“Workplace Productivity in the Resource Industry”

The Challenge of Workplace Productivity Symposium
19/11/2012

Steve Knott – Chief Executive
AMMA – National Resource Industry Employer Group
About AMMA

- National resource industry employer group
- Representing industry for 94 years
- Members in mining, hydrocarbons, maritime, exploration, energy, transport, construction, smelting and refining, as well as suppliers to these industries.

Relevance to Productivity Debate

- AMMA is putting in place many large project industrial agreements
- Highest paying sector in country / susceptible to industrial disruption
- High level of capital investment in 2000’s = decline in multifactor productivity
- Unprecedented growth opportunity. $700bn in projects & 90,000 new jobs

www.amma.org.au
Kevin Rudd MP on workplace productivity:

“McKinsey put out a report only three months ago which said that the core problem with the productivity debate in this country is what they call capital productivity: poor decisions by management and entrepreneurs on how to best use capital...” (ABC Q&A 19/11/12)

The Australian Business Foundation on workplace productivity:

“How enterprises apply their skills and competencies to the intensive search and execution of competitive business opportunities increasingly determines Australia’s productivity outcome,” (2012).
The resource opportunity in numbers

Project value:
- $260bn worth approved and advanced (resources)
- $250bn worth yet to be approved (resources)
- $743bn worth of total resources + infrastructure projects

Employment:
- Doubling of resources workforce in last 5 years
- Another 90,000 new jobs by 2016
- 350,000 direct employees by 2016
- Up to 1 million workers from flow-on effects
10-year employment growth by industry

Source: ABS Labour Force, Australia, Detailed Quarterly, May 2012, catalogue no 6291.0.55.003
Australian Government, Canberra
10-year average weekly earnings growth:

*Mining vs. entire economy*

Source: ABS catalogue number 6302.0 - Average Weekly Earnings, Australia, 2002-2012 (using May quarterly data)
Australian Government, Canberra
Average weekly earnings by industry

Source: ABS catalogue number 6302.0 - Average Weekly Earnings, Australia, 2002-2012 (using May quarterly data)
Australian Government, Canberra
IR - Be careful what you wish for

**Unemployment rate**
Jan 1990 - 5.6%  
Nov 2012 - 5.4%

**Interest rates**
Jan 1990 - 17%  
Nov 2012 - 6.6%

**Working days lost per thousand employees**
1990 - 207  
2011 - 15.9

**Trade union membership**
1990 – 40.5%  
August 2011 – 18%
Key data take-outs:

1. Over the last decade, the resource industry has also been responsible for the highest level of wealth creation and transfer in Australia’s history; and

2. Unimpeded, the industry is set to create hundreds of thousands of jobs and hundreds of billions of dollars of economic growth, but only if the government removes the unwarranted barriers to doing business that currently exist.
Recent public commentary:

Roy Kryzwosinski (Chevron Australia MD): “This increases business costs, erodes international competitiveness and diminishes investor confidence... Policies must support and encourage future investments and workforce productivity improvements.”

Michael Chaney (Woodside and NAB): “Unless you are highly productive in Australia, projects will go offshore and construction jobs will go offshore. Every major project under evaluation, including Browse, has to confront this issue.”

David Knox (Santos): “A lot of this cost is labour, with the cost of Australian labour double that of many of our competitors, and productivity in most cases lower.”

David Peever (Rio Tinto): “Australian projects are now at a distinct capital cost disadvantage relative to peers. Reform of the Fair Work Act needs to go much further than has so far been flagged by the government.”

Marius Kloppers (BHPB): “The starting line for the mining industry...is many of the projects that it envisaged a number of years ago, given the cost structure in Australia, don't work at the moment.”
...more recent public commentary:

Ian Smith (Orica CEO): “Australia is a great country but it hasn’t got a legislative and regulatory base that enables growth for business in the longer term.”

Peter Johnston (Minara Resources): “I do have a serious concern about the cost position of the Australian mining industry – we are pricing ourselves out of the market in future.”

James Fazzino (Incitec MD): “Unfortunately, as an Australian CEO, there are more attractive places to build plants than in Australia. The US has competitive energy costs, Australia doesn’t.”

Ian Wilkinson (WorleyParsons): “I would say Perth is close to being the most expensive place for engineering in the world and . . . I think we will see a rebalancing of costs in Australia over the next few years.”
International Economic Forum: Global Competitiveness Report 2012-2013

Some findings:

Australia’s global ranking overall = 20th most competitive destination in the world

Behind: Korean Republic (19), Saudi Arabia (18), Taiwan (13), Qatar (11), United Kingdom (8), United States (7), Netherlands (5), Singapore (2), Switzerland (1).

Australia breakdown (selection)

• Efficiency of Corporate Boards: 4th in the world.
• Stability of Banking System: 5th in the world.
• Intensity of local competition: 6th
• Quality of scientific research institutions: 7th
• Financial Market Development: 8th

• Flexibility of wage determination: 123rd
• Hiring and firing practices: 120th
• Pay and productivity: 80th
• Cooperation in labour-employee relations: 67th
• Labour market efficiency overall = 42nd globally.
<table>
<thead>
<tr>
<th>Project type</th>
<th>Average cost compared to US Gulf Coast</th>
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</thead>
<tbody>
<tr>
<td>Sustaining capital projects</td>
<td>40 per cent higher</td>
</tr>
<tr>
<td>Iron ore and coal developments</td>
<td>38 per cent higher</td>
</tr>
<tr>
<td>Large complex processing projects</td>
<td>50 per cent higher</td>
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<tr>
<td>Offshore oil and gas developments</td>
<td>200 per cent higher</td>
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<tr>
<td></td>
<td>(offshore platform and pipeline components only)</td>
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“Australia currently faces one of the greatest opportunities in its economic history...(but) today, Australia faces an increasing need to re-establish the productivity gains of the 1990s.”

Angus Taylor, economist and management consultant, 2011
AMMA’s submission to the Fair Work Review Panel

- 54 recommendations for policy reform
- Underpinned by results from AMMA Workplace Relations Research Project

- Six-monthly longitudinal industry surveys
- Research conducted by Dr Steven Kates
  - RMIT University Professor
  - Former ACCI Chief Economist

What is your perception of the current level of labour productivity at your worksite(s)?

<table>
<thead>
<tr>
<th>Survey date</th>
<th>Extremely low (%)</th>
<th>Quite low (%)</th>
<th>Low (%)</th>
<th>Acceptable (%)</th>
<th>High (%)</th>
<th>Quite high (%)</th>
<th>Extremely high (%)</th>
<th>Index score out of 100</th>
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<tr>
<td>April 2010</td>
<td>0.0</td>
<td>4.6</td>
<td>7.7</td>
<td>16.9</td>
<td>30.8</td>
<td>33.8</td>
<td>6.2</td>
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<td>0.0</td>
<td>8.8</td>
<td>38.2</td>
<td>30.9</td>
<td>20.6</td>
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<td>20.0</td>
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<td>14.3</td>
<td>1.4</td>
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<td>Oct 2011</td>
<td>1.2</td>
<td>3.5</td>
<td>11.6</td>
<td>31.4</td>
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<td>15.1</td>
<td>5.8</td>
<td>59.5</td>
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<tr>
<td>April 2012</td>
<td>1.0</td>
<td>5.0</td>
<td>14.0</td>
<td>28.0</td>
<td>27.0</td>
<td>22.0</td>
<td>3.0</td>
<td>58.8</td>
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AMMA/RMIT University Workplace Relations Research Project

Additional Findings:

• Rising incidence of conflict in the workplace – “unacceptable industrial environment” rating increasing 5x in two years.

• One-third of resource industry employers have recently tried to negotiate a greenfield agreement – 1 in 5 unions refusing to bargain.

• Time and costs for agreement negotiations and IR transaction costs for business have significantly increased.

• 60% of resource employers say Individual Flexibility Arrangements’ are “useless”.
AMMA’s five key areas of workplace reform:

1) Greenfields agreement making

The significant power imbalance on greenfield, or ‘new project’ agreement negotiations that has led to cost blow-outs and one-in-five new resources projects put at serious risk due to union stalling tactics.

2) Protected Strike Action

Remove the ability for unions to take protected strike action before bargaining has been exhausted. Employers should also have better access to mechanisms to stop protected action on economic grounds and the parties should have greater access to cooling off periods.
AMMA’s five key areas of workplace reform (cont.):

3) Permitted content

Agreement content should pertain to the direct relationship between the employer and their employees.

4) Right of Entry

The regular disruption of Australian workplace through ‘free for all’ union right of entry provisions, leading to commercial impacts, workplace disharmony and productivity losses.

5) Individual Flexibility

The failure of the Fair Work Act to facilitate any flexible working arrangements of mutual benefit directly negotiated between employer and employee.
Maritime Union of Australia (MUA) – Chris Cain (WA Secretary)

...advocating an agreement clause restricting use of skilled migration workers on resource projects:

“Our members have already given me the mandate to fight for Australian jobs and if that means taking protected industrial action across the whole oil and gas (sector) that’ll be the way it goes…”

...this is despite:

• 45,000 new jobs in resources created August 2011 – August 2012 (ABS)
• Just 580 skilled temporary migration visa’s granted to the industry all year (DIAC)
• None of the 457 Visa occupation classifications being covered by the MUA
Offshore Construction Wage Rates
(yes, this is based on a real agreement!)

Three-week-on, three-week-off roster in WA offshore construction:

- Laundry hands - $317,734
- Cooks - $334,408
- Tradespeople - $337,484
- Barge Welders - $373,701
Farstad Shipping dispute in 2010:

Claims including:

- 30 per cent pay increase
- $500 per day construction allowance
- Doubling the annual salary of every seafarer

Industrial action costing $1 million every day

“Perhaps if they keep softening you up and I'm using the vernacular, that may assist a resolution if you bleed too much.” – SDP Kaufman, 2010

Cost of Strikes to Company: >$1 million a day
“The creation of two new vice-president positions was suggested by Iain Ross, President of Fair Work Australia, on the basis that it would attract senior legal specialists with high-level expertise and deepen the overall expertise of the commission while also assisting him in the administration and management of the tribunal.”

DEEWR Deputy Secretary, John Kovacic 21/11/2012
(Told to the Senate Inquiry into the Fair Work Amendment Bill 2012)

“...if the two Deputy Presidents designated Vice Presidents are not so appointed, the effect of the Bill will be to reduce their status.”

“This would have the tendency to reduce the independence of the Tribunal in that it will reduce the role and privileges associated with particular individuals.”

Law Council of Australia, Submission to the Senate Inquiry into the Fair Work Amendment Bill 2012 (14/11/2012)
Where to now for the great productivity debate?

• Incontrovertible evidence that the current laws are causing problems for the economy and detracting from harmonious and co-operative workplace relations.

• Political paralysis on both sides of the debate – impeding meaningful policy debate.

• Debating semantics around ‘multifactor productivity’ vs ‘labour productivity’ not helping Australian employers.

• Real leadership needed for real outcomes – in the national interest.

• Fair Work Review Process to date ignoring the real issues.

• All stakeholders need to engage in considered exchange of views – policy reform – recapture productivity gains – get our employment and economic prospects back on track.