

**Department of Employment, Workplace
Relations and Small Business**

***ENTERPRISING AUSTRALIA: PLANNING, PREPARING
AND PROFITING FROM TRADE AND INVESTMENT***

**Submission to the Joint Standing Committee on Foreign
Affairs and Trade: Trade Sub-Committee**

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TABLE OF CONTENTS

1.	INTRODUCTION	1
2.	WORKPLACE RELATIONS FRAMEWORK	3
	Background	3
	Workplace Relations Act 1996	4
	Further Legislative Reform	6
	A Simpler Workplace Relations System	8
3.	IMPORTANCE OF AUSTRALIA'S SKILL BASE	9
	Occupational Change Over the Last Five Years	10
	The Short Term Outlook	11
	Strategies for Addressing Skill Shortages	12
4.	DEWRSB PROGRAMS PROMOTING EXPORTS IN REGIONAL AREAS	13
5.	CONCLUSION	14

1. INTRODUCTION

1.1 In a purely competitive international market, a country that produces and trades those goods and services in which it has a comparative advantage will generally enjoy a higher standard of living. This occurs as countries specialise in producing particular goods and services, which reduces their average cost and collectively increases the overall amount of goods and services that are available to trade and consume.

1.2 Often, however, markets are not perfectly competitive - national governments, for example, erect trade barriers and firms engage in predatory pricing practices by dumping products on world markets. Nevertheless, empirical observation suggests that the benefits from trade in terms of higher productivity, higher real wages and higher standards of living are overwhelmingly positive. Countries that opt to artificially reduce trade through self-sufficiency policies, for example, are almost always poorer as a result. Conversely, countries that are actively involved in trade are usually those with high living standards.

1.3 Foreign investment can similarly have mutual benefits for the countries involved. Through foreign investment, the receiving country benefits from an expanded base of resources, knowledge and finances. The investing firms also derive benefits such as access to new markets, increased competitiveness, diversification of risk and potentially a higher return on their capital through accessing greater economies of scale.

1.4 There are other positive benefits to countries that are actively involved in trade and foreign investment. Employment benefits can flow either directly or indirectly. Direct employment effects can result either when a foreign owned firm establishes a new branch in Australia, directly creating new employment positions, or when a firm expands into export markets thus requiring extra staff. Indirect employment effects also flow through from higher levels of economic growth due to trade and foreign investment.

1.5 Trade can also support sustained economic growth even when the domestic economic environment is weak. Where domestic demand in an economy is slowing but world demand remains high, economic growth, and consequently employment growth, would, to some extent, be supported by the country's external markets. On the other hand, over reliance on particular export markets does increase a country's external risk exposure. Australia was faced by such a situation when the Asian economies, which represent 42.3 per cent of total Australian exports,¹ faltered in 1998. Unlike some other countries, however, the Australian economy proved flexible enough to adapt to the change with some businesses diverting exports to markets in the US and Europe while other companies concentrated more on domestic production.

1.6 In 1999, the Department of Foreign Affairs and Trade released a report detailing the benefits of Foreign Direct Investment in Australia. These included:

- *employment benefits* – firms that have majority foreign ownership provided jobs for over half a million people in Australia with as many as one in five jobs in the manufacturing industry. Many more people are working in firms for whom foreign-owned firms are customers and suppliers of goods and services;
- *trade benefits* – firms with substantial foreign ownership account for around one quarter of Australia's exports;

¹ Department of Foreign Affairs and Trade, *Australia: Economic and Trade Statistics*, May 2000

- *national wealth* – on average, for every dollar of output generated from an investment in Australia, 96 cents is retained in Australia; and
- *personal wealth* – average income for Australians was just over A\$1 000 more in the early 1990s than would have been the case without foreign investment inflows into the country.

1.7 Trade and foreign investment has therefore enabled Australia to achieve higher economic and employment growth and a higher standard of living than would otherwise have been possible. Nevertheless, international trade can and does involve adjustment costs. These costs are caused by changes in consumer preferences, technology and other factors, such as demographic changes or changes in government policies. Imposing trade barriers to avoid the structural effects of international trade is unlikely to alter these underlying factors. In these instances, such action would only delay the adjustment costs while reducing the competitiveness of export industries and lowering overall living standards by increasing consumer costs.

1.8 As the world economy has become more integrated over time, countries have moved toward a more liberal trading regime. All countries, including Australia, however, continue to employ some degree of protection for the benefit of employment in certain industries. While this, in all likelihood, reduces the total benefits from trade to Australia as a whole, exposing these sectors to free trade would have significant consequences for the sectors concerned, particularly with regard to employment. In some cases, whole geographic areas which are heavily dependent on a certain industry may have their economically viability threatened. It is for this reason that many industrialised countries, like Australia, have adopted a phased process for the removal of industry protection, such as tariffs, so that the affected industries are able to adjust more gradually, thereby minimising structural adjustment costs.

- In addition, Australia provides adjustment assistance to those affected by structural change. This assistance ranges from industry specific measures to labour market assistance provided to individuals through the Job Network.

1.9 There are other features of an economy that may also affect the degree to which a country is able to maximise the potential gains from trade and foreign investment. The terms of reference for this enquiry indicate that the Committee is interested in broadening its understanding of how institutional features such as the role of development agencies, transport systems, taxation, telecommunications infrastructure, production costs, industrial relations structures, legal systems, federal systems of government, research and development initiatives and the adequacy of a skilled workforce influence trade and investment performance.

1.10 The areas of direct interest to the Employment, Workplace Relations and Small Business portfolio include how industrial relations frameworks can influence foreign investment and trade and whether skill shortages are likely to be an impediment to trade and investment performance in the future.

1.11 The workplace relations environment in which businesses operate is likely to be influential in the investment decisions of foreign companies. All other things being equal, a country will be a more favourable investment destination if it has a flexible workplace relations framework. Flexibility in a global trading environment allows firms to rearrange production more easily to meet changing business conditions and reduces the cost of such action. This is also highly important in an increasingly integrated world market in which changing trade patterns will tend to place greater pressures on the labour market. Section 2 of this submission

discusses in detail the role of Australia's workplace relations framework and how some elements may currently be acting as a constraint on investment levels, thus strengthening the case for further reform.

1.12 The skills of the workforce are also important in foreign investment decisions and to the international competitiveness of Australian industry. A company is more likely to invest in a country which it knows can supply a workforce with the skills required to successfully conduct and promote its business. Skilling the workforce is also important from the perspective of maximising our export potential. The growth of service occupations, particularly in the IT and business related fields, has opened new trade opportunities and prospects for countries to develop comparative advantages in these areas. Ensuring that the local workforce has the necessary skills in these fields is therefore important if Australia is to reap the benefits of this growing sector. Section 3 of the submission provides information on those occupational categories currently experiencing skill shortages in Australia and the action that is being undertaken to alleviate them.

1.13 The terms of reference also refer to opportunities for encouraging inward investment and promoting export sales. Section 4 details how the Regional Assistance Program and the Indigenous Small Business Fund which are funded by DEWRSB seek, in part, to promote and increase the importance of exports in regional areas.

1.14 Section 5 contains some brief concluding comments.

2. WORKPLACE RELATIONS FRAMEWORK

2.1 During the 1990s, workplace relations policy in Australia has progressively adopted a more decentralised framework to allow greater autonomy at the workplace level. This part of the submission:

- details the progress toward a more flexible and responsive workplace relations system in the 1980s and 1990s;
- describes how the *Workplace Relations Act 1996* has helped to foster a workplace relations environment conducive to, and encouraging of, foreign investment;
- discusses how recent proposed Government workplace relations legislative reforms would help to further improve the climate for foreign investment in Australia, if allowed to pass the Senate; and
- examines how the present reliance on the conciliation and arbitration power of the Constitution to make workplace relations laws is causing some cost and confusion for business which may be impeding foreign investment in Australia. In this context, the submission looks at the possibility of moving Australia's workplace relations laws onto a different constitutional basis (such that these laws would predominately be made in reliance of the corporations power of the Constitution).

Background

2.2 The terms of trade crisis and balance of payments problems in the mid 1980s highlighted the need for fundamental and ongoing restructuring of the Australian economy to improve productivity, encourage foreign investment and develop export-oriented and more specialised import-replacing industries, amongst other things. A policy, supported by both the then Government and Opposition, was adopted to progressively reduce levels of industry protection,

free up controls over foreign investment, and to start a program of domestic microeconomic reform.

2.3 In the industrial relations sphere there was a questioning of the on-going viability of the centralised arbitration system. That centralised system, based around multi-enterprise awards, many of which contained a number of restrictive and inefficient work and management practices, was inimical to productivity growth and improving the international competitiveness of business in Australia. In so doing, it was also acting to discourage foreign investment in Australia. For businesses to be more competitive and innovative and to encourage foreign investment there needed to be an industrial relations framework where employers and employees were able to tailor work practices, wages and conditions to their particular circumstances.

2.4 In 1991, the Australian Industrial Relations Commission (AIRC) introduced a limited capacity for formal enterprise bargaining (the Commission would not arbitrate for such enterprise agreements, they were required to be made only with the consent of both the unions and employer concerned). The scope for enterprise bargaining was subsequently widened and extended, on a limited basis, to non-unionised workplaces under the *Industrial Relations Reform Act 1993*

Workplace Relations Act 1996

2.5 Following the 1996 election, the Government introduced the *Workplace Relations Act 1996* (the WR Act).

2.6 The WR Act emphasises the primary role of agreement making in determining actual wages and conditions, underpinned by an award safety net of fair and enforceable minimum standards maintained by the AIRC.

2.7 Consistent with the priority given by the WR Act to enterprise specific outcomes, awards are limited in content to 20 'allowable matters'. The AIRC has been busy in the past few years simplifying awards and handling a number of 'test cases' to determine what simplified awards will look like. Over 1,400 mainly obsolete awards have been set aside under the WR Act's provisions and over 600 have been simplified to ensure that published versions of awards specify only allowable matters. Another 957 awards are in the process of being simplified.

2.8 The WR Act provides a range of formal agreement making options, in recognition that different arrangements will suit different organisations and their particular circumstances. Employees and employers can choose to enter into formal federal agreements, be covered by a State agreement (provided certain conditions are met), or continue with or make informal over-award arrangements. Federal collective agreements, known as certified agreements (CAs), can now be formalised directly between employers and employees (as well as with unions), and federal individual agreements may be formalised through Australian Workplace Agreements (AWAs). All formal agreements must meet a global 'no disadvantage' test when compared to relevant awards and legislation.

2.9 The flexibilities which agreement making can deliver are important in facilitating the productivity improvements that allow for low-inflation economic growth. These are in turn important for the encouragement of foreign investment.

- Australian Bureau of Statistics data indicate that since the WR Act was introduced, with its emphasis on agreement making, productivity growth has averaged an impressive 2.8

per cent per year.² This compares to 2 per cent per year in the pre-enterprise bargaining years of 1983-91.

2.10 Whilst there have been a number of factors driving this productivity growth, researchers have suggested that microeconomic reforms, including workplace relations reforms, have been a key factor in Australia's productivity performance.

- The UK academic, Charles Bean³, suggests that Australia's remarkable productivity performance is associated with increased competitive pressures stemming from the removal of tariff barriers, low level of regulation and the greater decentralisation in wage setting and industrial relations; whilst
- Gust and Marquez have argued that Australia's productivity performance is reflective of 15 years of extensive policy reform.⁴
- The Productivity Commission has reached a similar conclusion.⁵

2.11 Australia's productivity performance has underpinned a sustained period of low inflation and strong economic growth during the 1990s. The Australian economy has grown for 37 consecutive quarters, the longest economic expansion since the 1950s. During the 1990s, GDP growth average 3.5 per cent. Over the same period, inflation averaged 2.3 per cent, the lowest average of any of the previous post-war decades.⁶

2.12 The WR Act has also introduced reforms that have created a more stable workplace relations system, one more facilitative of foreign investment. Under the WR Act, industrial action is protected against certain civil liability while negotiating an AWA or single-business CA. However, there is no right to strike or lock out prior to the nominal expiry date of an agreement, and the AIRC has been given greater powers to direct that industrial action stop or not occur, with such directions enforceable by injunctions from the Federal Court. It is also unlawful to pay or accept strike pay or to take action to force its payment, and secondary boycott provisions have been restored to the Trade Practices Act. In addition, the provisions of the WR Act aim to ensure genuine freedom of association, with membership of all industrial organisations voluntary and compulsory unionism and preference clauses prohibited.

2.13 These amendments have coincided with a decline in the levels of industrial disputation, consistent with the trend in many OECD countries.

- Estimates based on the most current Australian Bureau of Statistics figures show that since the WR Act came into effect at the start of 1997, there have been an average of around 76 working days lost per thousand employees each year. In comparison, over a

² Period of analysis = March 1997 (earliest data following the implementation of the WR Act) – September 2000 (latest data); ABS National Accounts.

³ Bean, C, "The Australian Economic Miracle: A View from the North", Discussion Paper, Reserve Bank of Australia Conference *The Australian Economy in the 1990s*, July 2000

⁴ Gust, C and Marquez, J, "Productivity Developments Abroad", *Federal Reserve Bulletin*, October 2000, pages 666 – 681.

⁵ Parham, D, "Microeconomic Reforms and Australian Productivity: Exploring the Links", Productivity Commission staff research paper, AGPS, Canberra, 1999.

⁶ Gruen, D and Stevens, G, "Australian Macroeconomic Performance and Policies in the 1990s", Discussion Paper, Reserve Bank of Australia Conference *The Australian Economy in the 1990s*, July 2000.

similar period of time immediately prior to the enactment of the WR Act (45 months) there were around 95 working days lost per thousand employees each year.

2.14 The WR Act also introduced new unfair dismissal laws, based on the principle of a 'fair go all round'.

- There has been a significant decrease in the total number of applications (that is, federal and State jurisdictions combined) in respect of termination of employment under these laws compared with the total number of applications made under the pre-WR Act provisions. The number of federal applications decreased by 46 per cent in 2000 compared to 1996. Overall, the national combined totals of federal and State applications decreased by 27 per cent in 2000 compared to 1996.

2.15 In summary, the reforms implemented by the Government through the WR Act have helped to create a more stable and flexible workplace relations environment and strong national economy conducive to overseas investment, with higher productivity, fewer strikes, strong economic growth and low inflation.

Further Legislative Reform

More Jobs, Better Pay

2.16 In 1998 the Coalition took its workplace relations policy platform *More Jobs, Better Pay* to the electorate and gained a mandate for a range of evolutionary reforms to further strengthen the operation of the workplace relations framework put in place by the WR Act. Following the Government's re-election, the Workplace Relations Legislation Amendment (More Jobs, Better Pay) Bill 1999 was fine-tuned after consultations and introduced into Parliament. The major amendments include:

- Further limiting the role of awards to providing a safety net, including by reducing the number of 'allowable matters' in awards.
- Streamlining processes for making certified agreements and AWAs.
- Further reducing the burden of unfair dismissals on employers.
- Introducing mandatory secret ballots.
- Limiting union rights of entry.
- Clarifying and redefining the rights of parties in protected and unprotected industrial action, including reinforcing the powers of the AIRC to prevent or stop industrial action.
- Encouraging private mediation and limiting the scope of the AIRC's compulsory conciliation powers. Introducing fees for voluntary conciliation.
- Extending the legislative prohibition on union preference devices.
- Removing the Federal Court's powers under the WR Act to review harsh or unfair contracts entered into by independent contractors.
- Providing for 'cooling-off' periods during protected industrial action.
- Renaming and restructuring the AIRC and Australian Industrial Registry.
- Improving the operation of the minimum terms and conditions in the WR Act for Victorian workers not covered by federal awards or agreements.

2.17 These amendments⁷ are designed to increase labour market flexibility, reduce regulation and move further away from a centralised and prescriptive approach to workplace relations. Such labour market flexibility should help to increase levels of foreign investment in Australia.

2.18 It is relevant to note that the OECD has frequently called for a further decentralisation of bargaining over wages and employment conditions. The reforms introduced by the WR Act were seen by the OECD as a ‘decisive shift’ in that direction, but it also suggested that more could be done, for example, to further simplify awards as well as the procedures and rules governing unfair dismissals.⁸ It concluded that ‘there is still a long way to go to arrive at an entirely decentralised and highly flexible industrial relations system’.

2.19 The More Jobs, Better Pay Bill was ultimately blocked in the Senate by Labor and the Australian Democrats. The Democrats called for the More Jobs, Better Pay policy to be presented in single issue legislation, rather than an omnibus Bill. During 2000, the Government continued to pursue its workplace reform agenda through stand alone Bills designed to address particular issues.

Legislation Introduced During 2000

2.20 On 11 May 2000, the Government introduced into Parliament the Workplace Relations Amendment (Pattern Bargaining) Bill 2000. The Bill’s provisions are directed, in large part, at providing a remedy where industrial action is being taken as part of a pattern bargaining⁹ campaign. Whilst they do not prevent pattern outcomes being agreed, the provisions of the Bill would be expected to limit the incidence of pattern bargaining. It is the intention of the WR Act that the primary means of determining wages and conditions of employment should be through enterprise and workplace bargaining.¹⁰ Pattern bargaining limits the scope for genuine bargaining that reflects the specific needs of particular employers and employees. In reducing flexibility in bargaining it poses a threat to productivity and therefore, ultimately, also a potential threat to foreign investment and Australia’s export industries.

2.21 The Pattern Bargaining Bill has been passed by the House of Representatives but failed to pass the Senate by the 30 June deadline that marked the commencement of the pattern bargaining campaign (“Campaign 2000”) in the manufacturing industry in Victoria. At the time, the Australian Democrats indicated that they considered that the AIRC already had the power to deal with pattern bargaining but also that they would monitor “Campaign 2000” to see if any changes were necessary.

2.22 In June 2000, the Government introduced four Bills into Parliament largely based on reforms proposed in the Workplace Relations Legislation Amendment (More Jobs, Better Pay)

⁷ The DEWRSB Submission to the Senate Employment, Workplace Relations, Small Business and Education Legislation Committee inquiry into the More Jobs, Better Pay Bill outlines in detail how the amendments contained in the Bill would operate, and their policy rationale.

⁸ OECD Economic Survey, Australia, 1998-99, p.14

⁹ Pattern bargaining may be defined as a course of conduct or bargaining, or the making of claims, that involves seeking common wages and/or other employment entitlements, that the AIRC is satisfied forms part of a campaign that extends beyond a single business, and is contrary to the objective of encouraging agreements to be genuinely negotiated between parties at the workplace or enterprise level.

¹⁰ See *Workplace Relations Act 1996*, section 3(a)

Bill 1999. The Bills have been passed by the House of Representatives but have yet to be debated in any detail in the Senate. The Bills seek further reforms in the legislative framework.

- The Workplace Relations Amendment (Tallies and Picnic Days) Bill 2000 seeks to remove tallies and union picnic days as allowable award matters
 - this would contribute to the award simplification process.
- The Workplace Relations Amendment (Secret Ballots for Protected Action) Bill 2000 proposes new “protected action ballot” preconditions for taking or organising protected industrial action by employees and unions
 - a likely effect of the amendments would be to minimise unnecessary industrial action.
- The Workplace Relations Amendment (Australian Workplace Agreements Procedures) Bill 2000 seeks to streamline Australian Workplace Agreements, make them more accessible and improve processing arrangements for AWAs
 - the amendments would make it easier for people to take up the AWA option.
- The Workplace Relations Amendment (Termination of Employment) Bill 2000 proposes to introduce a range of provisions designed to reinforce disincentives to speculative and unmeritorious unfair dismissal claims, introduce greater rigour into the processing of unfair dismissal claims and remove unnecessary procedural burdens that unfair dismissal applications place on employers.

2.23 If enacted, these Bills should together help to create a more stable, harmonious and efficient workplace relations environment, encouraging foreign investment.

A Simpler Workplace Relations System

2.24 The proposed laws flowing from the *More Jobs, Better Pay* 1998 election policy are designed to build on the provisions of the WR Act to create a more stable and flexible workplace relations environment, contributing to a strong national economy, with higher productivity, fewer strikes, strong economic growth and low inflation.

2.25 However, comprehensive reform to make Australia’s workplace relations system simpler, more accessible and more effective is hamstrung by the present reliance on the conciliation and arbitration power of the Constitution to make workplace relations laws in the federal jurisdiction.

2.26 The current system has a number of limitations which may cause confusion and cost for business, thereby discouraging foreign investment and increasing costs for Australian firms. Some of those limitations are set out below:

- Awards are made by the AIRC when exercising its conciliation and arbitration powers to settle an interstate industrial dispute.
 - Detailed awards developed in settlement of particular disputes over numerous years add to the complexity of the award structure, compounding confusion about employer obligations and employee rights.
- Complex and costly procedural arrangements (involving notions of respondents, logs of claims, roping in, ambit and paper disputes) have been contrived as legal fictions to overcome some of the limitations of the conciliation and arbitration power.

- This can be confusing and alienating for parties unfamiliar with the nature of the system.
- Coverage of the field of workplace relations is shared between the Commonwealth and the States, and the duplication and overlap from the federal/State division of powers results in confusion, cost, complexity and excessive legalism. For example, the award structure in Australia includes both federal and State awards and occupational awards covering a large number of workplaces in many industries. As a result:
 - procedural problems, duplication and costs arise because many employers have to deal with more than one award and with dual systems applying to a single workplace; whilst
 - the existence of federal and State awards governing the same industry or the same work also contributes to compliance problems arising from confusion about which award applies to any particular employer or employee, and about employer's rights and entitlements.

2.27 A simpler system based on the corporations power may help to avoid some of these problems.

2.28 Employers that are incorporated now employ most employees in Australia. The corporations power would support a system that would avoid much of the process, procedure and complexity of the current system and overcome many of the deficiencies that arise from its current foundations. It would allow a more comprehensive and secure safety net to be established across industries. Around 800,000 employees not currently award-regulated could be brought within an award system for the first time, and as many as 85 per cent of all Australian employees could be covered by a simpler national system.

2.29 This proposal has not been adopted by the federal Government as policy, but the Government has indicated that it is keen to encourage a full community debate on the question to assess the advantages of such a policy and ways of avoiding or minimising any possible disadvantages. This process is essential before the Government can decide whether to adopt a workplace relations system based on the corporations power. Accordingly, in late 2000 Minister Reith released three discussion papers in a new series, *Breaking the Gridlock: Towards a Simpler National Workplace Relations System* to advance the debate on the merits of the idea.

3. IMPORTANCE OF AUSTRALIA'S SKILL BASE

3.1 The continued enhancement of Australia's skill base is vital to encouraging and sustaining economic and employment growth, and fostering industry and export development. The skills of the workforce must respond to the rapidly evolving requirements of new jobs in an economy driven by a growing emphasis on knowledge, specialised skill requirements, information technology and international competitiveness.

3.2 Australia's skills must be world-class if we are to encourage investment in, and take advantage of, the opportunities in the burgeoning high technology and other new growth industries. Education and training needs to be forward-looking (preparing workers for jobs of the future), linked to industry requirements, and flexibly delivered. Workplaces must be readily adaptable to the forces shaping future jobs, including a capacity to upgrade the skills of existing workers to respond to emerging technology.

3.3 Improving Australia's skill base is a combination of enhancing the skills of existing workers (addressing skill gaps) and employing additional workers, either from education or through migration. Industry is also seeking 'generic' abilities, including entrepreneurial skills, team work and customer focus, as well as technical skills.

3.4 Changing skill requirements in the workplace, in part resulting from the continuing internationalisation of the Australian economy, has resulted in significant changes in the structure of occupations in demand in recent years. Overall, we have been well placed to accommodate these pressures, although issues do arise, including skill shortages in some areas. As a result, the Government has taken initiatives to address these issues and these are outlined below. First, however, we identify some of the key trends in the structure of occupations in demand over the last five years.

Occupational change over the last five years

3.5 The Australian labour market has experienced considerable structural change in recent years: occupational groupings (DEWRSB based occupational structure¹¹) with the strongest employment growth in the past five years are Computing and Information Technology; Social, Welfare and Security; Marketing and Sales Representatives; Accounting, Finance and Management; and Food, Hospitality and Tourism.

3.6 There has been strong employment growth in many of the skills Australia needs to encourage industry growth. For example, of the 94 occupational clusters used by DEWRSB, very strong growth was recorded over the five years to November 2000 for:

- Human Resources, OH&S and Legal (66 per cent);
- Chefs and Wine Makers (49 per cent);
- Marketing, PR and Advertising (48 per cent);
- Computing and IT Professionals (43 per cent);
- Accountants (31 per cent)
- Science and the Environment (25 pr cent); and
- Medical Professionals (20 per cent).

3.7 *Financial services:* there has been very strong growth for most finance occupations, including Finance Managers, Financial Dealers and Brokers and Financial Advisers, with limited evidence of skill shortages (except for the more specialised Accountants).

3.8 *Health care:* there has been growth in employment in the health industry, and skill shortages are evident for most specialisations of registered nurse, and health specialists such as Pharmacist, Physiotherapist, Diagnostic Radiographer, Radiation Therapist and Sonographer.

3.9 *Education:* the main skill shortage in education is for some specialisations of secondary teachers, such as Maths.

¹¹ The DEWRSB occupational structure is outlined in the Department's Job Outlook publication and is used in Australian Job Search (AJS). These can be accessed from the DEWRSB website (www.dewrsb.gov.au).

Information and Communications Technology (ICT) skills

3.10 As noted above, one of the key developments in the recent past has been rapid technological change and the growing complexity of information technologies which is continuing to generate strong demand for workers proficient in ICT and computer-related skills across a wide range of industries. Generally, new jobs created over the next decade will require a more skilled workforce: workers will need to be better educated for new jobs and more flexible to respond to the changing knowledge and skill requirements of existing jobs.

3.11 The specialised nature of emerging skills is particularly evident in the Information Technology sector: a report on trends in demand in the Information Technology marketplace indicated that there were “522 new or refreshed skills advertised in the 12 months from mid 1999 to mid 2000, and 231 redundant or ‘inactive’ skills”.¹²

3.12 Australia’s ICT employment base has expanded rapidly in recent years. In just five years employment in the Computer Services industry has grown by over 200 per cent; employment of Computing Professionals across all industries rose by 42 per cent over the five years to November 2000; and employment of Information Technology Managers rose by 161 per cent in the same period.

- ICT occupations are mainly classified as Computing Professionals in Australia’s occupational structure. A higher education degree is normally required for entry to Computing Professionals, although some Computing Professionals do not have degree qualifications.

3.13 Evidence of the strong demand for ICT skills in Australia is that on six of the largest online recruitment sites there are over 50,000 vacancies for ICT skills (lodged in the past 14 days or less). There are quite widespread shortages for ICT skills in Australia, especially the higher skilled ICT occupations, although not all specialist skills are difficult to recruit. ICT skills where there is a national shortage include Oracle, SQL Server, Java and Java script, C++, CISCO Certified Professionals, Advanced Web Design and E-commerce.

3.14 The government has been working in partnership with the IT&T industry to find solutions to address ICT skill requirements. A major step was Commonwealth funding of up to \$5 million to help establish a Skills Exchange. One of the most difficult issues faced was how to facilitate skills upgrading to meet the rapidly evolving ICT skill specialisations. The challenge of keeping up with ‘cutting edge’ skills is a key issue: working with the ICT industry and education sectors to anticipate emerging skill needs and developing appropriate education and training courses.

- Earnings growth for Computing Professionals is much stronger than for all occupations, reflecting very strong demand and very low unemployment for the occupation.

The short-term outlook

3.15 As noted earlier, the Australian labour market has strengthened in recent years, although an easing in employment growth has been evident in recent months. Skill shortages broadened in early 2000, but vacancies fell throughout most of the year 2000 and skill shortages eased in some Trades.

¹² Icon IT Trend Index 2000 Mid-year edition. Icon Recruitment Pty Ltd

- The DEWRSB Skilled Vacancies Index in February 2001 was 16.8 per cent lower than a year earlier, albeit with a contrast between strong growth for Professionals (12.3 per cent) and a downturn for Trades (42.2 per cent).

3.16 Nevertheless, industry has signalled further concerns about skill shortages. The January 2001 *ACCI Survey of Investor Confidence* shows *availability of suitability trained workers* as the third ranked constraint on investment (after business taxes/government charges and insufficient demand).

3.17 Skill shortages are evident for the Trades, ICT skills and for some Professional occupations, although shortages are often for workers with specialised skills or experience. Despite the fall in Trades vacancies, shortages of Tradespersons remain quite widespread in Metal, Vehicle, Electrical/Electronics and Food Trades, and for Hairdressers.

- Skill shortages for Professionals are mainly for Nurses, Health Specialists, Child Care, Accountants and Secondary Teachers.

Strategies for addressing skill shortages

3.18 The Government encourages industry-led development of responses to skill shortages and skill issues more generally. Areas of action include better information on emerging skill needs; improving industry image and training information; well-targeted skilled migration; greater use of workplace flexibility; enhanced industry training effort; and encouragement of local responses.

3.19 DEWRSB has been working with skill shortage working groups, which cover the areas of engineering, electro-technology, automotive, food, building and construction, and rural skill shortages. Our involvement in these working groups has highlighted the need for specialised skills across the broad spectrum of industries.

3.20 As outlined earlier, enhanced workplace flexibility provisions are available for industry to address emerging skill issues:

- *Enterprise agreements* provide a mechanism for more flexible remuneration arrangements, especially for skills in strong demand, thus encouraging both initial training and the retention and up-skilling of existing workers;
- As already noted, the WR Act has significantly increased the emphasis on agreement making and made it the focus of the overall workplace relations system at the federal level; and
- Importantly, agreements (whether collective certified agreements or individual Australian Workplace Agreements) can replace awards and, subject to a 'no disadvantage' test, award entitlements can be traded off. This has provided the scope for employers and employees to make genuinely innovative and flexible agreements, including new remuneration arrangements.

3.21 Policies to emphasise vocational education in schools, increase new apprenticeships, improve labour market flexibility and enhance the responsiveness of education and training to emerging labour market requirements help to expand the availability of appropriately qualified labour to meet Australia's future skill needs. Arrangements for the temporary entry of skilled specialists from overseas facilitate the entry of migrants to meet skill gaps.

Skilled migration

3.22 Australia's skilled migration program is well targeted and streamlined and conducive to facilitating the migration of skills in shortage. Australia has a range of migration arrangements to help ensure businesses and industry have access to the skills required to maintain and enhance their competitiveness.

3.23 Australia's permanent migration program has a strong focus on skills and is targeted to have a close alignment between the people migrating to Australia and skills in demand. Employers can directly sponsor skilled workers from overseas on a permanent basis where they cannot find suitable workers in Australia. In the general skills categories, which account for around two thirds of Australia's permanent migrants, 50 per cent were awarded additional points in 1999-2000 for being in occupations identified as being in strong demand in Australia on the Migration Occupations in Demand List.¹³

3.24 Australia's temporary migration arrangements include arrangements for employers to sponsor skilled employees from overseas to help increase their competitiveness and boost exports. These arrangements are flexible and compare favourably with those operating in other countries.

3.25 As well as a direct source of skills, skilled migrants can often transfer new skills and techniques to the Australian workforce more generally.

4. DEWRSB PROGRAMS PROMOTING EXPORTS IN REGIONAL AREAS

4.1 In an environment of growing economic integration it is important to foster a culture within Australian business of thinking globally. Even in regional and remote areas of the country there are opportunities to exploit trade and foreign investment. DEWRSB provides funds for community-based projects aimed at increasing employment in regions, including through increased export sales.

4.2 The primary source of funding for these types of projects has been the Regional Assistance Program (RAP). RAP provides seed funding to 'not-for-profit' organisations for projects that will lead to increased employment, including projects that do so by generating increased exports.

4.3 In assessing projects, a number of elements are considered. In particular, whether projects will build upon the comparative advantage of a particular region or locality, whether they support existing strategies for the development of their particular region, and commitment to the project, including through co-funding, by the local industry.

4.4 Where peak local industry bodies are in place they should be consulted and involved in the development of the proposal and show clear support for the project. Projects must be endorsed by the relevant Area Consultative Committee which ensures that the project supports its Strategic Regional Plan.

¹³ The MODL has its basis in DEWRSB's skill shortage assessment program. It identifies occupations in substantive ongoing shortage where migrants can help to resolve skill shortages in Australia. The MODL is updated twice-yearly with respect to ICT occupations and annually for other occupations

4.5 Projects also need to identify firm export markets, demonstrate clear pathways to job outcomes, and will generally have the effect of increasing industry diversification within their particular region.

4.6 It should be noted that the expertise of AUSTRADE is utilised to assess the viability of export-oriented RAP projects.

4.7 Two examples of the types of projects that have been funded under RAP are:

- ‘Mapping the Illawarra Health Cluster’ – this project aims to better coordinate the Illawarra health industry and thus avoid missing opportunities in the export of health knowledge and health systems, and in training health professionals in the international market place. It is expected that the project will generate increased domestic industry and export sales of \$2 million in two years. This should translate to the creation of 48 jobs.
- ‘Development of Horticulture in the Lachlan Valley’ – this project will assist the development of the Lachlan Valley Catchment as a major producer and exporter of horticulture products. The project will identify new market opportunities that will increase the quantity of products grown or lead to the development of new crops. Up to 500 full-time equivalent jobs are expected to be created over five years.

4.8 DEWRSB is also funding projects, including export-oriented projects, in indigenous communities through the Indigenous Small Business Fund (ISBF). Some of these projects are investigating the potential for marketing local products internationally.

4.9 An example of this type of project is currently being conducted in Queensland. The New Mapoon Aboriginal Council will undertake a viability study into the development of hardwood and mud crab enterprises in very far north Cape York. The feasibility study is Phase One of a project that could result in significant domestic and export marketing opportunities arising from the harvesting of stocked mud crabs and periodic harvests of hardwood timber. An impetus for the project is the trade and employment opportunities offered by escalating global demand for high quality hardwoods and aquaculture products.

5. CONCLUSION

5.1 Trade and foreign investment make an important contribution to Australia’s wealth and standard of living. Industrialised economies are continually becoming more integrated as new technology makes it easier to overcome the barriers imposed by geographic separation. For this reason it is prudent to assess how Australia can best take advantage of the opportunities posed by globalisation through trade and foreign investment.

5.2 While there are real long-term benefits to be gained from trade and foreign investment, it is important to remember that capturing these benefits often involves structural adjustment costs which can have a significant impact on particular sectors.

5.3 The terms of reference for this enquiry sought information on a broad range of institutional factors and how they were likely to affect Australia’s future trade and investment performance. This submission concentrated on those factors relevant to the Employment, Workplace Relations and Small Business.

- The country's workplace relations framework is important to both its trade performance and its image as a favourable investment destination for foreign companies. The impact of higher productivity and flexibility in the workplace on the competitiveness and cost structures of firms is likely to play a significant role in facilitating a successful export oriented business culture in Australia. It is also a feature that will be considered by foreign companies when deciding where to direct their external investment. In terms of dealing with the negative aspects of trade and foreign investment, labour market flexibility also helps to minimise structural adjustment costs. While Australia has been progressively moving toward a more flexible workplace relations framework, some impediments still remain.
- Ensuring that Australia has an adequately skilled workforce is also important to maximising the benefits from trade and investment. Like a flexible labour market, a skilled workforce is also important in the location decisions of foreign investors. This is also highly important if Australia is to take advantage of trade opportunities in the so called 'new growth' industries. DEWRSB monitors the incidence of skill shortages in Australia and is working with key stakeholders to develop solutions for industries facing skill shortages.

5.6 Further reform of the workplace relations system and continued work on alleviating skill shortages, along with programs to promote regional and indigenous business exports are all likely to facilitate continuing improvements in Australia's trade and investment outcomes.