

SUBMISSION TO

**THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE
ON EMPLOYMENT AND WORKPLACE RELATIONS**

by the

AUSTRALIAN SUGAR MILLING COUNCIL PTY LIMITED

Employment: Increasing participation in paid work

To:
The Secretary
Standing Committee on Employment and Workplace Relations
House of Representatives
Parliament House
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29 August 2003

The House of Representatives Standing Committee on Employment and Workplace Relations

Inquiry: -

Employment: Increasing participation in paid work

Terms of Reference:

To inquire into and report on employment issues in both rural/regional and urban/outer suburban areas, with particular reference to:

- Measures that can be implemented to increase the level of participation in paid work in Australia; and
- How a balance of assistance, incentives and obligations can increase participation, for income support recipients.

The Australian Sugar Milling Council:

The Australian Sugar Milling Council Pty Limited (ASMC) is the representative body of the owners and operators of the 26 Queensland raw sugar mills.

The ASMC is the peak body for milling companies. The Council also operates an industrial organisation of employers registered under the *Industrial Relations Act 1999* – the Australian Sugar Milling Association, Queensland, Union of Employers (ASMA). Each of the companies that own and operate the Queensland raw sugar mills is a member of the ASMA.

The Queensland sugar mills operate in the environment that the Standing Committee would know as rural/regional and the factories draw their labour from the rural/regional labour pool.

The raw sugar mill is often the major employer in its immediate district, or in some cases, the only significant employer in the district.

Mill management have a strong social conscience about providing work in their local community, providing training for young people, ensuring a fair balance of international competitiveness for the industry and terms and conditions of employment that will attract and retain skills appropriate to the needs of the business.

Desirable aspects of offering employment in a community are:

- Safe and healthy workplace
- Job security
- Appropriate terms and conditions of employment
- Training and career development opportunities
- Broad and interesting job design
- Efficient job design
- Opportunities for employees to work to the full extent of their skills and training.

In attempting to achieve these outcomes the employer must contend with:

- Variability in cane tonnages, cane supply, sugar production and in operating costs from season to season
- Producing a commodity for a market in which it is a price taker and therefore cannot pass on cost increases
- Maintaining competitive employment terms under difficult operating conditions
- Employment on-costs
- Government regulatory impediments
- Employment levies and taxes
- Industrial campaigns
- Union demarcation
- Claims to maintain employment levels.

All of this must be balanced with the business objectives of:

- Efficiency,
- Profitability
- Modern factory operations
- Ability to hire and maintain the appropriate mix of skills to meet operational requirements
- Training to meet operational requirements.

The industry's detailed discussion of the above-listed issues is not intended as an attempt to change the components or unravel their arrangement. The industry knows how to deal with any dissatisfaction it has with any of these components, albeit mostly unsuccessfully to date. Rather, these components are included in this material to illustrate the deterrents that exist to any consideration of increasing employment opportunities in any sugar milling workplace.

Apart from the issues that arise or have arisen through industrial pressure or industrial disputation, the sugar milling industry either supports or does not strongly object to the components it discusses in this submission. The components nevertheless contribute as deterrents to providing additional employment.

There is little, if any business reward for any employer that increases employment opportunities in their workplace; conversely, the extensive list of rewards for decreasing employment numbers consists significantly in the reduction of the exposure to the risks and costs that this submission details. Further an ever-increasing wage rate must be compensated by a continuing decrease in employment numbers in any industry that competes in the world market place for sales of its product.

In the absence of any encouragement initiatives an employer is unlikely to deliberately seek to increase their workforce beyond their operational requirements.

1. THE DESIRABLE ASPECTS OF OFFERING EMPLOYMENT IN A COMMUNITY

All of the following are undisputedly desirable criteria in employment that the industry provides in its communities. However, there have been initiatives outside the control of the industry that have promoted changes and with those changes there have been reduced employment opportunities generally as a result of employers seeking to reduce the cost impact of the changes. This not an argument that the change should never have been initiated, on the contrary the changes were mostly inevitable. In some cases there has been exploitation by industrial parties of the opportunities that have been offered and that exploitation has perhaps distorted the intended outcomes and accelerated the rate of reduction in employment opportunities.

1.1 Safe and healthy workplace

Health and safety of people in a workplace and safety of the employer's premises must be second to nothing in the operation of any business. Workplace health and safety are business operation issues that have received considerable attention through legislation and other regulation and guidelines over the past 15 or so years.

Early on the duty of care that arose in these issues was squarely and fairly imposed on employers and employees, each group with their own relevant scope of responsibility.

As this subject has developed it has evolved that the duty of care is becoming more that of the employer and less that of the employee. It is not debated here as to whether this is fair or not. It is nevertheless another reason why employers will look to reduce the number of people they have in their workplace exposed to the risk of accident or illness rather than finding opportunities to increase their employee numbers.

1.2 Job security

Employers are proud to be able to offer job security to employees in their operations. In the sugar milling industry however, mostly through technological change, and through natural attrition historically, there has been a continuing trend of reducing employee numbers. This is an important issue in the minds of employees (especially presently in the Queensland sugar milling industry) and its importance is illustrated in the amount of times it is arising on the enterprise bargaining logs of claims in the industry.

It arises as requests for guarantees of employee numbers and is often coupled with requests for agreement to redundancy payments that would be significantly in excess of those that have arbitrated by the State or Federal IR Commissions.

Against this background an employer is reluctant to increase its workforce where there may be a requirement at some later date to have to reduce employment numbers along with a costly severance payment.

Also coupled with the job-security issue is the issue of demarcation, dargs and any other contrivance that artificially inflates the numbers of employees required to run an operation.

1.3 Appropriate terms and conditions of employment

The industry prides itself in being the major employer in many of the communities where it is established. Often the community has established itself around the sugar mill. As such the industry has historically taken pride in providing its employees packages of leading terms and conditions of employment.

Perhaps linked to this is the fact that the industry has an extremely low labour turnover level where most voluntary departures from employment in the industry are the result of employees retiring.

The related product is that few, if any new opportunities for full-time employment arise in the industry.

1.4 Training and career development opportunities

The industry takes a socially responsible, community aware position about training where mills appoint new young people every year to apprenticeships. There is conflict with the concept of career development however, because, as discussed above, few new full time career opportunities arise in the industry.

A further deterrent to training and development of employees is that with training and career development there are unreasonable expectations of increased pay rates being attached to the increased skills regardless of design of the job in which the additional skills may be being applied.

1.5 Broad and interesting job design and efficient job design

Arbitrated objectives of employment in Australian industry have included broader and more interesting job designs. The period of late 1980s and early 1990s is identified in IR and business as the period of workplace change to reduced demarcation, employees gaining and using higher and broader ranges of skills and implementation of measures to improve the efficiency of industry and providing workers with access to more varied, fulfilling and better paid jobs. This was a period in which there was considerable emphasis on structural reform where arbitrated (National and State wage increases) were linked to parties' commitments to change.

The reasons for change and the changes that this era heralded were imperatives for Australian industries including the Queensland sugar industry. This Industry had been one steeped in tradition and inefficient recognition of customs and practices. It was also an industry that had been excessively and adversely affected by the ideological interests of the industrial parties and industrial pressures that sometimes forced unwise industrial relations and human resource management decisions. Accordingly, the Queensland sugar millers, no less than any other Australian employers pursued the objectives of change to workplace practices that arose in award restructuring and structural efficiency.

The emphasis on structural efficiency is addressed and discussed in the February 1989 Review by a Full Bench of the Australian Industrial Relations Commission (Case Numbers 21376, 21378 and 31751 of 1988)¹.

An unavoidable consequence of pursuing the intentions of the Structural Efficiency Principle was a dismantling of inefficient labour practices and improved job design that also brought a reduction in employment opportunities. The Queensland sugar milling industry is one where new capital equipment is expensive, new factories are rarely build and available funds for capital investment have been extremely limited in the past decade. Accordingly, the change process that commences with the Structural Efficiency Principle in 1988 has progressed slowly in this industry. While its impact in terms of a negative employment has been dampened with time the trend is nevertheless still towards reduced employment opportunities.

1.6 Opportunities for employees to work to the full extent of their skills and training

A Government initiative in 1990 produced an increased emphasis on increasing and formalising the skills that are used in a workplace. The Training Guarantee Act commenced operation on 1 July 1990 with the aim of increasing and enhancing the skills of the Australian workforce and improving the quality and availability of industry training. The legislation required to maintain a level of training expenditure in the workplace or pay a levy (tax). The training expenditure was required to be on a training programme that must have as its principle objective the development, maintenance or improvement of employment-related skills and competencies.

Large portions of the industry's skills are unique to the industry so the industry set about developing the Certificate in Sugar Milling to cover its process work. The maintenance employees carried qualifications based on the Metal and Engineering Industry competencies.

The inevitable product of this initiative was a further upward pressure on wages for in many cases no correlated increase in production. Therefore this initiative also had the (perhaps unintended) result of a pressure to further rationalize the workforce with resultant fewer job opportunities. A comparison of employment statistics in Queensland sugar mills across the decade or so since the Training Guarantee initiative reveals a significant drop in employment numbers and a related elevation in the classification levels of employees carrying out work that has changed little if any across the same period. This is more evident in the trades workforce than in process workforce.

¹ AIRC February 1989 Review – Reasons for decision Print H8200. Melbourne, 25 May 1989.

2. IN ATTEMPTING TO ACHIEVE THESE OUTCOMES THE EMPLOYER MUST CONTEND WITH: -

2.1 Producing a commodity at a competitive price in the international market place

Eighty-five percent of Australian raw sugar is traded in the world market place. Australia supplies about 10% of the raw sugar in that market place. Accordingly, the Australian raw sugar industry is a price-taker with its product.

Further, in early 1991 the Australian Government released its industry policy statement virtually eliminating tariff protection for Australian Industry. Already the embargo on the importation of raw sugar had commenced to be phased out.

Australia is one of the most open economies in the world. In adopting a strategy of moving to an open economy, the Government was trusting the ability and strength of industry to become and/or remain internationally competitive. In any event the strategy has required a strong and unremitting focus on efficient production.

In the raw sugar milling industry the two major operating costs that management can influence are labour cost, the major issue and to a lesser extent, cane supply.

The Government's open economy policy coincided with the early stages of the period of microeconomic reform. It was expected that manufacturers would achieve significant increases in productivity in order to compete as exporters.

2.2 Maintaining competitive employment terms and conditions

Bearing in mind the manageable components of operating a raw sugar mill, the Government's open economy policy alone forced the raw sugar industry to immediately accelerate rationalization of its workforce. Already the industry was one where technological progress had supported a trend of rationalization of job numbers. Historically, this had almost inevitably managed through natural attrition. Employees in the raw sugar milling industry had traditionally enjoyed secure employment with terms and conditions that were competitive with other industries that may at that time have been drawing from the same labour pool – eg the mining and construction industries.

The raw sugar milling industry now has distinctions from the mining and construction industries that mean it is no longer necessarily competing in that labour pool. These distinctions, for example, arise in geographic location of the industry; significantly different job security; and greatly improved road, rail and air links to major commercial and social centres. An example is that the Mulgrave sugar mill at Gordonvale is accessible from Cairns in 15 minutes by road which is mainly a 4-lane highway whereas a decade ago the same trip may have taken three or four times as long on a single lane each way main highway. In this example it is quite convenient, even for employees on continuous shift work to enjoy the benefits of living right in the major North Queensland city of Cairns and work at the sugar mill. In contrast an employee living in Cairns and working in the mining industry would fly to the site and spend two weeks "on" at work living in a camp, and then return for one week at home before restarting the same cycle.

Nevertheless, the industry still has to maintain competitiveness in its local labour pool. That is depending upon the location of the mill the labour pool may be dominated by the mill itself, or it may be dominated by another industry such as small crops, tourism, local government, timber milling, general manufacturing, engineering etc. Different sugar mills are subject to different pressures to maintain labour market competitiveness. Accordingly, the concept of a single set of terms and conditions of employment being awarded for the industry is becoming quite irrelevant. Enterprise bargaining serves the need for unique outcomes, and the industry has quickly adopted that.

2.3 Employment on-costs

An employer engaging a worker in the Queensland sugar milling industry is faced with employment on-costs that add about 40% to their labour cost.

The bulk of these, certainly the major cost items are mandatory in that they arise from legislated outcomes or from outcomes arbitrated by the Industrial Relations Commission. The others are discretionary in that they arise from no legal obligation and have been negotiated among the industrial parties, generally on an industry basis and almost inevitably in response to exceptional prosperity in the industry and/or in settlement of industrial disputation. The discretionary items include quanta granted beyond the legal requirement for long service leave, annual leave loading, annual leave travelling days and non-crushing season employment arrangements. Discretionary or not most of these components are beyond any control of the employer.

There is another group of labour on-costs that are not included in this consideration that have been created in a discretionary manner, and which cost real money directly, or cost indirectly in terms of operational efficiency. This group has more of a mill-by-mill flavour and again has developed predominantly in response to industrial relations pressures. It includes such things as redundancy/termination payments, issue of clothing, additional overtime penalties, over award allowances, stand-down limitations, and various operational limitations. These can be dismantled in Enterprise Bargaining, but the cost of so doing is often prohibitive.

- **Superannuation 9%**

This is a mandatory payment of 9% of ordinary Time Earnings as defined applicable to any employee who is paid in excess of 35% of the Minimum Wage for the Southern Division Eastern District.

This on-cost commenced in July 1986 as 3% and has, since then moved to 9%. There are no further increases legislated. However, any further increases would be legislated (as in the past) and as such would be beyond the control of the employer.

- **Annual Leave 8% (8.8% for continuous shift workers)**

The provision of 4 weeks paid annual leave per annum is mandatory. It has existed in legislation for some considerable period.

The obligation is contained in the industry's awards and is legislated in the *Industrial Relations Act 1999* [Qld].

In the case of continuous shift workers the obligation increases to 5 weeks per annum. This amount has been *pro rata* adjusted to 2 additional days per annum in the Queensland sugar milling industry because the continuous shift work arrangement applies for the 22 week (approx) crushing season only.

- **Payroll Tax >5%**

This is a mandatory on-cost. Payroll tax applied as a Commonwealth tax since World War II and since 1971 has been collected by the States. It applies to all employment as a percentage of total payroll excluding first 4 days of workcover and apprentices' wages. It is calculated on a scale from nil on a gross annual payroll up to \$850,000 and then applying on a scale 6.533% on a gross payroll of \$850,000 to \$3.4m, and thereafter at a rate of 4.75%.

- **Public Holidays 4%**

This is a mandatory on-cost. Any full time, part time or seasonal employee is entitled to up to 10 working days of paid public holidays.

- **Workcover 3.098%**

This is a mandatory on-cost. A further downside for the employer in the sugar milling industry with its seasonality and shift work operations is that if the employee has other employment (say casual work elsewhere when they are off shift) that employment is also considered in the unfortunate event of the employee becoming the beneficiary of Workcover. This can inflate the cost of the Workcover claim beyond the scope of the principal employer's contract of employment.

- **Sick Leave (and Family Leave) 3.2%**

This is a mandatory on-cost. Historically it may have been that not all employees would have used all of their sick leave in any one year. More recently, Commission decisions have mandated that an employee has a widening range of reasons to use their sick leave including the use of sick leave under the *Family Leave Award* for the purpose of caring for members of their family or members of their household.

- **Long Service Leave 2.6%**

This is a mandatory on-cost. This employee entitlement has recently been reassessed by the Queensland Industrial Relations Commission, and the Government, responding to the IR Commission's report shortened the qualifying period for an employee. They increased the employer's liability in that move.

The added burden threatening with this component of the on-costs is that there is increasing pressure in industry for the employer's provision for these entitlements to be preserved in funds managed elsewhere. This would be a considerable business expense as presently the provision is a book entry whereas if it transfers to a fund it transfers as a cash payment that the employer would have to find out of its business operations.

- **Annual Leave Loading 2%**

This is a mandatory on-cost. This is an arbitrated entitlement contained in the relevant awards, and in the case of the Queensland sugar mills the amount has been increased in response to industrial pressure in more prosperous times. The arbitrated component is 17.5% and the industry pays 25%. The margin has been enshrined in a group of unregistered over award terms and conditions of employment and accordingly, is still paid in the present times of no prosperity.

- **Annual Leave Travelling Days 2%**

This is not a mandatory on-cost, but rather is one that was negotiated by the industry in response to industrial pressure in a time of relative prosperity. It is a cost that has been enshrined in a group of unregistered over award terms and conditions of employment and accordingly, is still paid in the present times of no prosperity.

- **Others – difficult to quantify**

This group includes on-costs that may be insignificant – such as employment during the non-crushing season; trade union training leave; bereavement leave; and maternity leave and adoption leave with their concomitant issues of training and managing the issues that are linked with replacement staff.

Among this group also is the unavailability of certain traditionally available non-standard employment forms such as casual and part-time employment. The industry has unsuccessfully sought variations to the award to provide for these forms of employment. Were these forms of employment available then the industry would have available the ability to engage employees under certain circumstances and not be liable for certain of the above on-costs (bearing in mind the casual loading that would be paid in lieu) such as annual leave, and its loading, sick leave, annual leave travelling days, public holidays, and perhaps even superannuation.

A further, difficult to define on-cost in this group is the costs and management constraints that go with termination of employment, including notice and redundancy payments. This group of business costs also includes the indefinable but nevertheless costly business disruption that occurs in the obligatory consultation processes that come with any terminations, workplace change or redundancies.

2.4 Government regulation

Ignoring the extensive regulation in the industry about issues such as trading and grower relations, there are considerable regulations imposed by State and Federal Governments that serve as deterrents to engaging additional labour.

There are those discussed above such as WH&S, as well as others that arise for example in the Industrial Relations Act 1999 such as record keeping and reporting HR and IR records.

2.5 Employment levies and taxes

These deterrents also are mostly discussed above and include Payroll Tax, Superannuation Levy and Workcover premiums. Workcover is not just a business cost, the premium includes a component that covers the levy that the State government makes on Workcover to contribute to funding the operation of the Department of Industrial Relations².

2.6 Industrial campaigns

From time to time the Queensland sugar milling industry has been afflicted by industrial campaigns in the workplaces that are no more than thinly disguised (if at all) campaigns for additional wages.

Presently the Queensland sugar milling industry is the target of a campaign by the AMWU for employers to increase the award classification level of metal and engineering trades employees. The State Secretary of that union has publicly stated that the campaign is one that seeks additional wages for trades employees

Industrial campaigns of this nature clearly are deterrents to engagement of additional paid labour.

2.7 Union demarcation

Union demarcation has been strong in the sugar milling industry. While it has been recognized at Industrial Organisation level that union demarcation of work is no longer appropriate, there are still strong pockets of demarcation of work along union lines for certain work in certain factories.

Demarcation is an intrusion on efficient job design and as such is a hidden labour cost.

It is unlikely that a removal of union demarcation of work would lead to an increase in employment opportunities. On the contrary, removal of union demarcation would increase efficiency of workplace human resources may contribute to a reduction in employment. Nevertheless, union demarcation is a deterrent to engaging labour and it is a sponsor for examining ways of achieving production with a minimal workforce.

2.8 Claims to maintain employment levels

Claims to maintain employment levels are almost certainly directed towards gaining security of employment in situations where reduction in employment numbers is inevitable. These claims are often not directed at securing an individual's employment in the workplace, but rather intended to maintain a certain level of employment with all vacancies to be filled regardless of operational requirements.

Like the union demarcation issues discussed above, maintaining employment levels is about securing artificial and inappropriate employee numbers.

² The Queensland Government Industrial Gazette of 16 May 2003 contains an advice that "*His Excellency the Governor, acting by and with the advice of the Executive Council and in pursuance of the provisions of the Workcover Queensland Act 1996 has approved the payment of \$12,697,520 by WorkCover Queensland in 2003-04 to the Department of Industrial Relations for the prevention of injury to workers.*"

Also, like union demarcation, it is unlikely that additional employment opportunities would arise if claims to maintain artificially high employment numbers did not exist. However, all of these fringe issues contribute as deterrents to engaging additional labour and perhaps if they didn't exist employers would be more open-minded to offering increased opportunities to participation in paid work.

3. THE BALANCE OF BUSINESS OBJECTIVES AND PROVIDING PAID WORK

Apart from obvious changes such as increasing production to the extent that additional shifts of workers are required, most business strategies in a production/process factory environment are not strategies that would promote additional employment.

The following relate to industrial relations and human resource management. Almost certainly the first three would not lead to any increase in employment opportunities.

3.1 Efficiency

Efficiency in a raw sugar factory is a function of product processed and cost. Labour is the industry's single largest manageable cost.

3.2 Profitability

Profitability is affected by all business costs. The cost of labour is a business cost. The objective of maximizing the profitability of a business investment runs counter to the concept of increasing the labour component of the product beyond the operational needs of the business.

3.3 Modern factory operations

Modern factory operations require safer and healthier workplaces, faster throughput and more consistent product. Modern technology is integral to efficient operation of a sugar mill.

Computerisation of the controls of factory plant settings promotes a reduction in the process workforce through a reduced requirement for "hands on" operation and through the ability to control factory plant from any control room across the factory. Similarly maintenance requirements have been reduced through more modern machinery, improved lubricants, modern metals, improved componentry, etc.

All of this contributes to a reducing requirement for labour in the workplace.

3.4 Ability to hire and maintain the appropriate mix of skills to meet operational requirements

The operator of a modern factory focusing on efficiency will require an appropriate mix of skills to meet the factory's operational requirements. Traditionally the sugar milling industry has trained its own existing workforce to meet its operational needs and rarely imports new full time labour that is already qualified.

3.5 Training

The Queensland sugar milling industry has a history of providing training with two underlying intentions: principally to meet operational requirements and also to provide career development opportunities for young people in the community.

Training to meet operational requirements is generally specialist related to the unique character of the industry, its machinery and its processes. People receiving this training are almost always drawn from the existing workforce, perhaps as a seasonal employee moving into a year round position. This training would offer no opportunities for people entering the industry's workforce for the first time. Further, training in the industry's unique skills would be unlikely to acquit someone not employed in the industry with career opportunities in other industries or even elsewhere in the sugar milling industry because of the industry's history of extremely low labour turn over.

Training for career opportunities for young people in the community has generally involved mills contracting young school-leavers in a traditional apprenticeship and then releasing them at the end of their time. The average mill may have about 10 or 12 people engaged in this manner. The issues discussed in this paper have all served as pressures for the annual apprenticeship intake to be ever-decreasing across the industry. Therefore, it is unlikely that there would be increased employment opportunities in the industry against the background of the deterrents discussed above.