



**GOVERNMENT OF
WESTERN AUSTRALIA**

Fair Work Commission

2020-21 Annual Wage Review

**Submission of the
Government of Western Australia**

DATE: 23 April 2021

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Western Australian Government

Submission to Annual Wage Review 2020-21

Introduction

1. The Western Australian Government welcomes the opportunity to make a submission to the Expert Panel of the Fair Work Commission (**the Panel**) for the 2020-21 Annual Wage Review (**AWR**).
2. The AWR plays an essential role in the maintenance of a strong and principled framework of minimum wage protections. The granting of regular wage increases for Australia's most vulnerable workers is an indispensable part of the country's industrial relations framework, and is critical for assisting low and middle earners to achieve and maintain an adequate standard of living.
3. Pursuant to section 284 of the *Fair Work Act 2009*, the Panel is tasked with balancing a diverse range of statutory criteria to 'establish and maintain a safety net of fair minimum wages' (the 'minimum wages objective'), including:
 - (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
 - (b) promoting social inclusion through increased workforce participation; and
 - (c) relative living standards and the needs of the low paid; and
 - (d) the principle of equal remuneration for work of equal or comparable value; and
 - (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.
4. In adjusting rates of pay in awards, the Panel must also have regard to the 'modern awards objective', which requires that it ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions.¹ Further, the Panel must take into account the objects of the *Fair Work Act* in performing its functions or exercising its powers, including the AWR.²
5. This submission addresses a variety of economic, social and labour market considerations relevant to the Panel's deliberations, with a particular focus on issues affecting Western Australian employers and employees.

¹ Section 134 of the *Fair Work Act 2009*.

² Section 578(a) of the *Fair Work Act 2009*.

Overview

6. The Western Australian Government believes Australian workers should enjoy a modern framework of wages and working conditions that protects and advances their interests, affording them dignity and security in employment.
7. The Western Australian Government encourages the Panel to take a holistic approach to the task of balancing the disparate criteria it is required to consider as part of the AWR, including giving due consideration to the social and equity considerations.
8. The Western Australian Government notes the Panel awarded a 1.75 per cent increase in minimum and award wages in 2020, with delayed implementation dates for employees working in industries affected by the impacts of the COVID-19 pandemic.
9. The Australian economy contracted in the first half of 2020, with the nation entering a technical recession for the first time in nearly 30 years. However, the gradual lifting of many restrictions in recent months has allowed households to resume many normal daily living activities.
10. The Western Australian Government acknowledges some sectors continue to be adversely affected by measures introduced to contain the spread of COVID-19, in particular domestic and international travel, international education, the entertainment industry and some hospitality businesses. However, Australia's recent economic performance has been largely positive, as the nation has recovered faster than initially anticipated. Of particular note:
 - National Gross Domestic Product (**GDP**) increased by 3.1 per cent in the December quarter 2020, but was down 1.1 per cent across the year.³
 - National retail turnover fell by 0.8 per cent in February 2021, but was 9.1 per cent higher than in February 2020.⁴
 - The national unemployment rate was 5.8 per cent in February 2021.⁵
 - The national participation rate was 66.1 per cent in February 2021, up from 65.9 percent a year earlier.⁶
 - Annual headline inflation was 0.9 per cent in the December quarter 2020 and 0.9 per cent over the year to December 2020.⁷
 - The national Wage Price Index (**WPI**) increased by 0.5 per cent in the December quarter 2020 and rose 1.4 per cent in the year to December 2020.⁸

³ Australian Bureau of Statistics (ABS)(2021), *Australian National Accounts: National Income, Expenditure and Product, December 2020*, Catalogue 5206.0.

⁴ ABS (2021), *Retail Trade, Australia, February 2021*, Catalogue 8501.0 (seasonally adjusted data).

⁵ ABS (2021), *Labour Force, Australia, February 2021*, Catalogue 6202.0 (seasonally adjusted data).

⁶ Ibid.

⁷ ABS (2021), *Consumer Price Index, Australia, December 2020*, Catalogue 6401.0. Caution should be exercised in interpreting the CPI, as weighted average of the eight capital cities was affected by the Western Australian Government's decision to introduce a one-off \$600 household electricity credit from 1 November 2020, which resulted in the Perth CPI being -1.0 per cent in the December quarter. This reduced the headline rate of inflation, both nationally and for Perth.

⁸ ABS (2021), *Wage Price Index, Australia, December 2020*, Catalogue 6345.0 (all sectors).

Western Australian economy and labour market

11. While the *Fair Work Act* requires the Panel to consider the state of the national economy in its AWR deliberations, the national economy comprises many diverse geographic regions, and it is important that consideration be given to prevailing conditions in individual states and territories.
12. Until early 2020, economic conditions in Western Australia had been gradually improving, underpinned by a lift in the domestic economy. However, this was interrupted by events surrounding the COVID-19 pandemic, including a variety of lockdowns and social distancing restrictions implemented to contain the spread of the virus.
13. Western Australia has navigated the COVID-19 pandemic effectively over the past 12 months, with most of the jobs initially lost over the February to May 2020 period recovered by February 2021. Strong household spending (including in the residential construction market) and robust mining sector activity has also supported a lift in the State's economic conditions.
14. Western Australia's ability to largely avoid community transmission of COVID-19 has enabled the State to recover faster than initially anticipated, underpinned by a strong recovery in business and consumer confidence.
15. The Perth, Peel and South West regions were subject to a five-day lockdown in early February 2021, following the first case of community transmission in 10 months. However, the lockdown is not expected to have a material impact on growth in Gross State Product (**GSP**), given its short duration and the fact that activity in significant sectors of the economy is expected to be largely unaffected.
16. Western Australia's GSP is projected to grow by 2.0 per cent in 2020-21, before rising to 2.75 per cent in 2021-22 as the domestic economy (measured by State Final Demand) continues to recover from the pandemic.
17. Household consumption is expected to grow by 0.25 per cent in 2020-21, largely reflecting a stronger than expected result for the September quarter 2020, positive consumer sentiment, and robust retail spending. Household consumption is then expected to grow by 3.0 per cent in 2021-22.
18. Activity has also been particularly strong in the residential construction market, with a higher than expected take-up of the State Government's *Building Bonus* and the Commonwealth Government's *HomeBuilder* grants. This translates into a robust dwelling investment projection in 2021-22 of 21.75 per cent growth, followed by a forecast decline of 13.25 per cent in 2022-23 (reflecting a significant bring-forward of activity generated by these stimulus measures).
19. Consistent with previous forecasts, both business investment and Government spending are expected to continue to support growth in the domestic economy over the forecast period.
20. The State's labour market has also continued to recover at a faster pace than initially forecast. The monthly unemployment rate stood at 6.0 per cent in February 2021, well below the high of 8.7 per cent recorded in June 2020.

21. Employment growth is expected to pick up in the near-term, with the number of advertised job vacancies in Western Australia rising to its highest level in over eight years in February 2021. Reflecting this, employment growth in 2020-21 is now projected to be 1.5 per cent, and the annual average unemployment rate is projected to be 6.5 per cent. Annual average unemployment is then forecast to fall to 6.0 per cent in 2021-22 and to 5.5 per cent by 2022-23.
22. Despite more favourable labour market conditions, wages growth has to date remained subdued, with anecdotes of wage pressures in only select pockets of the labour market. As such, Western Australia's WPI is projected to be 1.5 per cent in 2020-21, before gradually lifting to 1.75 per cent in 2021-22 and 2.0 per cent in 2022-23.
23. The global outlook has improved in recent months, due to multiple COVID-19 vaccine approvals and the commencement of vaccine rollout in many countries, which will gradually allow contact-intensive activities to resume. The International Monetary Fund (**IMF**), in its recent World Economic Outlook Update (January 2021), revised its 2021 global growth forecast upward by 0.3 percentage points to 5.5 per cent. The IMF was particularly positive on China, the State's largest trading partner, noting that effective containment measures, a forceful public investment response, and central bank liquidity support have facilitated a strong recovery relative to other economies.
24. The improved global outlook and relatively quick recovery in China, particularly its industrial sectors, have contributed to rising prices for commodities most relevant to Western Australia, including oil, nickel and copper. Whilst volatile, the iron ore price has risen sharply, as its supply has been constrained in the face of rising demand.

Table 1: ECONOMIC FORECASTS⁹
Western Australia, Annual Growth (%)

	2019-20	2020-21	2020-21	2021-22	2022-23	2023-24
	Actual	Mid-year Review	PFPS Revision	Forward Estimate	Forward Estimate	Forward Estimate
Demand and Output ^(a)						
Household Consumption	-2.3	-1.0	0.25	3.0	2.5	2.5
Dwelling Investment	-13.2	0.75	0.75	21.75	-13.25	-2.0
Business Investment	9.5	2.5	2.5	2.5	3.25	4.75
Government Consumption	4.9	3.5	3.5	1.5	2.5	2.5
Government Investment	-0.1	18.0	18.0	13.0	2.5	0.75
State Final Demand	0.8	1.75	2.25	3.75	2.25	3.0
Merchandise Exports	0.4	0.0	0.0	1.5	1.0	0.25
Merchandise Imports	1.3	-1.25	0.25	1.0	2.25	2.5
Net Exports ^(b)	2.4	2.75	2.25	1.0	-0.25	-1.75
Gross State Product ^(c)	1.4	2.0	2.0	2.75	1.25	1.5
Labour market						
Employment	0.4	1.0	1.5	1.5	1.75	1.5
Unemployment Rate ^(d)	6.1	7.0	6.5	6.0	5.5	5.5
Participation Rate ^(d)	67.5	68.2	68.2	68.2	68.2	68.3
Population						
Population	1.4	0.8	0.8	0.7	1.0	1.3
Working Age Population (15-64)	0.7	0.2	0.2	0.5	0.9	1.2
Prices						
Consumer Price Index ^(e)	1.3	1.5	1.5	1.75	1.75	2.0
Wage Price Index	1.7	1.5	1.5	1.75	2.0	2.25
Median House Price	-2.5	0.7	1.3	1.2	4.1	4.3
Other key parameters ^(d)						
Exchange Rate \$US/\$A (US cents)	67.1	72.6	74.8	77.3	77.3	77.3
Iron Ore Price (\$US/t) cost and freight inclusive (CFR)	92.9	103.7	134.3	65.6	64.0	64.0
Crude Oil Price (\$US/barrel)	51.3	40.8	46.0	53.5	51.7	50.9

(a) Based on 2019-20 annual State Accounts data, updated with the latest State Final Demand and Balance of Payments data for the September quarter 2020.

(b) Net exports refer to international trade in both goods and services.

(c) Forecasts for ownership transfer costs, international trade in services and the balancing item are not separately reported.

(d) Data expressed as an annual average during the financial year.

(e) CPI growth rates in 2020-21 and 2021-22 are based on the total index excluding the electricity sub-index.

Employees impacted by the Annual Wage Review

Employees paid in accordance with awards

25. The Western Australian Government notes that award-reliance in Australia has increased in recent years; although the latest available data relates to May 2018 and more recent indicators are not available.
26. As at May 2018, approximately 2.23 million Australian employees were paid exactly in accordance with an award, representing some 22.5 per cent of all non-managerial employees.¹⁰ While this figure includes a cohort of employees subject to state awards in their respective jurisdictions (including some public and private sector employees in Western Australia), the vast majority of award only employees are subject to national modern awards.
27. In Western Australia, 15.0 per cent of all non-managerial employees were paid exactly in accordance with an award in 2018, representing some 162,100 employees.¹¹ Given the composition of the national industrial relations system, the majority of these employees would also be subject to national modern awards.¹²
28. Many award-reliant employees are dependent on increases determined in the AWR to meet changes in their everyday living costs. It is therefore important that such employees are afforded regular and meaningful adjustments to pay to ensure their needs are adequately safeguarded.
29. As demonstrated in Table 1 below, over 37 per cent of all Western Australian employees work in the five most award-reliant industries, further underlying the important role the AWR plays in fostering improved financial wellbeing for affected workers.

¹⁰ ABS (2019), *Employee, Earnings and Hours, Australia, May 2018*, Catalogue 6306.0.

¹¹ Ibid.

¹² As they are employed by 'constitutional corporations' (foreign, financial and trading corporations).

Table 2: Employment and award reliance by industry - WA and Australia, February 2021

Industry	WA: Proportion of Workforce ¹³	Australia: Proportion of Workforce ¹³	Australia: Proportion of employees paid by award ¹⁴
Accommodation and Food Services	7.1%	6.5%	44.9%
Administrative and Support Services	2.8%	3.0%	41.3%
Other Services	4.4%	3.9%	38.1%
Health Care and Social Assistance	15.0%	13.9%	31.7%
Retail Trade	8.3%	10.2%	30.1%
Rental, Hiring and Real Estate Services	1.7%	1.6%	29.4%
Arts and Recreation Services	1.5%	1.9%	22.5%
Manufacturing	6.1%	6.8%	20.8%
Construction	8.1%	8.8%	16.6%
Wholesale Trade	3.4%	3.0%	16.1%
Transport, Postal and Warehousing	5.2%	5.3%	12.7%
Public Administration and Safety	5.7%	6.6%	10.9%
Education and Training	7.8%	8.1%	10.0%
Professional, Scientific and Technical Services	7.4%	9.4%	8.0%
Information, Media and Telecommunications	0.7%	1.5%	7.1%
Financial and Insurance Services	2.4%	3.7%	5.2%
Electricity, Gas, Water and Waste Services	2.0%	1.2%	4.1%
Mining	8.3%	1.9%	0.9%
Agriculture, Forestry and Fishing	2.1%	2.6%	N/A [†]
All industries	100.0%	100.0%	22.5%

[†] N/A: Enterprises primarily engaged in agriculture, forestry and fishing are outside the scope of the ABS *Employee, Earnings and Hours* survey from which this data is drawn.

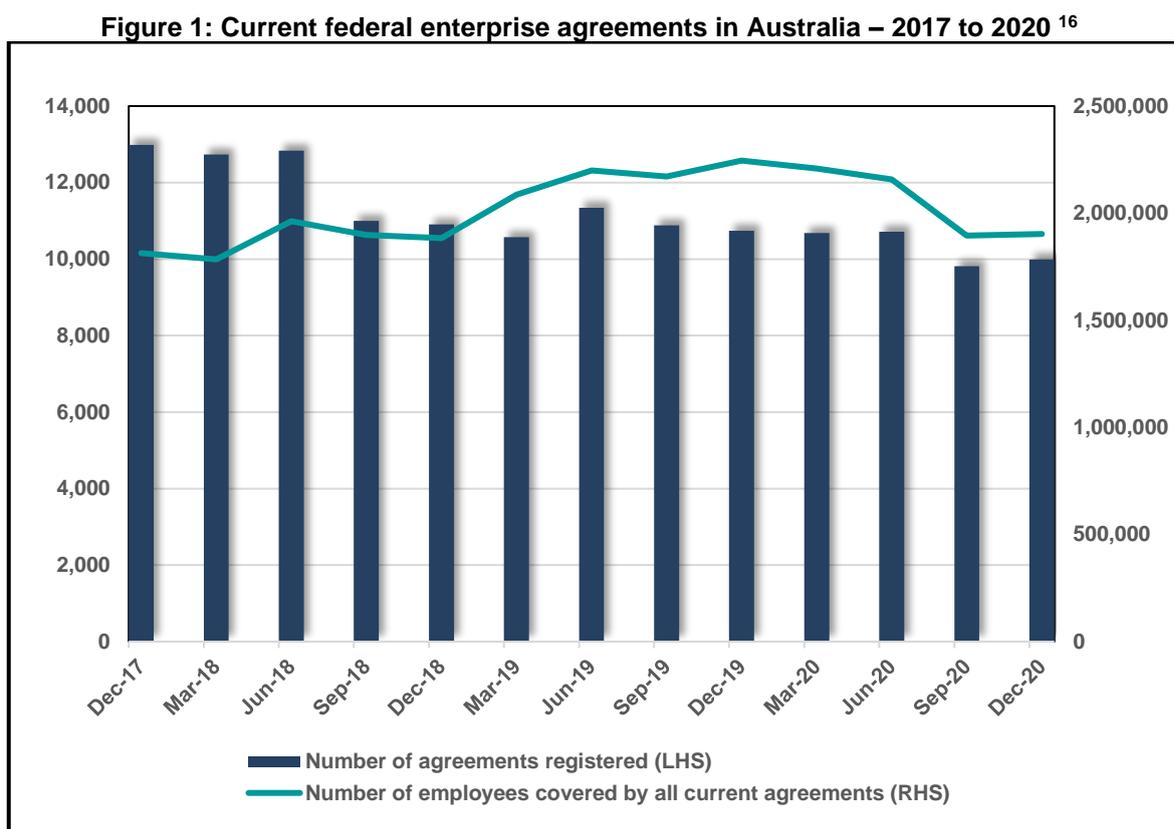
30. The Western Australian Government notes the high level of award reliance in two of Australia's largest employing industries – Health Care and Social Assistance and Retail Trade, and contends that a fair and sustainable increase in award wages is important if such employees are to maintain a decent standard of living.

¹³ ABS (2021), *Labour Force, Australia, Detailed, February 2021*, Catalogue 6291.0.55.001, (original data). The share of the Western Australian workforce employed in most industries is lower than it is at the national level due to the significance of the Mining industry in the State.

¹⁴ ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, Catalogue 6306.0.

Employees paid under enterprise agreements

31. Until recently, the number and proportion of employees subject to federal enterprise agreements had been declining.
32. As shown in Figure 1 below, data from the Commonwealth Attorney General's Department indicates the number of current federal enterprise agreements in place declined from 12,983 in December 2017 to 9,988 in December 2020. However, the total number of employees covered by these agreements rose marginally over the same period, from 1,812,800 to 1,902,300.¹⁵ This likely reflects the fact that several very large retail agreements that had passed their nominal expiry date have been re-negotiated in recent years.



33. Western Australia has witnessed a significant decline in the number of federal enterprise agreements operating solely within the State, with the number of current agreements falling from 1,521 in December 2017 to 959 in December 2020. However, the number of employees covered by these agreements has only declined marginally, from 128,000 to 109,300 over the same period.¹⁷

¹⁵ Department of the Attorney General (2021), *Trends in Federal Enterprise Bargaining Report*, December Quarter 2020.

¹⁶ Ibid.

¹⁷ Ibid. This figure excludes Western Australian employees working under multi-state agreements.

34. There has also been a downward trend in wages growth in federal enterprise agreements applying within Western Australia, with the Average Annualised Wage Increase (**AAWI**) in all current agreements declining from 2.6 per cent in December 2017 to 2.0 per cent in December 2020.¹⁸ This is consistent with a broader trend that has seen Western Australia record low rates of wages growth across all pay setting methods in recent years.
35. National modern awards play a critical role in underpinning the federal enterprise bargaining system. Awards perform a dual role in establishing the benchmark for agreement registration through the Better Off Overall Test (**BOOT**), as well as setting a floor through which wages cannot fall below during the life of an agreement.¹⁹ Consequently, the impact of the AWR extends to many employees subject to federal enterprise agreements. While this effect will be indirect in many cases, it is known that a number of federal enterprise agreements peg future wage rises to award wage increases in the AWR.
36. The Western Australian Government also notes that many legacy (or ‘zombie’) agreements continue to operate within the national industrial relations system, including some that pre-date the introduction of the *Fair Work Act* and which would not pass a BOOT against the national modern award if such an exercise were undertaken. Many employees subject to these agreements are particularly reliant on the increases awarded in the AWR to meet their everyday living expenses.
37. The national award system therefore continues to play a vital role in underpinning Australia’s enterprise bargaining framework.

Employees covered by individual arrangements

38. The National Minimum Wage Order does not directly affect employees working under individual arrangements providing for above award rates of pay. However, the Western Australian Government notes that some common law employment contracts contain provisions linking future wage increases to movements in the National Minimum Wage (**NMW**) or modern award wages.
39. As the Panel noted in the 2018-19 AWR:

In addition to these employees, the Panel’s decision is also likely to affect those paid close to the NMW rate or a modern award minimum wage rate, workers whose pay is set by a collective agreement which is linked to the outcomes of the Review, as well as workers whose pay is set by individual arrangements which are referenced to an award rate. According to the RBA, the wages of a further one-fifth of employees are linked to changes in the NMW or modern award minimum wages in their collective agreements or individual arrangements. Research undertaken for the Commission found that 21 per cent of employees in non-public sector organisations were on ‘over-award’ arrangements—that is, where the wage is set, influenced or guided in some way by the applicable award rate.²⁰

¹⁸ Ibid.

¹⁹ Pursuant to section 206 of *Fair Work Act 2009* base wages in enterprise agreements cannot fall below the base rates of pay in any national modern award that is applicable to the employee.

²⁰ Fair Work Commission (2019), *Annual Wage Review 2018-19*, at [207].

40. The research referred to in the above quote suggests the Panel’s decision is likely to extend to a significant number of employees who are working under individual arrangements, including those being paid over-award rates of pay. Additionally, contracts of employment that provide for wage rates only marginally above the relevant award minima may be impacted by any decision the Panel makes in this year’s AWR.

Figure 2: Method of setting pay - WA - May 2018²¹

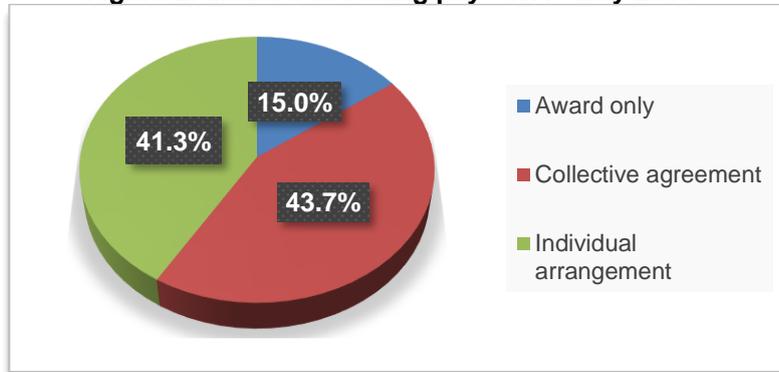
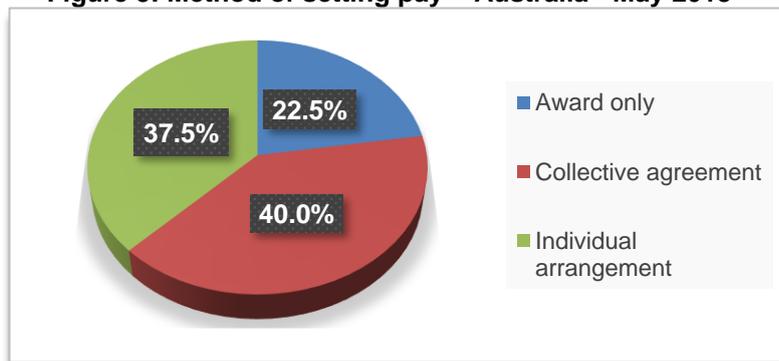


Figure 3: Method of setting pay – Australia - May 2018²²



²¹ ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, Catalogue 6306.0.

²² Ibid.

Further considerations

Promoting social inclusion through increased workforce participation

41. The statutory criteria the Panel is required to have regard to in meeting the minimum wages objective includes “promoting social inclusion through increased workforce participation”.
42. The Western Australian Government notes the national participation rate continues to recover from the impacts of the COVID-19 pandemic, and stood at 66.1 per cent in February 2021 (an equal record high), after falling to a low of 62.6 per cent in May 2020 (the lowest rate in more than 20 years).²³
43. While the participation rate is influenced by a variety of factors, increases to minimum and award wages can help to encourage people into the labour force, particularly those with a marginal attachment to it. It can also help to sustain a degree of community cohesion, enabling low paid workers to participate in social activities.
44. As with the participation rate, total employment in Australia has steadily risen over recent months, in line with the easing of restrictions associated with COVID-19 and the gradual resumption of many daily activities. Aggregate national employment is now at the same level it was 12 months ago, standing at 13.01 million persons in February 2021.²⁴
45. Australia’s unemployment rate remains higher than it was 12 months ago, as the labour market continues to recover from the impact of COVID-19. Noting that the overall labour force has increased in size, the seasonally adjusted unemployment rate fell to 5.8 per cent in February 2021, down from a high of 7.5 per cent in July 2020.²⁵
46. Higher levels of workforce participation have a number of tangible benefits for the Australian community. Greater participation in paid employment helps to lift household disposable incomes, providing enhanced financial security for affected workers.
47. The panel can assist in the promotion of increased workforce participation (and hence increased social inclusion) by awarding a fair and sustainable increase in this year’s AWR.

²³ ABS (2021), *Labour Force, Australia, February 2021*, Catalogue 6202.0 (seasonally adjusted data).

²⁴ Ibid.

²⁵ Ibid.

Collective Bargaining

48. In satisfying the modern awards objective, the Panel is required to consider the need to encourage collective bargaining.²⁶
49. In last year's AWR the Panel noted:
- In previous Reviews, the Panel has indicated that a range of factors impact on the propensity to engage in collective bargaining, many of which are unrelated to increases in the NMW and modern award minimum wages. This view is broadly supported by submissions, with some caveats. Further, the Panel has found that the gap between modern award minimum wages and bargained wages, to the extent that it can be identified with any precision, has not reached a level where it is encouraging or discouraging collective bargaining. We retain this view.²⁷
50. The Western Australian Government agrees there are a range of factors that impact the propensity to engage in collective bargaining, many of which are unrelated to increases in minimum and award wages.
51. As outlined above, the number of employees covered by federal enterprise agreements actually increased in the three years to September 2020, although the number of agreements being registered has continued to decline. However, there is no evidence to suggest the level of pay increases awarded by the Panel in recent years has affected the propensity to engage in collective agreement making.

Equal remuneration

52. A further consideration in both the modern awards objective and the minimum wages objective is the need to promote the principle of equal remuneration for work of equal or comparable value.
53. As noted by the FWC in last year's AWR Decision:
- Gender pay equity considerations favour an increase in minimum wages. Women are more likely to be in low-paid employment and are more likely to be paid at the award rate. Further, higher-paid award-reliant employees are more likely to be female (58.7 per cent) than male (41.3 per cent).²⁸
54. The Western Australian Government concurs with the FWC's observation that increases in minimum and award wages provide some benefit in reducing gender pay inequality.
55. As at November 2020, the gender pay gap (as measured by Average Weekly Ordinary Time Earnings (**AWOTE**)) was 22.9 per cent in Western Australia and 13.4 per cent nationally.²⁹

²⁶ Section 134(1)(b) of the *Fair Work Act 2009*.

²⁷ Fair Work Commission (2020), *Annual Wage Review 2019-20*, at [395].

²⁸ *Ibid*, at [405].

²⁹ ABS (2021), *Average Weekly Earnings, Australia, November 2020*, Catalogue 6302.0 (seasonally adjusted data).

Table 3: Gender Pay Gap – by State / Territory – November 2020³⁰

State / Territory	Male AWOTE	Female AWOTE	Gender Pay Gap
NSW	\$1,848.20	\$1,600.40	13.4%
VIC	\$1,787.00	\$1,592.30	10.9%
QLD	\$1,703.00	\$1,474.90	13.4%
SA	\$1,587.60	\$1,456.50	8.3%
WA	\$1,995.60	\$1,539.30	22.9%
TAS	\$1,527.80	\$1,420.20	7.0%
NT	\$1,822.20	\$1,569.70	13.9%
ACT	\$1,943.00	\$1,820.50	6.3%
AUS	\$1,804.20	\$1,562.00	13.4%

56. As has been the case for some time, Western Australia maintains a gender pay gap higher than that in other states and territories, in part due a concentration of men in certain highly paid industries.
57. The gender pay gap is a product of many complex structural and societal factors, not all of which can be addressed through the AWR. Nonetheless, regular and meaningful wage increases can play an important role in helping to ameliorate gender pay inequality.
58. Women are more likely to be paid in accordance with awards than men, particularly those working at higher level classifications. The AWR therefore plays an important role in protecting the needs of low paid and award-reliant women, and the Western Australian Government contends this is a relevant consideration when determining minimum rates of pay.

Conclusion

59. The last 12 months has undoubtedly been a challenging period for many Australian employers and employees, as the effects of the COVID-19 pandemic have been felt around the globe. However, Australia's recovery has been faster than anticipated, and many of the negative labour market projections have turned out to be less severe than initially forecast.
60. The Panel's decision in last year's AWR assisted many low paid and award-reliant workers by maintaining the real value of their wages, whilst also being cognisant of the need to protect the interests of those employers most affected by the impacts of COVID-19.
61. The Western Australian Government encourages the Panel to award a fair and sustainable increase in this year's AWR that supports, protects and furthers the needs of Australian workers, while balancing the interests of employers and industry.
62. The Western Australian Government thanks the Panel for the opportunity to make a submission to this year's AWR.

³⁰ Ibid.