what's happening here in this state.

Our submission also talks about the impact of the 1990s in South Australia due to the effective tariff phase-down. The impact this had was very negative and we trailed the national economy by about 1 per cent in a year during that time. The loss of jobs and the significant change in the way that industry was then focused very much around key industries, it actually had a negative impact on the industry of South Australia much more than in other places of the country.

In recent years our manufacturing sector is showing signs of new growth and that is largely driven by the automotive and wine export area, which are our two key industries here in this state. In fact, that is one of the reasons we are so concerned about the Productivity Commission's paper and about the issue of tariff and industry assistance, because South Australia is so dependent on the automotive and the wine industry in this state that any serious detriment to the automotive industry would see the whole economy affected very significantly.

As your paper concedes, there is little to be gained by further reductions in industry assistance. However, there is potentially a huge amount to lose here in this state, particularly because we are so highly dependent on a very small number of industries and the automotive industry is probably our key industry here. Our position paper really goes to the importance of manufacturing in South Australia, and I have talked about that. But there are other aspects of it: one in every seven South Australian in the labour force is employed in manufacturing and the diversity of manufacturing isn't here to the same extent that it is, say, in Victoria. Secondly, the impact of cuts to industry assistance in South Australia we believe will have a broader impact here than in other places. That is identified in our discussion paper.

Your paper acknowledges that tariffs and non-tariff barriers in our region are still high but rejects the argument against reducing tariffs in Australia. We don't accept that position. We believe that the maintenance of tariffs and industry assistance in South Australia and Australia generally is very important - to be seen in that regional context - and the tariff and non-tariff barriers of the region. Your position paper also acknowledges that the loss of Mitsubishi would have serious impacts on the South Australian economy and local employment, which is the key point that we're trying to make.

Psychologically, too, in terms of the impact of the car industry and the threats of the car industry that we've seen over recent years - as soon as it hits the media or the public attention that there may be a problem with the car industry, the whole of the South Australian public and community know the impact of that and it has a serious psychological effect on our state. For that reason, as well as the other reasons, we believe that we need to have some security about the future of the auto

industry.

In conclusion we are saying that there's no need to lower the automotive and components tariffs below the current level of 15 per cent, but we acknowledge that many industry stakeholders have argued that the lower level of 10 per cent will apply from 2005. We don't believe there should be a reduction beyond that, and we believe that the same level of industry assistance needs to be maintained for the reasons outlined in our paper. I would just like to hand over to Tony now who is our industry policy project officer to add anything that I may have missed, or to elaborate on anything.

MR BANKS: Good, thank you.

MR EVANS: I will just say at this stage that we have been to these inquiries before to argue the position that regional economies ought to be considered by the Productivity Commission. In 1990 we put a similar position to you - not exactly the same position - however. In 1990 - to the then Industry Commission - we agreed that there could be some phasing down in tariffs, but the tariff level was then 40 per cent. It is a very different story now that it's 15 per cent. We're not saying that there is any fat left on the bones on this occasion; we're saying that there is very little room to reduce assistance to the industry and avoid, at the same time, the impact on a vulnerable regional economy like South Australia's.

One other thing I would just say at this point is that we haven't been able to get a satisfactory understanding of the impact of the commission's preferred options for tariff and other industry assistance on South Australia. We know that the commission engaged in the various economic modelling and has reported that, and we've had a look at that economic modelling. We're aware also that other parties are going to produce some reports about the potential effects of the commission's preferred options.

In the end, we couldn't make an estimation of what the preferred options mean for South Australia. So what we did, as Janet said, is looked at the 1990s and said, "Well, there's our model of the impact of tariff cuts." We looked particularly at the ABS national accounts, the state accounts, which were referred to in our paper - without adding the - the 5220.0 is an ABS catalogue number. Apologies for that. We looked at that, and we see that the results for the South Australian gross state product during the 1990s was an average, I think, of about 2.5 per cent growth per year. The national economy grew at around about 3.9 per cent per year over the decade, and we'd say that most of that 1.4 per cent - and I think those numbers were revised, which is why we said probably 1 per cent - most of that 1 per cent in differential growth comes from - the tariff close-down comes from the decline in manufacturing in South Australia over that period.

So that's the correct result of the phase-down which, as I say, in 1990 we supported. We didn't know what was going to happen in the 1990s. I suppose having another go at the 1990 inquiry, we would have said, "Well, perhaps we ought to be a bit more cautious." We certainly seek a more cautious approach from you on this occasion.

MR BANKS: Good. Thank you.

MS GILES: Boyd is going to speak about his experience at Bridgestone.

MR MacRAE: On behalf of the automotive components manufacturers workers in South Australia, I'd like to give you a message: no more tariff cuts. This message is born out of issues now facing all Australian workers and, to give some examples of these issues, I would like to use my own workplace at Salisbury in the northern suburbs. We believe the reduction in tariffs today has developed poor work ethics amongst workers at Salisbury. This has slowly developed over a period of time and has occurred despite some significant achievements by Bridgestone workers. The tariff issue relays to these employees a great deal of hopelessness. Despite what efforts they make to improve the company's position, they will always be threatened: threatened with their job security, threatened with their financial futures and threatened with the standard of living.

These threats are dictated by an inequitable trade environment. At the Salisbury plant, tariff reductions were partially responsible for the lack of motivation and morale, which impacted upon high absenteeism, high injury incidents and low production. The impact of that was a retrenchment of 120 workers in August 2000. Workers now are still under constant pressure to push themselves harder to succeed in a global market which is tainted with inequitable economies. We have to lift the morale of manufacturing workers in this country, not just in the northern suburbs but across South Australia entirely. We have an obligation to this country to ensure that all manufacturing workers have the opportunity to work without outside influences affecting them.

If you take away the workers' ethic of digging in and having a go, then you take away their drive to care about the work they do. I have come to you today on behalf of workers in the automotive components industry to ask you to allow us to manufacture goods in this country free from global threats, free from inequitable tariffs, so that workers in this state and in this country can get on with becoming the most dominating manufacturing country in the world. Show workers in this state that you have their support. Show that they have your confidence in them. You can do that in joining them and saying, "No more tariff cuts."

I've worked at Bridgestone now for some 13 years. When I started at Bridgestone I was put in probably one of the dirtiest jobs I've ever seen, in the banbury, which basically deals with a lot of carbon black. But I enjoy going to work every day. I get up at 5 o'clock. I work three shifts, rotating. I enjoy going to work because of the workers that I enjoy going to work with. In the early 90s when the country went into a recession and the company went into some hard times, the workers at Bridgestone Salisbury dug in, and they dug in hard to get the company out, and we did that and we achieved that. It was that camaraderie and the skills of those workers that made Bridgestone come out of the 90s above the hurt that other companies went down in. I think today it's a different story.

I think the attacks on Australian workers through a variety of issues, of influences that they have no control over, will be the demise of workers in this country, and for the life of me, and for the workers at Salisbury, I cannot understand why people or why organisations or why companies would put Australian workers in that position where sooner or later the majority of them will be on the social welfare system. I'm 42 years old. I've worked hard all my life. I enjoy a reasonable standard of living. I'm not rich; I'm not poor. But it would be very difficult for me to find other work at my age, yet the dedication and the love of a job that I've always had means nothing in the scale that tomorrow I may not have a job. So I implore you on behalf of workers at Salisbury in the northern area of South Australia, and Australia, to join us. One line: no more tariff cuts. Thank you.

MR BANKS: Thank you.

MS GILES: And Carolyn Cooper.

MS COOPER: I'm here just to represent mothers, wives, grandmothers and female workers in the workforce. I work for an outsource company at Mitsubishi, which is Kirwins, and I'd just like to tell a little bit about my experiences over the 17 years that my husband has worked for Mitsubishi. In 1996 my husband was the sole income earner for our family. That year Mitsubishi cut back all overtime. My husband and other workers lost up to half their incomes - and I mean half - overnight. The effect that had on our family and the rest of the local community was devastating.

The stress and financial burden on our family was so great on us that we tried to sell our home to ease the financial burden. Lots of people in the street sold their homes because of cutbacks in the auto industry, and I'd like to explain that. We built homes - and there were 40 houses in my street - but today there are only six houses with the original builders that built the homes still living in them. The rest sold, and they are not all from Mitsubishi, they're from other component factories. We eventually sold our house and lost \$50,000 on it. The effect of my husband Michael

losing his overtime - the effect it had, of his losing his overtime, that meant at 45 I had to return to work in the auto industry in a very low-paid job to help pay the bills. Without me returning to work, we would have definitely gone under financially. This was the effect of losing just his overtime.

The car industry is vital to South Australia. I live in the south, and there's very little industry in the south at all that is not linked to the auto industry. If tariffs are reduced and the car industry folds, the devastation that our community would suffer would be too unbearable to consider. I love Adelaide, and my family is here. I am a grandmother, mother, wife and a worker. We are not wealthy but consider ourselves okay financially. If the auto industry collapsed and we lost our jobs, we would lose everything. I do not believe that we could find other jobs in Adelaide. We would have to look interstate.

A lot of people at Mitsubishi are approaching 40 years of age. Where would they get other jobs? Realistically, they would go straight onto the dole. What effect would that have on their families and their children? For the last 10 years we have not felt secure about the car industry. I feel certain that if the tariffs are removed Mitsubishi will fold. This would have a rippling effect on all other workers in the auto component industry. I urge you not to remove the tariffs. Please don't let South Australian workers become the next bilbies. They are now extinct in South Australia. I feel we're heading down that path, and I am speaking as a mother at the moment, at home and having to provide for my family.

I work in a very very low-paid job as a cleaner in Mitsubishi and I am part of the outsource, and the outsource is about to be outsourced. I earn \$12 an hour. I do a very, very hard day's work, sometimes 10, 11 hours a day. I start work at 5 o'clock in the morning. My husband has some nights not seeing me until 8 o'clock at night, because they will not hire any more people because the company said they are on the borderline, with what they are getting paid, to keep us there.

My husband has worked for Mitsubishi for 17 years and, as I said, for 10 years I have worried every year, "Is Mitsubishi going to stay there?" Every year I have heard Mitsubishi workers' worries and concern over the tariffs and have discussed it at length with my husband. With the outsource that's happening in Mitsubishi, which I think people have to be aware of, they say that we need the outsourcing to keep them there as well. If we are outsourced at \$12 an hour for our work the people who are going to take our jobs are coming into an industry which is a lower income they will be getting than myself. They do not get superannuation. They do not get any benefits. They get two hours a day at work and they have to do the work that I do in eight.

That is what is happening to the industry and I don't know what you feel is the

best for it but right at the moment we don't see any light at the end of it. All I can see is if the tariffs go my husband will lose his job. My job is there to help boost up his income. Please don't take his job away because we need that, because mine is not assured and I hope his is. That is all I can say at the moment on that.

MR BANKS: Thank you very much, all of you, for those comments. In the light of the comments you have made I perhaps should emphasise that the commission shares your concerns and indeed I think we try quite hard to get a balance in our recommendations that would meet a number of objectives, but in particular try to minimise the downsides or maximise the upsides from the industry by setting a course that would give the industry some certainty over a significant period of time and one that would provide - I won't go into the arcane detail of it - through the ACIS subsidies a substantial amount of money that would enable the industry to make adjustments that it needs to make.

You are looking at minimising the scope for disruption and downsize. We had particular concern about South Australia and Philip and I came to South Australia early on in the process and we went around and talked to a lot of firms - Mitsubishi, but also component producers and so on - we talked to the South Australian government and others. As you say, we had some modelling work done and other quantitative work to get a sense of what was likely. As you say in the submission, we did look at the question of whether if Mitsubishi exited, what implications that would have for South Australia, not because we thought it was likely but because it had been discussed quite a bit, as you say, over a period of time and therefore we needed to get an understanding of what the worst case scenario might be.

That modelling suggested it would have a significant impact, but there are other factors at play, including the fact that there is some expansion through Holden that is occurring in South Australia as well. But coming back to the case of Mitsubishi, that was why I asked Tom Phillips this morning how he saw the future for the company. What he said to us and what his colleague, John Cosgrave, said was that in factoring in their investment plans they take into account - and it would be silly if they didn't - a range of scenarios for what might happen to assistance in the future.

With the package they have received recently and their ability to produce the new model and export to the USA, I think it is fair to say that they seem to be quite up-beat in terms of the future for the company, but are also conscious that it's a pretty competitive world. What we are hearing from most of the industry is that exports are a very important part of a strategy of success for the industry in the future, and so that export part of it - I mean, Tom was again, I thought, relatively up-beat about the scope to expand export production.

I guess that's the background against which I wanted to comment on your submission. We certainly are trying to get that balance. I take the point that Tony made - we are not looking at 45 per cent tariffs any more - and I think we have acknowledged that in our report and see the issue as somewhat more subtle and complex than it was in the old days where that consumption - that cost to consumers sort of knocked everything else out in terms of how important that was and it was a bit of a deadweight not only of consumers but user industries, as well. Things have changed significantly over that time.

Just to pick up a couple of points - Philip may have some questions as well - of clarification on your submission. Notwithstanding this excellent T-shirt, we didn't actually recommend zero tariffs; what we did say was that over a period of time - and we talked about a time frame going out to 2015 - we put forward some options that would bring tariffs down to the general rate for manufacturing and we used the term "at least through to 2015". We didn't make any recommendation or even include an option that would see zero tariffs. We would argue - and maybe we should make it more explicit in our final report - that we would not envisage zero tariffs for this industry ahead of what might happen to the general manufacturing. It's really the question of that differential and to what extent it can be justified that we were talking about in the report.

The other point of clarification gets down to this question of what you have described as "notional economic efficiency" which comes out of the sort of modelling work that we've done. I think all sides have had healthy scepticism about modelling in the past, including the union movement. Certainly what the modelling does show is that it gets back to that point with the lower tariff, the so-called - what they call in the jargon, you know, the static elecative gains - from further reductions are quite small. We went to some pains in the report to look at what other dynamic issues were important and there were some on the positive side and some on the negative side, which we have looked at, and adjustment is a significant part of that.

I just wanted to make those observations to put the context of the report. We certainly haven't produced a report or recommendations or options that would in any way pull the rug from under the industry. We have taken a bit of heart from the way in which Mitsubishi have responded this morning. Clearly they don't agree with all of our proposals and would see it as a basis for building some additional options and so on, but I didn't pick up from them a sense of doom and gloom coming out of the options that we have put forward. I will stop there and give you an opportunity to comment on what I have just said, if you like.

MR EVANS: If I can just follow that precise point about Mitsubishi. We are at pains in our little paper to say that we think Mitsubishi will be manufacturing in

Australia for a long time. I think that's what Tom Phillips said, as well. We have had plenty of concerns about Mitsubishi over the last number of years, as have the workforce, but the agreement with the state and federal governments to bring forward nearly a billion dollars of investment I think means that Mitsubishi is going to be here.

The question is how many jobs there will be at Mitsubishi. At the moment it looks like there will be additional jobs. The question is then: how many jobs will there be in the component sector? What we've said in our paper is, all right, this commission is saying that they'll go easy on the industry this time and only go from 15 per cent now down to 5 per cent in 2010. With due respect, you do say in your paper that you think that 2015 ought to be the end point of assistance to the industry.

MR BANKS: Just to clarify that, Tony, I think what we said is differential assistance. If the general rate at that time was 5 per cent, that would be what we imagine the rate would be for automotive, as well.

MR EVANS: That's one way to slip away from it, but of course two years ago - or last year, I forget which it was - when you had the general review of tariffs, you said to the government in your report that the general 5 per cent tariff rate ought to be ended immediately because it imposes costs on the economy. Presumably at some stage or another before 2015 you'll have another review and you'll be asked to present another review, or your predecessors will be asked to do another review of the general tariff, and you'll recommend that it be reduced to zero again.

So at some point or another some government is likely to say, "Well, they keep on recommending that we knock out the general tariff, so I suppose we might as well," and then the differential will be the differential between the rate in the car industry at that time - be that 10 per cent, 15 per cent or, if we had our way, 10 per cent or 5 per cent - and the differential will then be the total amount of the tariff. Under your recommendations, with the differential being ended, it would mean a zero tariff in the car industry.

I think that's the way a reasonable observer would see it. It might not be the way the commission sees it. It might not be the way that's what is intended, but I think a reasonable observer would say that's what the end gain is.

MR BANKS: I take those points. This is a separate inquiry focused on automotive and the points you make about the general context of what happens to manufacturing, I think is right. I think it was Carolyn who talked about loss of overtime and the big impact that had on her family. I think you said your husband, in losing that overtime, had lost something like a third of his - - -

MS COOPER: No, he lost actually half of his income.

MR BANKS: Half his income?

MS COOPER: Half his income.

MR BANKS: Is that a typical thing within the industry, that overtime looms so large as a proportion of total income?

MS COOPER: The difference is my husband is a permanent night-shift worker, so it was quite an impact on us, because his overtime was even higher than perhaps some of the production workers. He's a tradesman there so he was on a slightly higher rate. People think that losing half your income or whatever in your home is - you know, you've still got a fairly reasonable wage at the end of it anyway. But when you've been living many years, and quite happily, in the company on that income it's very hard to lose it - and I mean overnight. It wasn't something that was gradual, it was overnight. He went into work one day and was told that it was not going to be there, and it has not been there since 1996. So it has got an impact - - -

MR BANKS: Sorry, why did it stop? Is it because that - - -

MS COOPER: Because of the economic turndown. You know, the downturn in the economy.

MR BANKS: Because production dropped and they weren't using that shift to the same extent.

MS COOPER: Yes, that's right, and it dropped dramatically.

MR BANKS: I was going to ask, Janet, in the submission - and it may relate to this issue - it talks on page 3 about the importance of manufacturing to South Australia:

The auto components workplaces provide relatively secure jobs with an average annual wage of 44,000, around 7000 above the state average.

Is that because of the overtime factor, or does it relate to the relative skill-mix within auto, compared to the average - - -

MS GILES: I think it relates to a few things: one of them is the relative skill, one of them is the level of unionism in that industry and the traditional place of unions in that industry. But also, I think it is in comparison to other work in South Australia, which is largely low paid and insecure. I think that would be my response to that.

MR BANKS: So when you say "secure," I suppose you're saying it's all relative, and it's secure relative to what you perceive as much more insecure work elsewhere.

MS GILES: Yes, so we would say that the jobs in the auto and components industry are very important for some sort of state security in relation to employment conditions generally in the workforce.

MR WEICKHARDT: Perhaps I would just make a couple of comments and then ask a question. The comment would be, first of all, that I totally understand and empathise with the issues and the pressures on the manufacturing industry and the fact that it has impacted on a lot of people in Australia. Nonetheless, the government's desire, which I also empathise with as a consumer and probably all you do as consumers, is that they expose consumers to opportunities to purchase goods at the best value for money, too, and there is a recognition that the support for industries and the support for the car industry, is significant and there's a significant cost that consumers bear. So the terms of reference specifically asked us to look at what is good for the overall economy and what is good for consumers, as well as what is good for the industry.

What we have attempted to try and identify by talking to people is the sweet spot that gives consumers and the economy the best deal, and it gives industry the best chance of growing and surviving. That obviously implies change. It implies change because if consumers are to get a better deal at the end of the day the industry has to continue to reduce costs, because the industry around the world is reducing costs, and that implies change, which I know impacts upon people. The upside is that if, as Tom Phillips says, they are successful in exporting, there is an opportunity for the industry to grow.

We saw some pretty exciting examples of that in this state, of companies that, I guess, 10 years ago wouldn't have even dreamt about exporting and being competitive in export markets. We saw examples of companies doing that. One of the things that I suppose comes out from a lot of the discussions that we had, and you heard some of the comments that Mitsubishi made, was that there is a real concern in this industry that operates with very small stock and "just in time" processes of the sort of disruptions that occur from time to time. I would be interested, because there is sort of a tendency in these situations to say, "The unions are the problem." Putting the other side, the unions can be part of the solution. What is it that you think unions and employees generally can do to help this industry become more productive and world competitive?

MS GILES: I think that was really interesting, too - the responses from Mitsubishi in talking about and acknowledging that, as a company and generally in the industry, the human resource and management of people needs to be done better. When you

also look at the stories of Boyd and Carolyn, I think we need to look at it in that context. Often when we talk about the industrial relations area in this industry and the manufacturing industry the story that is not told is about the pressures on individual workers in their workplaces - what leads to disharmony and what leads to conflict?

The pressures that have been on workers in the car and component industries in South Australia are to keep production up at a time when there have been massive job losses, and there have been things like reduction of overtime, reduction of salaries, increased working hours and so on, and unions have been part of the process of working out arrangements around keeping the industry here. We have got to a level now where some of those issues are really crunch issues in terms of where workers go next. There is only so much you can take out of someone before they start saying, "Look, come on, I want to put some boundaries around my work." So that's the sort of context we would see. The industrial relations generally in South Australia in this area has been cooperative, and that was acknowledged by Mitsubishi as well. South Australian unions have good industrial relations with the key industries here, and largely it has been done through the key processes of consultation, involvement and good processes that involve workers at their workplace, shop stewards, delegates and unions in coming to those arrangements.

That sort of approach in the past has worked. What we're concerned about is that some of the recent problems have come from a more confrontational approach to industrial relations, both by some parts of the industry, but specifically from the federal government, and a real push again at workers and their conditions, and pushing them to a position where they really have got no option but to use some of the processes that in the past haven't had to be used, because there were other processes put in place to come to agreements and to negotiate properly. I don't like to talk about industrial relations, and I don't think that the commission should think about industrial relations just in terms of disputes, but in terms of what is actually happening in the workplaces, what the pressures on workers are and the fundamental right of workers to seek improvements to those in the proper industrial processes between themselves and their employers.

I think that what we're seeing are the sparks, because of a more confrontational approach and because of the incredible pressure being put on employees because of the pressures being put on the industry. So we'd see industrial relations directly linked to the need for the support of the industry and continuation of the tariffs.

MR MacRAE: Workers need to know that their jobs are secure. They need to be able to focus on the job at hand. They need to understand that the job is going to be there for them for as long as they need it and, at this point in time, that's not what is happening. Workers are threatened by the fact that they feel their jobs aren't going to

be there. Their minds aren't focused on the task at hand.

One thing you mentioned - about what workers and employers can do to go down that path. That is one thing that we've looked at Bridgestone at Salisbury. We have consultative committees and we look at basically trying to get to the end of the road as successfully as possible. It's hard. It is hard and, yes, there are going to be disruptions. It's like a marriage. You're always going to have an argument at some point in time, but it's getting over that argument and getting on with the job at hand that is what's important. If there's no hope at the end of that argument, then it's never going to get anywhere.

We need to understand, from the workers' point of view, that the people who dictate things like tariffs and things like job security are there on our side so we can give it a go and we will give it a go. You know, I can't stress enough that we could really make this country successful if you just give us the tools necessary to do it.

MR WEICKHARDT: I think the government's - and indeed the Australian population's - best chance of those jobs being secure is that we become, as a nation, world competitive in what we do. The system that we work on which provides us, as consumers, opportunities to buy goods that are attractively priced and have got good features and benefits is a competitive environment and, just as the guys at the Commonwealth Games are having to swim faster or run faster this Commonwealth Games to win events, so people overseas are doing things smarter and changing and we have to too. There's some downside to that, but there's some upside to it because, if we succeed on our skills and innovation and we are better than others, then we get the benefit from that.

I understand the concerns about the impact on people, but I guess what we've got to try and find together is a way that gives the industry and the employees in the industry the best chance of creating that environment where innovation and working smarter - not necessarily working harder - gives a better and more productive environment and that's what we've been trying to see. I don't think there's anyone that we've spoken to in the industry who believes that confrontation is going to deliver the right result. In fact all the employers we've spoken to have talked about their genuine desire to try and work together with their employees but, as Mitsubishi said, often those people see themselves - even where they've worked very hard with their employees - caught up in things that disrupt their workplaces outside their control and it's a real problem for Australia and it's a problem for the industry.

MS COOPER: Do you feel that, if you're happy in your job and feel secure in your job, you work better?

MR WEICKHARDT: Of course you do, but I guess there's a creative level of

tension that, if you've got an absolute guarantee that everything is going to be hunky-dory forever, you probably don't have that level of tension and pressure to do something differently and better next day.

MS COOPER: We've had that tension and pressure for 10 years at Mitsubishi and excuse me for being slightly negative about Mitsubishi's outcome. We are very excited about what's happening at Mitsubishi, because it looks like my husband is going to be there a little longer. I'm not excited about the tariffs. I do feel that it will have a severe effect on Mitsubishi. I also feel, as an outsource worker, I work every day under severe stress of worrying whether my job is going to be there tomorrow, because Mitsubishi tell us constantly that if things aren't going well for them the outsource people who they call in are the first to be outsourced, which is about to happen now.

I am very grateful to the union, because the union themselves - when the cleaners got outsourced at Mitsubishi - acted on our behalf and they took most of the other cleaners from Mitsubishi, you know, to the company and negotiated for them and got them reasonable incomes and security. That security and everything is about to be lost, as I warned you of others. With myself, I'm lucky enough to have a husband still working in the auto industry at the moment. If I had no security in my job - which I don't have - and I feel there's no security in his job, how do you think that makes a family and a home each night when you go home?

For 10 years, I've worried about the paying the bills. So we opted, as I said, to sell our house so that worry wouldn't be there any more. We now live in a granny flat at the back of my 89-year-old mother-in-law's house. We are content to stay there because I still do not feel confident enough in the industry with the tariffs to go and buy again. A lot of people have sold beautiful homes and moved into homes that are under \$100,000 just so they can feel secure enough if their jobs are gone. That worry is there and it's going to stay there for South Australia.

I'm originally from New South Wales and I moved to Adelaide for the lifestyle. That lifestyle is just slipping away from all us. Please, you may feel that 15 per cent, you know, we can drop - on listening to Mitsubishi today - but as a family we don't feel it can and I don't think we're stressing quite enough to you how important it is to us to keep our jobs, because here in South Australia my friend, my best friend, they're all from components and they're all feeling their life the same way as I am, because - I don't know how it works in your house, but I have to juggle the money. I have to work it out at the end of the week and I have to pay bills and at the moment I don't see that light at the end of the tunnel which the companies are looking at. I don't see - which the government tells us - we'll be there. I would like you to show me that it's going to be there some way by leaving the tariffs where they are.

MS GILES: Can I just challenge the link between competitiveness and security? I think that is a really important issue and I know that we could go on at great length about it, but if you look at some of the increased insecurity in the industry due to a pure focus on growth and competitiveness and not actually looking at how we can sustain the industry, because of things like increasing labour hire in the industry - is significant and the increase in casual work is significant. So increased competitiveness did not lead to increased security for the people working in the industry. I think that proposal needs to be challenged.

I also want to do something else too, which is to talk about your separation between consumers, the economy and industry and point out that in South Australia, with a huge proportion of people working in the auto and the component industry, the consumers and the people in the industry are actually the same people. They're not separate. So when you're talking about the consumer, we'd prefer you to also think about them as workers in the auto industry in a South Australian context.

MR WEICKHARDT: But people from Western Australia come along to us and say, "You should have no tariffs at all, because we don't make any cars in Western Australia and therefore we pay a whole lot of money and we don't therefore employ as many people in Western Australia as we could do." That's where I'm saying there is this balancing act.

MS GILES: I'm sure the members of the appropriate unions wouldn't be saying that.

MR WEICKHARDT: Western Australian consumers certainly put that point to us in a submission.

MR BANKS: Could I move on to one other issue - you would have heard Mitsubishi talking a little bit about, in the context of getting good productive relationships and so on in their workplaces, the question of whether single-union sites would facilitate that. I would be interested, from your perspective, in whether you would think that single-union sites would facilitate you engaging with management and coming up with arrangements that would better suit workers on those sites. Have you any views on that?

MS GILES: My experience, and our experience here, has been that the unions have worked really quite collaboratively with each other in the workplace. It's not a problem that there are a number of unions in the workplace, because unions communicate well together, and the members work together when there is an issue that needs to be resolved.

MR MacRAE: At Bridgestone at Salisbury the CEPU, the AMWU and the LHMU

shared the enterprise agreement, and we worked together along with the company to make sure that at all times the company moved forward. So there is really no anti relationship between unions at Salisbury at that site. I think particularly through the 90s when it was really hard, it was the cooperation of the three unions themselves, along with the company, that drove the company forward and stopped them from going under completely.

MR BANKS: Okay.

MR WEICKHARDT: Just as a general question, you've focused in your submission a lot of comments about the tariff issue. In chapter 5 of our document we made some suggestions that had been put to us by others about improving workplace relations and trying to improve overall sort of productivity in the industry. You haven't made any comments about that. I'd be interested if you had any comments about recommendations that we've made in the position paper in that area.

MR EVANS: As you're looking at me, I'll answer. We're leaving that to the AMWU and the ACTU. We're aware of what they're going to tell you, but we're not going to steal their thunder.

MR WEICKHARDT: We thought you might.

MR EVANS: No, we exercise discipline in the union movement.

MR BANKS: That's not a bad note to end on, I think, at quarter to 12. Were there any other comments you wanted to make before we close?

MR EVANS: We could just tell you about the T-shirts.

MR BANKS: Please do.

MR EVANS: Given that TCF is a highly tariff-protected industry, I think you will be pleased to know that we, at very short notice, rang up the Textile, Clothing and Footwear Union and said, "Can you find a unionised supplier who can provide us with an Australian-made T-shirt with the appropriate text on it?" I think it was Monday of this week when I rang the union. Then I had to go to Melbourne for a day's work and on Wednesday I rang them back and said, "How did you go?" They said, "Ring this guy down on South Road. He will get them done up for you." We rang them and they were supplied, with the printing done, within 24 hours at a highly competitive price. It doesn't seem to me that tariffs in that industry are imposing any costs on consumers, nor are they creating an inefficient industry. So there's the T-shirt story for you.

MR BANKS: They say there's no such thing as a free lunch. I'm not sure about free T-shirt, what that would - - -

MS GILES: I don't think there's a free T-shirt either.

MR BANKS: Thank you very much for participating.

MS GILES: Thank you.

MR BANKS: I will just ask, for the record, if there is anyone else who would like to appear while we're still here in Adelaide?

MR WEIR: Could I just have an issue raised?

MR BANKS: You will have to sit there and speak into the microphone and give your name, that's all.

MR WEIR: I just wondered, because of the coalition government in Canberra, are you sort of pushed into recommending their sort of line, which is low tariffs and globalisation? Do you have sort of an influence towards what the government wants?

MR BANKS: I'm glad you asked that question. The way the commission operates, and maybe Tony can confirm that, while we receive terms of reference from the government, we make up our own mind in terms of the evidence we receive, the information we get from talking to people and other work that we do. If you had in mind, in particular, industrial relations issues we've certainly looked at those separately and, if you have been following the debate, probably have said things that would be contradicting points that others within government have been making on the same thing. So our role is as an independent advisory body to provide some options and some advice to the government.

The government will look at that advice and it will look at other advice it gets. There's an automotive council that will be reporting to the government. It's a parallel process to this one. It will talk to the industry and others and end up making a decision, which I think it intends to do by the end of the year. While we are a government agency, we are an independent statutory authority and we will provide independent advice.

MR WEICKHARDT: Sorry, just for the record you had better give your name, so they know who to attribute those questions to.

MR WEIR: My name is Tom Weir.

MR WEICKHARDT: Thank you.

MR BANKS: Thank you very much for that. We will now adjourn the hearings and we are resuming in Melbourne on Monday morning at 9 o'clock. Thank you.

AT 11.44 AM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 29 JULY 2002

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