



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

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

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

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON WEDNESDAY, 31 JULY 2002, AT 9.38 AM

Continued from 30/7/02

MR BANKS: Good morning, everyone. We're resuming our hearings into the commission's position paper for the Review Automotive Assistance. Our first participant this morning is the Society of Automotive Engineers. Welcome to the hearings. Could I ask you please to give your names and the capacity in which you're here today.

PROF WATSON: This is the Society of Automotive Engineers Australasia, so we include New Zealand representation. My name is Prof Harry Watson. I'm vice-president of SAEA and in my normal business as head or deputy head of mechanical engineering at University of Melbourne.

MR BANKS: Thank you.

MR FORD: I'm David Ford. I'm the senior vice-president of the Australasian Society. I'm also a fellow of the SAE International based in the USA and prior - I'm now semi-retired. Prior to that I was an executive with Ford Motor Co in the USA as well as in Australia prior to that.

MR BANKS: Good, thank you.

PROF WATSON: I think David's fame - if I could just stand for him - as chief engineer of the first Falcon program that was wholly designed in Australia in 89, so he knows the engineering business that we represent inside out.

MR BANKS: Thank you.

MS KREPCIK: Angela Krepcik, the executive director of the society here in Melbourne.

MR BANKS: Thank you very much for attending this morning bright and early. We've got your submission. As we were discussing, perhaps if you'd like to go through it for us and if you don't mind we might, depending on how it goes, stop you at a couple of points and ask some questions.

PROF WATSON: Thank you very much. In our submission we are responding to the position paper published on 27 June and we note that this is the 75th year of our society and that raising professional engineering standards in both practice and the qualification of its members is a major objective. Amongst our objectives we stated - importantly - is, "To assist the Australian automotive profession in the employment of capable technical personnel," and that involves us in collection and dissemination of information in an educational process developing networks and so on to support engineers in general rather than perhaps meeting specific needs of a company or engine.

We note that in your position paper which represented graphically - we think that helps communicate to a wider audience - that you have looked at the tariff situation and identified option 2 as one in which you see the best benefits. Our response to that is based on our working out this problem over quite a period of time. This would be the third submission that I've made on behalf of the society to the inquiries that have taken place and I can well recall the oar of the Button plan and our concern about diminishing engineering opportunity. But I think with hindsight we can see that many significant benefits have been achieved as the result of that. But we do highlight that probably Australia is uniquely situated as a small country in being a vehicle producer and that in order to succeed in the present global enterprise integration of design and manufacture involving local suppliers is an essential part of success.

I think we note that the commission has recognised one of our other major points of the past, that automotive engineering supports the general manufacturing base and that it plays a tangible role in providing modern engineering practice and education and training. We note that many of the people who are trained in the automotive industry migrate with their skills to other manufacturing industries and you seem to have picked that point up very well. Indeed if I may digress for a moment, I must say that I found this report written at a very high standard and quite a lot of concurrence with our views, so we're much less at variance with the position presented in this report compared to our previous presentations.

We note that the engineering base in Australia for the automotive engineering area is substantial: 3500 engineers and 7500 technicians. I think that's a number that's difficult to come by, but that's our estimate because it's very difficult to draw the boundaries in those categories. But our number arrived at prior to your proposal of 55,000 total people being involved in the industry seems to be in close agreement. The thing that we are concerned about if the proposed tariff reductions leads to loss of local manufacturing facilities is that it would accelerate the brain drain of Australian skilled employees overseas and thus undermining the support that it provides for the wider industry.

We think particularly important achievements have taken place since the inception of the tariff reduction program. There has been a developing strong relationship between vehicle designs, suppliers and indeed the service industry. We note that local models achieve much better repair costs for accident results than do imported vehicles and that's a consequence of the existence of that joint work in design on such issues related to, let's say, front-end collisions of a minor nature and so on. One can also note the cost of parts for local repair being often considerably lower than those from imported vehicles and that's obviously an underlying consideration for the total cost of ownership, not just the first cost but those other incidents, repair and operation, that will be accounted for in the total operating costs of the individual.

As our interest is about education and training, we argue that there is a particular opportunity to use the automotive industry's needs as a goal for deliveries of students and technicians into the automotive industry. We note that the time constant of this training process is significant - about seven years, to our estimation - and over the last while we have seen changes in educational programs which have emphasised engineering design holistically, economics, statistics and introduction of manufacturing into many mechanical engineering degrees, providing a group of young people who are well versed in the concept of integration of the design and manufacturing process. We're concerned that perhaps this is not being taken up as widely as one would like to see it in the OEMs and indeed in some of the producers who still have difficulty in implementing some of the team-building processes. I could note that, for example, Land Rover in the UK received last week or the week before an award for having 40 per cent of the manufacturing plant working in teams. I would believe that number is higher here in Ford and Holden's production line but that does not extend across the whole operation of the enterprise.

Talking with various people in management positions there are some barriers that exist related to payment and demarcation and so on. We believe it needs further work and your report has highlighted some of those issues.

MR BANKS: I'll maybe just get you to elaborate a little bit on what those barriers might be while we're talking about that, because it seemed to me quite an important issue that you've raised there. Are you saying that Australia is somewhat ahead of other countries in that respect?

PROF WATSON: I believe that to be the case, though I would defer to my colleague here who perhaps knows the inside of the industry better than I do, but it is very clear that 15 years ago we were concerned because we had language barriers in the workplace, up to 20 different languages being spoken by the people in the workplace. In building these teams we've now turned that around to be an advantage. If a car is going to a particular country there's somebody in the production process who can speak the language of the recipient country and can liaise on problems and so on and indeed build confidence. So we've used that to advantage.

But my perception is that there are some demarcations between those with degree training and trade training and it's very difficult to get some harmony and opportunity for people to migrate from a lower skill base naturally to an engineering position without that formal training. We need to have some recognition of that, as we have done in our society from about 12 years when we took on board a technician grade of membership hoping to allow through professional accreditation - professional recognition, I should say - a migration of such skills. David, you might like to add something.

MR FORD: If you compare it to the US Society of Automotive Engineers they lack or have not seen the need to have the progression through from the service side. The technician level is nowhere near as recognised as it is in the Australian society and I think that reflects the Australian industry approach as well where moderate size - we're not at the scale of the US but that has disadvantages, it has some advantages as well. By being smaller you're able to communicate better across a broader base, and I think Australia does have a greater opportunity to integrate from shop floor level right through to the professionally qualified levels, better than you can in the US because then the size helps you. You don't have the huge chimney-type structures which are present in the US industry, and also to a certain extent in the European as well.

The breakdown of barriers which has been going on I think is putting Australia ahead in a number of companies. I think in some others it's not uniform, the level, but I think we can do better but I think we are already ahead of some other areas in the world in our ability to integrate all sides of the industry in Australia. I think that's reflected in part with our society; it represents an opportunity for this level of integration because we have representation from the manufacturing companies, the supplier companies, the insurance side, assessing side of the industry, technician side of the industry. Our president Michael Case walked in a little earlier. Michael is the chief engineer of the RACV. I'm ex-Ford, now independent, and we have Harry from academia. So we represent a very diverse range but all allied to the industry. We therefore see that this is an opportunity for Australia as well to really focus on the total integration of the industry. Therefore, incentives should probably be based on encouraging this because it should lead to greater efficiencies downstream.

MR BANKS: Thank you.

PROF WATSON: I think one of our concerns about the influence of a 5 per cent reduction in tariff which is significant as a percentage of the existing tariff, whereas the previous reductions have been more progressive - we have this concern of what it may do to the local volume of vehicles produced. One of the things we have looked at in previous times is to try and identify what is the quantum size of business that you need to do in order to have the wide-ranging skill base that is needed in order to produce a complete vehicle. I think the efforts of Ford first in the late 80s of producing almost an entirely local design vehicle - and currently Holden are managing to corner that part of General Motors rear drive business - is a very significant opportunity for maintaining this quantum size of operation that allows full engineering interaction without ideas having to be transferred into another engineering group in another company that has perhaps different aspirations and therefore we don't get best value out of this.

So we see this next step as being very critical, and in the economic modelling

we wonder how it's possible to deal with this quantum size. My guess is that you would have to look at on a macro scale the status of suppliers in order to decide how big their operation is to have a wide enough engineering base to maintain continued delivery of the product. If production disappears offshore as it gets cheaper in Asia, there's a risk then that the throughput of cash flow of a local entity gets smaller and it decides to shut down its engineering operation as well. So there is that quantum size which is difficult to measure, and probably would need some more work to do that, and I think is one of the things that I would judge as lacking in the economic modelling process.

Judgment about quality considerations, I think, not only just in time, but a very high quality Six Sigma and the need to have flexibility in manufacturing according to demand is well exemplified here - not in our submission but I would just comment in that area that there is an opportunity for this country to deliver wider consumer choice in that the production lead time and delivery to customer can be shortened because it is local manufacture. I'm not sure that industry is at the right point to deliver this almost design-to-order approach, but we can see possibilities for that happening and that would be an advantage for local industry over its importing competitors. How to measure that as part of this is very difficult and so we didn't include it, but I would just highlight that this is another advantage you have by having a local engineering operation where you can allow the customer to choose the paint colour, the seat trim on a model-by-model basis and get delivery in a reasonable point of time.

MR BANKS: We had a participant yesterday from an organisation that sounds similar to ours, called the Australian Productivity Council, but he was saying - the executive director of that body was commenting rather unfavourably on the quality of Australian vehicles relative to those overseas, particularly in Europe, he seems to be talking about. But do you have any observations about - I mean, getting objective measures of quality is quite difficult as well, but do you have any comments to make on that, any basis for making international comparisons?

PROF WATSON: Well, my experience personally would be anecdotal, of being asked by companies to come and deal with often complex issues when there have been quality issues, and what I have seen in that anecdotal experience is that the issues are very much finer and very much at a fine level of performance finesse compared to what they were 10 years ago, so it may well be at the ultimate measure, we are not at quite the same standard, but it's certainly not something that's a demarcation point from the engineering standpoint, as I can see it, and certainly as I would perceive from the marketplace viewpoint, there's not obvious discrimination. But Michael Case, our president's organisation, is about providing consumers advice in this area in their review of cars and I'm not sure, commissioners, whether it's possible to ask him to comment as he was a late arrival.

MR BANKS: Yes, please. Michael, if you'd like to join, you can just bring a chair up to the table and just give you name so that we've got it on the record. We're pleased to have you here.

MR CASE: Thank you very much. My name is Michael Case. I work for the RACV as chief engineer - vehicles - and I'm here in the capacity as president of the Society of Automotive Engineers Australasia. Sorry for being a few minutes late. My comments would be that I agree that it's difficult to have an objective measure of vehicle quality, although I recall that the Australian Industry Authority or similar name that was looking at a whole range of issues to do with the automotive industry back in the late 80s, early 90s, did have a measure of vehicle quality and at that time there was a measurable gap between locally-produced vehicles and imported vehicles. We don't have a similar measure now, but in terms of looking at vehicles from all points of view in our assessment of them at RACV, I can say that our opinion would be that there has been a vast improvement in quality of locally-produced vehicles and, while they might not be quite at the level of some imported vehicles, the gap is much closer than it has been in the past and I'd agree with Harry's comments in that area earlier.

MR FORD: Yes. I'd just like to comment because I have seen data in my previous jobs comparing around the world - and I think at times some people confuse price with quality and if it's twice the price of something else, it must be better, I think were some of these comments, and if people don't have the actual statistical data you can be misled. You need to compare Australian vehicles against equivalent vehicles around the world, and hence if you compare top-end luxury vehicles, imported luxury vehicles against the middle of the road, you'd find the same thing in Europe as well. Between the bottom, you know, family-type cars and your premium-priced luxury vehicles, there is a difference. But if you look at Australia against the data from around the world now, I'd say we are very competitive and in fact I think we would be ahead of some locations in terms of the average family-car type vehicle, and there have been huge strides in the quality improvement of Australian vehicles over the last five to 10 years.

MR BANKS: I think this person yesterday was commenting that the American ownership of a couple of the major producers has been unfavourable in this respect and that the Americans have less concern for quality than maybe the Europeans, so, David, you're probably well-placed to comment.

MR FORD: I find that a very naive comment.

MR BANKS: Right.

MR FORD: It is extremely important. The data in the US that you compare on a vehicle, after how many it has sold, the next thing is, "What is the things gone wrong

number and what is the customer satisfaction?" They are set as very high targets as part of any model program in the USA, and in fact the final year that I was still working in the US, the executives' salary or bonuses were based around quality and customer satisfaction, were actually baked in as part of the bonus formula; so yes, very, very important in the US. So somebody making that comment is unaware of the reality.

American consumers are extremely concerned about quality and reliability of their vehicle. When you look at the driving conditions they are under in the wintertime there, far more arduous conditions than we actually see here, apart from the rough roads in hot conditions, outback areas, which they get in Arizona. Winter-type conditions there are very severe on vehicles. Vehicles have to start first time every time because they're very concerned about personal safety as well; they don't want a vehicle which doesn't function. A number of vehicle which were rated as reasonably high quality in Australia - imported, built up from Japan - the same vehicles imported, built up into the US, rated quite lowly for quality versus the American vehicles. So, no, I think that's a wrong presumption made by that person.

MR BANKS: Okay, thank you.

PROF WATSON: Just if I may highlight a few points about the society's activity and trying to raise the level of participation of quality people in the next generation of engineers entering the automotive profession and trade. Angela, on my right, was very insightful in bringing the Formula SA competition to Australia. It sounded a little like a game for boys, but - - -

MR BANKS: Brought here by a girl.

PROF WATSON: Brought here by a girl, but actually it has turned out to be a very important educational experience of having industry-like processes in place in their last years at university or at TAFE. The respect for the program amongst the trainees is quite outstanding. If I just take the University of Melbourne's team as an example, which only managed three laps last year of the competition, which was a dreadful failure when looked from the outside, the team set itself extraordinarily high targets of light weight and so on, and did not have the durability. But the people who participated in that said that that was the best experience that they could possibly have wished for. So that's really an example of a poor performance compared to University of Wollongong, which I mentioned here as actually nearly knocking off the best team from the US. So that's the level we have moved to in the short space of time.

The important thing is that this has also brought the industry in to support, and so there's a growing relationship between the educational program and the industry. But it isn't just supporting the automotive industry. Typically only about 15 per cent

of those trained in this program actually finish up going to the automotive industry. They are picked up by other high-tech areas, for example, like info tech, vision systems, where they're into medical equipment manufacture and so on. So it's a service not only to the automotive industry but to manufacturing as a whole. Angela, I don't know if you wish to add anything about your perception of the success, and whether you see it achieving all of the objectives that you have thought for it?

MS KREPCIK: Yes, basically just to add to that is that Formula SAE is used as a recruitment tool, and it's not just a recruitment tool for the industry, but it's also a recruitment tool for academia and also the students. So that is, I guess, our priority one, and that's why we get the backing of our four major car companies: Ford, Holden, Toyota and Mitsubishi. Also as a marketing tool for the university - and we also use it as a career pathway as well for TAFE colleges to progress into degree-related courses. So Harry might want to comment on the TAFE cooperation there as well, which is probably - one of the things that the industry saw as a bonus to Formula SAE is the integration of those two.

PROF WATSON: It hasn't been easy. It is trying to create a new culture. There's a difference of views between training apprentices in TAFE and university students, each holding the other in disregard. I think if we can - and we still have a lot of work to do in bridging that gap - we can deliver a new concept in teamwork of all people offering their skill and experience into whatever team it is that it's necessary in order to deliver the process or product. So that's still a challenge for us and I think there's work to do in that area.

The other area that we mention is in comparison with some of our competitors. The lack of a partially government-funded industry research organisation which offers a wide range of facilities - particularly necessary to meet the ever increasing demands of world markets. For example, there is no facility in Australia to fully comply with the US exhaust emissions and stationary emission standards. As we mentioned here, there has been discussion about perhaps creating such a facility. We judge that in the absence of that, perhaps the proposal for continued support under the ACIS scheme is a substitute for that. But I think industry is beginning to recognise that there would be benefits, perhaps, in using opportunities to support one another in areas of non-competition, such as testing compliance and so on. But it may well be that the scheme provides an opportunity for industry to work out that approach.

Perhaps we might then focus on one of our major conclusions. We believe that it should be recognised that the Australian automotive industry efforts in raising standards extends well beyond the automotive industry into Australian manufacturing industry as a whole, as we have argued. More importantly, it enables a developing automotive, engineering and manufacturing base, which is a goal for automotive institutions to target their courses. This includes the servicing side of the

automotive industry, the employment opportunities for technological graduates which would not otherwise be absorbed.

Without the size and demands of the automotive industry, many other aspects of Australian manufacturing and technology would not be sustained and may also disappear. We would lose our present image in the Asia-Pacific area as a country with engineering expertise and educational quality, along with the significant income that could be lost for the many tens of thousands of students who come from overseas in our region for their education. So this is a much broader understanding of what assistance the automotive industry is really covering in its critical support and final recommendations. We believe that no further commitment should be made in lowering the tariff below 10 per cent until other nations with whom we trade or compete show similar levels of commitment to tariff reductions and/or removal of various non-tariff barriers at national and lower government levels, and also including worker and union protection agreements. Their willingness to do this remains highly questionable. If everything is even close to equal, most governments and companies will generally act to preferentially protect their home-based citizens and local employees.

The assistance by tariffs and the ACIS scheme are complementary, but probably different in the areas they address and should not be seen as interchangeable or alternatives. The tariff probably provides greater support to the OEMs than the suppliers, whereas the ACIS scheme is probably of more critical benefit to suppliers in terms of justifying critical mass of technological capability and development.

MR WEICKHARDT: Can I ask you to just elaborate on this because it's an interesting thrust that's been anecdotally supported at the fringes by a couple of people but not by the bulk of the people we've spoken to. I guess I relate to it but would be interested in what evidence you have for that assertion.

MR FORD: I think this is based on again more judgment than actual figures in front of us, but looking at the actual macro approach of a total vehicle, then having a local industry - the vehicle - the tariff is probably the most important direct element in terms of protection or decision because that flows right through into your cost base comparisons of ultimate pricing and positioning in the marketplace. Many of the OEMs in Australia have had, going back many years, totally capable engineering organisations. They need to keep spending in those areas of course and redeveloping their expertise over time and hence to remain competitive, they probably do need some incentives to do that, but it has been predominantly the existence of the tariff going right back to the old 95 per cent local content scheme et cetera which has helped drive that, so many of the OEMs have got a structure in place already and the cost of the local vehicle versus some other vehicle that they may substitute with is probably more directly affected in the ultimate bottom line than the amount of other

assistance, even though that is obviously beneficial to them and should still be encouraged, whereas it seems with a lot of the supplier side of the industry, part of the problem with them is building up sufficient technological capability over time as you move from the situation where OEMs - when I first started in the industry, the companies, Ford, Holden, Chrysler et cetera used to design virtually everything and then just send a design out to the suppliers, so your supplier industry had very little base of capability.

Over time, that has been changing, so they now have to do the design as well, and because of the emphasis on export, they need further capability because they're trying to service not just the local industry but quite often try and gain some export markets as well and dealing probably with third party groups outside Australia. So there is more need for them to build up their infrastructure of design and technological capability more so than it has been with the OEMs and that's really the background to why we perceive this slightly different bias between the tariff versus the ACIS between the OEM and the supplier industry.

MR WEICKHARDT: I guess that relates to your suggestion about a greater share of ACIS to the component companies as opposed to the OEMs?

PROF WATSON: A greater share than there is at present.

MR WEICKHARDT: I don't think they universally accept that; the component people probably do, but the - - -

MR FORD: Yes, and that's a judgmental thing to see how much is really required, but we raised the question of whether it should be fifty-fifty or 60:40 or whatever, but we felt that with that philosophy behind it, then the actual ratio of allocation is worth looking at to see whether maybe some re-bias towards the supplier side might be beneficial.

MR WEICKHARDT: Do you have any suggested methodology of tackling that or how the government might think about that?

MR FORD: I guess one way would be to go back and see how it's been used in the past with the funding, how much funding was applied, how did the different companies use the funding between both the OEMs and the supplier side. You would then need judgment of course, but you would have to make the judgment, "If that went here, this is what they did," and how much of that would have occurred in one versus the other without that provision of support.

PROF WATSON: I guess we can add the argument that there has been a fairly uniform policy switch by all of the manufacturers, not only in Australia but elsewhere to outsource a much larger proportion of the vehicle design and build. So

you could argue that providing more to the suppliers is consistent with this policy switch which is seen to be obviously beneficial in getting the supplier more involved with the total vehicle product and the quality of that product. But as we would probably agree, it's difficult to measure that but over the history of these inquiries, it's been very difficult to quantify direction exactly. Obviously your deliberations or your predecessor's deliberations have been very important in setting directions. From where we sit, they have been tight but probably about right.

We would like to pursue our conservative tack and say that we think that the third option in each case is the one that we judge is appropriate. We are concerned that in the lead-up to 2000, progressive reductions of about 3.8 per cent per annum were required by the industry in order to achieve the historical 2.5 per cent reduction in tariff alone for the general productivity improvements that were taking place in the world market that needed to be added to the tariff reduction. We are concerned that whilst there's been a time for assimilation and regrouping, the 5 per cent step in 2005 has not yet been experienced and that's at quite a low level of support compared with the reductions of the past which is a percentage if the level of tariff were smaller. So we believe that in view of this, option 3, which would allow the tariff to remain at 10 per cent and then a decline at 1 per cent per annum, would provide better continued support to industry. Obviously perhaps your economists are able to tell you, as they have, as to what the cost to the consumer is of doing this.

We also believe that if the tariff is phased in over a longer time period then the ACIS support should be supported over a longer time period and we had some divided opinion as to whether it should be equally or as in option 2. But we favoured option 3, believing that the lower the level of tariff, the difficulty of maintaining those quantum of engineering operations is going to be more difficult to achieve.

Our final point as we've just mentioned a moment ago is that perhaps a fifty-fifty balance between the OEMs and the supply industry in the ACIS support would be appropriate. In any case we are strongly behind the commitment of the upper bound of your value of \$2.8 billion as a desirable target. Our final remarks are about Australia as a unique automotive operation in an environment with different types of laws and rates of tariff, of traffic accidents and deaths and injuries. Our industry has responded very well in improving the quality of life in reducing accident toll in the trend over a long period of time. But we recognise that as our export markets grow, delivery into markets with differing standards for safety emissions and so on is required.

In order to optimise systems delivery, trained and experienced engineering personnel covering a range of functions and working locations are needed. Much better national solutions will be achieved where we have a strong and well-educated local industry supporting the academic and research infrastructure to work upon the ongoing solutions which will continuously need to be developed if we are to

progressively move to higher and higher levels of operating and safety performance. SAE Australasia believes that it - that is, the society and the commission - have opportunities to support this delivery.

MR BANKS: Good, thank you. Well, I'll see if Philip has any other questions of you. The only one I wanted to come to was just a point of clarification, in a way. You've helpfully provided a couple of diagrams there which probably reinforces my view that in our final report we should have diagrams to make it easy for people to follow what we're doing, and indeed the first diagram looks very similar to ones that were used in our briefing sessions early on. I wondered whether you got access to the software. But the second one, just again for the record maybe, to clarify that approach 1 doesn't - we didn't envisage that actually involving an increase in the quantum of support, and what we've done is combined the capped amount of 2 billion with the uncapped point at what has turned out to be about 800 million, I think, to gross that up to a 2.8, which we would see continuing.

PROF WATSON: We should have had our first bars equal to that.

MR BANKS: Yes.

PROF WATSON: I accept that. It was an oversight on my part.

MR BANKS: No, it's not a big - just in case someone happened to be looking at that. But the notion of conveying it graphically I think is a good one. Philip, did you - - -

MR WEICKHARDT: I guess a sort of observation and a question - I mean, one of the very gratifying things that we heard as we went around people in the industry was how well regarded Australian engineers were internationally, and those that had been seconded offshore were apparently extremely well regarded in terms of their innovativeness and their training and their attitude, and we even had German engineers concede that the quality of the people they were working with in Australia had surprised and pleased them, which would perhaps be contrary to the man in the street's first instinctive sort of reaction to what they might have thought.

That having been said, it's interesting that when you go back over the history of various inquiries - and I guess it's always easy to be wise in retrospect - the industry has tended each time - at least what I've been told - to sort of say, you know, "Don't go too far. Don't go too fast," you know, "the end of the world might come." Yet some of the changes that we've seen that have opened up opportunities for engineers to work internationally in global businesses and to demonstrate that the quality of the designs that Australia is producing for export or for international operations and to design cars internationally, have actually been created by the environment that successive industry assistance reductions have forced. So I guess the judgment issue

is when do you go too far and when do you break the piece of string or the piece of elastic. There is no doubt that the greater international engineers and our industry have really led to net benefit rather than probably to a deficit.

PROF WATSON: I think that's an interesting comment, but one of the things that your data shows is that the level of local production has just been about static. That shows to me how marginal the local situation is. You wouldn't want it to shrink much beyond that because despite significant efforts of the two Japanese companies to bolster their local activity, it has been significantly done through relying on the exports markets. I think it's pretty line ball, would be my judgment. By that evidence the market isn't absorbing as much of local activity as one would like and that's this issue of being very marginal. Obviously export opportunities all the companies are seeking, but I think they need more time to let that grow; it's not something that you can do overnight. Opportunities have to be created and have to be looked for. Sometimes they are created by happenstance, when somebody's other business is going down so it's an opportunity for us to get in there. You can't make those things happen. We just have perhaps a couple more points that David would like to make, if that's - - -

MR BANKS: Yes, sure.

MR FORD: Just to expand a little bit on what Harry was saying there, there is certainly a time phasing in, actually getting companies to be able to work into export markets where they are. That's not something which can be done overnight and relies on a little bit of luck in some instances as to whether you can ever get into a market or not. But even if you can get into the market, that takes quite a while to build up to the knowledge, expertise and the acceptance by the other market or by some home-base company elsewhere in the world to accept that Australia is going to be a supply area to those markets. The stronger the local industry is then the better the recognition is by those home-base organisations, whether they be in Europe, North America or Japan, and the more likelihood there is then of Australia being able to develop more experts. So I think we do need to nurture it over time to ensure it does keep growing. I guess partly the simply mathematics of it - 5 per cent off 15 per cent is one-third reduction, then 5 per cent off 10, even though it's still only 5 per cent, it's actually 50 per cent of the residual and in turn - - -

MR WEICKHARDT: I don't think mathematically that's the way you should look at it.

MR FORD: No, but I - - -

MR WEICKHARDT: The tariff supports a price and - - -

MR FORD: Yes. But looking at the other aspect of it though is - you have got to

achieve the cost reduction in order to offset that protection and that is where it is of significance because you are coming down a curve which maybe in the early stage you could come down quite quickly in terms of reducing your cost - the low-hanging fruit, and I was talking to some people in the industry recently again, and they were saying, "Our ability to keep driving cost reduction is much less," and certainly from an engineering viewpoint, we can see this, and that's the area of our concern and why we do say 5 per cent on 10 per cent is probably more significant than 5 per cent earlier; it's because the low-hanging fruit is gone and they're really stretching now, and that's why I think more time is needed and a lot of effort required by the company in order to keep driving the cost down to offset. So the last 5 per cent is a far more difficult task to achieve than the first 5 per cent.

MR WEICKHARDT: One last question or piece of feedback: I guess some people, when we were talking about the skill development of engineers, suggested that they thought the basic training Australian engineers were exposed to was very good, but they had some concerns that academic institutions weren't keeping up with the fairly rapid evolution to new technologies like mechatronics and things of this sort, and they didn't have the equipment to be able to expose new engineers to some of those sort of environments that they get exposed to in modern production lines. Have you got any reaction to that?

MR FORD: Well, from the University of Melbourne's viewpoint, we now take into mechanical engineering - nearly half of our intake are mechatronics students who come out with a combined degree in computer science and mechanical engineering. This is unique worldwide, and we have had graduates leaving that program for the last four years. Demand for those graduates is extremely high, and in fact our first year of pilot students, only five graduated because 13 of the students had got offers of co-op jobs, working largely in the automotive industry for a year away, the student recognising delaying their graduation was important to them and the companies recognising the value of these people, so I think we have responded.

University of Sydney has a program and so does Monash, Deakin and the University of South Australia. So there is a response to that, but they're not all at the same level that we're delivering at Melbourne, but I think that's quite appropriate. I think in the future, one of the things for the education system is to try and position itself, delivering different people with different skills, because not everybody needs to be the number 1 leader and not everybody needs to be at a constant level of performance ability. We need to recognise that.

Out of Formula SA, we see the leaders starting to emerge, and those can be encouraged to go on and grow, and other engineers who perhaps struggle a bit but have learnt a lot of skills - and certainly it's quite amazing to see in the space of three months how people who are not good - we do not give a lot of basic training at Melbourne in using the latest CAD systems, but they get their hands on that naively

in January and just recently, present the whole car design in all of the vivid 3D rendering that you would expect to see in industry. So, you know, they can accelerate and grow, given the right starting point at the right time. I think we do well with those.

MR WEICKHARDT: Good, thank you.

MR FORD: Just one last point as well which we did not mention in the paper is regarding the four-wheel drive tariff aspect. Looking at it strictly from an engineering viewpoint, the society does not see why there should be a differentiation on those vehicles, because looking at the vehicles as they're designed and how they are used, they are unquestionably being used as passenger vehicles within the Australian market, as they are in the North American market as well.

I worked in truck product development in the US. I was really working in passenger vehicle product development, despite the fact they have a 25 per cent tariff protection on trucks in the US, as well. But in the Australian environment, we see no engineering design rationale for a differential tariff between the vehicles, looking at their usage. They are not being used in outback properties for commercial-type purposes. They also create incompatibilities from a safety viewpoint on the roads, which is also of concern to us. You may be reasonably safe in the larger, heavier vehicle as you charge into the side of a Holden Barina, but the Holden Barina is much more severely affected than if they had been struck by another true passenger vehicle in terms of weight, and from fuel efficiency, energy consumption, these vehicles being much larger and heavier are also much heavier users of fuel and hence creators of CO₂, and from therefore strictly an engineering viewpoint, ignoring any arguments you may have manufactured one way or another, we see that they should not be receiving a differential tariff encouragement. These are the other vehicles.

MR BANKS: I would have thought you'd just demonstrated the opposite.

MR FORD: From an engineering point of view and a design point of view, they are quite different, but in fact they're being used for the same purpose, or a proportion of them are being used for the same purpose, and this is inappropriate in some - - -

MR BANKS: Well, they seem to be being used as passenger vehicles, and their alternative is the station wagon.

MR WEICKHARDT: I don't think we're a million miles away from where you are. The question is how you close a differential.

PROF WATSON: Well, if you just go to option 1, it would be the fastest way to do that and - - -

MR BANKS: Okay. Look, thank you very much. It has been a very interesting conversation. Thank you for the submission and for attending today. Thank you. We'll just break for a moment before our next participant. Thanks.

MR BANKS: Our next participant is NIETL/NORTH Link. Welcome to the hearings. Could I ask you please to give your names and your positions.

MR BUTERA: My name is Mick Butera. I'm executive director of NIETL/NORTH Link.

MR SMARRELLI: My name is Paul Smarrelli. I'm the manager, business excellence program.

MR BRIGGS: Colin Briggs, consultant, environmental management systems.

MR BANKS: Good, thank you very much. Thank you for attending today and for your submission, which we've got and have read. In fact, the one we have I think is the one that you provided earlier.

MR BUTERA: I've got additional copies of it if you require, Gary.

MR BANKS: No, we're okay. We've got that. So may we just hand over to you to outline the key points that you want to make.

MR BUTERA: Thanks, Gary. I suppose in commencement the two areas that we want to impress upon the commission is firstly that it's a regional perspective that we're trying to present and, secondly, that it's a grassroots perspective in terms of some of the issues that are facing some of these firms, some of these automotive component manufacturers. The northern region of Melbourne is a typical area of Victoria's manufacturing base and indeed Australia's manufacturing base. We've done various back-of-the-envelope figures because that's the best you can come up with from the statistics, but you're looking at something like 8 to 9 per cent of Australia's manufactured output coming out of the northern region of Melbourne and something like 28 to 30 per cent of Victoria's manufactured output coming out of the northern region of Melbourne, so it is a concentrated area.

I'm not sure how your geography is in relation to Melbourne, but the simplest way that I can describe it geographically is that to the east you've got the Yarra River as the boundary and to the west you've got the Maribyrnong River as the boundary and you're going out in a northerly direction in a wedge to the extremities of Hume and Whittlesea, cities which contain some critical functions for Victoria and Australia, including Melbourne Airport, for instance.

The population of the region is probably about 800,000. There are probably about 60,000 businesses, which sounds a lot, but included in that is your corner store milk bar and various trust and other subsidiary arrangements, but nevertheless they're the figures that come out. In terms of automotive, you've got about 100 component tooling and service providers to the automotive industry. That's quite a figure if you

consider that nationally in terms of direct automotive component suppliers you've got probably about 220, 250. So we've got a concentrated region for automotive component supply - very innovative, and they manufacture everything from all types of electrical motors and things that drive components electrically and electronically to bits of plastic, bits of carpet. We've got the Autoliv testing facility and Autoliv manufacturing facility there. So really you're talking about leadership in manufacturing and best practice, because you can call them automotive component suppliers but in essence they're manufacturers.

We've supplied the figures for the employment that automotive component suppliers in the region provide. They're provided as attachment 2. You're looking at about 7600 people, excluding Ford, so this doesn't include the motor company; it's just the suppliers - and sales of 1.5 billion - as I say, all supplied with the original submission. Employment has gone down from that sector because they've become more technology focused. So there are a number of factories in the region which used to be teeming with humanity, 7, 8 hundred people working there; now there are 150 people producing two and three times the output as before.

So I don't think anybody could argue that the component suppliers have been slack in terms of reacting to the challenge of the reduced tariffs. They've reacted very well to the reduction of - what was it - 57.5 per cent not that long ago to what it is now. So they've reacted well at considerable cost. They've invested in technology. They've been faced with quality issues, issues of implementing ISO9000 Q1 from Ford and others, and now ISO14001, the environmental quality standard which I'll get Colin to talk about. Colin has been implementing that.

Our role is to try and provide assistance to industry in the north through government programs that will help them on the road to better business practices and increase productivity. Colin has been doing the ISO14001 program for us. Paul has been concentrating on what we've called a business excellence program. He's currently this year working with 45 manufacturers from the north, not all of them automotive, but basically taking them through a concentrated program to increase their productivity through adoption of world's best practice, and he's doing this with the smaller folk, so to speak. There are some large companies on the program but generally they are 10, 20, 30, 40 employees that might find it otherwise difficult to embark on this sort of journey other than through the type of program that we provide, which is free of charge. It's funded through the federal government, through the local RAT program.

That's a bit of background. Our recommendations I think are in accord with most parties, including the Productivity Commission. We're saying hold the tariff rate at 10 per cent post-2005. We're saying use the ACIS scheme to provide assistance that will help them improve productivity, that will help them survive if one day in the future the tariff does disappear and we do enter the unknown world of

free trade.

MR BANKS: Are you suggesting there - because it wasn't clear in your submission - whether you were envisaging a change in the structure of the ACIS program to achieve that or whether you were simply reaffirming its role in doing that?

MR BUTERA: I'm not sure how flexible the ACIS program is in practice, so what we're suggesting is that there should be some flexibility with ACIS to enable these firms to meet the challenges that are really arising out of being faced with lower tariffs and more competition. So my answer to that is really, I don't know how flexible you are, but if you are not flexible, it should be more flexible. This will help reduce their costs and increase their productivity. It's the best form of assistance ultimately that can be given. Rather than a tariff, that's the best form of assistance that can be given. I think I shall stop there and either allow you to provide some questions or throw to Colin and Paul for some grassroots information.

MR SMARRELLI: I had some comments on it.

MR BANKS: Yes, please do.

MR SMARRELLI: My previous responsibility was general manager of an automotive company for 21 years and I have participated on many a Victorian government trade mission with Phil Goode in Europe as well as South Korea and in America with Ford and Japan with Toyota. There's no doubt the pressure we are facing in Australia is the reduction of volumes and we as a manufacturer in Australia have to compete against volumes of 20 times, but we're expected to be equally as effective and efficient in our productivity and production output, cost of production, as similar organisations operate in America, such as the Camry volume there or the Corolla in Japan. When it was being produced there we had volumes of 20,000 compared with 660,000 in Nagoya. That volume of scale places an increasing pressure on manufacturers to be productive and competitive if volumes continue to reduce.

We have now then seen during the 90s a different era where systems have come into place and the smaller manufacturers that we represent that make up 75 per cent of the manufacturing companies in our region are continuing to struggle with the volume reductions and the opportunities. Once upon a time they were dealing directly with the car companies, today they are dealing as second and third-tier suppliers and that increases the pressure on how to penetrate and win the order. So there's a lot of changes going on in terms of minimising or reducing their opportunities. But there is no doubt that the comparisons that we've done, due to those trade mission tours in Europe or Korea and Japan, is that we have an enormous advantage in Australia where tooling costs are down compared to Germany or Japan. We are flexible, we can respond to flexibility and customer service much more than a

lot of other larger organisations worldwide.

But of course the distance so far away from those markets and the volumes we have to deal with in terms of investments and justifying investments is increasingly putting pressure on these companies. We would like to see a little bit more support to the smaller sector of the manufacturers in terms of leadership programs, productivity programs, even marketing, how to sell Australian manufacturers. That was the purpose of the tour to Europe with Phil Goode in 1995, to promote Victoria's manufacturing base. But in every large organisation that we entered, although we were welcome, the question came in terms of our distances and so on and our capability to handle large volumes. So it is all proportioned to volumes and that dictates the investment levels. I have many a company on the business excellence program and I say to them, "If you can only increase your volume, you'll increase your contributonal bottom line by 28 cents in every dollar above your break-even." The same happens in reverse. If volume drops with increasing pressure due to tariff reductions et cetera, or less opportunities, then you've got the same effect in a reverse way.

So companies are placed in a reactive point of view trying to plug up problems and fix problems in terms of profitability and so on because they're mainly operating one shift or less. Can you imagine what would happen if we were operating two and three shifts in terms of investment recovery et cetera et cetera, and spreading the overheads? I've seen it over the decades, you know, from the 70s to 80s to 90s, a change in trends where opportunities are slipping away. The only thing that these companies have is to look at the possibility of diversification or become an international player which is not so easy. 75 per cent of the companies in our region have reported to us that they have greater than 60 per cent commitment to the car industry and as a supplier, is it first tier, second tier or third?

But they are facing increasing pressure on how to maintain their position, their profitability, to be able to maintain their employment levels. So it affects the economy in our region as progressively these reductions occur. We're saying, "Okay, we have to respond and we have to learn how to be more competitive and there's a lot of opportunities and room towards improvement." We don't deny that, but also I think we need to encourage these companies with some subsidies or assistance in support towards leadership programs and better management skills and productivity programs to encourage them to invest into maybe more international markets which are very expensive to start.

MR BANKS: The training programs that you've got in place that you talk about in the submission, I think you mentioned they were funded from federal money.

MR SMARRELLI: Federal government.

MR BANKS: What is the particular federal program that underpins that?

MR BUTERA: It's the regional assistance program.

MR BANKS: Okay, yes.

MR SMARRELLI: Through the NACC, the northern area consultative committee.

MR BUTERA: But they are only - a provider on a one-off basis is the problem too. They're meant to be seeding-type arrangements and then that's it. We're saying, "You need some continuity here to cover the whole region."

MR BANKS: Yes. Could I just ask another thing in relation to your organisation, how it formed? Was it an amalgamation of other bodies or how was it formed in that particular way covering that particular territory?

MR BUTERA: It grew organically from needs that leaders within the region identified. It actually came about because of the tariff reductions that were occurring in the mid-80s where you had - probably one of the leading players there was Howe Leather. At that stage in the late 80s its exports were about 4 or 5 per cent of its total output and its target was the automotive market for leather and it realised that this couldn't continue in the long term given the tariff movements. So it took some moves to form a regional network to establish close links with educational bodies, other manufacturers and government because the Victorian government at the time through the local member, the late Beth Gleeson, her constituency was in the manufacturing area which was faced with declining employment partly as a result of the tariff reductions. So again, a think tank, a local network that would tackle these problems was what grew out of that environment.

The educational sector, the universities and the TAFE sector, they were faced with their own pressures from government as well. They were effectively told, "Okay, you have to generate more income independently of the recurrent funding that we provide you with. What that means is that you have got to go out and get business." So you have got three interests sort of coming together to form our organisation, and that was probably in the late 80s.

MR WEICKHARDT: Was that about the same time as the western region REDO initiative got up to?

MR BUTERA: No, the western REDO was formed in about 95 in response to the programs that Brian Howe established for regional development. We preceded that but became part of that in 95 as well. Howe Leather, just by the bye, moved from a sort of a 5 per cent export market to exporting 95 per cent of its product by the time it had gone through all of these changes.

MR SMARRELLI: Other programs in the last two years have been a regional export awareness program which is also funded by the federal Commonwealth government. That's taken 50 companies over the two years through an export readiness program because we do appreciate - companies have to become more internationally competitive, so that has been a hands-on assistance over a series of network meetings, bringing together 25 companies per year, but this year the business excellence program has attracted 45 firms. In fact we got one extra yesterday which is 46. We're only targeting 45. That proves that there is a need to become internationally focused and lifting their game. We're getting good response from firms that want to participate.

MR BANKS: Good.

MR BUTERA: If I could introduce Colin.

MR BANKS: Sure, please go ahead.

MR BUTERA: Colin Briggs is an ex-Ford person I think to about four or five years ago.

MR BRIGGS: Retired in 1999.

MR BUTERA: Colin was responsible for the implementation of the ISO14001 program at the Ford Geelong and Broadmeadows plants. ISO14001 is - on paper it's an environmental systems program, but in fact it's an all-encompassing program once you get down to implement it that touches all aspects of the organisation. It's an issue that is coming to the fore, in that Ford internationally have indicated that all their suppliers must have this accreditation, and Colin has been working with probably up to about 18 firms by now on that program, and it has some issues that I think need to be brought out, so I will leave that to Colin.

MR BRIGGS: My main background is manufacturing. I have spent 30 years with Ford. After leaving Ford I was asked by Mick and with the assistance of Ford and the EPA to assist starting out with 15 automotive suppliers to try to achieve ISO14001 certification. The two large car companies Ford and Holden have both got memos out to their suppliers, particular tier 1 suppliers, telling them that they have to get certified to ISO14001 as they have for QS9000, and they are linking that with supply of business.

As I moved out of the bigger organisation into the smaller groups of companies that I dealt with since 2000 on, and they varied from companies with seven or eight employees through to 3 or 4 hundred employees, I found that these companies are all in a change of state continuously, either working their business on new model

programs for the car suppliers or car manufacturers and also trying to implement international systems that are either being revised or newly released and are constantly in flux of change with OH and S standards and systems, with quality standards and systems - the new ones are out now - and with environmental. I see that these companies need this assistance because staffing levels have come down, manufacturing outputs trying to go up, and they see their core business as manufacturing parts with quality.

So as they set the business planning up, they try to incorporate things like environmental management and the OH and S systems. Therefore they have needed fairly close assistance to do this, and I think they are investing in it, they see the long-term advantages in it both domestically being certified to these standards, and ultimately if they want to go beyond the domestic market to exporting, it will probably be a condition of export regardless, particularly to Europe. So they need this help and protection in these coming years to establish all these things and restructure their companies in areas where they probably haven't looked at, apart from things like stamping and machining capabilities and quality, but when they get out the entity environment or management system, they struggle because they haven't had to deal with it.

Some have licences of course with EPA and water boards, but a lot of them haven't, and they don't get into that side of developing the business and controlling the business environmentally, things like electricity consumption, gas consumption, water consumption. A lot of these things in their companies get paid en passe. Also their waste management systems of generating and packing materials and waste is not looked at; it's more focused at the parts themselves and getting them out on delivery on time - just-in-time deliveries.

So they have needed a lot of help and assistance, and it's going to be several years before all of the group that are being required to achieve the one I'm working on - ISO14001 - to get to that point, and to that point I think they need this protection and help by people that can assist them in establishing the system within their company because they don't have the headcount to allow it to carry an extra person to set this up, and some of the set-up structures are fairly detailed, and they just don't have the manpower. So I see that the smaller companies are in a change, they have come through the productivity improvements, they have come through the quality improvements, now they are into the total business management side which includes the environmental systems that I'm after and I think in the next four or five years, we'll see that all these component suppliers will get to the point where they have international accreditation for both quality environment and OH and S. Then that sets them on the scene to be a strong competitor both in Australia and external - particularly these will be requirements of businesses; if you haven't got them, you won't be able to do the business. So they just need this help currently and probably the next few years to see them through this sort of time frame, while they re-establish

the peripheral part of their business to bring a total business management system in.

MR BANKS: And currently this - I mean, your involvement in that is being funded how?

MR BUTERA: We were initially funded by the EPA and the Sustainable Energy Authority of Victoria to run a demonstration program with 12 companies and to develop materials for the implementation of ISO14001. We're currently running a program that has had to be user-pays; we haven't been able to get funding for that one. At this stage, it depends on how urgent that company perceives the need for it, how much pressure the automotive company is putting on them to achieve that result. But really they're all going to have to achieve it by the end of next year, aren't they?

MR BRIGGS: Yes, by directive.

MR BUTERA: By directive, and it's an international passport to - I mean, ISO14001 sounds like it just concentrates on the environment but companies such as Toyota, for instance, well recognise that truly implementing ISO14001 means going through the whole organisation with a fine toothcomb and that it can yield benefits beyond an ordinary quality program, because there's benefits for the employees. A better work environment, for instance, is something that directly benefits employees, as opposed to quality improvements, which they might argue benefits the shareholders and owners.

So implementing ISO14001 in its truest sense involves a cultural change through the company, both on the environmental side and on the waste management side, and it then yields a better environment as well as productivity improvements, if it's done in the right spirit. My prediction is that it will become - within the next five to 10 years, as the general public become aware of that particular standard, they will increasingly be asking companies, "Have you got ISO14001? If not, why haven't you? What are you hiding and why are you so slack?"

MR BRIGGS: The direct funding basically came from EPA and Sustainable Energy Victoria, but the Ford Motor Co also allowed me to use their intellectual property for the systems they had developed globally, environment management, and take that out from their system and use it in the smaller industry, and obviously through NIETL/NORTH Link and the EPA and Sustainable Energy, I wrote a handbook for a guide or directional guide through the standard, to make it easier for companies to go through with less consultancy assistance to go through, and again, that was funded by the EPA and Sustainable Energy, but Ford again allowed me to use their intellectual property, you might say, in the document. So they'd been contributing to it as well, to develop their suppliers.

MR WEICKHARDT: I guess it would be useful if you could just sort of talk to us

about the sort of necessary restructuring or ongoing rationalisation you see in this automotive sector. It's one where productivity improvement, cost-downs, the rest of the world getting better, is just going to keep going and going, whether we have a 10 per cent tariff, 5 per cent tariff or no tariff, and it would be useful just to get from you some sort of insight as to, in your region, what sort of processes you think the government ought to have in mind that will facilitate that necessary restructuring and rationalisation, because the industry in 10 years' time is going to look different from the industry today.

MR BUTERA: I think the best form of assistance, especially for the smaller players, is a recognition of some of the group programs that we've been providing, where firms can come in and, in a sense, get unbiased assistance from a third party or through a third party such as ourselves, because we've got no particular axe to grind, so to speak, with any particular issue. So the best form of assistance that can be provided is assistance in improving their processes on a no-obligation type basis, such as we're providing through the business excellence program, such as we're providing with other programs that seek to stimulate their ability to export.

See, a thing like ISO14001 is a large capital investment really. I mean, it's not only an investment in the consultants that they might have to hire to actually implement it, in the materials they might have to buy and in the changes they have to make to their processes, but the time that they have to allocate from within their organisation. So quality systems shouldn't be considered as an expense; they're really quite a large capital expenditure. These firms' assistance in implementing those capital improvements is the best form of assistance that the government can provide to achieve this rationalisation, to give them time to diversify, because the automotive manufacturers are really innovative people.

The nature of automotive means that you don't survive if you're not innovative. So to let them go to the wall means you're throwing away a lot of cleverness, cleverness that also affects other institutions, including educational institutions who depend on manufacturing and automotive industry for graduates to take up their causes to go into automotive, and for research and development. I think the short answer is government assistance with these big issues, either through independent third parties or through subsidies where they can go it alone with an independent contractor who they may engage.

MR WEICKHARDT: If you look back over the last 10 years, no doubt there has been a continued evolution in the region of some companies growing and some companies shrinking. Have you looked at the types of new jobs that have been created in the region in that period of time? Could you give us any indication as to where those new jobs have been? Have they been in manufacturing? Have they been in service?

MR BUTERA: Within automotive or just generally?

MR WEICKHARDT: Just generally in the region.

MR BUTERA: I'll let Colin and Paul throw in their ideas but certainly there's been an increase in opportunities for people that are problem solvers and that are team players that can harness the technical skills within organisations to solve problems and to take further steps along the productivity trail. That's certainly one area of growth within manufacturing. I won't speak for the service industry but there's been an increase in the participation rates of women in manufacturing, not enough, in the sense that they're certainly not fifty-fifty. But it's been perceived that women are sometimes able to provide more a team approach and more empathy towards getting groups together for problem solving, and I think Paul within Preslite used the quality circles, quality teams and appropriate people within those teams to achieve improvements.

MR SMARRELLI: It was very clear that the 90s were going to be different than the 80s in terms of customer support and loyalty to suppliers and therefore the pressure was on an organisation such as ours who had 200 employees. There was a lot of emphasis and focus on leadership and empowerment in the organisation so the company was transformed. Many of these companies had done the same thing, transformed their organisation from the old style of management reporting with five or six levels to about two or three levels. So all our shopfloor people were virtually supported through a team leader which were - previously less than half a million dollars - in a leadership and education and quality program that every process worker went through, learning about how to be a team player and how to look at flexibility and service. So by 1993-94, that was completed and it gave us a tremendous advantage in terms of flexibility, a reduction in inventory levels, quality accreditation both from ISO9001 to QS9000 et cetera, but at the same time our survival in terms of profitability was the diversification program that we undertook till about 1986, the staff looking at similar product in different industries, using the same resources and processes but expanding our product towards industrial products, both to accelerate our export programs as well as to capture the Australasian market in the field.

There's many companies that we talk about in our region that haven't had the same opportunities and the same will to be able to do it or support from their directors et cetera, so they're seeing that their business could slip very quickly and therefore all the good work done on QS9000, all the things that you have control over within your organisation such as people skills and multiskilling and cross-skilling, quality accreditation of all levels to meet the automotive requirements, is really going to be lost. The key players in the industry in our region we use very much as a showcase. We have about six industry tours a year to be able to have small organisations join, to visit Autoliv and VDO and venture companies like that where these companies can learn from seeing what world best practice is all about.

So there is a strong will and effort but as we all know, if your volume drops, you just lose the encouragement, you just lose the will and the viability of the business.

So we have to support export growth. We have to continue to support companies to continually improve in terms of resources, capital investments, process, leading towards a zero defects type of policy, but that costs money and you have to have the volume to be able to do that. It's all proportion, and as I said, they're all trying very hard, but they become very concerned about where next to, and some don't have the flexibility to be able to change direction, so they're linked with automotive. The hundred companies or so, 50 per cent are tied in to 80 per cent and greater of the automotive industry and then you have the balance around about the 40 to 60 per cent, so they are highly committed and we have to provide encouragement to expand and maintain their market share.

MR BANKS: Do you think from your observation that there's still some scope for rationalisation in terms of maybe some of these companies being too fragmented, not being able to get the scale themselves because in a sense there are too many of them trying to do more or less the same thing or not?

MR SMARRELLI: I think that rationalisation really has happened in the 90s, yes. There's been pretty much a rationalisation process there but maybe there could be more, yes.

MR BUTERA: But most of them are specialising really.

MR SMARRELLI: Yes, specialising.

MR BUTERA: There's not that much competition.

MR BANKS: Right, yes.

MR SMARRELLI: But maybe a greater emphasis on that through government support to be able to look at it in a special way, like we had the task of trying to get as many companies to achieve QS9000 in 1996, 97 and 98, so through NEITL/NORTH Link, we brought together all those specialist suppliers. Every two weeks we were meeting for two or three hours to accelerate the implementation of QS9000. That was extremely successful because some companies were struggling, but being part of a network meeting and helped along by the larger organisations, they all achieved QS9000 within the time frame that was expected of them. So we favour networking, we favour sharing; possibly that could be one way to bring companies together to focus on that.

MR BUTERA: Too much rationalisation might eliminate the competition that sort of creates innovation anyway.

MR BANKS: Sure, that's right. Following on from what Philip was saying, the other question I was going to ask you was whether you had a sense of - I mean, there's been quite a lot of change in your region over the past decade or so. That has probably involved already, as you're saying, quite a bit of rationalisation and so on. But in terms of the activity levels in that region, I get the impression that there has been growth or at least in aggregate terms much more sort of stability, but I'll just get you to comment on that - for example, unemployment in that region relative to the average for Victoria or whatever.

MR BUTERA: Unemployment was higher than the average for a considerable period of time because it was the period where the rationalisation within manufacturing - because it was a concentrated manufacturing area. So if that sector is shedding labour by default you're going to have a higher unemployment level. That's stabilised considerably now and although in some areas - because it's an uneven region. There are regions that are sort of higher skilled and have got higher qualification than other areas. That's diminished somewhat and I think what has gone out of the workforce is that wave of migration that we brought out here to do certain jobs and who really, by and large, at that stage of their personal development didn't have the ability to upskill really any further. Now, that section of the workforce has passed into retirement and that has helped stabilise the unemployment levels because their children are in a better position to change their direction and career.

In answer to Philip's initial question, in addition to the coaching and leadership problem-solving skills, as these companies have become more automated there has been an increase in the roles for technicians and machine controllers and computer numerical controllers. If you go to some of the still existing automotive companies that were very large in terms of a workforce, you'll still see the marks on the floor from where the old assembly line has disappeared and it has been painted over and automated machinery has now taken that role, and there are different skills necessary. You've got dramatic increases in output by these companies per labour force person compared to the past. You've got a halving of the workforce producing two and three times the output than before.

MR BRIGGS: I think in a general change over the last 10, 15 years, the automotive manufacturers themselves have scaled down and they've pushed a lot of the things that they used to do back into the supply base, and things like design and build parts, design and build facilities that are going in, where the automotive industry used to do all the designs and so forth and send it out for tender and quote and get it back. Now they send out a form of spec and say, "Well, you design, build, come and install, commission, maintain and service." A lot of companies in this area have had to go through that change in the last 10 years to become - from just a either non-production or production supplier of a part or a facility to a drawing, to now being responsible

for that part's design either in-house or linking up globally with some global supplier to take their technology and supplying it.

I think what has happened, again based on low volumes in the industry, that particularly the non-production equipment suppliers have become very efficient. They can supply things like robot lines facilities, engine machining facilities and pieces, varied designs, low-volume set-ups, good cost to these major car companies, and I think that change has been quite strong in the last 10 years outside of the industry as the big suppliers of cars and manufacturers have reduced their engineering staff, you might say, and pushed that workload out into the component supplier industry. That's where a lot of employment opportunity has come and has required that employment out in the supplier base to be smarter and more innovative than what was in the big automobile base, because they've had to work with smaller budgets, designs and delivery time. So there has been a change in workforce in that way. I've seen companies go from basically making facilities that drawings come out and every nut and bolt is detailed on the drawing to now where they're just told, "It has got to fit in that square and it has got to do this," and they go in on a quotation and put that whole lot in and commission it, to high levels of robot lines and automotive tooling.

MR BANKS: That's quite a change.

MR BUTERA: A big change.

MR BANKS: We don't have any other questions. Thank you for that. Were there any other final remarks you wanted to make?

MR BUTERA: I think in conclusion we've got a very clever industry in the automotive component sector in the northern region and we don't really want to lose that. Our recommendations on the tariff, well, they're in accord with the Productivity Commission. What we want to ensure is that the progress that these firms have made, the improvements that they've achieved are not lost and we've gone through the type of assistance we reckon is necessary to ensure that. We've covered the area of skills development. We've covered the area of capital investment in quality systems. I think it's essential that the government takes that into consideration because we've got an extremely innovative sector here.

Manufacturing as a whole is generally acknowledged as the second most innovative sector of the economy. The only more innovative sector is the IT sector because of its nature. It's evolving all the time. So to jeopardise that in the case of the automotive component manufacturers who are especially innovative I think would be a dangerous thing to do and is something that needs to be considered very carefully, both in terms of the tariff reductions and in terms of the assistance we provide them with.

MR BANKS: Good, okay. Thanks again.

MR BUTERA: Thank you very much.

MR BANKS: Thank you. We're just going to adjourn now I think until about midday. Thank you.

MR BANKS: Our next participant is the City of Greater Geelong. Welcome to the hearings. Could I ask you please to give your names and positions.

MS ABLEY: Barbara Abley. I'm the mayor of the City of Greater Geelong.

MR COPPE: Councillor Ed Coppe. I'm the deputy mayor of the City of Greater Geelong and have the portfolio of free economic development.

MR HEARNE: Terry Hearne, the acting manager for economic development.

MR BANKS: Good, thank you. Thanks very much for attending today and also for your submission. I think you provided a significant earlier submission as well that we've used. I think we made a visit out to Geelong. I wasn't able to attend, but my colleague Philip did, and you've got some reactions to our position paper, which I'll hand over to you to make now.

MS ABLEY: Thank you very much. Gentlemen, thanks for the opportunity to appear before you in support of council's earlier submission to the commission. With me, as you know, I have Councillor Ed Coppe on my left, who has the council's economic development portfolio, and Terry Hearne, who's council's acting economic development manager. Also in the audience from Geelong is Mr Laurie Miller, who's executive officer of the Geelong Chamber of Commerce. They have a 740-plus membership organisation and they have been working with and supporting the city's submission.

As you're aware, the automotive manufacturing industry and the component suppliers are a very important part of the Geelong economy, employing over 3811 people directly and a further 5800 indirectly with a payroll in excess of \$210 million annually and a turnover of \$857 million. There are a number of recognised benefits for automotive companies who are located in the Geelong region, and together they generate a mutually supportive commercial, technical and educational infrastructure and proximity to customers' facilities and close supplier-customer relationships. Other benefits include the availability of skilled labour, linkages with other local industries which supply components - car seats, automotive glasses, springs and suspension components - access to suppliers and location flexibility.

There are intrinsic links between the automotive industry and our tertiary institutions, providing significant benefits to both parties and the wider community. Training courses developed for the automotive industry have relevance for other manufacturing businesses. The automotive industry's exposure to international competition has brought innovation into education and training courses, enabling them to keep up to up date with international standards and developments. These courses have broad application for the manufacturing industry and enable other industries to benefit from the innovations and improvements brought about by the

need for the automotive industry to remain at the leading edge by working smarter and more productively.

Geelong has over many years seen major reductions to its manufacturing workforce, particularly in the automotive and textile, clothing and footwear sectors, principally as a result of tariff reductions. These reductions have had a major impact on the local community, but these have to some extent been ameliorated with retraining and the establishment of niche manufacturing opportunities. However, council considers that some degree of stability and certainty is now required in the automotive industry and welcomes the commission's preferred option of maintaining the 10 per cent tariff until 2010 and then reduce it one step to 5 per cent with no further reductions before 2015. Moreover, the continuation of an equivalent funding commitment in net present value of the ACIS scheme will enable the continuation of valuable R and D work and encourage companies to expand their export potential.

Thank you for the opportunity to convey council's thoughts on the importance of the automotive sector to Geelong. I'd now like to hand over to Councillor Ed Coppe to continue this presentation.

MR BANKS: Thank you.

MR COPPE: Thanks, Barb. First of all I'd like to thank you for the opportunity of talking to you today and also for having come to Geelong some months ago to listen to us earlier. This is really a follow-up to those conversations that we had earlier.

There are many key issues facing the Australian automotive industry, including globalisation, the maintenance of critical mass and capitalising on the growth opportunities that exist. The automotive industry is a global industry, with key investment decisions being taken in essence in four centres: in the US, in Japan, in Western Europe and in South Korea. Therefore it is essential that the key decision-makers in those centres are aware of the financial benefits of their investments and potential investments in Australia, in Victoria and in particular within the Geelong region.

Ford Motor Co and Pilkington are examples of two global companies that have already established manufacturing facilities in our region. However, it does not necessarily follow that the global auto makers or their major global suppliers will continue to support investments in Australia over the next 10 to 20 years. It is imperative that we at a national, state and local level continue to refine our economic policies to attract such global investments which will lead to strong, prosperous communities, which is ultimately our objective and I think your objective as well.

Also of consideration is Australia's poor reputation overseas in the area of industrial relations. Whether this reputation is deserved or not, whether it's real or

not, is really not the issue; it is whether investments will be directed away from Australia to the detriment of both current and future automotive participants. It is critical that the industry on a national basis maintains critical mass of manufacturing in order to develop the available skills to meet the global needs in terms of quality, cost and innovation, not only in terms of the auto industry but in higher value smart manufacturing overall. It is widely believed within the industry that the current production volume of approximately 350,000 vehicles per year in Australia is the minimum necessary to maintain that critical manufacturing mass.

Federal government policy combined with the state government initiatives will determine the future viability of the vehicle assembly process on which the component sector, the tooling sector and future careers rest right across manufacturing in Australia. On a global scale Australia is a very, very small player. However, Australia has been able to develop its automotive assembly industry and supporting industries through the growth of exports, resulting in some \$5 billion worth of exports being achieved in 2001. Current plans suggest that the industry will continue to grow provided there is continuing support for research and development, innovation and skills growth. This growth in the automotive industry will be developed through continued investment by global and local companies not only in assembly and manufacturing operations but in particular in developing the basic infrastructural industries needed to support the assembly process and smart manufacturing in general.

Crucial to this operation will be improved market access, essentially in the Asia-Pacific region, with a particular emphasis on South-East Asia. Current Australian policy allows ready access to other countries to the Australian market as witnessed by the volume of automotive imports in 2001. These were, according to the ABS, 14.1 billion of which 4.8 billion were imported into Victoria. One particular threat to Australia's automotive industry is the concept that what we are doing today is good enough, and that global auto makers will continue to invest the huge sum then necessary to maintain this level of activity.

Clearly the level of imports versus exports show that we are not making the range of types and models which consumers demand today, therefore we need to develop a more strategic approach supported by the vehicle assembly and component sectors to plan for future investments in the models and volumes necessary to maintain critical mass. We need to further develop our expertise in low-volume manufacture, in rapid and low-cost tooling, in innovation, in design and so on. Critically we need access to the larger markets of the Asia-Pacific and the Middle East to achieve the economies of scale necessary to justify the level of investment needed by those global operators.

We note that some work has been done by the Department of Foreign Affairs and Trade supported by the Australian automotive international business group and

other industry associations to improve market access for Australian vehicle assemblers and component suppliers together with the tooling suppliers. However, progress in this matter is slow and it will be some time before Australian companies have equity in terms of market access. One key benefit of the Australian industry is that it has, of necessity over the last hundred years, developed considerable expertise in low-volume manufacturing, especially in components and tooling. With the increasing global trend to customisation of vehicles to suit consumer needs, this expertise is being more widely recognised by the major automotive companies particularly in the northern hemisphere, and I would add that this is the trend across manufacturing generally of anything that requires world-scale operations.

The Australian industry has presented these skills through the Access Australia Concept Car projects supported by the Australian Trade Commission and industry. As a result, new contracts for supply of Australian skills and components have been reached. This will have significant impact on the Geelong region. If we are able to continue to promote this particular skill to the benefit of a number of Australian and indeed Geelong companies, particularly through CARnet which is a group of auto component manufacturers in Geelong which have combined to promote the capabilities of Geelong's automotive sector and to seek out new opportunities.

The Geelong region is well placed both geographically and infrastructurally to enable it to grow and develop its involvement with the industry. For example, within the Geelong region we already have the Australian Automotive Research Centre based at Anglesea which offers a range of vehicle tests and homologation services on a commercial basis. The research centre is developing its links with institutions of higher learning such as Deakin University and the Gordon Institute of TAFE in order to provide research opportunities for undergraduates and graduates while at the same time developing its links with international automotive industries such as those in the Kingdom of Thailand and India.

In addition we have available the facilities at Avalon Airport for the transport of vehicles for testing in order to offer international clients the best possible access in a logistical sense. It is well recognised that the Australian industry has firmly embraced the principles of innovation, research and development, particularly aluminium and magnesium. Rapid prototyping of cooling supported by world-class electronic capabilities will assist the global manufacturers to achieve their objectives of reducing product development time and significantly reducing product development cost. In this way the Geelong region is well positioned to attract new investment, to promote the growth of the existing industry with the support of the federal government.

We were disappointed, however, that the special federal government assistance in the form of the \$20 million over three years for the four automotive trade specialists in the Prime Minister's special automotive envoy has been withdrawn. In

order to ensure the continued growth of automotive exports, both in goods and services, we particularly ask the federal government to consider reinstating this program. The funding could be made available through the Australian Trade Commission as over the past three years or could be negotiated directly with one or other industry associations who now represent both the vehicle assemblers and the component sector.

In summary, the Geelong region has a long history of involvement with the automotive industry. The existence of a successful advanced automotive industry in the Geelong region provides a nucleus and critical mass from which a broad range of advanced manufacturing businesses can grow and prosper. A successful automotive industry is a key building block of a prosperous Geelong region. The Geelong region has a core of research and development production capability which is recognised internationally. Future developments in the Geelong region will depend on the continued support by the federal government as the Australian automotive industry meets the challenges of globalisation, as it seeks to develop the necessary skills base with superior opportunities within the industry in a range of sectors including research and development, innovation, light metals and components.

We have a good industrial relations history, excellent infrastructure and availability of skilled men and women in a range of disciplines. We support the commission's preferred option in terms of tariffs and recommend a more proactive approach in strategic planning, inward investment attraction and marketing of Australia, Victoria and regional Victoria in particular as worthy participants in the global industry initiative. Thank you.

MR BANKS: Good, thank you. Thanks very much. If it suits you to continue, then we will probably come back with questions at the end.

MR HEARNE: Thank you once again for the opportunity of presenting a further submission to the commission's hearing. As you're aware, City of Geelong is within 80 kilometres of Melbourne and the city has a long history and involvement with the automotive industry, particularly with the establishment of Ford Motor Co and Pilkingtons, followed by many other organisations in the Geelong area. We have presented to the Productivity Commission the issues relating to the economic necessity of maintaining the existing level of manufacturing and exports. However, given the global nature of the industry, we are particularly concerned about its future development from 2002 to 2020.

We believe that the basic elements for industry growth exist within the Greater Geelong region both in terms of skill and infrastructure. However, we also recognise that there is a great deal of international competition from future investments and that the business case on which such investments are made will be to some extent influenced by economic incentives offered by competing countries such as Thailand,

Indonesia, China and India. The Australian government provides a number of industry assistance measures which include those for the automotive industry but are not specific to it; for example, the export market development grant scheme, Aus Industry, Invest Australia and so on. However, the experience of automotive companies is that such programs are difficult to access and are not clearly understood across a range of appropriate sectors. Therefore we recommend that the government review the range of industry assistance measures with the view to making these measures more readily accessible, particularly in the sense of regional development.

We are concerned that companies which provide the basic underpinning of the vehicle assembly industry - and here I talk about firms such as plastics, glass, rubber, steel, aluminium, magnesium et cetera, together with the components sector and the tooling sector - are encouraged in a positive way to generate additional economic activity, and of course provide additional skilled employment. We believe that this question of highly skilled, highly paid, value adding employment across a range of technologies necessary to sustain automotive assembly industry will have a significant flow-on economic effect throughout the Geelong region. Empirical evidence suggests that the availability of such skilled personnel is one of the key factors in attracting new investments to any given region.

As an example, we note that the government of the Kingdom of Thailand said in 1986 that the development of their automotive industry was necessary to create a consuming middle class, which would have positive, beneficial impact on the whole economy of the kingdom. The Republic of South Korea likewise in its strategic planning said that development of a viable domestic and export automotive industry was necessary to provide both more highly paid positions and notably to support the burgeoning Korean steel industry.

Such strategic thinking goes beyond the normal business case for any given enterprise, which of course is predicated on delivering value to the stakeholders and shareholders. In the case of the City of Greater Geelong, we together with the state government, the unions, the institutes of higher learning and the general population now look to the federal government policy planning to provide some strategic direction on which local planning can be based. Infrastructural and logistical planning are necessary parts of the long-term economic development of the region.

We believe that the City of Greater Geelong can provide the necessary input to attract future development, provided the federal government industry policy is globally competitive, recognising the current existing restraints associated with market access, particularly in the Asia-Pacific region. We also recognise that the federal government, through the Department of Foreign Affairs and Trade, is taking action to improve market access for Australian-based companies in the Asia-Pacific region through the negotiation of a number of free trade agreements. These FTAs are understood to be with Singapore, Thailand, Japan and United States. We

appreciate this initiative of the federal government in carrying out this program; however, it should be recognised that the economic benefits will take some years to flow through.

Finally, we would urge the commission to recommend economic policies and frameworks that would benefit the wider community, including regional cities, through innovation, skills development, emerging technologies and value adding manufacturing. That concludes our presentation.

MR BANKS: Good, thank you very much. We might just go through with some questions that we've had.

MR ABLEY: Sure.

MR BANKS: You've raised a number of issues there. I guess I'd particularly value just a bit more elaboration from you. I mean, you're uniquely placed to give a regional perspective and one of the issues we've been wrestling with in thinking of a way forward is what the regional impacts might be, the adjustment implications and so on. Now, there's been quite dramatic change in the assistance arrangements for automotive over the past 10 to 15 years, and perhaps just to get you to elaborate a little bit on what's happened in your region in response to that. I know there were times that were tough for a while there, but things seem to be a bit better now. But just give the opportunity generally to talk about how the adjustment process has worked in your region.

MR HEARNE: Well, as you say, we did have a tough time through the 90s. However, due to retraining, a number of new businesses starting up in the Geelong region, in fact our unemployment now is at a significantly low level, which is very pleasing to the economy. There's a whole new pride in Geelong. People are very positive about the future of Geelong. There are a number of new businesses and industries setting up in Geelong, and obviously Deakin University and the Gordon technical college were of vital importance with the retraining and to give people skills in other particular industries, owing to the wind-back in the automotive industry during those years.

MR BANKS: I think you talked about niche manufacturing opportunities that have developed in that period; I think that's what you were referring to as well.

MR HEARNE: That's exactly right.

MR BANKS: What sort of areas are they? Are there particular areas within manufacturing that you can identify that seem to have been the ones that have - - -

MR HEARNE: Well, particular niche manufacturing in the automotive industry

and this has been - - -

MR BANKS: Within the sector itself.

MR COPPE: One specific example is we now have a company called Coachworks in North Geelong, which builds bus bodies, and it's building up a good base of exports from outside of Geelong, internationally as well. That is one specific example, but there are many others. We can supply with a list of those at a later date, but we didn't come prepared with a list today.

MR BANKS: I mean, I wouldn't put you to great trouble, but some more examples of the sort of businesses that have been emerging over that period would be quite helpful. When you said your unemployment rate now is quite relatively low, I think Philip told me when he went to see you last time that it was something like 1 percentage point below average.

MR HEARNE: State average.

MR BANKS: State average.

MR COPPE: For about 18 months now we've been at or below the Victorian average, on average, about 1 per cent.

MR BANKS: Which compares to what, say a decade ago?

MR COPPE: A decade ago we would have been comfortably twice - well, 50 per cent more than the Victorian average comfortably, and certainly this is the lowest, relative to the Victorian average that it's been for some time. We went through the structural manufacturing changes in the 70s and the 80s and the early 90s. Companies like Ford more than halved their employment levels in our city and as a result of the amalgamation of the councils, a greater strategic focus than had been possible before then, and with the help of the state government in particular to put in place infrastructure projects - and in our case the waterfront project is a very clear example. That has changed the focus of our city and has stimulated considerable investment in other industries and in particular in tourism. While those changes have gone on in our base manufacturing business for the region, they've also got smarter about the way they've worked. They work together much more cooperatively now. We have a Geelong Manufacturing Council, all the major participants are all involved in that and they work with the educational institutions to find ways to improve the skill levels and find those niche opportunities that in the end will be the way to make that manufacturing in our region successful. But it does require to keep that base, that nucleus that exists today, because it's what provides the stimulus for the new ideas.

MS ABLEY: I guess there are two other areas of confidence that we can readily discuss too and the first, I'm sure - with Mr Laurie Miller in the audience today from the chamber of commerce - I believe the chamber of commerce in Geelong has the largest membership base of any chamber of commerce in the state with 740-plus members and that surely is a great example of a growing industry, and I think too the confidence that Deakin University has displayed in the city by establishing additional courses and a campus on the waterfront in Geelong and that's tremendous news for us. Also, the Gordon Institute of Technology has expanded its course base, many in the automotive-related areas, so again it's a great confidence booster. But we need our industries, we need to be able to expand in what we're doing to actually sustain that too and to ensure that there are jobs for people who graduate.

MR BANKS: We heard yesterday from the union movement deriding some of the jobs that have been created that have replaced automotive jobs as being sort of part-time, low wage jobs. I don't know whether you have much sense of the kind - I think the implication of what you're saying is that there has been a move in skilled jobs in part related to what the universities and Gordon Institute have been doing there. Could you comment on that, on the types of jobs that you've observed being created in the Geelong region?

MR COPPE: In the last financial year our full-time employment grew by 8 per cent in our region which is comparable to the growth in part-time employment. So we are growing both part-time employment opportunities and also full-time employment opportunities. Many of the job growth is in areas that require skills. Even the jobs in restaurants require skills and the Gordon TAFE, for example, now has courses available to train people in the skills of serving customers and also in the skills of preparing the dishes. They're all highly skilled jobs.

You look at Deakin, growing as an institution in Geelong since the day it was established, but it continues to grow. Barwon Health is one of the premier health providers in the country, I believe, and it's been growing as well. So the growth in jobs has been both full-time and part-time and the growth in those full-time jobs, while they're perhaps classified as service jobs, in and of themselves they are also highly skilled jobs as well.

MS ABLEY: I think the confidence is also reflected with our team's performance in the AFL.

MR BANKS: I don't think we'd better go there.

MR WEICKHARDT: I'm interested in your comments about the number of general industry-assisted measures that automotive companies have found difficult to access. You talk about a disappointment, the federal government assistance for the four automotive trade specialists and an automotive envoy has been drawn. I guess

there could be an argument from those not in the automotive industry as to why there should be specialist assistance for automotive and why not a general program to effect all industries, particularly smaller companies perhaps that don't have the resources to export or access overseas market themselves. I would be interested in any comments from your practical experience as to how the government could make some of those more general industry-assistance schemes have a better "bang for your buck", generate more yield and be more useful not just to automotive but to other industries.

MR COPPE: I think automotive is a special case. Almost all of the literature that I've come across certainly in the travelling that I've done suggests that most countries recognise that a strong automotive assembly operation industry is critical to developing the skills base in complex engineering and manufacturing that then spreads those skills throughout the community to build a capacity to do like-minded manufacturing and assembly. So because of that, many countries, and we've seen that in Asia over the past 20 years, have established regimes to encourage the development of their own manufacturing capabilities, particularly focused on manufacturing and the assembly of motor vehicles.

So I think motor vehicles are a particular case in point because there are a number of countries that are substantial markets for us potentially that have in place very restrictive regimes which they purposefully adopted to expand their own manufacturing and smart manufacturing technologies using the automotive industry as a starting point. So that's why our feeling is that the automotive industry is a special case.

MR WEICKHARDT: I understand that, but there are always people on the outside of these; the man building buses in Geelong probably would say, "Why not me?" So I guess I was sort of trying to find out what is it that's stopping automotive industry and general industry accessing the more general schemes; how could they be made more effective?

MR COPPE: Terry might be able to answer that more specifically.

MR HEARNE: We understand from the automotive companies in Geelong that these are difficult schemes to access. Apparently the guidelines are extremely difficult to follow and it's very difficult for them to fit into the criteria necessary to apply for the grants and what they're suggesting is that if that capacity was broadened, that would give more them the opportunity to apply for those grants; that's anecdotal evidence, we're taking their word for that as being the case.

MR BANKS: I have another question. I think you referred in your own remarks to the need to develop a more strategic approach supported by the vehicle assembly and component sectors to plan for future investments and the models and volumes

necessary to maintain critical mass. Could you just elaborate on what you mean there? It wasn't clear at that point in your discussion as to what responsibility you saw falling to government versus the industry itself.

MR COPPE: In the end, the government needs to create a framework that enables the participants in the industry to evolve their own strategies in response to market demand. But one of the things that's clear about the Australian automotive industry is that we have a very narrow range of products that we manufacture in Australia and in order to capture a bigger portion of our own domestic market, but also capture a bigger portion of the growing niches that are developing in our potential export markets, we also need to look at how we might work together, the industry participants and a government framework to encourage the innovation and the research and development that will stimulate our manufacturing of those broader ranges of products.

MR BANKS: I mean, we've got plenty of evidence, I guess, talking to firms, that they were quite conscious of that particular vulnerability that you talk about. They themselves were trying to leverage off their existing platforms to get into, for example, four-wheel drive and other areas. They seem to be simultaneously pursuing the same strategy but individually, you don't think that's sufficient?

MR COPPE: We ought to look at the framework that we apply to the industry to see what elements of that framework we can use to encourage that behaviour. But in the end, it's those companies and those participants in the industry that are the ones that will be executing the programs, not the government.

MR BANKS: All right, thank you.

MR WEICKHARDT: You make a comment about industrial relations saying, "Geelong has a good industrial relations history." I would be interested in any comments you would have to make about how that's been created, or how it could be enhanced and preserved. I noted recently Pilkington were in the press. I'm not sure whether that was at their Geelong facility but this is an industry that's sort of wrestling - I think every part of it is wrestling with how to tackle this issue with some sort of lasting benefit to all the parties, so any contributions you've got in that area would be gratefully received.

MR COPPE: Terry, do you have any contributions to the industrial relations debate?

MR HEARNE: Well, as far as we're aware, the industrial relations scene in Geelong has been very stable. That recent Pilkington event was at the Dandenong plant, not at the Geelong plant.

MR BANKS: In another region altogether.

MR HEARNE: Yes, that's right. But I think it's about perceptions and what we've said - I think what Ed said earlier - is that the perception of the Australian union movement has perhaps dominated to some extent the industry. However I noticed Doug Cameron's comments on Monday to say that the industry records in Canada and South Korea were worse than Australia's, so we're really not that bad after all.

MR BANKS: I should say on that, we'll be checking some of those statistics.

MR HEARNE: Right, to see whether that's right. So from our point of view the scene in Geelong has been very quiet over a long period of time and we're very grateful for that because it indicates that the industry has settled down and they are receiving a fair day's pay for a fair day's work.

MS ABLEY: A common goal.

MR COPPE: And certainly that's easier to achieve, the link between personal achievement - the personal satisfaction, if you like, and community involvement, and the corporate involvement - it's easier to achieve that in a regional setting than it is in a metropolitan setting. It's certainly across the board, something that you see in Geelong, that there is a much tighter link between the organisation and the people within the organisation and the community in which they live. The motor vehicle industry, as we know, as it becomes more efficient, as it moves towards more in-time manufacturing, it makes it more vulnerable to hiccups anywhere in their chain. In order to pursue the development of a manufacturing motor vehicle industry in Australia that is world competitive, they need to enhance those logistical manufacturing R and D links between all the participants, which will increase their vulnerability over time. Certainly finding a way that industrial relations can work seamlessly to the benefit of all the participants, including the employees, is a critical part of the mix. I noticed the comments by Ford of having perhaps a potential one industry union. That in itself is an interesting way of tackling the issue because the greater the sense the employees have that their decisions will impact on their own future, it increases the likelihood that the goals of the organisation and the goals of the individuals themselves are seen to meet.

MS ABLEY: And I think it's totally correct, what he says, because again, when we started our discussion our region - and the size of Geelong is unique - even though it's 80 K's just down the road and we have a fantastic football team. I'm not just pushing that point as a joke because it's really important. Ford are great supporters - that industry is a great supporter of the footy club and that lends itself well for community indicators about how a community feels about itself. So it really is important and when you do talk about ownership, it's the integration of community and the industry. While it might be hard to prove conclusively, it's there very much

anecdotally. In my view I think too, with exactly what you're saying, that very real ownership of people who actually work in the industry, it lends itself to industrial harmony. People think twice about perhaps going out for whatever reasons a strike may generate in Geelong. It doesn't usually start in Geelong; it may well be a flow-on from Dandenong down to Pilkingtons in Geelong. I don't know whether that makes sense.

MR BANKS: Yes, I think it does make a lot of sense. In fact I think one of the first places that Philip and I went was Albury-Wodonga. We got a similar story there, I think. Of course Albury-Wodonga is much more isolated from the big capitals than you are but you are saying that even though you are, in some respects, a fairly short distance from the metropolitan area - - -

MS ABLEY: It's a distinct character, it's entirely separate - could be in two worlds but you've got the best of both worlds so I'd invite you to move to Geelong.

MR BANKS: The other point, I had another read of your first submission and a point that you, as mayor, stressed I think in your covering letter was that you were concerned that any changes to industry assistance which - and I'm quoting you - result in the closure of just one of Geelong's major automotive companies would have severe consequences in regards to unemployment and so on.

It is therefore vital that the commission provide a firm foundation for the industry to plan its future.

We certainly thought long and hard about that in terms of coming up with the options that we did. I suppose I just wanted to draw out from you as to whether you felt our preferred option, which you've supported, meets that test that you initially set in your submission.

MS ABLEY: It does. I mean, it's unbelievable - - -

MR COPPE: Yes, it does.

MR BANKS: Okay.

MR COPPE: With the rider that we would like to see greater focus on the development assistance to develop the capability for those exports.

MR BANKS: Okay. Good, thank you. Do you have anything else?

MR WEICKHARDT: No, thank you, it's been very useful.

MR BANKS: I don't think we have any other questions.

MR HEARNE: Can I just a little bit about the CARnet in Geelong, and I think Ed touched on it in his speech, but it's a group of the automotive manufacturers and component manufacturers who have formed themselves into a CARnet. They're recognising that they have a critical mass, that they share expertise among all the companies, and they're actually looking for niche opportunities to promote the opportunities and the capabilities of the automotive industry in Geelong. They've formed themselves up into a pretty tight little network. I don't know whether you've seen that brochure - - -

MR WEICKHARDT: Thank you.

MR HEARNE: - - - but it just shows the depth of feeling and expertise in the automotive industry in Geelong, and how they're taking steps of their own initiative to seek out further opportunities and niche markets which they might be able to fill.

MR BANKS: Good, okay, thanks, we'll have a look at that. Thank you very much, we wish your football team all the best - - -

MR WEICKHARDT: Within limits.

MR BANKS: - - - and the Geelong region - within limits; depending on who they're playing, of course.

MR COPPE: A premiership would be sufficient.

MR BANKS: All right. Thank you again for attending the hearings.

MS ABLEY: Thank you for the opportunity to appear before you. We wish you well in your endeavours.

MR BANKS: Good, thank you very much.

MR WEICKHARDT: Thanks very much.

MR BANKS: We'll break now and we resume at 3.30 with the Australian Industry Group.

(Luncheon adjournment)

MR BANKS: Okay, we'll resume. Our next participant, our final participant is the Australian Industry Group. Welcome to the hearings. Could I get you to give your names please and just indicate the capacity in which you are here today.

MR SMITH: Yes, I'm Stephen Smith, the director of national industrial relations for the Australian Industry Group.

MR BANKS: Thank you.

MR PENSABENE: Tony Pensabene; I'm national manager economics for the Australian Industry Group.

MR RUSH: David Rush; I'm manager of policy development for the Engineering Employers Association South Australia. We are the South Australian affiliates of the Australian Industry Group.

MR BANKS: Good, thank you. Well, thank you very much for attending today; at some inconvenience I think, but that worked out all right in the end. Thank you also for the submissions that you've put in, the earlier submission and what we received this morning, which is a response to the position paper. As we indicated, I'll give you the opportunity to highlight the key points and then we can have some discussion.

MR PENSABENE: Well, I might start the process. Obviously we're pleased to have an opportunity to comment on the Productivity Commission report. I mean, the point we want to make is that we've welcomed the approach the commission has adopted in terms of a fairly open consultative style with the industry, and I think that's to be complimented. We want to comment on four main areas. One I think is on the question of what we mean by a viable automotive industry, because I think that is crucial to, I suppose, the assumptions behind the response to the report. The second thing we want to comment on is the issue of lowering tariffs after 2005; third, in terms of the future of ACIS, and finally, on a number of workplace relations issues, and if I can just take each of those very briefly.

In terms of the viable automotive industry, we know that the commission has commented that a viable industry is one where the industry competes successfully globally without any form of industry-specific government support. Now, in terms of general viability, we would recognise that's an ideal goal to be achieved in the long term but I think our main reservation relates to the fact that we think that's a standard that really is hard to find which exists at this point of time in the automotive industry, both in Australia and globally. We feel that adopting the concept of general viability would be extremely difficult to apply in the long term because again it would be hard to identify which countries would have an industry that qualifies as viable in terms of the definition used by the Productivity Commission.

So I suppose what we're saying is that when we look at the industry, we need to be cognisant of the fact that there is assistance and that assistance applies in a number of countries amongst our competitors and we have no basis of arguing or believing that after 2010, the situation will change. We just don't have any knowledge to back that up. So we feel that the commission should adopt an approach, a view that is consistent with one where countries do support their automotive industry. So that's the first point.

The second point in terms of tariffs, we note that the commission in its modelling work has looked at the question of allocated gains and noted that those gains would be quite small, and in particular there is the issue to what extent terms of trade may have an impact on turning what are small gains into maybe a negative loss for the economy. Also in the commission's report we know that there is a much greater weight given to what's known as dynamic considerations rather than the modelling. One of those particular dynamic benefits has referred to, I suppose, the pressure put on an industry to be competitive as tariffs come down and our view on that is certainly competition is important within the automotive industry and globally the pressures of competition we believe are quite intense, that the intensity of the nature of the industry is reflected in very low profit margins.

If you look at the submissions that the commission received from the four car companies, three of the car companies in particular made reference to the fact that the nature of competition in the marketplace has changed. They operate on tight margins, profits are low and the need to continue to strive to achieve greater efficiency is there and faced by the car companies now. We back that up by two statements from both the US Federal Reserve and the Australian Reserve Bank governors who have both highlighted the fact within manufacturing that the nature of competition, the degree of pricing power which manufacturers have now has substantially eroded and we believe that those conclusions are true for the automotive industry in Australia.

We're a bit concerned about the fact that the implications of countries like China and Thailand developing their automotive industry hasn't properly given enough consideration in terms of its implications, and overall I think what our argument essentially boils down to is one that in an environment of intense competition where margins are tight, where companies have got no other obligation other than to continue to strive for efficiencies and to seek to innovate and invest, that the move from 15 to 10 in 2005 is probably sufficient a pressure on the industry to be competitive and to remain competitive and we believe that the tariff should remain at 10 per cent after 2005 and that no lowering of the tariff should take place until our competing countries have done more to bring down their tariff levels or their non-tariff barriers consistent with Australia.

The third point we talked about is in terms of ACIS, and again we note that the commission has made a point that ACIS is a transitional funding program in the light of trade liberalisation, and clearly that's written in the ACIS legislation. But we also feel that the program is equally important in terms of encouraging investment innovation. There is quite substantial evidence that the program has been successful in generating investment and innovation. We, in our earlier submission, highlighted the fact that after four years of falling investment in the car industry, this is the first year we're likely to see a positive gain in investment from the industry and we believe the ACIS program has played a substantial role in that and the car companies have acknowledged that in their submissions.

Similarly, we also believe that the spillover benefits are quite substantial. I know that the commission has raised the point about whether those spillover benefits are any larger or weaker than in other industries, but I think the car industry plays a crucial role in both the manufacturing sector and the Australian economy and, as I believe BHP Steel's submission presented to the commission in the last few days has highlighted, there are critical links to industry that indicate that spillover benefits are quite substantial. So our basic position is, we want to see ACIS continue beyond 2005 but again we believe that that the programs should continue to 2010. But we're reluctant to take a view on any of the particular options, largely for two reasons: (1) I think it's almost impossible to say what the nature of industry assistance around the world would be after 2010 and essentially for that reason we feel that we're unable to take a position on any of the particular options and in a sense, suggesting that this should be something to be reviewed much later on, closer to 2010.

MR BANKS: Thank you.

MR SMITH: The submission that we lodged in May was a quite detailed submission on the workplace relations issues and we stand by what we said in May. But there are a few issues that we would wish to highlight at this stage. As the commission acknowledged in its position paper over the past decade, significant improvements have been made in the flexibility and the productiveness of automotive industry workplaces. Ongoing and sustained productivity improvement is essential if the industry is to survive and prosper. We submit that companies are very aware of this in the sector and that they are implementing and refining their strategies to improve productivity levels.

A very important component of those strategies is maintaining a harmonious and productive workplace relations system at their enterprise. The legislative amendments that we proposed in May we believe would assist in creating a better workplace relations environment at the enterprise level and we were pleased that the Productivity Commission in its position paper expressed the view that those changes would provide a better balance between the rights of parties to take industrial action and the rights of those employers and employees who may suffer significant harm

within other enterprises and as other members of the community.

Since we forwarded that original submission to the commission in May we have identified two commonsense proposed legislative amendments that we believe would be particularly helpful in improving the workplace relations environment within the automotive sector. We're not saying that is all that's required because there are many worthwhile legislative reform proposals that we support as set out in our earlier submission. But those two proposals are particularly important. The first is to enable the commission to order a cooling-off period and suspend protected action to allow for a dispute to be conciliated or mediated, and secondly, we propose that where it's demonstrated that significant harm is likely to be caused to innocent third parties, whether they be other companies or employees in other businesses who may be stood down, the commission should have the right to terminate, the right to take protected action, in those circumstances.

We, in conjunction with FCAI and FAPM, put a full-page advertisement in the Financial Review in late June setting out those proposals. We've written to the Prime Minister and the leaders of the opposition and Australian Democrats outlining those proposals, and we do very strongly believe that they would create that better balance within the industry. In addition to that issue about legislative reform, the Productivity Commission in its position paper expressed support for discussions taking place at the industry level between peak bodies. We can advise the commission that a program of discussions is under way between AI Group, the ACTU and key unions in the automotive sector.

Within those discussions two key objectives have been agreed upon, firstly, to secure a competitive future for the vehicle industry and secondly, to secure a stable industrial relations environment in the industry. The parties have met on three occasions to date in July, the last meeting being yesterday, and a further meeting is scheduled for 6 August. One of the issues that the Productivity Commission suggested should be on the agenda for those discussions is the issue of protection of entitlements. We're happy to discuss that issue and we intend to discuss it with the unions. But we believe that measures to protect employee entitlements are best implemented by governments across the whole community.

We're very supportive of the national initiatives that have been taken by the federal government, the changes to the Corporations Law that were made in recent times and the introduction of GEERS. There's a fact sheet attached to our submission that goes through those initiatives. But in relation to redundancy, one issue that was raised in the commission's position paper, given the extent of redundancy benefits in this industry, any scheme which endeavoured to fully protect those benefits would be extremely costly and we believe it would act to inhibit industry competitiveness. The eight-week redundancy pay arrangement under GEERS is consistent with the current community standard. It provides a level of pay

that cushions the blow for employees who are faced with their loss of their entitlements and it enables them to search for another job over a reasonable period without suffering hardship.

As has been announced by the ACTU, they intend pursuing an improved community standard through a test case in the Industrial Commission and that case will no doubt take its course. But at the present time, eight weeks is the community standard and we don't believe that it is practicable or desirable for an industry level scheme to be implemented in the automotive sector to protect entitlements. We do favour the federal government legislating for GEERS and, yes, thank you once again for the opportunity to express our views.

MR BANKS: Thank you very much for that. I guess, as I was indicating earlier, you've raised a number of questions to do with defining viability, the question of the tariff and ACIS. In terms of probably getting the best value out of this time that we've got available, they're things that we've discussed pretty much ad nauseam with a range of participants so they're all important. But we thought we might make best use of the time talking about the workplace relations issues that you've raised, although depending on the timing we may be able to go back to some of the other ones.

We found with some of the members of the industry they've also, in a sense, deferred to you on some of those matters. So it seems probably it's your comparative advantage to talk about those things. So just on that, I guess maybe a good place to start was, given that you had a meeting yesterday - just to get a better sense of what these meetings involve - that you talk about on page 9 in relation to the program of discussions, as you call it, and the two key objectives, in terms of the Australian Industry Group representation on that, in general terms, who is involved from the automotive industry?

MR SMITH: The discussions are taking place between the Australian Industry Group and the ACTU and key unions and we a representative body for sectors including the automotive sector, so we are - - -

MR BANKS: So in a sense, the secretariat, if you could call it, is doing that function or do have you co-opted executives from particular firms to get involved in those discussions?

MR SMITH: No. The participants in those discussions are the senior executives from the Australian Industry Group but there is a process of course of input into those discussions from companies within the automotive sector and reporting back to companies on the outcome, but it would be premature to outline in any detail the content of those discussions because it's too early. We're working through a broad range of issues within those two key objectives. There aren't any tangible outcomes

at this stage but the discussions are positive and we're hopeful that some progress might be made on achieving those objectives, but we don't like to put unrealistic expectations on it. There's a dialogue and that is important in its own right.

MR BANKS: Okay, good. The other thing I was just going to clarify is just your comment that since you forwarded your submission to us you've identified two proposals. They're the ones that you put the ad in the paper about and wrote to the PM about. Are they entirely new or are they developments of proposals that you had in the submission? We just weren't sure to what extent - for example, the cooling-off period one seems to be one that you'd already endorsed in a way that was in legislation. Has that changed from that? Then the second one in relation to third parties seemed to more or less coincide with one that we'd stuck in box 5.2 in our position paper.

MR SMITH: The cooling-off period proposal is a proposal that was in the earlier submission. The ground for termination of bargaining periods based on significant damage to a third party is not specifically dealt with. We did propose in the earlier submission that there should be increased grounds, like suspension or termination based on significant damage to an enterprise or to an industry or sector of an industry, but it was still looking at more those particular groupings, whereas this is a proposal based around significant damage to third parties. For example, if there is another dispute that stops the automotive industry then it will have a significant impact on the employees of the vehicle assemblers because the other disputes that have occurred in recent times have led to RDOs being brought forward, annual leave being used and so on. So it's not talking about any damage, it's talking about significant harm to those other parties - it should be a ground for the public interest recognising that the rights of those parties are as important as the rights of those that are participating in the dispute.

MR BANKS: Okay. Just to clarify, that provision relates only to third parties?

MR SMITH: Yes.

MR BANKS: So does that overtake your earlier one which is slightly ambiguous on that issue or not?

MR SMITH: It doesn't overtake it, it sits alongside it.

MR BANKS: I see.

MR SMITH: Take the earlier proposal where we suggest that instead of having to get over this hurdle of significant damage to the economy, if an enterprise that is impacted upon by industrial action is suffering significant damage, then that should be a ground, but that's talking about that enterprise, or we also put forward a proposal

about the welfare of employees within an enterprise. So it's talking about the participants in the industrial dispute whereas this proposal sits alongside those and it recognises the third parties that may be affected by an industrial dispute.

MR BANKS: Okay. I think I've been under a misapprehension about the earlier one which I thought had been primarily about third parties. In some respects you could argue that when the workers go on strike, they're intending to get the management's attention and therefore there's got to be an implication of damage or potential damage for that to be an effective tactic. To what extent would the combination of those two provisions make it impossible for unions to go on strike?

MR SMITH: Not at all, because it comes back to a matter of degree. We're talking about significant damage. That terminology is recognised within the act at the moment. In the Tristar dispute, for example, the commission did terminate the bargaining period based on significant damage to an important part of the economy, but there was evidence before the commission of the significant damage that was being caused to the automotive companies to other companies within the industry and it is quite a high hurdle to overcome and that criteria - that significant damage - has gone all the way to the High Court. So it's terminology that is recognised within the act. It's not any damage, it's significant damage.

MR WEICKHARDT: Does that have to be significant to a third party or to third party employees? Does it have to be to a significant number of - significant damage to me as an employee is that I individually lose my pay. Have you worked through how this might work in practice?

MR SMITH: I think you would have to look at the relevant population. So if you were looking at significant harm to the welfare of employees which is the criteria that we've suggested, then you'd be looking at the employees of the relevant company that is involved in the industrial action on one hand with that earlier proposal, and this later proposal about third parties, you would have to look at who those third parties might be. Evidence would have to be taken to the commission about this significant harm that is being caused to a third party, whether it be a group of employees or another company that might be facing bankruptcy because of the damage that is being caused to that third party. I don't think it is wise to be too definitive. It's a matter of the evidence and the commission then would decide whether that is a valid circumstance or not.

MR WEICKHARDT: It was put to us on Monday by both the ACTU and the AMWU that there were a number of deficiencies around these proposals. The first one, I think a fairly obvious one, is that a legislation by itself is not going to engender the sort of harmonious cooperative productive work environment that everyone is seeking and so these changes might be necessary but they're certainly not sufficient and I think they went further to say that the changes could be seen to be provocative

and counterproductive, but they also went on to say that they felt these changes were an infringement of Australia's commitments to various ILO standards. Indeed I think they alleged that current workplace agreement legislation was against ILO standards. Do you have any view on that?

MR SMITH: We don't agree with that. If you look at the proposals on their merits, we find it very hard to believe that any fair-minded person could fault the rationale behind these proposals. What is wrong with a proposal for a cooling-off period where an independent body, the Industrial Relations Commission, looks at the circumstances and decides in the public interest and in the interest of resolving the dispute, should there be a cooling-off period to assist in the resolution of the dispute? That's the proposal. We find it very hard to believe that that isn't fair. The other one is similarly fair. It's not a matter of saying that if any damage is caused to anyone, then the industrial action should be stopped if significant damage is being caused. Why should someone lose their car or lose their house because someone else in another enterprise has taken industrial action that's led to them being stood down for a lengthy period of time? That doesn't seem fair and it's a matter for the independent body, the Industrial Commission, to weigh up those competing rights and once again decide what is fair, so we think it does pass any test of fairness.

MR WEICKHARDT: I think their point would be that in this industry with just-in-time manufacturing processes and a supply chain that's totally integrated and in Australia probably with sole suppliers, that the industry structure means that damage cascades very quickly and so this industry is uniquely vulnerable from a supply point of view, but it means from the union's point of view that they would argue, I think, that these changes would effectively proscribe any form of industrial action that involved strikes because that would inevitably trigger these clauses.

MR SMITH: We don't accept that. Once again it comes back to that issue of significant damage and significant harm, but it isn't just a matter of terminating the rights of parties and that is the end of that. Under our proposal, if the commission orders a cooling-off period, then the commission conciliates and assists the parties to reach a resolution. So it is in everyone's interests to avoid industrial disputes in this industry for all of the obvious reasons. But I certainly agree with the earlier comment or question that you know it's not going to be the be all and end all, because when you look at the various disputes, the Walker dispute, the Tristar dispute, the BHP dispute, in each case unlawful industrial action was taken, so changing the law we believe would provide a better balance, but it still relies on all of the parties, including the unions, to honour the laws and be committed to adhering to them.

MR WEICKHARDT: I think that was the other point that they also made and that was that if legislation is sort of contrary to what a sufficient number of people would see as being fair and reasonable, then unless you go in and shoot people, it's hard to

actually get some sort of compliance with that legislation. I mean, in the cases of those particular forms of industrial action, why don't you believe that the legislation that was in place was effective or was used?

MR SMITH: The legislation was used. For example, take the Tristar dispute, the application was made to terminate the bargaining period; Redmond C of the commission did do that, but it didn't lead to the unions recommending a return to work; quite to the contrary, they continued to support industrial action for several days which caused enormous damage. It doesn't mean that the laws aren't effective. You know there has been a focus on compliance and some very strong views have been expressed about this whole issue of compliance with the law and I don't think you can blame the laws. I think everyone in the industry, including the unions, need to recognise that the laws need to be adhered to. Everyone has the right to suggest changes to those laws but no-one can be a law unto themselves. The laws do need to be complied with and if they were complied with, we believe that there would be a better balance struck between the competing interests of all parties and these few other changes to the legislation that we're suggesting would assist that process.

MR BANKS: Would you think that if there hadn't been a compliance with those earlier laws that these ones would have been complied with in that circumstance, in other words, that these would have been effective in stopping the action that was so debilitating at that time?

MR SMITH: I could speculate on that but I think the unions are well aware of the damage that has been done by some of these disputes and that it's not going to be tolerated on an ongoing basis that they continue to not comply with the law. I think the unions are well aware of that and we can only suggest that if the legislation was amended in the way that we've suggested, then that law would be complied with and if the law isn't complied with, then there are remedies open to parties to address that.

MR BANKS: I think on that matter the union - one of the unions, I think the AMWU - was saying that in fact the question of damages which relates to the question of significance I suppose has been greatly overstated and that in fact there was very little damage at all because firms were able to use flexible work arrangements and bring forward rostered days off and so on, so that (a) there were only a few disputes and (b) they caused very little damage.

MR SMITH: There were many assessments made of the damage associated with some of those disputes, like the Tristar dispute, the Walker dispute and the extent of the lost sales ran to hundreds of millions of dollars and we have no reason to believe that those assessments aren't correct. Sure, in some cases companies did bring forward RDOs, have people go off on annual leave, but in other cases, particularly where the companies were operating at full capacity, that lost production was, as we understand it, lost forever and the stand-downs did occur at many companies in some

of those disputes and people lost salaries as a result.

MR WEICKHARDT: Are there any other countries where this sort of legislation is in place where one could look at its practical application and history over time?

MR SMITH: I don't think you could take this specific proposal, a series of proposals, and import them into another system because if you have a look around the world, the systems are very, very different. We have a unique system here and these proposals relate to that unique system. Now, in the UK, for example, there is a process whereby unions have to demonstrate their worth to the employees through more or less a bidding process and if they obtain the relevant level of support of the employees in a workplace, then they have certain rights that come with it. Now, we have a very unique and unusual system here that you wouldn't design if you were starting from scratch where you've got large national unions with enormous resources bargaining with single enterprises. So there are power differentials that exist there where these large national unions have obviously a lot more power than one specific enterprise, but that's a system that we have inherited and these changes propose to provide more of a balance in that system to address the competing interests of all the parties.

MR WEICKHARDT: Has the AIG looked at how other countries have solved this sort of problem, because the sort of pressures that the unions are concerned about of the remorseless pressure of cost-downs, continuous productivity improvements of lean production, just-in-time delivery, they all exist around the world and Australia with 1 per cent of the auto market is not going to change that and yet the concerns of workers exist around the world; industrial action takes place elsewhere around the world. Somebody yesterday said that the debilitating thing about the Australian situation is that it's sort of being done bit by bit and every time it's done by an individual firm it has a cascading effect elsewhere. They highlighted a situation in Germany where it tends to be done more in a concentrated fashion on an industry basis. Have the AIG looked at what happens elsewhere and got any views as to whether there are any lessons from any of that?

MR SMITH: Yes, we have, and we're very familiar with the practices over in Europe and so on but we are not supportive of this push by various unions like the AMWU for pattern bargaining to take place within the industry. The Workplace Relations Act provides for an enterprise bargaining system for very good reasons, that it assists in the development of mature relationships at the enterprise level and it focuses on the needs of the employer and the employee. That union would like to see an industry bargaining situation whereby everyone in the industry has the same outcome but we believe that that is fraught with risks. Not only do you have the difficulty of having an enormous potential industrial dispute every time that industry or pattern agreement expires - you only have to have a look at the construction industry for an example of how pattern bargaining has led to some very undesirable

outcomes in that sector.

We believe that the focus should be at the enterprise level, focusing on productivity improvement, the issues that are relevant at that particular enterprise. But what is needed is a way of looking at this whole industrial relations issue in a holistic manner, and these legislative changes that we've proposed and the other suggestions that we've made to assist companies at the enterprise level to build closer and better workplace relations will be the best solution to the problem, not some industry deal with the AMWU or other unions. Now, there are some genuine industry issues that should be discussed at the industry level like skill shortages, for example, and others, but issues of pay and conditions are enterprise issues, we believe.

MR BANKS: Would you agree that, at least de facto, there's an element of pattern bargaining that occurs anyway? I mean, we've been around talking to a lot of firms in this industry and the component producers would say to some extent they simply have to wear the deals that are done by the assemblers, and they complain a bit about that but we do observe flow-ons, particularly in relation to wage outcomes throughout the industry anyway.

MR SMITH: There are going to be issues about comparative wage justice and so on. Unions are always going to have common claims but one of the things that is misunderstood about this focus on pattern bargaining is that it is more an issue about the right to take protective action than it is about the issue of outcomes because the unions have this process of serving bargaining notices throughout an industry, pursuing common expiry dates, and then as we found in the year 2000 in the manufacturing sector in Victoria, sending out thousands of notices to employers saying that, "On this exact same date, industrial action is going to be taken in pursuit of an enterprise agreement," at each one of those enterprises. Now, that's not enterprise bargaining and protected action was introduced into the act for genuine enterprise bargaining. Now, there can be issues discussed at an industry level through all sorts of mechanisms. The award system is one way of dealing with it and so on, but it comes back to the right to take protected action which is very much an enterprise right and it should remain that way, we believe.

MR BANKS: We made the point in our submission, getting back to what Philip said earlier, that at the end of the day it's important for all parties to be seeking win-win outcomes and we made some comments about whether the existing union structure was delivering that and we thought that it wasn't and that in terms of broad directions, there seemed to a bit more going for either a single union across the industry or enterprise based unions. I don't think you have referred to that issue at all here. You would have seen in the papers today or yesterday that Ford have endorsed the notion of industry-wide unions and some other players have as well. We've had a little bit of discussion about that. I think your comments earlier on may indicate that

you don't favour such an approach apart from the question of how you would implement it of course. Could you comment on that?

MR SMITH: Yes. In our earlier submission we didn't propose that there would be a single union in the industry, but we did highlight the problems which employers face in dealing with the division of structure within the biggest union within the industry, the AMWU. We suggested that there would be benefit if the AMWU restructured its operations to ensure that all of the members of their union involved in the automotive sector were in the same division, because we put the proposition that it is logical to assume that that union would be far more reluctant to organise industrial action at a component supplier if the same division of the union had members that were going to be quickly stood down at the vehicle manufacturers. At the present time we've got the vehicle division mainly covering the manufacturers and the metals division covering the component suppliers.

We also pointed to the problems associated with the infighting between the workers' first faction in Victoria and the national leadership, so we focused more on the issues within that one union. But on the broader issue of whether there should be one union within the industry, if you were to start again with a blank piece of paper, then you certainly wouldn't have several unions within the industry. You have these large national unions that are bargaining with individual enterprises. There would be sense in looking at it from the perspective of a more enterprise based approach, but the reality is, not only do we have the AMWU in this industry, we have the NUW, the CEPU, the CFMEU, the LHMU and the AWU to name a few.

When you have a look at the component companies, there are component companies where the NUW covers all or most of the employees. There are others where it is the LHMU and others where it is the AWU and we would think that where those companies have relationships with particular unions that they would be unlikely to be supportive of going to a single union unless it is the union that they're comfortable with. So I think there would be opposition to that proposal when you got down to the detail of which union and how might it be structured and so on. So that's why we are not proposing that.

MR BANKS: The AMWU didn't volunteer whether it was likely to implement that restructuring that you have suggested. That brings me to the question of just data on union membership across the industry, whether there is any information on to what extent the various unions are represented in the industry. Do you have any information of that kind? You've said in broad terms that the vehicle builders are highly represented for the assemblers and the metals division for the component producers, but is there more detailed information available than that?

MR SMITH: I haven't seen any and it is certainly not the case that the vehicle builders' section of the AMWU is not amongst the component suppliers. There are

several very significant component suppliers that have that union there and it changes a bit from state to state, but certainly the metals division of the union would have a very significant majority of the members. I haven't ever seen any specific figures on membership within the auto sector in particular.

MR BANKS: Okay.

MR WEICKHARDT: Just going back to this issue of enterprise versus industry versus national approach, I think the unions put that there were three tiers at which issues ought to be considered, that some should be considered at a workplace enterprise level, that some should be tackled at an industry level and some should be tackled - I think they said at an award level, let me say at a national level. I guess probably from some of the employers that we've seen in the last day or so, there would be a broad agreement with that. I think there would be different things that were in each of the buckets in their mind. But issues of entitlement, for example, I think most people have said they see it as being difficult to tackle at an enterprise level. You cite that GEERS is acceptable at current community standards. I'm not sure which community you surveyed to be confident that it meets current community standards. I suspect there would be some communities that would allege that it didn't meet their standards. But if GEERS is not seen by certain communities or industries or employees to be acceptable, do you have a view as to whether this should be tackled at a national level or an industry level?

MR SMITH: Firstly, with those three different levels, the national, the industry and the enterprise, we would agree that there are issues that should be addressed at each of those levels. The issue of protection of entitlements is an issue we very strongly believe should be addressed at the national level. We have been living and breathing this issue for two years now, extensively involved in deliberations about the issue. We have put enormous resources into analysing that particular issue and the Productivity Commission's own staff paper on it was a very detailed analysis of that particular issue. But in terms of the issue at the industry level, we would see those being issues like skills shortages and others. We don't see wages, for example, and expiry dates as being appropriately at that level. That's the enterprise level. So we would agree that there would be some differences of view about what would be in each of those three buckets, but probably not a difference of view that there are three buckets.

Just on GEERS and that eight-week issue, for every company that would be providing more generous severance pay than eight weeks, we believe that you would find 10 or 20 that are providing the award standard. In fact, companies with less than 15 employees don't even have to provide the eight weeks and when you look across our thousands of members, sure in the major unionised workplaces there are often generous redundancy schemes, but to try and put a circle around a group of employers in a particular industry and say that some more generous arrangement

should apply there, when you look at the costs associated with any scheme that would protect those over-award redundancy contingent entitlements, it would be just so incredibly expensive and inhibiting that anyone that did those sums I think would agree.

The other thing is those entitlements of course are contingent entitlements. No company goes into a redundancy agreement providing for three or four weeks per year of service with a thought that they're going to pay that to every employee one day. It's very much about a package that will be paid to a small number of employees to restructure the business, to keep the business competitive and so on. I think if a detailed analysis was done of that issue, those views would be very hard to dispute.

MR WEICKHARDT: Can I sneak one in while we - - -

MR BANKS: Yes, you can.

MR WEICKHARDT: Just on disputes, the AMWU have provided some statistics attempting to look at international comparisons of industrial disputation in this industry. I think they had collected the data themselves. If you have any data or data sources in that area that would allow us to test that data, we'd be very interested in it.

MR SMITH: We haven't got that data at the moment, but we can look at whether or not we can collect that data quite quickly. We've read the AMWU's submission just today and have no idea whether it's correct or not. The list of countries is a bit selective. For example, the US isn't there, Japan isn't there, and in the automotive sector you would think that those would be two very significant parts of any picture. But we don't know whether those figures are accurate or not, and the problem with international comparisons is always what you're measuring, are you comparing apples and apples, and we have absolutely no idea whether that is the case with those statistics.

MR WEICKHARDT: Yes, as I think the unions themselves hinted at, if you're measuring industrial disputation on the basis of days lost, that may not actually measure the full extent of the pain or cost to the organisation that's sort of had to restructure rostered days off or overtime or things of that sort. So again, if there are ways you've got that would help to analyse or test that, it would be useful.

MR SMITH: The point that we want to make on this is that we're certainly not submitting that there is a high level of industrial disputation in the automotive sector; quite the contrary. The performance of the automotive industry in Australia in terms of industrial disputation is very good historically. Currently we've had a couple of major disputes, but the problem with the auto industry is that it is a victim of its own efficiency and profile. For example, the BHP dispute related to the supply of steel,

but it was not just a dispute that impacted upon the automotive sector potentially. Steel is supplied to the whitegoods industry and any number of other industries, yet in the public perception it was seen as being a dispute in the automotive sector. The recent dispute relating to Pilkington was seen once again as an automotive dispute, but that company has far more customers in the building industry, for example, than in the automotive industry.

So it is often a public perception that there is a lot of disputation in this sector, and that is not the case. It is a sector that's performing well from the point of view of productivity and efficiency, and there are issues that need to be addressed to improve workplace relations in the sector, but those issues are being addressed.

MR BANKS: You just mentioned the Pilkington dispute. Is that the kind of dispute that you would imagine being prevented by this provision on the termination of right to take industrial action with significant damage?

MR SMITH: It would come back to whether or not significant damage is being done to a third party, but in that particular situation it didn't get to the stage where the automotive industry was affected. The dispute was resolved. So it highlights that before that hurdle of significant damage to a third party was reached, there would be a whole process leading up to that, where the rights of parties would very much apply. There is a bargaining system in place. People have the right to take protected action in certain circumstances, employers and employees, but it's only when it gets to the stage under our proposal of significantly harming other parties that the public interest is served by those rights being modified.

MR BANKS: So what you're saying is it would be actual damage, because in your proposal in the submission it talks about damage likely to be caused, and I was concerned that that could actually have a bad incentive effect on negotiation because it would leave one party, the obvious party, I guess, to seek to terminate something on the basis of what might be likely. Pilkingtons might be an example where instead of getting the outcome we got, it would have had to be resolved in the AIRC.

MR SMITH: There was a High Court case last year that did look at this issue in respect of the criteria that are in the act at the moment about significant damage to the economy or an important part of it. The High Court said that it can't just be mere assertions about damage; it has to be based on tangible evidence and information that damage is likely to occur. So it does put an onus on the parties that are bringing those applications to have more than just assertions that this is going to occur. It has to be a very tangible thing. Under our proposal it shouldn't be the case that a company has gone into bankruptcy because they've been significantly damaged. The likelihood of it is the important criteria. It shouldn't be the case that someone has lost their car, for example, because they've suffered significant harm. But it has to be based on evidence that that is likely to occur if the commission doesn't step in and

address the situation.

MR BANKS: Yes, but I suppose it still gets back to the timing of the application that's made and whether that might end up truncating a process that wouldn't have actually caused damage, might have got a result, and whether you're therefore kind of subverting the ability of the players themselves to come to terms.

MR SMITH: This is the benefit of those applications being heard by an independent tribunal who is able to weigh up the interests of all parties and decide what is in the public interest. Now, there is an act that provides rights to parties and that can't be overlooked, but there's also rights of other parties. People have a right to work and companies have a right to stay in business and to be profitable. So it is a matter of the independent tribunal weighing up all those competing considerations and making the most appropriate decision and that's where we believe these amendments would provide more balance to the system than what occurs at the moment where parties sometimes take industrial action for lengthy periods of time and significant damage can be caused as a result of that to innocent third parties.

MR BANKS: The current provision in relation to the Australian economy or an important part of it, is that expressed prospectively as a likelihood or is it an actual impact?

MR SMITH: It is the threat of or actual, so it can be either.

MR BANKS: Okay.

MR WEICKHARDT: Given that we've I think agreed that this legislation might be necessary but certainly not sufficient to engender the right sort of atmosphere and productive work relationship at an enterprise level, what is it that you see this sort of peak council that I understand is meeting - or you're talking, representing the industry, you're talking with unions - what is it that you think that can do that will have any positive impacts at that sort of enterprise level, or do you think this is really something that can't be tackled at an industry or a peak level?

MR SMITH: I wouldn't like it to be portrayed as a peak council. This is a discussion that is taking place between representative bodies, AI Group and the ACTU and the key unions. It's a process of dialogue. As we said, three meetings have been held, one more is scheduled. We'd expect that discussions may continue on for some time to see whether anything positive could be agreed upon. But the focus of those discussions is about genuine industry issues. As I said, I wouldn't like to create unrealistic expectations about what might come out of that process, but with goodwill and looking at all of the genuine industry issues that can be discussed and will be discussed, you'd hope that some positive initiatives could be developed, but I put it no higher than that.

MR WEICKHARDT: Is each one of those unions you mentioned before involved?

MR SMITH: No, at this stage those discussions have taken place between the ACTU, the AMWU and AI Group, but we understand the ACTU is keeping a broader range of unions informed about having input into the process, but it may be that the forum is expanded at some stage. But I repeat, I don't want to elevate those discussions to a level that they shouldn't be elevated to. It's just a dialogue between representative bodies about important issues that are genuine industry issues.

MR WEICKHARDT: Okay. Just going back to the legislation issue for a moment, BHP made a submission yesterday and I don't know whether you've seen that, but if you haven't, we'd be interested in any feedback you had on one issue they raised which - I'll probably get this wrong, but it related to the use of the current legislation as to whether or not certain activity could be regarded as industrial action or not.

MR SMITH: Yes, I have read that submission and it is a very worthwhile suggestion that BHP has made because as they say in that submission, during the recent BHP dispute, there was some question about whether the illegal picketing action that took place could be the subject of intervention by the commission to terminate a bargaining period based on significant damage to an important part of the economy, for example, because the courts and the commission have held that picketing is not industrial action. It may well be unlawful, but it's not industrial action, so we would agree with the suggestion that was made that if significant damage is being caused to an important part of the economy or under our proposals to third parties and so on, that if that damage is arising based on, for example, picketing behaviour, then the commission should be able to intervene and deal with that.

MR BANKS: Okay. Just again, looking at some of the proposals that have come forward in a little bit more detail and just thinking about the auto sector, the provision for compulsory secret ballots is one of the proposals. In your judgment, would that have prevented any of those recent major disputes that have occurred in the car industry in the last 12 months having that in place, particularly given that the AIC has powers now to order secret ballots if it thinks that they'd be helpful in resolving a dispute.

MR SMITH: We have had a very good look at the proposals that the Commonwealth government have put up in the legislation that before the senate. We've traditionally thought very long and hard about recommending any secret ballot proposal because if the structure is not right then it can potentially lock people into positions and cause more problems than it solves. But looking at the legislation and the detailed proposal that has been put up, we believe that on balance that does

provide an appropriate mechanism for employees to express their democratic right to decide whether or not they want to participate in industrial action, and we think it would have been helpful in some of these industrial disputes.

It's hard to argue with the proposition that people shouldn't have a democratic right to express their view about whether or not they wish to take industrial action. It's a process that applies in many other countries around the world, secret ballots, and as we said in our earlier submission we support that legislation.

MR BANKS: Is it correct that the compulsory secret ballot legislation in WA has been little used? This has sort of been put to us. Are there any lessons to draw from the experience over there?

MR SMITH: I don't know enough about that legislation to comment, sorry. I could get a view on it but I wouldn't like to comment on it.

MR BANKS: One of the points that was put to us about our position paper, which was just a position paper and didn't have as much detail as we hope to get into our final report was that we hadn't said enough about the story of what had led to some of the positive developments in the industry. When the unions were talking to us, in particular they mentioned award restructuring as having played a significant role. I thought I'd just give you the opportunity to comment on that, how much a role you think that may have played in the improved performance of the industry.

MR SMITH: I think the changes that have occurred to the system over the last 10 or 15 years have been very important. The commission has identified the significant productivity improvements that have occurred over the last decade or so and I think all of those different changes to the system have been important: the second-tier process, the process of enterprise bargaining being introduced, the award restructuring process, the award simplification process under the current laws. All of those changes have made an important contribution. You couldn't say that is the reason on its own for the productivity improvements that have occurred but it certainly has assisted. Particularly enterprise bargaining, we believe, has had a very tangible contribution to the productivity improvement that has occurred over the last decade.

MR WEICKHARDT: Gary mentioned before this issue of union rationalisation, if we're moving into single unions, and I heard your response to that. But if employees and employers were minded perhaps in different situations with different unions involved to move towards a single union situation, is there something in the current legislation that inhibits that sort of activity occurring?

MR SMITH: Not really, no. There are mechanisms there for enterprise approaches to be taken. There is always arguments about the best system to have with

representation. Like I said earlier, I don't think if you were designing a system with a blank piece of paper you'd design the one that we've got. But in looking at what we've got and what the options are, moving forward, I think any proposal would need to be carefully considered.

MR WEICKHARDT: Yes. I mean, the union has made the point that it's up to them to decide and I guess at the end of the day unions represent employees so that, prima facie, seems reasonable. But if there's something that actually stops, you know, sort of commonsense and the will of 99 per cent of employees actually moving in that direction then that would be unhelpful I guess.

MR SMITH: I think it is - you know, there is merit in saying that a union has the right to determine how it is structured of course. But there's also a public interest role in terms of the structure of representative bodies, the role of representative bodies, you know, when those representative bodies have certain rights under legislation. So I think it is a legitimate debate that can take place amongst the community generally about whether or not existing structures for representative bodies are right or not.

MR BANKS: I think we've probably gone through most of the questions that occurred to us following some of the earlier discussions we had and we're grateful for your responses to that. You've now got the submissions I think from the ACTU and the NWU. They, no doubt, will comment on things you've said. You have an opportunity to do likewise, so if there are any further points you'd like to make in response to those, feel free. We're looking for submissions by 2 August, which isn't very far away, to give us time to finalise our report. Given that it's 10 to 5 I'll have a very quick look to see whether there are other things that we might ask you. One thing - I've got it open at the page, but in relation to cooling-off periods what would be the trigger for seeking such an action?

MR SMITH: Under our proposal and under the Genuine Bargaining Bill that is currently before the senate an application can be made by a party and the commission then decides whether or not it is in the public interest and would assist in the resolution of that dispute to establish a cooling-off period. So it really goes back to an independent tribunal to assess the situation and determine, once again weighing up all of the relevant considerations, whether the cooling-off period is appropriate in the circumstances. We don't think you could set out in great detail all the criteria that should apply to such a period.

MR BANKS: The only other question I was going to ask, maybe just to get you to comment - and maybe, Tony, you'd want to respond to this. But you've talked about ACIS. You've conceded the transitional rationale for it. But then you say equally important is the role in encouraging investment innovation. Again one could see that role as a transitional role in assisting industry to adjust to tariff reduction. But is it

implicit in that that you see ACIS as having a permanent role?

MR PENSABENE: I think that's the position we want to put because the act does say "transitional arrangement" but equally it does say that it's there for investment and innovation purposes, so we believe that the evidence of the act in terms of what's been happening in investment and innovation has been very positive for the industry. It has helped them to lift their efficiency and to bring costs down and to remain competitive. I suppose our proposition is essentially that if it's consistent for other countries to provide for support of that nature in order to provide a world-class competitive automotive industry in other countries, then it's equally appropriate for Australia to do so. Given that there is no evidence that what's happening around the world is going to stop after 2005 and there is no evidence it's going to stop after 2010, we really can't see any logic in taking away good positive incentive for the industry to continue to improve its competitiveness in a global sense. The investment has been important. The innovations that are taking place are important and essentially we think there's a role for that to continue into the future.

MR BANKS: But I mean, if these incentives were so good as a permanent feature for auto, why wouldn't we be giving other industries billions of dollars also to help them innovate and - - -

MR PENSABENE: Well, I think that partly relates to the question of what is the policy adopted in other countries, and there is a policy in other countries to provide support for the automotive industry and, secondly, because of the importance in the industry of the spillover benefits that flow - - -

MR BANKS: I mean, the farmers could come to me and say, "Look, there's the cap in the EU and it's unfair and we should have the same agricultural policy as the EU," and so on. I mean, what we have to look at is that there's a balance of considerations which relate both to external and domestic figures and come up with a balance that we think is appropriate for Australia. But the other thing that I'd comment on, and we'll look at this a little bit more closely, but I suspect that \$2.8 billion over five years would be relatively generous by international standards apart from the tariff. But we know that Deloitte has done this detailed work and we'll have a look at that.

MR PENSABENE: I think part of the answer to the question you raise about, you know, how generous the program is or isn't, I suppose in the end goes back to the question of profits. I mean, in the commission's report you make the point that you believe the profits have held reasonably well. Well, I - - -

MR BANKS: Or actually improved I think over the time these tariffs have come down.

MR PENSABENE: On the measure on that on absolute terms but I think if you

were to do a measure based on profit relative to the turnover, profit margin measures, you might find that the profit margins have not actually improved at all over the last three or four years. There's no data for the last year or so, so we can't do that, and in actual fact the industry in terms of profit margins is quite low. I mean, ABS has measures of profit margins. You can do a crude measure of profit margin based on your data to turnover and when you do that you find that the profit margins of the auto industry are abysmally low.

MR WEICKHARDT: I think that one of the problems of that argument, Tony is, you'll find that they're similarly low almost everywhere around the world regardless of how much money has been thrown at them.

MR PENSABENE: And that's why, I think, we've argued quite strongly throughout our document that both in regard to tariffs and also in regard to ACIS that the nature of the market is such now that low pricing power means that the industry has to continually innovate and continually invest and continually drive down costs, and that's why ACIS is so important because it provides a very strong stimulus of the industry to do that. We also would say that this dynamic argument that you've presented in a sense is not needed because, you know, going from 15 to 10 is going to be an additional cost-down pressure at a time when the industry already operates at maximum pressure in terms of cost-down and efficiency in a global sense. That also raises the points we've said; what are the implications of China entering into the market in terms of the impacts on pricing power and the impact on Australian producers? I think that's a really big unknown issue and I think it should have some bearing in terms of the way we see assistance going forward.

MR BANKS: Although, I mean, I must admit that China has been raised with us by at least one of the motor vehicle producers as a major opportunity. In fact a couple of them see it as a major opportunity, which may not be unrelated to the fact that they themselves are getting into auto.

MR PENSABENE: Well, the global car manufacturers see there are opportunities in that regard in terms of moving to China but I suppose that the issue is, how does that visibly relate to what happens in Australia in terms of our own industry?

MR BANKS: We weren't proposing to ask any more questions but I should give you the opportunity if you wanted to make any more comments. Are there any points that you wanted to raise additionally?

MR RUSH: Yes, thank you, Mr Chairman. I guess just some concluding comments. Picking up from a regional perspective, South Australia is heavily dependent upon the automotive industry as a manufacturing base. It's the single largest manufacturing sector in the state at around 14 per cent of industry value added. It employs the largest single group of individuals within the manufacturing

sector at 13 and a half thousand people. It's a very important industry with some major spillover effects for tooling industries, foundries, plastics industries, all of which are at a critical volume in the state at the present time. We certainly welcome the Productivity Commission's report as a constructive contribution to the debate and our association is very supportive of much of what has been said today by the Australian Industry Group. We do share a common membership base with the FAPM and the FCAI and we are mindful of the views which are not entirely consistent between the two associations, as you would expect. However we do support the majority of the recommendations that have been put forward by those particular associations. I should add also that the Engineering Employers Association is also participating in the discussions that are being held at a national level between the AI Group, the ACTU and the AMWU. So our association has also been integral to those discussions.

MR BANKS: Good. Thank you very much. Thank you for taking the trouble to come here and talk to us about your submission. I take it the submission itself is in final form? Is that correct? Good, okay. So thank you for that. I should just ask, for the record, if there's anybody else who wants to appear in these hearings before I close them.

MR BANKS: The gentleman who's been a spectator for some time - I might get you gentlemen to vacate the seats - I'll call you forward and if you could give your name please. Thanks very much.

MR HINGSTON: Alan Hingston is my name.

MR WEICKHARDT: And you are with?

MR HINGSTON: I'm an independent citizen.

MR WEICKHARDT: All right.

MR HINGSTON: I will explain myself.

MR WEICKHARDT: Good, okay.

MR BANKS: If you just say your name and what capacity you are here and we can go from there.

MR HINGSTON: My name is Alan Hingston. My background is, I have worked in the Australian industry for 30 years, employed at various times by Ford, Toyota, seconded to the joint venture - the UAAI-Toyota-GM joint venture, and of course with Toyota. I'm currently an independent consultant, so I have no association with any group. Most recently I have done some work with Air International on an industry project which depends on cooperation across the industry to achieve a greater competitive capability for the industry. The key point there is the idea of cooperation across the industry.

So as you have observed, I have sat through these proceedings or most of them in Melbourne, and I would like to put forward a positive suggestion in the industrial relations arena. I have had some direct experience within the industry in the industrial relations front as general manager of human resources at Toyota Australia back in 97 and 98, but of course I have no authority to speak on their behalf at this point. The observation is that the current state of the industry is one of continuous uncertainty in the industrial relations arena. If there could be a common objective to establish a means to achieve certainty, I think that would be a very positive thing. I think maybe we need a circuit-breaker, and I don't think there has been put forward any one solution that would achieve consensus.

So just from a commonsense point of view, why not consider a common date for renewal of EBAs? I don't think it could be any worse than what we have. Many interested parties I think would clearly object to this, and I'm a bit - what should I say? - maybe confronting because I think there is an industrial relations industry that thrives on conflict and it provides lots of work for lots of people, but that doesn't

necessarily achieve the best outcome. So a possible solution - and again I have no expertise in this area - would be perhaps the federal government could provide the means for an industry to apply for a common renewal date. I don't know what sort of legislation that would require; so an integrated industries industrial relations act.

Application would have to be through recognised industry associations. I assume it's through, say, FCAO, FAPM. I think it would need to be an opportunity for the industry to apply. I think forcing people is not a good thing and certainly I would agree with most of the speakers that linking an industrial relations outcome to assistance is probably a formula for disaster, but the opportunities should be given to provide some sort of super fund. Having a common date would still allow individual agreements negotiated at the enterprise level, and that's clearly very important because I think most of the enterprise discussion centres around how do we best achieve continuous improvement, productivity improvements at our enterprise.

I think it has been said the quantum for wages. I mean, really if in effect you have got a patent bargaining today, I think if you examined the stats, there's not a great deal of difference between the wages outcomes for the big - there's probably a tiering for the car manufacturers. It's probably very similar. It may be a little less for some of the lower grade tier 2, tier 3 suppliers, but it's a fairly common outcome, the wages quantum. This solution, there would be no need for reorganisation of the union movement and I think it has been very clear that you would be inviting major confrontation to try and force that, and I think any solution has to respect the role of unions because there is deep history in that.

Somehow the industry would need to agree on a date. I have a view on that. I would suggest a pre-Christmas date. There are some practicalities there. Firstly nothing focuses the mind like the need to go on holiday and get key matters resolved because the industry has a common shut-down period, and secondly not in a cynical sense, but a constructive sense, working men and women seek security of income over the Christmas break, spending demands are at a peak, and income usually through loss of overtime is lower than normal. So I think that would be a constructive timing period. We can call this the Hingston solution for my posterity for contribution to industry. It is I believe both constructive and workable, and the effort to facilitate industry cooperation on timing alone - cooperation on timing, but not cooperation on outcomes - would improve the current state that we have now of continuous uncertainty. That's my input. It may be a constructive avenue for you to explore at a more authoritative level.

MR BANKS: We appreciate that, and you have picked up on a number of themes that have occurred and drawn a few strands together. Why do you think the industry is resisting so strongly that notion?

MR HINGSTON: Again I can't speak with any authority, but in my brief period,

my focus was employee relations and I have seen best practice in Toyota Kentucky operations and Toyota UK operations, and it's all enterprise focused, and there is a genuine understanding at team member level of the effect of what they do on the final consumer. You can go to a team member in Toyota UK and ask, "What are you doing and how does that impact on the customer on the showroom floor." So they have achieved that enterprise understanding. I think the current Australian situation - and there is an industry in it - involves third parties, outside parties coming into the enterprise, be they lawyers, be they industry groups, be they external union people, and I think staggered times encourages the involvement of third parties.

In a perverse way you can look at a parallel - this is completely left field - as you know, Japanese-listed companies suffered from undesirable elements disrupting shareholder meetings and it's documented that there was unsavoury practices, and a partial solution to that has been to have every annual general meeting of major companies scheduled on the same day so these outside influences are spread more thinly. I think anything that can force the enterprise to work together has got to be a plus. Again I'm in an area that I don't understand, but I assume there's so much legislation, there would be many, many roadblocks to achieving this, and if it was a condition of parties taking the benefit of government subsidies to take an opportunity of such a scheme or if they choose not to, so be it.

MR BANKS: I think it's a useful suggestion coming at the end of these proceedings. So thanks very much for doing that.

MR HINGSTON: Pleasure.

MR BANKS: We will make sure we get the spelling right of your name so we can give it the appropriate title.

MR HINGSTON: Thank you very much.

MR BANKS: Thank you. Again I just ask for the record before I close the proceedings if there's anyone who wanted to appear. I again for the record indicate that we are hoping to get all submissions in by 2 August so we can complete our report by the end of the month, and it probably only remains for Philip and I to thank participants in the hearings in particular. We have learnt a lot I think from the hearings and also from extra submissions that will help us finalise our report. So with that, we will close these proceedings. Thank you.

AT 5.10 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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