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TRANSCRIPT OF PROCEEDINGS

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 MELBOURNE ON MONDAY, 29 JULY 2002, AT 9.03 AM

Continued from 26/7/02 in Adelaide

MR BANKS: Good morning, ladies and gentlemen, welcome to the public hearings here in Melbourne for the Productivity Commission's inquiry into Post 2005 Assistance Arrangements for the Automotive Industry. My name is Gary Banks, I'm chairman of the Productivity Commission, and on my left is Philip Weickhardt who is associate commissioner appointed to this inquiry.

The purpose of the hearings is to provide those with an interest in the inquiry the opportunity to present submissions in response to the commission's position paper which was released about four weeks ago. As many of you know, the commission chose the position paper style of report rather than the more comprehensive and detailed draft report because of timing considerations. In that report, however, we have focused on the key elements, the key considerations leading to our findings to provide an opportunity for participants to comment on those before we proceed to finalise our report which will contain a more detailed treatment of a number of the issues.

We commenced our hearings in Adelaide last week where we spent two days, and after these three days scheduled in Melbourne we will proceeding to prepare our final report. We're aiming to complete that report by the end of August rather than the due date of 21 September in light of the government's own time frame for decisions. The public hearings provide a useful role to allow anyone to have a say and for others to respond. We'd like to make them as informal as possible but the act does require that participants are truthful in their remarks and a transcript is kept of proceedings. That transcript is publicly available and we put it on our web site within a few days of the hearings being held.

I'll remind the participants that all written submissions need to be into the commission by 2 August if we're to have a good chance of taking them on board in preparing our final report. I also take this opportunity, as I did in Adelaide, to thank participants for their cooperation and useful submissions thus far and we look forward to further submissions on our position paper. With those formalities out of the way I'd now like to welcome the first participants here in Melbourne - the Ford Motor Co of Australia Ltd. Welcome to the hearings. Could I ask you please to give your names and positions with the company.

MR POLITES: Thank you, Gary. My name is Geoff Polites, I'm the president of Ford Australia.

MR SCOULAR: My name is Russell Scoular, I'm government affairs manager.

MR SIMPSON: My name is Tony Simpson, vice president of purchasing.

MR BANKS: Good, thank you. Thank you very much for attending this morning and for being first cabs off the rank. Thank you also for the submission that you've provided in response to the position paper, and indeed the earlier submission which was very helpful to us in preparing our position paper itself. As discussed I'll leave it to you to make whatever overview remarks you want to make.

MR POLITES: Thank you, Gary. Today the three of us represent the 5000-odd people that work for Ford Australia. We are an industry leader in this industry in Australia. We have a 77-year history. We currently have under way investment initiatives that exceed $A1 billion. Let me say at the outset that fundamental to that level of investment expenditure, which is a record for this company, has been the broader environment in which we've existed in the last few years, particularly the importance of ACIS has been a major issue in terms of the level of investment that we now have in place.

As a company we appreciate the opportunity of taking part in the review and we trust that the too many years of automotive experience that Tony, Russell and I represent can be of some value to the commission. We're here this morning to discuss how we can facilitate the further growth of what we believe has become an extremely important and competitive Australian automotive manufacturing industry. What we're here to discuss is investment attraction, not industry protection. We believe our industry has responded magnificently in the last few years to a number of recent competitive challenges. We've made significant gains in quality, we've made gains in the exportability of our industry which is more than five times the levels that existed in 1990. We've made gains as a local industry despite the fact that Australian consumers can access perhaps the widest and probably the best value product range that exists anywhere in the world.

Our productivity levels that we enjoy as manufacturers have seen major gains and these have been driven in large part by new facility investments and the comprehensive education and training programs that we've undertaken in recent times. Mr Chairman, this is a tough industry, it's a tough environment but it's not an industry that actually walks away from challenges. The Australian automotive industry is really world-class in reaching out with leading edge R and D, technical and training linkages. The main difference with those industries of the larger car producing economies is really just one of scale. In a capital intensive industry with high fixed costs, the issue of scale does require appropriate recognition and understanding. That, together with an opportunity to grow our industry, is the basis of our submission to this inquiry.

In preparing the submissions for this review, Ford Australia has sought to build on the achievements of the industry. We have a positive vision that a well-performing industry is worthy of a globally competitive level of encouragement. The issue here is a globally competitive level of encouragement. To that end our policy position seeks to hold the tariff at the level of 10 per cent beyond 2005 to maintain the uncapped 15 per cent DFA and to maintain an ACIS program between

2006 and 2010 with a comparable level of current funding. As a company we don't actually favour prescriptive end points being determined to any of those issues at this time. The longer-term policy decisions we believe can be made later in a more appropriate framework to the one that exists at that time. We believe that this represents a sensible balance between good public policy and the commercial realism in a fast-changing global industry environment.

It recognises that there are few wider economic benefits to be gained from early changes to the assistance arrangements. It also reflects a careful response to a number of key issues. It enables Australia to abide by its trade liberalisation objectives. It ensures that Australia remains relatively attractive as a competitive location for further rounds of new model investment. It ensures the industry's viability through domestic and export market growth and it provides a positive contribution to the Australian economy.

Our policy position does not represent an absconding from the competitive marketplace. We believe we already have one of the world's most accessible and indeed one of the world's most competitive marketplaces. In fact, we also propose to step up the reform agenda. To enable the industry to operate over time at ultimately lower levels of assistance we're advocating an action agenda. We look forward to the proposed action agenda as providing a strong catalyst for government - and that means both federal and state - and industry to develop and implement a strong road map. We see it as essential to energise the reform process. Our action agenda could drive such key reforms as the creation of a single industry union, a comprehensive reform of payroll tax, better market access, including free trade agreements, and the early introduction of new fuels. With that we would be happy to take your questions.

MR BANKS: Thanks very much, Geoff. I guess perhaps a natural place to start might be to just get you to elaborate a little bit more on how you see the future for Ford. I guess Ford is a little bit different perhaps to some of the other motor vehicle producers in the emphasis on exports and maybe just get you to talk a little bit about that as well.

MR POLITES: Well, we have a unique set of circumstances as a company worldwide which really make it difficult for us to achieve a volume export program so our view of the world has to be, how do we make our business grow domestically and treat exports as a top up, if you will, to a basically viable domestically founded business, and to that end we are pursuing what we call project E265 which is a second generation vehicle for 2004 that we made some announcements of late last year. That program involves an investment of $500 million and is fundamentally an import replacement program, has the same economic benefits as an export program but basically will be sold in Australia. Notwithstanding that, we believe there are some export opportunities for that both in the short term and in the long term. However, the program is fundamentally viable based upon increasing domestic volume.

MR BANKS: I mean, you have spoken about, as part of your action agenda, significant improvements in market access and free trade agreements. Would Ford Australia see more scope for expanding exports in the context of bilateral arrangements, for example, to Thailand? I mean, how much scope would there be for Ford to export to Thailand?

MR POLITES: We see Thailand as an opportunity. Quite clearly there are differences in the two economies, in the relative sizes of vehicles. We would have a large car, they're more a small car and a truck oriented market but there nevertheless are opportunities there for relatively modest volumes. Having said that, it's an opportunity that we believe the government needs to pursue with alacrity.

MR BANKS: Good, okay.

MR WEICKHARDT: Yes, Geoff, I guess I'd like you to react a little bit to the issue you raise in your submission where you suggest that the government policy-setting should be a flexible and cautious, one unhindered by prescriptive end points and yet you suggest in your action agenda some fairly defined and specific end points and some fairly significant changes to the current environment. I guess there doesn't seem to be a complete balance here on one hand wanting, understandably, rapid action on some of those issues and yet the government sort of policy-setting to be cautious and flexible. It would seem that sometimes necessity is the mother of invention and that you don't get rapid action unless you've got some absolute prescriptive end points that are forcing that rapid action.

MR POLITES: Well, I guess the two specifics are obviously the ACIS and the tariff. Our view is that it is still quite a jump to get from 15 per cent to 10 per cent and there are adjustments that need to be made and rather than say, "Well, at 2015 we'll go to 5 per cent as an end point," our view is that we should - before we jump from 10 per cent to 5 per cent, that a secondary review needs to be made of the circumstances that surround the world at that time. I don't think anybody is really going to give us too many ticks for being first. Rather, we think we're better off just to assume that that is perhaps the direction we'd like to go but then look at it in the view of what is prevailing in the world at that time. It would be unfortunate if we had a legislated change which, at the time it was due to be implemented, the world was in a complete state of flux and totally different to the world in which we currently find ourselves.

I guess what we're saying is, we don't need to make that decision yet. We can all agree that that's where we want to get to and then let's make the decision in the cold hard light of day based upon the realities that exist in the marketplace at that time. Similarly with ACIS, our view is that the industry does need assistance at this point in time and may need some form of assistance sometime in the future. So again, rather than prescriptively end it, what we need to do is take a view that says, "Let's then review it at a point in time."

MR BANKS: Would it be unfair to characterise that de facto as sort of maintaining the status quo?

MR POLITES: I think it would be unfair, yes.

MR BANKS: Well, then, in that case, what would you see as the trigger for a future government decision, say, to reduce the tariff further? What would be the mechanism by which that decision would be made? You mentioned a review. Is that the vehicle that you see?

MR POLITES: I think there has to be a review and that review needs to take into account what is the reality of the world at that point in time. If we are sitting in an environment where everybody else is, for example, putting their tariffs up - I'm not saying that will happen but it is a possibility; I mean, the United States has shown it's not averse to using tariff policy to win votes, or whatever the reasons are, to move the steel tariff. I would hate to think that the world does move that way, but it may. If that were to be the case, then we would look somewhat silly if we have a prescriptive policy in place that says we will lower our tariffs in an environment where the rest of the world is doing something different. So the issue is we don't need to make the decision yet. So I think what we do need to do is say, "This is the plan. There will be a review at this point in time and, based upon that outcome, so we move."

MR BANKS: In a sense you're talking about what we do in terms of our own tariff being pretty much dependent on what other countries do. I'd like to just get you to talk a little bit about how you perceive the APEC situation for Australia because there is a situation in which countries have signalled what they intend to do. You've raised in your earlier submission at least, you know, questions about to what extent that will be implemented but to some extent - I mean, if every country waited for every other country to do something, then nothing would happen, which you may or may not see as desirable. But I mean, the whole logic of APEC essentially was to override that by countries up-front making decisions that would actually bind them over a significant period of time going into the future so to provide scope for certainty. So I guess, in short, how do you see what you're proposing lining up with APEC commitments?

MR SCOULAR: I think we see what we are proposing as being very consistent with the government's broader trade liberalisation strategy. As we understand it, the government has, if you like, a three pronged approach to trade liberalisation, WTO, APEC and more recently some selective free trade agreements if they can be shown to have broad economic benefits and are consistent with, I think, WTO rules. So we perceive what we are proposing as being very, very consistent with that process and with that strategy, and if anything, if you like, providing some energy and momentum, sooner rather than later.

MR POLITIES: I think the issue is, Gary, there are a lot of comments and commitments being made and I think we need to see some action on the commitments. If the world moves as everybody says the world will move, well, then maybe quite clearly we need to do the right thing. But my view is you shouldn't make these decisions in a vacuum. It is easy to sit in these meetings and say, "We will do A, B and C." The reality is that A, B and C don't always get done.

MR BANKS: I guess just the other thing to get you to talk about as to whether you would see that there would be domestic reasons unrelated to foreign tariffs as to why we may want to liberalise. I mean, we're still talking about a tariff that has a significant impost on consumers. There is a backdrop, I guess, of tariffs having come down very significantly, you know, from 57 and a half per cent which has led to rationalisation of the industry but has also led to some good things in terms of industry performance. I mean, the turn around, I think, in the last five years has been quite significant. So would you concede that there are some domestic as well as international reasons for looking at the question of tariffs?

MR POLITIES: There may well be. There may well be, although I think realistically the domestic issues probably are secondary to what the international stage is. It's really what happens internationally, I think, that lead it. We are a very small part of the world and we don't have to be first. We should be there amongst others.

MR BANKS: In terms of, I mean, while we're still staying on the tariff, you clearly see that as providing an important signal, an important rationale for foreign investment. On the other hand, in talking to a number of firms, it's clear that there are a range of other things that determine how successful we are in attracting foreign investment as well. Productivity, I mean, the bottom line in a sense is profitability. I think there was some notice in the newspapers in relation to industrial relations, for example, where head offices have questioned how things were going in strikeland.

MR POLITIES: True story.

MR BANKS: I'd like to just get you to comment on what you think are the other important issues that will determine the competitiveness of this industry and its ability to survive into the future.

MR SCOULAR: I think a number of those issues we have canvassed in our proposed action agenda, Gary, for example, our cost base. Now, in our action agenda I suppose the key issue that we've sought to address there is, if you like, continued tax reform with particular focus on payroll tax. But also in our submission I think we've highlighted the need for the industry over time to grow its volume base, and consequently the cost efficiencies that can come out of that, alluded to this morning, the trade strategy issues. We've also touched base on environmental issues in our submission and the need to have an early introduction of 95 octane fuel, cleaner, more efficient fuels, if you like, to allow more modern, higher tech, better performing engines. We've talked about a number of issues and workplace relations with a single industry union as providing a catalyst for significant improvement there. So I think we've highlighted a number of, if you like, key issues that can facilitate and assist the industries enhanced performance.

MR POLITIES: There are other really almost minor things, but they all represent cost to the industry and to the consumer that you'd argue about the marginal benefit. Again one of the things that's mentioned in our submission is lining up the ADRs with world requirements, particularly ECE requirements. We have some unique requirements that cost everybody, importers and manufacturers, maybe one, $2 million to make a car that's say all right throughout Europe, applicable to Australian ADRs. You'd argue what the benefit of that for the consumer is, particularly on the low volume basis that we have. So there are lots of things, inefficiencies in our industry that can be improved for all of us.

MR BANKS: Okay.

MR WEICKHARDT: I have a few questions around some of your comments around the ACIS scheme. You make a point that some others have made to us that you do not like the idea of the part of ACIS that could be said to have been derived from the old duty-free allowance being changed or modified in any way, and I understand, I think, the logic thrust behind that argument. On the other hand, you then go on to say that when the tariff falls to 10 per cent, the benefit you're going to get is reduced. Now, it seems to me you can't have it both ways. You can either argue that the origins of those production credits came from the DFA and if that's the case, then it really doesn't matter what the tariff is, then the integrity of that scheme is effectively still allowing you the same effective benefit. So I'd be interested in your reaction to that.

MR SCOULAR: I think we saw the DFA as being, if you like, it's under the ACIS umbrella for administrative reasons only. It has been a long-standing scheme. At the last car plan review in 96-97 it was agreed to continue it, and in fact I think in the prime minister's statement at the time it was a stand-alone line item, whereas, if you like, the proposal to introduce a new program that became ACIS was a separate line item. We see that it's a valuable and important to continue as it is, because in large part it's at a compensatory program. I think we don't see that our argument in that direction and our issues regarding some potential other aspects of ACIS are, if you like, in contrast or contradictory.

MR WEICKHARDT: But you make the point in paragraph 322, you say:

> For example, in assuming for illustrative purposes, an imported unit is worth $1, a vehicle producer can presently import one unit for every $1 of allowable production. This situation exists whether the tariff is 15 per cent or 10 per cent.

You then go on and sort of have a bit of a whinge that the situation for the component guys changes. But if you want to, if you like, say, "Well, we the vehicle producers have always had this DFA and we ought to have it preserved," then you can't also, surely, logically turn around and argue, "Well, by the way, when the tariff reduces because my relativity changes with somebody else, I want it changed."

MR SCOULAR: The comparison there could be drawn with the 10 per cent, if you like, production credit that is available under ACIS. It doesn't need the DFA to deliver a thing. I certainly wouldn't see it as being a whinge. I think we would certainly be highlighting an issue that existed, that, if you like, the manufacturer's proportion of ACIS was linked to tariff, and as the tariff came down the size of if you like the benefit reduced, whereas the R and D - - -

MR WEICKHARDT: I don't think the benefit reduces at all. The benefit is that you are still able to produce a component of up to 15 per cent of your production for duty free effectively. If I have got the logic of that wrong, tell me later because I don't follow your thrust there.

MR SCOULAR: We will take your opportunity there and explain it later.

MR WEICKHARDT: The second issue I would like to just penetrate a bit more is your comment about own-use R and D. You, in your submission in para 321, do raise something that sort of looks a bit Irish at first hand, suggesting that if you did some R and D for an external party, you get a benefit and yet if they did the R and D for you, then you would be better off.

MR POLITES: It's not Irish; it's the reality.

MR WEICKHARDT: Has this actually happened? It's an interesting sort of example, but have you seen examples where that distortion has actually occurred, where people have been motivated to do that?

MR SCOULAR: I think we have got to look in the context that the ACIS program itself is barely 18 months old. It's certainly very, very much in its infancy, and it's very much about learning about the new program and understanding it as we go, but

I think that paragraph was there to highlight an issue that shows that a number of Australian vehicle manufacturers have extensive vehicle design engineering, R and D capability, yet today under the current program, if they use that capability for their own vehicle, they get no specific benefit, whereas if they were to do it on an overseas contractual basis and to pick up an overseas design for domestic manufacture, they are actually better off.

MR WEICKHARDT: Given the fact that there's a limited amount of government money to go round, is your solution to skew some of the benefits you currently get for production away from production and to bias them towards R and D? I mean, how do you suggest the government look at this with its own fiscal hat on?

MR POLITES: I think our view would be that when the plan was originally set up, there was an assumed split between suppliers and manufacturers that has - in fact the actual current relationships have changed since the plan was set up in favour of the suppliers based upon the business plans they have submitted which has worked against the manufacturers. The fact is the suppliers get the benefit of the R and D and we don't. Where you say, "Has it happened?" no, it hasn't to my knowledge. I can't speak for the other companies, but as Russell said, it's only 18 months old and there are opportunities for it. If I were a manufacturer - and I am - if I had two choices about where I might do certain things, the ability to claim ACIS benefits is quite clearly an issue in there.

So I think the potential is there for work to be swapped between organisations. The way to handle it I think is to look very hard at the percentages between suppliers and manufacturers and give the manufacturers a greater degree of certainty in terms of what share of the cake they're getting. Modulation is working very heavily against us.

MR WEICKHARDT: Yes. I mean, you wouldn't be surprised that it has been put to us by some of the component suppliers that the fact they are getting a larger share of the cake at the moment is fair and reasonable because the car companies are outsourcing much more of their activities, they are forcing risk and design work and R and D out to component suppliers through tier 1 and tier .5 suppliers and modularisation and things of that sort. Therefore it's entirely appropriate that they should be getting a greater share of the cake from that point of view. I guess that's one point.

The other point I suppose which you might like to come back in any final submission is, for a car company that probably does R and D in big sort of lumps, how again from a government point of view you - and from an industry fairness point of view you sort of treat this from a fiscal point of view, because if two or three car companies did all their R and D for a new model in one or two years, it is all bunched up. You could see a situation where you got a lot of modulation applying there and a sort of distortion of the take that might have occurred in the steady state situation. I think it's for that reason that not all of the MVPs actually favour this push to R and D, and I don't think the FCAI in their submission have actually taken a position on that.

MR SCOULAR: I think the FCAI in their case expressed an open mind as regards, you know, how do you ensure that if you like it doesn't all come in year 1 or the demand for it in year 1. I suppose that would get down to the fundamental design of a program, and I would have thought that you don't have to be extremely knowledgeable about the automotive industry to have a fairly broad and accurate understanding of people's models, cycles and where they are heading, and I'm sure that the government could design a program in discussion with the industry that could largely accommodate that issue.

MR WEICKHARDT: You might like to suggest the principles by which they might do that in your final submission.

MR SCOULAR: Sure.

MR BANKS: We spent a lot of time talking about ACIS. In fact I think as we went around to a lot of firms, we probably spent more time talking about ACIS than we did about the tariff which suggests that it's probably regarded as at least as valuable as the tariff. We're talking about $2 billion, $2.8 billion over five years in the previous period. The government has talked about that as transitional, as facilitating the reduction in tariffs that's to occur in 2005. Could you just comment on what role you fundamentally see for ACIS? Do you agree that it's a transitional vehicle or do you see it as a more permanent feature of the assistance landscape?

MR SIMPSON: I think we would see it as a more permanent fixture at this point in time. I think that the situation is one where I think as Geoff expressed before, it is very difficult to sit here and say it should cut off at that point, and we would believe that in fact there is a need to continue ACIS indefinitely at this stage, not be end pointed. I think that the thing that needs to be recognised is we have a lot of pressure applied to us in terms of development costs within this industry and we must find a way to maintain a technology capability, not just from the point of view of the product itself, but from the people within the industry. This is going to be an ongoing demand of us to maintain our competitiveness going forward. So I think that's the way we would see it.

MR BANKS: Okay. A question I was going to ask you was; you talk on page 8 about:

> The ability of an ACIS program to attract ongoing investment in major new vehicle programs must be maintained and potentially enhanced.

Is this, from your point of view, the key issue in terms of the role of ACIS that you would see?

MR POLITES: Absolutely. Our view is that this is an investment-intensive industry and particularly in the phase we're going in as we're looking to expand our volume bases; major manufacturers are all looking to expand their volume bases and that takes investment and that's something that doesn't occur over a very short time and this is really our view of why ACIS needs to roll on. These investment cycles are 10-year cycles and you really need to get into the second one; it's not just getting one it's really gaining the momentum that ongoing business creates as to why you can't just put this on then take it off, because in one cycle we won't achieve the critical mass, we won't achieve the corporate credibility that's going to be required to keep the investment levels going.

It's a tough decision, quite frankly, when you're a big company to walk away from something that you've spent a lot of money in. The cost of exiting, particularly in countries where you've got long histories, is high and we're kind of in that situation now and as we build ourselves up the costed exit to our parents gets higher and higher and that's really one of the real benefits of ACIS. If we can turn ourselves from being somewhat neutral in terms of the world scheme into being somewhat larger players with well-defined niche roles, then the necessity and indeed the willingness and the desire to keep investing rises. That's really where we all find ourselves and I'm sure the other companies will talk this afternoon about their roles, but what we're finding ourselves in the last couple of years we, Ford of Australia, have gained increasing credibility in the organisation and I put a large part of that down to the ability that ACIS has given us to do other things and we've talked to you in private about some of those other things. There are more to come and that's why this scheme is so important.

MR BANKS: What would you say to the proposition that in some respects it may be compensating for other disadvantages or perceived disadvantages in Australia? You've talked about scale, being on issue, but you've also talked about strikeland as being another one. Could ACIS be seen in some way as compensating for some of those other deficiencies?

MR POLITES: Absolutely not; absolutely not. ACIS has a role in terms of the efficiency and the size of this organisation that we run. The strike issue is totally independent of ACIS; it wouldn't matter if we had the world's worst industrial relations record it wouldn't matter how good an ACIS scheme was; they wouldn't get offset. The company would just say, "Not worth it," so they're totally unrelated. ACIS is a major issue for us in terms of helping us to do other things and leverage our core competencies. In Australia we're very good at a lot of things; we are a very efficient R and D product development source, we do a lot with a little and when you compare what we do on the world scale we're very efficient, but we've only ever done it in our own backyard.

Now, we're suddenly getting thrust onto the world scale and people are sitting up and saying, "Hey, these guys aren't bad," and to the extent that they say, "Hey, these guys aren't bad," then they're prepared to trust you to do something for them, then your opportunities increase enormously. As the parent companies look at their cost bases - and outsourcing is a favourite word in this business - well, from a US perspective or from a European perspective, outsourcing can mean "to another Ford organisation" and that's where we come in and that's where ACIS is a major benefit for us.

MR WEICKHARDT: Perhaps if I can move to some of the comments you made about industrial relations. You've suggested:

> After considerable thought Ford Australia believes the preferable approach is for the early creation of a single industry union.

What is it that you think the government can do or should do that facilitates or would facilitate this? I'm unclear as to the degree to which this is an issue the industry have to tackle, together with their employees, or the degree to which there are legislative or other things that the government would need to do to facilitate this.

MR POLITES: I think we all need to do it. I'm not sure that it can be achieved by a stroke of a legislative pen. It's something that kind of got started, I guess, in the 80s with some of the union amalgamations that the previous Labor government tried to put together, but it's a process that stalled and it's a process that needs to be restarted and I think - we've had some discussions with the union movement. It's a case of the union movement, the government, the manufacturers, the industry all deciding that that's where they want to go, but from our perspective it's a place where we think we have to go. We're all in this together and the sooner we wake up to that and decide that when it's "we" it's one industry, one union, one company, we're entities and the historical reasons why we are where we are are one thing, but where we go in the future is another.

MR WEICKHARDT: But apart from, I suppose, general supports, is there something the government have to do to actually enable the process. Is there a legislative roadblock to it occurring at the moment?

MR POLITES: I don't know, I honestly don't know. We've thought a bit about it, but we haven't looked and done a real strategic assessment that says, "What are the roadblocks in the way?" There will be a huge education process in a number of areas I suspect. It won't be done just with a stroke of the pen.

MR BANKS: Ford Australia I guess could learn from its parent in terms of the operation of a single union in the USA. Is the UAW experience there a promising one do you think from Australia's perspective?

MR POLITES: I think the relationships are pretty strong. The issue is you're dealing with one entity all of the time. The education processes are a lot better, the communication processes are a lot easier and the interdependencies are recognised. At the moment we have too fractured a relationship between us, the suppliers, the individual unions with whom we deal, with whom the suppliers deal and I think that we need to make all that one.

MR BANKS: That sort of brings me to the question I suppose of how damaging the existing arrangements have been for Ford or projecting forward how much of a threat they potentially might be. Could you just comment briefly on what impact stoppages in the past have had on Ford and I guess its performance?

MR POLITES: Well, they cost us a lot of money quite clearly and cost us some credibility overseas, and they're really an issue that we need to deal with. The fact is none of us are going to go backwards to holding large degrees of inventory, of having two suppliers for every product, which is how it was when I started in this industry. When I started we used to have two suppliers for every product. We used to carry a month on the line and each of the suppliers was required to carry a month. So we really had a minimum of two months if any one supplier got struck. But that's just waste and the world has moved on from that. We're not going back to that. In fact as we get more and more involved with the suppliers we need to take all of those stresses out of the system and we think this is one way to help.

MR BANKS: At the time when there was the dispute at Walkers and other places, a lot of the focus in the newspapers was on the impact on export markets and ability to meet shipment requirements and so on. Does the fact that Ford's focus is predominantly domestic alleviate the difficulties caused by stoppages in component supplies?

MR POLITES: Not in the slightest. No, you've got the same costs. I mean, fundamentally exports sell your capacity. If you're selling your capacity domestically it has the same net effect on your business. You can argue emotionally that an export customer may get more upset than a domestic customer but when you happen to get the letters as I do from the domestic customers I would say that's not the case.

MR BANKS: I guess I'm thinking that in the domestic context to the extent that you're mainly competing with other domestic producers you're all in the same boat in terms of delays and disruptions.

MR POLITES: That may be so but then the domestic - we're all competing with the importers, who aren't in the same boat, so, no, I don't think it's an issue at all.

MR BANKS: Do we want to follow up any more on that? Just going back, there was one point that you made in relation to - this is on the bottom of page 6 - perhaps just give you the opportunity to elaborate in case others are a bit puzzled by it. You've said in relation to the E265 that it cannot be said to be profitable with a 5 per cent tariff. This is a four-wheel drive vehicle which is currently protected by a 5 per cent tariff. Could you just elaborate on that?

MR POLITES: It's really coming off a base of the Falcon that's at 10 per cent, is really the issue, E265. If we were doing an E265 in a vacuum it would not be viable at 5 per cent.

MR BANKS: So you're not covering your capital on this. It's marginal cost price.

MR POLITES: It's marginal cost pricing. The fixed costs are not involved.

MR WEICKHARDT: Just while we're on the sort of all terrain four-wheel drive type vehicles I think you made some comments, as have others, about the criteria that should apply for four-wheel drives to get a 5 per cent tariff entry. I guess it would seem to me that there will be constant arguments about, you know, sort of what side of the line does a particular vehicle sit, and it was one of the reasons why I think we were minded to say the sooner the two tariffs are at the same level the sooner the arguments will go away and the sooner the argument about whether a component is applicable for a four-wheel drive or a component is applicable for a passenger motor vehicle will go away. All those are distortions that seem unhelpful and complicated. Is there any consensus among the MVPs as to the criteria that might apply or might be modified or are we going to, if we ask each of the others, get a confused picture as to how the rules might be changed?

MR POLITES: I'm not sure that we've got a consensus.

MR SCOULAR: I think probably on that issue there may be different views. It hasn't been discussed in depth recently at an industry association level. We just put forward a suggestion if you like that we've put forward a number of times before. We see it as being fairly straightforward relatively to possibly the other options. But there may be other approaches and we'll be prepared to consider them and give them thought.

MR POLITES: I'm not sure that the lowest common denominator is the right answer though, Philip.

MR BANKS: You've got a section on taxation there and clearly from the perspective of a particular inquiry it's always difficult to wrestle with bigger issues like taxation. But perhaps just give you the opportunity to elaborate on what you see as appropriate reform, particularly in relation to payroll tax.

MR POLITES: Well, the point we make on payroll tax is that it's fundamentally a tax on employment, which seems to be not quite what taxes are meant to start with, and the way it's structured there are so many exemptions that it then really becomes a tax on large companies or on companies that employ a lot of people. It's really the exemptions are such that probably about 2 to 3 per cent I think of the total tax is overpaid, if you will, by the companies that employ to pay for the ones that don't pay. If you're going to have this sort of tax what we're saying is it perhaps ought to be a more broadly based tax and therefore the rate at which it is levied comes down quite significantly. It's innocuous that a company size of ours pays a payroll tax at the level it does and the incentive quite frankly is to reduce the number of people who work for you. Maybe we should split the company into a hundred small units and avoid payroll tax, and if you think about it there is a real incentive to do that.

MR BANKS: So apart from the question of its existence you would see a desirable direction for reform that exemptions be removed and that there be a lower flat rate.

MR POLITES: Absolutely. We're an industry that struggles for 1 and 2 per cent margins. As an industry we don't make 2 per cent and we're paying 7 per cent payroll tax.

MR BANKS: It sort of leads me to the next point and that is - I mean, some of these exemptions have been given by state the governments in the context of trying to attract investment to their state and it's been known to happen in the automotive sector as well.

MR POLITES: Not to us.

MR BANKS: But not to you, okay. In the last section of your submission you agree that it would be desirable to have some greater transparency in relation to some of this ad hoc support.

MR SCOULAR: I think two things there. In the issue of tax I think if one was to - my gut feeling, Gary, would be that any payroll tax benefits given to attract investment would be at the very, very low point of the 3 and a half billion dollars, 4 billion dollars-odd in overall exemptions that are given annually. Secondly, on the question of transparency, I think our comment there was, well, if that was the way it was to be and it applied to everybody consistently across the board, we would have no objection.

MR BANKS: Well, if we just take that a little bit further. I mean, you have no objection but are there any downsides from Ford's point of view in the current arrangements where ad hoc assistance may be provided to a competitor, or don't you see that as a concern?

MR POLITES: Sorry, where - - -

MR BANKS: I imagine if I was Ford and I read in the newspaper that Holden had got some extra money, 12 and a half million or some other sum of money to do something that it wanted to do, that might cause me some concern in terms of how I perceive my competitiveness in the domestic market at least.

MR POLITES: Certainly does.

MR BANKS: So are you saying, in saying you have no objection or you see no fundamental difficulty in greater transparency, that that actually - - -

MR POLITES: We'd have no problem at all in total transparency - - -

MR WEICKHARDT: Can I just take you back to an issue you raised around harmonisation of design rules. You made a comment in your submission that this has suffered successive delays, Ford Australia is anxious for this to be addressed. We got the impression, assurance from the relevant government body at the time of the first round of discussions that this was all under control and was all going to happen. Are you suggesting you've got other views and that you're still apprehensive this is not happening?

MR POLITES: I look at the record, and the record is we've gone very, very slow for a very long time and we are looking at new models and we're factoring in millions of dollars of totally unnecessary expenditure into the investment decisions because the changes haven't been made.

MR WEICKHARDT: Can you give us any clue as to what is required to fix this?

MR POLITES: I think just to do - a decision to get it done. I suspect this is low on somebody's profile and therefore is getting the appropriate level of impetus.

MR WEICKHARDT: It's not that there are sort of immovable objects and irresistible forces sort of arguing about the issue, is there?

MR POLITES: Well, cars are getting sold overseas every day of the week so it's not like that they are unsafe. I have no idea as to why some of the ADRs were put in place when they were, back in the 60s and 70s, but they were. Maybe it was a disguised form of protection even, I don't know.

MR BANKS: I can't imagine that.

MR POLITES: But the reality is the world has moved on, the ADRs haven't.

MR SCOULAR: I think it's a resource issue more than any fundamental reason why a change could not be made.

MR WEICKHARDT: Can I just raise a question about the used car import. To a degree, I think we're on the same page here but maybe for different reasons. I just want to understand some of the comments you make in your submission. I mean, you initially say, "The importation of used cars is not a significant policy issue in context of this review," and yet you go on then and say, "But it's very important; leave it alone." I mean, consumer organisations put to us that these import restrictions effectively deny consumers the opportunity to buy cheaper cars and therefore there is a cost to consumers. You're suggesting, on the other hand, there could be some significant impacts on the original car companies in the industry. I suppose it would be useful if you could either now or in your submission just clarify what it is that - if you like, how the government should think about the cost to consumers on the one hand versus the benefit to the industry on the other and how they balance those two.

MR POLITES: Well, I think the government in its original legislation pretty well got it right where it said, "We want to allow enthusiasts to bring in enthusiast models." You can see from the figures quite clearly that there are more cars coming in than there are enthusiasts in Australia and what needs to be done is a decision made. Now, the cold hard reality of life is that nowhere in the world where there is a viable industry is there a used car import industry. You either have one or the other. If you want to have a used car import industry, then forget about a domestic industry. Just go across to New Zealand and have a look at the impact that that decision had over there. There are in some countries - and notably in Japan there are domestic regulations that really force vehicles off the road early. So it's not as if we are competing in an unregulated market, if you will.

There are reasons that - for the domestic industry in Japan - that they force the vehicles off the road, therefore they come into the marketplace in an unreasonable or an unusual economic situation and they therefore are able to be brought in. The vehicles don't necessarily meet the Australian design rules; the vehicles that come in tend to be older. To use the vernacular of the trade, the consumers who buy them are quite often misled because they have a haircut along the way, meaning speedos can be quite easily wound back. The industry is populated by a number of people who are opportunists; not everybody, but it is open to manipulation. Consumers don't necessarily get what they pay for. So whilst it's great to have the consumer argument that says we're denying the people these wonderful vehicles that they can't otherwise get, the reality is they really do very little for the consumers and do nothing at all for the industry.

MR WEICKHARDT: One final question about fuel and fuel standards: I think you made a point earlier in your submission about the fact that your work on fuel efficiency and fuel-efficient engines is frustrated by the lack of availability of higher octane fuels in Australia. We had it put to us early in our rounds that Australian car designs were still likely to be pushed to most fuel-efficient engines and that they would simply be detuned in Australia for the period of time that the fuel wasn't available here. Have we got that right or have we got it wrong? I'm a bit confused.

MR SCOULAR: I think the issue on fuel standards or higher technology fuels is one of (a) widespread availability, (b) at a competitive price, and the difficulty that a manufacturer faces at the moment, for example, is that 95 RON fuel is available, but it is not necessarily available everywhere and it is not available at a widespread price, so there is a significant risk and issues of motorists to save 3 or 4 cents a litre or to have access to fuel - in some rural and regional areas - will misfuel their cars, so that puts a manufacturer in somewhat of a dilemma as to how do you tune your cars to take - if you like, on the one hand, you have the technical side of the motor vehicle to enable it to perform at its best efficiency at the higher level, but out there in the real world, because of the different price structure and lack of availability and some reasons, people can't or won't access it. So do you detune your cars slightly to run at the lower level to overcome this issue? It's a significant issue that the industry faces and in a sense, it's a significant road block as we seek to go forward.

MR WEICKHARDT: But is it actually slowing down development work by Australian industry on more fuel-efficient cars?

MR SCOULAR: Yes.

MR POLITES: And it will stop the importation of more fuel-efficient cars. We have a vehicle in our model range right now in Europe that only runs on 95 RON, and to misfuel it will destroy the engine and destroy the catalytic converter, and we can't get enough 95 RON throughout Australia to guarantee the importation of that vehicle, so it has an impact on us as a company but more importantly, on the consumers. There's a really great little car running around that we're not too sure we're going to bring in because 95 RON is not widely available in this country.

MR BANKS: All right. Thank you very much for that. Are there any further comments you wanted to make?

MR SCOULAR: No, thank you.

MR POLITES: No. Thank you, gentlemen, a great process.

MR BANKS: We look forward to getting the final version of your submission in response to the position paper, and perhaps if we have any further questions, you won't mind if we get back to you on that. Thanks very much. We'll just break for a couple of minutes - not a morning tea break, just a couple of minutes - before our next participant, thanks.

MR BANKS: Okay, ladies and gentlemen, I think we'll resume. Our next participant this morning is Toyota Motor Corporation Australia Ltd. Welcome to the hearings. Could I ask you, please, to give your names and positions with the company.

MR ASANO: I'm Ken Asano, president and chief executive officer of Toyota Australia.

MR McGARRIGLE: Good morning, I'm Alan McGarrigle, I'm a director of corporate services.

MR BUTTNER: Good morning, I'm Dave Buttner, director of purchasing.

MR EGAN: John Egan, general manager government affairs and trade policy.

MR BANKS: Thank you. Thank you very much for attending this morning, also for the submissions that we've received from you which have been quite helpful. As discussed, I'll perhaps hand over to you, Ken, to make some introductory remarks.

MR ASANO: Thank you, Gary. Good morning. Thank you for giving us a great opportunity to talk today. Before I receive your questions I want to make a number of points which are most important and relevant to today. Toyota Australia has been manufacturing in Australia for more than 40 years and is committed to being successful, viable and growing car makers. We have a modern plant not far from here at Altona that produce around 100,000 Camry and Avalon vehicles per year. We provide direct employment for 4100 people and help to sustain a very large supplier base.

A national network of dealers support Toyota vehicles. Toyota is consistently number 1 or number 2 in the Australian market. We are Australian's largest exporter of automotive product, exporting nearly 60,000 vehicles with a value of $1.4 billion last year. The majority of these vehicles went to the Middle East. With this background about our company I want to make three major main points. First point: we are committed to growth which will benefit not just Toyota Australia but the whole Australian economy. We are currently negotiating with our parent company for a Toyota research and development facility to be located here in Australia. This facility will provide technical service for Toyota in Australia and the Asia-Pacific region. Also we aspire to increase our production capacity significantly in this decade to 150,000 in the mid-term and hopefully 200,000 by year 2010. This growth in scale will greatly assist our drive for international competitiveness and a strategic role in the Toyota global network.

Second point: Toyota's commitment to continuous improvement is unwavering. The reality of global competition is that Australian car makers must seek to attain the highest standard of quality, manufacturing, productivity and marketing performance and employee, supplier and customer relationships. We take full responsibility for improving our own operations and we will not deviate from this course.

Third point: Australia must have consistent, stable and competitive industry policies that attract investment and support the effort of local business to capture and growth offshore markets. Australia should not develop policy in isolation from the rest of the world and in particular from our trading neighbours in the Asia-Pacific region. This is particularly critical for a global industry like automotive. Our initial submission made seven primary recommendations. In summary, these are: maintain 10 per cent tariff; continue ACIS; improve market access; a cooperative approach to improved industrial relations; policy set for 10 years; consider action to address declining share of locally manufactured vehicles and maintenance of other relevant policies.

The commission's preliminary findings confirmed many of these items and we re-emphasise a number in our supplementary submission. However, in the context of our three key points of growth, continuous improvement and a stable and competitive industry policy, I want to focus on areas where we have concerns at the direction implied in the Productivity Commission position papers. First, our view is that the Productivity Commission could give more emphasise to growth rather than the specific timing of assistance reduction. In particular, we focus on the commission's definition of a viable, internationally competitive and globally integrated authority industry; the rejection of the relevance of international policy settings; the dynamic benefit from future assistance reductions and the relative significance of spillover economic benefits.

It is essential that industry viability should be defined in terms of the ability to compete internationally. All automotive producing countries provide some form of specific support to their automotive industry. To ask Australian industry to compete without any specific support in the absence of similar moves overseas is not appropriate and is not in the national interest. It places our growth aspirations at risk and sends a very negative message to overseas investors. We concede that specific support can ultimately be wound back but only in line with that in other countries competing for automotive investment.

My next point is also of great significance to the prospect of growth and future prosperity for the industry. The commission appears to assume that by reducing assistance to the industry, productivity improvements will follow. This is in spite of the commission's own modelling, showing that there would be little benefit to the Australian economy by reducing assistance from levels that are currently already very low by world standards, or should I say, the standards of our international competitors.

Third, I argue that intense competition for sales on a global and domestic basis, along with global competition for investment capital provide sufficient incentive for the achievement of dynamic benefits. In the face of this competition it is my belief that the automotive industry is only measured amongst manufacturing sectors in Australia, such has succeeded in winning a significant amount of globally mobile investment capital. One outcome of this has been the high skill and technology investment spillover in Australia. As an industry we are growing, we are improving and current industry policy has been effective. We agree with the commission's view that Australia must act in its own best interests, however, by signalling that the Australian government will be unilaterally withdrawing the support at a fixed future date the Australian car manufacturing industry is put at a competitive disadvantage.

I want to conclude our comments with two of our original recommendations; tariff and ACIS. Toyota recognises a desire to reduce sector specific assistance over time, however, we believe the timing of the reduction must take account of the global and domestic policy environment at that time. We believe it is premature to commit to a 5 per cent tariff in 2010 or 2015 without full knowledge of the international environment. In other words we ask that the productivity commission investigate the option to continue the 10 per cent tariff beyond 2010, subject to movement in competing countries.

Talking about ACIS I wish to comment separately on the 2 billion capped ACIS and the 15 per cent DFA, that is uncapped. We recommend the continuation of ACIS in its current form until 2010. This will be particularly important during a period in which industry is attempting to grow to world competitive scale. We think it may be possible to end the non-DFA element of ACIS in 2010 or 2018, subject to the availability of generic policy and an analysis of support in competing countries at that time. We further support the retention of the uncapped status for the 15 per cent DFA on domestic and New Zealand production. This recognises that not all essential components can be produced in Australia and also recognising the exclusion of automotive component from the tariff concession system. Therefore, it should continue to be treated as a separate measure from the rest of ACIS.

To conclude, every day people at Toyota Australia work toward the global growing of the company and we will work with all the stakeholders to promote the development of effective industry policies, policies that show we have learned from the past and that it is focussed on building prosperous futures. I want to say thank you very much for your great opportunity today and we will be pleased to answer your questions. Thank you.

MR BANKS: Thanks very much. Perhaps just a first question: you, in common with the other motor vehicle producers, have argued that any further - while you've argued for certainty, you've also argued that any further reductions in tariffs or indeed withdrawal of ACIS should be contingent on a number of things happening; what's happening overseas, generic policies in place and so on. I guess I just want to get an idea from you as to how you would see that further evaluation occurring, what would be the trigger for any further policy action by the government? Would it be consultation with the industry, would it be another review - I hate to think of another Productivity Commission review, but - what do you have in mind as the basis for an assessment by the government at that stage.

MR EGAN: We share, I think, what you're hinting at there, that we don't like the idea of a review recommending a review, but having said that the environment is constantly changing, so we would think that there should be some assessment of the international and also the domestic environment before there are any big step downs, so we'd be saying that there should be some assessment in, you know, prior to 2010, of the tariffs available in other countries, of the incentives offered by other governments and also our degree of process, the industry's degree of progress and also the Australian degree of micro-economic reform. So I think we would need to look at all those four or five elements and make an assessment there knowing that it's an incredibly competitive world out there where we're competing for investment and we must have globally competitive industry policy available to us in a globally competitive environment.

MR BANKS: I mean, consistent with, I guess, this review occurring three years before the end of the current arrangements, would you see such a review occurring in 2007 or something like that?

MR EGAN: Yes, 2007 or 8, but on a - maybe you wouldn't need to have a full review like this has been, you'd need to review those elements though.

MR ASANO: Yes, also this competitiveness in domestic market is related to currencies. We don't know whether in Australia there are currencies getting stronger or weaker or stabilised, nobody knows. So in such a sense we need review middle time.

MR BANKS: Well, I mean, just on the question of currencies, how does Toyota perceive its own position in relation to the currency? Do you see this as a major threat for you, if the currency rose somewhat and what sort of rise in the currency's value would cause problems for Toyota?

MR ASANO: Yes, Toyota has tried to increase more localisation, therefore, currency impact is less and less compared to past so therefore, however import, import car is very impact by currencies - export business better impact.

MR BANKS: So what you're saying is you've got swings and roundabouts in relation to the currency - - -

MR ASANO: Over the car industry, other car industry, I say, clearly, you know, the currency's are (indistinct) you, know, relation with our business.

MR McGARRIGLE: So it's very important, and that's why we view - most of this is about the management of change, and the rate of change is increasing in so many of the variables that impact our business. Therefore, the ability to make one-off decisions a long way into the future is getting harder and harder, and that is why we think some form of observation - if a lot of the assumptions about, say, what competing countries do nearby with their market excess - it needs another look later down the track.

MR BANKS: Could I just pick up on a point that you make under the heading of Tariff Settings on page 3 that you see:

> A commitment to a further reduction in tariff, regardless of the international environment, would send a very negative message to overseas investors.

Now, I think you've accused us of not taking into account at all what's happening overseas, which I don't think is right. I mean, we have looked at the relative systems levels in Australia and overseas, and we'll do more of that in our final report, but we've also looked at signalling and commitments through a forum such as APEC in terms of what other countries are planning to do, and I guess there's a question, I suppose, as to what extent you actually wait for things to happen before you move and whether it's sensible for everybody to wait before anyone moves and so on. But I guess the point that I wanted to come to was how much of a negative message would this be? What impact would this have on overseas investors against the backdrop of a reduction in tariffs that's been much more substantial than this final 5 percentage points, if you like. I mean, the signal to foreign investors, if you're just looking at the tariff you would think would have been overwhelmingly negative and foreign investment would have dried up completely because the tariff's come down from 57 and a half per cent to 15 in a steady way, but certainly that's been the clear trend, the implication being that we go further. So how much, I mean, are you overstating the negative signal that this would provide?

MR McGARRIGLE: Well, I think rather than looking at it as a series of very discrete levels of tariff, we have a very ambitious business plan. Ken has already said we would like to be able to improve and have the conditions to double our capacity by the end of this decade, and we have three fundamental platforms in our business plan: growth, without growth, we won't get there; self-help, in other words, we realise there's many things we must do ourselves. We can't rely on government to do it for us, and international competitiveness, both in terms of being able to sell our product overseas, but also attract investment. Now, all those things are linked. If we don't self-help enough, well, no legislation will enable us to survive what's becoming fierce international competition, but growth is the thing that really will help us. The real precursor to the growth, to double our capacity obviously requires a huge amount of investment over the rest of the decade, approaching $1 billion, and thus what might seem to be relatively small arithmetic tariffs at this stage, are more about the signal, the signal of what Australia intends to do in the future in terms of being globally competitive in its policies.

MR BUTTNER: In terms of self-help, we are competing very much with other Toyota affiliates. So continuous improvement is an integral part of the Toyota production system, and we have to be striving for improvements in everything we do every day, particularly in the areas of productivity, quality, those areas there where over the last five years we've shown significant inroads, where our quality now is at an internationally competitive level, and of course Toyota Japan is looking at those key KPIs in determining where future investment will be made. So while the tariff is one issue, also we recognise very strongly that we have to help ourselves to improve, to get access to the growth markets so that we can grow as an organisation.

MR ASANO: And Toyota policy, worldwide Toyota policy is the sales where in sales we produce. That mean we must sell more here domestically instead of export. However, the (indistinct) sales in domestic coming down due to - one of the reasons is the tariff, so therefore, you know, when we reduce tariff sharply, we are not so confident of keeping scale of volumes. Of course in that case we must export in order to maintain our operation of the plant. However, investors, parent company of Japan not necessary to support export, because (indistinct) to mention we have many affiliate suppliers, UK, US, Japan, Thailand. We compete with each other. However, always parent company insist, "You must sell more in your countries, then you can enjoy as a benefit of export." This is selling here such a strong message always we have.

MR WEICKHARDT: Can I just explore an issue that, Mr Asano, you alluded to in your opening address, and I think Toyota in common with the other car companies use a cost-down approach with your suppliers?

MR ASANO: Yes.

MR WEICKHARDT: I think I've heard you argue that this has encouraged your suppliers to become more efficient. Is that your view?

MR ASANO: Yes.

MR BUTTNER: Phil, we have a very strong philosophy in partnership with our suppliers, and that is bound around the principle of win-win. I think the days of price-down are long gone where you went out there and you hit a supplier over the head with a stick and say, "You must reduce your price," because we want competitive viable suppliers. If we're only focusing on price, we won't have that. Certainly we do have a policy of cost-down - - -

MR WEICKHARDT: I guess I didn't want to sort of travel that distance very far. I just wanted to use that as an analogy, because you've said that you don't believe that Toyota require any more incentives, if you like, to compete vigorously, that, you know, there's enough global competition around at the moment and therefore you don't believe in the dynamic effect of a lowering tariff improving your competitiveness. I simply would sort of put it to you that I think that's exactly the same as cost-down, isn't it. It's exactly the same process. Surely the government would say to you just as you say to your suppliers when you argue for a cost-down, this is a way of motivating you to become more efficient, to become more productive.

MR EGAN: Can I perhaps address that. The Australian market is already open. The four producers here have 30 per cent of the market in total and 40 per cent of the passenger market. We already are under intense competitive pressure in the domestic market and you just have to look at our main segment which is the medium four, we got about 40 per cent of that market but that comprises about five per cent of the total market. So we're under siege from above and we're under siege from below. Any comparison we've looked at in terms of the world pricing of vehicles don't show that Mazdas cost the consumer in Australian much more than they cost them in - sorry, they don't cost more than they cost them in the US, they cost a lot less in Australia.

We're already subject to the full winds of full competition and of course on the external market where the majority of our production is going at the moment, the export market, that is very much an open market where we're not only competing with other brands sometimes at marginal pricing, but we're competing to retain the business with our American colleagues and with Japan. Japan lost the business to us and many people would like to get it back, so we believe we are already fully subject to world competition. We don't see that there is any need for further reduction in tariff to add to the already incredible cost-down pressure on our operations.

MR WEICKHARDT: You may not believe this, but I've probably sat in a similar situation to you and argued that previously, and yet I have to say with the benefit of hindsight it's amazing what people have achieved and I suspect your predecessors 15 years ago probably sat in a similar possible and said, when the tariff was 40 per cent or 50 per cent, "We don't need any more incentive we're doing the best we can, the world is incredibly competitive." I guess the evidence is that over time the industry has responded in a way that probably surprised it.

MR EGAN: I think we've got the runs on the board to show that we're already doing that. The other outcome of that process is that we have in fact dropped our share of the domestic market quite considerably to the extent that now we are sort of at a - I don't like to use the word turning point because the industry is always at a turning point, but we are at a stage where we've been - as the tariff has come down we have basically just maintained our domestic volume, as an industry I'm talking about. Toyota has actually increased its volume, but as an industry we've just maintained it, it has stuck at 300 to 350,000 for ten years or more. We believe now, because of the competitive pressures among other things and the focus on continuous improvement, that we are in a position now to launch ourselves off and become more globally relevant and get our volumes up. But we know to do that we face intense pressure to get our cost structure in line and get our productivity - all these other factors that we are working on intensely. So just to get the growth we have to do the sort of things that you're talking about.

MR McGARRIGLE: So our business case is not really based on mico-economics of tariff levels. It's about growth economics and even development economics, so we don't want to be trapped at some sort of low-level volume, we will try and seek some equilibrium there. We're clearly saying we want to break through that and double our productive capacity. That's the egg and the chicken is attracting the investment required to do that on a consistent basis and that's why we all see what happens to the stock market when a little hint goes out, perhaps often unsubstantiated by fact. It is those signals that determine investor's confidence and that's why we talk of what is now a relatively small tariff level compared to the period that you referred to earlier. That is still important to generate the investment for the growth and break through this low-level issue we have.

MR BANKS: You've talked about international signalling and I suppose there is questions of domestic signalling that we think about too. I'll perhaps just get you to comment on whether you think a signal that assistance would be in a sense locked in at the status quo would be unhelpful in terms of, I guess, concentrating the hearts and minds of your workforce about what needs to be done to improve productivity and get costs down, because it's an elaboration of what Philip has been talking about. You're saying that that story is over and there is nothing more than can be done in terms of external pressure.

MR McGARRIGLE: We feel that increasingly and probably at an accelerating rate over the last five or six years we are winning the hearts and minds of our workplace. We have put a high priority on it and maybe why that's we refer to this as our bible. This is our workplace agreement that was concluded this year and satisfyingly it is the first one we've ever concluded without any form of stoppage or dispute and I think that is an important aspect to it. It is based on what we would call internally, "the Toyota way". The two pillars are continuous improvement and respect for people. We involved up to 100 of our employee representatives et cetera et cetera in work groups with our managers for four months to go through 170 issues that were part of it and they were worked through. Within this agreement there are large sections on continuous improvement, international standards, and even though not directly linked by any formula, performance criteria that we are all striving for.

We had something similar in our last agreement in 99, perhaps not as sophisticated as this. We are delighted that even though not linked in formally by a formula, all of those objectives in terms of working together for this continuous improvement by a whole range of KPIs, were achieved. Labour productivity up 36 per cent. Quality, as Dave said before, the world's best level. Production up 22, and that was actually the lowest of our improvements and that's why we want this investment to double our capacity. The total dollars of exports tripled and actual vehicle units up 140 per cent, plus a number of others. All envisaged in 99 and all achieved, so now we want to take the next step. I think it was 97, we lost 5.5 per cent of our available work time due to stoppages. Not all internally generated, that fell to .2 of a per cent last year and so far this year despite the conclusion of negotiations of a workplace agreement which has been a bit of an Achilles heal in the past, this year the figure stands at zero. We feel that working together with our employees more than ever and some cooperative approach from the union in general, things are improving.

MR BANKS: What were the wage increases that were part of that EBA?

MR McGARRIGLE: If you look at them in the three year things, we had a series of five, five and five and a half coming off the previous one. which was two and a half for the last increase that was given. We tend to look over a longer term. I guess though it's pretty much in context with the whole automotive manufacturers. We study the ANZSIC federal wage agreements and the March 2002 quarter saw mining get 4.9 on average and metal manufacturing 4.5, so that's the car producers and suppliers as well, construction was actually 5.2 and, interestingly, government administration and defence 4.4. So in that sense, given the productivity gains we have achieved in the last few years, the spirit of cooperation which is part of the Toyota way, we said to them, our workforce team members three years ago, "Our objective is for you to share in improvement," and we believe the increase is given, particularly with the demonstrated commitment over the last three years. We can take out Ford over this three-year agreement period. I'm confident those nominal wage increases will not seem to be excessive.

MR BANKS: So I mean, you'd see those as being consistent with competitiveness and also would you see wages increases like that being sustainable into the future, given the international imperatives on you?

MR McGARRIGLE: Well, the reality is, without going into the full economics, labour cost per car is a relatively small amount compared to the other materials that go into the car, which is why we're putting so much emphasis on localisation. So when the currency moves the wrong way for us, the cost of imported components belittles the actual labour costs. So if you're talking half a per cent away from some sort of national average, that's relatively small in the total economics of things. Volume has always been the issue in this business and that's why growth has to be a fundamental platform. So the other two key platform issues, I've said before, are self-help. We feel this - what's in here and the adherence we found to most of it is evidence of our self-help, we just need to maximise our investment attractiveness.

MR WEICKHARDT: Just going back to some of the comments about the reasons for the tariffs not going down, you talk about the precautionary principle. You also talk about your definition of internationally competitive - where government policy is equally supportive to that available in other manufacturing-producing countries. I guess you would agree that government policy is broader than just the tariff, it includes education, taxes, registration, petrol taxes, a whole raft of things. I guess I find it difficult to know how the government would put all that into some sort of formula to try and derive some sort of equation as to the relative support for the car industry in Australia versus elsewhere. But more than that, I suppose if every country adopted the recommendation you've given, that nobody else should move until anyone else moves, I guess the status quo of existing protection will continue around the world. It just doesn't seem that there's any sort of thing that will unjam the process if that is the process you're recommending everywhere.

MR McGARRIGLE: I think timing is important because we're - as a nation our GDP is about 2 per cent of APEC's GDP, for example. So, as was mentioned earlier, maybe one of the issues is, why go first. We're relatively small - and I think the last mouse that that roared was in a very old movie - and we really shouldn't be exposing ourselves or our nation that clearly at this stage.

MR EGAN: Yes, I guess supporting what Alan said, the other point in terms of taking a leadership role is we're 2 per cent of the APEC economies but we're .6 of 1 per cent of global automotive production, so what we do has, I believe, very little impact on the policy decisions that are made in Brussels for the Europeans deciding whether to keep their 10 per cent tariff or, even closer at home, in Thailand in terms of what they do in terms of their reductions. You've got to bear in mind that say - let's just take Thailand, putting the free trade agreement to one side, but if we expect to - if we drop our tariff from, say, 10 per cent to 5 per cent and then we expect Thailand to go from 80 per cent to 40 per cent, well, first of all I think it's not going to happen and, secondly, I don't see that we can drop half of our tariff in exchange for Thailand dropping half their tariff because they are an extremely competitive automotive-producing country and they're - you know, by the time we're talking about, 2010, they will be - you know, very much have consolidated the position of what's been called the Detroit of the east.

So I think they will make their own policy decisions based on what's best for their industry and we're deluding ourselves if we think that our action will initiate counteraction on their behalf. I think that's supported by what's happened in the recent past where we've unilaterally reduced our tariffs and we have seen no effective opening up of the markets in APEC, no effective opening up in APEC. Even China, which I think is the big success story - not of APEC but of WTO, but it is a member of APEC - they've got an industry of 4 million vehicles now with, you know, probably a tenfold increase in a decade, they have said, "Well, we need 25 per cent tariff ongoing from 2006 plus you can be sure there will be numerous non-tariff barriers remain." So there is no evidence at all that by trying to take a unilateral role we initiate action by other economies.

MR BANKS: You've mentioned China, and the backdrop for China is a reduction of their tariff from 200 per cent down to something like - where we're talking about 25 per cent. Now, they also have a fantastic labour cost advantage but we've just heard that labour is not a big issue in total cost, and infrastructure and cost of broader economic infrastructure I think is important and China is probably disadvantaged in that respect relative to Australia. But are you saying we should be modelling ourselves on developing countries as the way forward? You seem to be saying we should be linking our tariff to what Indonesia or Malaysia - - -

MR EGAN: No, I had a two-part response. I, first of all, dealt with Europe which had a stable tariff of 10 per cent with no indication of going lower, and then to balance the equation, I talked about how close a region, so I think we must take account of both factors and we can't delude ourselves that these countries like Thailand and like China are not going to be very effective competitors. I think the concept of developing and developed countries is probably not as relevant as the concept of automotive-producing countries and non-automotive-producing countries. So which group do we want to be in?

MR McGARRIGLE: So we're small and these large nations are thundering towards us; what do we do, freeze in the spotlight, get out of the way or start running faster? Our plan is to run faster and grow, and that's why issues around ACIS and things like this probably assume a bigger impact in terms of our issues, that the tariff is an investment confidence signal.

MR BANKS: Just while we're still talking about developing countries and tariffs, there's just a matter of source for the information you've got on page 8. I'm not asking you to respond now, but we found some inconsistency with the tariff information you have for Indonesia, for example, with other information available to us. Maybe, John, you could get back to us on that.

MR EGAN: In the supplementary submission.

MR BANKS: In the supplementary, but you also had it in your original submission, I think, and may not have picked it up. But it's that little table, 3.1, there.

MR WEICKHARDT: You also cite this UNCTAD report which I don't think from memory was cited in the Deloittes survey, so I'm not sure whether that's new information or whether it's information that Deloittes chose not to source. Again, you might just clarify that.

MR EGAN: Yes, and I think we can get some more detail on the UNCTAD report and I'll check that Indonesian data.

MR WEICKHARDT: Can I raise a couple of questions around ACIS. It's been put to us by some other motor vehicle manufacturers that they would like to see ACIS biased to reward R and D more, and although they haven't said so, if there's only a fixed share of money to go around by inference to bias away from production credits and more towards R and D as a method of gaining ACIS benefit, do you have a view on that?

MR EGAN: Perhaps I can answer that. Look, we have no concern - in fact we'd support greater support for R and D but it should not be at a cost of other elements of ACIS. Our view is the production credit is the most important item, particularly as manufacturers attempt to scale up to more globally relevant volume. If we can get the production volume up to the relevant scale, then R and D will automatically increase. Now, the beauty of having a global product like Camry is that it has the potential to be sold almost anywhere in the world, so it's a great opportunity for Australia if we can encourage investment and market access to get us up to these higher volumes. So we see the production volume as being the driver; if you get that right, other things will follow.

Now, even though we would support more assistance for R and D, our concern is that if you widen that eligibility, you'd end up drastically cutting the rate so that it is ineffective, so you'd have such a low rate applicable both to the component producers and to the manufacturers that it would be very low, or you'd cut your production benefit with adverse impact on attracting investment and also accessing these new markets that we think we would like to do. Also on that basis, we'd just like to stress we have a concern about modulation which has the same sort of impact, so if you widen the thing and leave the criteria alone, your modulation would have to become much, much more severe, so either way you go, if you broaden the criteria and obtain the lump sum of money the same, you risk damaging some of the key things that ACIS is currently achieving.

MR WEICKHARDT: You also I think, as did Ford, argue that the component of ACIS that at the moment could be seen to have been derived from the DFA should be left as it was, untouched, uncapped and by implication, continue into perpetuity.

MR EGAN: Yes.

MR WEICKHARDT: And yet you also have a whinge that the benefit you get there is monetarily going to decrease when the tariff goes down. Again I put to you - and maybe I'm missing the point - that if you say this is effectively equivalent to a tariff concession system or some mechanism allowing the industry to import duty-free those things that they can't source from local manufacturers, then you should be indifferent to what the tariff is. It holds you harmless.

MR EGAN: The method of payment of the duty-free allowance and the whole of ACIS is through duty credits, so the cash value of those of course drops when the tariff falls.

MR WEICKHARDT: Sure.

MR EGAN: There's a point in your argument in terms of if we want to import the transaxle, which we don't want to but we're forced to import the transaxle, the amount of production we need to do to get enough credits to import that transaxle actually remains the same. You're perfectly correct in saying that.

MR WEICKHARDT: If that's the logic for the thing being there in the first place, then - - -

MR EGAN: Sorry, on our ongoing duty-free allowance, we've sort of been talking about that in the context of an ongoing 10 per cent tariff, so I don't see that that's - - -

MR WEICKHARDT: Well, it's indifferent to what the tariff is, isn't it?

MR EGAN: It is, the ongoing DFA, yes.

MR WEICKHARDT: Okay.

MR EGAN: As distinct from ACIS, as a total figure.

MR WEICKHARDT: You haven't made any comment about how the split of ACIS into two pools might be contemplated. Have you got any suggestions or recommendations of how that might be approached?

MR EGAN: I think the only way you can do it is to just go back to the intent of ACIS. It was announced as a replacement for the export facilitation scheme by the Prime Minister in 1997, then calculations were done in the following years, in the period following that, as to what that actually meant, and it basically meant a 1.3 and a 0.7 million split-up between the car producers and the component producers. For legislative drafting reasons, we were told by the Department of Industry at the time that they found it too hard to draft legislation that would allow that intent to be put into practice. So our position is that that principle should still be there, that ACIS was announced as a replacement for the export facilitation scheme at a 1.3:0.7 intent. The legislation hasn't taken up that intent. So we would like to see any new schemes to have that as a starting point.

MR WEICKHARDT: Do you accept the argument by the component people that the amount of value adding that the MVPs are doing now has decreased and the amount of valuating that they're doing has increased?

MR EGAN: I don't have any numbers on that point but I get back to the point of your manufacturing volume and your production volume is the driver of everything in this industry. So I think - and I just don't have figures on the value adding, but we should be aiming to at least get back to that split that was initially agreed on.

MR WEICKHARDT: I guess I struggle with how much science and knowledge of what was really going on went into that original split.

MR EGAN: Well, it was clearly based on the export at the time. As it turned out, it's common knowledge if EFS had continued, well, Toyota would be much, much richer because we had moved our focus more to export. But we're not arguing to get that sort of return to the EFS, we're just arguing we should be getting back to what was agreed at the time.

MR BANKS: In your original submission you talk about some of the weaknesses in the industry, you also mention strengths and opportunities and so on and we've done the same. You indicate that industrial relations - what you talk about is impediments in the industrial relations environment. You talk about that environment being quite important to the industry's operating efficiencies, that industrial action can delay the installation of capital equipment and so on and this can be a further deterrent to attracting investment which is the points I was making before. I just wonder whether I could get you to comment on - I mean, in a sense it's a juxtaposition of what you've just told me is a pretty successful relationship that you have with your workers and yet what you nevertheless see as a weakness in terms of your performance going into the future.

MR McGARRIGLE: Well, we've been trying anything globally really that we can because we defined ourselves as a global anything and they're the standards we know we have to get to because it's fundamental to our business plan. So in various areas, compared to a number of countries, Australia's industrial relations record per se would be seen as a weakness and it goes to those investor perception issues that I talked about before in relation to tariff. So we share the concept put forward by Ford earlier that really this is about change and we also have had quite a few discussions with various levels of the union movement and government in recent months about this and more than ever it comes through strongly to us that this is about the management of change, not trying to retain historical footholds and as such, therefore, the prime thing for everyone to understand was we're in the same boat.

I'd like to think of it as a sort of triangle. You've got government and its policies up here, you've got the union movement here and you've got customers. Without the customers, the whole argument is academic. In the middle is other companies and their workforce. Any of those connections along that triangle are important but in a sense even though they enclose the industry they are separate. So in many ways we choose not to entangle them when we talk of ACIS or industrial relations. So the basis of our recent conversations with the union movement are enhanced communication and cooperation and we need that certainty. We need, I guess, a prolonged period of industrial peace. I think when you look at the total Australian statistics the disputation is well down, the talk in general, not just our situation. So that's encouraging but I think the next 12 months is very important for everyone to show that we can work cooperatively.

MR BANKS: You mentioned about seeing ACIS and the industrial relations as being in different categories. Given that there have been some suggestions made about linkage, I might just get you to comment from Toyota's point of view as to how you would see or whether you would see any benefits or costs from having ACIS funding linked to particular industrial relations outcomes.

MR McGARRIGLE: I don't really see how you could do that. We see ACIS and the funds involved as a very important driver of our growth plants and maybe, albeit a diminishing but still occurring, largely outside our own company, industrial issues, more of a speed hump we would hope in terms of us generating the momentum needed to keep going forward and upwards. So I think they're separate issues and we don't think they should be linked at all.

MR ASANO: In keeping ACIS and industrial relations separate - because ACIS is sort of gaining momentum by government. We are making more speed-up in certain direction; in this case growing motor car industry So the ACIS very much helps us. However, industrial relations - my observation in industrial relations is, industrial relations has been improved compared to about 10 years ago. I was here. Several years I was in China and then come back this time, and then compared to several years and right now much improved, even the (indistinct) Walker or Tristar or BHP. 10 years ago (indistinct) so that time Toyota was not global company - Toyota Australia was not global company. I don't worry about us so much because Australian customer understand industrial relations. However, now Toyota Australia is very global company. We are exporting Middle East, mainly Middle East, also other countries. Basically, they don't understand any, you know, strike because they did outsourcing on Japan or UK or US, so they (indistinct) if I miss (indistinct) timing due to this industrial dispute they say to parent company, "I want to change, sourcing from Australia to Japan or UK or US."

So that mean we Toyota Australia we are losers, completely losers. The whole BHP or Tristar or Walkers happen. In this country they ring us, they give me directory from Middle East customers, "Ken, can you supply on time?" Always I receive such, you know, instantly. Only one hour later happen, they ring us. This is a serious situation. The whole - we must improve more for the industrial relations in this country otherwise we'll be losers. So of course the industry and the union and the government we must cooperate, cooperate and collaborate, you know, working together. This is my point.

MR BANKS: In terms of that collaboration or cooperation, what do you think the main role of government is. I mean, some might argue that there have been changes in the industrial relations legislation, there's been a move toward enterprise bargaining as you say, Ken, it's now up to the industry, there's nothing much more that government can do.

MR ASANO: This is very comprehensive, you know, this solution, not only single which union and government are now talking, or union talking. We must work together carefully.

MR McGARRIGLE: So legislation without communication or cooperation can just become another speed hump and we would much rather attempt to move forward and really many of the recent problems have been, if you look at it, there's been communication problems and certainly the ability to diffuse situations early is a key.

MR BANKS: Communication within the enterprise, are you talking about?

MR McGARRIGLE: Within the enterprise, between enterprises and the unions et cetera, we found very effective, having a clear understanding and commitment to a problem resolution procedure where we've - this time we added an extra couple of steps all aimed at keeping it in-house and talking to each other and solving our own problems. I think you can expand that philosophy in a more general sense.

MR BANKS: Does it follow from that - and this is a particular interest to you as you're sourcing more of your inputs domestically - that Australian management has a long way to go yet, at least in some enterprises in terms of managing these relationships in the workplace?

MR McGARRIGLE: The focus of our push has been to move to employee relations rather than industrial relations, just as a label.

MR BANKS: That's true, so I'm sure Toyota is doing well.

MR McGARRIGLE: And we'd recommend that to everyone.

MR BANKS: Okay.

MR WEICKHARDT: So do you have any comments about the issue that Ford put forward this morning about their desire or preference for a single union structure?

MR McGARRIGLE: That's something we'd be prepared to look at. We have no obvious objections to it and if it raises as a discussion issue we have an open mind.

MR WEICKHARDT: I think you've been quoted in the past, Ken, as expressing frustration about the slowness of completing your pressline project. Again, from an industrial relations point of view, do you have any comments as to what you see as a solution to those sort of problems.

MR ASANO: I say that we have a lot of alternative ideas, you know, comprehensive, not only single solution. I can see many sort of combined solutions. So probably - I guess this is not the right place to talk such a thing, you know, probably I can give you my thought, personal thought, to you later.

MR BANKS: We don't have any further questions. I give you the opportunity - if you have anything more to say, say it now.

MR ASANO: Yes, one thing. I have full responsibility of over 4000 jobs in our company, so therefore I want to increase more jobs in the future, so please consider from that sense.

MR BANKS: Thank you. In terms of the options we have put forward we have taken that very much into account, but thank you very much for your further input. We'll break just for a moment, please, before our next participants.

MR BANKS: We'll resume. Our next participant today is Holden Ltd. Welcome to the hearings. Could I ask you please to give your names and positions with the company.

MS TERRY: Alison Terry, executive director, corporate affairs.

MR CHAMBERLAIN: Geoff Chamberlain, chief economist and also the treasurer.

MR BANKS: Good, thank you. Thank you very much for attending today; also thank you for what was a very substantial initial submission and the discussions we had leading up to our position paper which we found very helpful. As indicated, unfortunately the timing of your comments in relation to the position paper meant that we weren't able to read them in advance, so we'll rely on you I guess to take us through those, and then having done that, maybe we can pick up some particular points for discussion. Thank you.

MS TERRY: Thank you. What we'd like to do is just go through in general terms the broad thrust of our comments in the supplementary submission and my apologies for the mix-up with getting our supplementary submission to you on time, but as you suggest, I'll go through some of the general stuff and then hand over to Geoff who will take you through, in a little more detail perhaps, our recommendations on our tariff and ACIS post-2005.

MR BANKS: Good, thank you.

MS TERRY: Firstly, from Holden's point of view, we certainly welcomed the Productivity Commission report. We found it to be a very valuable outline of a range of alternative scenarios which we believe has provided an excellent basis for future consideration of the options over the coming months. One of the objectives that we had in both our original submission as well as our supplementary submission and in discussions with the commission during the process of the inquiry has been to provide as clear an outline as we possibly can of what Holden's future business strategy comprises, because we believe that as we look to the next five years or 10 years, if we're able to clearly link Holden's strategic direction with the policy environment that will apply, then obviously that will be most beneficial for us as one member of the industry and ideally for the industry as a whole.

The characterisation that we've used consistently in our submission is that Holden is moving towards becoming a global niche player and we have identified our strength in passenger vehicles, large rear-wheel drive passenger vehicles, and have identified a spot for ourselves, if you like, within General Motors' global business direction that we believe we're now in a position to capitalise on and to build on.

What our future strategy requires is both growth in domestic market and growth into new export markets and for both of these, we will need to develop new and innovative products quickly in a manner that will allow us to meet customer needs as they become clear and in fact to go beyond that, to actually identify ourselves what the emerging customer needs may be and to meet those very rapidly. In terms of export growth, obviously market access is very important and a number of other countries have stressed the importance of that. We can talk in more detail about where we see opportunities and perhaps gaps there later today.

I think finally in terms of the overall direction that Holden is taking with this is that we do see that the industry is on the final stage of a transition. It needs to be a transition process that allows the removal of all remaining impediments over the period and we also need to have the appropriate policy framework in place to allow the transition to take effect most smoothly. However, our vision is that the industry will move to a position where it is not the beneficiary of sector-specific support over whatever period of time. As I said, Geoff Chamberlain will talk in more detail about the subjects of the tariff rate and also the form of future auto assistance that will be covered in our submission, so I don't propose to spend time on that now.

Again, if we look at the overriding framework that Holden has outlined, I mentioned that we need to identify and meet the market's needs for new and innovative products and the recommendation that we make and a theme throughout our submission is that we do need a shift in emphasis from production assistance support to assistance for research and development. Our original submission outlined in some detail a tiered approach to R and D support, where we believe the most rewards should be given for the areas that entail the highest degree of risk and with lower tiers obviously being rewarded less, commensurate with slightly lower degrees of risk. We also undertook some modelling to support our original submission which supported the significant welfare benefits that would be achieved through a shift in emphasis as we've outlined.

Just to conclude on the other issues that Holden's two submissions have dealt with, firstly, the issue of workplace relations which has been a subject that's gained quite a lot of interest since the commission's draft report was released and prior to that, in terms of workplace relations, we've sought to apply the same framework to changes that need to take place in that area as we have to the remaining areas of our business; in other words, we've identified speed, flexibility and innovation as being where Holden needs to move in the way we develop both our products, our manufacturing processes and the way we respond to market requirements. Equally, with workplace relations, we believe that similar hallmarks should apply. We've talked in our submission about the need for some joint commitment and shared vision. We haven't been specific about the form of union structure that should apply, as we firmly believe that that is an issue for the union and their members to determine. We do support the need for a robust legislative framework in which all parties work, and most importantly, we've made the observation that within that framework, there is no place for any parties acting illegally.

Finally, we have also spent a little bit of time in our supplementary submission touching on the areas of tax and microeconomic reform, standards, harmonisation of standards and the area of the national average fuel consumption target and environmental issues which we can talk more about if that would assist, and overseas assembly provisions and the tariff concession system are two other areas that Geoff will talk about in his outline.

In closing, just in these introductory remarks, I'd certainly like to reiterate Holden's support for the decade of certainty that the Productivity Commission has outlined in his report. We do believe very strongly in the need for the industry to transition to a point where it doesn't require these forms of sector-specific support. However, this must be done in a way that recognises that some impediments do remain and that we need to meet needs of both domestic and export markets. So I might hand over to Geoff.

MR CHAMBERLAIN: On the subject of the future of the tariff, our view is that we need to make a transition as soon as possible - and I mean realistically possible - to what we regard as a negligible rate of ongoing assistance which we define as 5 per cent. The issue about the timing of that that we see as predominant is we are just beginning two, three really, set of international trade negotiations. The general round, the negotiations with the US we hope and the negotiations with Thailand which are pretty sure to happen. We see a reduction in tariff or an announcement of a decision to reduce tariff now as very similar to announcing unilateral disarmament the day before you start the arms talks and it seems to us to be singularly inappropriate right at this moment. We do think all three of those matters will be quite clear as to their direction and almost their outcome within a couple of years or so and we think that is the time to make a decision on timing and we emphasise it is timing - of the transition from 10 to 5. So we agree that 5 per cent is the appropriate rate to work towards and we are concerned with one particular US tariff of 25 per cent on light commercial vehicles, plus the ASIAN issues and we think whenever there is a resolution to those it would be timely to commit to a specific arrangement to move to 5 per cent.

On the subject of DFA - and I'm mentioning it in this strange sequence because it's a fairly complex one - we believe the DFA exists as a means of creating an equity, if you like, an equality of effective rate of assistance between car and component production. We think it's needed for that purpose. The quantum of 15 per cent was partly - it may or may not have been accidentally, but it turns out to be about the right amount to achieve that purpose, however, it also approximately reflects the proportion of componentry that's not available in Australia for various reasons. So we do not see the DFA as having anything to do with ACIS; it existed for decades before ACIS was invented. It was a matter of legislative convenience that it has an appearance of being related at the moment. The fundamental purpose that we think it has still exists and will continue to exist as long as the component sector has a difference between the rate of assistance to its inputs and its outputs and we think frankly that'll be rather a long time. So we see the DFA as a structural thing. It is what is necessary in order to have the same rate of import duty on components that you have on cars. There are various reasons to have that, but if you are going to have it and have the thing work in a technical sense, economically it then becomes necessary to have a DFA and for that reason the DFA can't realistically be capped unless you were intending also to cap the proportion of components that were subject to import duty. If you decided that when the amount of assistance available to the component producers was used up and from there on imports were duty-free that would be similar to capping the DFA and one would be about as sensible as the other.

So what we propose, however, as a change from history in DFA, that is a pragmatic change rather than a theoretically-driven one, is we think it should apply to exports as well as to domestic sales and the reason for that is simply that at the moment you are providing a form of selective assistance to domestic sales which you deny to exports and we think that's rather poor policy. It's appropriate for each measure to be neutral as between domestic and export. So we would like to see the DFA applied to exports as well as to domestic sales and in the same quantum.

We note that the cost over the current five-year period of the DFA, which is estimated at somewhere in the vicinity of $800 million, would be approximately sufficient to provide the same rate of assistance of 15 per cent to both export and local production in the following five years because of the reduction of duty that happens at the beginning of 2005. Now, this means that, as I said, pragmatically rather than in any other sense, it becomes possible to finance this change in arrangements that we think would be a good idea. So our proposal is that DFA become equally applicable to all production at the rate of 15 per cent of value of production from the beginning of 2006. Apart from that, we see the DFA as an ongoing measure for as long as there is a need to have the same duty rate apply to complete vehicles and to their components.

Now, on the subject of ACIS, we believe there is a need for compartmentalising the scheme. If you don't compartmentalise the scheme between the vehicle producers and the component producers, the difficulty is that each of them will feel intimately involved in designing the other's scheme and the process, in practical terms, is likely to be long and strident. So the easy solution there is if you create the water-tight door between the two, it's no longer necessary for each of them to help the other one out with design advice. The quantum in each scheme, we believe, was arrived at by a reasonably constructive process prior to the introduction of ACIS back in about 98. The only change that has occurred since is there has been some outsourcing from the car producers to the component producers and that should be adjusted for and that seems to be a technical and accounting exercise which it shouldn't be particularly fraught with difficulty to make that adjustment. So we consider that the appropriate split is 1.3 to .7 adjusted by the amount necessary to reflect the outsourcing that's occurred since 1998.

Now, within ACIS we believe the key change that needs to be made is a major redirection of funds from production assistance to R and D assistance. We wouldn't change the investment arrangements; we'd leave those as they are. The purpose in the change to R and D assistance is that we believe parts of the industry at least - and there may be one of the four who is differently affected - but three of the four are intending to become niche producers of automobiles with ultimately a global intent. This is a business that implies that your products are unique or approximately so. If that weren't the case you're not a niche producer. Now, if you are going to develop niche products in Australia with a small home market, R and D becomes a critical success factor for the business. At the same time, it's a very much front-loaded exercise. You are spending some of the R and D money at a time when you are unsure about the outcome. You don't even know that in the end you will have a product that will be viable. If you produce a small amount of tilting of the scales in favour of going ahead at that point, it has a disproportionate effect on the amount of production that finally ensues. Therefore, we think that given that you have a limited amount of public assistance to spend, it's better to spend it at the point in the leverage equation which will have the greatest effect and we think the further forward the better and that means R and D.

It's also noteworthy that a number, if not all, of the producers have increases in their range of products currently in contemplation. From our own experience it turns out some of the more interesting possibilities have fairly ugly risk-reward equations at this early stage of investigation. That's the time when some R and D assistance would have the greatest possible effect. So it's appropriate, in a timing sense, to be considering this now as well as the general principle that if you're going to get the biggest bang for your buck with government money you ought to bring it as far forward in the process as you can and so sway the outcomes with the greatest possible amount.

We think that R and D assistance for own use should - through ACIS it should only be directed towards highly innovative products. We have suggested that it should be confined to two classes, one is products that have not previously been made in Australia by any manufacturer would give, if you like, one step in the reward equation and there should be a still higher step in the reward equation for products which have not been made anywhere in the world. So the majority of the R and D expense would continue to be covered by today's scheme, the IR and D tax concession at 125 per cent. But the - the ultra-innovation if you like - would be covered by higher reward rates with some rather stringent tests.

Moving on to the subject of TCS, which is unrelated to the previous ones but it's one of the areas we've raised in our submission, we believe that the reasons for excluding auto from the TCS to the extent that there ever were any, are long past. We don't see it as ever having had any connection with the availability of a DFA. We do think that at a time when local content was mandatory there was a great deal of rather detailed government intervention in real world outcomes, even in the form of a notorious non-reversion committee at one time, and our lack of access to the TCS is left over from those grossly interventionous days. We believe that the design of the TCS is intended to provide the required projective intent to the producers of whatever our tariff concession is sought in relation to.

In other words, it's inherent in the TCS itself that it shouldn't be necessary to exclude any player from it. We have a similar view on the excluded goods schedule where again those measures, that is, our exclusion from the TCS and the inclusion of automotive products in the excluded goods schedule, are both unsustainable even in the medium term, because they are gross in the egregious sector-specific interventions. Now, if they're going to be removed, we think sooner rather than later is a good idea, because at this point there is still some, if you like, central oversight of the automotive industry which presumably won't exist whenever sector-specific assistance is dismantled. You are better off to make changes of this kind while the oversight is still in place, so if there were unexpected outcomes a timely response would be possible.

The other item I would make specific mention of is reimportation. We believe that most manufacturing industry around the world is progressively moving toward enabling each country to specialise in the areas where it has the best comparative advantage. This implies that in most cases one country will not be making all of the production steps in any given product. They will be importing part-made goods and exporting part-made goods and adding value in between. The areas where they add value will be mapped around where they have the greatest competitive advantage. This means that if you don't allow reimportation of part-manufactured goods you have previously exported without duty being imposed on your own previous value add, then you are locking yourself out of participation in multi-step manufacturing processes. We notice that both the US and the EU provide for duty-free reimportation of your own previous manufactures, but Australia doesn't and we think this is a barrier to the kind of steps that most of the world is taking toward more and more international movement of part manufactured goods. To show some self-interest here, I can give a specific example. I think last year 12,000 Holden engines in Daewoos were imported into Australia and duty was paid on those engines. This seems to be not only unneeded protection, if you like, but downright unhelpful. If you apply the principle more widely, there are many parts of both automotive goods and other goods where intermediate production is the area of

Australia's comparative advantage, not final production or, worse still, total production. That's our overview anyway of our submission which unfortunately we directed to Canberra at 8 pm on Friday and it didn't give you much of a chance to respond.

MR BANKS: Normally that would be in plenty of time but we were coming back from Adelaide and although I was in the office on Saturday, I didn't know it was sitting in someone else's computer. So anyway, it may mean that on some of those more detailed points that you've just made in relation to the TCS and re-imports and so on we might have to get back to you when we've looked at the detail in your submission. I guess I'd like to come back to the observations that Alison made in terms of the final stage of transition in terms of the policy environment. I guess you've enunciated a vision of the industry actually standing on its own feet, not having differential assistance. You've talked about - and it's just a matter of timing - perhaps just to get you to elaborate a little bit on that, is the timing totally contingent on what other countries might do and how would that then manifest itself in terms of a decision?

MS TERRY: I think it's partly contingent on what other countries might do in terms of market access and the trade negotiations and timing of those that we've alluded to and that Geoff spoke about in terms of the tariff phase-down. I think some of them, when we talk about transitioning to this position where we're not requiring any sector-specific support actually, requires action on a range of fields and one is market access and ensuring that our exports have markets to go to both within our region and elsewhere. Secondly, there remains some impediments in the domestic environment which, again, we have outlined in our submission; some of the state based taxes, for instance, payroll tax and stamp duties, we have spoken about. Obviously the workplace relations environment, while, you know, we're moving in the right direction, there needs to be further action there. Finally, and probably most importantly, is from our own business strategy point of view we have to be properly positioned in terms of the product and developing the products that will allow us to make the quantum leap in terms of growth domestically and in export. So what we've tried to encapsulate is action on all fronts, on all those four fronts as being required to get to that point.

MR BANKS: Okay. Geoff, you talked about forthcoming negotiations as being, you know, the appropriate opportunity and not wanting to move - you know, it being silly to move before those negotiations commenced. Just a couple of questions on that: one is I guess - you talked about Qatar, you talked about FTAs potentially with USA and Thailand but you didn't mention APEC at all. I think APEC is different in character to those because it is, as you know, a commitment that predates this inquiry. Just perhaps get Holden's views on the relevance of APEC, if any, from your point of view.

MR CHAMBERLAIN: Well, if the Bogor "commitments" were going to be met, then we would certainly be in favour of Australia being included in that. However, with regard to ASEAN and to the US's 25 per cent tariff on LCV, our assessment would be that the meeting of the Bogor goals would be very unlikely indeed at the moment. If that were to change or, alternatively, if Australia were to become on the inside of those particular tents rather than the outside, then the problem would no longer exist. However, the outlook that we see is that the ASEAN position on auto is fraught with difficulty as far as seeing any relief is concerned and the structural reliance of the US industry on that 25 per cent tariff doesn't seem to be getting to be any less with time, it may be getting worse. So we can see two ways out. One is if the international round deals with those problems, the other is if we're able to achieve FTAs that put us on the inside of those barriers rather than the outside of them.

MR BANKS: Just how important is the 25 per cent tariff on what the Americans call pick-up trucks I think?

MR CHAMBERLAIN: Pick-up trucks happen to include Holden utes, a product for which they have an extraordinarily strong desire but it's quite impractical to supply them.

MR BANKS: Except for that tariff, would you see Australia exporting Holden utes in great quantity to the USA?

MR CHAMBERLAIN: They certainly have expressed a desire for them in great quantity.

MR BANKS: Would there be any constraints on how many we could sell to the USA? I'm just thinking about your current export program and so on.

MR CHAMBERLAIN: Yes. Maybe it's an informal agreement but anyway, the agreement between the domestic auto producers in the US and the UAW do limit the volumes to less than the market could absorb in the case of utes but still a significant quantity. We've already said, I think, that we expect to export about 18,000 coupes a year to the US and we could, if it were not for the tariff, export a similar number of utes.

MR BANKS: But to a volume that would be determined by this sort of almost non-government barrier in the US market related - - -

MR CHAMBERLAIN: That's so. The ceiling per product is 20,000 units per year but those two products are separate and by our standards a total of 40,000 export units a year is extremely significant.

MR BANKS: I guess the other thought that occurred to me when you were talking about not moving ahead or moving unilaterally is just how important you see Australia's tariff in a negotiating sense within Qatar or in a free trade arrangement. I guess we've made some observations about that in our position paper but we're interested in your views on that.

MR CHAMBERLAIN: The issue is whether you are offering the other party a preference, it seems to me. If you consider the case of Thailand where what they are sending here is very large numbers of one-tonne trucks, they are in competition with other places in the world that supply the same units. If they had a 5 percentage point tariff reference, I would have thought that would be highly important to them.

MR BANKS: So in the context of an FTA - because as you know we couldn't discriminate in favour of Thailand just on auto.

MR CHAMBERLAIN: Sure. So there would have to be an FTA that included auto and that would enable Thailand to avoid - in this case a 5 per cent tariff - an amount which exceeds their normal profit on that product, so it would tilt the balance as far as their competition for instance with Japan is concerned.

MR WEICKHARDT: You made a few comments to Geoff about the DFA and the TCS and I'm left a little bit confused as to whether or not you are suggesting you believe that a TCS system would be preferable to the DFA and that you want effectively the ACIS component of DFA dropped altogether and a TCS system put in place for the auto industry.

MR CHAMBERLAIN: Congratulations on the wording of that. I'm sure it was meant to be as provocative as it was.

MR WEICKHARDT: I'm simply trying to understand.

MR CHAMBERLAIN: Okay. I wasn't complaining. The DFA we see is unrelated to ACIS. This is a technical requirement because of the fact that the component sector has a difference in the duty rates on its raw material inputs and its component outputs, whereas we have the same duty rate on our inputs and outputs, and to get an equivalent - - -

MR WEICKHARDT: On some of your inputs.

MR CHAMBERLAIN: Yes.

MR WEICKHARDT: As an ex-supplier of paint, I don't seem to remember enjoying - - -

MR CHAMBERLAIN: No, I agree there are some exceptions. We also use some raw materials, but we mostly use components, and in order to have the same effective rate of assistance for component production and auto production, you have to do something to compensate for the fact that the component sector has an effective rate that is much higher than its normal rate, whereas if we didn't have a DFA, ours would be perilously close to the same as our normal rate. Now, the DFA then, I think is unrelated to ACIS or any of these other matters. It's simply something that needs to be there. Now, as far as the provision of other forms of ACIS assistance is concerned, we see that as a transitional measure, and we think it's a good idea if transitional measures foster a transition rather than tending to prop up the status quo, and this is one reason why we think that R and D assistance is a better idea than production assistance.

MR WEICKHARDT: Yes, okay, I'll come back to R and D, but it was your reference to the fact that the auto industry does not have access to a TCS, and I think you were suggesting and I think you were on somewhat different ground to some of your colleagues in the industry here that you felt that a TCS ought to be introduced.

MR CHAMBERLAIN: We ought to have access to the existing TCS, the same as pretty much every other sector of industry has, yes.

MR WEICKHARDT: But is that instead of having a DFA?

MR CHAMBERLAIN: No, the DFA has an entirely different purpose. It's there simply to equalise the effective rates of assistance between car and component production.

MR WEICKHARDT: I think some of your colleagues are on record as saying that the DFA exists purely because the auto industry doesn't have access to a TCS.

MR CHAMBERLAIN: That's something that they may have gotten from transcripts involving Commissioner McBride 10 years or more ago when he had a similar view, but I don't think it makes mathematical sense in terms of the industry economics. I don't think that is the reason for our exclusion from the TCS.

MR WEICKHARDT: So you want both?

MR CHAMBERLAIN: Yes, sure. Everybody else, incidentally, has access to the TCS.

MR WEICKHARDT: They do, but they don't have a DFA.

MR CHAMBERLAIN: But the DFA is not for the reason of equating to the TCS. it's for the reason of equalising the effective rates between the two sub-sectors.

MR BANKS: But are you saying there are no other industrial activities that would pay the same rate on their inputs as they would get on their output, that tariff escalation occurs across the board.

MR CHAMBERLAIN: I think more likely there aren't too many others where they're in receipt of special sectoral programs where they have that differential. In other words, the quantum is more significant than it is if you're talking 3 per cent on both.

MR WEICKHARDT: So if the tariff on vehicles and components converges to 5 per cent, then in your view, a DFA is no longer necessary?

MR CHAMBERLAIN: I would have to see the average rates on inputs to components, but I would have thought the average rate on inputs would be 3 per cent. So you would still have a 1.4 times multiplier between inputs and outputs.

MR WEICKHARDT: This seems to be based on some notional idea of fairness between your suppliers and you rather than what you need.

MR CHAMBERLAIN: I don't think "fairness" is the best word. I think you get the best resource allocation between the sub-sectors if they've got equal effective rates of assistance.

MR WEICKHARDT: But that only applies to some of the component suppliers. Steel, for example, you wouldn't argue the same way?

MR CHAMBERLAIN: I would say that those are not specialised suppliers to the automotive industry. We take a proportional share of their output, which is a minority share in the cases of paints and fabric and steel.

MR WEICKHARDT: Another area where you said the DFA should apply to exports as well as to domestic sales - - -

MR CHAMBERLAIN: Yes.

MR WEICKHARDT: But you do get the benefit of the trade-ex scheme, duty drawback on exports.

MR CHAMBERLAIN: I don't see that as a benefit. I simply see that as the same arrangement that every other developed country in the world has.

MR WEICKHARDT: Right, so you want the DFA on exports as well as trade-ex.

MR CHAMBERLAIN: Because at the moment - and I'm not saying this is something that comes out of any economic theory, it's merely a matter of pragmatics. We have a government measure in the form of a DFA which is assisting those vehicles that are directed towards domestic sale. Call it a form of production subsidy. Now, having a production subsidy that only applies to your domestic sales and not to your export sales seems to me to be an unnecessary restriction. WTO principles suggest that you would apply such measures equally to domestic and export sales.

MR WEICKHARDT: But again this should be specific to the auto industry, or do you believe this should apply to every industry?

MR CHAMBERLAIN: If the others have a similar reason to have a DFA, then by all means it should be applied equally. Our problem is we have a DFA and it selectively assists domestic sales only. It ignores export sales. Now, I don't think we're asserting that this is a crime against nature. We're just saying that a more efficient assistance regime is even-handed between domestic and export sales.

MR WEICKHARDT: Well, I haven't read your submission. This could be characterised bluntly as a grab for more money. If there's a logic flow behind the argument, I'm missing it at the moment, Geoff, so you might have to help me with a supplementary.

MR CHAMBERLAIN: Be happy to have the discussion, and I agree that there is a quantum of increased assistance to the industry that would flow from it. It would increase the cost of the DFA to government by about 50 per cent.

MR WEICKHARDT: Okay.

MR CHAMBERLAIN: There is a reason for wanting to do that which has to do with the fact that within the sector there are some very different business models, and if you were going to be able to stretch the available amount of assistance equitably across these different business models, you've got to make sure that in effect it is viable for at least one other auto producer for there to be a redirection of assistance towards R and D which would not greatly benefit that producer. So we would prefer to see a form of assistance that doesn't grossly intervene in which business model is preferred. We'd rather that market issues determined what's the best business strategy. But if you significantly reduced the ACIS benefit - that is the true ACIS benefit from the production subsidy within ACIS itself, not the DFA - if you greatly reduced that without there being any other form of assistance for export in its place, then you would disadvantage any producer that was highly dependant on that form of assistance, and we don't think that would be a good assistance regime. So it's not simply a grab for cash. I mean, cash is nice, but we also have to end up with a transitional scheme that doesn't bludgeon one of the four producers into the earth in order to help those that are primarily concerned with R and D. Does that sort of help to clarify what we're on about here?

MR WEICKHARDT: Well, I'm getting the general drift but as I say it would help if you - I mean, if it's elaborated in here I'll take it. If it's not then you might just try and help me through that. Just on the R and D front, if we can turn to that, you referred I think, Alison, to the modelling work that had been done. I was left somewhat confused by what that modelling work really was attempting to illustrate. I suppose the out-take I got from it was that the modelling work had compared two scenarios. In both cases according to the gentleman there from Access Economics an equivalent amount of government money had been contributed. Therefore there was no fiscal impact on the government from either of these two approaches.

In one case the case model demonstrated that if you invest in an R and D project that has a healthy IR that this is good for the company and good for the economy. So given the fact that in both cases the government was, if you like, indifferent - it had contributed an equal amount of money in both cases - I was left confused as to what this illustrated apart from the fact that if you engage in some good R and D it's good for you and good for the company and good for the economy. So why has the government got to get involved in this?

MS TERRY: I guess what the modelling sought to demonstrate was that, yes, the scenario that was modelled was equal exposure for the government or equal input from the government, but that under the R and D model, the benefits to the economy would actually exceed fairly significantly the benefits under whatever the base case might be. So in terms of additional jobs and additional GDP, what it sought to demonstrate was that by that shift in emphasis into research and development, the benefits - yes, the inputs were the same, but the output was greater. I don't know if you want to add to anything there.

MR CHAMBERLAIN: We modelled the case that we had recently experienced where a project was looking like it wouldn't be proceeded with because you had to commit to a great deal of R and D expense with an uncertainty as to whether you would produce a viable project at the end. You probably would, but we're somewhat risk averse I guess, and we're perhaps not alone in the industry in that. So we had a particular case where an R and D benefit would have led to something going ahead that had quite a considerable downstream production effect, but it was not quite teetering in the balance even, it was looking like not being proceeded with at the time because of the perceived risk.

So what we were proposing to do in effect was to have the very earliest part of the risk profile supported by government instead of them supporting the output stage where all of the commitment is already made and the outcome is not really uncertain.

MR BANKS: Yes, but you were saying that the R and D tax concession doesn't cut the mustard in terms of - - -

MR CHAMBERLAIN: 7 and a half per cent, no.

MR BANKS: - - - tipping it over the balance.

MR CHAMBERLAIN: 7 and a half per cent wasn't enough to make it fly. Remember that here we're talking about very high risk R and D where you would expect in the long term a proportion of these cases would fail. You would develop a product and you would decide not to make it because the business opportunity wasn't there.

MR WEICKHARDT: I guess the issue is that you're asking - I mean, if on balance you believe more of these are going to succeed than fail, then again if the company believes that, then surely they would do this regardless of government assistance. If the company believed that more of these would fail than would succeed, then the company wouldn't do them unless there was government assistance, but in those circumstances the government is actually funding risky R and D that fails.

MR CHAMBERLAIN: Okay. Hopefully predominantly it doesn't fail, but what the proposal relates to starts with the view that currently the industry, at least in Australia and probably worldwide, is perhaps excessively risk averse. They aren't making the correct net present value calculation. They are basically saying, "Well, if you want this 50 million up-front and I may not get anything at the end of it, I don't think so." We aren't proposing a permanent assistance arrangement at least in the quantum that we're proposing in the ACIS period, but we are saying if you are trying to achieve a transition from the industry being probably excessively risk averse to it being capable of taking a risk for a suitable reward, then you begin by reinforcing the behaviour you want to encourage.

MR WEICKHARDT: I think we have tried to make the point in our report that probably those same arguments apply to virtually every industry and the right way of tackling this is to tackle the general R and D provisions rather than say this is a unique phenomena in the auto industry.

MR CHAMBERLAIN: We're very R and D intensive compared with nearly any other sector, though not literally any other sector. I think the computer industry is even more so, but what we are saying is, yes, this is a transitional measure and it should eventually turn into, perhaps with a slightly smaller scale of reward, a general measure for very highly innovative steps, but having had an R and D scheme nationally that fell into difficulty some years ago when the reward ratio was a bit higher than it is now, we think there is a risk to the revenue in experimenting on a national scale, and this is an opportunity to experiment, if you like, on a quarantine basis. Remember that there is no net increase in the cost to the revenue; it's substitutional for another form of assistance. That's about as safe as an experiment can get form the revenue point of view. There is no incremental cost to government, and you're in effect piloting what might be a successor to the current national scheme.

MS TERRY: We have also very much supported the commission's comment that, you know, the 125 per cent scheme does need to be looked at, because as we move away from sector-specific funding, we actually will increase our reliance on the industry-wide support mechanisms that are available through R and D and investment attraction.

MR BANKS: I mean, as you know, it's now a 125 per cent scheme but with 175 per cent for incremental R and D, which I imagine - I mean, if the projections for Holden are right, you know, that you would qualify for a significantly higher rate.

MR CHAMBERLAIN: There is some difficulty with that in that after you - well, if you like, the ramping up of our R and D expense will happen so quickly that that form of reward will be all over in, sort of, two or three years, and that's too short a transition for it to be built into our business paradigms in that period of time.

MR BANKS: Yes, so this is partly predicated on plans to actually significantly increase R and D over the next few years?

MR CHAMBERLAIN: Yes.

MR BANKS: Yes, okay.

MR WEICKHARDT: Yes, sorry, this is probably a bit all over the place, but you refer in your paper and your original submission to the issue of four-wheel drive and vehicle classification is sort of, maybe purely a coincidence that you and Ford now see the definition of what should be a complying four-wheel drive as being something that should be reviewed. I forgot to ask the other two motor vehicle producers whether or not they shared that view, but what's your guess on that?

MR CHAMBERLAIN: My guess is that in the case of our proposal that you discriminate between body frame integral and body on-frame vehicles. It would depend on whether that manufacturer was a major importer of body-frame integral four-wheel drives, which one of them is, or both of them are, but in one case it's predominant. So my guess would be that two of them would have difficulty with the proposal we've made. What we were trying to do was to avoid a situation where a segment that we're trying to enter is assisted at a lower rate than the other types of product that we make and at the same time the vehicles that are imported in that category are being used for simple on-road passenger purposes. We very much do not want to interfere with the low-duty importation of specialised off-road four-wheel drives which we see as an aid to primary production. So even if a substantial number or them do end up in the city, we don't think it's practical to discriminate on the basis of end use, and so we've looked for a difference in the nature of the vehicles themselves.

MR BANKS: The other thing that you raised, Allison, was workplace relations where you talk about speed, flexibility, innovation, those same characteristics hopefully applying in that area as elsewhere. You talk about, unlike Ford who where there this morning, you said that union structure or you implied that union structure was not really an issue in terms of achieving those things. I'll just perhaps get you to respond to that.

MS TERRY: I think it's probably true to say that union structure is an issue. My comment was more that our belief is that that's probably not up to us to resolve. It's a matter for the unions and their members to resolve, and one of the comments that we've made in our supplementary submission is that if we are among the other issues that need to be dealt with in workplace relations also dealing in an environment where the unions have subgroups and fragmentation, then obviously that's going to make what is already a challenging task, more difficult. So we would certainly agree with Ford that a single union maybe something that should be looked at. How that's achieved is probably, you know, more problematical.

MR BANKS: The second point you made was the importance of having a robust legislative framework and that all parties would comply with that framework. I'll perhaps just give you the opportunity to elaborate on that, and in particular, do you think the current framework is sufficiently robust?

MS TERRY: In broad terms the legislative framework contains a lot of the framework that's required to address issues. Holden has supported the Australian industry group's work in this area over recent months, and in particular their most recent recommendation that a couple of key areas be identified for action. One is to allow a cooling off period, and the other is for more robust action to be able to be taken where there's a risk of significant damage occurring to a third party, as would be the case in Holden's situation if, for example, we were prevented in making a significant export shipment. We would see that as being grounds under the AIGs framework for, as I said, more robust intervention.

MR BANKS: I think the point was made, probably by Toyota, that at the end of the day a lot of the problem needs to be - if we can put it that way - needs to be resolved, you know, within enterprises by management and employees and unions getting together and doing better. I'll perhaps just get your views on that and whether you think there's some way to go in terms of management's own capabilities in this area, particularly in relation to your suppliers.

MS TERRY: I think in the supplier sector it's been identified that there is some gap in management skills in dealing with industrial relations, and not so much industrial relations but workplace relations issues, and again the Australian Industry Group has made some quite sensible recommendations there as far as making training programs available for smaller enterprises that wouldn't necessarily have the skills in-house that larger companies have available to them. So, yes, and I believe that the FAPM have supported those recommendations, but, yes, the observation is well made that there are some gaps.

MR WEICKHARDT: Allison, you referred in your discussion, and I think your submission - flicking through it - to the fact that you don't condone and can't condone illegal activity. Do you believe Holden have been affected by illegal activity in this area?

MS TERRY: Well, a number of the recent disputes in the supply sector have been - elements of them have been illegal. I think that's a subject that all of the manufacturers have been very strong on, that there is a legislative framework. There are legislative frameworks for all aspects of our business and we are required to comply with the law, whether it be trade practices or industrial relations or occupational health and safety. So why - the point that we're making is that workplace relations is no different. We just can't condone illegal activity.

MR WEICKHARDT: Have the appropriate actions been taken in regard to that illegality, you believe?

MS TERRY: Actions have been commenced, yes. I don't propose to go into specifics here but we can talk more about that separately, if that would help. But I think I can answer your question in the affirmative.

MR BANKS: Perhaps to keep it at a level that we can talk about, sort of, openly. I mean some would say that the firms haven't made sufficient use of the scope that exists within the industrial relations regulation to address those kinds of illegalities.

MS TERRY: I think that, perhaps, if you went back two or three years ago it was probably a fair comment. I don't think it's true now. But I think there is one other comment that can be made to that - and that's one that Holden's managing director is quite fond of making - which is that, you know, if you get to a point where the employers have got a big stick and they hit the unions over the head with it and the unions have a bigger stick and hit them over the head with that then ultimately we're, you know - does that take you in the direction that you really want to go? Our answer would be, no. So that there's a limit to how you can utilise those legislative provisions in any event, would be our philosophy.

MR BANKS: The last thing I was going to ask you is, from your own company's perspective, how these stoppages have impacted on the company and indeed how big an issue you see that going forward. We've had others tell us that, you know, Australia is pretty much locked in to just in time processes. We're not necessarily firms - your firms aren't necessarily locked in to domestically sourced inputs, or are you? So how important do you think these issues are in terms of future success of Holden?

MS TERRY: Well, they're very important and they're one of the suite of areas that I mentioned earlier that need to be addressed. Holden does work to just in time, like the other manufacturers. Our business philosophy is generally to source locally wherever we can, wherever it makes sense, and there's a good reason for doing that that again, links back to our strategic direction. If you want to be innovative and fast on your feet in meeting new needs, it's a lot more difficult to do that if your key suppliers are located in Europe or the US or even in Asia. I mean if they're here working closely with you, then you're much more able to respond quickly. So, yes, we're equally impacted by just in time processes as other manufacturers and we do think that it's an area of great importance.

In terms of our ongoing business I think it's well known that we were heavily impacted by Tristar and by Walker in particular. One way that that has impacted us is that for the remainder of this year we have no rostered days off. All of those days have been brought forward to manage the impact for our employees of strikes at our suppliers. So when you look at flexibility and the ability to introduce a range of new products in a way that the workforce is comfortable with, yes, we've got some very demonstrable impacts that we've seen.

MR BANKS: Okay, thank you.

MR WEICKHARDT: Can I just clarify one thing? I think I know the first part of your answer to my first question. But if I say to you, "Well, you know, I've heard what you've said about your preference re the tariff." But if I confine you to having a choice, to simply the three options that the commission put up, does Holden have a preference between those three options?

MR CHAMBERLAIN: Yes, we prefer that ACIS run for five years, so that the amount of stimulus that can be unleashed is significant. We would not want to see simultaneous end of ACIS and reduction in tariff. Therefore we would prefer the option that ran the 10 per cent duty to 2015. But we think - - -

MR WEICKHARDT: That wasn't one of the three you have a choice on.

MR CHAMBERLAIN: You're saying that the commission's suggestion was that if the tariff ran to 2015 it would because there was no ACIS?

MR WEICKHARDT: No.

MR CHAMBERLAIN: If we chose to make a more liberal interpretation.

MR WEICKHARDT: There were three options on tariffs and three options promoted on ACIS. I'm just saying if you had a choice only between those three - - -

MR CHAMBERLAIN: Just the tariff matter?

MR WEICKHARDT: No, on both, on ACIS and tariff.

MR CHAMBERLAIN: Yes.

MR WEICKHARDT: Which, from that group of six, which two from that group of six would you choose?

MR CHAMBERLAIN: Well, I think the - my reading was the commission considered that if you put money into ACIS then you would want to see the tariff decrease sooner, perhaps I misread your alternatives. But what we do not want to see is ACIS timing out simultaneously with a major duty reduction.

MR WEICKHARDT: Yes.

MR CHAMBERLAIN: So that causes a constraint. Whether or not it would otherwise be possible to reduce the duty sooner than 2015 anyway would depend on trade issues and some very achievable domestic tax reforms which should be - not be a major obstacle. But essentially we want to see a cadence so that we don't have an unmanageable adjustment in a particular year and that suggests that if you are going to have a transition out of ACIS and a transition to a lower duty rate they should not be simultaneous.

MR WEICKHARDT: Well, that would suggest to me out of the options we put up that you prefer ACIS being spread out over 10 years because of all the three options, tariffs declined at some point between 2005 and 2015 and so if you don't want a coincidence of the two you've got to go for ACIS spread out over a longer period of time, under our options.

MR CHAMBERLAIN: Under your options. We thought we had a better option.

MR WEICKHARDT: I understood that.

MR BANKS: Could I just take you back to your point about the coincidence of ACIS terminating with the reduction of the tariff. I mean, that's precisely the situation that we're in now, aren't we, under the current arrangement, so industry agreed to an ACIS program for five years, which was predicated on a 5 percentage point drop in the tariff in 2005 which the industry preferred over an incremental reduction for obvious reasons. All that being anticipated some years in advance, I mean, realistically how much difference does it make as long as you're not caught by surprise.

MR CHAMBERLAIN: I think perhaps this has been widespread in the industry - have thought that it was far more likely than not that ACIS would be extended in some form because, for instance, if you look at the way the investment incentive works, it was phased in over two years from before ACIS started officially and will phase out over the last two years that ACIS still is in existence and we have semi-confidently anticipated that the replacement would phase in over the two years so there'd be a seamless transition. So while we have always thought there was likely to be change in ACIS, including potentially change in quantum, we have expected that, for example, the investment scheme would be peremptorily discontinued in 2005. So we didn't ever plan around such a transition as you mention. We also had thought that having seen a major tariff reduction at the beginning of 2005, it was not that likely there would be another major reduction at the end of 2005, because the base would be looking a bit unrealistic.

MR BANKS: Yes. And again, we haven't suggested that as one of our options.

MR CHAMBERLAIN: No, I understand that. Your suggestions were constructive, we're very pleased that this debate is happening in a constructive manner. I am actually not being critical of previous inquiries where I think there was an intention to bring about a vigorous debate and certainly that was succeeded in. I wasn't objecting to any of your alternatives.

MR WEICKHARDT: Just one final question from me. I think your original submission made the point, had some parallels to the comments being made by Ford about sort of unintended consequences, if you like, from the way ACIS was designed. I think you originally said that there was a skewing of reward that actually suggested once ACIS had capped out that manufacturers would be more motivated to attack the domestic market rather than the export market, because their benefits under ACIS got capped, you know, production benefits got capped. I mean, are you suggesting that you think this is a bad thing. Again, there's a certain amount of money to go around; it's got to be allocated somewhere, are you suggesting you'd like to see the pain equally felt between exports and domestic production?

MR CHAMBERLAIN: We'd rather see measures that were neutral between the two, so that it can be determined by market forces.

MR BANKS: Well, thank you very much for attending today. As I said, we will read these comments which constitute your supplementary submissions. So it's not a draft, is that right?

MS TERRY: Part of it is still a draft, yes, but we can clarify points that have come up today.

MR BANKS: We'll certainly look at this and we may have some further questions which we might need to put to you. But thanks very much for attending today.

MS TERRY: Thank you.

MR BANKS: We'll break now for lunch and resume in about one hour. Thank you.

(Luncheon adjournment)

MR BANKS: Welcome back everybody. Our first participant this afternoon is the Australian Council of Trade Unions, welcome to the hearing. Can I ask you please to give your names and positions?

MS BURROW: Thank you, Gary. Sharan Burrow, ACTU president.

MS RUBINSTEIN: Linda Rubinstein, ACTU senior industrial officer.

MR BELCHAMBER: Grant Belchamber, senior research officer.

MR BANKS: Good, thank you. Thanks very much for attending this afternoon. You've brought with you a substantial submission which we've not seen, so it will be in your hands to some extent to highlight the key points that are in it. So I'll hand over to you Sharan.

MS BURROW: Thank you, Gary. Well, we'll do it in three parts in around 15 to 20 minutes if that's all right with you.

MR BANKS: Yes, thank you.

MS BURROW: I'm very much the figurehead and will make a couple of introductory comments and then Linda Rubinstein will take you through the substantial submission we've made in regard to the IR component of your report and Grant Belchamber will wrap it up by talking about the industry more broadly. We wanted to impress on the Productivity Commission that the ACTU and the unions see this as a vital industry for Australia's future. There's been a long history of constructive endeavour within this sector of the economy in order that it might be here for the future, it might be as strong as it is today and that history we think is important to consider in the context of the decisions you take around recommendations to government for the future.

The car industry employs something like 55,000 people directly; that's significant in itself. It's particularly significant in the context of its regional economy status, particularly in South Australia and Victoria but also New South Wales and of course for the unions, the AMWU and other unions will no doubt elaborate on this, but for the unions it's a good sector of a range of industry or industry-sector pieces that go to the heart of the manufacturing story in this country. It's critical in terms of manufacturing, terms of R and D, in terms of technological spin-off for the future. So none of that would surprise you but it's important that we acknowledge upfront that jobs and investment in the car industry are critical and that we see the industry as a vital piece of Australia's manufacturing base.

It is critical that the industry has stability for at least a decade. We don't have to tell you, others have done so already, about the production timeline, the turnaround that takes in terms of design, implementation and production and sales. It would be criminal, we think, if there was an automaticity to the tariff issue itself. Our position is that you retain the tariffs at 15 per cent. We don't believe that there's been any evidence to show that the commitments made out of the last review around increased market access provided for by government policy and the like have been delivered. We acknowledge that you've talked about 10 per cent, but we would urge you that when you consider this issue, that there should be no automaticity, there should be a further review. It's critical that there is that kind of guarantee for the industry to plan in the context of global competitiveness.

In regard to the industry assistance package, well, our view is it should be maintained. It should be geared to meet the needs of both sectors, but it certainly should again be maintained with a review guaranteed rather than any notion that it will simply expire. The tariff issue and the assistance to industry are within international practice benchmarks and in fact have proved to be the basis on which the car industry has built the current productivity. I'd only say two other things; one is that when productivity is at an all-time low you can't talk about a 50 per cent increase in assembly and a 90 per cent increase in the car component sector and not pretend that there's a good story coming out of the car industry. But that good story will be very fragile if two things don't occur.

One is that the industry has a stable guarantee around the assistance it will receive and secondly that it has a constructive industrial relations environment. Linda will take you through the details, but suffice for me to say it would be very foolish of the Productivity Commission, in our view, to pick up the government's agenda. There's a relatively low industrial disputation level; it's one of the lowest in decades within the car industry at the moment. That doesn't mean that we don't recognise that with a just-in-time philosophy there is a need to manage consultative practices and industrial relations across the industry in harmony with an enterprise agreement system.

We support enterprise agreements, we support enterprise bargaining, but we don't support a singular focus within the context of an industry that somehow says, "We're going to take no responsibility for practices that manage IR within a stable industry context," and to suggest that legislation which focuses on the just-in-time philosophy of this sector of manufacturing would somehow negate industrial rights for working people is just not acceptable. So just-in-time is an industry philosophy, we recognise that, but it can't be delivered by having no time available for decent rights and processes for working Australians to bargain for fair industrial relations outcomes. Suffice to say that I think the government should be taking heed of the cooperative environment that's previously existed in this industry, bringing the parties together in an industry-consultative framework, not seeking to sensationalise industrial relations and to make it, if you like, the risk factor in an otherwise good news story in terms of where we sit in regard to the car industry in 2002.

I'll leave Linda to go through the details and Grant to come back to the industry, but we're happy to answer questions.

MR BANKS: Good, thank you.

MS RUBINSTEIN: Thank you. A relatively large part of the ACTU's submission is taken up with the discussion of the industrial relations legislation which was the subject of some of your considerations in bringing down the report. It would appear that a key finding of your report was that the government's industrial relations legislation agenda should be supported as providing a better balance, you say, between the right of workers to take industrial action and the welfare of the community, which suffers harm from disputes. It seemed to us that no evidence was put forward in support of this recommendation of yours other than some untested propositions from employer organisations.

In the report you refer to disputes being a plague in the industry. It's a plague which I think numbers three, being the key disputes which have raised the temperature of consideration of industrial relations in the industry. If we look at those disputes we see that two were about employee entitlements and one was about job security. In relation to - and I should say two of those disputes involved protected industrial action and one did not. In relation to the employee entitlements issue, your report says that that's an issue which should be dealt with at an industry or a national level and in fact steps are being taken, we understand, to facilitate that. That is of course precisely the position of the unions and the ACTU, which have been, up to now, constrained by the single focus - the single enterprise focus of the bargaining system. It's not that unions don't support enterprise bargaining but commonsense - as recognised by your commission, or at least recognised in your report - commonsense says that there are some issues that simply can't be efficiently dealt with at an enterprise by enterprise level with different results. Of course commonsense also says that in a highly integrated industry operating on just in time principles, an integrated approach to industrial relations makes sense as well.

We'd ask the question that if the idea is to reduce disputes, what number should three be reduced to? We ask whether punitive sanctions should be applied to all industrial action in this industry and if in this industry why not in all industries? We'd ask whether or not this would work and make the point, with a certain of hyperbole, but even in countries which imprison people for taking industrial action, even in countries where people get shot for taking industrial action, industrial peace cannot be guaranteed. There is really no way of stopping it. There are much more effective means for a highly sophisticated industry in a sophisticated economy to look at managing workplace and industrial relations.

The ACTU is disappointed that the Productivity Commission report contains no analysis of the extensive findings of the International Labour Organisation in relation to the future of Australian industrial legislation to meet our obligations under the international conventions to which Australia is a party. That seems to be in sharp contrast to the commission’s concern about Australia meeting its commitments in relation to international trade conventions and the like. The breaches of ILO standards are serious. They have been commented upon by the ILO consistently over a number of years. They have come to the attention of the Productivity Commission staff and there is a reference in the report to a staff paper, Living Labour and Environmental Standards NVWTO, in which reference is made and there is clearly a knowledge of the ILO standards and of the fact that Australia has been found to be in breach of this. In light of this we are somewhat mystified as to why these matters were not dealt with. However, commencing at paragraph 24 of the report - of our submission, we set out for you some of the detail of the ILO criticisms of Australian legislation, and the full text of those are included as appendices to the submission. We hope that you will find this helpful.

But perhaps even more seriously, the report makes no attempt to analyse the legislative proposals which it supports. This may be a misapprehension and we’re open to being corrected, but it would appear as if the Productivity Commission has not examined the bills and other material and looked at them in their own terms to see whether they would be efficacious, to see whether they would be consistent with international principles and to see whether they would be likely to be supported. Again, we hope that it’s helpful that we have included in our submission copies of the bills and the explanatory memoranda. We hope that it will lead to that kind of analysis. We would make the point that each one of these bills has previously been before the parliament, that is, the last parliament before the last election and in some cases the parliament before that. In each case it has been made clear, either through a vote in the Senate or through decisions of the Senate committee on workplace relations, that the required support for the bills would not be forthcoming from the Senate. It is for, we might say, good and cogent reasons to which we also refer in our submission.

It is therefore difficult for us to see the commission’s recommendation as doing anything other than offering political support to the government strategy which appears to be to use pressure in relation to industry assistance properly the subject of the commission’s deliberations, to win support for its industrial legislation. I’d make some brief remarks about the legislative proposals, the details I dealt with in the submission. Some of the submission is drawn from material that has been prepared for the Senate committees that have been looking at the legislation because they are exactly the same bills that you have referred to.

But I would make these specific points: first, the Genuine Bargaining Bill - and there’s a kind of Orwellian language which the government has become very fond of using. For example, their 1999 bill was, I think, called the More Jobs Better

Pay Bill. Their bills to further restrict unfair dismissal were called the Fair Termination Bill and so on. I guess we're waiting for the Free Beer Bill. But the Genuine Bargaining Bill would make industry-wide negotiating even more restricted than it currently is. At the moment although agreements need to be done with each individual enterprise, it is possible for a union to campaign broadly across an industry in support of a particular position - one of the reasons we have unions, you might well think. However, contrary to even your commonsense view, as I've said, about how entitlement issues and job security issues should be dealt with, this bill would make it impossible to campaign in an industry or in fact with more than one employer at a time in respect of a particular issue.

I would make the point that nowhere else in the developed world is multi-employer bargaining as legally constrained as it is in Australia. Even in the United Kingdom and in the United States where bargaining is more decentralised than, for example, in Western Europe, there are no legal barriers to industry-wide bargaining, and in some cases and in some industries it occurs in both of those countries. It is simply not possible here to take industrial action in support of an agreement that would cover more than one employer, and that is unique, and that is the issue that, along with a couple of others, has largely occupied the International Labour Organisation in its observations on Australia.

The genuine bargaining bill would also direct the Industrial Relations Commission discretion towards suspending protected industrial action on just about every occasion where it actually occurs, and again on one level you say, "Well, a cooling-off period, people start beating up on each other, it's a good idea that they stop," but industrial action is not like that. It's not a decision that's taken lightly, and people don't continue taking industrial action because of a rush of blood to the head where they can't consider proposals or anything else. A suspension of bargaining periods, a suspension of industrial action would have the effect and is intended to have the effect of taking away the bargaining power from the union and encouraging it to settle on the employer's terms.

The real problem in the Australian industry is not the fact that there is an ability to take protected action, nor that that ability to take industrial action is not sufficiently restricted. It is very, very restricted already by international standards. The real problem as I have said is the lack of ability to have an integrated approach to bargaining to match integrated production systems. The logical way for bargaining to operate, one would think, would be to have an overall framework with clear understandings throughout the whole industry - the suppliers and the assemblers or the producers - and within that, to deal with enterprise-specific issues. That's the way it's done in other countries and that would seem to be the only commonsense way to go about it.

In the report there seems to be some dissatisfaction expressed by the

Productivity Commission with the outcomes of bargaining; wage rates are too high, employers are buying industrial harmony, comments of that nature. Whether intended or not, the effect of the government's legislative agenda which is seemingly supported by the commission would be to increase the employer ability to dictate the terms in bargaining, and if that is the case then it ought to be said. If the point is, well, the outcomes of bargaining in Australia are too generous, and therefore we need to cut the worker's ability to bargain off at the knees so that they will settle for less, well, if that's the position, then it could be said, but that is certainly in our view what the intentions of the government are and of some employer support or at least some employer organisation support for the legislation.

Turning from the genuine bargaining bill to the secret ballots bill, this would place complex and expensive procedural hurdles in the way of taking protected action which go far beyond the schemes for pre-strike ballots which operate in the United Kingdom. It's often said that the Thatcher government introduced secret ballots and that the British unions don't have an objection to that. In fact the provisions which have also been amended to some extent by the Blair government are quite different to what is being proposed by this government, and the effects of the secret ballot bill would be to make the taking of industrial action very, very difficult indeed, and would remove all flexibility from the process.

Finally the so-called remedies for unprotected action bill provides for industrial action to be stopped by the Industrial Relations Commission essentially once an employer alleges that the action may not be protected. The bill provides that the Industrial Relations Commission must deal with an application for an order to stop the action within 48 hours. If it can't deal with it in that 48 hours, then following a range of factors, the discretion is really being pointed towards issuing an interim order for that action to stop.

Employers have a practice recently commented on by a presidential member of the Industrial Relations Commission. Employers have a practice of making applications of this sort late on Friday afternoons, and of course that means that if time begins to run from then, as it does already in relation to applications for some types of certificates, then the possibilities of dealing with it in 48 hours or 72 hours are, as you would understand, rather limited; even notification of people who need to be notified of the proceedings can be difficult.

Under this bill, all that an employer would have to do would be to say on Friday afternoon that the industrial action which might have been scheduled to start for Monday for example is not protected. Whether or not that's right, the commission has got to hear submissions - the Industrial Relations Commission that is - and deal with it. They can't possibly do it in 48 hours, and would then be almost certain to issue an interim order to stop the action. If you believe that there ought to be any right whatsoever for workers to take industrial action, then you have got to see what's wrong with that and how easily open to manipulation it is. I haven't taken you through the detail of the analysis of the bills. It's there to be read, and of course we're available to give further assistance if that would be helpful. Thank you.

MR BANKS: Thank you. I think we had probably better go to Grant and we will come back to questions after you have finished.

MR BELCHAMBER: Our submission is in three parts. Don't be frightened by the size of it. There's 50 pages in the submission. On pages 4 to 6 we set out some main points in the introduction; from 7 to 43 we deal in detail with the legislation and the industrial relations issues that Linda has just taken you through. There are a couple of passages in that section that deal with economics, and then the final few pages of the submission deal with some other issues. I'm going to concentrate on the economics and industrial relations issues raised by the review of automotive assistance position paper.

We think that the description in the position paper of the economic structure of the Australian car industry is broadly accurate, but the understanding that the report conveys of industrial relations generally, and in the automotive industry in particular, is seriously deficient. Similarly as far as it goes, the account of the economic structure of the global industry is broadly accurate, but wholly deficient in the position paper is any account or analysis of industrial relations practices as they apply in other countries with automotive production capacity.

We say and we agree that the Australian car industry has transformed itself over the past decade. It's become a major exporter and innovator, and productivity and product quality are greatly improved. What's lacking in the report is a balanced and cogent account of how that's come about. We have before and after assessments. You know, 10 years ago we didn't export much, and now we do. 10 years ago it was like this, now it's like that, but apart from giving prominence to that transformation having been influenced by reductions in tariffs, the position paper gives no prominence to the transformation having been delivered by workers in the industry, most of whom are strong union members, and that having been delivered on the regulatory foundations of award restructuring and subsequently collective bargaining achieved by unions in this industry and more generally.

Similarly, the role of the Button car plan, which was about much more than simply tariff cuts and started from 1984, which required cooperation and commitment from all parties in the industry and established the platform, we'd say, for the sector's present day success, gets virtually no mention. I think there are two references to the Button car plan in the introduction, and that's about it in the report. We think that the analysis of the economic implications and the central proposition that the bargaining impedes genuine enterprise bargaining and hence future productivity growth in the industry is an assertion made by the commission with no scholarship and no research really into the professional literature about the nature of productivity growth and bargaining structures. It doesn't reflect well on the credibility of this organisation to make those sorts of assertions devoid of proper scholarship and research, and we detail some of those in the submission that we've put to you.

From about page 22 of our submission, we talk about labour market competition and pattern bargaining, and point to the universally recognised principle that the labour market should not be open to free competition in the manner of other markets for goods and services. An important reason for that is the unfairness which would result from the exercise of greater bargaining power of the employer over the employee. This is paragraph 106. The enduring truth that labour is not a commodity is embodied in the International Labour Organisation's declaration of Philadelphia, and we've included that in the attachments here; that's from 1944. Over the page we talk about this fact that labour is different from other commodities, other goods and services - it's not a commodity - in the trade practices context. We refer there to the submission to the inquiry into the 1999 bill by Prof Joe Isaac - they are at paragraphs 111 and 112 - a man of some standing and a recognised, distinguished authority in the field. None of this economic assessment of the implications of different forms of bargaining is picked up in the position paper at all.

Over the page we go on to productivity and employment and we agree that by any measure Australia's productivity growth has been strong and sustained over the past decade, and we refer there to an eminent piece of research by the head of research at the Reserve Bank; that's in footnote 16. Now, that particular reports shows that our productivity growth has been high, but the sectors that have contributed most to the productivity growth in the last decade are those sectors where award coverage is high, retail and hospitality. It's been asserted on many occasions that Australia's improved productivity growth over the past decade reflects the introduction of enterprise bargaining. Well, we've consistently argued that award restructuring from the late 1980s provided the essential platform for collective bargaining, for changing the negotiating agenda at a practical level, and it provided the platform for collective bargaining to build upon and that that reform process explains much of the nation's sound economic performance over the past decade. We've always rejected the view that enterprise bargaining on its own in glorious isolation is some sort of magic elixir for boosting productivity growth, and recent academic assessments provide support for that view.

Now, the Gruen paper is not noted in the position paper, and neither is the paper by Mark Wooden and colleagues which carefully considers the view that enterprise bargaining on its own boosts productivity growth. He considers it and finds no evidence to support it, and we quote from Gruen at paragraph 131. He says, Gruen and his colleagues:

> But what has enterprise bargaining actually achieved? As demonstrated in this paper, the case for enterprise-based bargaining systems hinges in large part on its potential to enhance the productive capacity of business. Nevertheless the available evidence is far from supportive. While it's true that Australia experienced a marked resurgence in productivity growth during the 1990s, the available evidence from workplace and enterprise level studies does not enable any strong conclusions to be reached about possible links between enterprise bargaining and productivity.

So that's a second piece of relevant scholarship which appears to have passed the commission by in reaching its conclusions on changes to industrial relations law.

A further one is by Sandra Black and Lisa Lynch from the review of economics and statistics in August 2001, and it's called, How to Compete. The Impact of Workplace Practices and Information Technology on Productivity and we have several quotations there. They say, and I'm looking here at paragraph 134 of our submission:

> Workplace practices have interesting effects on labour productivity. In particular we find that simply introducing high performance workplace practices -

and they mention some of them in their paper -

> is not enough to increase establishment productivity. As shown in equation 2 in table 1, the increased employee voice that is associated with these practices seems to be a necessary condition for making these practices effective.

So it's not just enough to pursue TQM or Just In Time or any other thing; what's critically important is how you do it, and their major study of US manufacturing shows that the firms that introduce it in conjunction with a strong employee voice, a strong role for unions are the ones who get the productivity growth. That again is another piece of research which just doesn't get any recognition in the position paper that the Productivity Commission has given us on automotive assistance.

Gary would remember, a few years ago we made some similar comments in respect to the inquiry into impediments to regional industry adjustment, that there was recommendations about the award system not based on careful research and scholarship; similarly in the commission's paper on youth wages was quite deeply flawed in many respects about its conclusions that youth wages cost jobs. On this occasion again we find that in the area of labour market analysis, the report is seriously deficient and recommendations about changing the structure of unions, a nice piece of social engineering about how working people can and should belong to various organisations appears as a preliminary finding in a position paper, but when we actually look for the substantive, careful, empirical, analytical basis for the proposition, it's just not there in the report.

We go on the in this submission in the third section then to talk about and to draw attention to, try to assist the commission in looking at the effects of cooperation in achieving change over the past decade, and it's not a theme that receives any prominence in our submission in the position paper. We also note at paragraph 228 that while the position paper goes to great lengths to quantify the impact of further cuts to tariffs and the abolition of ACIS and finds that the gains are small and marginal and associated with substantial transition costs, in contrast there's absolutely no attempt to quantify the economic impact of the legislative changes that the Productivity Commission has given its imprimatur to in this position paper; none. It's just not there.

The section 3 - this is beginning at page 44 - we give an account to complement the position paper; an account of what has happened in the industry and how the change has come about, how we have transformed the industry and how it has become an exporter, how issues of absenteeism have been addressed, these things that plagued the industry 15 years ago and have been substantially rectified. It wasn't some magic administrative change to the level of tariffs that delivered it for the industry; it was people hands-on negotiating the hard issues that made these changes in the industry, but that role is not acknowledged in this position paper. What we find is there's a half a sentence that says that productivity or industrial relations or workplace changes have made a contribution, and then it's immediately hedged with a qualification about what needs to be done or about what's bad. There's no dynamic account of the change that we've achieved here.

So beginning at about paragraph 236, we talk about the story of the Australian automotive industry from the early 1980s to the mid 1990s and how it's really the story of how cooperation between management, labour and government in the early years reconstructed an industry vital to the future of Australia. We talk about the Button car plan, and that the plans were essentially based on consultation and cooperation between employers and workers through the car industry unions. We note that they appear broadly to have worked. There are different forms of cooperation that were involved. First there had to be cooperation about understanding the changing global context, and that if the global economy opened up, it would be unsustainable for Australia to have effective rates of protection above a hundred per cent. That position was understood, and today we have an automotive industry that operates in line with government assistance at world standards.

A second form of cooperation - I'm getting the wind-up here - second form of cooperation is between the component suppliers and the car companies, and today there has been substantial change achieved there, too. A third dimension was to put the focus on exporting, and to get those sorts of achievements, you have got to get quality right and you have got to get delivery schedules up and you have got to get the price right and you have got to get productivity up, and you can't do those things without cooperation from the workforce. That cooperation took some time to achieve and to spread, and it's now challenged by the federal government policy and legislation.

One of the issues at the time in the early 1990s was a memorandum of understanding between the companies and unions concerning a disputes resolution procedure for the industry. It was an important issue at the time and it has had an important role, but it's not recognised here. We do talk about award restructuring, fundamentally changing the basic workplace regulations, and over the weekend just reflecting on some of this, one of the issues that we haven't mentioned in our submission is that in 1988 the vehicle industry sent an overseas mission looking at what happened in Japan and the US and Sweden and the UK. This was called Meeting The Challenge, Award Restructuring in the Vehicle Industry Unions. I can hand up a copy of the overview paper here, and I just refer briefly to some parts of this because again the Productivity Commission's report makes no mention of these focused efforts to change the industries at that time. It's an account in the position paper that essentially cuts unions out of the change process over the last decade and a half.

Here we have a foreword by the minister, the contents of this report were about preparing for the next century. They talk about the mission, what they were going to do, the production line, the changes that had to be made there, about work classifications and what had to be done, about education and training and about common goals. I could take you all through this in some detail, but it is worth noting that the mission leader for this particular exercise was a chap called Bill Scales who went on to hold the position that you now hold of course, Gary, and this report talks at length about the importance of cooperation and in achieving change. Those themes are simply not picked up in the position paper that we have from the Productivity Commission which recommends quite serious action constraining unions' rights to organise and to take action in the industry and simply points to tariff reductions as being the only issue insofar as achieving change is concerned.

So we don't say that this process was without difficulties. There were down sides and we go through some of those in our submission here. We note that in contrast to that cooperative approach, coming out of this process there was a consultative council for the industry as a whole that had unions and employers and governments on it, but the current government has sacked the union representatives and turned it into a thing for only CEOs and governments. So it has actually undermined the standing arrangements that were in place for consultation and cooperation in the industry. That's a serious problem and one that this commission could focus on in getting a bit more balance in the report about industrial relations issues.

We see that we can have a productive industry in the decade ahead and we point to that at the end of our report here. There are a number of other more minor issues that we go to as well, but we think for the importance of the regional economy and the regional communities that assistance levels should be paused at present levels, and subject to review in about five years' time, but the report really needs to lift its game in giving an account of how change has been achieved over the last decade and the role of unions and working people in actually delivering that change.

MS BURROW: I think, Gary, that you will understand there is substantive history and expertise, and while Grant could, you know, demonstrate that at length - and he does so ably - not only will we answer questions now, but our staff will be available to assist with any further information you might need.

MR BANKS: Thank you for that. In fact it made me think, Sharon, that it would have been nice to have had you with Grant the last time he appeared before me. I think it went for a little bit longer than 20 minutes.

MS BURROW: I should let him go, Gary, you know.

MR BANKS: A couple of points; I guess one to make is that it is a position paper. It doesn't have all the detail we would like on a range of issues. So we're grateful for a submission that goes into considerable detail. That will be useful to us. I guess another point to make in that context, that it doesn't contain recommendations as such. It contains options in industry assistance an also has some findings in it, but I think you won't find any formal recommendations in the position paper.

I think it was Linda who said, "What's the problem in this industry? There have only been a few disputes. Just count them; there's only been three." I guess talking to a range of firms including here in the hearings, they have raised concerns about the costliness of those disputes perhaps to some extent looking forward and anticipating what could happen if disputes of that kind in the context of a just-in-time sort of system were to continue. So a couple of questions: (1) do you agree that the industry is vulnerable to industrial relations - the performance of an industrial relation system, and secondly what do you see as the ways forward?

MS BURROW: We think industrial relations needs to be managed, and there are a number of components to the way in which you might do that. The unions, the AMWU in particular but the other unions as well, will have a view about the strategy that they have tried to put in place and has been rejected by the employers. Can I say this, that if you look at the history - and it has very much been a parallel history for me personally with the industrial relations changes that this government wanted to make, then I frankly am highly confused by the position of the industry. On the one hand they want a particular enterprise bargaining focus with no industry-wide framework for deliberations about industry issues, and they want that enterprise bargaining focus to be conducted over - who knows? - two, three years, whatever the range of the life is. You heard Linda say that they want one issue per employer at any one time.

I don't manage the car industry, but if I did I would think - and if you look at international practice - that that's just a foolish way to manage an industry that does have vulnerabilities because of adjusting time philosophy of the major car companies. It would seem to me that you would want a bargaining round, that you would want to manage that round and you would want to have some mapped timetable about when issues arose, you would want to have some consultative structure to look at what might be common issues, both for the employers and the employees, and to manage those accordingly, at least at the level of options, on an industry-wide basis.

We see blind ideology coming from government and crazy support for it coming from the employers, despite the fact that we think the very vulnerabilities you point to would be better managed, but what we make absolutely clear is at the end of the day, it is a choice for employers about whether they bargain in good faith and how they want to tackle the bargaining framework within the law just as it is for us, and we cannot sit back and watch the notion that somehow you will get cooperation if you take away workers' rights pronounced as some new orthodoxy around the car industry or any other industry, and as we point out to the employers, if you put in place solutions for one industry, even where you could get agreement, then it has implications through legislation right across the board more generally and if you take this out of the car industry and you go to banking or to retail, then a lot of employers would say, "Don't take away the capacity for multi-employer agreements please, because we won't be able to deal with the industry imperatives on us."

There are lots of industries that would argue that they manage the enterprise bargaining, multi-employer agreement, industry-wide consultative mechanisms very well and that we should be revisiting, if you like, that history and putting in place those frameworks. The unions will have a particular view and a set of details about that, but it seems to us from the ACIS tier point of view just nonsense that you would put your industry at risk by sticking to blind ideology and not balancing the philosophy of the industry with the needs of workers.

MR BANKS: Linda, did you want to say anything?

MS RUBINSTEIN: Look, I think that really covered it. The point about it being three disputes is not just that it was three, but that each one of those disputes dealt with issues which really do call out for being dealt with on an industry level. They weren't in fact disputes about purely, you know, local-type issues or even about wages or hours of work. I think Sharon has set out the way in which you would if you like, manage an efficient bargaining round in the whole industry, and that is the way that it's done in other places. The point about each one of these legislative initiatives is that they're trying to plug a hole to make it more difficult to take industrial action, but there is absolutely no evidence frankly that any one of them or all of them would have prevented any one of those three disputes in the future.

That's really the point as well. You can make it harder and harder to take protected action, and workers may well say, "Well, okay, we'll take the risk and we'll take unprotected action." But at the end of the day, unless you put them in jail and send in the troops you cannot really stop those kinds of disputes, which happen because issues aren't being dealt with, essentially.

MR BANKS: Well, I think - sorry, just respond to that. I mean I think in our report we acknowledge that and while we - having had them raised for us by the AIG, looked at some of those proposals in the context of what we saw as the particular requirements of the industry generally. We said quite clearly in the report that you cannot legislate for cultural change or legislate for total changes in the way people relate to each other so that those issues, we thought, were quite important in terms of what we called a greater coincidence of interest and getting both sides working more towards the common ends of the industry.

MS BURROW: Gary, there are powers already within the Industrial Relations Commission and Linda has spelt them out, you know, in detail in regard to the Senate legislation. But the Industrial Relations Commission pretty much has powers to do whatever you want to do within the context of these issues if they're raised in that forum. Further to that, if you were sensible about reinstigating consultative structures, they could be done - I think it's under section 133 of the act which provides for those sorts of mechanisms. So the options are there. If people are sensible about industrial relations and don't just want to have a fight about it, then the options are there for us to proceed to deal with the vulnerabilities that you rightly talk about.

MR BELCHAMBER: I might just say in this particular industry - you mention in your report that there are some issues that are of an industry nature, about workers' entitlements and contracting out. But right at the core of the industry, at the way forward, you mention in the report several times, cost-downs. That is an employer strategy in the industry and it's recognised in a judgment that's included in our attachments, by Munro J, about the nature of industrial action in the industry. That's - really sets part of the employer bargaining agenda. So it's quite artificial for this commission to say, "Here are some issues that can be dealt with on an industry level but everything else ought to be at the enterprise level." That's really a matter for the people who are doing the bargaining in the industry to work out for themselves. To sort of say, "This lot falls into this basket and everything else doesn't," or not to recognise the central importance of the vehicle builders' strategies for cost-downs as an industrial relations issue is really just a nonsense.

MR WEICKHARDT: Sorry, I'm lost. This is cost-downs are an international process this industry uses to give benefits to consumers. Are you saying that that's not a legitimate process?

MR BELCHAMBER: Of course not.

MR WEICKHARDT: Or Australia should shut its eyes to that?

MR BELCHAMBER: No.

MS BURROW: It's pattern bargaining.

MR BELCHAMBER: It's pattern bargaining from the employer side.

MS BURROW: That's right.

MR BELCHAMBER: In the industry, that's what it is.

MS BURROW: And we're saying you can't meet a pattern bargaining approach from the industry, legitimate or otherwise, with an enterprise focus and not expect to have disruptions. It's not going to work.

MR WEICKHARDT: I'm confused, I'm sorry. The industry bargains with its suppliers in a particular way - - -

MS BURROW: Sure, there are international benchmarks, national benchmarks and there are arrangements that the car companies seek with their car component or supply chain employers. Now, those agreements are about how they manage an environment. That is an industry-wide approach. Each car company may have slightly different requirements but by and large they will be benchmarks against national and international competitive rates. If you have that kind of strategy to then say, "Well, we can make that deal with the car companies but in fact we're going to have enterprise bargaining absolutely in the car component sector with, you know, enterprise by enterprise," then what you're really saying is the industry-wide approach has been set but you're expecting that there won't be disruption here. It doesn't make any sense. It would be much better to deal - at least at the level of principle and options at the industry level, so that employers and unions have a stability of approach that makes some commonsense in terms of the ambitions of the industry overall.

MR WEICKHARDT: I understand the logic through to the last point. I don't understand this relationship to cost-downs, quite frankly, but anyway, it's a side matter.

MR BANKS: I mean one of the points - again in terms of thinking about this coincidence of interest, as we went around the industry there seemed to be a fair agreement that just the transaction costs of dealing with their workforces were compounded by having multiple unions represented on the work - on the site; and I value your feedback on that. The point was also made that in particular having unions involved whose membership, you know, goes well beyond the industry into other industries and so on, was a factor which reduced their focus on getting win-win outcomes for this particular industry. Again, I value your reaction to that and, I guess, any other comments you would have on whether, from an employee representational point of view, there could be value in having single union sites.

MS RUBINSTEIN: First of all, there's a view where unions - I mean, there used to be - but if what the employers are saying is we want enterprise unions or, you know, single industry unions that will be more amenable to us, that's really what they're saying - - -

MR BANKS: I think they talked about it in the context of avoiding damaging disruptions that would impact - - -

MS RUBINSTEIN: But it's simply - - -

MS BURROW: There's a small principle called freedom of association and beyond that you have a history of legislative precedent about union coverage in Australia and it is really union business. Now, if the employers want to talk to the unions about why they organise, bargaining units or processes, then that's an open door. You know, the unions will sit down and talk about that. In part that's the dialogue we've initiated about how you manage the industry. But I think it's a bit rich, I have to say, for somebody to suddenly decide, particularly an employer, that they like the brand of a union or the construct of a union and fail to recognise fundamental principles like 87, 96.

MR BELCHAMBER: Can I, yes, the report in 1988 that I referred to that was chaired by Bill Scales, talks - - -

MR BANKS: Are you talking about the 97 Industry Commission report?

MR BELCHAMBER: Sorry?

MR BANKS: In 98?

MR BELCHAMBER: 1988. 1988, before this all started.

MR BANKS: I thought you meant the Scales Industry Commission Report on Automotive - - -

MR BELCHAMBER: I'm talking about the sector and about the importance of common goals and consultation in managing change. One of the recommendations is continued support for the development of the federation of vehicle industry unions. Now, the only reference to the federation of vehicle industry unions in your position paper is in the context of the cessation of operations by Nissan and assistance in developing a package for the people concerned. There's nothing in the report saying that it's a good idea that the single bargaining unit structure and the union changes that occurred have assisted in the development of the productivity changes we've actually had over the last 10 years or longer. We've actually managed it very well and got some really good growth and cooperation coming out of it. If that particular issue wasn't a problem over the past decade, to say that it's a fundamental flaw here and that something ought to be done about it, when your terms of reference say that you have to have regard to international obligations, and freedom of association is a matter on which we do have international obligations but there's not a mention of them in the report. It's a poorly founded preliminary finding.

MR BANKS: Well, I mean, I guess I'd say again the position paper doesn't go into a huge amount of detail on anything much, but - - -

MR BELCHAMBER: Pardon me?

MR BANKS: - - - we do acknowledge - I said the position paper doesn't go into a great amount of detail of any of the key issues and the whole purpose of the position paper in a sense was to get these kinds of reactions to help us do our final report.

MR BELCHAMBER: There's a heck of a lot of detail on your modelling out the back here, a heck of a lot of detailing here about a lot of things but nothing on IR.

MR BANKS: Well, it's in an appendix, but look, could I say though that I mean we do acknowledge and we have a subheading "considerable progress has been made". I mean, we haven't been blind to the fact that there has been significant progress in this industry and I guess it's really in the context of how we move forward and ensure that that continues.

MS BURROW: Gary, I mean, you know, the reports you're business, of course, but if you stack up the developments in Australia, the export growth in Australia, the R and D developments, the innovation spin-off and the competitive practices full stop in terms of the changes in the industry, by any OECD standard Australia's car industry looks pretty good. Now, we don't say there's not room for future development, but it does seem enormously out of balance for us to talk about the "good news story" in the car industry, the need to secure it for another decade whatever the consensus might be about that and then to sort of somehow pretend that industrial relations however is out of control. I mean, by any international standard in OECD nations this industry is efficient, effective, cooperative to the extent that people should be writing the good news story and learning from it and seeing where we can take that cooperative venture further.

MR BELCHAMBER: You mention "considerable progress has been made". Over the last decade or so there have been substantial much-needed improvements, including a greater focus on the circumstances and needs of individual workplaces, including the enterprise bargaining regime. Well, that's in the context of a much broader focus of change that is just not here; just not in your report at all.

MR WEICKHARDT: Can I ask what it is that the ACTU believes it can do to assist this industry to continue to reform and to make progress over the next decade?

MS BURROW: The ACTU in cooperation with the unions have already initiated a set of discussions with the industry, with both employers and the Australian industry group and those discussions are continuing. We've already said we see a way forward to a constructive way of managing industrial relations that will absolutely provide the stability that people want. What we're facing is a barrier that goes to the heart of the IR issues in your report, and that is that the government, supported by employer groups, simply want to take away industrial rights for working Australians not solve the problem.

We want an industry response that solves the problem. That's our offer and indeed it's an open-door policy from us to get people in the door that want to get together across the employer-employee community and look at how we make it work. But you won't solve it with industrial legislation that simply says, at odds with all international law, that working people have to bear the brunt of having their rights taken away from them. It's not going to work and it will be opposed. It doesn't seem like a good step forward for us.

MR WEICKHARDT: Where in the world do you see this sort of process working most effectively in the automotive industry? Are there any best practice examples that you have seen in your research of where you think those sort of relationships work most effectively?

MS BURROW: We've drawn out some research in general about the way in which you get high performance outcomes and they are about a cooperative venture, about strong unions, a strong employee base involved in clear directional trends and ambitions from companies. That research, the most recent research is actually coming out of the US, which is interesting in itself. But in the car industry generally I think if you go to Canada - and I know the AMWU will talk about this a little and have a look at the way they deal with the vulnerabilities around a major car component sector and - sorry, car assembly sector and a car component sector - then you will find that they have some learnings for us. If you go to Europe you'll find in some of the countries the same thing. In Germany for example it would be nonsense not to talk about industry-wide challenges and to deal with those challenges by and large on an industry basis.

But can I say, Philip, that if you want to look at a good news story - and while none of us pretend there isn't further work to be done - I mean, just the very nature of the shift in technology requires that our interest in R and D and innovation and training for workers to keep our skills base up - there are lots of things where we know there needs to be considered work. But if you look at the Australian story you'll find that overseas nations are actually looking at what's gone on here and how we saved a car industry from oblivion through cooperative venture and have built it back to being now one of the most focused and important industries in the manufacturing sector.

MR WEICKHARDT: And the people within the industry who made representation to us and made submissions suggested - I mean, we didn't make up the issue that they were concerned about industrial relations issues - I mean, they had a real concern about it and I think a number of them feel frustrated they don't believe that they - and I don't think any of them have used what I'd regard as being sort of outrageous and polarised sort of them versus us - they acknowledge that they've got a problem and the industry has got a problem but they see it as a really major stumbling block to making further progress.

MS BURROW: We acknowledge that they have concerns. We have concerns. We've already said that there is almost an incredible conflict directly related to the philosophy of the industry in terms of the "just in time" philosophy and, you know, the timing demands that puts on assembly and export time lines. But that's in direct conflict with an environment where the same employers are demanding an enterprise bargaining system that somehow doesn't have any relation to that philosophy. The way in which they've chosen to support the government's legislation, which would simply take away bargaining rights, is not acceptable. So what we say is acknowledge the concerns, happy to talk about them.

There is a way to manage this industry. It's been a cooperative story. The cooperation got smashed by this government in terms of the consultative committee level and, if you like, the hypersensation around bargaining practices. You'll recall there was going to be Armageddon in 2000 and Armageddon in 2001. The industry itself beat up this notion. It didn't happen. But can we manage it better? Can we bring together the industry imperatives and the enterprise imperatives? Yes, we can.

But it will only be through constructive dialogue and not legislation that takes away rights. I might add it worries me just as much that when the employers talk up the sensational bargaining environment, it's people like me that get the phone calls like the CEOs from Detroit, from the newspapers or from Germany or from Canada or from the Middle East increasingly, and we don't want to be in a position where there is this sensational view about industrial relations that could be managed better that's actually damaging exports, because in turn that backwashes into investment and jobs and that's our core business.

So we've got as much interest as the employers, the unions will tell you that themselves in a managed environment where industrial relations is handled with the dignity of respecting rights, but with the outcomes that make it a win-win environment. We want to be part of that, but we don't want t be part of an environment where it's simply an attack on working people for ideological reasons.

MR BELCHAMBER: Can I just add to that. Philip, you say employers tell you these things; you didn't make them up. Employers tell you a whole lot of other stuff, too, about linkages and spill-overs and a whole lot of other aspects about the nature of the industry, but in your report, you exercise and show some scepticism about some of those things as to whether Mitsubishi shutting down is going to be a major effect regionally or on the national economy and do a whole lot of modelling on that and reach your own conclusions about it and do some research, but it's not there on IR. It's preliminary findings, if they are not recommendations, are really based on what you have been given with no separate critical assessment of the nature of what has actually been put to you.

MR WEICKHARDT: I welcome the fact that we have now got a substantive document to read.

MS BURROW: It will keep you up at nights.

MR WEICKHARDT: I think previously we got two pages. So we have now got something that perhaps we can study.

MR BANKS: I should say as well that, okay, there's maybe not a volume of it, but we do recognise that it's a two-way street and we do recognise that management has an important role to play, and if you had been attending some of the hearings where we have talked to different companies, we have quizzed them on their own approach and how they see management's responsibility and getting a much better outcome. So as Philip says, we will take into account what you have now provided to us, and that's what this process is all about. I'm conscious that we have got the AMWU ready to appear. I would like to thank you very much, and I should say that I'm very pleased that the ACTU has participated in this process. We look forward to reading the submission.

MS BURROW: Thanks, Gary. Thanks, Philip.

MR BELCHAMBER: Thank you.

MR BANKS: We will just break for a couple of minutes now while our next participants are arriving. Thanks.

MR BANKS: Thanks, ladies and gentlemen. We're going to resume now. We have got the Australian Manufacturing Workers Union as our next participants. Welcome to the hearings. Could I ask you please to give your names and positions.

MR CAMERON: Gary, I'm Doug Cameron, national secretary of the Australian Manufacturing Workers Union.

MR BANKS: Thank you.

MR JONES: Ian Jones, federal secretary, AMWU vehicle division.

MR APPLE: Nixon Apple, national research officer, AMWU.

MR GINDIN: Sam Gindin. I'm an adviser to the AMWU.

MR BANKS: Good, thank you. Thank you very much for attending. You have provided a submission which we have not seen. Philip was commenting that given the thickness of it, it might have been just as well we didn't get it on Friday in terms of all the reading we had to do. So we will rely on you to go through the main points and perhaps pick up on some discussion from there.

MR CAMERON: Thanks, Gary. First thing I want to say is Sam Gindin is in Australia at the invitation of the AMWU and it has been very fortunate that Sam is here during this Productivity Commission inquiry. Sam has been the adviser to two Canadian Auto Worker presidents over a very extended period of time. The Canadian Auto Workers are the biggest union of the car industry union in Canada, and have got an industry about seven times I think the size of the Australian industry and he's very well versed, and I would consider Sam an expert in relation to some of the issues in Northern America, and it might be important that we raise some of those issues with you.

Firstly can I say that we would want to adopt the ACTU's submission and the issue that the ACTU have raised. I just want to indicate one thing; you did say to the ACTU that this was an interim report. I understood that these were preliminary findings, and preliminary findings I think have some more weight than just an interim report, and that's why we are so concerned about the preliminary findings that you have in this report.

MR BANKS: Could I just say on that I agree with you; they are preliminary findings. I guess the fine point was whether they were actual formal recommendations or not than the question of how much detail was in the position paper. That's all.

MR CAMERON: I think they are on the way to being - you know, they are more than just your summary of what has been put before you.

MR BANKS: "Preliminary findings" is a good description.

MR CAMERON: Yes. On that basis we have to say about your preliminary findings that we would almost take the view that this commission is invincibly biased against our members and workers in the industry. That would be a very strong position from us. Biased against the workers and their unions in the industry. There's a great deal of political bias in your preliminary findings. In fact when we heard a Productivity Commission inquiry was on the way, some of our people said, "We can write the findings for you," and to some extent what they proposed to us are now before us, about taking away workers' rights, and we think that the findings are quite politically biased.

They are ideologically biased because you have got a bias towards free trade, neoclassical economics, and that means that working people really do it tough under that environment, and your economic analysis in our view is also biased, and you're really biased towards the industry, and by "the industry" I mean the employers in the industry. It's quite clear that's the leaning of this interim report, and what you seem to have done is have an ideological base and build your conclusions around that ideological base as distinct from having a real independent analysis of the issues for our industry.

You have also got a predetermined position. It's not an independent analysis. A predetermined position is the position that this Productivity Commission going back to the industry assistance commission has had, zero tariffs, zero support. All you have done at this stage is look at timing for zero tariffs and zero support for the industry. You have not really moved from your historic position, and there's no independent commissioner - with the greatest respect to Philip - no independent commissioner there to represent workers' views, a major part of the industry. The industry cannot survive without working people, yet there is no-one representing workers' views.

Philip is proposed as the independent commissioner, but his independence is from a business background - a business background, not a background for working people in this country. So we would say we have got no confidence in the proposals that you have put forward. We see it as really deficient in a range of areas, and you have a political objective, not an independent analysis. That's our reading of this document that we have, and it's interesting to hear Philip say that he was confused about cost-down. We were confused about your response to that, Philip, because cost-down is a fundamental issue for working people in both the car industry and the component industry and the effects it has on their capacity to not only bargain, but have decent wages and conditions in our industry.

The second point I wanted to make is that we have got a successful industry. Nixon and Ian can take you to the areas where exports are up, quality is improved, productivity is up, investment in the industry is up, profits are up and consumers are benefiting, and it's not simply because of what the car companies have done. We have had a significant part of that success of the industry. The third point I wanted to make is the context and where we see this inquiry taking place. It's a time of great uncertainty and I don't see anything in your report that talks about the uncertainty in the markets and what that means for the overall global economy.

We are a relatively small country, and the vehicle industry and the component sector is an important part of this overall economy. In fact it's one of the last vestiges of a manufacturing industry in this country. If you take a position that we're a relatively small country, we're operating in a global era of excess capacity, there's huge uncertainty in the global economy, huge uncertainty on where trade liberalisation is taking us - I mean, if you go back to some of the Productivity Commission and Industry Commission, you know, fairy at the bottom of the garden, everything is going to be rosy with trade liberalisation, it's not working like that for some people. I've given you a copy of the effects that trade liberalisation has had in the Newcastle area on steelworkers and workers who have been employed by BHP have lost their jobs, lost hope, some of them have lost their families and I don't think this commission pays anywhere near enough attention to the effects that this sort of ideological obsession with free trade and neoclassical economics delivers for working people in this country. So there's great uncertainties the way trade liberalisation is going. There's great uncertainty for working families. We need some constants in my view in this economy.

One of the constants we should have is to maintain and protect what's left of our manufacturing industry. I'm quite happy to have a debate about protecting. It's about time somebody in this country said, "We are going to stand up for what's left of our manufacturing industry. We're going to protect our industry and we're going to make sure that there are jobs in manufacturing for our regional communities and our communities generally. We need that constant of having a manufacturing industry.

I mean, what have we had? We've had tariff reductions, you're now talking about removing ASIS over a period of time and if you do this and if you get it wrong, as you would have to concede the Productivity Commission and before it the Industry Commission has got many of its assessments wrong. If you get this wrong you can't reverse this decision. You can't magic up an industry if the industry is destroyed at the alter of neoclassical economic theory. You can't do it. So we see that this is a big call that has to be made and we are really concerned about where your initial report is leading. You can't guarantee that the proposals you've got in your interim report will deliver the goods for this economy, will deliver the goods for the nation or will deliver the goods for the workers in the car industry. You can't guarantee it will work. You actually say that in (XX) in your overview. You actually say you can't really tell where some of this is going to go.

We've had deregulation, we've had privatisation and to a great extent that has caused lots of problems for working people in this country. We've got Adam Smith the invisible hand, you get rid of all the support for the industry and this invisible hand will suddenly work effectively, the market will make sure everything is going okay. I have to tell you, anyone who is putting much faith in the market at the moment are extremely courageous. They are extremely courageous. I think the issue of where the market is heading should be an assessment of this Productivity Commission when you make decisions about a key industry like the car industry in this country. We've got the invisible hand of Adam Smith, but what we've got is the Productivity Commission, the government and the AIG and it's not going to be an invisible hand, it's the not so invisible fist that you're going to have against working people and their capacity to bargain effectively in this nation. That's the position that we have facing us at the moment.

When you mix what we say is the Productivity Commission and the AIG and the car companies inure ideological bias towards working people. When you mix that with the uncertainty of the market it's a recipe for disaster - a recipe for disaster. Where we've been so far - I want to take you to the Bull and Chee and Gregory analysis that has been done recently and what it says is that in the last decade of 1.13 million new jobs created in Australia, almost all were part-time, casual and low paid with 86 per cent of them paying less than $500 a week. Is that the future for our economy? Is that the future for our society, more important. Is that where we are headed? Does that mean that you just say "car workers"? Well, you can be one of the 1.13 million jobs that are created that pay less than $500 a week. Is that where we're headed? I say it shouldn't be. We should make sure that we've got an industry that can keep people working in a reasonable way.

It's interesting to note I hadn't seen the GM submission but my attention was drawn to one paragraph where GM, as distinct from Ford - Henry Ford, years ago, increased the rates of pay for his workers so they could afford to buy the cars. But GM are actually saying, "One of the problems in Australia is workers can't afford to buy the cars." Well, GM, there's an easy way to fix that, give us a pay rise. Give us a pay rise. You know, I think it's a nonsense to be arguing that, "We're building cars here building cars here but one of the reasons why our market is not big enough is that we don't pay enough wages," and that's even compounded further when you go into the components sector where the wages are substantially less than most paid in the car industry itself.

I've drawn your attention to that social order of the Hunter task force which goes to some very clear social outcomes of what happens when deregulation - and we simply have neoclassical economic theories, the base of what we're doing. Some of the issues that are being raised by the Productivity Commission, the government and the employers is that in the context of enterprise bargaining there is no other way. Enterprise bargaining is not a scientific approach in this country. Enterprise bargaining is a political dogma that's about dividing workers, ensuring that workers cannot operate effectively across more than one enterprise. They can't lift their heads up from their toes to look around and see what's happening in the rest of the community. Enterprise bargaining is deficient in a range of areas that are important to working people. It's as if there's no other way, no alternative to enterprise bargaining. That's not right. There is.

Your interim report talks about this plague, some kind of disease, a popular craze that's spreading rapidly across the industry - three disputes. I say if you can say those things and have a straight face, well, I put it to you that it's unsustainable what you've put, absolutely unsustainable. It's prejudicial language. It's about creating an impression that there is more happening in this industry than there really is. It's a partisan position and it's intellectually unsustainable. I understood the Productivity Commission always argued that it was the intellectual engine room for the productivity of this nation. I must say if this is the type of language that's going to be used in this report, you have let yourself down badly.

I want to go to some of the statistics. If you go to page 29 of our submission, you will see that in table 2, we have outlined the impact of strikes and lock-outs in the automotive industry and we have got three areas where we have picked the stats up quite readily; in Canada, Korea and Australia. What you will see there is that Canada and Korea have got more of an industrial record of disputation than Australia, and yet nobody would say that the car industry in Korea, regardless of the disputes that take place in Korea, is an international basket case. It's not. Nobody would argue that the car industry in Canada is an international basket case. It's not; that's not the case, and if you look at these statistics, what you will see is that during the 1990s, one-tenth of 1 per cent of working time was lost from disputes - one-tenth of 1 per cent of working time - over a decade.

That doesn't seem to me to be a disease, it doesn't seem to me to be an epidemic, it doesn't seem to be a plague. So I think you really have to get your rhetoric in line with reality in terms of what's happening. There's some other strike data that we have got on page 122, and what we have done there is we have looked at the share of economy-wide employment against the share of economy-wide disputation and if you look on C, I would ask you to change B to A. It's a typographical error there. Column C should be B to A.

MR WEICKHARDT: Sorry, which page are we on?

MR CAMERON: We're on page 122.

MR WEICKHARDT: The ratio of disputation to employment.

MR CAMERON: Yes, and what this shows is that manufacturing in advance countries tends to have more industrial disputation than other areas of the economy. We are not going to get a lot of disputation in small retail shops. We're not going to get a lot of disputation in some other areas. So to have more disputation in well-organised, large multinational companies is not something different than what happens in Japan, Canada, Australia, Mexico, Germany, the UK, France and New Zealand. That is a fact of industrial life, and in fact when you look at it, you will see again in auto, Australia is about - I think it's third from the bottom. We have got about the third-least amount of industrial disputation. Only the United Kingdom and Japan have got less industrial disputation than Australia. So really to talk about this epidemic or plague in the industry in Australia just defies reality. I might turn to the three disputes that took place; Tristar, Walkers and BHP at western port.

MR BANKS: Just to save me the trouble, are you actually quoting us when you use the terms "epidemic or plague"?

MR CAMERON: You used the word "plague".

MR BANKS: Did we use the word "plague" or did we cite someone else using the word "plague"?

MR CAMERON: Yes.

MR BANKS: I will have a look. It doesn't sound like the sort of rhetoric you would use, but perhaps while you're going, Grant can show me the page number.

MR CAMERON: Yes. I took deliberate note of that when I saw it, I must say. The issues at Tristar, Walkers and BHP at western port were issues that went to - let me tell you clearly, Philip - cost-down issues. The workers at Tristar were in a position where they were concerned to make sure that their entitlements were safeguarded because the company was under significant pressure, cost-down pressure from the main companies, to try and become more effective in terms of the productivity.

The pressure was being put on workers at Tristar, similar to Walkers where they were concerned about their entitlements as well, and the issue at BHP western port was, in my view, a misuse of enterprise bargaining, but it seems to be it's fair game. Whenever an employer does an enterprise bargaining, no comment, no problems, they can do it. What BHP were asking workers to do at western port was to sign off on an enterprise agreement, a certified agreement, that said that they would allow BHP to contract out their jobs if an internal inquiry determined that.

So they're saying, "Sign a two-year deal, but within the two years you may not be there at the end of the two-year period." I know in Canada and the United States, job security is a significant issue for workers when they are bargaining; a significant issue. Page 47 is the plague page. For those that don't have it, it says:

> In particular they would seemingly provide for a better balance between the rights of workers to take industrial action and the right of firms and those in the community who suffer considerable harm from the disputes that continue to plague this industry.

MR BANKS: That's "plague" as an adjective, not a noun.

MR CAMERON: Come on.

MR BANKS: That's totally different. You have a look in the Oxford Dictionary.

MR CAMERON: Good try, not good enough. I looked up "plague" and I know what it means. So in terms of BHP Western Port, a complete misuse in our view of enterprise bargaining, and then people say, "Why is the car industry going to stop because this has happened?" It was going to stop because workers were in a remote area. Some of them had 20-odd years with the company and they were being told, "Sign away your job. Sign away your job," and they said, "No, we're not going to do it," and we are going to support workers in that position. Make no mistake about it; if workers are put under that pressure, the AMWU will be supporting those workers, absolutely no doubt about it.

In terms of Walkers, we had signed an agreement with Walkers which had resolved the issue of entitlements. At the instigation in my view of the AIG, Walkers reneged on the deal. Walkers attempted to walk away from the deal, and the AIG were there on an ideological basis saying, "Do not sign up," because Walkers had agreed to put a certain amount of money into a trust fund after I negotiated it with the company by telephone. That's how it was worked out so I know a bit about it. I negotiated it, and if you want a position where bargaining in this country goes down the American path where every full stop, every semicolon, every comma is checked by a lawyer, Walkers demonstrates why we will maybe need to do that because it's going to get to a position where you can't trust the companies in signing off and keeping their word.

That was the problem with Walkers and that's why it was such a big dispute. But you see what happened with that dispute was that there was a threat to the continuity of supply to the car companies. That is not something unique to Australia. It's not unique to Australia. In fact Sam Ginden will tell you that when component companies in Canada go in dispute they have got the potential not only to stop the car industry in Canada but also in the United States and yet nobody talks about plagues, nobody talks in, you know, pejorative terms. They don't do it. It's seen as part of bargaining in a free enterprise system and what we've got is basically free enterprise for big business to bargain the way they like but as soon as unions defend their workers effectively you want to disarm us. So I just think it's not sustainable that position.

The AIG position, I have to say to you I think that the AIG is basically a front for the car companies. The car companies are talking to the AIG. The car companies really want to implement what the AIG is talking about eventually in the car companies proper. Because nobody should have any illusions that if we end up with a regime of restricted industrial rights in the component sector we will end up with a regime of restricted industrial rights in the car companies themselves. That is just the history of legislation in this country. Really what's being proposed and what you're proposing in your document, your preliminary findings, is not collective bargaining it's collective begging because we will have absolutely no capacity to bargain. We will have to come to GM, Ford, Mitsubishi, companies like Walkers and BHP and beg to get decent wages and conditions. That's unacceptable. That is unacceptable and a clear breach of our international rights.

The suspension or terminating of the bargaining periods if there is third party damage I think is the worst piece of nonsense I've heard in my life. The very nature of bargaining, you know, found by the Full Bench of the Federal Court, says that this is basically industrial warfare. We don't want industrial warfare but that's the nature of enterprise bargaining in this country, and if it's industrial warfare you're saying to us, "Go to war, go up against the AK40s, go up against the tanks but you go in with a peashooter." Well, we're not going in with a peashooter and you shouldn't send us in like that. It is totally unacceptable and totally wrong to do that. So you can't terminate the bargaining period if some third party is damaged. That is the nature of a bargaining system; not the bargaining system that I want but the bargaining system the government has put in place and that is previous governments as well. You want to outlaw protected action prior to the expiry of the certified agreement.

I don't know, you know, in my experience where there's been any industrial action over bargaining prior to the expiry of the agreement. I don't know. There's been plenty of bargaining during the period and most agreements have got anywhere between a three-month and a one-month period where you sit down and you start bargaining before the expiry of the agreement. I want to make this point to you very clearly. You talk about compulsory cooling-off periods. We've got some of the longest compulsory cooling-off periods in the world because we start bargaining three months before the end of an agreement. If after three months of bargaining workers say, "Well, we haven't got a deal here. We're taking some industrial action," your interim report finds that they should be stopped doing that, you know. It's just enterprise begging that we're going to end up with. It's not going to be a position of proper bargaining.

The ACTU has made - and we would adopt the ACTU's view on the section 127 - you want to - AIG wants to outlaw protected action, and I'm saying "you" because I think you're basically picking up many of the positions AIG has put - you want to outlaw protected action in pursuit of pattern bargaining. Pattern bargaining takes place in the economy. I'll tell you the people who pattern bargain more than anyone else, starting with Rio Tinto who try and pattern bargain unions out of the workforce. BHP who tried to pattern Rio Tinto's position. You've got the car companies trying to impose a pattern of conduct on the component suppliers such as cost-down. This is all a pattern of conduct by big business against working people.

Yet if working people say, "Well, we want to try and work collectively to ensure that we've got some basic rights left," we are told, "You can't do it" - we're told, "You can't do it." It's sheer hypocrisy. So the cooling-off period I've dealt with. The secret ballots, I'd adopt a position of the ACTU, and in terms of the enterprise unions just let me say this; the form and nature of unionism in Australia is a matter for the unions in Australia. It's not a matter for the Productivity Commission. With the greatest respect to you, Gary, and to you, Philip, you do not understand - you do not understand and you will not understand the form and nature of the development of the trade union movement in this country because you are chairing and you are a commissioner on this commission. You will not be able to do that. It's a complex historical development and you will not be able to understand that in the context of this inquiry.

We oppose enterprise unions. We will not accept enterprise unions. We will fight against enterprise unions and I can make that point loud and clear here. On the union education I know it's been said by the ACTU that some discussions are taking place with the AIG. It's with the AIG and I think the discussions are very narrow. The discussions have not at this stage been very productive. I called after the Walkers' dispute for an industry summit and I repeat that call today. There should be an industry summit and I notice at least in your submission in your preliminary findings you make mention of that summit. We take the view the summit would have allowed not only the AIG who would simply be on some, you know, ideological jihad on behalf of the car companies, it would allow all the companies to have an input into the problems that they see in the industry.

As Sam Ginden said to me recently, "Sure, companies are going to come and tell you they've got problems, Philip, but what company has not?" When you were running Orica, when you were involved with Orica you always had problems, you would have always liked the government to do more for you, you would have liked the Productivity Commission to give you a better competitive advantage. So what,

what's new about that? I mean if companies take all our industrial rights off us, you know, they will come back and argue for slavery next. So, you know, give us a break, give us a break. Of course companies are going to come and argue to take away the only real control we have in this market economy and that is unions being able to bargain for their members. So I'm not real impressed by the argument that companies have told you that there's problems, of course they have, of course they have.

I have to say to you in relation to this industrial stuff, there's going to be a huge backlash. There will be a huge backlash from working people in the industry. There will be a major industrial confrontation if you try and disarm workers from being able to deal with companies like Mitsubishi, Ford, GM, Toyota, BHP, Tristar, Walkers and I can go on and on. These are big multinational companies predominantly and we need some protection and the only protection workers have got is not that the company will sit down into some false partnership, that there will be some touchy-feely approach and everything is going to be okay, just trust us, that won't happen. That only happens because the workers belong to strong unions that can fight and bargain for their rights.

So there will be an industrial confrontation if the ILO conventions are diminished even further, if workers' rights are diminished even further. The national conference of the AMWU met last week and we have decided that we will establish a contingency plan, wait to see what comes out of this Productivity Commission and that contingency plan will be a coordinated industrial response to diminishing our rights, trying to tell us what union we should be in, what type of union we should be in or how we should educate our members. That is totally unacceptable, you should not have any truck with the submission from the AIG that there should be some education program telling the unions how they should educate their membership. We will have a coordinated industrial response and it will be a significant response, I will tell you that now.

In terms of the productive performance of the industry there really is a limit to what working people can do to contribute to productivity. What more can a lot of workers do in some jobs in the industry? They're working hard, it's lean production, they're in team work, they're getting training. You know, we've got an industry now that is internationally competitive as any industry in the world. GM are not building their V6 here because they want to do some real social function for the Australian economy, their doing it because we are amongst one of the lowest cost producers in the world. This report, these preliminary findings would make us even more low cost, but it would be on the back of workers' rights and workers' conditions and that's unacceptable.

We say the main issues for the industry are the management systems that are in place, the training that's done in the industry, the logistics supports for the industry, the innovation in the industry, the research and development, the customer satisfaction in the industry. If you don't understand that, Gary, you don't understand that and you simply adopt the employer's position that it's about bad unions, poor workers, low productivity. It has not been an independent inquiry and it only gives us more heart to say, "Really the Productivity Commission should be abolished and a National Development Authority put in place," one that really deals with the issues of building jobs, not destroying jobs in the name of productivity. We've taken that position for a long time and I'm glad I'm not in a position to put it personally.

We say a summit should take place, a summit should take place. One of the issues is industry support. If you go to page 8 of our preliminary submission, I don't know if you've got it with you. The preliminary submission, not this submission that you have at the moment, the preliminary submission. We do a chart of some of the support mechanisms that are in place internationally and what you see there is the auto tariff in the APEC region. This is just tariffs, this is not non-tariff barriers or some other support that they get, but tariffs alone in some of the areas that we are proposing free-trade agreements with. For instance, Thailand 80 per cent tariff to build their car industry, 80 per cent tariff. Malaysia, Vietnam, China all have tariffs ranging between 35 to 300 per cent. In these countries you've got general support, even the United States with it's low-tariff level have got non-tariff barriers, they've got financial support, they've got tariffs, there's tax breaks.

In some of these countries one of their support mechanisms for the industry is to deny workers' rights and yet Australia seems to be going down that path. Deny workers' rights and you give these car companies new protection. The new protectionism is to deny workers the rights to bargain. I don't think, even though you know, we're not the greatest fans of the Productivity Commission, Gary, you should not be going down that path on this neo-classical economic theory. If you take that to its extreme, slavery should be in. You should be recommending slavery.

MR BANKS: It is only a preliminary report.

MR CAMERON: All I can say is God help the final report, I'll tell you. So there is this suppression and intimidation and quite frankly what the AIG is proposing, what the car companies are proposing and what the government is proposing is suppression of workers' right. It's intimidation of workers being able to take action in support of their rights in this country. That's why I go to some of the issues of job losses. NIEIR, your favourite company to do economic analysis, have had a look at some of the economic analysis and at page 132 of the report that we've got before you - what it does is it models some of the issues of tariff and maybe Nixon can go to this in more detail, I'll simply say that if - - -

MR WEICKHARDT: Sorry, Doug, is it 122?

MR CAMERON: 132.

MR WEICKHARDT: 132, sorry.

MR CAMERON: As I said to you, on (XX) you say you can't predict what is going to happen and we accept that and that's why we say there should be some stability in the industry. What NIEIR does on their economic modelling, they say if you get it wrong you risk 100,000 jobs in manufacturing in Victoria alone, 100,000 jobs. In Geelong 6968 jobs directly in vehicle and a total of 10,000 if you take the flow-on effect. So 10,000 secure decent jobs go, and where do they end up? They end up as one of those workers earning less than $500 in a part-time job under the current job growth in this country. So it is a big issue for us and an important issue.

I want to go to some of your responsibilities under your act that I think you have completely ignored in your interim report. I have to say, you should have challenged the terms of reference that came from the Federal Government and the Minister Costello. The terms of reference say you have to identify policy options that are consistent with the government's international obligations such as those under the WTO and APEC. Well, I suppose you should read that. You should read that as your obligations under the ILO. I'd be interested to hear what your position is on that. I'd be really interested to hear what your position is. So this is a politicised terms of reference; no mention of the ILO or workers' rights or the conventions of the ILO.

I reckon you've ignored your responsibilities in a range of areas. Under your act, under 8(1)(e), you've got a responsibility to take into account the interests of the industry, consumers and communities. Well, I don't think you've taken into account the issues of the communities of Geelong and the other car communities. There is no recognition of the hardship to these communities. Under 8(1)(f) you have to have regard to increased employment including in regional areas. You get this wrong, you have not done that consistent with your act. In 8(1)(g) you've got regard to promote regional development. I can't see that you've done that anywhere in this document. 8(1)(h) says that you have to recognise the progress made by Australia's trading partners on issues of WTO compliance and the like. Well, I don't see anywhere where you mention that our trading partner still have got targets of between 35 and 300 per cent. I don't see it. I don't see it there at all. On 8(1)(j) you also have to have regard to the need for Australia to meet its international obligations.

What about convention 87, the freedom of association of the International Labour Organisation? What about convention 98, the right to organise and collectively bargain? Ignored. So I have to say to you, I think you have significantly left your obligations behind in this report. Now, the ILO conventions are checks on corporate power. But when you read your preliminary findings, you're about taking checks on corporate away. If there was ever a time in Australia's history or globally where there had to be checks on corporate power, surely it's now. When you look at Enron, when you look at Worldcom, when you look at Ansett, when you look at HIH, surely this is not the time to disarm working people in this country against corporate power and the misuse of corporate power. But that's what your interim findings will do to working people in our industry.

Now, on pattern bargaining, I agree with the ACTU's submissions that you have shown no scholarship or no research, absolutely none, when it comes to pattern bargaining. You have not addressed how the industry operates in Europe or in the United States. You see, General Motors in Canada, General Motors Canada about eight weeks ago called in the Canadian Auto Workers Union to be - they said, "Pick us to establish the pattern in the industry. Let us bargain with you to set the pattern for the industry." That's how they operate in Canada, and yet GM are coming here and saying pattern bargaining is terrible. So the left arm doesn't seem to know what the right arm is doing. I don't suppose Peter has been in Canada recently but he's been in Europe. He knows how pattern bargaining operates in Europe. He knows how industry bargaining operates in Europe.

We are one of the only countries in the world that are denied the right to pattern bargaining under legislation. Well, we won't stop. We won't stop using pattern bargaining where we can protect our members. We will not stop doing it. It is part of the industrial history of this country and no legislation is going to stop us acting in the interests of our members. We will have to act in the interests of our members, especially if your interim report carries to your final report and you want to disarm workers and their unions. It's just unacceptable.

We propose a three-tier system. The three-tier system should be a system that deals with the award, to deal with social areas that, you know, workers need to address. At industry level we can look at issues to provide stability, and at the enterprise level we can look at some flexibility issues at the enterprise level. But we think there has to be three different levels of bargaining or regulation, if you like, or operation of bargaining in our industry.

On the issue of wages, I just think it's a nonsense to try and say that wages should simply be based on CPI. ICI, which was the forerunner of Orica, actually have written papers on this. Actually ICI, your previous employer, Philip, spoke about CPI, spoke about comparative wage justice, spoke about skills and spoke about productivity. They don't simply look at productivity being the only way forward for workers' wages. There are a range of issues that go to wage fixation in this country and it's not simply enterprise bargaining based on productivity trade-offs or concession bargaining. In fact you in the Productivity Commission don't do that. Your salary of close to $240,000 is based on an analysis of what comparative people to you get in industry. So you get nearly a quarter of a million dollars as your salary. Your staff are on individual contracts. So I would say that produces a bias against collective outcomes in your report and you have to give a great deal of thought as to whether you can bring an unbiased mind to any recommendation in this report when the form of enterprise bargaining with your own employees is AWAs at the determination of your political employer, the federal government.

MR BANKS: I'll just correct this one, I'll come back to some of the others, but that's not correct. We have a CA agreement with our staff.

MR CAMERON: You do? Well, let me go to that then.

MR BANKS: So you were just leading me in.

MR CAMERON: I was. So let's have a look at what that executive - your executive salaries over the last three years have gone up 26.3 per cent and the certified - the non-executives have gone up 11.3. Now, that's fine if that's how you operate here. You know, we say that that is pretty consistent with what's happening around this economy but that demonstrates the need for strong unions and the need not to be disarmed in terms of the bargaining process where, you know, the chief executive goes well, the executive officers go well and the ordinary workers go very, very less well, much less well.

MR BANKS: Could I say, I don't have the exact numbers here but we've, if anything, seen a compression between the salaries of general staff and the SES in the commission.

MR CAMERON: Well, it must be an infinitesimal compression given those outcomes, an infinitesimal compression. I'd be happy if you could send me the details. If I'm wrong I'd like to have a look at it in more detail, but that's the information we have got. So we are saying, four areas that have to be addressed.

Can I just finish on this. Can I go to page 21 of our submission that we've put to you now. We've commissioned Dr John Buchanan who is with Sydney University and has got a national reputation for being one of the most - as an expert in the area of industrial relations in this country and doing analytical work. What the ASA report, which is John Buchanan's group, says on page 21:

> There is now overwhelming evidence from studies around the world and Australia that more often than not the reality of lean production involves management by stress, lean empowerment, ie, responsibility without resources, multi-tasking, not multiskilling, tension in industrial relations due to breaches of trust by management, preoccupation with deploying labour resulting in little or no capacity to develop skills for the future, especially at trade and technician level. The Productivity Commission reports provides little evidence that the authors have any grasp of these

realities.

That report is still being done.

MR BANKS: Sorry, just to check on that, that's a report you've commissioned?

MR CAMERON: That's a report we've commissioned from ASA on your interim findings. If you go to page 30 there's a summary, an ASA summary of the Productivity Commission report. What they say - this is only our initial assessment of the commission's labour related findings:

> In short our key findings are, the report is informed by a very superficial grasp of the realities of the supply chain in lean production. This results in an overemphasis on unions as a source of labour problems and a neglect of the problems arising from labour management strategies, preoccupied with deploying labour to the detriment of developing labour, ie, lean production. Its policy suggestions therefore focus on trying to solve problems at enterprise level and neglect developing options for developing mechanisms of coordinated flexibility that would enhance the performance of the sector at large as well as individual firms and what places within it. The labour policies proposed have been tried in the UK. While they did enhance the management prerogative, only a few hours of excellence prospered as the bulk of the industry has gradually slipped away.
>
> A broader range of policies need to be considered and these should build on the structures and practices developed to date, ie, embryonic structures of coordinated flexibility. That's at the industry level. These findings are supported and often derived by our recent independent analysis of the auto industry in Victoria. A report which found that the problems of lean production and supply chain pressures were of more concern to workers and employers and workplace level than issues of a formal industrial relations nature.

This goes to the point I put to Philip earlier. If you ask the car companies, "If you've got a problem, you come and tell us your problems about industrial relations," they'll tell you plenty. They'll give you more problems than you can poke a stick out. But when you've got an independent expert looking at the real issues, industrial relations is not the real issue. That's a report that the Victorian government have developed. So after safety, we support the ACTU submissions. We take the view that if you continue an ideological position it develops what you want to achieve over a period of time, that is no protection for the industry. Get rid of all tariffs, reduce any support for the industry. You will decimate this industry. While you're doing that, you go along the way and you have enterprise begging for workers in the industry. You are doing a great disservice, not only to the economy but to society and the workers in the vehicle industry in this country.

MR BANKS: Good, thanks, Doug.

MR JONES: One thing about Doug, he never leaves you under any illusion about what his position is.

MR BANKS: Ian, just before you start, could I get an assessment of how long you plan to take?

MR JONES: Not as long as Doug and shorter than Grant.

MR CAMERON: You'll be more productive than me.

MR JONES: Just in terms of the submission that we make, we make it in the context of being actively involved at the grassroots level of negotiations across the industry and so therefore can bring that perspective to this debate. Grant, in the ACTU submissions, indicated that as far back as 1988 there was a study mission that was shared by Bill Scales. The study mission ultimately identified how it believed that industrial relations in this country ought to be conducted, and particularly this industry.

I've got to say it's with a degree of disappointment that I find myself in an environment now where having achieved everything that we set out to achieve back in 1988 that I see percolating through the various submissions to the inquiry, suggestions that industrial relations is a problem. It's simply not true. I'll come to each area of the industry in a moment. But we'll deal with the car manufacturers as we go. The car manufacturers have gone through a period of unprecedented peace, extraordinarily so whilst going through a period of unprecedented change. The negotiations across the last 10 years within automotive manufacturing with the assistance of the guys that are sitting over there in the corner, have in fact delivered more in terms of productive improvement to the way that this industry works than have done in the previous two or three decades.

In part that's acknowledged but in part, it's not. It's a concern to us that in fact it seems to be fobbed off, both in terms of your initial findings but equally - and more importantly at this stage for me - the submissions that have been made by the car manufacturers themselves. If you look at all of the factors that go identifying where this industry is at, all of them would demonstrate that whilst there has in fact been a renaissance in export manufacturing and a renaissance in the relationships that have been shared between the trade unions that work in this industry and the employers across that industry over that same period of time. If you have a look back in the early 80s, it wasn't uncommon in the early 80s to be in disputation, for that disputation to last more than weeks and sometimes months. In the last 10 years, you would be lucky to point to a dispute across that period of time that has sustained itself over any length. In fact to be quite frank, you would be lucky to be able to point to a dispute.

If you look at those other factors that the car industry, as I said, is undergoing an export boom at the moment in part, that's to do with what I thought were good policy positions coming out of the last inquiry; equally the contribution that our members make to achieving the level of productive improvement that is required to meet the objectives that were established at that point, but the other areas that the industry looks to in terms of how it benchmarks itself are such things as quality, delivery and industrial relations performance.

If you have a look at just the issue of quality, quality alone has reached unprecedented levels in this industry. In fact so unprecedented is the unprecedented action of the president of Toyota in the midst of our bargaining process where Ken Asano stopped the bargaining process and assembled the entire plant to announce that Australian levels of quality were now in excess of those of the parent company in Japan; an extraordinary announcement and a fantastic achievement in the way that we manufacture vehicles in this industry. In terms of Holden who have been, you know, probably the largest disappointment to us in terms of their submission - I will go to that specifically later, but in terms of Holden, if you go and you talk to their general managers of production at the South Australian operation, the reality about that operation is that it is regarded as the best assembly operation anywhere in the world - the best assembly operation anywhere in the world.

If you have a look at how they regarded it in the last Productivity Commission inquiry, they said it was in the top quarter in the world. Clearly it has come a long way since then. So it's a bit of a disappointment to us when we see what we consider to be positions that are simply untrue coming from the employers. Can I say, too, that just a further disappointment to us, alluding to Holding again, was Doug mentioned the fact that they are now constructing - and almost completed the construction - of their new V6 engine plant out at Holden. As a group of unions, we were committed to the development of a greenfield agreement, and the greenfield agreement had wonderful statements at the outset, all about partnership and the things that they criticise us for in their submission. It also identified leading edge practices internationally in terms of how one should operate a plant such as that.

Interestingly enough, for six months following the EBA negotiations conclusion, the unions were at Holden to conclude those negotiations because we deferred them to allow the wider and more immediate negotiation to occur, and the only party to that greenfield negotiation that said, "No, we're happy with what we've got," was Holden. They suspended negotiations around new industrial practices and said, "We don't want to go any further; we're comfortable where we are," an extraordinary position I thought, but the unions pressed on but at this stage have not been able to get them to reopen those negotiations. I find it hypocritical when I see a car manufacturer placing in their submission the fact that from their perspective, the unionisation or the high unionisation of their operation diminishes a partnership approach and diminishes their opportunity to introduce change which is something I do want to come to. So that is more than an annoyance; it's frustration and it's very disappointing to us.

The reality of our industry, in terms of its industrial approach, has been one that's based on the development or at least the recognition by those that work within it that without an industrial relationship between those that work in this industry, there can be nothing, and I forget who it was - it might have been Grant - who indicated that in terms of change, change is best implemented - you can identify all of the wonderful factors that go around leading manufacturing, but if you do not have an understanding about the implementation of that change, how it unfolds, who's involved and the communication processes within it and indeed what happens when something happens, then the reality is that the desired outcomes are simply not going to be there.

In fact in the car industry we have gone to an enormous effort to build those relationships. Proposals that have been put forward by the AIG, which I won't go into any great detail about except to say that most of them are rubbish, but in terms of the car manufacturers - perhaps Doug puts it a bit harder than I do, but in terms of the car manufacturers themselves, they seek a legislated solution; a legislated solution, that will have a scattergun approach right across all industries for an issue that in real terms, to be quite frank if you want to assess it in the way that it has been assessed, is a relatively minor issue. It's an annoyance, but it's a relatively minor issue. It becomes an issue for the car manufacturers though when they lose production, and somebody really ought to ask the car manufacturers have they lost production because they haven't. They might not build on the particular day that they want to build, but because they substitute rostered days off and other leave entitlements, they in fact recoup the production that they argued is lost.

So the reality of the arrangements that we have within the industry are such that production isn't lost, and if you look at Mitsubishi, Mitsubishi have a nine-day fortnight, and so as a consequence of that, they have 24 more flexible days that they are able to draw upon in the context of any downtime arrangements that come as a context of supplier interruption or market downturn. We are going to be negotiating that level of flexibility. This is a first, so you're hearing it first. We're going to be negotiating that level of flexibility in terms of nine-day fortnights right across our industry because in the absence of the federal government recognising that there has to be a recognition of a better way to bargain across the supplier sector, then we need mechanisms that will act to insulate our members from lost time during unavoidable circumstances. We also have a recognition that in the context of our industry that the health and vibrancy of our industry needs to be maintained and preserved, and we can do that by ensuring that people or that companies are able to recoup that lost production time.

So ultimately for us, you know, when we hear arguments from the employer about the massive cost impact of this two-day dispute or this one-day dispute, leading to millions of dollars' worth of lost production, it's simply not true. It's simply not true. I just want to emphasise too that in the context of disputation in this industry I've had these discussions with all of the car manufacturers, and indeed am on a committee that was established by the Victorian government to develop a common submission to this inquiry, and have put this position to all of them. I mean, it's sort of like bargaining has only just begun, like it's new. You know, it has been around forever.

When I was in the aircraft industry as an apprentice we had enterprise bargaining. We've had productivity bargaining after that. We had bargaining all the way through, centralised wage fixing, that got us into strife from time to time but we still had bargaining. So bargaining is not new and what we find disturbing is that suddenly people want to, firstly, place parameters around the means by which you bargain - we think that's quite foolish - and secondly, pretend that it's imposing something that never existed before. I mean, if you have a look at the evolution of industrial disputation over a set period of time across the automotive suppliers sector to now, you will find that it's at lower levels now than probably it has ever been.

So it would be the first time I've ever heard employers complain about continuous improvement, because that's really what we're confronted with, continuous improvement. And make absolutely no mistake: continuous improvement is percolated through every agreement and percolated through every fibre of our being in the automotive industry. That's what we're trained on. That's what our bread and butter is. So when we see submissions by people that say that we're a hindrance to the implementation of change that's why we get upset, because the fact is that continuous improvement occurs almost by osmosis out there in the car industry.

Continuous improvement is not a change as it used to be, every three months or every six months or every 12 months. It has dropped down to a week, to an hour, and almost these days by minutes. So the union has to react to that change in the way that it approaches that change almost on a minute-by-minute basis, because that's how quickly it's occurring these days. So the fact that right throughout that period we have brought industrial disputation to record lows with that level of change, to be quite frank, we ought to be singing the praises of our membership and the union's efforts in that regard, rather than the reverse.

Can I also just go to the fact about just issues of legislative change. Now honestly, in terms of legislative change the reality is all of us - you, ourselves, our members and the employers - we have an obligation to ensure that what we do in this industry acts to the benefit of the industry, not to the detriment of it. When the employers raise the issue of legislative change on top of the already significant armoury of legislation that they have, then they need to be mindful that with the wrong approach to legislation can come a reversal of decades of cooperation. If they want to approach our industry and other industries with a package of legislation that remove and impact upon what, to be quite frank, for us has been a successful bargaining formula, then ultimately we will have to react to that. You wouldn't expect us to do otherwise. We will have to react to that.

So we reject the notion of the implementation of regressive legislation when in fact we think that there is ample leg available to anyone. The issues that we've spoken of in the ACTU submissions in terms of legislation went to the creation of greater uncertainty within the industry as a consequence of its implementation. All we would do is say this, that there can be no greater uncertainty than a worker not having any capacity to bargain and knowing that their entitlements or their future and their job security is at risk.

Just in terms of a couple of things and then I'm going to conclude on a couple of points: in our submission you'll note at the back of our submission - I won't take you to it at this point, but what we've sought to do is just to provide a range of examples as to the level of flexibility that exists out there in the industry and one point that has been touched upon by all of the employers in the last Productivity Commission inquiry, to a lesser degree in this one, is the fact that in 89 and 90 and 91 we restructured all of the car industry awards, the same as we restructured everyone's awards. The car manufacturers point to that as one of the most significant contributions that we have made to the car industry and certainly to the enhancement of their position internationally over a long period of time.

What that was, was effectively pattern bargaining because the ACTU and the unions put the claim for restructuring our awards on every employer and every employer embraced it. Every employer embraced it, and they embraced it because it was a proposition that would not only increase the skills of employees that worked in the industry but it reduced the level of demarcation that existed in the industry. So of course you would expect them to embrace it. So, you know, you draw from that that where you agree with the government's approach on a definition of pattern bargaining ie that as long as the employer agrees with what you want to do it can be pattern bargained, I mean, that's an absurd notion for rolling out productive change in an industry.

If you have a look at just issues like continuous improvement and all of the production system implementation programs that have been introduced right throughout the last 10 years, all of those are derivatives of the Toyota production system, all of them, whether it be the Ford production system or Holden synchronised work groups or the Holden production system, they're all a derivative of the Toyota production system. All of them have been rolled out and you could argue that that is a form of pattern bargaining. But do we say, as unions, "You shouldn't do that"? Of course we don't because we sit down with the employer and we look at the sort of proposal that they have. We look at the value that it can bring to the industry and the fact that it can make them more competitive in what is a very competitive industry. So of course we don't do that.

The companies, particularly in terms of Ford and Holden, are seeking to introduce their modular assembly platforms and they're going to do that through the linkages of their supplier parks. Now, that is a major issue. That is a major issue for the trade union movement to deal with, because it has outsourcing implications, job loss implications, a whole range of very volatile issues. But if we said to the employers that seek to roll that out, "That amounts to some form of pattern bargaining, therefore we're going to restrict your access to it," of course we haven't because we understand that the world is shifting and we need to work in the world that we're in.

So, you know, ultimately all we say is this: that we can have ideological solutions to problems that ultimately will be hindrances to the proper working of this industry. And make absolutely no mistake about this industry, from the CEOs down, they are about practical solutions - solutions that work and solutions that deliver outcomes. So you've heard some of those solutions today. I think that the great tragedy that we're confronted with at the moment is the fact - I think it was Karen that might have - Sharan, sorry - I think it was Sharan that might have said it, and it was that all of the mechanisms for involvement of the trade union movement on the implementation of change have been dismantled by this government. All it seeks to do is not include in the way forward - as has been identified in 1988. All it seeks to do is divide and create more regressive legislation to bash our members with.

We don't think that that's a proper approach. You know, I have spoken to most of the car manufacturers and nearly all of the suppliers and there would not be one of them that would disagree with the fact that there needs to be a consultative forum - created under 133 of the act - for unions and management to start to work through issues of an industry nature. That just needs to occur. In terms of bargaining: for anyone to say to an industry such as ours - an internationally competitive industry and an industry that is moving ahead every day - to say that we are confident that you can deal with a level of competition that you have in industry, that we are confident that we can construct programs in the billions of dollars for you to handle and access, but we are not confident that you are mature enough to develop the mechanisms for bargaining within your industry, is an absolute joke.

So I think that what needs to occur is that we need to first of all create the consultative forums that allow us to discuss issues of industry relevance. Having done that, one of the things that we ought to be allowed to discuss within that body and be given the freedom to make recommendations on and suggest implementation of is the model of bargaining that suits the sector of the industry that wants to bargain. Having said that, let me say that in the automotive industry, for the large car manufacturers enterprise bargaining has worked very well - wouldn't give it up for quids. But we've got to recognise the very disparate nature of our industry and stability comes about through the collective ability of people to be able to bargain for the collective good.

MR BANKS: Good. Thank you.

MR APPLE: Gerry, I'm going to be very, very short. Typically I'm more like Mr Belchamber and like to stay here until seven o'clock to debate the export demand elasticities in the Monash model, but under the circumstances I'll cut that part of my presentation down to an absolute minimum.

MR CAMERON: You just cleared the room.

MR APPLE: Yes, I thought that might happen. I want to say three things: the first thing I want to say is about my experience being employed by these blokes for the last 20 years in this industry and why I think it's an absolute tragedy that we have got both sides in this industry talking about industrial relations issues rather than what the really important issues are for this industry. I spent 15 years on the board of directors of the Australian Trade Commission. When I look at this industry I say to myself, "How is it going to go from 5 billion dollars to 10 billions dollars in exports, because there's only so much we can do to the Middle East. So what's the strategy, where is the debate that's going on in this commission and in this hearing about that issue?" - I say to myself, because I have shop stewards back there that I have worked with for 20 years from the Geelong Tool Room who are saying to me, "The tooling industry in this country is dying."

The Geelong Tool Room, which the last report I saw was 25 per cent more competitive that the average tool room in Detroit, is wondering where its next job is coming from and why it doesn't have a lot more work. All of us are wondering why we have got tool makers in this country who on average are over the age of 55. We're not putting new apprentices in and we seem to have forgotten that tooling is a fundamental infrastructure of this industry. Yet what we're talking about here is will we have a cooling off period and shall we have secret ballots and if it can't be done by government legislation, how will it be done? I look at the issues of new investment in new technologies. One of my favourite companies in this industries is Pacific Brake and Clutch. In the old days we used to have 3000 AMWU members down at that plant.

What those guys had to do in the last decade and a half was going from exporting less than 10 per cent of their production to exporting more that 70 per cent of their production, to rationalising their product line, to putting in the team system - and today they're confronted with the new reality, because the old braking systems were based on hydraulics. Now you've got wired electronic systems and everybody's asking, "Well, how are we going to do that and how are we going to stay competitive?" And to me, it is the strategic thinking about those issues rather than whether or not action and suits can be taken against damages for third parties. I guess when I look at this industry and I look at the future issues - I sit on a board of directors of a super fund that invest 3 and a half billions dollars, and I sit on the board of directors of the second largest venture capital company in this country. One of the big issues for me is will we make an investment if you'll sell technology?

According to the Boston Consulting Group, in about 15 years time, about 20 cars on the road will have fuel cell technology. If you go to your websites for fuel cell technology you'll see that General Motors is part of five programs with fuel cell technologies. And yet what we're having in this commission inquiry is a debate about the next round of industrial disputation, about Holden saying that a hundred per cent of a workforce unionised is an impediment, instead of debating about - Australia actually has a very good fuel cell technology out there. They've got a company that's got the capacity to gear up and be part of that in the same way that with magnesium we've got to decide whether the cylinder heads will get done here or whether we've got the capacity to do it here, or whether that's going to go offshore.

To me, using our downstream resources in magnesium and aluminium to create thousands of jobs in exports is a fundamental issue about the future of this industry. Instead I find my political lords and masters asking me to spend my time having to defend ourselves against charges of industrial relations and can I get on the phone and find out if really 7250 working days per thousand workers is the exact figure that the Korean Metal Workers Federation has given us, and I think frankly my time and priorities would be better spent doing other things.

I will finish this part before I have to say something about the export demand elasticities by simply making the point - and I make this both to my political lords and masters and to the employers out there - that at the end of the day, government legislation is not going to solve the IR issues. The IR issues are going to be settled by Ian Jones, Doug Cameron and the CEOs sitting down, having some ACTU people, saying to ourselves, "Hey, guys, the next bargaining round starts in March next year. We have got to do this smart because you can't impose it on these people from outside." This is an industry that could go to war for two years and you would have no solution and you would just have losers, and after 15 years of sitting on the board of Austrade, the last thing I want is all my trade commissioners phoning me up and telling me that once again we have that reputation overseas for bad industrial relations because we don't have that in this country any more and we don't have this in this industry.

Just making comments that you can read later for yourselves in part 2 and appendix 7: Gary, we have been debating the economic modelling of what goes on in this industry for 22 years now. I used to have brown hair and look a lot prettier then than I do today.

MR JONES: Not true.

MR APPLE: Not true? Well, all right, thanks, Ian; thank you for that.

MR JONES: You had brown hair.

MR APPLE: Basically what happened this time is when you have wound the models up, you found that the old argument about allocative efficiency gains really wasn't there because tariff levels were so low, they had adjustment costs versus allocative efficiency gains that basically neutralised them with terms of trade effects, you could either have a plus or a minus sign on either side and it was very, very low. Once you get into that situation, you then have to look for dynamic efficiencies, and as we all know, dynamic efficiencies are very hard to model. Usually what people do in a very sneaky way is they exogenously insert a 25 per cent increase into productivity into the model and you get this nice hit, and I must say that it appears to me that with - as Mr Belchamber said - very little factual evidence, you have tried to argue that lower assistance over here and industrial relations reform over there will give you that next round of productivity gains, and I think based on my experience in the industry, I would argue you could well end up with exactly the opposite effect due to resistance to change.

In terms of the modelling I would also point out that when Peter Bran and the National Institute of Economic and Industry Research looks at your models, basically we all know what happens, and I will explain this for our shop stewards in layman's terms. If suppose five years ago we wiped out the auto industry, what happens in the traditional economic model, what the model assumes is that the auto workers all lose their jobs, that the exchange rate falls, that there's a reduction in real wages so that the fall in the exchange rate becomes effective, that over time those displaced workers and unemployed resources move into more productive industries that have the higher value-added per worker, and in the end we are all better off.

One of the problems about these type of models, putting aside for the moment the debate about whether the real world works this way as a very critical coefficient variable, is the export demand elasticities. In the two models you use, you have a debate about where between five and 20 shall we set them? Given your background in economics, you would know that back in the 1970s, Kaldor started quite a debate in what became known as the Kaldor paradox in terms of what the elasticities of demand were for exports. In your model, one of the reasons the auto industry looks so insignificant is basically with a very small change in the exchange rate and a very small temporary reduction in real wages, we can compensate for the loss of this industry, and you use an export demand elasticity of a proved one of 10, but I think you will find in the evidence what is submitted to you from the Victorian government that the empirically estimated elasticity coefficient isn't 10, it is 0.57; one-twentieth of what you assume.

I would also suggest to you that when you do the modelling in the future, your traditional equilibrium models are very, very sensitive to changes in wages. Mr Belchamber is far better versed in this than I, but in the debates that I have been a part of in the Industrial Relations Commission where we have looked at this issue, models such as MONASH, such as ORANI, such as NIFF tend to be very, very sensitive to changes in relative prices. They have very powerful effects on allocative efficiency and moving resources from one sector to another. A 5 to $10 wage increase costs thousands and thousands of jobs. At least since the time that I was in university, I think the real wage elasticity has been cut by 50 per cent in the literature; I think since the time of Hard and Krueger, we're beginning to see that small, modest wage increases don't seem to have that much effect on jobs, if any effect at all, and many people are asking the question about whether relative prices are really that driving factor, not just on the wages side, but in terms of industry efficiencies because increasingly it seems to us factors not captured by changes in relative prices such as technology, such as innovation, such as investment and education and R and D.

These are the driving forces, these are the forces that determine how an industry changes rather than changes in relative prices and simple equilibrium models that make the costs of adjustment look less painful than they actually are. In the interests of time - and I know you have probably got a lot of questions for Ian and Doug in particular - we also have Sam Gindin here who is quite an international expert on this industry. I just ask you to go through part 2. I would ask you to take a look at section 7. I know the Victorian government will be putting in Dr Bran's report, and I just bring that evidence to the commission's attention.

MR BANKS: Good. Thank you very much. I think in the interests of time and two other participants who are waiting, we probably will spend less time on questions than we might otherwise have done. Thanks for the submission. It's a substantial submission and we will go through it in some detail. We may well want to get back to you on points of detail if that's okay. Sorry, did Sam want to make some comments?

MR GINDIN: I would like to give you the chance to raise a couple of questions and maybe I could jump in.

MR BANKS: I guess even discounting the natural proclivity for rhetoric, I think I probably need to just respond to a couple of things that were said at the outset, Doug; one in relation to what you receive as political bias in the commission. I guess I can jut say that we are not biased, we haven't - apart from our terms of reference, we haven't been in discussion with government about anything that we have done in our report, and indeed some of the things we have said in our report, as you well know, were probably inconvenient to some members of the government anyway, and I suppose there's just a small point of evidence that I could cite is the response of the Labor Party itself to the commission's report. I mean, if it was a politically pro-coalition type of a document, I don't think we would have had a press release from the shadow minister for innovation industry, trade and tourism entitled Labor Welcomes Productivity Commission Position Paper on Automotive Assistance.

MR CAMERON: But that doesn't surprise me. That doesn't mean to say that the Labor Party - a great deal of difference in terms of neoclassical economic - - -

MR BANKS: So when you say politically biased, you mean in a policy sense?

MR CAMERON: Biased against workers and the unions.

MR BANKS: Well, I guess you just have to take on faith that that's not a bias either and I guess I won't convince you.

MR CAMERON: You might convince me in the final report.

MR BANKS: The second point you make is that we're not in a position to make an informed decision because we don't have labour representatives on the commission. I guess the only point I'd make there is - I mean, one of the ways the commission has been constituted is not to have anyone representing any particular special interest within the community. Indeed, we try to access that through forums such as this and through submissions. It probably would have been useful if some of these remarks that you're making now had come to us before we did the position paper in response to the submission from the AIG. I just make that point that we gave you the opportunity, we signalled it to you well in advance and we followed through by making a copy which I think was sent personally to you, Doug, actually to give you the opportunity to do that. We will certainly take into account what you've provided ex-post, but if you'd provided it before the fact that would have helped.

MR GINDEN: Can I just comment on that, Gary, because I did discuss with one of your colleagues that issue. I phoned him, I said to him, "We can have by Wednesday a detailed response to all of the IR issues. We thought you were going to send us a series of questions." He then apologised to me and said no, all that had gone out was the AIG position paper. He said, "Don't bother getting your submission in by Wednesday, it will be far better to come to the public hearings and develop a far more detailed position." If I'd been told that I had to have it in on Wednesday, which was three days before you were finalising your paper, Cameron would have me and an army up all night, all day and you would have had something five times the size of this. So let's not go over too much history about the fact that we didn't have something in before - - -

MR BANKS: Well, let's not get into that. But, I mean, the Wednesday of the week in which we sent the report to the printer was not very helpful, quite frankly.

MR GINDEN: We phoned on the Friday, Gary.

MR BANKS: So I guess they're just two points. But having said that, that's water under the bridge. We've got your submission and we've had your representations here today and we'll have a look at that. I guess, Doug, apart from you sort of saying we're politically biased, you've put us in lock-step with the AIG and the auto sector. I think anyone, particularly perhaps those who have been following the commission for some time, would know that the commission is not typically accused of being in lock-step with the industry interests and it's certainly not the case on this occasion. The point that you make that legislation is not going to in itself drive change I think we've made ourselves. What reference we have made to suggestions made by the AIG and others have only been in a very broad sense endorsed by us in terms of - in the broad directions of it, seeming to be able to address some of the issues that have arisen. But we've gone from that very quickly to say, the cultural issues, the relationship issues and the workplace management issues are not going to be resolved by legislative changes and we've talked a bit about that.

You've used the modelling by the NIEIR and I would be quite interested to have a look at what they have to say. I mean, I should say in the past when we've tried to have a look at that model in the way that others can look at the models we use, we found the transparency of that model lacking. We held a workshop precisely to allow modellers and those who know about such things to get together and talk about the relative merits of different models and so on. The NIEIR was not represented at that workshop which is a shame because it would have allowed that modelling to have the sort of scrutiny which has been applied to other models.

MR GINDEN: Were they invited?

MR BANKS: There was a general invitation that was made public. In fact it was made right at the start and it was made several times. So they're just a couple of points. The points you make about the disputes having fallen and so on, I think we concede ourselves in there and I think we paint a picture of significant improvement in the industry which is not unrelated - as I mentioned to Grant earlier - to the way that managers and employees have worked together. We'll certainly respond to the sort of points you're making in terms of how we can move forward on that. One question I had was - there was one other point I was going to make and that is - which is a sort of high level point - I think, Doug, you said we hadn't met the requirements of our act in terms of having regard to a set of considerations. Again we'll certainly go through those.

In relation to communities we received submissions from Geelong and from other regional communities. We looked at those. I guess we framed our recommendations with an assessment that they were unlikely to create major downsides for the industry and impact on those communities. Some of those communities, as we've said in our report, are much less reliant now on motor vehicle production than they were before. They have become somewhat diversified over time.

MR CAMERON: Can I just say, Gary, can you have a look at that, the Hunter taskforce report, where the state government in New South Wales and where the federal government makes exactly the same point about Newcastle. But when you do a social audit, as well as an economic audit, the reality is much different.

MR BANKS: Yes, that's true, and often the impact effect on these communities can be very significant but sometimes when you go back over time the story can change. I mean, even in the Hunter. The other point you make is that we didn't have regard to trade barriers overseas and you said we neglected to mention that tariffs overseas range from zero in Japan to 300 per cent in Malaysia - I mean, just a quick look. I couldn't check all the things you said but figure 8.1 does precisely that. Again in the final report we may be able to put more detail, including into that issue of what the industry talks about as policy benchmarking overseas.

MR CAMERON: The point is not whether you have made reference to it; it's whether you are prepared to mould your recommendations or your final report on the basis of what are still high tariff barriers with major trading nations, and nations that we are talking about having free trade agreements with. That's the issue.

MR BANKS: Yes. Certainly we have talked about that and we will talk about it some more in the final report. I mean, the question is how you perceive that, whether you perceive us having to match the highest tariff overseas or whether there are some common goals and we're looking at trends.

MR CAMERON: No, we're simply saying don't cut our tariffs, don't take our assistance down any further while these barriers are up and barriers are getting bigger, such as in the US where the steel tariffs have gone on and you're going to get a trade war. Why would we completely disarm ourselves now - why?

MR BANKS: Another issue in that is to what extent you believe that Australia, as a small country, exerts significant negotiating power anyway with some of those blocks, particularly the larger countries. As we have talked this morning, some of the more problematic issues in those markets have related to non-government barriers to exports, including the role of the UAW in the United States in stopping more Australian cars being sold into that market. That brings me to the next point that I was going to raise.

MR GINDIN: Why would you in that context give up the few levers you have?

MR BANKS: Sorry, can I just go on, because we've got - well, this is precisely a point that I think the governments raised when they talked about making ACIS conditional on industrial relations. But just that question of the UAW in the United States - and we've had a little bit of discussion about that - I guess I would value from Sam some reaction to the situation in Canada, in terms of union representation. Is there a single union representing workers in the automotive sector in Canada - and how well that works - and maybe come back to Doug. I mean, you've demanded enterprise unions but you didn't say anything, I don't think, about industry based unions, other than to say "leave it to the union movement".

What we have heard as we have gone around and talked to enterprises is that managers have said, "Well, all the unions negotiate pretty hard, but some are easier to deal with than others." In particular, the Vehicle Builders Union is generally seen as a tough but fair union in the sense of understanding the realities of the industry. The metals division of your same union is typically not spoken of in those terms and is typically spoken of in terms of a union that will push the industry to the brink. It's not so concerned about the downsides for the industry downstream.

MR CAMERON: But you have not - - -

MR BANKS: These are views that are being put and I give you the opportunity to respond.

MR CAMERON: But you should not pedal the nonsense that's been put you. There is absolutely no evidence of that position.

MR JONES: Can I also say, Gary, that in the context of bargaining within the automotive industry - and I didn't say it before, I was remiss - but the bargaining takes place by and large as a consequence of the creation of the Federation of Vehicle Industry Unions many years ago. The ACTU created it, then secretary Bill Kelty. Ultimately we come together as a single bargaining unit. I'm the chairperson of that body. We formulate our claims and we negotiate our claims. We have a single spokesperson at the bargaining table. We have, if you look at a Ford negotiation, probably 80 to 90 people around the bargaining table, and the same in the other companies. It is not an impediment to bargaining within this industry, having a multiplicity of unions. Can I say that in the context of - even if it was an impediment - there is no legislative solution to that. It is for unions to determine, through discussions internally, how they go about rationalising. The ACTU created a climate for union amalgamation some time ago. It’s up to us, as unions across industry, to work out our own issues. It’s our business.

MR GINDIN: Can I respond to a few of those things?

MR BANKS: Sure.

MR GINDIN: Actually, I want to go back a step and just address something you just skipped over very quickly, which is that you are concerned about keeping the incentives - levers. You want to link them to industrial relations, which seems to me very strange.

MR BANKS: No, well, it was in part responding I guess to - - -

MR GINDIN: Let me clarify this for a sec, because it actually came up in an interesting way in the Canada-US relationship. At the end of the 70s there was a question of incentives used as levers with regards to Chrysler. In the United States they actually did tie it to industrial relations. But Canada, as a small country, felt that the only way they could actually protect their industry is to tie it to investment; that if Chrysler was going to get any kinds of moneys, it was going to be tied to investment in Canada.

The point is that small countries are vulnerable. I don’t understand why you would be discussing giving up any of the levers that you potentially have over investment, when you’re confronting a world which has excess capacity and increasing uncertainty; why you wouldn’t be waiting to see how this world unfolds.

Let me raise a couple of other things, specifically on Canada. I’m kind of taken aback by all this time being spent on the relationship to the suppliers. I mean, this is something - every auto industry in the world has suppliers that can potentially shut down the auto majors. In Canada, 80 per cent of our exports go to United States. So we don’t just have the potential to shut down the Canadian industry, which is seven times the size of your industry; we have the potential to shut down the largest industry in the world. Nobody is panicking about this. The reason they’re not panicking about this is because people don’t think that the problems in the world, or in the auto industry, are about workers having too much power.

The natural assumption in most places is that the chances we’ve seen over the last 15 or 20 years are about how much power corporations have, not the workers. Second of all, what people understand is that these are complex issues, as I think Doug and Ian really tried to emphasise. It’s like democracy. Democracy can get messy sometimes. Nobody says, "Geez, let’s get rid of democracy." This isn’t the way to deal with this so these issues get resolved. Workers aren't strike-happy. It costs workers to go on strike. It affects other workers, which creates internal pressures. Corporations have the threat of, if you're striking all the time, they will go some place else. So this has just been a non-issue.

Of course if you ask the corporation, "Are you concerned about it," they will say yes, but that hasn't been particularly meaningful. If you look at the actual bottom line that everybody wants to talk about, whether it's in Australia or in Canada, we pride ourselves actually in terms of being a very militant union. The companies are doing very well, by international comparisons. This raises another question which Phillip raised through the ACTU, which really should be addressed here, which is, is it possible for a union that extends beyond auto to actually speak for auto, because of its other interests. In our case, for every member we have in auto, we have two outside the auto industry. Nobody - I mean, it would be absolutely insulting - there wouldn't be enemies of ours who wouldn't say, "That union speaks for jobs in the community," because when we represent workers the most important thing they wanted is their jobs. The reality is the companies have other options. They have the option of leaving. They don't speak for our communities. The investment that they provide is very important but they don't speak for the community. We can't leave. We have to be concerned about jobs and that has been - I sat through the conference which included food workers, you know, workers from every sector, but there was no question about the fact that people there were interested in how do you keep jobs in this community. I mean, that should not even be a matter of dispute.

I just want to raise a third thing which seems incidental but it seemed to me significant when I saw some of the AIG material. That was this question about the AIG suggesting that the company should be involved in workers' education. If you believe that there should be unions which have some independence from the companies, that means they have to be able to think differently. You can't have companies telling unions and their members what to think. Companies have all kinds of access to workers. They have all kinds of access to the media. All workers are asking for when they talk about independent education is having some kind of a space where they can talk to members about issues in a serious and mature way. It just seemed to me that was indicative of a certain kind of arrogance and patronising attitude that I actually found quite stunning. Again, it seemed to me it was quite insulting, but again, the main thing I just wanted to add is I really am taken about by hearing all this talk about productivity and the industry revolving around what's happening with the supplier industry.

Productivity depends on things like investment and innovation and research and development. This is a complex issue. If anybody is looking for an easy technical fix you're going to damage this industry. It has to be respected.

MR BANKS: Thank you for that.

MR CAMERON: If I can raise this issue. Like the Canadian auto workers, I don't think any of our members in the industry would argue that the AMWU has got a different agenda because we get membership outside the industry. I don't think if you asked the members, anyone would say that. We have got an interest in the industry, and I have said publicly on a number of occasions the industry is extremely important, and we want the industry to survive and grow. That's why we would argue to maintain the tariffs. That's why we argued to maintain the assistance for the industry, the same as our competitors do overseas. Nobody can argue that if you had an enterprise union they would have a more sophisticated understanding of the industry. They might have a more compliant position with GM, Mitsubishi and Toyota but they will not have their members' interest any more to the forefront than us.

MR BANKS: I think out of courtesy to those who are waiting and have been told an earlier time, we should end there. But hopefully after we have had a chance to read this, if you would be happy with that, we'll get back to you possibly in writing if it needs to be that way. Is that okay with you? So thanks very much. We appreciate having a Canadian perspective. Thanks for attending the hearings. We look forward to reading the submission.

MR BANKS: Our next participant is Robert Bosch Australia Pty Ltd. Welcome to the hearings. Could I ask you, please, to give your name and position with the company?

MR COMBEN: My name is Barry Comben and my position is director of automotive sales at Robert Bosch Australia.

MR BANKS: Thank you. Barry, thank you for attending the hearings. Thank you for your patience this afternoon, and thank you also for your submissions. Again the first submission was quite a substantial and useful one, and you provided some additional comments. We may have some questions on that, but I should let you proceed to make some opening remarks.

MR COMBEN: Thank you very much. Could I say first of all that I appreciate, and Bosch Australia appreciates the opportunity to participate in this public part of the process. What I would like to do with your permission is read into the record a short opening statement which is nothing more than a series of extracts from our original submission of 10 May, but I felt that they may just put a few issues into context.

MR BANKS: Thank you.

MR COMBEN: If that's okay for me to proceed - - -

MR BANKS: Please do yes.

MR COMBEN: From the executive summary first of all: with policy settings for the post-2005 period that continue to reward expenditure in research and development and attract new investments by the component sector of the Australian automotive industry and productive assets. Robert Bosch Australia has the potential to generate 1.5 billion in turnover by 2010 of which 800 million could be generated through export sales. That's annual figures of course. The Robert Bosch group is a major global producer of automotive components and systems. Robert Bosch Australia performs design, development, applications, engineering and manufacture of high-tech automotive components and systems for both original equipment and after-market customers.

RBAU employs nearly 1900 people with sales of 754 million, of which 320 million are exports. RBAU has attained a strategic position within the global Bosch group. The company continues to expand its customer base across a range of countries and has developed into a globally competitive first tier supplier through utilising the Robert Bosch group's global networks, excellence in design, development and manufacture, innovation in product and process technology, the development of export markets for a range of products and services, the employment and training of a dedicated workforce and a competitive public policy framework in Australia.

There are some important statistical milestones that are worth mentioning, and again I just extract these out of our original submission. In the period from 1995 to 2001, RBAU has increased its sales from 386 million to the already mentioned figure of 754 million per year. Exports have grown over that same period from 40 million to 320 million last year. Capital investments cumulatively over the period 95 to 2001 are 220 million. R and D expenditure is greater than 150 million, and this is measured according to the tax definition of R and D rather than the ACIS definition. Employment has grown from 1300 people to 1900 approximately. RBAU employs 300 engineers as at least year, of which more than 150 are dedicated full time to research and development activities.

The automotive competitiveness and investment scheme has been important to directing the Australian industry towards more innovative, internationally competitive practices. RBAU has been reinvesting its ACIS benefits in the future of the company through research and development, plant and equipment and training and education; three absolute prerequisites for future industry success. The combination of ACIS and a supportive tariff rate are vital to the RBAU case for gaining approvals - that means from its parent - for further projects in Australia. RBAU and the Australian industry as a whole have made significant gains since 1996. Exports have grown significantly. The research and development and investment base has been enhanced, and the quality of the components and vehicles produced here has improved. The right policy environment for the 2005-2010 period will see the Australian position in the world automotive industry become more entrenched.

Extract from page 31 of the 10 May submission: the structure of ACIS and the way in which it rewards R and D activity is critical to the component sector. By focusing assistance to the company actually performing the R and D work, the scheme has assisted RBAU in being able to continue on its growth path. RBAU strongly encourages the commission and the government to ensure this same principle is adopted in any successor scheme to current ACIS. ACIS plays a pivotal role in the forward planning at RBAU. With the support provided by ACIS, RBAU will commit more than $350 million on capital expenditure and research and development during the course of the scheme, and can I just mention that once again the figure relevant to research and development as part of that 350 million is according to the taxation definition of R and D.

Extract from page 33 of the submission: in today's global automotive industry, the Australian domestic market is too small to sustain an economic component manufacturing facility or Bosch products. On the other hand, Australia's remoteness from the major automotive markets of the world makes it uneconomical to locate a manufacturing facility here that produces solely for export. The domestic and export markets for RBAU are therefore interdependent. Industry policy must be sufficiently attractive to induce local manufacturing and research and development investments in support of domestic market requirements, thereby providing the base from which export business can be pursued to fill installed manufacturing capacity. In this context, the automotive tariff plays a significant role in each business case that RBAU puts to its German parent. It is therefore a crucial element of the ongoing success of RBAU. That concludes the opening statement. Thank you.

MR BANKS: Good. Thank you very much.

MR WEICKHARDT: Barry, in the draft comments that you put in for this hearing, I would just like to clarify a couple of issues. I think in terms of the basis of delivery of ACIS benefits, your suggestion is that of the options that we put up, you would prefer to see the ACIS benefits paid out over the five-year period from 2006 to 2010 rather than any of the other options. Is that correct?

MR COMBEN: That's correct. I have given in brief a reason for that preferred time profile of 06 to 2010, and that is that we believe the Australian industry can't afford to slacken the pace of introduction of improvement in new technology and in competitiveness. Consolidating the gains already made - and they have been considerable of course and I think many people before me would have drawn attention to that, and indeed the commission's position paper also acknowledges that.

So consolidating those gains and positioning the industry for continued growth will necessitate a continuing high level, we believe, of investment in new plant and equipment, the introduction of new processes into the country and of course heavy expenditure in research and development, and all of those things to support process and product development. So we believe that this decade is imperative in terms of continuing that good work which has been generated so far, and for those reasons we would prefer to see whatever is finally decided in terms of funding level for a renewed ACIS directed towards the remainder of this decade.

MR WEICKHARDT: In terms of quantum of funding, you may or may not have been following the submissions that the motor vehicle producers have put in, that they have suggested to us that first of all the uncapped part of ACIS should be not really regarded as part of the ACIS pool that was, in their view, something that relates to the duty-free allowance and therefore should be completely put aside in terms of debating the size of the pool. I guess historically they're arguing that that is about point 8 billion of the 2.8 and they're then saying, "Well, the 2 billion, originally it was the view of the people who designed this scheme that that should be split 65:35 in the benefit of the auto vehicle producers versus the component manufacturers," 35 to component manufacturers, 65 to the vehicle producers, and they're somewhat aggrieved, surprised, that they're not getting that share and would argue that in any renewal of ACIS that the point 8 should be put to one side uncapped and if, for argument's sake, the government accepted 2 billion - and we're not necessarily trying to advocate any particular number at this stage, but if 2 billion was the remaining quantum they're suggesting that that should be redivided in separate pools, 65:35.

Of course you won't be surprised that some of your component manufacturers have suggested that they don't see it that way, but I'd be interested in your views on any guidelines of ways you think the government ought to think about the way this should be split in future.

MR COMBEN: Thanks, Philip. There are a number of issues that you touched on there and I'll endeavour to respond to each of them if I can, and if I've missed something out please point that out. First of all, in relation to the DFA and the uncapped element of the current scheme, you understand very well of course that component manufacturers don't access that uncapped part and therefore I really think discussion about that particular individual element of what is bound up in the total ACIS legislation is something that I should probably better leave to the car companies to comment on. However, I will say that in terms of the total quantum of funding available for any successor ACIS scheme for this period that I've mentioned, which is Bosch's preference, we would advocate that it should not be less than the funding level in total for the current scheme and I take your figure as being an approximation of what the uncapped portion is thought to be worth, namely the point 8 billion or 800 million.

So that means, in our opinion, 2.8 billion in total we think should represent the minimum funding for an extension and the reason we think that is because if you project forward the anticipated production levels, the anticipated activity in the components sector as well as in the vehicles sector, then I think it could readily be seen that a continuation of today's level of funding for that extended period would actually represent a decline in the overall level of support or assistance for a given level of production, having regard to the fact that I think the car companies are in general agreement that a number of around about half a million vehicles is probably approximating the projected production level by the end of the decade. It may even exceed that of course.

So compared to today's level that's a considerable expansion in production and if the funding were, can I now say, limited to 2.8 billion in total then it certainly would represent a decrease in actual fact. You've drawn attention to the issue of this historical 1.3 for car company notion versus 700 million for the rest of the participants, which means the components sector, the toolmakers and the service providers in total, calling that one sector for the purpose of this discussion but it's really three of course. We had something to say about that in the original Bosch submission and if I could just, for the record, refer you to page 30. It's under the heading or subheading of Fiscal Ltd 2 Billion and Modulation.

I won't attempt to read it now but it's page 30 of the original submission. In a few paragraphs there we attempt to briefly summarise the history, as we understand it, of this early notion of some kind of a division of the $2 billion across the industry. Now, because this issue has been under a little bit of discussion within the industry itself it has been researched and I think it can be quite clearly shown, I think it can be described as a fact, that the last real reference to this 1.3:.7 idea was back in about 1998, after which time that idea or that early thought was abandoned. Our recollection of the history is that it was abandoned by agreement. I can tell you, Philip, that from my personal involvement in the process at that time, that is, the process of fashioning an ACIS scheme that was both WTO compliant and could be seen to be delivering an approximate equivalent value of benefit to the industry as its former or as the former export facilitation scheme, being involved in that process I would say there was an unprecedented amount of consultation background government, government agencies and the industry during that period of time, particularly in the period 99 through 2000 which led to the final tabling of the legislation.

There was an election, you may remember, back in 1998, which interrupted that process. But the final formulation of the legislation that was tabled and subsequently passed doesn't contain any reference to 1.3:.7. So I submit that that's a relic of the past. It is an idea that people still have in their minds because it's perfectly true that there was some modelling done by the industry participants at that time to try to approximate how the scheme that was envisaged would deliver benefits to the respective sectors. Now, as I said, that was back in 1998 and here we are in 2002, a lot of things have happened in the meantime. I think one of the major things that has occurred in the meantime is that there has been a continuing adoption by the industry in Australia of the well-established global trend to outsource R and D activity by OEMs to the supply sector. The Australian car companies of course have, to greater or lesser degrees amongst the individual firms, picked up that trend. So the point I make about that is that any reference to 1.3 and .7 in today's environment of the volume of work being performed by the supply sector on behalf of the OEMs simply doesn't fit those early ideas anyway, and therefore I suggest that they're not relevant.

MR WEICKHARDT: Thank you for that. I think I put the same question; I attempted to put the same question to each of the car companies we saw. Only one of them actually responded to the issue as to whether or not the trend of outsourcing might have given rise to some sort of rational reason to change that ratio. Holden did say that they accepted there should be some adjustment to the 1.3.7 ratio based on quantified outsourcing. I don't know how you would go about quantifying that. Do you know whether any studies have been made that would give any guidance as to if you looked at the amount of risk or production, R and D, that has been transferred from the car industry to the component manufacturers, how that ratio might be adjusted?

MR COMBEN: The short answer is, no, I don't know of any attempt to quantify the extent to which this outsourcing has occurred over the period. I think there's plenty of anecdotal evidence that can point to the fact that it is occurring and I don't think anybody would seriously dispute that. The reason that this is a complex issue to try to quantify is because the view that we would take as one component manufacturer is that the activity in the local market, that is to say, the Australian car company customers of the supply sector, is only part of the story anyway. I mean, if we take our own company as a case in point, today 65 per cent of our production is exported. That's an enormous change and I alluded in my opening remarks to the extent to which our own firm's pattern of business has shifted towards export activity.

If you accept that that kind of export success requires the earlier investment in research and development in order to deliver the outcome of export success then I think the pattern has changed also from that perspective, so it's not only a question of outsourcing in the local market. It's a question of the activities levels generally of major firms like, for example, PBR, Air International, Bosch, just to mention three, where there is a substantial increase in the export orientation over that period. So that drives research and development activity which influences the level of claims by the sector away from that early notion of 1.3 and .7.

MR WEICKHARDT: Yes.

MR COMBEN: If I remember all of the elements in your original question, you touched also on the issue of splitting of the pools in a successor ACIS, assuming there is a successor ACIS, of course. I think the issue here, Philip, is one of trying to fashion a scheme delivery which, as near as it can delivers certainty for the participants. If there is a fiscal limit, and I assume that in a new scheme there will be a fiscal limit, then I think we have to accept the concept of caps and therefore the concept of modulation as an inherent part of such an approach. So it seems to me that the objective should be to strive to deliver the greatest amount of certainty for the participants that's possible in that inherently uncertain, I suppose, environment. Therefore from a Bosch point of view, we're a little bit attracted to the idea of splitting the pool in a successor scheme.

We think that the proposition that you have put already in the position paper of a 65:35 split, but as I have understood, and my reading of your position paper tells me that you're talking about the total ACIS funding level, and here let me use the figure of 2.8 billion to illustrate, then we think a division of the pool approximately along the lines of 65:35 of a total funding level including the uncapped part could be a reasonable basis, and I think it's worthy of further consideration and discussion.

MR WEICKHARDT: Yes.

MR COMBEN: I advance that comment because I do think it has the potential to be a more certain scheme for both sectors, again recognising that the sector that I represent, or that Bosch is a part of, is really three groups of participants.

MR WEICKHARDT: Thank you. I have one more on that same theme. Somebody put to us on Friday, I believe, that rather than the levels of modulation that are applying at the moment, in a future scheme that it might be beneficial to scale down the entitlement levels to R and D credits or to investment credits. I'm a bit at a loss as to mathematically why this necessarily ends up being a more beneficial outcome to those in the industry, but it was I think put forward in the spirit that this might prevent modulation and therefore uncertainty being as great. I'd just be interested in whether you have any views on that issue.

MR COMBEN: Well, I think here it's very important to try to strike a balance between certainty on the one hand given, as I've already said and as we all recognise, I think, that the current scheme is capped and therefore modulation is a necessary part of that. Presumably that will flow into a future scheme. We have to be careful that in striving for certainty we don't upset the basic objective of the scheme, which is to deliver levels of support and incentive that are sufficient to drive research and development, to drive investment in new plant and equipment, to drive the improvement in the processes and the products by the industry. We think that the current factors that are contained in current ACIS do that. We think there are plenty of examples, including in our own company, to show that it's working extremely well and that we are capable of selling the benefits of investing in Australia to our parent company in the Bosch case.

We have won a significant number of global mandates for new product and new process introduction in Australia, some of them on a sole site basis here in the country on behalf of the Bosch world, which we are very proud of and to be able to win those investments for Australia and then benefit from all of the activity levels and the employment et cetera that flows from that, requires that the level of incentive is set high enough for Australia to be seen as an attractive place to invest. So I would caution against any downgrading of those elements in the interests of certainty, but rather opt for, as I've said in this case, the refinement of a division of the categorisation of the funds so that we can avoid some of the problems that seem to be emerging currently.

MR WEICKHARDT: Just sort of coming back to a high level of generality in relation to your proposals in relation to the quantum of funding and the structure of the scheme seem to be predicated on ACIS being a somewhat more continuous feature of the policy environment that my understanding of the government's position in relation to the first period of ACIS. Could I just get you to comment on that? I mean, the rationale being at that time that ACIS would enable the industry to make the investments and adjustments necessary to meet the demands of lower tariffs. Do you believe that ACIS has not achieved that in its current form or level or period and that therefore basically has to be redoubled simply to meet that initial objective of bringing the tariff down to 10 per cent?

MR COMBEN: No, I don't see it that way, Gary. I think that clearly there are the two primary elements of assistance for the industry today. The industry and Bosch - and I'm representing Bosch today - accepts the already legislated reduction in the tariff to 10 per cent in 2005. We believe the option 2 that's put forward in the position paper is the preferred option so far as tariff is concerned, however, we do have a concern that the drop to 5 per cent in 2011, effectively, as proposed in that option 2, has a degree of certainty - I guess from a legislative standpoint - that causes us some worry. I think that if Australia's automotive industry was the lone sacrificial lamb, can I say, on the altar of APEC in 2010, then there is a potential for Australia to look pretty silly, frankly, both at home and abroad and I think it would be a much wiser course for Australia to follow to not pre-judge that situation today, in 2002.

It may indeed be appropriate for reasons of APEC commitment to signal an intent and a preparedness to come to that level in the post-2010 period, without necessarily legislating that it be so as an outcome of this inquiry process and the government's final decision. I think it's one thing to signal a direction and an intention on the part of the Australian government in respect to its automotive industry; it's another thing to put it into that already legislated environment. So I would caution against doing that, but recognising that the industry - and I think it's a generally held view if people were honest - does want to see, in the longer term, itself surviving without special levels of assistance and I say that from a Bosch perspective. That would be a desirable end point and a desirable objective.

Of course, the debate is all about the timeframe over which we get there. So in this next period we foresee the ideal combination being a decision to continue funding ACIS until 2010 at today's level of funding as we know it, albeit at an increased level of activity, with a continuation of the legislated 2005 position until 2010. We would then prefer that Australia check what's happening in relation to proposed tariff reductions by other APEC member countries before committing Australia to that next step, but signal it by all means.

MR WEICKHARDT: What would be the sort of mechanism, in practical terms, by which a decision would then be made. Would the government simply make an assessment based on what it perceives in relation to other APEC country's actions at that time?

MR COMBEN: I would think it would be appropriate to review what was then known in respect to other country's intentions in around about the 2008 timeframe. Now, I note the commission's suggestion already in the position paper that a general review of the research and development incentives across industry in Australia should also be undertaken by that time that would seem to me to offer an ideal opportunity to checkpoint the progress. Let's be frank. I see no evidence - and I'm not aware of anybody else in the industry who does either - that there is any suggestion, for example, on the part of the United States, to moderate in any shape or form the level of tariff that currently exists for the light commercial vehicles in that country.

As you know, I'm sure, this represents a massive volume market of some 8 million or more vehicles that are produced that are in this category of LCV protected at a tariff rate of 25 per cent. I would think that could be one indicator of whether it would be appropriate for Australia to in fact take the next step that eventually the industry I think wants to see, but on a more cautious basis than deciding it today, without knowing what other countries are proposing to do between now and then.

MR BANKS: I mean, to some extent, in some respects you have brought this on yourself in that the industry has been quite keen to bring forward this review to get some certainty in the subsequent period.

MR COMBEN: Certainly.

MR BANKS: Having achieved that, however, you want to leave considerable uncertainty about what would happen to the tariff at that time. I mean, that in itself could be a signal that could be watched by other APEC countries. Just thinking in operational terms - and APEC is not the only consideration that we've looked at in this report but everybody waiting until they see what everybody else does is unlikely to produce a result either. That's why I asked you how you would perceive it. So what you were saying was, "There would be a review just before 2010 to observe what other countries were doing," but it may well be that other countries would have already received a signal from Australia that it's not doing anything until they do something. In a sense the APEC commitment is one of what they call concerted unilateralism. So it's not one that's explicitly reciprocal or conditional anyway.

MR COMBEN: I've already alluded to the view that I think it would be entirely appropriate as an outcome from this inquiry and the government's decision process that follows to signal that this is a direction that Australia wants to take, that it's mindful of its APEC commitments. I think it's one thing to do that and yet another to make that commitment now that it will happen in 2010 or at the end of the calendar year 2010, regardless of what other countries may do. I just think that's adopting a position of exposure for Australia's industry that is unnecessary and carries with it a degree of risk which we could otherwise avoid. I'm not sure of the mechanism by which that can best be done, Gary, but I think all I'm really trying to express here is the view that expression of an intent can already be a powerful message to other APEC countries without legislating it to be something that will happen in 2011 - let me say - and to make that decision in 2002 without knowing, or without having any indication even, of what other countries might contemplate in the period, particularly our large trading competitors, our large volume market competitors.

MR BANKS: To what extent would that increase risk and uncertainty in terms of long-term investment plans throughout the industry, still not knowing what was going to happen at that stage?

MR COMBEN: We've lived with that now, of course, in an environment where the projection beyond 2005 has been unknown. Of course the tariff level at 2005 has been known. The projection of an ACIS situation has been unknown and we are now only three years from the expiry of the current period. So a decision taken in 2002 on these issues which is the intent of this whole process for a period until 2010 provides a very significant period of policy certainty in my view. We're then talking about an eight-year period from the time which it can be assumed a decision from this process will finally be made. I think that's a very significant period of policy certainty for the industry.

MR BANKS: It's policy certainty on the upside in the sense that you would be asking really for maintenance of status quo. I mean, we're talking about $2.8 billion worth of ACIS which is not insignificant. We're still talking about a significant impost on consumers. I mean, the modelling shows smaller numbers in terms of static efficiency costs and so on but consumer impact is still considerable on these things, in the sense we've argued in the report that we need to think of ACIS and the tariff profile together, but in a way you would be encouraging us to unhitch ACIS from the tariff which I guess the government may well interpret that you see ACIS as an ongoing program.

MR COMBEN: No, I haven't said that. I haven't said that I see ACIS as an ongoing program beyond 2010. I've argued the case in response to your invitation to comment to the commission's options in the position paper to give you some feedback as to what in this case Bosch would choose from those particular options, and I've endeavoured to do that. There is of course a link between tariff and ACIS in the way the system is constructed, as we all know, in the sense that the benefits of ACIS are delivered in the form of duty-free credits. Therefore there is that inherent link in the tariff. But, no, I haven't argued in this discussion for a continuation of ACIS beyond 2010.

MR BANKS: Okay.

MR WEICKHARDT: I just have one last one, Barry. You sat through some of the last session. Is there anything as a result of that that would change any of the comments you've made on industrial relations?

MR COMBEN: No, we haven't in our submission, Philip, made a lot of comment about industrial relations, as you would have read, except to note some concern and the need for an improvement in the consultative mechanisms. However, sitting through part of the last session I'd like to offer the view that from a Bosch perspective we don't necessarily see that enterprise unions is beneficial. We think the issue of freedom of association is an important principle. The Bosch EBAs over successive agreements have not had anything to say about which union an employee should belong to or should not belong to. This has been left entirely to, in our case, the employees to decide. We think that's an important basic principle, and I think there is the - I think the view could be taken, and indeed I heard it taken by previous speakers today, that such a concept contravenes that principle. I think that argument has some merit actually.

I would further offer the view that it's not necessarily in the interests of the enterprise to have such a situation. The current EBA framework within which we operate under the Workplace Relations Act does provide a degree of flexibility to enterprises and employees and unions to negotiate in a variety of different agreement-making forms. I think it could be fruitful to explore, more than the industry has done to date, some of that flexibility that already exist. I would just note that within that wider framework of EBA possibilities, it would only require one union to be signatory to an agreement to be able to have that union registered for example. That could be regarded by enterprises as something of an advantage.

In the Bosch case we have seven unions representing the employees at our Clayton site, and whilst that present from time to time some difficulties, we have negotiated successfully now for EBAs over the period of years. We think that process has worked well for the commissioner, and we think it has worked well for the employees. We think there are mutually beneficial outcomes from that process, and we look forward to continuing it.

MR BANKS: I was just going to ask in terms of how would you talk about the profitability of Bosch in the light of all of that, whether that has been underpinning what you would regard as the successful sort of profit outcome?

MR COMBEN: It has certainly underpinned, Gary, a successful outcome in terms of the flexibility that we have been able to negotiate with our employees and the unions that represent them. In regard to our workplace arrangements at Bosch, we can fully utilise our installed equipment and machinery on a 24-hour, 7-day-a-week basis if that's warranted. So we have that agreement with all of the stakeholders. We have negotiated significant features over successive EBAs which includes for example the employment of fixed term permanent employees, and the combination of all of these elements of flexibility have directly led to investments being made in our Clayton site that otherwise would have not been made.

In other words the fact that we have been able to demonstrate to our parent significant flexibility in workplace arrangements has been an attractive feature and has been a contributing factor to winning new investment. So we are very pleased with those outcomes.

MR BANKS: Thank you very much for that, and again I'm sorry to have detained you so long.

MR COMBEN: Not at all.

MR BANKS: We will just break or one minute before our next participant, thanks.

MR COMBEN: Thank you.

MR BANKS: We will recommence. Our next participant, our last participant for today, is Marplex Australia Pty Ltd. Welcome to the hearings. Could I ask you please to give your names and positions with the company.

MR BROOKSBANK: I'm Peter Brooksbank, the managing director.

MR CROSBIE: Phillip Crosbie, market manager of automotive.

MR BANKS: Good, thank you. Thank you very much for attending today. You have made two submissions, or at least an initial submission and then a commentary on our position paper, for which we thank you, and also thank you for your patience in waiting today. So I'll hand over to you to make whatever remarks you like.

MR BROOKSBANK: Thank you, Gary. I can see the MCG from here, and realising the time, I'll treat this like the one-day cricket where we have got five overs in which to make 50 runs, so I'll try and grab the long handle. Thank you very much for the opportunity to appear today after our papers to you of 29 April and 18 July. I'll take it that both those papers are read and just very briefly mention why Marplex is interested and then go on and treat three or four issues we would just like to raise with you. To set Marplex in context, perhaps I could just read very briefly from our first submission paper. Marplex is a manufacturer and marketer of engineering, plastics, compounds and alloys, with 33, as it was then, now 37, employees and a turnover of about $40 million. About 40 per cent of our sales are to moulders, the so-called tier 1 and tier 2 suppliers to the OEMs, and they manufacture components of course for the four OEMs.

Automotive is our largest market sector so we have a vested interest in the continuing viability of Australia's automotive industry, and of our current sales to the automotive sector, about 80 per cent of the products were formulated in our own laboratories. I have said later on in that paper that I believe Marplex would stack up pretty well against any competitor anywhere in the world manufacturing compounds and alloys of plastics if we were competing on a level playing field because we are strong technically, we are highly service oriented, and our costs of production via our licensees compares favourably with Western Europe and North America and we are about equal with Asia. So we're therefore in the manufacturing industry which has been undergoing continued shrinkage over the past two decades at least.

Within that manufacturing industry we are within the chemicals and plastics industry whose activities have been shrinking at an even faster rate, and as you will hear from PACIA tomorrow, now collectively contribute about $9 billion per annum to the nation's deficit. So in many ways we're in two places you really wouldn't want to be. You might well ask why are we there, and it's by dint of fate. The points we would like to make following the release of your position paper first of all relate to the proposal to drop the tariff to 5 per cent after 2010. As we look at it, we understand that you have to view the industry within a couple of contexts. Looking at automotive within the Australian whole enterprise, within Australian manufacturing industry even, there is no doubt that that industry is more protected than all or most industries.

However, looking at automotive trying to compete within a regional market, there is also little doubt that the industry is horribly exposed and even within the broader global market it is pretty exposed as well. I just guess that looking at it from our point of view we would see that the context in which the industry competes is at least as important as the context in which it is placed within Australia as a country. So we were worried to see the idea of dropping the tariff in one fell swoop after 2010 from the 10 per cent to the 5 per cent, and I guess we would support the sort of position that was taken by the previous speaker as to why not make it in some way conditional on the behaviours of other countries that are operating within this market, and perhaps if some decision has to be made now, to perhaps signal that there will in future probably be a drop from the 10 per cent but indicate that that needs to be in relation to what everybody else does.

So I guess that's the first point we'd like to make. It's not based on any great scientific basis but it is significantly based on a lot of anecdotal evidence that we collect, simply operating within the industry, talking to the various moulders and the designers and so forth who, although sadly very, very few of them bothered to make a submission, are all pretty worried that if the predicted step - and most of them were predicting that the thing would probably drop to 5 per cent - does come off, that this is just going to be yet another nail in the coffin.

MR BANKS: Okay. We've had quite a bit of discussion about this, but I think you expressed a preference, a qualified preference, within the existing options that we put forward for the third option. Is that correct?

MR BROOKSBANK: Yes.

MR BANKS: Largely on that question of risk. Is that the - - -

MR BROOKSBANK: Yes. We'd rather see it anchored until there was evidence that the market context in which the industry operates is improving ie that other countries are going to lower their tariffs significantly. But failing that, we would go for your option 3 as a more gradual way of acclimatising, because I think the 5 per cent jumps, particularly if you view it from the arena we do, which is as a supplier to this industry, it's jolly hard to make any money doing it even though we would contend we are very competitive and very capable, and when that next couple of ratcheting-down steps occurs, there's only one way it's going to go. It's going to get tougher.

MR WEICKHARDT: Have you finished your - - -

MR BROOKSBANK: No, I just - - -

MR WEICKHARDT: No, it's part 1. We might leave that there and - - -

MR BROOKSBANK: Move on to the other few points?

MR WEICKHARDT: Yes.

MR BROOKSBANK: Right, because it is, after all, a total package that we're concerned about and I guess the next couple of points do make that point, that it really needs to be part of a package. The second point that we wanted to make was that in reading through the position paper, whilst you do make a recommendation for the removal of the 3 per cent revenue duty, you don't say anything about some of the 5 per cent duties which are still kicking around on inputs to the industry and we are in a rather silly situation where progressively fewer and fewer base plastic resins are manufactured in Australia. There were very few to begin with and there are even fewer now, and yet a lot of base plastic resins for componentry in the automotive industry still bear a 5 per cent tariff on entry to this country.

I think you could say absolutely Buckley's chance that anyone will ever build a polycarbonate plant in Australia nor a nylon plant and in fact, as I just said, even some of the ones that are here now, probably when they have their next cardiac arrest I think they'll probably be put to bed and so there will be fewer and fewer of these basic resins. Yet we see the imported resins bearing a 5 per cent tariff. We have to import those resins in our game and then our added value is to turn them into compounds and alloys. So what we would like to see is, as part of the whole package, that you make a very strong recommendation that the government take some action on these 5 per cent tariffs on things that aren't made here and are never likely to be made here, as well as getting rid of the 3 per cent revenue duty which, as I recall, was meant to be imposed for a period of two years when it was first brought in. But I guess once it's there it's a bit like being in the Australian cricket team: you've got to do something awfully wrong to get out.

The third point we'd like to make - and I guess the previous speaker was on this as well and here are we suggesting that the thing be even broadened further - relates to the research and development incentives under ACIS. Now, we truly believe that we are doing a lot of excellent development work, customising compounds and alloys of plastics for specific use in the automotive industry. Phillip, on my right, is full-time in this. We have about five other people who are part-time. I would estimate that Marplex, just little company as it is, is probably tipping three to four man years per annum into this sort of exercise.

As I mentioned in our first submission, we were invited originally to make a pitch for ACIS support on the basis that we were a special exception and we were linked to designers and moulders in a campaign to design better componentry for the auto industry in Australia. When it came to the crunch, we were suddenly disallowed. But in some ways, although it doesn't much matter where the money goes, we would contend that those who were genuinely doing something like us ought to be considered in the next round, so that the assistance dollars can be fairly spread across all the players.

I guess the final point that we would like to make, and I do note that in your position paper you make mention of it, is the rather cumbersome overregulation that relates to the rigid application of this system called NICNAS. We have been victims of it ourselves in a small way so far, but we see the propensity for that to increase where under NICNAS one has to go through a proving procedure for chemical additives and so forth, to bring them into Australia, despite the fact that western world countries, or fully developed countries, have approved these chemical agents. We think it is rather silly. It adds only really, in the end, to the cost and while I know there are some that put forward the view that, "Well, maybe if there is a condition specific to Australia there should be a need for the system to be applied," it is really a bit hard to think of what those conditions are, and we would rather a scheme that said, "Look, if it has been tested and put through its rigours in Europe or North America that that ought to be a tick," and the products ought to be able to be imported.

The result of not doing that adds enormously to the cost and in some cases, because of the scale of operations in Australia, the cost is so prohibitive you just say, "Oh, well, we'll forget it," and what you would have made from those chemical agents comes in then as a fully imported bit of componentry. So those are the points very quickly, and again we appreciate the opportunity of being here.

MR BANKS: Good, thank you.

MR WEICKHARDT: Peter, I may be missing something or maybe you went to sleep before you got to pages 69 and 70 of our riveting tome.

MR BROOKSBANK: I possibly did.

MR WEICKHARDT: Pages 69 and 70 I think tries to address the very issue you raise on NICNAS. What is it that's not included there?

MR BROOKSBANK: Possibly nothing, Phil. I have to admit that I perhaps passed over that one fairly quickly. But if you're advocating very strongly that a Western Europe and North American approval is good enough - - -

MR WEICKHARDT: Afterwards read 69 and 70 and tell me whether there's something faulty in what we've said there. But I would have thought that that was an area that you might have given us a tick.

MR BROOKSBANK: Yes.

MR WEICKHARDT: In terms of the other issues you raise, this issue of the 5 per cent nuisance tariffs, that issue has been sort of kicking around for some time. What has been the general sort of reaction of government to looking at abolishing some of these? Why haven't they gone on so far?

MR BROOKSBANK: It's very hard to know. I was a couple of forums in Canberra recently where we had the chance to meet up with Minister McFarlane and he indeed expressed some personal surprise that these were still kicking around. From an individual company point of view we had a try about four or five years ago, I guess it was, Phil, and this was just getting one particular resin tariff knocked off and it failed at the time on what we thought were rather spurious grounds that there was another resin made locally, derivatives of which could perhaps one day compete with the derivatives of the resin we were trying to get the tariff excluded from. I can only assume that others have run into that sort of problem and certainly I know there is a feeling out there in the industry that one of the other measures, the approach via the end use by-law, people are very frightened about that because just putting up your case means you tip off the whole industry about the applications that you're trying to secure for yourself. So of course everybody else scurries around and looks for those applications and the next thing, all your hard work to customise and tailor something for a customer goes down the drain or is under far greater competitive threat than it would otherwise have been.

But it just seems to me that it's fairly self-evident that a lot of these base resins, many of which have nothing similar chemically about them which aren't going to be made here, should have the tariff removed. I think it would be very helpful to the whole industry if the commission could make a recommendation to the government to free up the rules a bit and make it a bit easier to get this sort of thing home.

MR WEICKHARDT: Yes, I understand the logic but I can't understand why it hasn't happened in many cases. I mean, that the tariff schedules are not going to be rewritten for Australia unless every time one of them is raised, somebody puts their hand up and says, "I make two molecules of nylon 66 in my test tube and therefore I don't want the thing removed." I've no idea. But somehow it hasn't happened.

MR BROOKSBANK: Of course it just results in an unnecessary cost being passed through which results in a dilution of the effective tariff protection that the industry is getting.

MR BANKS: Peter, you'd probably aware that the commission had an inquiry - it's a couple of years ago now - into the general tariff and also picking up the nuisance tariffs and so on - sort of recommendations were made in that. I don't know whether you've seen that report recently but that provided a perfect opportunity to look at these things across the board and the government has responded to that report in a way that hasn't actually delivered an outcome for you. We'll look at it, and what we say is it's obviously more difficult in the context of an industry specific inquiry to have a go at those things other than what we've done which is to refer the government back to that earlier report.

MR BROOKSBANK: Yes.

MR BANKS: In your point 3 - I mean, point 3 is basically about getting a share of the action, I guess. Remind me of what proportion of your sales go to the domestic auto industry. Is it something like 40 per cent?

MR BROOKSBANK: 40 per cent, yes.

MR BANKS: We didn't propose an extension for the reasons you refer to there but I guess in sort of practical terms what kind of rules would you apply in order to extend the provision of ACIS to manufacturers of imports such as yourselves? I mean, what proportion of sales? Would it be based on a proportion of sales to the local industry? I mean, you could imagine some that would - maybe 10 per cent would go over and the other 90 per cent might go on a whole range of other industries. In practical terms, how would you devise a rule that ruled some people in and some people out?

MR BROOKSBANK: Well, there are a lot of assistance schemes kicking around, most of which require pretty thorough investigation of what you're doing. I think a company such as ours would have to demonstrate to some reasonable degree that we were in fact doing what we claimed to be doing and that we had been doing this over a period of time with some considerable success in developing products which were used by the industry, so this isn't pie in the sky stuff. We already have a track record. We want to try and expand on that to the benefit of the industry, and the sort of work that Phillip and his colleagues do. You could probably comment on it better, Phil. It genuinely is a team approach between designers, moulders and ourselves headed up by people from the OEMs in the first place.

MR CROSBIE: It usually starts with the idea that a new model will be released, we're part of the design team meetings, and then I guess the tooling trials, the try-outs, and that's usually over a two-year period at this stage, and during the course of that, there has been a few cases where we developed a material to either provide an improved performance or to lower some costs or to simplify assembly; something like developing a plastic that can be through-coloured and so it doesn't need painting and yet it's still able to meet the consumer looks that people are after. So in terms of a paper trail or demonstrating the work we have done, it's something we could very clearly prove.

MR WEICKHARDT: How many other people under the terms of the rules that you would seek to write that would write you in would also be included? My initial reaction is certainly the steel guys would probably claim us two.

MR BANKS: We will hear a bit about that tomorrow I think.

MR WEICKHARDT: We make tailor blanks, special grades, unique to the steel industries, at least 30 per cent of BHP steel's output I think. I think a paint company that I have some memory of would probably say, "We make special automotive paint unique to the automotive industry." I can see a number of people racing in and then the industry saying, "We need 3 billion, not 2," and the whole thing becoming a bit of a charade.

MR BROOKSBANK: I acknowledge that that is a possibility. I think maybe if you make the rules stringent enough in terms of definite new R and D work, that that might be a bit more limiting. For us, the work that we would have done in general anyway in support of just our overall plastics market development, if we were trying to sort of get that under the umbrella, that would be unfair, but things that are specific to the automotive and within the steel industry, I think that might cut out a heck of a lot of what they do. If it is 30 per cent of BHP steel that sort of winds up in automotive componentry, it might only be a third perhaps of that that might really qualify for some sort of R and D support, but it is a bit of a moot point as to whether we acknowledge that, as to how far do you spread the assistance scheme, and of course I do realise that the wider you spread it and presumably it has got to have some - there has got to be a finite number to be spread in the first place - the thinner the layer that reaches everybody, which is a bit of a problem.

I mean, we are the first to acknowledge that we have benefited anyway from the ACIS scheme because some of our customers are benefiting, and so that does help us. So this is not our number 1 point by any means, but - - -

MR WEICKHARDT: You can solve the problem another way, Peter, and model the parts yourself.

MR BROOKSBANK: That's right, we could.

MR WEICKHARDT: A bit of free gratuitous advice for you.

MR BROOKSBANK: Yes.

MR BANKS: We don't have any other questions. Thanks very much for appearing at the end of a long day. We appreciate that, and thanks again for the submission.

MR BROOKSBANK: Thank you.

MR CROSBIE: Thank you.

MR BANKS: We will adjourn now this evening, resuming tomorrow morning at 9 o'clock. Thank you.

AT 5.56 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 30 JULY 2002

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