

**Address by  
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Chief Executive  
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***Taking Charge of our Future***

**National Press Club**

**Canberra**

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***Check against delivery***

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(Introduced by NPC President, Laurie Wilson)

Thanks Laurie. Your excellencies, Department Heads, ladies and gentlemen, friends.

I would like to acknowledge the traditional owners of the land on which we meet and pay my respects to their elders, past and present.

It has been a long hard year and we should acknowledge that despite all the sound and fury there is a lot to be pleased about.

Very importantly, unlike so many other developed nations, we are not making choices at the precipice of a major recession. In Europe, fiscal policy and a lack of resolve is entrenching recession with nothing left to support growth. This is a most depressing scenario. The UK, Japan and the US don't face much easier choices.

In contrast, Australia can plan, albeit cautiously, to return to surplus while still supporting growth. Indeed the Australian economy is still growing at a pace that is the envy of the developed world. And it is forecast to continue to grow.

While we cannot avoid the immediate threats that would undoubtedly be transmitted from a European meltdown, we have the room to contemplate our opportunities and new national investments.

We have choices and we can exercise some control over our future within the disciplines imposed by our open economy. We can, and I believe we should, aspire to become the leading knowledge-based economy in Asia.

### **Strengths and complexities**

And in many areas we are on the right track.

- In infrastructure for example, we are making serious inroads into the infrastructure deficit and we are improving processes surrounding project evaluation and prioritisation, despite the odd departure.

We are upgrading our transport networks and we are making a massive and transformative investment in very fast broadband. We are also coming much closer to finding sustainable models for long-term private sector investment in infrastructure.

- In education and training, we are increasing funding of higher education, we are acting to lift our foundation skills - including literacy, we are rediscovering the importance of industry involvement in planning and delivery of education and training and are working on raising quality.

- Although there is a national sport in attacking our health system, Australia's is much better, in terms of access, quality and cost effectiveness than just about all other countries'.
- Our social safety net is also among the world's most cost-effective.

Our approach to redistribution stands out in the OECD for its targeting. It allows us to have a European-style level social safety net without stifling European levels of taxation. We continue to look for ways to refine the approach to encourage workforce participation and ameliorate the risks of excessive marginal tax rates.

- Our approach to trade and international relations is also something of which we can be very proud.

We can take pride in our role as a mid-sized and engaged country, a good global citizen and an honest broker with well cultivated links into and well beyond our region.

- And of course our national finances are in strong shape.

We stand out along with only one or two other OECD countries that are within reach of a budget surplus. And by any measure we have low levels of government debt. At a time when others are being rated down, we are being rated up.

We should not be complacent across these areas. And in all of them there is more to do. But we should recognise that in many areas we are moving in the right direction.

Nevertheless, we also face considerable complexities. Even here, we are in an enviable position with our complexities relating in large part to how we manage the boom. This luxury does not make the issues any less complex or make it any less important that they be dealt with.

There are two major and related complexities:

- We have become a high-cost economy; and
- We have a multi-speed economy.

### **A high-cost country**

We have become a high-cost country.

The appreciation of our currency is a major source of our changed reality and it has magnified our relative costs. Our exports have become more expensive; our import-competing businesses are suddenly high-cost; and in their capital allocation decisions, international investors - both prospective and those with an existing presence - are ranking Australia as a high-cost option.

While the currency is a major factor it is not alone.

- Our unit labour costs have been growing at a world-leading pace for an extended period.

The decline in Australia's productivity performance over the past decade is very well documented.<sup>1</sup> It is something that Ai Group, along with others, has been emphasising for a number of years. The situation faced by our industries on the wrong side of the multi-speed economy, in particular, demands an increase in productivity.

However, we have been doing the reverse and, in manufacturing, for instance, the combination of our relatively high real wage growth and low productivity improvements mean that our unit labour costs have grown faster than those of just about all other developed countries.<sup>2</sup>

Unless we lift our productivity performance we will not be able to compete and take full advantage of our opportunities and we will not see the increases in living standards and quality of life that could be achieved.

- Our energy price rises are eroding what has been a major source of comparative advantage for many of our industries.

This is occurring for a variety of reasons but the shape of our looming carbon tax will make the comparative cost equation much worse. The \$23 price per tonne of emissions that has been legislated will put us way out in front of the pack – even among those countries that are imposing a carbon price.

European permits for 2012 closed at around 8.4 Euros overnight. At current exchange rates this equates to well under half our starting-year fixed price.

As Ai Group has been arguing for some time, the high fixed price approach we are embarking upon raises serious competitive risks for trade-exposed Australian businesses. Our exposure to these risks seems to be getting worse by the day.

- Our interest rates and our company tax rate are comparatively high and therefore so is our cost of capital.<sup>3</sup>

The sharp rise in our relative costs has turned us into a high-cost country: the Scandinavia of the Asia-Pacific. But without Scandinavian productivity levels.

## The Multi-Speed Economy

Ai Group has been talking about the multi-speed economy for a number of years and we are heartened to see that the issues are now receiving greater attention.

<sup>1</sup> See for example, Productivity Commission, 2011, *Annual Report 2010-11*, Eslake, S and Walsh M, 2011, *Australia's Productivity Challenge*, Grattan Institute, Ai Group, 2008, *How Fast can Australia Grow? Mk III*.

<sup>2</sup> Data from the US Bureau of Labour Statistics show that over the period from 1999 to 2009, the nominal unit labour cost (ULC) of the Australian manufacturing industry has been rising at an average annual rate of 2.5 per cent, the second highest growth rate among surveyed developed economies. By 2009, the Australian manufacturing industry had the second highest level of ULC among developed economies, behind Italy. These developments are due to the combination of comparatively low productivity growth and comparatively high wages growth.

<sup>3</sup> Reserve Bank of Australia, *Statement on Monetary Policy*, November 2011.

Ed Shann has recently calculated<sup>4</sup> that mining and mining-related industries account for 20% of the economy and are set to grow by around 15% pa in 2011 and 2012 while the other 80% of the economy - including the big-employing industries – is set to grow at less than 1% pa.

Australia faces what I believe are fundamental questions about the current pattern of economic development and what it means for our future. It goes to the core of whether we want to take charge of our future.

There should be no question about the importance of the mining boom - the windfall that current prices is delivering and the sheer volume of investment in new and expanded projects.

There are, however, critical questions about its impacts on the broader economic structure and whether it will undermine our ability to capitalise on the opportunities in the Asian century. Many of these opportunities rest with the industries that are on the wrong side of the multi-speed economy – manufacturing, tourism and education services as well as a growing range of newly trade-exposed service industries.

There is a very strong case to suggest that the appreciation in the Australian dollar is overdone. A good part of this is due to the artificially low Yuan and the highly accommodative interest rates across the rest of the developed world. Both of these push up Australia's exchange rates. The IMF<sup>5</sup> recently suggested that the Australian currency could be between 10%-20% overvalued.

There are very real threats that the restructuring process is cutting too deeply. Over the three years to the end of August this year, manufacturing had shed over 10% of its workforce. The pace of job loss has been accelerating. More than half of the total has occurred since August last year and in the three months since May, the workforce has fallen by more than 3%.

We now face irreversible erosions of capabilities. This is having impacts up and down supply chains and across manufacturing networks. If left unchecked, this erosion of capabilities will undermine our ability to capitalise on our opportunities in developing, selling and servicing value-added manufactured goods in growing Asian markets.

## **Managing the Boom**

What do we need to do to manage the boom and position ourselves to take full advantage of our opportunities?

You will be pleased to hear that I am not going to serve you up the whole smorgasbord right here and now. I will concentrate on two or three and I want to put a particular focus on industrial relations. But I will also list a handful of areas that I will not address but that we can perhaps expand on later.

- Taxation
- Regulatory burdens that are high and growing
- Immigration
- I have mentioned our approach to carbon pricing, and
- Federal state financial relations and cross-jurisdiction cooperation.

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<sup>4</sup> Ed Shann, "Several rate cuts needed to dig non-mining out of its hole", *Herald Sun*, 25 November 2011.

<sup>5</sup> IMF, *Australia 2011 Article IV Consultation*, October 2011.

## Policy for the multi-speed economy

Before turning to industrial relations, I would like to outline where Ai Group's thinking is in relation to the multi-speed economy. Our focus is on the manufacturing sector but much of what I will say applies equally to other non-mining trade-exposed sectors.

For manufacturing, the pressures associated with the high currency are coming on top of a range of other factors including the fall in our relative productivity performance, rising energy prices, the slowdown in defence procurement and the slump in the domestic commercial and residential construction sectors with which the manufacturing sector has very strong links.

Manufacturing is used to restructuring. That has been a feature of the industry for well over two decades. But the co-incidence and accumulation of these pressures is over-exaggerating the pressures on the industry.

We do not advocate a protectionist response. We do put forward three key areas for policy development.

- Lifting productivity in the “wrong-sided” industries.
  - Building innovation capabilities including entrepreneurship and venture capital facilities;
  - Finding ways to better focus our public sector research institutions on building productivity;
  - Developing business capabilities and workforce training; and
  - Attracting investment to these industries – particularly through tax reforms.
- Levelling the playing field for Australian businesses.
  - We emphasise the importance of fair procurement arrangements both for public sector purchases and for major projects.
  - We also support effective, accessible and WTO-acceptable anti-dumping measures.
  - And we want our trade negotiators and our government to take full account of the importance of manufacturing and services trade in FTA and regional trading arrangements.
- We also support Australia taking a leaf from the Norwegian policy book. Norway takes some of the extra revenue from the exploitation of its non-renewable resources to assist in stabilising the economy when resource prices are high. Further, it offsets to some extent the exchange rate impacts of capital inflow and strong export revenue by investing the funds in offshore financial assets.

We recognise the importance of the more immediate objective of reducing net debt but think that we need to start planning now for an approach to fiscal policy that can stand in place over the course of the current “super-cycle” and indeed for future commodity price cycles.

## **Workplace Relations: Flexibility is the best security**

The current industrial scene is deeply worrying. It is particularly worrying because of its growing adverse impact on the flexibility and performance of key industrial sectors at a time when we need to be increasing our flexibility and responsiveness.

We all knew the *Fair Work Act* would increase union power but there has also been a discernable negative change in union culture and behaviour. This was something which we warned may happen when the Act came in.

When the Act was introduced into Parliament we prepared a list of over 60 areas where union power had increased. This list would be twice as long if we had prepared it today, given the way that the unions have pressed the boundaries of the Act over the past two and a half years and the interpretations which the Courts have placed on some of the sections, for example, the General Protections.

It has been several years since we have seen so much industrial action taken against multi-national companies and in the public sector. There is a significant lag in the ABS industrial dispute statistics and I expect the next report<sup>6</sup> will confirm a further deterioration in the industrial environment.

There are many instances where unions are pressing the new rights which they have acquired under the Act, such as the right to take industrial action over a much wider series of claims. The pursuit of union job security clauses and restrictions on out-sourcing fall into this category.

We are also seeing instances of unlawful behaviour. For example construction unions are making demands for companies to employ workers that the unions nominate and to appoint them as full time union delegates or OHS officers. These claims are unlawful under both the *Fair Work Act* and the *Building and Construction Industry Improvement Act*.

Another example is the Australian Nurses Federation's recent refusal to abide by an order of the independent umpire, Fair Work Australia, to lift industrial bans.

Ai Group has been arguing for some time that the *Fair Work Act* needs to be amended to remove barriers to productivity growth and flexibility at the enterprise level.

Arguments that employers are failing to take advantage of the *Fair Work Act* to increase productivity are misguided. What most employers want is legislation which allows them to focus on productivity improvement every day.

So far the Government has not acted on any of the sensible proposals pressed by Ai Group and other major employer groups.

At the same time, the Government has agreed to an extraordinary series of union claims – this is another smorgasbord – but only for the unions. These include:

1. The introduction into Parliament on 3 November of a Bill to abolish the ABCC and water down the construction industry reform legislation – as pursued by the CFMEU, the AWU and the CEPU;

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<sup>6</sup> The next ABS publication *Industrial Disputes, Australia* (6321.0.55.001) is due on 1 December for September Quarter. The previous publication showed a worrying increase in the number of disputes and working hours lost in the June quarter over the March quarter.

2. A massive increase this year in the level of protection under the General Employee Entitlements and Redundancy Scheme to meet a longstanding claim of the AMWU;
3. A \$2 billion commitment announced this month to fund the wage increases sought by the ASU in the *Equal Remuneration Case*;
4. The introduction into Parliament last Wednesday of a Bill to implement sweeping changes to remuneration arrangements in the road transport industry to address the TWU's *Safe Rates, Safe Roads* campaign;
5. The introduction into Parliament last Thursday of a Bill which will add another 30 pages to the *Fair Work Act* to increase union entry rights and protections for workers in the Textile Clothing and Footwear industry. The Bill implements longstanding TCFUA claims which were opposed by Ai Group and other employer groups when the *Fair Work Act* was being developed and rejected by the Government at that time; and
6. The Government's decision a few weeks ago to intervene in the High Court case of *Barclay v Bendigo TAFE* to support the unions' arguments to retain the vague and problematic interpretation which the Full Federal Court has placed on the general protections in the *Fair Work Act*.

I could go on.

We are viewing next weekend's ALP Conference with some trepidation. It was at the 2007 Conference that the ALP announced the original version of its *Forward with Fairness* Policy which was heavily weighted towards the unions. At the next Conference in 2009, the Prime Minister announced a set of Fair Work Principles for Government procurement without any consultation with industry. Hopefully, the Government does not have any nasty surprises for industry at this year's ALP Conference.

It is worrying that in the lead up to this year's conference, the union movement has proposed all sorts of unworkable amendments to the *Fair Work Act* including:

- Allowing industrial action to be taken over any union bargaining claims, not just 'permitted matters', and removing the current limits on agreement content;
- Amending the Act to expressly state that union job security clauses are able to be included in enterprise agreements, including clauses which restrict the engagement of contractors and labour hire;
- Giving the unions much wider access to compulsory arbitration for bargaining disputes, which would encourage ambit claims and lead to the flow-on of arbitrated outcomes;
- Imposing further restrictions on employer lock-out rights, even though such rights were already substantially curbed under the *Fair Work Act* and now only apply in response to union / employee industrial action.

The Greens have also joined in, announcing the introduction of a Private Members' Bill to reduce employers' industrial relations rights, in the wake of the Qantas dispute, including:

- Making job security an object in various sections of the Act; and
- Requiring employers to give three days notice of a lock-out in response to union industrial action.

We would be extremely unhappy if the Government gave any oxygen to these claims of the unions and The Greens. The proposals are not in the Nation's interests.

The idea of a good faith bargaining code, which the Government has mentioned, would also not be in the Nation's interest. Such a code would lead to the unions opening up numerous issues around the good faith bargaining requirements which are reasonably settled through decisions of Fair Work Australia. A code would increase the regulatory burden upon employers and lead to Australia's bargaining system becoming far more litigious.

The situation in the Senate makes things very difficult for industry. The Greens industrial relations policies are retrograde and they are endeavouring to drag the Government down a path which would be damaging for employers and employees, through reduced investment and employment.

The Opposition needs to work with the Government to address the problems. It is vital that the major parties find common ground on workplace relations given the situation in the Senate. Industrial relations should not be a political football.

Also, the situation in the Senate requires that the Independents in the House of Representatives take a strong interest in workplace relations. The positions they adopt on workplace relations legislation will be critical in protecting and furthering the community's interests.

The State Governments also have responsibilities. Under an Intergovernmental Agreement signed when a number of States referred powers to the Commonwealth in 2010, the Australian Government must consult with the States when changes are proposed to the *Fair Work Act*. In these consultations the States should be supporting productive changes to the *Fair Work Act* and opposing unproductive ones, including amendments which would just add another layer of federal regulation in areas covered by State laws which they intend to retain.

All Parliamentarians need to support workplace relations arrangements which foster employment growth and competitiveness, not arrangements which will drive more jobs offshore and more Australians out of work.

The unions argue that job security needs to be protected. Their plan to do so involves:

- Restricting the ability for companies to use casuals, labour hire and contractors;
- Implementing highly restrictive job security clauses in agreements which impede outsourcing and the efficient organisation of work;
- Locking themselves into management decision-making processes; and

- Allowing unions to obtain secure work orders.

The unions' outdated view that a full-time, permanent job is the only secure job is misguided. Employers need flexibility to match the supply of labour with demand for their products and services. Employees want flexibility so they can balance work, family, leisure and study, and to transition into retirement. There are clearly many people who are working fewer hours than they would like to work. However there are many, many more who want to work as contractors, casuals, part-timers or on a labour hire basis.<sup>7</sup>

The only true job security comes from ensuring that businesses can survive and grow.

In this challenging environment, Fair Work Australia has an important role to play. The independent industrial umpire has a proud history, extending over more than 100 years, but its reputation will suffer unless the Government adopts a more balanced approach to appointing Members. So far, the vast bulk of those appointed to Fair Work Australia by the Labor Government have a union background. If this unbalanced approach continues, over time there will undoubtedly be negative impacts.

Justice Giudice, the current President of Fair Work Australia, epitomises fairness and justice and is highly respected by employers and unions. Justice Giudice is retiring from the Tribunal in February and everyone will be watching very closely who the Government appoints to this critical role. The new President will be able to exert a great deal of influence over the shape of Australia's workplace relations system and it is vital that this influence is a positive one that increases the competitiveness and productivity of Australian firms, increases employment, and preserves fairness for employees and employers.

So far, Ai Group has pursued or intervened in about 15 appeals against bargaining decisions of Fair Work Australia. These cases have dealt with critical principles under the *Fair Work Act*. In most cases, the decisions which we have appealed against have been overturned by Full Benches of the Tribunal. If all of these decisions had stood the *Fair Work Act* would have been far more problematic than it is. Despite many sensible and fair decisions of Full Benches of Fair Work Australia, it is evident that there are problems in the Act which need to be fixed.

The review of the Act which the Government has announced from January next year is an opportunity to increase productivity and flexibility at the enterprise level, to reduce red tape and to improve competitiveness. Hopefully, this will be the outcome rather than the opposite.

Ai Group has identified a number of key barriers to productivity growth and flexibility improvement, which need to be addressed through legislative amendments and which we will focus on during the Review:

1. Provisions which restrict the engagement of contractors and on-hire workers;
2. The lack of a workable form of agreement which provides flexibility to employers and individual employees;

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<sup>7</sup> In August this year 838,000 employees were classified as "underemployed" – that is people who are employed and willing and able to work more hours. This was less than one quarter the number of part-time employees (3,396,000), Australian Bureau of Statistics in *Labour Force, Australia*, 6202.0, Oct 2011.

3. Increased union power, including the ability for unions to disturb lawful and fair workplace arrangements which are supported by the majority of employees in a workplace;
4. Ill-conceived transfer of business provisions; and
5. General Protections provisions which are too loose and uncertain.

It is essential that the Government announce the program and process for the Review without any further delay. For a Review reportedly commencing in January, the program and process should have been announced months ago to give industry time to prepare submissions and evidence.

While the Review presents opportunities, it also presents significant risks to industry, particularly if the Government decides to accommodate the unions' proposals and to reject employer proposals to address the current problems in the Act.

### **Independent nation or anachronistic monarchy?**

Before winding up, I would like to add a personal view about the importance for our opportunities in the Asian century of us having an Australian head of state.

- Of course we are all aware of the strong following the Queen has. It was clearly on display again during on her recent visit.
- However, we really need to move on into the new century with an Australian head of state.
- We should embrace our history but we will not have a truly Australian brand until we allow ourselves to produce our own head of state. As Paul Keating once said, we need to cease being "the branch office of Empire".
- While the polls may currently be against a republic this will reemerge as the mainstream view. As the Adelaide Advertiser editorialised last month:<sup>8</sup>

*It is inevitable that we will reach a point where a republic is needed. Not because we are anti-monarchy, but because it reflects who we are as a country. It better reflects our place in the global economy and system of government, in due course, a republic is in the best interests of a modern Australia*

### **Concluding comments**

So in closing I would like to re-emphasise that Australia is well positioned to shape our future in the Asian century.

Certainly relative to most developed countries, we have very strong foundations and we have made considerable progress across a range of areas.

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<sup>8</sup> Adelaide Advertiser, October 22, 2011

Our strengths and our good fortune are presenting us with some important complexities and in particular we have become a high-cost economy and we need to confront the risks associated with our multi-speed economic structure.

I have given particular emphasis to the area of industrial relations and the dangers of imposing higher costs and in many cases unreasonable inflexibilities. There are also other areas in which we need to lift our game and adjust our current direction.

If we can do this we can have a real go at some high aspirations.

I have suggested that we strive to become the leading knowledge-based economy in Asia.