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The Relevance of Productivity

Speech by

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Australia has been remarkably successful in an era of rapid global change.

At a time when many other advanced countries have struggled, we have enjoyed more than two decades of prosperity and economic stability.

From 1995 to 2005, Japan had a sustained period of economic stagnation – the Lost Decade.

In 2009, the global financial crisis inflicted a lengthy and painful recession upon the USA.

And today much of Europe is still struggling with recession and high unemployment. Indeed, some commentators are saying that many European nations may suffer their own lost decade.

How has Australia avoided these woes?

Why have we been so successful?

Yes, we are rich in resources and close to Asia's growing markets.

But many other countries have great mineral and energy wealth that remains untapped or is squandered through wastefulness or corruption.

I believe we have benefitted from some great historical legacies.

In the 19th century, colonists who valued hard work and fairness built a sound legal system and secure property rights.

This encouraged risk-taking, profit-seeking and hard work.

Our forebears built a prosperous, well governed and socially advanced nation.

But things changed for the worse in the 1970s.

Protectionism and industrial disputation combined to undermine national productivity and competitiveness without delivering any sustainable gains for the wider community.

By the 1980s Australia's per capita GDP had fallen to 18th on the list of prosperous nations.

Then in the mid '80s, a new generation of policymakers, businesspeople and union leaders combined to re-invent Australia.

Australia became much more internationally competitive thanks to good policies that encouraged productivity and innovation.

These policies included labour market reform.

And it wasn't just policies.

Australians changed their attitudes.

Government, businesses and unions acted as partners.

Leaders moved away from class warfare and focused on working together for the greater good.

Industrial relations agreements looked to the future and took the national interest into account.

I am proud to have helped develop and implement the reform agenda, both as a unionist and as a politician.

The vast majority of Australians benefitted from this approach.

Today Australia has the fifth highest per capita GDP in the world.

Yet some parties continue to reject a spirit of cooperation in industrial relations.

Either they don't understand the lessons of history, or they only care about their own narrow interests.

Certainly – too few are today considering the bigger question – of what is in the national interest.

It is not in Australia's interests for the industrial relations system to be used as a tool for one side to score points over the other in a never-ending ideological skirmish.

Our legislative framework needs to be a mechanism that holds both sides to account and helps deliver projects on-time and on-budget.

Mutual obligation is an integral element of the "fair go".

Employers and workers have obligations towards each other.

And both groups have obligations towards the wider community and the national interest.

Good workplace agreements are fair on both sides and good for the country.

It is in no one's interest for businesses to be made unprofitable or to have industrial strife to deter future investment that would create jobs and more tax revenue.

We must work together to grow the pie so that we can all share it.

I want to talk about this in the context of the Australian oil and gas industry, which I am representing here today.

Australia has three operating LNG projects and in 2012-13, Australia shipped more than 23 million tonnes of LNG.

In that year, the oil and gas industry:
- put more than $30 billion into the national economy;
- and paid more than $8 billion in tax.

Right now, another seven projects are under construction, with some of these due to start exporting in the next 12 months.

This means Australia is poised on the brink of a great new resources export boom.

By 2018, Australia will have 10 operating LNG projects producing more than 85 million tonnes a year.

By 2020, the industry will be:
- putting almost $65 billion into the Australian economy;
- paying almost $13 billion in tax;
- and it will account for 3.5% of GDP.

The Australian LNG industry has the potential for an even stronger future – but it also faces some big challenges.

By 2030, forecast annual demand will be require more than 220 million tonnes per year in new global LNG capacity.

But plans exist for more than twice the projects required to meet this new demand.

Clearly, not all projects will proceed.

And in recent years, the Australian LNG industry's costs have risen and its productivity has declined.

Our international competitiveness has slipped.

And some lean and hungry new players – including the US, Canada, Tanzania and Mozambique – have entered the game.

These countries can produce LNG up to 30% more cheaply than Australia can.

If our LNG industry is to continue to grow and to further increase its contribution to Australia's prosperity, it must find ways to cut costs and improve productivity.

This requires companies and unions to change how they operate.

Some recent events illustrate the need for industrial relations reform.

Origin Energy CEO Grant King says investors have often asked him what he thought the single biggest completion risk to be for the $25B Australia Pacific LNG project.

And he said he was most concerned about mid-2014.

This was when an enterprise bargaining agreement covering the 8000-strong construction workforce would be open for renegotiation.

Sure enough, in July and August of this year, the CFMEU used its strategic position to threaten industrial action.

Such action would have seriously disrupted the timetable not only at this LNG project, but also at the two other projects being built on Curtis Island at Gladstone.

After lengthy negotiations, an agreement was reached.

But this required huge pay rises for the workforce.

The Courier Mail reported at the time that tradesmen's wages jumped about $40,000 to reach $200,000 a year.

This dispute arose because an enterprise bargaining agreement had expired and a new one had to be negotiated.

The CFMEU saw the chance to win better terms.

It was a victory for the union, but certainly not for the wider industry or for Australia.

Nor is it necessarily even in the workers' long-term interest.

Just recently, Australia's unemployment rate reached a 12-year high of 6.4%.

Queensland, with its unemployment rate of 6.8%, suffered more job losses in one month that any other State.

In those circumstances, I would have thought anyone working on Curtis Island would be grateful to have a job when many don't.

To be frank – it is time that some union leaders recognised that their members' real interests are aligned with their long-term job security.

Major project agreements

Incidents like this make investors flinch. If we want more major projects built in this country, we must change our ways.

The Fair Work Act must be revised, especially in regard to major resource project construction.

The Act facilitates the continued ratcheting up of wages and allowances so that project owners cannot be confident about the cost of labour over the full life-span of construction.

In April, APPEA released a blueprint for workplace relations reform to drive productivity growth and improve competitiveness.

APPEA advocates a new form of enterprise agreement that would specifically apply to major capital projects, such as multi-billion dollar LNG plants.

These Major Project Agreements – or MPAs – would reflect both the scale of these projects and the timeframe required to develop them.

They would limit the time available to negotiate and would apply for the entire period of project construction – rather than being renegotiated every 4 years.

MPAs would also require negotiations to be specific to individual major projects' circumstances.

This would prevent the most recent deal struck automatically becoming the minimum benchmark for the next.

APPEA is also urging the Federal Government to consider further reforms to protect major capital investments once an MPA has been put in place.

These reforms include:

- Changing Right of Entry provisions so they apply only to those unions with which agreements have been made;
- Bigger fines for unlawful industrial action;
- Raising the threshold for protected industrial action;
- Anti-picketing laws that deliver faster determinations regarding lawfulness; and
- Re-introducing a well-resourced Australian Building and Construction Commission.

Work visas

The CFMEU is not the only union to have recently leveraged it strong bargaining position.

In July, the Maritime Union of Australia sought to undermine the use of Maritime Crew Visas for foreigners working on offshore platforms and construction.

This created great uncertainty and risked halting vital, specialised, construction work.

This issue is being played out in parliament as well as in the industrial relations arena.

The Migration Amendment (Offshore Resources Activity) Act – or The ORA Act – extends Australia's migration zone offshore to include offshore vessels – requiring relevant workers on those vessels to hold skilled migration visas.

The Australian Government has introduced a Bill to repeal the Act, but that Bill has not yet been passed.

The Government also sought to introduce regulations allowing holders of the maritime crew visa, the 400 visa and 457 visa to participate in, or support, an offshore resources activity.

In mid-July, the Senate decided to disallow these critical visa regulations under the false belief that doing so would "protect Australian jobs" from foreign workers.

This had the potential to shut down operations and harm Australia's international investment reputation.

Oil and gas is a globalised industry.

Many of the offshore services provided to it are undertaken by ships with highly-specialised, highly-skilled crews that travel the world, from job to job.

Far from taking Australian jobs, these vital roles actually create other jobs as they mean crucial offshore construction work can proceed safely and efficiently.

Owners of these ships should have the right to man them with their own crews.

The same reasoning used to justify the ORA could be used to force British Airways or Etihad to switch out their crew and use Australian pilots and flight attendants when in Australian airspace.

This is patently absurd, but it is the circumstance in which the offshore oil and gas sector now operates.

The government has responded to the Senate's rejection by issuing a Legislative Instrument that means overseas workers engaged in vital offshore resource activities can still legally work in Australian waters.

But the MUA has challenged this in the Federal Court.

In an environment of cost blowouts and project delays, what messages are these disputes sending to international investors and footloose capital?

Does Australia want more investment in major resources projects?

Do we want another wave of LNG project construction?

Australia's inefficient industrial relations and labour market systems have produced:

- Labour shortages.
- Poor productivity; and
- Repeated disruptions to projects by unions.

Unions must recognise that their members' real interests are aligned with their long-term job security.

To maintain a strong economy and low unemployment rates, we must remain attractive to investors – both domestic and international.

Industry responsibilities

These proposed visa and major project agreement reforms are critical if the LNG sector is to increase investment and deliver more jobs.

But industry must also lift its game.

Project delays and cost blowouts have not been solely due to industrial relations issues.

Companies must also work to improve their own efficiencies.

Some problems have been due to the industry's steep learning curve.

Today, the Australian oil and gas industry is drilling further from shore and in deeper waters than ever before.

It is also building larger, more complex projects that are on a scale that has been beyond the experience of most staff, including managers and supervisors and even some senior executives.

These conditions create new challenges and impose unforeseeable surprises.

We have learned some hard lessons over the past years and now we must apply that knowledge so that we can play our part in reducing costs and raising productivity.

The key to moving forward will be innovation and collaboration.

By innovation, I mean new drilling technologies and advances such as floating LNG plants, as well as specific research projects, often in partnership with universities or the CSIRO.

By collaboration I mean companies on different projects working together to:

- share infrastructure, maintenance and operations;
- develop industry-wide standards that remove confusion and increase operational efficiencies;
- improve training at all levels of the workforce, but particularly at supervisor and management levels; and
- use the lessons of the past few years to develop better project management training and protocols for mega-projects.

And of course, collaboration also includes cooperation between companies and their workers.

It also means developing more highly skilled frontline supervisors who ensure that projects are well planned and executed.

This means working together to cut costs and to enhance productivity.

Doing so will minimise injuries and lost time, but will also improve relationships and job satisfaction within the oil and gas workforce.

Safety is a big concern for workers, unions and management.

I am sure we can all work together in this area.

Conclusion

It has taken much more than good luck for Australia to have 23 years of unbroken prosperity.

And we should not rely on luck to deliver the economic growth of the future.

We need to examine the lessons of the last few decades – the reasons behind our successes and failures.

We need intelligent policy reform.

But most of all we need to rediscover our adaptability and our capacity for innovation and hard work.

And it means recognising that employers and workers are all in this together.

We must address this nation’s problems with productivity and competiveness.

Nobel Prize-winning economist Paul Krugman has said that “productivity isn’t everything, but in the long run it is almost everything”.

And we all do better in the long run if we work as partners.