THE AUSTRALIAN WORKERS' UNION

STRONGER TOGETHER

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Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia

The Australian Workers' Union Submission

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EXECUTIVE SUMMARY

Fly-in, fly-out or drive-in, drive-out working arrangements are a short-term, quick fix approach unsuitable to the deep structural issues of remote work, infrastructure investment and skills development in the Australian economy.

This approach by companies to remotely import a 'ready made' workforce from our regions and cities for work in rural and remote resource projects places significant costs on the communities and cities where workers are drawn, locks out existing communities from the benefits associated with new projects, impinges upon families and creates isolation and stress for workers.

The FIFO/DIDO approach to human resourcing has the effect of:

- Narrowing the Australian economy;
- Hollowing out labour forces in the city;
- Creating wage-price inflation in local communities as well as in the broader economy; and
- Adding to upward pressure on inflation, interest rates and consequently the exchange rate.

The Australian Workers' Union (AWU) is strongly of the opinion that resources sector companies should be encouraged to invest in local communities, contribute to infrastructure development and investment and to invest in the expansion of skills in local and indigenous communities.

This approach will reduce the macro-economic costs of the mining boom, negate the negative social consequences of a temporary workforce approach and leave Australia with a lasting legacy from its resource wealth.

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COMMENTS

The extent and projected growth in FIFO/DIDO work practices, including which regions and key industries this practice is utilised

Mining projects are the focus of FIFO/DIDO, in particular in North West region of Western Australia and Far North Queensland.

It could reasonably be expected that FIFO/DIDO will grow in line with the projected increase in resource projects in these and other regions of Australia.

Australian resource companies have announced approximately $200 billion of capital investment in new and expanded resource projects, with a further $400 billion projected in the investment pipeline.

Based on the above investment horizons it is clear that problems arising from FIFO/DIDO may only just be emerging as distortions in the economy and can be expected to more significantly impact local, regional economies as well as the broader Australian economy and society in the coming years.

Costs and benefits for companies, and individuals, choosing a FIFO/DIDO workforce as an alternative to a resident workforce

Benefits to the companies utilising FIFO are short term, in that any inflation in wages and travel costs are offset against the potential need for investments in infrastructure, housing, relocation and skills training. These costs are also calculated against the marginal increases in production through the instant application of a skilled employee, as opposed to the lag time associated with skills training.

Over time however, it is expected these cost ‘savings’ could be lost or reduced, as the inflated wages and associated structural costs of FIFO/DIDO accumulate.

It is worth noting that there are no on-costs associated with investing in adequate housing, and related services for workers and their families.

Companies are externalising the costs associated with housing workers and related facilities and services to the broader community, thereby maximising short-term profits at the expense of total community welfare.

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This allows an effective cross-subsidy of FIFO by taxpayers and governments in other regions and jurisdictions – principally relating to the point of origin of FIFO workers – in providing the hard and soft infrastructure to support these workers when not 'on-site'.

This draws down investment and capital accumulation by previous and current generations for private profit.

Benefits to workers are limited to job opportunity and a workforce skewed to singles. It is rarely the case that workers with families would prefer separation from family over co-location with their work, despite remoteness.

Costs to workers include managing isolation from family, social structures and broader support networks. Unquantified, it is reasonable to assume isolation would have a deleterious impact on labour productivity.

Workers under such a regime do not enjoy certainty of employment and are highly exposed to the volatile commodities market and external shocks.

The current uncertain global outlook arising from Eurozone debt contagion fears and potential Asian and North Atlantic slowdowns may lead to a diminished need for labour in the resources sector leading to a culling of FIFO workers.

The effect of a non-resident FIFO/DIDO workforce on established communities, including well-being, services and infrastructure

FIFO isolates local established communities who are most closely situated to mining regimes. The influx of high wage FIFO employees with large levels of disposable income, lack of supply in housing and infrastructure leads to high, sometimes extreme, levels of localised inflation and a degradation in standard of living.

There is no investment in local community assets, infrastructure or industry from a FIFO/DIDO regime. Locals are not provided with access to training, and small towns are not expanded to become more self-sustaining and vibrant. This results in fewer multiplier benefits to ancillary service providers and the community generally.

FIFO/DIDO reduces the scope to maximise the participation of local communities. Many of these towns have high indigenous populations. This approach reduces the potential of 'closing the gap' with Indigenous Australians via the social and economic benefits that flow from natural resource projects.

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Along with the loss of incentives to build local communities, FIFO results in social isolation for local communities who are excluded from the economic benefits and the culture of the FIFO workforce.

The locality of the resources should mean that local communities will have a clear stake in participating in related activities to do with the exploitation of these (local) resources.

The impact on communities sending large numbers of FIFO/DIDO workers to mine sites

Communities at point of origin for the FIFO/DIDO workers will benefit from repatriated incomes spent in local communities – resulting in inflationary pressures. The larger the percentage of the community engaged in FIFO, the higher the incidence of inflation in that point of origin community will be, as large amounts of wealth are imported from other areas with no resulting expansion of supply.

This will reduce the benefits of a high wages from FIFO/DIDO, as nominal gains will be offset by rises in costs and prices. This is the classic effect of importation of large wealth in an unsustainable and sudden fashion.

Communities will bear the costs of lower local workforce participation and a 'skills drain'. This is particularly the case for regions with large manufacturing bases. The skills drain and subsequent competition for labour may push marginal manufacturing businesses into closure, which would have a devastating effect on the broader community.

Community members who are not participants in FIFO will feel the inflationary effects more harshly and to the detriment of their standards of living. This will increase their incentives to enter the FIFO workforce, creating an inflation spiral and a self-fulfilling cycle of problems.

It is clear that FIFO is placing additional pressure on the manufacturing and non-resource sectors at a time where the mining boom generally is generating large structural macro-economic pressures in the economy through a high exchange rate, input prices, inflation and resulting interest rates. This will reduce economic diversity not just in particular regions or towns, but in the Australian economy generally.

Communities with high or increasing reliance on FIFO expose themselves to large external shocks associated with the global economy and demand for commodities.

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A sudden downturn could expect to lead to a commensurate reduction in employment – as seen during the GFC – and would lead to a collapse in aggregate demand and asset prices in FIFO wage reliant communities.

Inflation in basic services in point of origin communities, particularly in the trade sector, could be expected in point of origin communities due to a constriction of supply caused by the skills drain.

This is particularly relevant to communities with an aging workforce who will experience these problems more acutely.

Point of origin communities will also suffer from social disconnect, dysfunction and potential anti-social behavioural flow-ons as a result of family break down and isolation. These problems carry large fiscal and social costs to the broader community that are found in a loss of productivity and expenditure in government programs.

Long-term strategies for economic diversification in towns with large FIFO/DIDO workforces

It is clear that a FIFO/DIDO approach not only does not promote economic diversification, it will lead to less diversity – as discussed above.

The AWU has advocated for local investment because it offers the most effective way of supporting workers and leaves a tangible legacy tomorrow from today's mining boom.

Australia's economic development is exemplified by local development based on resource exploitation in historic towns such as Broken Hill and Mt Isa. Towns such as these are the legacy of previous mining booms.

FIFO to this extent is unusual in a historical context – made possible by the convenience and relatively low marginal cost of air travel – and is without appreciation for the debilitating impact on the development of local communities which support and service local mining operations and their related workforce.

Local communities experience a deadweight loss, as there is no development of their areas into a self-sustaining economy. By not locally sourcing services, materials and manpower local communities are unable to attain an economic 'critical mass'. This sees local resources extracted without attendant benefits flowing to local communities.

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Like the cross subsidy from the wider community, utilisation of FIFO also exploits local communities by denying them rights to development.

The AWU has called for a new city in the Pilbara to be funded by the returns from the mining boom, along with government support, in order to leave a lasting legacy from the current mining boom. Resource projects should be linked to this sort of lasting development that will create self-sustaining economies in the future and avoids the distortions and waste of a FIFO/DIDO approach.

Key skill sets targeted for mobile workforce employment, and opportunities for ongoing training and development

The skills sets targeted include those which are in key demand nationwide but which are able to command a higher price in mining operations because of their relative local scarcity and the ability of mining operations to pay high wages because of their relative profitability.

Local training is as a consequence a lower priority for resource companies. Currently, incentives are in the other direction – to exploit quickly pre-existing investments made in training the current workforce and to quickly expand production to take advantage of high commodity prices and terms of trade.

This is another major cost of FIFO. There is no long-term investment by resource companies in training the workforce, including the provision of apprenticeships.

The lack of training leads to increasing demand for trained workers from offshore and for fast-tracking offshore workforce participation via EMA and 457 visa arrangements.

This approach will handicap Australia's economy in the future. Australia will need a highly skilled workforce in order to move up the value chain in manufacturing and services post the mining boom. Skills training is an area where Australia should attempt to leverage its resource wealth and propel the country into the next phase of its economic development.

Provision of services, infrastructure, and housing affordability for FIFO/DIDO workforce employees

Related to the points on cross-subsidy above, FIFO has a perverse incentive for companies to offer as little as possible by way of local infrastructure in order to maximise total returns from their operations.

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FIFO enables a transfer of these costs to other regions and jurisdictions. Mining companies are not incentivised to invest at all – thus the Government should place a greater onus on this. Resource companies should show how they will assist the broader community and economy when developing resource projects.

It is possible that inflationary pressures in point of origin communities in areas such as housing could occur. This will be particularly evident in those communities with a high proportion of FIFO workers. Inflation will lead to diminished positive returns to workers as their high nominal earnings are reduced in cost of living pressures associated with competition for housing, services and goods. This inflation would have a larger impact of workers who reside in the communities, but are not participating as part of the FIFO workforce.

The FIFO/DIDO approach turns on its head previous historic notions of building local capacities to service mining operations economically and efficiently.

It is clear that services, infrastructure and housing affordability are diminished for FIFO/DIDO employees who must suffer with inadequate provision of all these in their work sites for extended periods.

Strategies to optimise FIFO/DIDO experience for employees and their families, communities and industry

FIFO/DIDO is a suboptimal approach and should not be encouraged.

Because of the costs associated with FIFO already outlined, the AWU is not committed to ameliorating the negative impacts relating to FIFO for employers and their families, community and industry.

This is a second best approach that denies the better approach of building, training and sourcing locally as well as relocating in a sustainable manner.

Potential opportunities for non-mining communities with narrow economic bases to diversify economic base by providing FIFO/DIDO workforce

As discussed above, FIFO is a highly risky approach for a community that leads to less diversity – not more – as well as inflationary pressures.

Non-mining communities are the key to diversifying the national economy from a singular focus (and reliance) on mining as the pre-eminent industry which is currently enjoying cyclically high commodity prices.

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It is vital to note that the resource industry is non-renewable and thus unsustainable as a future source of employment and wealth.

The preferred approach should be to ensure local non-mining communities and regions have scope to exploit local opportunities such as manufacturing rather than rely on FIFO incomes to sustain living standards as this leads to an increasingly unsustainable inflationary spiral and is exposed to large external shocks.

Relying on FIFO/DIDO is an unsustainable proposition because it relies on an on-going commitment to FIFO/DIDO when investing locally offers the best prospect of sustaining local populations. Such an approach heightens the risk of Dutch Disease developing in the Australian economy over the longer term.

Current initiatives and responses of the Commonwealth, State and Territory Governments

EMAs and 457 visas are not addressing the structural flaws in the labour market. These are short-term responses that facilitate access to labour for resource companies without those companies committing resources to develop and support them in the first place.

These policies are compounding the reliance on FIFO because they militate against investment locally in training, skills and living conditions.

The recent trade and investment agreement between WA and China is likely exacerbate this problem.

China will likely seek to streamline access to resources, including the participation of their foreign labour in order to facilitate this.

FIFO therefore is one step from dependency on offshore cheap labour because no commitment has been made to local capacity building. If these structural labour market issues are not addressed demand from future resource projects in the investment pipeline will likely drive FIFO from the current domestic focus to being international in its scope.

This will be a poor outcome for the Australian economy and the Australian people who are entitled to expect to leverage the natural wealth of the nation into the skills that they can utilise in the future.

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CONCLUSION

It is clear that a FIFO regime imposes large costs on local communities, point of origin communities, workers and ultimately will have a deleterious impact on Australia's long-run economic performance.

This is a workforce regime that is focused purely on short-run costs. It is an approach driven by profit and an urge to extract maximum value from commodity prices at the expense of other sectors of the economy and Australian communities.

The benefits of the regime are questionable, and largely accrue to the resource companies that are able to avoid investments in infrastructure, skills and housing and are can draw-down on previous investments in capital and education.

Benefits to workers are in monetary terms only – and even these benefits potentially are only in nominal amounts – as wage increases are lost in cost of living increases in work sites and over time in FIFO dependant communities.

Time and money spent by resource companies and governments of various levels regarding how to maximise FIFO/DIDO avoids addressing the real issues underpinning the FIFO/DIDO system.

More resources and time must be devoted to strategies aimed at fostering local communities with a coherent investment and industry policy which is based on building local capacities and strengths and delivering on longer term outcomes and benefits for the economy and communities.

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