



Manufacturing our future

The role of workplace reform in securing the next generation of Australian industrial employment

Manufacturing Australia

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1. Australian manufacturing's productivity challenge

More than 936,000 Australians, or 8.1 per cent of the total workforce, work in manufacturing, the nation's fourth-largest employing sector¹. Manufacturing employees have typically enjoyed long-term, stable jobs and above-average wages and conditions: key elements in the sector's status as a preferred employer. Manufacturing operations are often in outer-suburban and regional Australia, offering many Australians, and their surrounding communities, the benefits of rewarding career opportunities outside of our capital cities. In addition, for every one manufacturing job, between two and five jobs are created².

However, Australia's manufacturing sector faces a profound productivity challenge. Multifactor productivity in Australian manufacturing has been in decline since 2003/4³. Manufacturing and its related services now contribute just 6.8 per cent of GDP, (33.5 per cent of total merchandise exports in 2013) compared with around 30 per cent in other advanced OECD economies around the world.⁴

Clearly, boosting manufacturing productivity is broader than just labour productivity. It must also involve training and skills development at all levels of business, better alignment between research and industry, reducing the burden of uncompetitive taxation and red-tape, public and private investment in infrastructure and sensible energy policy.

But labour productivity has to be part of the debate if we are to maintain the powerful combination of economic and social benefits that a strong manufacturing sector delivers to the Australian community, and secure the next generation of industrial employment in Australia.

There is much at stake. Australia cannot afford to allow its manufacturing sector to wither. As Professor Göran Roos noted in his 2011 report to the South Australian government 'Future of Manufacturing': "It takes longer and is much more complex and costly to re-build a competitive manufacturing industry than it is allowing it to die. A case can be made that the cost of regaining a lost competitive manufacturing sector can be higher than the net gains from the resource boom"⁵.

In its review of the workplace relations framework, the Productivity Commission recommended reforms that rightly respected the strong safety net and employment standards of the current system. However, the commission also identified opportunities for better governance and administration of the Fair Work Commission, along with changes to outdated and inflexible practices that act as a deterrent to growing and securing investment and employment in Australian manufacturing. Importantly, the review also recognised the inevitability of change in Australian workplaces, and that flexibility to adapt to change is essential to the continued competitiveness of Australian industry.

This discussion paper proposes a range of measures that would encourage greater workplace flexibility and direct engagement between employees and employers, while maintaining a strong safety net and high employment standards for manufacturing workers.

¹ http://awpa.gov.au/our-work/sector-specific-skill-needs/Manufacturing_workforce_study/Pages/default.aspx

² <http://www.thinkers.sa.gov.au/roossummary/>, p5

³ <http://www.pc.gov.au/research/completed/page-multiple-page-154472/manufacturing.pdf>

⁴ Manufacturing into the Future - Professor Goran Roos, 2011

⁵ http://awpa.gov.au/our-work/sector-specific-skill-needs/Manufacturing_workforce_study/Pages/default.aspx

⁶ <http://www.thinkers.sa.gov.au/roossummary/files/inc/917488524.pdf>, p7



2. Workplace relations reform: Manufacturing Australia's position

An efficient and flexible labour market is vital to global competitiveness in manufacturing, and it is an area in which Australia's competitiveness gap is worsening. During much of the 1990s and early-2000s, labour productivity grew strongly in Australia, averaging 3.1 per cent growth per year from 1993-94 to 2003-04. However, in the second half of the 2000s productivity performance sank, only averaging 1.4 per cent per year from 2003-04 to 2010-11. Although it has recovered modestly since then, it is still well below the peaks of the 1990s and early-2000s.⁶

Manufacturing Australia believes that an efficient and effective labour market is best achieved through a workplace relations framework that supports four fundamental principles:

1. **A strong "safety net"** in the form of national employment standards is fundamental to Australia's workplace relations system, so that employees and employers alike can have confidence that wages, conditions, rights and obligations meet community expectations.
2. **Direct engagement between employees and employers** is the most effective way to build understanding of customer, employee and business needs at the local business unit level. Direct engagement is supported preferably through individual arrangements that respect the "safety net", or collective agreements with employees and/or unions where this is preferred.
3. **Change is inevitable; flexibility is essential.** Enterprises must be able to respond to shifts in technology, dynamic global markets and changing levels of demand. This will at times involve restructuring and re-tooling.
4. The Fair Work Commission has an important role to play in **enabling and facilitating change** that secures a more sustainable position for the enterprise, while ensuring employees are protected by the strong safety net. Recent targeted innovation by the FWC in this area has led to successful workplace change, such as the [transformation of Orora's Fibre Packaging business](#) from 2012-2014, or more recently the restructuring of Bluescope's Port Kembla steelworks.

Australia's industrial relations system should facilitate a fair workplace culture that supports internationally competitive workplace productivity. Such a culture, underpinned by the four principles above, will be necessary for Australian and international businesses to invest in manufacturing and secure the next generation of industrial employment in Australia.

⁶ <http://www.abc.net.au/news/2014-02-06/ged-kearney-wages-productivity-claim-overstated/5227450>



3. Defining the “employment relationship”

Productive enterprises rely on strong, constructive relationships between employees and employers.

Manufacturing Australia believes that an ideal employment relationship is characterised by the following:

- Employees should have confidence that their employment is supported by a strong safety net of wages and conditions.
- Employees should be able to identify and improve processes and practices in the workplace, with the support and guidance of managers with appropriate skillsets.
- Employees and employers should have the same rights and responsibilities when engaging in enterprise bargaining. This includes the requirement to bargain in good faith, to engage in genuine and meaningful dialogue and to regard industrial action as a measure of last resort.
- All parties should recognise the inevitability of change in globally competitive industries. Changes to work practices must be ongoing to ensure that a company remains viable and employee expectations concerning security of employment can be satisfied.
- Union representation should be open to all employees, but not the default position.
- Employers should be able to engage directly with their employees, and vice versa.
- Trust and transparent communication between employees and employers is cultivated.
- Employees should be able to understand the expectations of their roles, be provided with all necessary tools to perform their roles and be held accountable for their roles.
- Agreements between employers and employees should provide certainty and clarity about core elements of the employment relationship, such as wages, conditions, working hours etc, but not include matters not directly related to the employment relationship.
- Employment relationships should enable sufficient flexibility to respond to changes within the enterprise or outside it, to adapt to changing demands on either employees or employers, and to enable the enterprise to access the largest possible pool of talented employees.
- Arbitration or intervention by third parties in the employment relationship should be a measure of last resort where agreement cannot be reached between the employer and the employee and where other avenues have been exhausted.



4. Policy reforms: Manufacturing Australia's recommendations

Ultimately, employers and employees are the most important drivers of workplace reform. But policy and legislative reforms are also needed to create an environment where workplaces can more readily adapt to change.

Manufacturing Australia believes that pragmatic, sensible, changes to the legislation, governance and operation of the workplace relations system is essential to the long term competitiveness of Australian manufacturing.

Reforms should seek to:

- re-focus and improve the Fair Work Commission through governance and legislative changes;
- reduce or eliminate the most destructive and combative aspects of enterprise bargaining;
- facilitate, not resist, change in enterprises, and encourage greater collaboration between employees and employers.

Manufacturing Australia's specific reform recommendations include:

Recommendation 1:

*The Australian government should accept the recommendations of the Productivity Commission to **restructure the Fair Work Commission**, including the establishment of two separate divisions, improving the selection process for commissioners and strengthening conciliation processes. The objective of the Fair Work Commission should be to facilitate more productive outcomes for employers and employees, and the enable changes to enterprises where they are necessary to ensure ongoing competitiveness.*

Recommendation 2:

*The Fair Work Act should limit matters covered by an enterprise agreement to the **direct employment relationship**, relying on the "matters pertaining to the employment relationship" principles in the Electrolux case. Terms restricting the use of labour hire and contract labour would be one type of matter that could not be included.*

Recommendation 3:

*Laws governing **protected industrial action** should be tightened to minimise the damaging effects of industrial action, requiring a high threshold to be met before protected action can be taken. The Act should provide for reciprocal rights and obligations between employees and employers in relation to taking protected action.*

Recommendation 4:

*The Fair Work Commission should be able to **take into account evidence of "abuse of process"** in determining whether to grant protected action status over negotiations for the renewal of an agreement.*

Recommendation 5:

*The system should support employers and employees **bargaining directly**, without third party involvement, where this is preferred. Statutory recognition should be given to alternatives to the current collective bargaining regime and the Act should better facilitate individual flexibility alongside collective agreements.*

Recommendation 6:

The Australian Government should accept the recommendation (draft recommendation 19.8) of the Productivity Commission to change the rules governing union right of entry. Unions that do not have members employed at the workplace and are not covered by (or are not currently negotiating) an agreement at the workplace, would only have a right of entry for discussion purposes on up to two occasions every 90 days.



References

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