



**TRANSCRIPT  
OF PROCEEDINGS**

**SPARK AND CANNON**

Telephone:

Adelaide	(08) 8212 3699
Hobart	(03) 6224 2499
Melbourne	(03) 9670 6989
Perth	(08) 9325 4577
Sydney	(02) 9211 4077

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**PRODUCTIVITY COMMISSION**

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

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

**TRANSCRIPT OF PROCEEDINGS**

**AT MELBOURNE ON TUESDAY, 30 JULY 2002, AT 9.14 AM**

**Continued from 29/7/02**

**MR BANKS:** Good morning, everyone. We're resuming our hearings for the commission's inquiry into Post 2005 Assistance to the Automotive Sector. Our first participants this morning are the Australian Automotive Aftermarket Association Ltd. Welcome to the hearings. Could I ask you please for the record to give your names and positions.

**MR ELLIOTT:** Kim Elliott, executive director.

**MR LESLIE:** My name is Stewart Leslie. I've been employed by the association as a consultant.

**MR BANKS:** Good, thank you. Thanks very much for attending today and for the submission that you've made on our position paper as well as the earlier submission which we've got here. As we've discussed, we'd be happy for you to go through the main points that you might like to make and issues may arise along the way that we can discuss.

**MR ELLIOTT:** Thank you. The association's submission is broken into five parts. There's an introduction, some comments that we want to make in terms of the consultative process and about the industry itself, some comments in terms of post-2005 assistance measures, we'll deal with the issue of critical replacement parts and then a couple of other matters towards the end. The membership of the Australian Automotive Aftermarket Association, or the AAAA is the shorthand version, want a genuinely viable automotive manufacturing sector in Australia and believe that there is more that the industry can do to continue on the path to sustainability. The implication that such an industry should be able to compete successfully in global markets without industry-specific government support is not one that is totally endorsed by the AAAA.

We've prepared a commentary to detail a number of the matters we wish to bring to the attention of the Productivity Commission following the release of your position paper Review of Automotive Assistance. We wish to express our concerns regarding the limited consultation by the commission in the review process. AAAA strongly believes that as a result of this limited consultation the commission has failed to recognise the importance of the aftermarket to Australia's automotive manufacturing sector. We would even be so bold as to suggest that it failed to meet terms of reference, which required the commission to consult with a cross-section of the automotive manufacturing sector.

**MR BANKS:** Could I just say there that we did receive your earlier submission and talked to some participants who would be within your sphere of influence, I guess, if I can put it that way, but had you made a request early on for us to come and see you that we didn't heed?

**MR ELLIOTT:** No, not a specific request. We saw the terms of reference from the point that it required general consultation. I suppose we were a little surprised that we weren't asked if we wanted to, and particularly given a couple of the associations that you did actually go and see. It may have been that they requested. We didn't specifically. We took a view that as a matter of course that would occur, and were surprised that it didn't occur.

Who and what is the automotive aftermarket? The association represents the interests of manufacturers, remanufacturers, importers, distributors, wholesalers, resellers and retailers of automotive parts, accessories, tools and equipment in Australia. The AAAA has a view that the automotive aftermarket is what should be known as the third sector of the automotive industry in Australia, the first sector obviously being the car manufacturers, the second sector being the component producers, and then the third sector, ourselves, as the suppliers of parts and accessories.

The industry involves the supply of replacement and service parts for motor vehicles after the vehicle has been sold as new. It includes both genuine and non-genuine parts, genuine being parts manufactured by the car makers or their OE suppliers, non-genuine parts being manufactured either by the OE supplier but under their own brand name or another brand name, and other companies that manufacture parts for the industry.

In terms of non-genuine, it shouldn't be seen as a pejorative term. Non-genuine generally need to satisfy the same performance requirements as a genuine part. Accessories are similar. Other than to say that accessories are primarily manufactured by the aftermarket, whether it be for the car manufacturer or for the independent aftermarket, and the majority of accessories fitted to motor vehicles do come from aftermarket manufacturers. In fact, there is one significant manufacturer within Australia that does not supply to the independent aftermarket, only supplies to OE, to the car manufacturers, but is ineligible for ACIS because it's not fitted into the manufacturing process, it's fitted in the dealership process.

Our tools and equipment manufacturers, which are not within this but are nevertheless an important part of the association provide tools and equipment for the motor vehicle repair workshops and garages. We have around 670 members and I think it's now actually 678 in all states of Australia and in both metropolitan and regional Australia. We employ around about 35,000 employees totally. That includes the distribution and retail sectors, and have a turnover of approximately \$6.3 billion annually. So we're not an insignificant component of the automotive industry.

**MR BANKS:** What proportion of that would be firms involved in actual

manufacturing as opposed to the service side?

**MR ELLIOTT:** 180 of 670 so what's that, Phil?

**MR BANKS:** Of the members?

**MR ELLIOTT:** 180 members are involved in manufacturing and it was detailed in our initial submission.

**MR BANKS:** Okay, and in terms of, say, the total employment?

**MR ELLIOTT:** Total employment is more difficult to separate. For example, Robert Bosch is a key member of our manufacturing sector but a large proportion of their employees are devoted to OE. PBR are in a similar situation, whereas GUD are primarily aftermarket with a smaller component of OE. They've got about 500 employees with the vast majority involved in the automotive aftermarket.

**MR LESLIE:** So about a quarter of the membership, 26 per cent of it, is involved in manufacturing in number.

**MR ELLIOTT:** 86 per cent of our members you would categorise as micro, small or medium-size enterprises and that proportion is fairly reflective across all sectors of the industry. Automotive aftermarket manufacturing is generally close to the major markets, so the manufacturers are located in Victorian, 40 per cent of them, 32 per cent in New South Wales, 11 per cent in South Australia and that's where the major difference between component producers and ourselves are, 10 per cent in Queensland with the remaining 7 per cent spread across the country. So that's in terms of manufacturing. The retail sector would be fairly similar because again they're located at the prime markets.

Traditionally the automotive aftermarket has been seen as part of the automotive industry. We were, for example, included in the export facilitation scheme. We're able to access the benefits of that. It's only since the introduction of ACIS that the aftermarket has been excluded from the scheme, from government assistance, and that extended also basically to the export market development program as well. We had a minor role in that, but missed out badly.

**MR BANKS:** At the time when that decision was made, was there an explicit rationale given or was it sort of by default that this turned out to be that way?

**MR ELLIOTT:** No, it wasn't by default. I believe it was a definite decision that was made by people at the time. Unfortunately I wasn't in this position at the time, so don't have any first-hand or personal recollection in terms of it. But there was a

decision made to focus the assistance and the programs on car manufacturing and on original equipment of component manufacturing, to the exclusion of the automotive aftermarket. When I asked the question, when I assumed this job, I was told it was too late, the decisions had been taken.

**MR WEICKHARDT:** Was any specific reason given at the time?

**MR ELLIOTT:** Anecdotally one of the things - it's not anecdotal. One of the things I've been told is that, "Well, you're really not part of automotive manufacturing. We have been a long-standing member of the Tripartite Australian Automotive International Business Group. In fact my predecessor was the deputy chairperson of that group and since I've been in this chair, the last three and a bit years, continued that involvement although the nature of the group I think has started to wane and its work has started to wane in recent times.

We made some comments earlier in terms of the consultation process. The reasons we made those views was that the associations don't represent the entire automotive manufacturing sector. The views obtained were from those primarily that were receiving the whole of the benefit under the current regime and our contribution to a generally viable automotive manufacturing sector was overlooked in that process. We might say that from our point of view it has made it difficult for the commission to actually challenge the existing arrangements and to determine whether additional measures might be undertaken to ensure the future viability of the automotive manufacturing sector.

Our submission includes a revised definition of automotive manufacturing. That's on page 3 of our commentary document. It's a reproduction of a diagram that we included in our initial submission and supports our contention of the aftermarket as the third sector of automotive manufacturing. We suggest that there needs to be a definition of the automotive manufacturing sector developed. We believe we've provided that answer in terms of automotive manufacturing. But we also recommend that you should adopt a definition for aftermarket manufacture and we've provided that, a definition, on page 4 of our contribution today and basically that is that the automotive aftermarket involves the manufacture and supply of parts for motor vehicles fitted after the vehicle is sold as new.

The aftermarket includes both genuine - that is, manufactured and marketed by car makers - and non-genuine parts. Despite the brand name distinction many non-genuine parts are also manufactured by the original equipment manufacturers and are often virtually identical to equivalent genuine parts. However, non-genuine parts enjoy wider distribution than genuine parts as the latter are usually distributed through car dealers associated with a particular market.

**MR BANKS:** Just in terms of the figure 1 that you've got there, in talking about firms rather than the activity, when you're talking about MVPs, ACPs and then aftermarket manufacturers - but there's considerable overlap between ACPs and aftermarket manufacturers.

**MR ELLIOTT:** Yes, there is overlap. How considerable, if I put it into this sort of perspective: we have about 25 members in the manufacturing sector of our industry. They're also OE suppliers that manufacture product for car manufacturers as original equipment and are also members of FAPM, and they're the major corporations, your Robert Bosch, your PBRs, Tenaco Automotives, those types of companies.

**MR BANKS:** I think you make the point that they produce both genuine and non-genuine parts.

**MR ELLIOTT:** Yes.

**MR BANKS:** In terms of the others though, who remain within that category, would they be predominantly non-genuine parts manufacturers?

**MR ELLIOTT:** A combination again. Some don't meet the current thresholds for ACIS for example. GUD is a case in point there. The majority of their business, yes, is aftermarket but they supply the majority of OE filters in Australia as well. There are examples of accessory part manufacturers - one I indicated earlier - that only provide to the automotive manufacturers for what they call "parts and accessories", so it's P and A sales, and there are a range of companies in that sort of area. If you look at four-wheel drive - for example - bullbar manufacturers, no bullbar is manufactured by a car company in Australia. They're all manufactured by aftermarket companies, who supply to the car manufacturer.

So there's a range of scenarios. I can even go to - and we go into it a little bit further - but companies that are contracted by the car manufacturers to rectify, or provide parts to rectify, problems in the initial manufacture of a vehicle. Suspension is a classic example, where new suspension bushings will be fitted in service from purely an aftermarket manufacturer, but by the dealership network at the instigation of the car manufacturer.

**MR BANKS:** Yes, good. Thanks.

**MR ELLIOTT:** I suppose the important point we would like to make in terms of the distinction between genuine and non-genuine is that they are not inferior products. They are required to make the same quality, price, delivery, technology expectations as genuine products. There is another class of replacement part which we call "counterfeit", which we incorporated in our initial submission, which are

generally of lesser quality, quite often a copy utilising a name either the same or very similar and generally don't perform to the same level, but the Australian aftermarket industry generally has to meet the same performance expectations as an OE component supplier.

On page 5 of our document, we include a diagram that's again a copy from our initial submission to demonstrate that the aftermarket is an integral part of automotive manufacturing in Australia. The document is rather messy to some extent, but nevertheless graphically represents the linkages between aftermarket, car manufacturers and ACP's within Australia. The interdependencies can be categorised in the following way: for companies who supply both to the original equipment industry and to the aftermarket, the aftermarket provides the additional volumes that often make the decision to invest in plant equipment and research and development viable.

In a survey of members it was also stated that often the profit margin on product for the aftermarket was greater than for the OE sector, therefore improving the viability of the particular company, and the aftermarket is often at the forefront of new product development in the automotive industry. It wasn't that long ago that airconditioning and heating, cruise control, leather seats and sound systems were only available as aftermarket fitments to motor vehicles. Even today, technologies like satellite navigation systems, in-car entertainment systems, are still primarily an aftermarket fitment to motor vehicles unless you're fortunate enough to buy one in the upper luxury brand.

In some instances, members of the AAAA supply the majority of their output to Australian car manufacturers for fitment as accessories to new motor vehicles prior to the vehicle leaving the new car dealership. Despite their customer being a vehicle manufacturer, as for an ACP, the companies generally are unable to participate in ACIS. From the aftermarket's point of view, without a viable Australian car manufacturing sector, many of our members would also be unable to competitively exist. We contend that these linkages - together with the contribution aftermarket manufacturers already make to the Australian economy - justify its recognition as the third sector of the Australian automotive manufacturing industry. We believe strongly that the options provided to the government would be limited, unless the existing and potential contribution of the aftermarket is recognised.

**MR WEICKHARDT:** Can you just help me understand that last point? I mean, if there were no Australian car industry, surely there would still be a demand for replacement parts, for things fitted by bullbars and spoilers and go-faster gear and stuff, so why is your membership dependent upon there being a viable car industry in Australia?

**MR ELLIOTT:** From an Australian aftermarket manufacturing point of view, the existence of the Commodore, the Falcon and the Magna particularly - and to a lesser extent the Camry and Avalon - provide us with a natural niche, a natural advantage over imported product, because a lot of that product is indigenous to Australia. From an accessories point of view, people overseas don't generally manufacture accessories that have to fit. If you're looking for pistons, replacement pistons, gaskets, those sorts of things, a lot of those things are indigenous to Australia, they provide a natural market for us.

If we were to lose an Australian vehicle manufacturing industry, then there is no reason for those companies to exist in Australia. The reality is that the majority of component producers and large aftermarket producers are not Australian-owned. They're a multinational corporation. There is no reason for them to be in Australia if they didn't have a car manufacturing industry to support that, and the same flows down for the pure aftermarket manufacturer. If they don't have a Holden Commodore that they can basically control or capture most of the market in for headlight protectors, for example - because it's a unique Australian headlight - then there's no reason for them to be here. There's no reason for them to make them for imported vehicles; why not source it from overseas?

So as long as we've got a domestic vehicle manufacturing industry, then we have some natural advantage to be able to supply parts and accessories into the Australian market place. We don't have that, we don't have that natural advantage, people have then got to question the investment decisions necessary, at any scale within the aftermarket industry for investment and product development.

**MR BANKS:** But I think you were saying in your submission, though, that there is significant scope to cater to the imported vehicle market as well and that's required some R and D and so on, on your part.

**MR ELLIOTT:** Our natural advantage is that we have a base product range that is not necessarily competitive for an importer to - well, a company overseas to tool up and manufacture for, you know, a hundred thousand Commodores that might be on the Australian market in any given year.

**MR BANKS:** Yes.

**MR ELLIOTT:** For us, that gives us a base capacity. After that, because we need to - you know, if we're going to be successful, we need to cover off the imported vehicle range. The difficulty for us has been that the growth in the number of imported vehicles, not just in the numbers, but in the diversity. Even within a BMW range, there are a range of variations within any one time in an imported vehicle. A Corolla - it's a similar situation. So that domestic manufacture gives you the base to



move from. Without that base, you wouldn't necessarily be here. I think that applies at ACP level as well as aftermarket.

The aftermarkets manufacturers' role in Australia's automotive manufacturing industry: our manufacturers are highly innovative. We're nimble and agile in developing innovative new products. We're nimble and agile in pursuing new markets. A lot of that is because we are an independent. Aftermarket manufacturers support the viability of the automotive manufacturing sector by enhancing the appeal of local-made vehicles; controlling the cost of manufacture of the Ford domestic motor vehicle producers by providing both genuine and non-genuine product at prices that are not subject to exchange rate; provide benefits to consumers by moderating the price of replacement and service parts and accessories, through the distribution of parts and accessories by the independent automotive aftermarket.

We provide volume to automotive component producers, thereby encouraging investment in plant and equipment. We enhance the profitability of ACPs through the supply of products via the independent automotive aftermarket. We support the motor vehicle producers' special vehicle divisions, with product that enhances the performance and appearance of their vehicles. We provide non-genuine replacement parts to motor vehicle producers to satisfy their extended warranty programs, and we often test components on behalf of motor vehicle producers after vehicles have been launched.

I might just make the point that in the new Barra, the new Ford that's about to be released in the coming months, a pure aftermarket producer had a fair role in rectifying a couple of problems on that vehicle. Now, that company is unable to claim for any of the development work they did ACIS, because they don't supply, but they've rectified the problem for them.

Aftermarket manufacturers are subject to the same adjustment burdens as component producers. The commission has found that reductions in assistance to date have contributed to the rationalisation of the automotive industry, and encouraged a stronger focus on export markets and higher productivity. Consumers and business users have benefited significantly. This finding in respect to the vehicle manufacturing and component producing sectors applies equally to the aftermarket manufacturers.

The AAAA wholly supports the commission's assertion that there is no justification for imposing a greater adjustment burden on one particular sector of the industry. In part 9 of your position paper, the commission set out a number of effects of reductions in assistance on vehicle and component producers. The impact of assistance reductions on the aftermarket is examined in the table commencing on page 7. In that table, we look at the effect of the reduction of assistance on

aftermarket manufacturers, and lower tariffs have had an effect on the aftermarket. We are now obliged to manufacture parts for imported vehicles, a greater range of imported vehicles, necessitating expenditure on R and D, plant and equipment.

**MR BANKS:** Just on that, I wasn't sure that there was information there in terms of trends in production and employment. I don't know whether you can separately obtain that. But you made some comment I think that unlike some other sectors, in particular motor vehicle production, employment had actually increased in the aftermarket sector?

**MR ELLIOTT:** Yes, as part of the process of putting together our initial submission, we did both some general survey work of our manufacturing membership and some targeted survey work, both from a paper-based and telephone interview. It's personal interviews of selected producers. One of the things that we did find was that in the manufacturing sector, our employment has increased over the last few years. That contrasts with component producers, where their employment has actually decreased, and same with motor vehicle manufacturers. Some of that, I would suggest, would be generated by our success in international marketplaces, for some companies; and some of it is generated by the plethora of vehicles that we now have to also manufacture for, where the cost to use labour-saving devices to do that far outweighs the cost of employing someone to do that, particularly in a small business environment.

**MR BANKS:** Would it be fair to say then that the sort of adjustment pressures on your members, or your sector, have been somewhat different in the sense that, I mean, part of the adjustment has been adjusting to increased demand, diversity of demand and so on, rather than contraction?

**MR ELLIOTT:** Yes, that's true to say. There have been issues that we've faced that ACPs and MVPs haven't faced, and there's been issues that they've faced that we haven't had to face to the same extent. But generally speaking, we still need to cope with the changes that the change in policy are forcing on the market. For example, if you're a headlight protector manufacturer, you now have to make dies for a much wider variety of motor vehicles than you ever had to in the past. You know, something like 10 years ago, it was 69 or something vehicles to 250-odd now that you need to make a die for. Now, it might not be particularly high cost, as in a stamping die for a fender of a motor vehicle, but at a small business and a medium-size business level, the additional range of vehicles is adding costs into the business in being able to cope with that. If you don't manufacture a product for the wide range, then the retail outlet is not going to stock your product. The retailer wants to be able to provide product to their customer when they walk in the door.

**MR WEICKHARDT:** Isn't that an opportunity as well as a problem?

**MR ELLIOTT:** It's an opportunity, but I suppose the point that we would make is that research and development for an ACP has some benefit attached to it. For an aftermarket manufacturer, it's purely a cost.

**MR WEICKHARDT:** Yes, but presumably it's recoverable from a consumer.

**MR ELLIOTT:** To an extent, yes. But you would say that if I use a replacement parts company that's also an ACP, the R and D and the technology investment that they need to make attracts ACIS. If you're an aftermarket manufacturer, your R and D and technology investment doesn't attract ACIS, but you still have to compete against that product.

Now, the fortunate thing for us is, if the product is distributed by the car manufacturers, the additional on-costs that they place on them allows us to compete. But it seems to be to us inequitable that one competitor is able to receive the benefits of government policy, another competitor is unable to. I think that's an underlying theme within our submission, that there is inequity, and what we're submitting is that there ought to be equity reintroduced back into the process. It was there until the current policy position. We were able to access benefits under EFS and other areas. It's not there now. There are a range of examples and I don't propose that we go through them here. But we've sought to set out where there has been adjustment pressure on ACPs and MVPs, how that's impacted upon the automotive after-market manufacturer as well.

In terms of post-2005 assistance arrangements, we believe that our exclusion from ASIS is inequitable. The commission concluded that an immediate withdrawal of ASIS in combination with further tariff reductions could be sufficient to precipitate the exit of firms from the industry that might have become internationally competitive under more accommodating transitional arrangements. Now, that hasn't occurred to us in that way. Its manifestation has been a little bit different, and I'll come to that a little later on. The commission acknowledges that the availability of ACIS is important and indeed fundamental to international competitiveness of the automotive manufacturing industry in this current transitional phase. After-market manufacturers are currently penalised through their exclusion from ACIS despite previously being eligible for programs like export facilitation schemes under previous government policy arrangements. We believe that it's inequitable that after-market manufacturers are excluded from the current assistance arrangements and it's inconsistent that ACPs who provide product for the after market can claim ASIS while their competitors can't.

The commission has responded to suggestions that eligibility for funding be extended to those small component producers supplying components to the

replacement and after markets by indicating some of the suggested changes would not be appropriate. That concerns us. That seems to presuppose that the inequity is going to continue. We don't believe that should be the case. The adjustment burden has been borne by both component manufacturers and after-market manufacturers. We ask the commission to reconsider its conclusions, that some of the suggested changes are inappropriate and include in your final recommendations to the federal government the option of extending the eligibility for ACIS assistance to after-market manufacture.

Table 1 on page 7 indicated that after-market manufacturers need assistance during the transition phase as much as existing participants in ACIS. We've been exposed to import competition, we've been required to manufacture for the increasing proportion of imported vehicles in our carpark - - -

**MR WEICKHARDT:** Can I just clarify that point, because I thought what you were saying earlier was that a large chunk of your baseload is actually created by the domestic manufacturers and that in those situations there are very few overseas manufacturers who would make products specifically for that market, which suggests that that's not a sector that's very exposed to import competition.

**MR ELLIOTT:** The effect comes in the reduction in locally produced vehicles as a proportion of the market.

**MR WEICKHARDT:** I can understand that the vehicle producers are exposed to import competition but I was thinking about your members' direct competition with import competition. You were suggesting earlier an argument that suggested that there really wasn't a lot of import competition for, you know, a headlight protector for a Commodore or something of that sort.

**MR ELLIOTT:** In some areas that statement is correct, in other areas it's not, and I apologise if I've misled you in terms of that. The effect of a lessening of domestic sales as a proportion of the sales in the marketplace has opened up the market to competition from imports. If you look at the replacement parts side of the market, the amount of competition or import in that area has grown almost consistent with the change in the nature of the Australian carpark. Despite our innovativeness at times, there are certain products that it is not competitive for us to manufacture, given that - I don't know what the current count is now - but there's many hundreds of components and parts and accessories that could be fitted to a particular motor vehicle. So in some areas it's not worth our while to manufacture that product; we have to import it. The effect has been that instead of there being an 85 per cent local market or 85 per cent of the market for locally produced vehicles, it's now down to only 40 per cent of the market for locally produced vehicles. So you've got both the plethora as well as the potential and real imported product competing in the

marketplace.

**MR WEICKHARDT:** Do many of your members act as the importer of those sort of parts for the after market?

**MR ELLIOTT:** Our current estimate - it can only be an estimate because the factual basis is pretty hard to establish - is that the after market is about 50:50; 50 per cent domestic manufacture, 50 per cent imported product.

**MR WEICKHARDT:** Right.

**MR ELLIOTT:** Now, in some instances, it's almost a hundred per cent local manufacture with a small amount of import. In other areas it's a hundred per cent. The smelly trees that hang from people's rear-view mirrors are not manufactured in Australia. The cost of manufacture is prohibitive in terms of that so they're all imported from places like China or even from Spain for example.

**MR WEICKHARDT:** Yes. I was trying to understand whether your members are at least still active in the market and making a margin as an importer, even if they're not the manufacturer of the part.

**MR ELLIOTT:** Yes, we're still active. Margins are reasonable in the overall scheme of things, but our membership would suggest that automotive parts and accessories are not high-margin products compared to some other products that might be available to the consumers.

**MR WEICKHARDT:** As a purchaser of some of them, somebody's making a hell of a whack, I can tell you that.

**MR ELLIOTT:** Unfortunately, the majority of the high-cost products are grudge purchases rather than - you know, they're purchases that you have to make to keep your vehicle on the road rather than a purchase you wish to make, as you might do with a DVD or a wide-screen colour television or those sorts of products. A bit of advice to you is don't always go to the dealership for your replacement parts; you do pay more. As I said earlier, our primary interests, in terms of ASIS post-2005, is inequity that aftermarket manufacturers are able to access post-2005 assistance arrangements. We have a strong view that in the absence of reduction or removal or restrictions on access to our trading partners automatic markets the level of assistance should not be less than that which is currently available and we believe it should be continued to be available to 2015.

Our submission or response to your issues paper suggests that the aftermarket manufacturers do require assistance but it needs to be suited to SMEs which is the

majority of our industry. We do not wish to increase the complexity of the scheme and in fact we would seek to remove complexity from the scheme, that it be easy to administer. We suggest that it should provide a level of certainty regarding the ultimate benefits and it should not burden an organisations with additional costs so that the benefit of the assistance is eroded.

As an example of that, we have one member company who just qualifies for ACIS but the cost of monitoring and preparing the claim basically outweighs the benefit that it could deliver and may have made a decision, because of its complexity, not to apply for ACIS. Above all aftermarket manufacturers need assistance that reflects the nature of their businesses. These manufacturers will rarely satisfy value volume eligibility criteria of the existing ACIS scheme. The viability of the aftermarket manufacturing sector is as dependent upon investment in R and D and plant and equipment as the beneficiaries of the current scheme.

We've noted earlier in our submission that we are innovative and we've provided in our initial submission some examples of the level of that innovation displayed by automotive aftermarket manufacturers and in our initial submission there were four case studies, for want of a better term, EGR Davies Craig who, if you were watching Business Sunday, were interviewed on Business Sunday. That's a manufacturer that has invested heavily in R and D for a product that at the moment is purely an aftermarket product but will become, over the next period, an OE fitment to vehicles. The R and D component of the development of that product is not going to be eligible for ACIS, and we believe that again is an inequity.

The ability of aftermarket manufacturers to exploit niche markets cannot be overemphasised. The increasing proportion of the imported vehicles in the Australian market has provided manufacturers with a relatively small niche opportunity because of the low volumes of those models sold. We've taken advantage of that opportunity by developing products that can be sold profitably at these low volumes. This ability enhances our sector's ability to manufacture profitably at low volumes and, as these products are being developed for imported vehicles, in the absence of specific market access support there is an unrealised opportunity for us to export these products to other markets, and I'll deal with that a little more in a moment.

In terms of R and D, the AAAA does support the theme in various submissions that the general tax concession for R and D is inadequate to meet the needs of producers in the automotive industry and the concern that the definition of "eligible activity" excludes much of the process of product development, which is at the heart of innovation in the automotive sector. The commission notes the support available from other measures, including the 125 per cent tax concession, the newly introduced provision for 175 per cent, the CRCs, the work of CSIRO and others, but for small

and medium size enterprises in the auto aftermarket the cost of participating in those schemes is prohibitive and means that it's of little benefit to most aftermarket manufacturers.

We're concerned that R and D start grants, which were somewhat more affordable for SMEs - that program has now been terminated, and we're yet to find out whether that program is to continue. We believe that the aftermarket industry needs specific R and D support. It needs to be tailor-made to ensure the long-term viability of the automotive manufacturing sector. Again, it must be easy to administer, provide a level of certainty regarding its ultimate benefits and not burden the organisation with additional costs.

We support your finding that the performance of Australia's general support measures for R and D should be reviewed within five years, although we might suggest that it could even be done earlier than that. Such a review should aim to ensure that there is appropriate general support available for R and D undertaken by Australian industries, including the automotive industry, after specific support provided through ACIS ceases.

Market access is particularly important to the automotive aftermarket in terms of our growth. Over the last 10 years the automotive aftermarket has seen some rapid growth in exports until about three years ago. About three years ago that growth started to stall, and the entry of new exporters into the market has begun to decrease. For example, four years ago our stand at the CIMA trade show in Las Vegas, which is the largest trade show for the Americas region - we've had to reduce that from 20 exhibitors down to about six or eight.

The situation was that there was support provided for the initial cost of the stand and stand construction, and for SMEs that means that exhibiting at a trade show like that, with all the attendant additional costs, was a much more viable proposition. Now that industry has to fully fund those exhibitions, the ability of small and medium size enterprises to participate has fallen considerably. We've witnessed that again with Automekanica in Frankfurt, which is the largest automotive trade show in the world. It's held every two years, traditionally with the support of Austrade. With Austrade underwriting the cost of the space, we've been able to have in excess of 300 square metres of space. That's been reduced to 130 square metres of space for the show in September this year. Austrade now do not underwrite the cost of space or the cost of construction or anything else. That's having a fairly detrimental effect on our ability for small businesses to be able to participate in the export programs.

**MR WEICKHARDT:** What current level of exports are your members doing, do you believe?

**MR ELLIOTT:** Again it's extremely difficult to quantify absolutely. We believe it's around about a hundred million dollars annually. The estimate ranges from 75 to 200, depending on who you talk to and what sort of figures you look at but we believe it's reasonably irresponsible of us to talk about a hundred million dollars. We can fairly readily quantify that amount. I suppose part of our problem is that because a lot of the companies are small businesses they are not members of the association. We don't necessarily know what they're actually doing. If you look at the ABS data, the ABS data doesn't break it down into after-market parts and accessories. You know, for example, PBR exports product to the United States. That's part of the overall figures.

**MR WEICKHARDT:** Right. So that hundred million, does that include the sort of PBRs and the Bosches or is it excluding those organisations?

**MR ELLIOTT:** It includes them as far as after-market parts. It doesn't include them as far as their OE parts. PBR's supply to GM is not included in that but PBR's supply to Bear Racing in the United States is.

**MR WEICKHARDT:** So if you excluded those members who are sort of FAPM members and just looked at people who are exclusively your members, how much would that number drop down, do you believe?

**MR ELLIOTT:** Not substantially because - and I don't think it's appropriate to exclude FAPM members because some of those also export aftermarket product. It's not just all OE exports.

**MR WEICKHARDT:** I understand that but I suspect that the FAPM members aren't in the same sort of - they're not as small and they probably have the capacity to fund their own export programs more readily. You're talking about a number of people who are probably pretty small companies who are struggling to fund export programs.

**MR ELLIOTT:** Again, it's very difficult to actually quantify it because you just can't extrapolate the appropriate figures out of the statistics that are available.

**MR WEICKHARDT:** Do you have a sense as to whether or not the exports are going mainly to countries that the Australian MVPs export to? Is that where the biggest opportunity is or not?

**MR ELLIOTT:** No, there are opportunities in different parts of the globe. One of the currently unrealised opportunities comes out of the plethora of imported vehicles here. Our largest markets are the developed automotive markets, the United States,



Europe, but we're also active in the Middle East, in South-East Asia, China is a little early for us, we're particularly active in the Pacific region, New Zealand, the islands, Papua New Guinea. We are starting to develop a market in South Africa and in South America. The point I make to government people is that we are stalling a lot of our activity because whilst under the existing policy there's been the access strategy, the access strategy has been for ACPs. It's been of little or no benefit to us and we've been singularly unable to extract any of the dollars to support other than some small market studies out of the money that's been available and that is holding us up.

For example, earlier this year, we went and talked to the federal department about a program for performance products for like compact vehicles in the United States. We have particular success in Australia because things like the Subaru WRX has been here for a while but hadn't been in the US in any great numbers and we were doing a reasonable amount of mail-order business but we're finding it difficult to convert that into larger business, a distributor based business which is where the money is, within the United States because we didn't have a presence there. We were unable to extract any funds at all to assist us in being able to do anything in that region. That's an opportunity that unless we do something within the next probably six to eight months now, we will lose. It's an opportunity where we have significant natural advantage because of the nature of our industry. The small volumes of the WRX in the United States mean that quite a few of the major manufacturers over there won't be bothered with it, but we're going to lose business to Japanese and European manufacturers, both after-market manufacturers, by not being able to service that market, to get into that market in the sort of strength that we need to do.

That probably brings me to a comment that one of our members did make within the survey process. A lot of the time a lot of importance and a lot of play is made on the government-to-government bilateral, multilateral negotiations for access that is made. In the after-market, that's all well and good, but bilateral and multilateral deals do not get you face to face with your customer. You still have to get there, you still have to exhibit at international trade shows, you still have to negotiate with a range of companies to establish a distribution arrangement in an overseas market. It works a little bit differently for ACPs because it does facilitate their entry but it doesn't facilitate our entry to any great degree. The support that we need is actually the support to be there on the ground, to do the negotiations, to exhibit in the trade show, to give ourselves a presence in that market and to move forward from there.

In terms of tariffs, our view is similar to what I understand others have put before you and I suppose it's similar to what's been around in the past. Our basic view is that we don't believe that tariffs and industry policy for Australian automotive manufacturers should be treated in isolation to what is going on in the

world around us. Your position paper talks about three options in terms of tariff reform post-2005. Of those three options, perhaps we could support option 3 if hard pressed, but we believe that before any of those options are adopted or a policy decision is made, that we need to be cognisant of what's happening in the world around us. As an association, we are sceptical and concerned about the timetables and the real intent for reductions of assistance measures by many of our trading partners, the time it will take to conclude current bilateral and multilateral negotiations. The existing general assistance and support measures might be replaced by other less visible measures and the efforts by our federal government to negotiate market access may also take more time than what is currently anticipated.

On that basis we believe that there ought to be a pause in tariff reductions until after 2010, but the key ingredient in establishing further tariff reductions beyond that must be made in the light of the sorts of situation that is occurring with trade and other policy initiatives in our trading partners. From an aftermarket perspective we believe there is some specific assistance that could be provided. We suggest that the commission recommends that post-2005 assistance arrangements include specific assistance for aftermarket manufacturers. We suggest that this may take the form of credits for R and D expenditure incurred in enhancing existing products or developing new products and credits for expenditure on plant and equipment used in the manufacture of aftermarket products.

Probably more important to us though is the market access support that we believe should be provided. There should be support to identify export market opportunities and to match these opportunities with Australian automotive aftermarket manufacturers. There should be specific support programs built around the automotive aftermarket's ability to target niche opportunities in various export markets and there needs to be assistance in readying SME automotive aftermarket manufacturers for export.

Earlier we made a comment about the Trade Start Program. The Trade Start Program is a program that should be applauded. It's basis is to prepare and encourage non-exporting firms to get into export markets. The major problem for the aftermarket association in that program is that it does nothing to migrate existing exporters from one market to new markets and the program I think essentially is going to provide a barrier to that migration taking place, because the emphasis of Austrade will be on getting those new people, new exporters, ready and into export markets. Migrating from one market to another is a very good way of growing your export business.

In terms of ACIS post-2005, we believe it must encourage aftermarket manufacturers to invest in plant and equipment and must be available on the basis of a value that reflects the SME nature of the manufacturers. For these reasons AAAA

submits that an aftermarket manufacturer should be able to access ACIS post-2005 if it produces product with an ex-factory value of \$A250,000. An aftermarket product represents at least 50 per cent of the manufacturer's Australian based production. As with current ACIS arrangements, aftermarket manufacturers would receive assistance in the form of duty credits, which they can either use or on-sell to other automotive manufacturers. The assistance should be provided from an uncapped pool, similar to that available to motor vehicle producers under current arrangements.

**MR BANKS:** I wonder if we could just pause there now and think a bit about that. What you're really asking for is not ACIS as such but a form of ACIS-related assistance which is tailored to the needs of small firms - - -

**MR ELLIOTT:** Yes.

**MR BANKS:** - - - and I guess maybe just to explore a little bit. I mean, the criteria, the screen that you've set up here in terms of the threshold for ex-factory value and the proportion of sales and so on. How many firms do you imagine would qualify against those kind of criteria?

**MR ELLIOTT:** We would anticipate that there would be somewhere around 75 to 80 firms that would be assisted by that type of assistance. Now, given the SME nature of our businesses we don't envisage that it is going to be hundreds of millions of dollars of assistance.

**MR BANKS:** Yes. And you've opted - unlike the capped arrangements that apply to the component producers - you've gone for the uncapped version which is - - -

**MR ELLIOTT:** We think we're as good as motor vehicle producers.

**MR BANKS:** - - - the existing - I mean, as you know we've suggested that all future arrangements be capped but I mean apart from I suppose increasing the upside as much as you can, have you got any other reason - in terms of SME involvement - for going for that arrangement?

**MR ELLIOTT:** The SME nature of our industry is probably the key issue about an uncapped arrangement. We don't believe that the level of claims will be anything near the ACPs or MVPs. It provides certainty in terms of what a manufacturer might receive. They are able to say, "Well, if I invest this amount, this is what I will be entitled to. This is what it will be worth within reasonable grounds." And we made that for a very important reason. We have experience with a capped program, EMDG, which traditionally has been paid out above 90 per cent of an eligible claim. However, this year it was 75 per cent and that has impacted upon the bottom line of a number of our members, because the expenditure was made first and then you'd

claim it back and it can be anything up to nearly 18 months before you get that money back.

**MR BANKS:** That's 75 per cent of the total expenditure or - - -

**MR ELLIOTT:** 75 per cent of the claim, the claimable expenditure and that is going to get worse. It's going to get worse because of the new programs for new exporters which will bring more claimants into the program, the \$5000 minimum rebate that is under the EMDG program, so that uncertainty is concerning to SMEs and that's what we don't want to replicate. We're not talking about hundreds of millions of dollars; much more modest amounts and we believe that an uncapped amount is warranted in that circumstance.

**MR BANKS:** And do you see that as being deducted from the amount available to the other sectors, or how do you see that working?

**MR ELLIOTT:** Preferably no, but we also understand the ways of government and the ways of budgets and those sorts of things. We are not suggesting that our program should be at the expense of others; we're submitting that it should be in addition to, but understand that government may take that sort of attitude. That would be regrettable in terms of its impact upon particularly ACPs, but I think there needs to be equity, and that's been a key part of our submission.

**MR BANKS:** Just with one eye on the clock and so on and the fact that we have read your submission, I'm just wondering whether you could highlight these points rather than reading the submission out from now on. Is that okay?

**MR ELLIOTT:** Yes, I've been trying to do that. There are two major parts that we still want to address. One is a successor to the automotive market access and development strategy, and I think through the commentary today I have identified issues in terms of that. It is critical for the success of SMEs in the export market to have that facilitated by government. We have a good relationship with Austrade, but the lack of financial support, to be blunt, for SMEs in exports is a barrier to growth of exports in the automotive aftermarket, particularly given that our initial success was helped to a large extent by that government support. There do need to be programs available for the aftermarket to do that.

**MR WEICKHARDT:** Is there evidence that any of that initial help gave rise to self-sustaining and now profitable and viable exports?

**MR ELLIOTT:** Yes. ARB is an example. It now exports something like, I think at the last financial year, \$23 million worth of automotive aftermarket product. EGR from Queensland is another company that - - -

**MR WEICKHARDT:** So you recognise this as transitional, do you?

**MR ELLIOTT:** If the government's objective is to continue to increase automotive exports and exports from SMEs, it's not transitional. There need to be ongoing programs but don't necessarily support the same companies all the time but support the development and growth of companies into exporting companies. That's recognised to some extent by programs like EMDG, which have a life of claim. You know, you can claim for a certain period of time; after that you cease to qualify to make a claim.

From our point of view, we would like ongoing support for a fair while. Now, that's not realistic. We accept that. We accept that it's got to be looked at, it's got to be critiqued, it's got to be evaluated on a regular basis, but there is need to support small and medium sized enterprises getting access to international markets, and some of that support does need to be financial. Some of it needs to be organisational through the likes of Austrade in market studies, market reports, those sorts of things. We would even go to the point of suggesting that there need to be people on the ground within Australia helping SMEs develop the competency to be able to export. SMEs spend most of their day focusing on keeping the business running, not looking at what the next horizon is. It's too much of a day-to-day. That's the nature of SMEs. Even innovative SMEs spend a lot of time focusing on the day-to-day business needs, and practical assistance in being able to identify and access international markets is something that is needed.

One of the key things - and it's not really an issue that you can address necessarily because you're looking at post-2005 arrangements - is to do something about the hiatus between now and 2005. If suitable arrangements are not put in place for the aftermarket in the meantime, we will miss opportunities to grow exports, to grow our businesses, to develop our international competitiveness in that period. We would bring before you a strong suggestion that there needs to be some redress to the inequity under the current arrangements in the period between now and the expiry of these arrangements as well.

The last area that we wanted to particularly focus on was the issue of critical replacement parts, which was I think part 7 of your paper. We cautiously support the statement in the paper that the introduction of specific standards for aftermarket components that are integral to vehicle safety or to a vehicle's environmental performance could benefit both the community and local suppliers. The caution that we have is that we would not like to see the standards being couched in such a way that it becomes a barrier to competitiveness, and that the definition of "integral to vehicle safety or environmental performance" becomes too wide and too sweeping. First, it will cause a major practical problem in developing standards for the many

hundreds of parts that go into a current motor vehicle, but it is also an effective way of big business being able to freeze out small business in a particular area by having unrealistic standards put in place, so cautious support in terms of that.

We also make the point in our paper that we need to be careful that we don't disadvantage consumers. One of the key things that the independent aftermarket does is to modify the prices of replacement parts and service parts through its broad distribution network. That in real terms is what we wanted to say today. We thank you very much for listening to us, for your questions, and we are happy to deal with anything else that you may have in your further deliberations.

**MR BANKS:** Okay. I think I've pretty much asked the questions I was going to ask.

**MR WEICKHARDT:** Yes, I think I'm covered too.

**MR BANKS:** All right. I don't think we have any other questions, but thanks again for attending. If there are any issues that arise out of this version - but I think you've told us it's not too much different to the one that we've received, the earlier version of your comments on our position paper.

**MR ELLIOTT:** The comments on the position paper, yes, reinforce what was in there but obviously has additional comments in it. But there's not a broad departure in strategy.

**MR BANKS:** All right, we'll have a look at that as well. Thanks very much.

**MR ELLIOTT:** Thank you.

**MR BANKS:** We'll just break for a couple of minutes please before our next participants.

**MR BANKS:** We will resume now, thank you. Our next participant is the Australian Productivity Council - not to be confused with the Productivity Commission. Welcome to the hearings. Could I ask you please to give your names and positions with the council.

**MR MILNE:** I'm Craig Milne. I'm the executive director of the Productivity Council and have been for about the last 15 years.

**MR McDONALD:** My name is Ross McDonald. I'm with McGir Pty Ltd and I'm assisting Craig Milne and the Australian Productivity Council.

**MR BANKS:** Good, thank you. Thanks very much for taking the trouble to attend this morning. You sent us an earlier submission which we've read and you have indicated you want to make some further comments based on that submission, I think, and also our position paper. So I'll hand over to you to provide an overview.

**MR MILNE:** The paper has been posted on the web site. I'll just summarise that in the brief. There's a small amount of supplementary data to add to that which I'll formalise and submit to you in the next few days. We've had some modelling done on what the consequences for the Australian economy might be with a larger motor industry and I'll include that today and then add it in a formal way. Our involvement is not directly in the industry. The council is, in summary, quite an old organisation dating back to the 60s, and while a private organisation today, it was formerly a publicly funded multiplier agency until about 15 years ago when it was cut adrift and survives today as a consulting firm working mainly in operations consultancy and mainly in manufacturing but not exclusively, and so in that role over many years it's worked in various aspects of the motor industry.

It's worked in training and industrial engineering work with the assemblers, with component suppliers, with retailers, body repairers, even financing and leasing companies in the industry. So it's worked really right throughout the industry in a consulting role, mainly in operations areas, and today mostly that is in the management of automotive quality management systems for the supplier firms. They're quite elaborate, as you're aware. Quality systems under the ISO regime obtain in this sector and we operate those on behalf of some of the smaller component manufacturers who often encounter technical difficulties in running these systems. But we still do a bit of engineering and design work for parts and various parts of the sector as well.

So we have an interest in the industry but not a direct material interest in it; it's overall a small portion of the business. But based on that fairly lengthy association with the industry and more than that an association with the broader fabric of Australian manufacturing and other industries, you form some perceptions of where

the passenger motor vehicle sits in this economy and as I've said in the paper here I think it's probably the best manufacturing we have in the sense of its ability to manage complex project implementation on to cost, quality and schedule - very difficult time constrained projects of new model development and new plant commissioning.

It has a more difficult role than most manufacturers in that motor vehicles are not really commodities, although there's a trend to make them that. They're products that have many technical and aesthetic attributes as well which are taxing for designers and engineers to fully implement and which the market is very sensitive to and to which the competition internationally is very intense. While we're not the world's best in that, Australian industry is not bad at that sort of thing and that I think sets it above most other manufacturing in Australia, which is a sort of rough - an agricultural kind of quality to it which is different I think in quantum from what you'd find in the automotive sector.

The sector is very good in that whole plant engineering and organisation discipline, is very good at industrial engineering, very good generally at labour relations and employee management and participation. It's a difficulty. It's been compared to a kind of an ant hill sort of industry. You'd look at an automotive plant and I describe it here as "a semi-continuous processing system with scope for emergent variation", which means that it's - the term is from a Japanese economist called Banri Asanuma and it describes motor manufacturing well. It looks like a continuous process but all the time things are going off parameter; you know, you're grinding crankshafts and they're going over size, you're pressing parts and they're picking up errors.

So it's constantly needing this human interaction and intervention and that's why techniques like total quality management and employee participation have done so well in this industry because it's an industry that's very suited to those kinds of disciplines. If the workforce is not on side then the industry goes downhill pretty quickly. I suppose the demise of the British industry is a perfect instance of what happens in those cases where bad labour relations and idiosyncratic managers combine to manage an industry such as this. So I suppose that's the sort of industry it is. On the basis of comparing us internationally I'd suggest that the Australian industry is a middle range industry.

It's probably on par with the second tier European suppliers in most respects of quality and operational organisation. They'd be companies like the Fiats and Peugeots and things but certainly not the best German producers which again operate at a quantum level better than do the Australian manufacturers. But it's probably better than the American and Mexican types of producers that one sees there, and better I mean there in terms of putting together accurately formed assemblies,



tolerancing. General quality and operational management is quite good. So an Australian-built American car is generally better than an American-built American car but not as good as a German-built American car like an Opel. That's sort of where I would see it.

The local design, much is made of that but really there's probably only one Australian-designed car, the Ford Falcon, although that does have fair input from the other branches of the Ford empire. It's substantially a unique to Australia product and configured here. The Holden Commodore is a cut and shut - I mean, it's a widened and reskinned Opel body with a mix of German and American parts, an American engine and transmission modified slightly to suit a rear-wheel drive format. In a funny way not all that different from what Holden did back in its early days in the 1920s when it was a body builder putting bodies on American chassis. It really still does that I suppose today. So the DNA of the company hasn't changed all that much in the last 75 years.

They're quite well sorted in terms of their dynamic performance, and this is not just what Australian observers report on but international observers who have tested these report similar things. But there is generally a quality issue with Australian cars, by which I mean the conceptual integration of the whole package, the detail execution, plastic moulding, rubber moulding, trim fits, margins. All these areas are not up to what's expected in the world today.

**MR BANKS:** On what basis do you make that judgment? I mean, we've had a certain amount of information - it's hard to get good, hard information - but it seemed to be suggesting that the quality actually was a source of strength. I mean, it hadn't been traditionally but it had improved significantly and indeed yesterday we had the anecdote of apparently Ken Asano interrupting his enterprise bargaining negotiations to declare to the whole staff that he'd just heard from Toyota head office that the Australian operations had exceeded the quality standards being set in Japan.

**MR MILNE:** That's true of Toyota I'd say. The two Japanese assemblers are probably again a quantum better than the two others and Toyota particularly is a very good supplier. They have a reputation in the industry of being particularly hard to deal with as far as supplies are concerned and particularly demanding. I think - - -

**MR BANKS:** In Australia?

**MR MILNE:** In Australia they do have that from the suppliers, whereas Holden and Ford are seen as not so demanding, and I'd put that really down to the - different countries have different cultures. These are American firms and American firms have a much lower standard of expectation of fits and margins and generally tolerancing issues than do European or Japanese producers. That's an historical

thing, it's present at the beginning of the industry. So much so that if you went to the science museum and saw an American car of the 1880's on display and an Australian one of the same era, you're struck by the difference in workmanship even then. It's just a feature of their industry. It's an agricultural, rough and ready sort of process in the US with few exceptions, and I think that trickles down through the local producers to some degree.

I mean, the importance of it is that markets, as you're seeing in Europe, are increasingly choosing these perceptions of high quality, by which I mean fits and margins; detailed design execution; textures, matching of textures in trim parts, graining and things such as this. This is coming down to the quite inexpensive cars. Not in Australia yet, but as you'll see Skoda, which is a Czech car now built by Volkswagen. These are Korean priced cars. It's really quite outstanding full quality, and they'll be in Australia soon. They've got as far as Singapore now, but they're very successful in Europe.

So we're seeing these sorts of attributes, which were traditionally parts of the luxury market, are now being pushed down into the lower reaches, and I'm just suggesting that the Australian - Ford and Holden particularly - have got to do work here, or they will lose ground and I believe that markets will favour that. Americans define quality more in terms of freedom from reportable defects, but I'm talking more of a tactile and aesthetic perception of that precision workmanship, those sorts of things. That's the point I'd make.

You know, I think this is supported too when you look at the preponderance of fleet buying in the local producers there. If fleets were not present, the local producers would be in great difficulty, because - and that market itself is changing - is the tendency from company-supplied cars, for example, shifts to novated leases, and situations where old company policies where your choice is a Holden or a Ford and now your choice is whatever you wish. So I think there's a shift there which would threaten them in the long run, and private buyers are underrepresented in these businesses.

The other issue of course is size. Both of the largely Australian platforms are big, the D-size platforms, rear-wheel drive platforms, and again that's probably larger than most people want today. But there's a paradox for the local industry that if it - it really exists because it has unique platforms and if it comes down size to Vectra Mondeo size platforms, which are probably where the market is tending, the question is, "What are you doing with your local design capability?" and beyond that, "Why are you even building in Australia if you've got plants elsewhere to do the same thing?" So I see that as a long-term threat to the industry, those things there.

I talk here about the industry talking often of its great gifts and abilities for

short-run manufacture, and I admit to a certain scepticism on that, because I think those - there are many issues in manufacturing. Certain aspects are going towards higher volumes and higher scale issues, but similarly there are many counter-trends as well, which are putting manufacturing techniques into smaller volumes. The auto industry in general is absurdly structured at present. It's a manufacturing paradigm about 70 years old, it's prodigiously expensive to enter, it has billions of dollars of product development to produce single models.

One would have to cast a question over it in the next few decades whether we're still going to see this tool intensive, metal bashing industry as the cornerstone of it. There will be perhaps innovations in other structural means, which provide opportunities for Australia, by the way, but also threats to the existing large firms. You know, composites and different structures and low volume tooling techniques. So there is that move as well; and they're probably better developed in Europe than here, in my observations, although we talk about them a lot.

**MR BANKS:** Could I just ask - I mean, when you say your observations, have you done consulting work to Europe - - -

**MR MILNE:** Yes, I visit Europe a lot and I look. It's a matter of just looking, really, and you look and you're just looking at what are the suppliers of hydroforming in Australia? What are suppliers of resin transfer moulding, composite moulding, all of these techniques, rapid prototyping. There's a whole range of these things and you find that you'll often get them done in Singapore or Taiwan or Britain, because it's easier and you'll seek out companies on the Internet to find them, and it's often easier to access them offshore than it is here or it might be too expensive here. Resin transfer moulding, which should be a low-cost technology available to Australia, is far too expensive in Australia because of the lack of the competitive supply base format sort of product, you see. So there are issues there.

We talk about tariff here. My instincts are really that an industry should be properly constituted and stand on its own feet, and I don't know that tariff is a particularly important issue. I'd have to say, I think that the standard dead-weight loss arguments of the consumer costs imposed are overstated, and I give the reasons for that here, in terms of this tiered historical pattern of the Australian motor industry, and that was that - I've suggested that the - certainly since the Holden era, the local producers have tended to price with plant utilisation issues in mind.

I think the past effect of tariffs has been to raise the price of imported, elite category cars, but not so much those domestic cars, which have always been fairly affordable. Even in days of higher tariff levels, if you were to take cars like Holden Commodores and compare them with international equivalent cars in other markets, they were fairly cheap and fairly affordable.

So my view on that is that the real structural problem of the industry is not defined by tariffs but rather by the constitution and ownership patterns of the industry, effectively. I give an historical analysis there of what I felt was the problem of tariffs in the beginning, and that was essentially to cause the arrival of the two large American players in the 1920s. Most people are unaware of this, but there was quite an active period in the experimental phase of the industry in Australia, which was attempting to establish car manufacture here, and there were some quite good attempts at that.

But building products experimentally and then moving them to an industrial phase was very difficult to do in Australia before 1920, because there just wasn't the existence of high production rate metalworking industries here. You had foundries and machine shops and clever people, and they could cast and blacksmith and make up a very nice motor car, and did on many occasions. Some of these were very, very good. I mean, people think of Australian cars as Lightburn, Zetas and Hartnetts and horrors like that. But in fact, there were in the very early days, some Australian built cars that were truly world standard. But they could never master the productivity issues and that was because they didn't have the high-rate metalworking industries to fall back on, as you did in the US. They existed in the US 100 years before they did in Australia and so that was the disadvantage.

The policy in those days was to try to get Australia into the industry through body building because there was a background of that through the old carriage tray and there was a transitional period where the carriage tray had moved to the automotive tray and there was a lot of movement of some firms from one industry to the other, and that was hoped to be the case in Australia. Holden were the most successful exponent of that and in the 1920s Holden Motor Body Builds, which was an Australian firm then, was the largest body building business outside North America. So it certainly had scale and all of those issues going for it.

But as I outline in the paper here, there were a lot of contracting and supply issues here which led to the entry of Ford at Geelong and then, fortuitously, the acquisition of Holdens by General Motors. So in all of this I put the blame for all of this at the foot of the tariff really, which I suppose drew the attention of these firms to Australia that may not otherwise have been the case. There may have been room for domestic firms to have emerged, had not the best and biggest companies in the world got here first. It's like having a big bush in your garden which you mightn't like much but everything you try and plant underneath will starve, and that's pretty much what happened in Australia I suppose.

Why that matters is that - and this is not the slightest criticism of these firms - but it matters in that they will configure their international supply arrangements

according to their global interest, which is entirely right and proper. But what it has meant is that Australia doesn't have a full platform range of vehicles, produces just one model and others are sourced elsewhere. It also has too many producers and the consequence of it is that because we don't make a range of platforms in Australia and because we don't make truly Australian cars and we don't have that feature of, say, the European markets of dominating our domestic markets to the extent that we should, and that leads to what is a key point I make here, and that is that the industry which produces around 300,000 units a year, if it were performing at the level of the European countries for example, would be producing about three times that volume.

The analysis I give for that is here, in that in the European model where they have domestic firms, the firms design product and processing systems that are applicable to their market conditions. If you look at European suppliers you will see there's a difference between all of their offerings. Cars are different from French cars and different from German cars and they happen to suit well the conditions of their domestic market. When you look at the take-up of these vehicles you see that 75 to 80 per cent of the French or Italian market drives domestic cars and on the margins there are some import which cancels out with the tastes of neighbouring countries for each other's products.

Now, that plus the fact that they then export to non-motor producing countries gives them, as a rule of thumb I put here, about the domestic level of sales plus 10 per cent, is what the industries produce. When you allow for the difference in population and size of the Australian economy to the European markets you see that the market here should be, of domestic production, around 960,000 units a year, up from the 320,000 it is. To do that, Australia should have one or two producers. It should be making a three platform industry: a Golf, a Vectra and a Commodore-size platform. You could body those in different ways as they do in Italy where you have three brands of quite different character but all founded on similar platforms and drive trains, and free to export where it chose.

If that had been the way our industry had developed - and it's all probably too late now, but had the industry been better organised at its beginning we'd suggest that that would have had very considerable consequences for the Australian economy. We had some modelling done by NIEIR which I'll incorporate, which suggests that an industry of that size would add about 22 billion a year to the Australian gross domestic product, increase employment by about 200,000, and have an effect through the motor vehicle trade deficit of about \$50 billion over 10 years; it would reduce foreign debt. So it would be quite a considerable benefit. But beyond that, it would have all sorts of linkages and flow-on effects to other aspects of the Australian industry as well.

**MR BANKS:** Does this modelling have any methodology laid out on it, or does it

just have the results?

**MR MILNE:** I'll get that for you.

**MR BANKS:** It's found that that modelling in the past has been a bit unsatisfying in terms of trying to understand what went into it.

**MR MILNE:** Of course it is, yes.

**MR BANKS:** As opposed to what comes out of it.

**MR MILNE:** I understand that. Look, that's just the outcome but I'll submit that with the methodology as well for you to look at.

**MR BANKS:** Yes.

**MR MILNE:** I suppose I see the motor industry in Australia as a lost opportunity. It's one of those sort of medium technology industries which the country should have done well at. It had people at the beginning who knew how to design motor cars. It had entrepreneurs who were willing to attempt it. It had a market size that was large. This was a small country but a large car market because it was affluent and it had a need for cars. It wasn't in fact until about 1930 that Germany outstripped Australia as a car market and it wasn't until the 60s that Japan outstripped Australia. I don't even know if Korea has outstripped us yet; it might be close to it.

So this issue of population scale, it's a furphy. Australia was a large car market. It had capability to design and build motor cars. At every stage in the last 100 years it has been able to support one or two manufacturers using the current economies of scale as they were, and even today runs like Commodores, 130,000 units a year, that's about the same as Ford Car globally, about the same as Alpha 156. It's about three times Saab 9000, about four times Jaguar. These are not insignificant volumes. We're often told they are. We're often told that we don't make many motor cars. That is not true.

We don't make many in sum but we make a lot of single models. The numbers, they're not the highest but they're acceptable to get good economies of scale using current technology and that has always been the case in the Australian industry, because economies of scale in the 20s and 30s were 15 or 20,000 units a year. So I suppose I'd see that as a great lost opportunity for Australia and some of the issues for policy should be, "Well, how do we get that back?" What are the ways in which we can retrieve that situation?

**MR BANKS:** Do I read you correctly in saying that the tariff itself in a perverse

kind of way contributed to that fragmentation?

**MR MILNE:** Yes, I'd say so, certainly it was. I mean, the American firms were very expansionist. They got out and got off their tails and got into the world and that was to their credit they did so. I mean, most countries that had any semblance of motor manufacturing soon had a Ford plant or a General Motors plant. The two main competitors to the US are of course Germany and Japan and they both actively discriminated against American plants in the 1930s, really through Fascist and militarist governments. The Japanese really prevented the Americans from manufacturing economically in Japan because they wanted, for military reasons, their independent automotive industry and in Nazi Germany the story was much the same. There was an active repression of the American plants.

These are policies that have always been unacceptable in Australia and in English countries. In Britain the effort to repress the Americans was through a convoluted formula designed to make it hard to sell model Ts, which was based on taxing them on cylinder bore. Its principal effect was to entirely distort British automotive engineering and throw away the colonial market which they should have had, and Ford have just closed down anyway, so it hasn't done them much good. But yes, tariffs had the effects of bringing them in, but we could have done more ourselves at the time. It's always easy to look back and see what we should have done, but perhaps at the time it looked different.

**MR BANKS:** You were about to say, in terms of looking forward what - - -

**MR MILNE:** Looking forward, well, you don't read the environment in Australia as one which has an interventionist policy. You'd say ideally you would start from what ought the industry be and I'm saying it should be a million or so sized industry. that's what it should be, and you would start from that and you'd work back and say, "Well, why isn't it? What are the impediments to that happening?" and I'd have to say the number of suppliers, the ownership structure and the prevailing globalist ideology which sort of makes people think that you can't find alternative ways. Australians have lost that capacity for independent thinking which would help them to really try to tune our national interests in according to these larger realities.

But perhaps one thing you can look at is the prospects of a different paradigm emerging. What are the scope for smaller niche players? Now, there are some interesting efforts in Australia at the moment. There's a motorcycle project in Sydney which has had several million of private money in it to try to produce a Harley-Davidson type of motorcycle designed for cruiser markets and export markets. Things like that are quite possible because they have simpler ADR requirements and lower tooling costs, the production of high-duty and special-vehicle four-wheel-drive cars. I'm not talking the Toyota model but more military, mining

company, industry type four-wheel-drives is a possibility, like Humbers. The American Humber is an example of that. There's a possibility for that sort of thing in Australia.

Trucks, I'm surprised we don't do more in heavy trucks because these are industries where you can buy a lot of the hardware off the shelf, engines, transmissions et cetera, and you can build frames and chassis and cabs and things. It would seem to me there's ways of establishing some niche producers, special vehicle producers, which putting out some beacons and flags on the hill for other entrepreneurs to look at - and I suppose await the cusp of change in the manufacturing paradigm, and there might be some new opportunities in the future. What we shouldn't be doing is say, "We've lost this industry, we've lost it forever." The previous paradigm for land transportation lasted for several thousand years and this one probably will too. So we need to say, "Well, the industry is 100 years old but we shouldn't be dealing ourselves out of it," as we seem to be doing in debates at the moment. We need to find how do we get into this properly.

**MR BANKS:** I haven't read the debate that way myself. I think there's more optimism in the industry than I've seen for some time and certainly, having talked to the manufacturers they're fairly upbeat about their prospects including in export markets. But you're much more pessimistic than they are.

**MR MILNE:** I feel they're not in command of their export potential. See, the global car firms have a political entity, so they're like Italian city states the way they squabble and I mean, yes, we can see some Holdens in the Middle East at the moment because Chevrolet don't have an acceptable product. But it's not sold as a Holden. See, one of the issues that's in the industry, I'd call it this differentiation commodification issue and, you know, there's a tendency in the industry to make cars like microwave ovens and domestic appliances, which today all come out of China and have no differentiation about them at all. At the other end there's the elite end of the market mainly occupied by the Germans and the better Japanese and European producers, in which all sorts of brand values and things like that are embedded.

Australia has none of that. We've been in the business for nearly a century but I don't think there would be any recognition much outside of Australia of any brand equity that we could possess. Yes, we sell some Holdens in the Middle East. We sell them as Chevrolet Lumina. We don't sell any Fords overseas, probably because other Ford divisions have already claimed the patch. So because the industry is not sovereign, in command of its own destiny, it can't aggressively seek outside markets for Ford Falcon for example. It has to get permission to do that and the permission is not forthcoming. I'm sometimes enthusiastic about the industry and sometimes pessimistic. I mean, it depends on the day really and how you see, but - - -



**MR WEICKHARDT:** So apart from wringing our hands what are you suggesting that government should do?

**MR MILNE:** That's a good question. I suppose the first thing is the recognition of what the industry might be and to start to widen the thought process to look at what might be necessary to fulfil that potential in the longer run, what it might be. The second thing is to help to stimulate some of the niche opportunities on the side, some of the smaller producers that I've alluded to here, using new technologies, new propulsion technologies, new manufacturing, which might provide entry for new and emergent firms which over the next decade or two could grow to some significance.

**MR WEICKHARDT:** How are you suggesting that should be done?

**MR MILNE:** The normal processes of business assistance, business planning, support for various efforts, R and D support, consulting support, those sorts of - there are many programs that do that. I don't know that there's any deficit of programs to assist with those things.

**MR WEICKHARDT:** It sort of gives me the impression of scratching around the edges and ignoring the main game.

**MR MILNE:** Yes, it does because the main game, I would have thought, requires enlarging the industry. But I don't really know how one would go about doing that because the structures that are in place now seem pretty solid. How do you go to an industry and say, "There are too many producers and you're all making the same platform size and therefore you're competing for a small part of the market and therefore you're restricted in your exporting opportunities?" I mean, that's the industry that has evolved and, you know, the proper way to deal with that would be to reduce the number of producers and broaden the range and gain some sovereignty in its commercial decisions so it can become a business that, being headquartered here, is master of its destiny. I don't know that government really thinks that way in Australia.

**MR WEICKHARDT:** Apart from nationalising the whole industry and owning it themselves, I'm not sure how they could even contemplate doing that.

**MR MILNE:** Yes, and I'm not sure that would be - - -

**MR BANKS:** Nationalisation seems to be out of vogue, doesn't it?

**MR MILNE:** It does, doesn't it? I mean, yes. I mean, that's happened. I mean, some of the - yes, nationalisation was used in Europe. Volkswagen, as you're aware, was once a national corporation and retains about 25 per cent government share.

Saab was once a national business. Ducati was and I think Alfa Romeo too, but businesses pass in and out of public. I'm not sure that's our pattern in Australia that we've made to work very well. That's for better minds than mine to fully address.

**MR McDONALD:** I'd just add that the work that Craig has highlighted is that in our view the auto industry should be three times its current size based on its per capita, work that he's done, and that the work that NIEIR has done indicates some pretty reasonable sort of numbers in terms of the beneficial effect of employment, import replacement and export activity, and we'll make that available to the commission.

**MR WEICKHARDT:** But your final sentence is:

Rectification of the defects and distortions that have arisen from the experience of failure could lead to a highly beneficial outcome in employment, import replacement et cetera.

But from what you've said, apart from having a time machine and going back and doing it all again, I haven't heard anything that would actually allow us to rectify those mistakes.

**MR MILNE:** I suppose I'm throwing up what it might be. I don't know how you really come to grips with the property rights and interests and aspects of an industry that has evolved over nearly a century and say that really isn't serving our national interests. I'm not saying it isn't serving our interests - that's what I'm really saying. How you deal with it? I'm not really saying nationalisation either, but it's very hard to talk of new entrants too. Who in their right mind would put several billion dollars into building a car business in Australia? I mean, here's a business which at present - if you get the whole crowd at the MCG on a Saturday afternoon watching Collingwood and Essendon, 80,000 people, and you've got to sell a car to every one of those in a single year to break even, a business like that has to be a dud for any new investor. You need a couple of billion in sales to break even. It's an industry that favours incumbency, and it has been for a very long time.

The only countries that have entered the industry have done so through pretty stringent industry policy actions, which have had as their prime cause the disadvantaging of the American firms. That's really how they've done it. You're seeing it in Malaysia at the moment, you've seen it in Korea, you've seen it in Japan. All of these countries built their industries that way. We almost did in the 30s but fell at the hurdles, I think. There may be an opportunity to prise one of the four firms into local control, I don't know.

**MR BANKS:** Okay. That's been very interesting, and thank you for making the

presentation. Any further comments?

**MR McDONALD:** No.

**MR BANKS:** Thank you for that. We'll break now just before our next participant.  
Thanks very much.

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**MR BANKS:** Our next participant this morning is BHP Steel. Welcome to the hearings. Can I ask you please to give your names and positions with the company.

**MR CORNISH:** Thank you, chairman. My name is Noel Cornish. I'm the Australian building and manufacturing markets president for BHP Steel. I look after a number of market segments, of which auto is one. I am also responsible for a number of the operations in BHP which include Western port and service centres in both Victoria and South Australia which supply the auto industry.

**MR BANKS:** Right.

**MR CORNISH:** On my left is David Goodwin. David is our executive vice-president corporate affairs. David is responsible for public policy issues for BHP Steel. On my right is Terry McDermott. He's our marketing manager, automotive and manufacturing. Terry has both a wide and deep experience and knowledge in the Australian auto industry.

**MR BANKS:** Good, thank you. As indicated, I would be happy for you to simply summarise the main points you wanted to make.

**MR CORNISH:** Thanks, chairman. At the outset I would like to say we commend the commission for the position paper's balanced and considered presentation of the key issues. We sense a real focus on maintaining and growing vehicle manufacturing in Australia. In our view there appears to be a relatively strong consensus amongst the major industry players around the majority of the key issues facing the industry. The automotive industry is certainly an important customer for BHP Steel. It accounts for 14 per cent of our annual sales in Australia. Our business has shared the benefits of the industry's considerable progress over the last decade and we want to see these successes continue into the future.

The success of Australia's vehicle and component manufacturers in maintaining and growing their market, both in Australia and overseas, provides a vital foundation for further development and growth of all Australian manufacturing enterprises. We believe that policy outcomes should support planning certainty for our customers and that policy settings should take into account strategic and longer term perspectives in line with the industry's normal commercial planning time-frames. The comments we have made support the broad thrust of policy recommendations put to you by the FAPM and the FCAI.

The automotive industry plays a leadership role in the manufacturing sector in terms of technology uptake and has been a driving force behind bringing leading edge technology, steel technologies, into Australia, generating spillover benefits to other BHP Steel businesses. In our initial submission, BHP Steel offered comments

on three policy areas: tariffs, market access and continuation of ACIS. Taking the latter topic first, we have made the point that we support the continuation of ACIS because of the crucial role that it plays in underpinning our customers' investment plants, and that we believe the scheme should have a long enough life to provide certainty for our customers in terms of their strategic planning decisions. We have read the analysis and preliminary findings of the commission on ACIS and we are generally comfortable with the nature and ambit of the alternatives. We believe that there are other participants in the industry who are better equipped than us to comment on the issues.

This morning I would like to summarise our comments on two topics, as expressed in our letter yesterday: tariffs and market access and workplace relations. On automotive tariffs, BHP Steel's initial submission made the following points. We favour the tariff rate being set at a level that supports continuing investment and competitiveness of the Australian automotive industry and, importantly, that any further reduction in tariff should be linked to firm commitments from key trading partners to reduce their own tariff and non-tariff barriers. We note the commission's preferred position that tariffs be held at 10 per cent from 2005 to 2010, then reduced one further step to 5 per cent and held at that level from 2010 to 2015. We do have the view that further reductions in tariffs to below 10 per cent from 2010 should be subject to a further review, check-step, perhaps best undertaken during calendar 2007. This would enable an assessment closer to the time of the proposed reduction of international trade policy settings at the time in comparative and competitive economies.

In our view a major policy decision such as a reduction in tariffs from 10 to 5 per cent should take account of policy settings in other countries with which Australia competes for scarce automotive capital resources. Our experience has been that over the past decades, in various manufacturing industries, tariff settings have proven to be both dynamic and somewhat unpredictable. Our own experience in the international steel industry is a case in point. 2002 has been marked by a wave of new tariff and quota measures throughout the global steel industry, sparked initially by President Bush's implementation of section 201 tariff measures in the US. Other countries have followed suit throughout Europe and Asia. We would comment that the commission may - - -

**MR BANKS:** Sorry, could I just ask on that: a section 201 was a sort of safeguards action in the USA. When you say other countries have followed suit, could you just explain what the basis has been for that?

**MR CORNISH:** Certainly. Because the 201 actions in the US put initially a 30 per cent barrier for many steel products, in fact most steel products, entering the US, other countries were very concerned about becoming a dumping ground for steel

that was previously destined for the US, so the European Commission and a raft of Asian countries immediately put up tariff barriers in order to prevent that from occurring.

**MR BANKS:** Are they across the board?

**MR CORNISH:** No, they vary from country to country and product to product and vary in the mechanism in which they're invoked. Some countries have developed a quota system. Once a certain quantity of product has entered the country, then there is review and quite punitive tariffs put in place.

**MR BANKS:** Yes, through the tariff quota.

**MR CORNISH:** Other countries have just gone to straight 20 per cent, 30 per cent tariffs, and it's all out of fear of a situation where we do have a surplus of steel production globally and what that would do to countries that became the home of steel previously destined for the US.

**MR BANKS:** Okay. This is slightly aside from some of the other things we're looking at, but in terms of the US action, that section 201 action, at the end of the day how significantly has that disadvantaged Australia compared to some other suppliers to the US market?

**MR CORNISH:** Certainly Australia, because we've sold a lot of our production on to the west coast, which is not a real focus in the US, we've been able to get some exemptions for around about 80 per cent of our production, but there is still 20 per cent in products which as tin plate that are facing 30 per cent barriers to sell in the country to longstanding customers.

The issue of course in the US is that as part of the need to have global steel industry restructuring, the US producers are some of the highest-cost producers in the world. As you say, this has been a safeguard measure to enable time for adjustment, but it's over a three and four-year time frame, tariffs reducing progressively over that period. But its flow-on effects through the globe have probably been the greatest ramification, and we've found those sorts of issues popping up with our customers both in Europe and in Asia as a result of action taken in the US. It's that sort of experience that's leading us to make this point to the commission, to consider a check-step.

**MR GOODWIN:** We would caution against an assumption that tariffs inevitably trend south and that that occurs over the time frames that we're talking about, because our experience in the steel industry has been that it's been much more volatile and spiky than that.

**MR CORNISH:** To be quite frank, Gary, I was surprised out of the US that we would even see that sort of action, considering the stance that the US has taken and the leadership that the US has taken in a lot of areas to try and promote free trade in the globe, which is just an indication of how unpredictable this issue is.

**MR BANKS:** Yes, although, as you also know, steel has been a particularly sensitive sector in the US, like textiles and clothing, which could share - - -

**MR CORNISH:** And the auto.

**MR BANKS:** And auto, that's true. In the case of steel I remember in the early 80s they were putting in place adjustment plans at that stage, so it takes a while.

**MR CORNISH:** Yes. Moving on, we've also made a point that we support a continuation of the government's current strategy to improve access to foreign markets for Australian exporters through both multilateral and bilateral initiatives.

Turning now to the vexed topic of workplace relations, we believe we are well-qualified to make some comments. As you are aware, within the past six months we experienced two significant damaging and disruptive industrial disputes, at the Wingfield service centre in South Australia and Westernport in Victoria. Although these disputes were related to enterprise bargaining in the steel industry, they adversely impacted on all BHP Steel's customers, including the auto industry. Both disputes occurred during protected bargaining periods. The Wingfield dispute was a 14-day dispute, which is significant in anyone's eyes, and the Westernport dispute was a 25-day dispute. That really does tell the story about how significant this industrial activity has been just within BHP Steel.

The 25-day dispute at Westernport included illegal activities at the picket line in defiance of Federal Court orders. BHP Steel simply needed an EBA to enable us to be competitive so that we could be viable and successful, and also for us to be a competitive supplier to our customers. We finally achieved this at the end of the EBA process and at the end of the stoppage, but with great cost. Now we have an implementation of change and dispute-settling procedure that's enhanced to enable us to be more responsive and flexible to meet our customers' needs. We also have some continuity of supply opportunities now that we never had previously, and we can undertake a maintenance review to determine the most efficient way of undertaking this sort of work at Westernport.

We and our auto customers went to extraordinary lengths and costs to prevent stopping the auto industry. I think most people through the television coverage would have seen every avenue being pursued and finally us taking the step of

breaking through the pickets, and also we ran helicopters right from the start carrying critical product out of the plant and critical supplies into the plant for the duration of the picketing activity. It's worth noting that 1000 of the 1300 employees at Westernport continued to work during this 25-day stoppage of 280 trade employees. 700 of the 1000 employees belonged to a union covered by the same EBA that they had agreed to. At the end we did not stop the auto industry, but there were significant costs incurred by all companies, both ourselves and the auto industry, to achieve this.

BHP Steel agrees with the commission's preliminary finding that appropriate regulatory changes to constrain the scope for protected industrial action and to provide for speedier and more effective reduction of disputes causing significant damage to particular industries or firms would be beneficial for the automotive industry. We strongly support amendments to the Workplace Relations Act. We support providing the Australian IRC with the capacity to suspend or terminate bargaining periods if protected action is causing damage to a firm or industry and its employees, rather than only when significant damage is occurring to the Australian economy or an important part of it. We support giving the IRC the discretion to determine whether or not a cooling-off period should be established to assist resolution of a particular dispute.

We support requiring the IRC to hear and determine section 127 applications to stop industrial action within 24 hours of lodgment. We need more prompt action by the Australian Industrial Relations Commission, and this was very clearly shown by both those experiences at Wingfield and Westernport. Finally, we support requiring secret ballots to be taken before protective action can be invoked. Amendments to the act along these lines have been advocated to you by a number of other organisations, including the Australian Industry Group. Chairman, that concludes our summary of comments. We're certainly happy to answer any questions.

**MR BANKS:** Good, thank you very much. Just before we get back to the workplace relations issues that you've discussed, we'll just have a look to see whether we had other earlier questions.

**MR WEICKHARDT:** Yes, just a quick question on your comments about spill-over effects. Your comments rang a bell with some of my own experience from industry but probably don't address your quotes from the first position paper on points (ii) and (iii); that is, there's no doubt that there are spill-overs. The question is, to what degree would they occur anyway and are they greater than would occur from other industries. Have you got any comments on that now or later? I think that would be useful.

**MR CORNISH:** Do you want to answer that?



**MR McDERMOTT:** Yes, perhaps I can field that one. We recognise that in our submission that there has been no quantitative aspect put on spill-overs. But perhaps the following examples could be a better indication of the likes of spill-overs that we're talking about and you've got an infusion of technology spill-over, which is what I call it, and an example of that is that due to an automotive industry requirement we invested quite heavily in one of our vacuum degassing facilities, which was required to control chemical composition in our steel. So that facility, whilst it was basically predicated on automotive and the investment was done on a capital expenditure authority based on automotive, its broader applications went right across chemical control through various industries and chemistry control in steel then gives rise to a more uniform mechanical property aspect of the steel. So that's one example of it.

The other example that we cited was from a just-in-time service and delivery point of view, which obviously had its genesis in the automotive industry. But we very aptly applied that into the building and construction side of our business, to the effect that it now is entrenched in our value proposition and enables us to put a more competitive offer into the marketplace, which then has obviously benefits that flow on to end users, to the tune where roofing for example is backward integrated from - the demand flows from the marketplace through to builders, then through to roll formers who have that product almost instantaneous on demand.

**MR WEICKHARDT:** The question is, would those have occurred without any industry assistance, is really I think the issue that goes to the heart of theoretically whether or not spill-overs justify some industry assistance.

**MR McDERMOTT:** The question would probably more come from: would the spill-overs have occurred had we not been in automotive and I'd say maybe years and years later, but because you've actually got that demanding requirement of automotive you've got your capital expenditure is being prompted by automotive investment and that. So the answer is yes. I mean, your automotive is your driver, is your technical driver, is your service driver. So that brings that to the market much, much sooner, I propose.

**MR BANKS:** Okay, yes. We didn't have any other questions on that and I didn't have any further questions. We've discussed the tariff issues ad nauseam, I guess, with a range of participants and you're saying you broadly support the view of the peak associations on those matters.

**MR CORNISH:** That's right.

**MR BANKS:** In relation to the workplace relations issues, I think some of you may

have been here yesterday and the ACTU and the NWU I think were accusing us of overstating the severity of these things and were saying that there had only been three or four disputes and therefore the costs weren't very high and there just wasn't a significant issue. I'll perhaps just give you the opportunity to respond in the light of those comments that were made by the union movement.

**MR CORNISH:** Certainly. I think that 14-day and 25-day disputes under any measure are very significant, just talking about our own two, and of course I think some people in the auto industry had commented - the concerns, the phone calls that come from customers overseas, and particularly when they hear of some new outbreak of industrial relations in Australia, is quite significant, and I can only say that we have exactly the same experience. As you know, we're just a newly publicly listed company and our CEO and CFO have spent the best part of two or three weeks touring the world just recently, drumming up support for our company.

Not only with customers do we have this concern come through but it comes through very strongly from potential investors as well and at many of those briefings, of which there were 100, that the question was asked about industrial relations stability and industrial relations issues in this country. So I think it's not correct to say that these are not significant issues for the auto industry to be better managed, going forward.

**MR BANKS:** I guess a second theme in some of what we heard yesterday was that suggestions such as the ones you've made on page 5 would shift the balance too far and unfairly against the interests of workers in these enterprises. I'll perhaps get you to comment on that just as a general proposition, how you would respond to that.

**MR CORNISH:** Certainly. I think any time we try and make some adjustments we get the response that this is going to cause major disruption or major issues and the concern about workers' rights. You would have to say that the changes that have been made over the last five to 10 years have certainly enhanced the competitiveness of the industry in Australia and that the community and the employees are all much better off; that we have a better product, we have better customer service, and as a result communities and employees and shareholders have a much more competitive Australian industry, and that has brought benefits to us all. We're needing to continue to make these same changes, and we will get that sort of reaction, I'm sure, as we heard yesterday, but the reality is continuing on this path that we are moving down and making adjustments that ensure that we do not damage our industry as we make this necessary change is something that we'll look back on, as we can right now, and see that it was the right step forward.

It's interesting, as I mentioned before, that the AMWU and the CEPU, 280 people at Westernport, were the people who were on strike and the 700 AWU

employees continued to work to keep the plant going and, with the initiatives we were taking of helicopters and, in a case, some shipment and also breaking of the picket, we were able to keep the plant going. It is one enterprise agreement for the Westernport site, so people were all working to the same agreement, and we had a real recognition of people down there that this was important for the business going forward. So the argument put forward yesterday I think is probably not even representative of the views of the majority of unionised people in Westernport.

**MR WEICKHARDT:** One of the comments that was made yesterday was that more legislation here is not going to help, that if you haven't got sort of hearts and minds engaged, I suppose civil disobedience is impossible to stop unless you send the army in and start shooting people. I guess from your experience in Westernport - you've described some of the activity here as being illegal and yet it having been recognised as illegal didn't seem to help you end it. What are your comments about that?

**MR CORNISH:** I agree that on all fronts we have initiatives to move forward on, and I agree that we need to have better management and relationships with our workforce in the industry, and we are certainly working very hard to improve that engagement of our workforce in what is important for the business to be successful and how everyone benefits from that, and do it in a way that is measured. Testimony to the fact that we are making some progress is that we had the majority of the unionised workforce at work during that period, so we are making some progress. The issue at the picket line - as you probably know, picketing in itself is not an illegal activity during a protected bargaining period but standing in front of trucks and stopping material flowing in and out is, and the Federal Court also saw it that way and made orders against both the unions and individuals to have that stop - mean that there was a group of people who were prepared to defy the Federal Court, which was certainly not the view held by the majority of people down at Westernport.

So I accept the notion that, yes, we've got to work on a number of fronts and we're certainly doing that and we've made some progress. I also think that we need to keep moving on some legislative changes that would assist to promote a better reputation and more reliability in the industry, and we should move on both of those in a measured way. I think the submission has been put forward in an attempt, in a measured way, to improve right across the full spectrum of opportunities.

**MR BANKS:** I got a little bit confused when you were talking about the numbers of those who continued to work and their union affiliation. Was there a clear pattern in terms of union affiliation in terms of those who worked and those who were on strike or taking that action?

**MR CORNISH:** There are 1300 people working at the Westernport site. About

300 of those are staff employees, white collar employees. 700 are AWU employees, and they continued to work, and 300, or actually 280, were AMWU and CEPU employees, who were choosing to strike. Does that clarify the - - -

**MR BANKS:** Okay. I was getting confused. So it was the AWU members who continued to work.

**MR CORNISH:** Correct.

**MR BANKS:** They've got some enterprise agreement - - -

**MR CORNISH:** Correct. There's one enterprise agreement for the site. David was just making the comment, chairman, that in general the AWU covers the operators that work at Westernport and the AMWU and CEPU cover both the mechanical and electrical trades at the site. There is some crossover, but generally that's the position

**MR BANKS:** This would be the metals division, I guess, of the AMWU.

**MR CORNISH:** Correct.

**MR BANKS:** Yes, okay. In terms of the suggestions that you put forward - and these are some that we've referred to in our own report - I guess in relation to the first one the capacity of the AIRC to suspend or terminate bargaining periods with a lower threshold than currently exists, where the threshold has to be significant damage to the economy as a whole pretty much, or an important part of it - would it actually be going too far in the other direction, lowering the threshold too much, to say "causing damage to a firm or industry"? How would you see that operating? At one level, depending on the size of the firm, it could be perhaps an unacceptably low threshold.

**MR CORNISH:** Yes. I understand the point you're trying to draw out. We certainly have in mind the sorts of businesses that we've had the issues with. Certainly Westernport beats that category from my viewpoint. There was significant disruption and significant cost to both ourselves and the auto industry. In the case of Wingfield, it's quite a small business. It's actually called a service centre and there may be some 50 or 60 employees in that area. Again, being able to stop the flow of materials to the auto industry through something as small as a service centre, the way we're set up to supply the auto industry, can have a significant impact and actually stop the production of vehicles or the assembly of vehicles because of all the things we've talked about, with just in time et cetera. So we would need to be careful that we never made that too restrictive. I can understand the point that it can be so small it's unnecessarily an imposition, but many component suppliers into the oil industry have the ability to stop the line, and it was having that notion in mind that led us to

make that comment.

**MR BANKS:** So you see it covering both the firm itself that's having a dispute with its workers as well as downstream firms?

**MR CORNISH:** Certainly.

**MR BANKS:** Rather than just downstream firms.

**MR CORNISH:** Correct.

**MR WEICKHARDT:** One of the comments that we made in the position paper was that it would appear that on occasions there has been industrial disputation caused - or at least involving some unions who have perhaps a comparatively small number of members who are affected by that industry and we've talked about trying to, I guess, get some sort of alignment between the interests of employees and the industry. So there was a recognition that there might be some gain-sharing negotiation to do, but you had to actually create some gain and wealth in the first instance and have both parties focused on maximising that wealth before you started to try and split it up.

Now, in the case of BHP Steel I guess automotive is a significant but by no means the majority of your business. Did you find difficulty actually communicating with the unions about the critical nature of the automotive industry and its special characteristics because of lean manufacturing and low stocks? Was that something that they were interested in trying to discuss or understand?

**MR CORNISH:** My sense is at Westernport our employees down there do understand that. Whilst it's not a major component of BHP Steel as a whole, we are a very big company with significant businesses outside of Australia. But within Australia a lot of the production of the Westernport plant supplies the auto industry. So there is a very close identification with the auto industry and similarly at the service centres in both Victorian and South Australia, who the large part of their business is to supply on to the auto industry. So there's a real understanding of that.

There are many measures in place that are communicated to the workforce, delivery performance to Toyota for example, and the quality issues that come out of each of the auto companies are discussed routinely each day with the workplace - so a lot of work in place to get the connection between the importance of what we're doing at BHP Steel and the importance of the auto industry and the mutual reliance that we have on each other. My sense is that that really wasn't on the agenda of the people that were on the picket line down in Westernport. Whilst they may have understood it, they were more interested in pursuing other avenues.

**MR BANKS:** We've had some discussion following our position paper in the context of, I suppose, getting a better meeting of minds and focus on win-win outcomes, about the question of multiple union representation and the nature of that. Have you got any comments to make just in terms of how, of your own dealings with your workforce, as to whether it makes much difference whether there's multiple representation or not?

**MR CORNISH:** Yes. My sense is that the overriding objective is to get as close identification as possible between our employees and the enterprise, and doing what is needed to make this enterprise successful. Some of the structures that we have in place now are counterproductive to that, as we've spoken about, and you've covered in your paper. Having more than one union at a site I think is not as good as having one union at a site, in terms of being able to galvanise the workforce around what's important for all the stakeholders including the workforce, and similarly having a series of industries covered by the one union can mean that we get caught up in activities that have nothing to do with Westernport and nothing to do with the supply of the auto industry.

So again, being able to closely focus people in our business on the needs of the business for the company's best interests and for the employees' best interests of security is a direction that we support. Indeed I think that one of the issues that we faced at Westernport in trying to get that dispute resolved were inter-union issues that were going on at the time, making it very hard to get focused on what the real issues were just at Westernport and deal with those. So it's an example of the point I guess we're trying to demonstrate, that anything that we can do to galvanise employees to focus on looking after their interests through the interests of the enterprise is a step in the right direction.

**MR WEICKHARDT:** You made some comments here from your experience about, I think, the broadening of the ARC powers under section 170MW(3). I think I'm putting that correctly. Have they been discussed with any of the industry associations, the Australian Industry Group? Is there a sort of general industry approach to this issue or not?

**MR CORNISH:** Would you like to comment?

**MR GOODWIN:** I'd just say that we are a member of the Australian Industry Group and a number of other industry associations as well, and these sorts of ideas are certainly on the agenda. In our discussions with those organisations our Westernport experience of course is quite a recent one and it has focused our attention on some of these issues. Hence our initial submission to you didn't contain any comments on workplace relations. We were actually in the thick of the

Westernport dispute at the time that we completed that and we needed a little bit of time to clear our heads.

**MR WEICKHARDT:** Okay, thank you.

**MR BANKS:** All right. Look, thank you very much. We appreciate your participation in the inquiry and the two submissions that you've provided, so thank you very much.

**MR CORNISH:** Thank you for the opportunity to do that.

**MR BANKS:** We'll now break for lunch. We'll be resuming at about 2 o'clock today, thank you.

(Luncheon adjournment)

**MR BANKS:** Welcome to the hearings. Could I ask you, please, to give your names and your positions or affiliations.

**MR KIRK:** Thank you. My name is John Kirk. I'm the executive director of the Australasian Railway Association.

**MR BANKS:** Thank you.

**MR HILL:** I'm David Hill, manager of research with the Australasian Railway Association.

**MR BANKS:** Good, thank you very much. Thank you for attending today and for having provided a submission to the inquiry. As we discussed, I'll hand over to you to raise the points you want to make.

**MR KIRK:** Thank you, and thank you very much for the opportunity to expand a little on perhaps the slightly unusual submission that we made to the inquiry. The Australasian Railway Association represents 165 companies, all of whom are very active in the rail industry in Australia and New Zealand. We represent every sector of the industry and 95 per cent of our company membership are private companies operating in highly competitive markets both here and overseas. The Australasian Railway Association has indeed become the political voice, if you like, for the railway industry in Australia in particular.

The points we wanted to make to this commission are the high cost of the assistance that's been given to the motor vehicle industry and the high cost to the community of continued motor vehicle dependence. I guess the key point that we wanted to emphasise is that the cost of tax concessions, industry assistance schemes, fuel excise cuts, road funding grants and the like total around \$5 billion per year to the taxpayer. When you add some \$31 billion in terms of costs for car crashes or road crashes, noise pollution and greenhouse gas emissions the total cost to the community of our motor vehicle use is around \$36 billion a year. That equates to \$1800 per person in Australia.

We believe that that level of subsidy for an industry that is essentially a very old technology and really hasn't advanced all that much in terms of the development particularly of its engine technology is rather too a high a cost for the community to be bearing. We believe that there are other ways that - sorry, just to go back a point there - one of the key factors I understand from the commission's inquiry is into the impact of the reduction in assistance to the industry on particularly jobs, and that's an area that we're very concerned about in the rail industry because we believe that by investing in other more sustainable manufacturing industries - obviously in our case we have an interest in rail manufacturing - we believe that these jobs will be more



sustainable, will also create jobs in particularly regional areas because most of the rail manufacturing today takes place in regional and rural Australia, unlike the motor vehicle industry which is largely capital city based.

So we believe that there are a number of significant advantages by perhaps removing the subsidy to the motor vehicle industry and looking at other ways of creating more sustainable jobs, in particular new rail technology but also in a whole raft of other technologies that we believe would be more appropriate, bearing in mind that Environment Business Australia has looked at a study of the value of emerging industries in Australia and the value of those industries around 750 million per year. The fact that we're missing out on opportunities by not - well, I think that we tend to be as a community too fixed in our ideas about let's keep the motor vehicle industry going and that's blinding us to all these other opportunities. So I guess they are the main points that we wanted to make; let's remove the subsidies for the motor vehicle industry and so that when motorists have to pay the true cost of their motor vehicles and also for their road use, we believe that they'll make much more intelligent transport choices and that way there will be significant reductions in costs to the community and by reinvesting in other more sustainable industries that the issue of jobs would be one that will actually see more sustainable jobs created. I think that's the - - -

**MR HILL:** Yes, well, health as well.

**MR KIRK:** Of course, yes, sorry, the other issue is health. One of the obvious areas of concern at the moment is the fact that we have a road toll of around 1700 people per year. It's estimated that in addition to that road toll there's a hidden road toll in terms of the number of Australians that are dying from illnesses that are related to motor vehicles, particularly motor vehicle emissions, and we would contend that this is again a high cost to the community and it's something that needs to be considered, and I guess the question is why are we propping up an industry that in fact is costing us so much money and also is actually killing us.

I mean, the asthma association would estimate that something like 500 Australians die each year and that there would be a high percentage of those that are related to motor vehicle emissions. So that this is an issue of great importance. Recent research in New Zealand has indicated that there's a hidden road toll in that country of around 400 people per year, which is almost as many as those that were killed in car crashes, and in Europe they believe that there may be even more people dying than the actual road toll in Europe. So that from the health point of view as well we believe that propping up the motor vehicle industry with subsidies again is costing us in terms of not only our health but also the overall liveability of our cities.

**MR BANKS:** Okay, thank you. I mean, what you've sort of lumped together as

"subsidies", I'm just wondering whether we can sort of unpack that to some extent, because I mean partly you're talking about these as all being subsidies or assistance to the domestic industry, whereas some of the ones in terms of road charges or road investment and so on are really, in a sense, I suppose you could say a subsidy to the activity of driving a car, whether it's an imported car or a locally-produced one. I mean, traditionally the form of assistance that's gone to the motor vehicle industry has suppressed demand, because it's been of a kind to raise prices and the effect of a tariff is to make cars more expensive and therefore, you know, less often get used, so do you want to comment on that? I take it what you're objecting to is the things that have artificially expanded demand, rather than artificially contracted demand.

**MR KIRK:** That's correct. I guess it's a self-fulfilling cycle. By supporting the industry in the way we do, then because people have cars they then require extra expenditure and infrastructure and then because they're a powerful lobby then we have - there's lobbying for tax concessions; it's an ongoing cycle. We need to break that cycle somewhere along the line so this was an opportunity for us to express our view on what those costs are and the fact that this is one area where in fact we should be using regulation, if you like, to suppress the demand for motor vehicle and you actually force people to pay the true costs of motor vehicles, rather than a subsidised cost.

**MR HILL:** I guess also we have a \$2 billion automobile assistance scheme to prop up an industry which fundamentally is unsustainable. Now, we have a lot of other industries which have, over the last couple of decades, been gradually wound down. We don't make whitegoods in Australia, for example, things like that, so it would seem that in looking at the subsidy issue for automobiles there may be an opportunity to actually start looking at what is the future of the manufacturing capability of Australia going to be. Where do we want that to be heading in 20 or 30 years' time and with the increasing price of oil, decreasing oil supplies and other impacts that will gradually make it more and more difficult and expensive to drive, maybe it's an opportune time to actually start looking at where that \$2 billion should really be directed. Part of it could be in rail investment, part of it could be in a large range of other emerging technologies which Australia is not taking advantage of because of both these sort of subsidies and our reluctance to commit to the Kyoto protocol. There are a whole raft of issue which, put together, could actually redirect those sorts of assistance schemes into far more sustainable and less energy-intensive industries and maybe this inquiry should start looking at those sorts of issues. Because the other issue is in terms of the environment.

I noted from the preliminary report that the Australian Greenhouse Office, for example, was looking at the environmental impact of cars in terms of cleaning up fuels and cleaning up exhausts and those kinds of things. We would argue that that's just tinkering at the edges. The real environmental issue to address is to actually

reduce the amount of traffic, and again that's something that I think this inquiry should be looking at, because all these subsidies put together do simply encourage more use of cars and in fact maybe we should start looking at alternative ways to get around, which relates to a whole range of other planning and development issues, but this is part of the whole problem.

**MR BANKS:** But I guess the point I was trying to make is that all of these subsidies don't encourage the increased use of cars. I mean, the main mechanism for the delivery of a subsidy or assistance to the motor vehicle industry has been a tariff; it's been a tax; it's been a tax on the use of cars, a tax on the purchase of cars. Now, we've seen a change in the mix of those taxes since the GST has come in and that component of the tax and the tariff has been reducing over time, but that's why I wanted to sort of make that distinction. There is a difference there between the cost of acquiring the car and then there's the cost of driving one and using it on the road and I think it's in that latter area that you seem to have most concerns, that users aren't paying the true costs, taking into account environmental externalities and crowding and pollution and whatnot. That's why, as I said, to some extent your concerns are a little bit oblique to this inquiry.

**MR HILL:** Could I just address that? I mean, you're quite right, the tariffs do actually increase the price of a car, but this inquiry is looking at the level of assistance required to help the automobile industry adjust to those tariff cuts, but that's looking at helping the automobile industry adjust to those cuts. What I think we're saying is that that assistance should actually - as we're winding down tariffs in the automobile industry, inevitably jobs will decline without some kind of assistance. So let's look at putting that assistance into other industries so that as tariffs decline we have developing jobs in other areas to soak up the jobs that are displaced from the car industry.

**MR BANKS:** Are you arguing that the car workers and rail workers are interchangeable?

**MR HILL:** Not necessarily. I mean, some retraining would inevitably be required in some areas, but what we're saying is that there's a pool of labour here, there's an untapped demand for labour over here, let's start redirecting investment into areas which could actually put that labour to use in other areas, whether it's rail or other sustainable technologies.

**MR BANKS:** Why do you say that the car is unsustainable? I think the car is demonstrating quite a resilience. It's fiercely demanded in the market, a very strong underlying demand, I'd argue, regardless of what subsidies there are to road use. I mean, those very subsidies to road use and road infrastructure reflect a very strong political pressure from the community at large for people to use their cars. We hear

from the bush, for example, that they need more and more roads and so on to allow that to happen. So in what sense do you say it's unsustainable?

**MR KIRK:** There are several levels. The first one - and I think we could call on the chairman of the Ford Motor Co in America, Henry Ford - what is he; the third, fourth, fifth - - -

**MR BANKS:** Third.

**MR KIRK:** Third - who told a Greenhouse Conference a couple of years ago that in fact we would see the end of the internal combustion engine, that the internal combustion engine had had its day and that - - -

**MR BANKS:** What were the exact words?

**MR KIRK:** I can quote those exact words. He said that, "The 100-year reign of the polluting internal combustion engine was coming to an end."

**MR BANKS:** So it's the engine you've got a problem with, not the mode of transport.

**MR KIRK:** The first level is with the technology, which, as I said earlier, hasn't really advanced all that much since the 50s and 60s and I guess it's an issue for us that we're spending so much money propping up, for example, an engine plant here. I mean, the Victorian government - I realise it's not the Commonwealth - but the Victorian government, for example, is propping up an engine plant here in Victoria on the pretext of jobs and it's an old polluting technology. I think that on terms of sustainability there are two ways of looking at the motor vehicle.

The first one is in the cities. Most people would use their cars simply because there's no alternative; governments have not invested in the alternative. We have, since the last 10 years, 400 kilometres of freeways built in our cities. We've seen only 80 kilometres of new railways built; 30 of those were in Perth. So what we've seen as priority - which has said to people, "Yes, the car is a fundamental right, go use it and here are all the concessions to make it cheaper for you," and the new tax system did just that with about a whole list of benefits to motor vehicle users. So I guess what we're saying is, looking at the future liveability of our cities and the current levels of pollution that even if we had introduced cleaner fuels and cleaner engines tomorrow for motor vehicles, the take-up rate would be such that we're probably all going to die of asphyxiation over the next 15 years.

If you look at, for example, unleaded fuel. This was going to be the great saviour of our cities in terms of the quality of our air. 15, nearly 20 years on

still a quarter of the car fleet is not using unleaded fuel. So the take-up rates of this new technology, I would contend, is going to be quite slow and in the meantime we have to put up with more and more of this pollution which is causing all these health problems for particularly our kids as well as for ourselves. So in that sense it's unsustainable. The motor vehicle is unsustainable simply in the amount of money that we're spending on roadways. Our land use is being taken up for carparks. What are the figures for these - - -

**MR HILL:** About a third of the city is roads and carparks.

**MR KIRK:** Is taken up with motor vehicles. So we're actually using good land, good resources for the motor vehicle where there are perfectly good alternatives available. So again, on that level we would say that long-term use is again unsustainable, particularly in the cities. I mean, obviously in the country areas you do need roads and cars and we're not silly enough to say you don't. But it's a matter of user pays, and maybe the people in the country won't have to pay as much as those in the city simply because the external costs of motor vehicle use in the city is so considerable.

**MR HILL:** The other issue is just availability of public transport and where there is no choice, you'll have to drive. I mean, if you look at a 10-kilometre radius from the city centre of Sydney or Melbourne, for example, public transport use is quite high because it's there. If you go out to some of the outer suburbs, public transport is poor, so consequently people have no choice, they have to have a car. So therefore there is strong pressure there to put that infrastructure in place to enable that to happen. Whereas if there was available public transport for instance there'd be lower demand for cars. I mean, this in a sense inquiry and the assistance provided to the automobile industry is a subset of a whole raft of planning and development issues that have allowed our society to become extremely car-dependent in the last 40 years.

**MR WEICKHARDT:** How many years?

**MR HILL:** In the last 40 or 50 years we've become a very car-dependent society. Maybe it's time, through this inquiry as a starting place, for example, to start looking at the way our cities are developed and our car dependency and to actually start - you know, now is the time to say, "Well, let's start looking at trying to develop more sustainable cities in terms of air pollution, fuel use, land use and a whole raft of issues, and particularly accessibility for people who may not be able to afford a car. There are people in the outer suburbs who spend 25 per cent of their household income on transport because they need two cars. So to say that there is a demand for this is certainly true but it's choice-driven. They don't have a choice, therefore they need a car - two usually.

**MR KIRK:** I guess the other point we wanted to make is that there is a definite linkage between the way government uses mechanisms like tariffs and tax on people's choices. What we've seen since the introduction of the new tax system with price of new cars reduced by 6 per cent, the tax credits on business use of fuel and on and on and on. We have a list of 10 - I think they're in our report.

**MR HILL:** They are in our report, yes.

**MR KIRK:** In our submission. There are 10 or 11 factors that the government introduced with the new tax system which have all sent a message to people, to motorists, that motor vehicles are cheaper. In fact, we're now seeing, for example - in the past the leased vehicle as part of a salary package was something for top executives. We're now seeing in the mainstream press another course which is suggesting that basically anybody on a salary more than \$45,000 per year can salary package a motor vehicle. This is because the tax system simply allows that to happen. That's an incentive for people to do that. So we would argue that there's a direct link between tax, tariffs, all these kinds of mechanisms on people's choice. This is why we make the point to this inquiry, that this may be the first instance where a decision can be made not to continue to subsidise this industry, particularly after the reduction of tariffs, but let's look at other alternatives.

**MR WEICKHARDT:** On checking through one issue, on page 6 of your submission you quoted that General Motors Holden receives 160 million from the federal and Victorian governments for its new engine plant. It's a larger number than I have seen quoted elsewhere. Do you have a source for that?

**MR HILL:** That was from Alan Wood, the economics writer in The Australian, his source. I couldn't find it anywhere else so I'm only going on that, but he seemed to be fairly sure of the figures he was quoting. I can send you the article.

**MR WEICKHARDT:** If you can send me the article, that would be useful, yes.

**MR HILL:** Yes, that's fine.

**MR WEICKHARDT:** Thank you.

**MR KIRK:** I guess one of the problems with these kinds of deals is that they are not always made public and so we never really know the full extent of what the subsidies are.

**MR WEICKHARDT:** Yes.

**MR KIRK:** Whereas, for example, particularly in our industry, any support that we receive from government is actually on the - you know, it's transparent.

**MR BANKS:** Then that's a relatively new development in the rail industry.

**MR KIRK:** It's part of the change that's taken place in the industry where of course now privatisation in particular has seen a whole new commercial approach, and I guess that's one of the reasons why we're here. In the past, the government railways wouldn't have been here arguing this case but now, representing so many private companies who have an employment force of 80,000, we contribute something like seven and a half to \$8 billion to the local economy per year. It's now a major imperative to get some of these anomalies sorted out.

**MR WEICKHARDT:** Yes. You refer to The Economist article talking about road funding as being "one of the last relics of a Soviet-style command economy", and yet I suspect that most voters today might regard your scheme as being a similarly simply planned economic solution of ripping off all support from these vehicles that most consumers probably think are a good thing and telling them they can't drive them and they should get on a train every day.

**MR KIRK:** Interestingly, there's a lot of recent research that would indicate that that might have been the situation some time ago but in fact it's something that's no longer the case. The vast majority of the public would in fact - in fact, do support investment in rail and particularly urban rail. In fact, a recent study released earlier this year indicated that 60 or 70 per cent of the population would support a levy for investment in public transport so they could simply reduce the amount of dependence on the car. What it also showed was that there was a complete disconnect between what politicians think people want and what transport planners think people want and what they actually want. Our surveys have shown very clearly that public opinion has swung around. People are sick and tired of putting up with the congestion that they have to tolerate and the delays and the loss of productivity of sitting in their cars in a big parking lot called a freeway. The tide has turned.

**MR HILL:** I'll send you copies of these surveys, but one that we did, for example, through Newspan, a respected independent research company, found that something like 80 per cent of people supported increased investment in urban rail as a way to reduce congestion, as against about 40 per cent in favour of freeways. There were a whole range of different questions there from all parts of the capital cities, and the most interesting fact was that 84 per cent of the respondents used public transport fewer than three days a week. So even those people that rarely used it could see it as the solution to the problems that they were experiencing each day.

**MR BANKS:** Turn that the other way round though, and say that, you know,

people hypothetically, when they answer a survey, would mark up public transport and mark down the car but when they vote with their feet, they jump into the car. That might come back to the relevant cost point that you're making, that it's still a subsidised alternative, but - - -

**MR KIRK:** Yes, it's not only that, but take nominally as a good example, you've got two-thirds of the population of Melbourne beyond the catchment of public transport.

**MR BANKS:** Yes.

**MR KIRK:** And two-thirds of the population who have very, very limited bus services. So there's virtually no public transport. They don't have the choice. I guess the point we're trying to make is that because we spent so much time and money worrying about the car industry and its value to us in terms of these jobs, we've actually overlooked the actual cost in the way we've made planning decisions. We've allowed huge urban spread to occur simply because we've said everybody's got a right to drive a car, and now we've heard the presentation at the conference we've just been to in Sydney where the cost of now putting rail links into some of the new suburbs is horrendous. But the people will cop that simply because they know that's the only way.

**MR BANKS:** Okay. In a sense you've given us an additional list of things for our agenda. Did you have any particular reactions to what we said in the report, including fuel consumption targets and so on?

**MR HILL:** I think the environmental side of things needs to focus on not just cleaning up car exhausts and fuels and things like that, and fuel consumption targets, which are all very admirable, but really needs to address the fundamental issue that it is excessive car use and over-provision of roads that is driving a lot of these assistance schemes. I think that's the fundamental point that needs to be made, that really whether you remove automobile assistance schemes completely or whether you don't prop it up as much as they are being propped up, the point is that there are alternative job creation areas in terms of rail and other sustainable employment areas and that the environmental impact of the car is far greater than can be addressed simply by cleaning up exhausts and so on. No amount of cleaning up exhausts and so on can actually resolve urban congestion issues or even pollution problems as much as an efficient, well-used urban rail system can possibly do. I think that's something the report needs to pick up on, that there are other environmental ways to solve these problems besides just cleaning up the cars.

**MR BANKS:** Okay. Anything else?



**MR WEICKHARDT:** No, that's fine.

**MR BANKS:** All right. Thank you very much for that. We appreciate you coming in and we'll reflect on your message as we prepare our final report.

**MR KIRK:** Thank you again for the opportunity.

**MR BANKS:** Thank you. We'll break for a couple of minutes, thanks, before our next participants.

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**MR BANKS:** Our next participant today is the Plastics and Chemicals Industries Association. Welcome to the hearings. Could I ask you please, for the record, to give your names and positions.

**MR JONES:** Martin Jones, CEO of PACIA.

**MR HALL:** James Hall, business director of BASF Australia.

**MR BANKS:** Thank you very much. Well, thank you for taking the trouble to participate in the hearings. We did receive your earlier submission, as we discussed, and I leave it to you to go through the main points including responses to our position paper.

**MR JONES:** Thank you very much for the opportunity to address you and our discussion will be shared between myself and James, depending on the particular topic. First of all, I think you're aware of the size of the plastics and chemical industry. At \$22 billion we're actually larger than automotive and we directly employ 76,000 people in this country. We're an integral part of, I like to say, the infrastructure of manufacturing industry in Australia and the supply chain, and in particular that includes the automotive manufacturers, the component makers and moulders who are critical for that industry's survival. We read with interest the position paper and our comments today are in relation to, and reactions to, the position paper.

First of all, we'd like to address the automotive tariffs post-2005. We support the commission's finding on the tariffs post-2005 but in relation to a drop beyond 2010 we believe that the tariffs should be held at 10 per cent. We think that in relation to this we don't see any reason to, at this stage, reduce the tariffs any further. We need to see what other passenger motor vehicle produce the trading partners actually achieve, not only in terms of their tariff but also in relation to tax treatment of their industry and people getting set up in those countries. In particular, tariffs throughout Asia are prohibitive, in Malaysia in particular, and also there are a number of issues with Thailand.

Plastics companies here have well defined competitive cost structures but they can't access key component markets either to drive their synergies further. There are examples, we may have cited them before, but in relation to access to the components market in Thailand where there are prohibitive entry tariffs and yet they can export into Australia, and it's only that our people can deal with short runs and turnaround faster, probably got better design techniques, that they're actually even able to survive as it is. So in terms of reducing the tariffs beyond 2011 we think that's inappropriate to be making decisions about that at the moment.

It's important to maintain a critical mass of consuming industries for plastics and chemicals in this country. There is, and while we haven't been able to exactly quantify, we believe that the spill-over from automotive is substantial. Automotive forms a skill base and an equipment base in this country for the industry to grow into other markets. I think we're aware of the inevitable cost downs in the automotive industry and even so, our members who participate in that industry have been able to use their skills derived from automotive and develop not only overseas automotive markets but markets for other products. The exports for plastic goods, this is injection moulder, blow moulder et cetera et cetera as distinct from sub-assemblies, is about \$400 million. It's a very low base but it's growing at about 11 per cent a year and it's expected that that will grow more substantially, and a lot of it is off the back of the automotive industry.

The future is not clear for some of the OEMs nor, as the commission note, some of their export markets. So therefore why lower tariffs by 5 per cent again in 2010 without any checkpoint at that time? This will have a negative impact, a one-off impact, on business confidence and investment. Critical mass is maintained in the Australian market by retaining four OEMs and I think it's true to say that in the US market where PNVs are protected with two and a half per cent, even they can't make money. So why would we think the Australian market is going to be profitable at the 5 per cent tariff level? I think tariff reductions should also be tied to an industry policy and series of reforms agreed to by both the government and industry.

I look at our own industry where back in the late 80s we were looking at tariff reductions through the IAC. We assessed that if tariffs came out 20-15 - in the old days you had the Commonwealth concession - that it was a reasonable prospect to continue investing in the industry in Australia. It turned out a 15-10 and unilaterally was dropped to five and here it is, 10 years later, before the government is actually starting to address the problems of the industry that those unilateral tariff reductions caused and it may well be too late. The stage is littered with people out of the industry who are trying to scrape together a living consulting here, there, whenever they can get it, and it has really hollowed out the industry, and I just see a parallel here in automotive if we don't do it right.

I don't think that Australia ought to feel that we actually need to lead from the front foot in relation to automotive because our trading partners haven't and I think we ought to take a pragmatic approach towards future tariff reductions and therefore we would support the 10 per cent being the ongoing tariff unless there are substantial changes and moves in the international playing field. I'll pass on then to the next couple of items for Jim to discuss.

**MR HALL:** Thank you very much for the opportunity to be present today again. I'd like to deal firstly on the subject of the effective protection level above the tariff

level and your report considered the costs of ACIS. But we'd just like to draw the commission's attention to the fact that the 3 per cent cost impost applied to the tariff concession orders, or TCOs as they're called, on business inputs perhaps was not considered along with the 5 per cent import duty on engineering plastics.

**MR BANKS:** I think they were both taken into account. You mean in calculating effective grants?

**MR HALL:** Yes.

**MR BANKS:** Yes, they were. I'm not going to go through the calculation now but we did check in response to your submission.

**MR WEICKHARDT:** One trap - because those effective rates look very high to me - is that they're all computed as a percentage of value-added not as a percentage of revenue. So you've got to do those sums too. But we were assured that those factors had been taken into consideration and in fact probably optimistically I think they assumed that all the imports were taxed at a tariff of 5 per cent

**MR HALL:** Well, most of the engineering plastics in fact are coming in at 5 per cent. There's a small number of products that are coming in in this area at 3 per cent. But of course we are taking issue on the TCO issue with government right now. So that is a hot issue as far as we're concerned.

**MR WEICKHARDT:** Just on the 5 per cent usance tariff, we had Peter Brooksbank from Marplex yesterday. I mean, there doesn't seem to be a sort of philosophical objection that government has to removing usance tariffs but it just doesn't seem to happen. What is the reason why the 5 per cent usance tariffs haven't been removed on some of these imports in practice?

**MR HALL:** Revenue raising.

**MR WEICKHARDT:** Well, that's not the explanation that's been previously provided. I've been told that it's because, you know, sort of somebody objects somewhere and sort of says, you know, "I make a few molecules of this product and that's the reason why it shouldn't be removed." I would have thought the revenue difference to the government of going from a 5 per cent usance tariff to 3 per cent TCS is negligible. I don't know what it is but I can't imagine that's a real obstacle.

**MR JONES:** There are some of those issues. The other thing is when DITR went through its list of nuisance tariffs we said, "Okay, good. Now let's remove them." They said, "Oh, no, we're just collecting a list."

**MR BANKS:** But it could be a bit of what Philip is saying, that they collected the list and then they thought this will be easy meat and as they went through it someone put their hand up every time. So what was a nuisance to somebody was, you know, sustenance to someone else.

**MR JONES:** Yes, there are some issues in some specific areas in relation to that which need to be worked through the industry.

**MR WEICKHARDT:** Yes, because the government is not going to solve that problem. The industry has to I think understand what the issue is and then tackle it itself. Because until the government gets a united view that there is absolutely no protection reason for this tariff then it won't go.

**MR HALL:** Okay. Well, we are working on that as a hot issue at the present time.

**MR WEICKHARDT:** Good.

**MR HALL:** I guess the next issue we'd like to address is ACIS mark 2 and perhaps to start the commentary some of our members have indicated that the scheme has been extremely useful. On the other hand some of our members have noted that as polymer suppliers of course they aren't participating. So I guess what we're saying, that manufacturers' imports to automotive components should be included in ACIS where it can be clearly shown that the import is a critical factor for an automotive component. The amount of funding should be increased to allow a third such category and funding tends to flow more towards to tier 1 suppliers. I guess what we are signalling is that the polymer producers would request that they be considered in ACIS mark 2 because the polymer suppliers in particular bring along with them not just the material but a lot of know-how in terms of design, design of the component, the moulding capability and all the other issues.

For example, nylon, inlet manifolds. In Australia we've got one car now using nylon inlet manifolds. About half the world's cars now use nylon inlet manifolds whereas we've only got one producer here, and this is a key component in terms of weight reduction for future vehicles, and that product is now coming in from Thailand. We believe that this is a classic example where you'll need trained people, new equipment, certainly new design, and of course compatibility with the OEM on the engine side. So this we believe is a key component of going forward and we would also request that from an options point of view that the best transition given foreign tax regimes, et cetera, would be to leave the 10 per cent in place post-2010 in terms of the level of protection.

**MR BANKS:** Okay.

**MR JONES:** I'll take over now and talk a little bit about regulatory reform. We noted the recommendation in the position paper in item 7(1) on p.70. But I just wanted to clarify a particular point that that in itself is unlikely to result in significant change on the assessment of chemicals in Australia. The words "unique to Australia" allow regulators to demand the assessment of all chemicals because of their potential impact on Australia's native flora and fauna. Gold-plated regulations or the koala effect, an overreaction to the precautionary principle, is what we're seeing. This was verbalised in hearings to the Productivity Commission report on cost recovery by one of the commissioners. So the Productivity Commission has acknowledged that that is a problem in itself and it's contrary to the argument we advanced in our original submission.

Chemical assessment will continue to stifle the ability of the industry to develop innovative and world class components and I give you a very simple example. I had a phone call from Qantas yesterday who can no longer get their planes painted in Australia. They have to fly them to Singapore to be painted.

**MR WEICKHARDT:** So are the words "justifiably" or "substantially unique to Australia" - I mean - - -

**MR JONES:** That would be an improvement.

**MR WEICKHARDT:** - - - there must be some circumstances where there were some conditions that were different I suspect.

**MR JONES:** No-one has found any yet.

**MR WEICKHARDT:** All right. Well, you might suggest to us a set of words building on our recommendation that would be seen to be reasonable and fair and yet incorporate your difficulty.

**MR HALL:** Okay, thank you.

**MR WEICKHARDT:** That was an attempt to - - -

**MR JONES:** Yes, and we acknowledge that.

**MR WEICKHARDT:** - - - respond to your request.

**MR JONES:** We acknowledge that and we're suggesting that the commission should recommend that NICNAS expand or create a new class of product entry for resins and chemicals going into plastics for automotive and other sectors judged critical for Australia's development. This would be same as the category that allows

limited quantities of products into Australia without assessment for R and D purposes; a strict condition that the product must have been approved by a recognised assessment scheme in a developed country such as the EU or the US. It doesn't altogether deal with grandfathering, which is a bit of an anathema to the bureaucracy at the moment, but it would deal with - particularly with plastics, which should in fact be exempt and are exempt in other regimes, would deal with part of the problem.

**MR WEICKHARDT:** I missed the point there. Are you saying that there should be a separate category established to what?

**MR JONES:** That's a suggestion that there ought to be perhaps a separate category for automotive products.

**MR WEICKHARDT:** Why?

**MR JONES:** They're able to do it for R and D and other areas because Australia is not getting access to the latest technologies, providing that those products are approved in other regimes.

**MR WEICKHARDT:** But the computer industry or the scientific instruments industry surely has got every bit as much reason to say, "Well, we want to use the latest sort of coating or polymer or something." Why single out automotive?

**MR JONES:** Because we're talking about an industry here that we're looking at. I mean, that particular industry is not very strong in Australia. The automotive industry is a large significant industry. I mean, the position we would take as an association, broadly, is that any chemical that is registered for use in a regime that is satisfactory - a regulatory regime that is satisfactory to Australia - ought to be approved here unless they can show cause as to why not.

**MR WEICKHARDT:** I think in your recommendations if you concentrate on the areas that are sort of more general rather than sector specific, I think it would be pushing at a more open door.

**MR HALL:** I mean, perhaps just a comment in that area: we are in many cases looking at supplying the OEMs with their global products. Of course it becomes a little obvious in Australia if we can't import particular products to satisfy their needs. That is, like the Qantas issue, particularly if you're dealing with plastics and paints, as an example, an increasing issue because clearly there is a lot of technology changes. We're moving towards scratch resident paints, for example, in automotive. That's a whole new technology. To get one component, one minor component of a paint approved, may cost up to \$200,000. It just won't happen.

**MR JONES:** And furthermore, if the quantities are not significant by world standards then, given the shortcomings in the regulations in relation to intellectual property protection, they just will not even apply for registration here. They won't disclose the CAS numbers that are needed to get the products registered. Qantas isn't the only one facing this. Other people in the transportation industry are looking at sending parts to Europe to be coded and return them here for assembly to get the codings they want. We did give a couple of examples in our submission but again we're seeing jobs chased offshore because of these arbitrary decisions made by government agencies.

We agree with the commission's comments surrounding the need for consistency among regulations of state and federal governments. It's an enormous problem for this industry too. Our final comment is in relation to skilling and training. We support broadly the conclusions of the commission on this issue. However, while no skill shortages in the Australian automotive industry are apparent, it certainly is in those supplying the industry. Plastics and chemicals through our action agenda have identified skill shortages in critical areas of die makers, moulders and, probably not unique to our industry, but manufacturing industry again attracting young people into the industry.

Few moulders in Australia today are probably regarded as skilled to the European standards by OEMs and the tier 1 suppliers, and so if the industry is to keep up, then the skill levels need to be kept up. I'm hoping I've been successful in getting some money for training out of the action agenda and money to promote training and so on, but the training needs are not necessarily met well by our traditional providers. It varies from state to state, but the TAFE model for the plastics industry is probably not the best model necessarily. There need to be other models that accompany it. I think our suggestion is that the commission could make stronger recommendations than in the position paper regarding a review of skilling and training and a need to address the deficiencies in the vocational training system.

**MR HALL:** Perhaps just to support that, it's recognised in Victoria, for example, and indeed Adelaide that there are very few what would be regarded by the OEMs and tier 1 suppliers as being up to world's best practice in terms of the moulding community. We need to do a lot more work in that area to bring the standard up. There's really a limited number, and I think if the car production rate drifted down below the current level we'd see a further decline and that would really start to impact on the skill base, because it's the one that's holding that whole area together in terms of the critical mass both in the moulding and polymers area and of course obviously in the car manufacturing base itself.

**MR WEICKHARDT:** And you see this as not an issue that the industry can solve?



**MR HALL:** It's a question of money for investment, it's a question of skill training and it's a question of volume, and we're hovering at that critical balance. For example, without disclosing the name, I'm aware right now where one major tier, one supplier from Australia - it's a global producer but they're based in Australia. They're having most of the product produced in Australia, the sub-assembly part, returned from Europe to Australia to be assembled and then returned back to Europe. This is to support its component obviously into Europe from Australia, but we're in danger of even losing that business because they're not satisfied that the local guys are up to speed.

Some of that product is going to find its way into the local manufacture, but the good news is that there's an export market for the bulk of the product, but they're not prepared to let it go at the moment because they don't believe the skill base and the capability is there, whereas they can walk into a big moulder in Europe and have it done like that, with confidence. Every time half a million of them come out, they'll be right, on time. So it's investment dollars, it's skills, it's know-how, and I guess from that point of view it's the critical mass. Whether it's in polymer production, componentry, whatever, that's critical to support this, and we feel as if we're getting there but if we lost some of the volume now in any of these areas, we'd have further problems.

**MR JONES:** So that really concluded our remarks, and we'd be happy to leave you with a copy of - - -

**MR BANKS:** Okay. I didn't have any questions. I was just going to ask you a little more about how you would envisage ACIS applying in this area, what the criteria might be, how many firms would potentially be involved and so on.

**MR JONES:** I think if you look at the concept of a new component, there's a design element, and then there is a material selection or a materials work-up element at the front end; then it gets into prototyping and tool design through to production. I think the end that feel like they're a very important element of it are the people that are developing the engineering plastics, the compounds that go with it. There aren't a lot of compounders in Australia, half a dozen, I suppose, and some of them are more proactive and active in that area than others in automotive areas, so it's not huge.

**MR WEICKHARDT:** No, it's not huge in this industry perhaps, but you then start wrapping in paint and steel and other areas that generically are excluded from ACIS at the moment that would probably argue or have argued that they, like the polymer industry, make some products or percentage or their products that are exclusively tailored to the auto industry then there could be a pretty considerable opening up of ACIS entitlement, and then you've got to say, "Well, if there's only 2 billion to go

around, whose chunk does that come out of?" because the government's fiscal commitment to this area has got limits to it.

**MR HALL:** Is ACIS not supporting some part of the steel industry now?

**MR WEICKHARDT:** I think anything that's not specifically sort of tailored to a profile or cut to measure, I think if steel - and I don't want to pretend I'm an expert on this, but if steel sheet is cut into specific blanks for a specific die, then it will qualify, but the steel sheet itself does not. So most of BHP's automotive steel that is exclusively made for the auto industry doesn't qualify.

**MR JONES:** I suppose, you know, from our members' point of view they were initially led to believe that they were included, and they started to do the work on that basis and then they were told that, "Oh, no, sorry, you're now dealt out of it," which seemed pretty arbitrary.

**MR HALL:** As an example, Australian cars right now use about 100 kilos of plastic per car. Europe is already up to 200 and the fuel efficiency and all the downstream benefits are clearly multiplying as you ramp this level up, and we are running behind here. We're trying to play catch-up, and if you don't start right back at the starting blocks you won't end up with the product which will include all these developments, that's the issue. So it's often the raw material supplier and the moulder that are going to generate these ideas to the tier 1 and the OEM, because they have to demonstrate capability, often in development phase.

**MR WEICKHARDT:** You won't be surprised that every person in the chain reckons they ought to be getting a bit more. The car companies think they ought to get more and the components suppliers think they ought to get more.

**MR BANKS:** I guess you've got to look at where the benefit can be applied so that it can be maximised. Thank you very much for that. We'll certainly think about the points you've made. Now, the remarks you've just made, are you going to give us a written form of those?

**MR JONES:** Yes.

**MR BANKS:** Good, okay, thank you.

**MR JONES:** How many copies would you like?

**MR BANKS:** We've got the team there, that will take - - -

**MR JONES:** There's plenty there.

**MR BANKS:** Good, all right. Thanks very much for that. We'll break now for a couple of minutes.

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**MR BANKS:** Our last participant today is Autoliv Australia Pty Ltd. Welcome to the hearings. Could I ask you please to give your names and positions with the company.

**MR FRANKLIN:** I'm Robert Franklin. I'm the managing director of Autoliv Australia Pty Ltd.

**MR JUDD:** I'm Robert Judd. I'm the technology development manager at Autoliv Australia.

**MR BANKS:** Good, thank you. Thank you very much for attending today. We've got of course your earlier submission which you provided. We also visited you, I think, and discussed quite a number of those issues. You've given a very briefly outline of some of the points you're going to make in relation to the position paper but, as discussed, I'll give you the opportunity to summarise those points now.

**MR FRANKLIN:** Okay. Firstly, thank you for the opportunity to present to the hearing today. Autoliv Australia is part of a multinational corporation. We have 80 manufacturing plants in 30 countries around the world, and Autoliv Australia is one of those supporting the Australian automotive industry. We have around about 700 employees. Our turnover this year will be around about \$200 million, of which approximately 40 per cent is export, and we are essentially a provider of safety technology to the automotive industry.

In coming along here today I wanted to specifically address a number of issues, some of which have been address obviously by quite a number of people, which has to do with the need for ongoing tariff and ACIS support, but I also specifically want to talk today about the place of technology in the automotive industry's future here in Australia and the need to continue to develop that technology at a pace which is probably greater than the rest of the world in order for us to become at least world's best practice in the technology that we provide so that we can ensure that what we have here is a world competitive automotive industry into the future.

I'd like to address quickly just the main theme and restate our recommendations to the commission regarding the policy settings, and that is to freeze the automotive tariffs at 10 per cent beyond 2005. We have no view beyond 2010. We feel that we should have another look closer to 2010 and, depending on what the economic and environmental considerations are at that stage, make a further decision beyond that.

Similarly with ACIS, we'd like to continue the ACIS program at the current levels for the next five years, for the 2005-2010 period, and then, depending on whether or not we've been successful in some of the other essential elements that we

need to include in this whole package, there is further ACIS support required beyond that.

The things that are important as far as I'm concerned in establishing the setting for further assistance beyond 2010 are essentially the question of market access, which I think is absolutely critical to ensuring that we have a viable industry. To date our market access has not progressed at a rate that I would have felt was necessary, and I think we need another five years to establish the further advancement of that issue. The other things are important and obviously I'd like to talk about is a little bit about the IR environment and then come back to look at some of the specific industry strategies that we should adopt particularly regarding safety and the advancement of automotive safety within this country, which I thought was addressed very well in the interim report. We'd just like to take the opportunity to expand on that a little more and add a little bit more weight to the need to do things outside the policy settings.

The first thing I wanted to talk about specifically I guess was spillovers. I think there has been insufficient discussion on the spillover benefits coming from the auto industry, and in particular I believe the auto industry plays a large part in setting the quality standards in manufacturing industry in this country and I think that has an enormous benefit to the broader community. Also, the auto industry at this stage is probably the leader, I think it is, in environmental management, the implementation, the mandating of IS 14001, the environmental standard, into our manufacturing processes, and that I think will show an enormous lead to the rest of manufacturing and the rest of the business community here in a United States.

The supply chain issues are critical and important. The pressures on the auto industry are well documented in terms of how severe they are, and it's forced the auto industry to adopt the just-in-time practices that have been in the press associated to some extent with the industrial relations issues, and I think that the benefit that the auto industry has derived and the spillover benefit of supply chain management into the broader community has enormous benefit.

The other area that is important from my point of view is that to do with education and R and D. There are many companies such as us that are working very closely with the educational institutions in Melbourne in particular, both in terms of supporting advances in technical education but also in providing in-kind and financial support to some of the research institutions, and Peter Hannenberger alluded briefly at the recent FAPM convention to the work that Autoliv is doing with Monash University Accident Research Commission and Holden in advancing the far side crash research in this country, which is leading edge research. I think it's essential that we recognise that a lot of that research couldn't be done without the support of the auto components and companies such as ourselves.

The issue of footloose capital is one which is very dear to my heart. We, as I say, are in a very competitive environment both here in Australia, but for me more so from the point of view of attracting capital from my parent company, one of 30 countries that are competing for footloose capital investment, and I think the issue of investment in Australia and market access coupled together are very important, that we get that recipe right. By that, I am competing currently for investment with companies both in South-East Asia and Europe, and it makes a very compelling argument that, when there are significant levels of tariff protection and ACIS assistance available, that at least gives me a competitive advantage if not a superior competitive position to my colleagues in other countries.

There has been some discussion on the need for two pools. I'd just like to put on the record that I'd support that. I think there is benefit in having two separate pools. I think the push from the automotive OEM suppliers towards modularisation and towards systems supply responsibility at the component level means that we need to have a policy which directs the assistance to the area where it will do most good, and that's an area that I'd perhaps like to come back and expand on a little further later.

I mention briefly as well the safety-related initiatives, and I was very pleased to see in the interim report that there were some discussions on initiatives with regard to aftermarket automotive safety and that we don't have a level playing field in this country regarding the standards that we have to apply and those that are perhaps available to our overseas competitors. I think there is need for some discussion on improving the aftermarket safety standards. There's further need for work to be done on the harmonisation of regulations so that we are competing on a level playing field with overseas imported cars, which don't have to necessarily comply with the same standards as those that we build here. So some of those initiatives that you discovered are I think on the right track, and we'd like to add our weight to ensuring that there are some initiatives in that area that are pushed along.

Regarding industrial relations, our view is that industrial relations should never be tied to the policy or the outcome of this inquiry. Whilst there is some discussion in the press about the poor industrial relations environment within the automotive industry, I would suggest that there are some companies that are operating - quite a number of companies are operating - in this industry that would be displaying world's best practice in industrial relations. Autoliv Australia has not lost one minute of time through industrial disputation in more than 10 years and of recent times we have been nominated as one of the five leading companies in Australia for the advancement of women in the workplace.

So I think even within the automotive component industry I'd like to think that

Autoliv is an example of good industrial relations practice and for that reason I don't think there is any imperative at all to link industrial relations outcomes to the sort of program that will come from this. The other thing that I would like to add, just as a last thing, is a comment on the vehicle park. I think we still have a situation in this country where our car park is quite aged, significantly older than most of the countries that we're competing against, and I think that has two outcomes: (1) it denies some opportunities for the industry but, more importantly in terms of community benefit, 10-year-old cars are significantly less safe than the cars we're producing today, and I would strongly recommend that the government take some firm steps to try to address that situation.

By way of example I can refer to what has happened in Spain, where there is a bounty paid to the purchase of new vehicles to people that have a 10-year-old vehicle, and I understand that's in the order of \$500 per vehicle. So I think there are some things that we could do to encourage people into safer, less environmentally disturbing vehicles. So I would commend that to the inquiry as well. That concludes, I guess, my introductory remarks.

**MR BANKS:** Good, thank you. We haven't rehearsed a response, so we'll kind of respond as we can to the remarks that you've made. As you'd imagine, we've talked quite a bit with others who have shared your view about the future regime for tariff and ACIS, about the reasons for that and so on. Perhaps I don't want to continually go through all of that. Perhaps though, I mean, you did raise particularly the question of it being dear to your heart, the question of investment attraction and so on, from a parent company who is vying with rivals around the world for parents' affections. Could you just comment on the relative importance of the tariff relative to ACIS in that respect, on your own experience in terms of how those negotiations go?

**MR FRANKLIN:** I think "relative" is difficult for me to comment on. I think both have an important role to play. The situation we have at the moment is that I'm competing for investment in both R and D and in manufacturing or production capacity, particularly against countries such as Thailand, Malaysia, in the Asia-Pacific region. The reality is that the cost of production in those countries is somewhat lower than ours, given that labour costs are probably less than 10 per cent of ours. So the tariff level set at 10 per cent still provides me with a level of protection against our organisation making a decision to make investments in places like Thailand as opposed to making investments in Australia. So that's one thing where I think that tariff protection is important, and I'm comfortable that 10 per cent will provide that for a short period.

**MR BANKS:** Just on that, to what extent are you competing or potentially competing very directly with imports in terms of the components you provide?

**MR FRANKLIN:** I mean, we compete in a global environment and certainly in terms of the competitive nature of our business with the OEMs here we have to be globally competitive. There is some impact in terms of tariffs in doing that; it's not huge. I guess the net impact to us is probably in the order of 3 or 4 per cent. But, importantly from my point of view, it's not our competitors that so much cause me a great deal of stress at the moment it's the investment decision from my own company. We have quite a good position in terms of the technology that Autoliv globally can provide, but it's a decision about where Autoliv makes their investments. So that tariff certainly gives us some protection in that respect, in that local production versus production in one of the Asian countries provides that 10 per cent buffer.

**MR BANKS:** In terms of we talked a little bit about just in time and modularisation and so on, you don't have a kind of natural buffer through proximity?

**MR FRANKLIN:** There is a natural buffer and I can't dispute that. That's certainly available. What can happen though is that most of our investment in productive capacity can go towards subassembly manufacture of the components that we manufacture, so it would be a reasonable decision to make that the bulk of the value add could be done offshore and the final assembly and final delivery to the customer can be done on a just-in-time basis out of Australia. That's the pressure that we're facing at the moment.

The second side of that then is the ACIS benefit, and I think there's a timing element involved in ACIS and that's why I'm interested to see where we are by 2010, but I have a view that my organisation won't make the same investment in every country within the South-East Asian region in terms of research and development and application engineering capability. So it seems to me that I have a window of opportunity to cement our position as being the pre-eminent supplier of R and D capability within the Asia-Pacific region. To do that, I need to continue to invest, I need to continue to invest in our R and D capability, and we've recently or just only in the last few weeks in principle been given support for a further \$30 million-odd investment in R and D capability and productive capacity here in Australia over the next few years. I have a firm view that if we can position ourselves as the pre-eminent R and D supplier for occupant safety in Australia, then that will be a very difficult situation to undo into the future, but we're not there yet. Those investment decisions could still move elsewhere in the short term. So I think the two of them are quite important, particularly in the 2005-2010 period.

**MR WEICKHARDT:** Can we talk a little bit about ACIS and the split of ACIS. First of all, just a point of clarification: in your original submission recommendations you said that there would be greater accountability in the manner



in which recipients spend their ACIS credits; this will ensure the intended recipient benefits from the credits. I guess money is money. I'm not quite sure how you sort of differentiate a dollar bill that somebody spends on the loo paper versus R and D.

**MR FRANKLIN:** Yes, I guess I'm fairly passionate about making sure that money spent within the industry is actually invested to the benefit of the industry, and to some extent I guess what I'm suggesting there is that we need to pick winners in a fairly objective way. I would like to see that any investment is targeted more clearly to those that are clearly doing research and development in technology that will bring us to world standards and that are investing in the productive capacity that will support that technology development. So I'd like to see a little tighter framework around the way that the benefits are handed out to make sure that they are being invested in the most productive way possible.

**MR WEICKHARDT:** So is the criteria for qualifying for the ACIS benefit you're talking about in terms of the type of R and D and the type of investment?

**MR FRANKLIN:** Yes. I believe it should be - as it is at the moment, I guess firstly I would argue for no relaxation of the current eligibility criteria and, if there are to be any changes to it, I would in fact like to see it tied more closely, as I say, to technology advancement and, if you like, the creation of jobs both in research and development and in production.

**MR WEICKHARDT:** Some people have advocated - just on that theme - that you should only qualify for ACIS benefits on the basis of incremental expenditure or investment. That has its own difficulties too, but do you have any comments on that score?

**MR FRANKLIN:** No, I don't. I don't know how you would measure that - it's a hard one to measure - other than to say that the rate of investment in R and D that we're making at the moment is significantly higher than our depreciation rates, so it would be very difficult without the level of support we've got to be making the advances in technology as quickly as we are, but I have no real thoughts about trying to link it on incremental.

**MR WEICKHARDT:** In terms of the split of the ACIS pools, you'd be amazed that we've had various sorts of innovative suggestions put to us about how this might be approached, most of which coincidentally seem to favour the particular person advancing the thesis, and the arm wrestle between the component suppliers and the MVPs is well and truly alive. Do you have any suggestions about how the government might think about how those two pools might be divided?

**MR FRANKLIN:** I don't have a firm view on the quantum. There have been some

suggestions of 65:35, which seems to be sort of consistent with roughly what we're seeing now. My main argument here is that we'd like as much surety as we possibly can. When we're looking for investment from our parent company, it becomes difficult when the quantum of any assistance that might be coming forward is a little bit vague. I'd like to see a lot more surety, and from that point of view, I'd like to see a clear pool established. Then I guess I'd like to see some rules - and I don't have a view on how it can be done - to try and make sure that those funds are actually invested in the way that we talked about earlier, that they don't just simply find their way back into lower prices through to the OEMs by default, that those funds are actually being invested in the component industry, which is where most of the actual technology, the advanced technology, I think is being developed, or a good deal of it.

**MR WEICKHARDT:** Yes, I might be missing the point here, Bob, but if the criteria for getting the ACIS funds for the component industry is you have to demonstrate some investment in R and D and demonstrate some investment in plant and equipment, then surely you've had to satisfy - depending on the definition of what that R and D investment is that sort of gives you an entitlement, but surely you've demonstrated some form of investment before you actually are eligible for the entitlement. So what's this further linkage? When you receive that, you're saying you've got to demonstrate you're going to invest that next increment again in R and D? Is that the point you're trying to make?

**MR FRANKLIN:** No, sorry, perhaps I've misled you. I'm just basically saying that - I don't know how I can put this. If you can help me, Robert, help me. There should be some mechanism for making sure that that investment finds its way back into the specific technologies that we're interested in. There should be some protection I guess, if you like, to stop that from being just passed through to the end consumer. I guess I'm trying to find a mechanism to force the investment, as I say, in pure R and D or productive capacity.

**MR JUDD:** I think the critical thing is that R and D is an essential thing for our growth and if we don't invest in it and continue to grow and expand, then we don't have a long-term future. I guess what Bob is trying to say is it's not so hard to come up with some R and D activity, but does it actually provide an output? Is there an outcome that expands and grows the industry or makes it stronger is the question mark; as I said, it's very important.

**MR BANKS:** I mean, it seems to me there are two issues or stages; one is whether the company does the appropriate R and D are so on, but the second is, who gets most benefit from that, to what extent the company can reap the benefits from more effective processes or better products or to what extent the OEMs are able to extract that through hard bargaining and cost-downs.

**MR FRANKLIN:** Yes, that's exactly it. What I'm concerned about or what I feel that could be done a little better is that because a dollar is a dollar, it can provide a means of becoming more cost competitive in the short term. It can be simply used to subsidise an uncompetitive or unprofitable situation. To me, that would be a shame. If all it's doing is propping up an uncompetitive company for the next five years, then we'll have failed miserably. Ultimately what it has to do is be invested back into actually a lower cost or extra value in the products that we provide.

**MR JUDD:** The nature of R and D of course is the dollar spent this year doesn't give you benefits immediately, it gives you benefits in years to come.

**MR WEICKHARDT:** Sure.

**MR JUDD:** So there's a time lag in achieving those outcomes.

**MR BANKS:** You're not hinting as part of that that there may be too short sighted a view in terms of the type of R and D that's being done, given the pressure of the OEMs for short-term cost savings? That's not the point that you're making? I just wanted to clarify whether it was partly that - - -

**MR FRANKLIN:** No, it's not.

**MR BANKS:** - - - and you were seeing a distortion into very short-termist kind of R and D projects.

**MR FRANKLIN:** No, I guess in summary what I'm really doing - and it's partly selfish but it's also partly a belief that ultimately the long-term competitiveness of our industry will rely on companies such as Autoliv - and there's another 30 or 40 of them out there, I'm sure, in a similar boat - who need to advance their technology beyond the level it is today, but we still are in my opinion six, maybe eight years behind the technology that's been introduced in other parts of the world and if we are going to be a truly globally competitive company and continue to succeed in exporting our vehicles in particular and our components, then we need to bridge that gap. So any mechanisms that we can put in place but force that technology development along at a faster pace at the expense, if you like, of propping up those that are less focused on leading-edge technology would be of benefit, I believe.

**MR WEICKHARDT:** I know you said your preference would be that you saw ACIS as something that continued subject to some sort of review about market access in the same manner you alluded to for tariffs. If I however forced you to choose from the options that the commission put up as options, and in regard to ACIS that was either to have it all in the first five years between 2006 and 2010 or to have it over a 10-year period but at the same net present value. Do you have a view

as to what would be best for the industry in terms of its transition to become more competitive and adjust to the further falls in tariff?

**MR FRANKLIN:** Yes, I do. In terms of the ACIS benefit, I think to maintain it at the current level is required.

**MR WEICKHARDT:** So to have it for the five-year period, you're saying?

**MR FRANKLIN:** If the only option on the table possible was that we continued with the five-year period with no guarantees of anything beyond that, I would prefer that. The rate of investment that we as an organisation are having to make at the moment, it's only going to delay it, and I believe we've actually got to vehicle models to get our technology to a level that will be competitive and then if I have to fight on my own beyond that, then I think that's preferable to extending the period that it will take me to get to a competitive position.

**MR WEICKHARDT:** Okay.

**MR BANKS:** I recall from when we visited you that we had some good discussions about the very point you're making, the industrial relations harmony within your firm. Could I get you just to comment on to what you attribute the success that you have? Clearly the performance is quite variable throughout the industry - perhaps just get you to comment a little bit on why you think you're doing it so right or what the elements of that are.

**MR FRANKLIN:** The basic element is - I think there's two or three things. The first thing is being able to guarantee a future for our employees. We've been through similar to a lot of organisations, a lot of continuous improvement, a lot of cost reduction activities and we've been fortunate that we've been able to grow our business at a significant rate which meant that we've been able to absorb the benefit of that productivity. In other words, those people haven't been displaced as a result of the productivity that we've generated. So growth has given us a nice hedge against that and we've been able to make some commitments to our people in terms of security of employment, so we've done that.

The other thing we've worked very hard on is not only our manufacturing systems and our productivity and our technology, but we work very hard on the culture of the organisation and really have tried to develop a culture within our company where we are an employer of choice, where people feel that they have been fairly well treated, that they're respected, that we communicate with them in an open, transparent way and that we involve them in the decisions that will impact them and give them a level of choice in terms of the types of benefits and the types of workplace that they want to work in, given the normal business constraints that we

have. So we work very hard on the cultural side of the business and very hard on making it a workplace that is friendly, that is clean, that is a pleasant place to be, and then we try to simply have a non-aggressive utilitarian organisation, very flat, very open and accessible, and the element of that is just good communications and working with the people in a very open way.

So we've managed to do that in a way where we are an employer of choice and we're recognised as an employer of choice of women. We know there's recent statistics that we looked up that we have over 300 applications per week for jobs in our organisation. Our labour turnover is less than half a percent. Our absenteeism is in the order of 3 to 4 per cent, which for an all-female workforce, or nearly all female - we're 75 per cent female - is quite low, given the pressures that they have. So I think the results suggest that we are having some success there.

We also work very hard at trying to make sure the conditions are such that suit the people, women in particular. So we try to give them flexibility. We provide benefits to them that are a little outside the normal pay and conditions that we see around the rest of the industry. So if you look at our workplace agreements, the enterprise agreements, they are structured a little differently. In a lot of cases workers have given up dollars for other benefits in terms of work flexibility and job-sharing arrangements and carer's leave and maternity leave and those sorts of things. So I think there are ways you can do things that will improve the employee relations environment enormously, and you can do that all within the framework of your existing industrial relations legislation. We haven't found that to be an impediment to us at all.

**MR BANKS:** Would it be possible to get a copy of your workplace agreement?

**MR FRANKLIN:** Yes, certainly.

**MR BANKS:** Be useful. We have got a couple of others but it might be a useful comparison to make.

**MR FRANKLIN:** Yes, certainly, I will get one through.

**MR WEICKHARDT:** What union do your employees belong to, and do all of them belong to a union?

**MR FRANKLIN:** We effectively have two unions. It's the AMWU, metals division, and the NUW in the stores areas.

**MR WEICKHARDT:** Do you have any comment as to why you think some parts of the industry has not had the sort of experience that you've had and whether or not

some of it, as has been put to us, has been a sort of tactical targeting by the union movement to try to find employers that will bring the industry to its knees? That's an expression that's been used - or whether it's totally within their own control?

**MR FRANKLIN:** I have a view that it's largely within their own control. Autoliv supplies virtually 100 per cent of the seatbelts of the Australian automotive industry. We supply about 80 per cent of the airbags to the industry, so from a tactical point of view I would have thought Autoliv would have been a reasonable target. It is made much more difficult for us to be a target because we do have a very good employee relations culture in the organisation. That's not to say that, you know, we won't have our difficult times in the future. Ultimately the decisions about industrial relations will be taken by the workforce in the workplace that you're looking at.

**MR WEICKHARDT:** That seems a reasonable proposition at first hand. A company we visited in Adelaide that have said they felt they had excellent workplace relations and yet they had been targeted because they were a sort of critical supplier of the industry.

**MR FRANKLIN:** Yes. That's why I don't say that we're immune to it by any stretch of the imagination. We have to work very hard at maintaining our workplace environment. There are certainly some emotive issues around at the moment which made that a little more difficult. You know, some of the issues around workers' entitlements and the protection of those are very emotive and 36-hour weeks become very positive sort of influences of union activity. Ultimately I have a view that the people within the workplace will behave in a reasonable way if we behave in a responsible way towards them.

I actually believe quite firmly that much more will be gained by working with our people than taking a confrontational approach to it. Our history suggests that that has been much, much more successful.

**MR BANKS:** I guess, consistent with that, you, I think, made the point that you wouldn't want to see what you call the outcome of this inquiry being tied to industrial relations objectives. I take it from that you mean the basis being conditional on achieving particular objectives. Could you just elaborate on that?

**MR FRANKLIN:** Yes, essentially I think the industrial relations issue is quite separate to industry assistance. I don't think there should be any conditions applied to the provision of benefits as a result of your industrial relations outcomes.

**MR BANKS:** In practical terms would it cause any difficulties for you, given the relationship you have with your employees - - -

**MR FRANKLIN:** The only difficulty I see is that it would add some leverage, some bargaining power to the unions. I mean, if they understand that we have to have a reasonably trouble free workplace to attract the ACIS benefits then that may provide some opportunities for them to increase the heat, if I can put it that way. That's my concern, that in fact it will inflame the industrial relations environment rather than in fact sort it out. As I say, my experience is that much more can be gained by working with your employees than confronting them.

**MR BANKS:** To what extent in your enterprise negotiations are you being, in a sense, confronted with terms and conditions that are essentially being set by the OEMs and then trickling down or flowing on?

**MR FRANKLIN:** There is no doubt that there is a framework established in terms of the quantum of increases, in particular, and some of the benefits that flows out of what the OEMs are passing on. That's a particular difficulty that we have. For that reason, you know, I would endorse what I think Geoff Polites perhaps said yesterday, that if there was a way to move towards a single industry union and one whereby the longer term benefits are flowing to the employees of that union and the companies were a little more closely intertwined, then I think that would be a value.

**MR BANKS:** But wouldn't that exacerbate this, sort of, the pattern bargaining element, if I could call it that? By having a single union, wouldn't that just facilitate that kind of pressure?

**MR FRANKLIN:** Yes, but I think that, you know - in talking to some of my colleagues in other parts of the world, whilst that may be the case, there seems to be a much greater consistency of objective between union bodies and employers, and between employers - if their destiny is all tied up in the one pot.

So whilst there are some downsides - there's no doubt about that - the reality is that to a large extent, the expectation of our employers are very much created by what the car companies are doing to a large extent anyway. So we have a limited opportunity to move well beyond that in terms of the core things that are being offered by the NDOEMs. So by default I guess, there is an element of pattern bargaining there now.

We would still argue that we want to maintain our individual ability to do the things within our own workplace that are important to our employees. As I said, I mean, I think we're one of the few manufacturers that do offer some maternity leave, and that's really because we want to attract women into our workplace who seem to have the necessary attributes to do the work in the way that we want it done. The fine motor skills, the multi-tasking - it seems to be when we go out looking for people that by and large women come out on top in terms of the criteria that we set

for the employees that we want. So we'd still want to have that ability to make sure the interests of our own employees are addressed.

**MR WEICKHARDT:** In terms of multi-tasking, has the two unions structure that you have at the moment been any obstacle in terms of, sort of, demarcation or flexibility of duties and application, and have you considered or worked at all to try to move to a single union environment?

**MR FRANKLIN:** No, we haven't, and that's mainly because we haven't seen any difficulties within our own workplace. We tend to operate firstly, in terms of the industrial relation environment, through our people, through our consultative committee and lastly, through the union. That's the normal channel of communication in resolving issues within our workplace.

So in terms of the actual workforce themselves, they have a single entity that they will negotiate with us. So we've been, I guess, fortunate to some extent that in the past, most of our enterprise agreements of that have been well and truly locked down long before we get into the formal industrial relations negotiation process; and that's done collectively by all people in the workplace, irrespective of what union they might belong to.

So, no, there hasn't been any enormous pressures. I just think from an industry point of view there would be less opportunity for disruption and ongoing disruption, and this constant attack at one supplier after another. So I think from an industry point of view, there could be some benefit in trying to bring it all together under the one union.

**MR WEICKHARDT:** And Autoliv operates, you said I think in 30 countries around the world. Do you have any impression, anecdotal or statistical, about whether the sorts of disruptions that occur in the industry in Australia are any greater - the auto industry in total - are any greater or less than those that your subsidiaries offshore are exposed to? Do you have any view as to whether the environment that you operate in with your employees is more or less conducive to the sort of environment that you've been able to create here - a desirable environment - compared to the sort of environment that's created in your subsidiaries elsewhere? I mean, is there something that helps or hinders around Australia?

It's a long contorted question, but I guess we were looking for things that might help rather than hinder, create the sort of constructive, harmonious and productive environment in the workplace here. We made a few suggestions which had been put to us in our preliminary report. It was put to us yesterday by the union movement that they'd hinder rather than help. I'd be interested again if you've got any sort of collective views as to whether you feel that would be the case, or whether they



provide some important safety valves if things do get out of control.

**MR FRANKLIN:** While it's true to say that there is some - I think there's two sides to the argument, and I can see both of them and I do see that operating. If you look to Germany, for example, where they do have an industry union, they're not free of industrial disputation. I mean, they've just been through a horrific period over the last month of industrial disputation. I guess to some extent, though, that is contained and it's industry wide, and it doesn't have the cost impact that this ongoing drip-feed situation we seem to get in here does. It's addressed, it's cleaned up and then very quickly there seems to be a focus of the parties to get back together and do what is good for the industry.

So my view is that there is - to me that is a much cleaner way of operating than having the unions go round and pick off one after the other, in the way that appears to be happening here over the last 12 months or so. It imposes a lot more requirement on the industry to work closely with the union. At the moment that tends not to happen here. I think that can only be a good thing. The more time that you spend in actually having a common understanding of where the industry is going and having a common focus, then I believe that ultimately the outcome has got to be one that best supports all interested parties - whereas that's not the case here. There are different interests by the auto industry to what there are from the unions. They have different agendas, and I just have a view that if the agenda is the same then hopefully the outcome is going to be one that is more constructive.

**MR WEICKHARDT:** The suggestions in our preliminary report, in your view: will they help, will they hinder or will they have no difference at all? If these were things like, you know, sort of cooling-off periods and - - -

**MR FRANKLIN:** Certainly from an industry point of view cooling-off periods, the need for more consultation and forcing that to happen has to be good. I think there are some good initiatives there. Yes, I have to say that - I mean, it would move somewhat towards improving. There are some good suggestions. I just think that we could take the opportunity to reset the entire scene. Rather than playing with what we've got let's step back and have a look at what that future vision should be in industrial relations and do it from a constructive way working with the unions rather than continuing to put things in place that stop us fighting as easily as what we do today.

**MR WEICKHARDT:** Yes, and I guess the suggestions that were put there by - mainly they came from suggestions the AIG made to us in a submission but I guess they could be mainly regarded as being a sort of safety valve if things went wrong. They obviously don't necessarily create the environment that you've spoken about, which I think most people we've spoken to would agree is going to be absolutely

essential if you're going to get the sort of constructive and harmonious working environment you want. But what we did encounter were a lot of people who had been bruised by disputes that they didn't think were, you know, sort of any part of their doing. They had working environments of the sort you've spoken about but they were damaged by collateral damage from action being taken elsewhere they had no control over, and yet the unions yesterday submitted that that's like, you know, taking away any of their sort of negotiating weapon. They would be negotiating with popguns I think they suggested.

**MR FRANKLIN:** Peashooters.

**MR WEICKHARDT:** Peashooters.

**MR FRANKLIN:** Peashooters, yes. Look, I certainly support anything within the current framework that would protect the industry in terms of collateral damage and force unions and employers to negotiate constructively. I certainly support that. I guess where I'm coming from is that you can have either the existing model and provide some new rules as to how the fight occurs or we can find a new model which perhaps tends to look at how we can avoid having the fight in the first place, and I'd like to see a more consultative model put forward which starts from a single industry union, and then some genuine attempt by both parties to reach some sort of common understanding about where the industry is going.

**MR WEICKHARDT:** Do you have any ideas from your own sort of interaction with your employees as to how receptive they would be to the idea of single industry union?

**MR FRANKLIN:** As I say from our point of view we've created a single enterprise environment and we've intentionally eliminated internally any forms of difference, if you like, between anyone in the organisation, and people will laugh a little bit when I talk about some of the conditions that we have. But what we do is we have one set of employment conditions for everyone in our organisation so the conditions of employment of the person that is driving the forklift is exactly the same as my conditions of employment. So to everyone we are all employees of the organisation, and whilst I might receive a slightly different salary package to what the forklift driver does, in terms of the way I behave or am expected to behave when I come into work every day and the rules that I'm supposed to obey are no different to anyone else in the organisation. So we take our industrial relations beyond a union-employer interaction. We look at it more as a total employee relations structure which says that there is no difference, we're all here for the same thing. You know, you hear the unions talk about a fair day's pay for a fair day's work and that's very much the way we operate and everyone operates the same way. We have an RDO once a month. I'm entitled to an RDO once a month. I'm looking forward to the next one I take but

I'm entitled to it.

**MR WEICKHARDT:** Do you go down to individual performance management for every employee?

**MR FRANKLIN:** No, we don't but we do have a form of team performance management that is consistent and our business plan is structured in such a way that we work on the concept of it being very well communicated and very clear in terms of what the objectives are, and we try to link that right through the organisation so that all individuals in the organisation understand how they're being measured towards that overall company business plan. So whether it be an individual performance measure or whether it be a team based measurement system - which it is in some cases - the form of measurement against the company objectives is consistent.

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**MR WEICKHARDT:** I've got one more question. Just this issue which you alluded to in your presentation and also in your original submission about the age of the vehicle stock in Australia, the Spanish system, can you just help me understand that? You've got to sort of scrap your car basically to qualify for this bounty, do you?

**MR FRANKLIN:** Yes.

**MR WEICKHARDT:** You can't sell the old one?

**MR FRANKLIN:** No, you've got to take it out of the marketplace basically and as long as that's the case then there is a bounty paid on the purchase of the new vehicle.

**MR WEICKHARDT:** That's a government-funded bounty?

**MR FRANKLIN:** It's a government-funded arrangement but, you know, there are a number of different examples of that. The Japanese example is much more brutal than that. Basically if your car is more than three or four years old - Robert, you might know.

**MR JUDD:** I think it's four years old and they have an extremely heavy roadworthiness check which requires replacement of brake lines and all sorts of things.

**MR FRANKLIN:** And a heavy penalty to re-register.

**MR JUDD:** Registration becomes - - -

**MR FRANKLIN:** So certainly a lot of countries have a significant either carrot or stick approach to reducing the vehicle park. So there are schemes running that do that and I think there's enormous community benefit involved in it.

**MR WEICKHARDT:** How big roughly is the Spanish bounty? I mean, is it sort of 10 per cent of the cost of a new car or - - -

**MR FRANKLIN:** I understand it's around the \$A500 so it's significant, although the research suggests that about 18 per cent of new car purchases take advantage of that - that's been the recent experience.

**MR BANKS:** What percentage? 18?

**MR FRANKLIN:** 18 per cent. So it's been quite successful in getting old cars off the road.

**MR WEICKHARDT:** Okay.

**MR BANKS:** Well, look, it's been very interesting. Thank you very much for coming in this afternoon and also for the submission. Are we getting any elaboration of these points that you've made verbally? I'm not forcing you to but I just wondered whether you had any plans.

**MR FRANKLIN:** We've come this far. We'd be pleased to put something together and give it to you with a copy of our EBA.

**MR BANKS:** Good, thank you. We'd appreciate that.

**MR WEICKHARDT:** Yes, in particular if you have any sort of way you can help us understand exactly the point you were making about the ACIS spending I'd appreciate that. I think I understand what you're saying but if I could read it in words of one syllable it would probably help me.

**MR FRANKLIN:** Yes, I don't have a clear view of the mechanism. I guess I more in principle would like to see it more directed towards promoting winners, if you like, in terms of where the investment is going. But I'll try.

**MR WEICKHARDT:** Okay, thanks very much.

**MR FRANKLIN:** Thank you very much.

AT 4.13 PM THE INQUIRY WAS ADJOURNED UNTIL  
WEDNESDAY, 31 JULY 2002

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