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SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Reference: Pacific region seasonal contract labour

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SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION REFERENCES COMMITTEE

Wednesday, 23 August 2006

Members: Senator Marshall (*Chair*), Senator Troeth (*Deputy Chair*), Senators Barnett, George Campbell, McEwen and Stott Despoja

Participating members: Senators Abetz, Bartlett, Bernardi, Boswell, Brandis, Bob Brown, Carr, Chapman, Colbeck, Coonan, Crossin, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Fielding, Fifield, Forshaw, Humphries, Hutchins, Johnston, Joyce, Lightfoot, Ludwig, Lundy, Ian Macdonald, Mason, McGauran, McLucas, Moore, Nettle, O'Brien, Payne, Polley, Robert Ray, Santoro, Sherry, Siewert, Stephens, Sterle, Stott Despoja, Trood, Watson, Webber, Wortley and Wong

Senators in attendance: Senators Barnett, Marshall, McEwen and Troeth

Terms of reference for the inquiry:

To inquire into and report on:

The viability of a contract labour scheme between Australia and countries in the Pacific region, for the purposes of providing labour for selected rural industries. In doing so, the committee will take account of the following:

- a. labour shortages in rural and regional Australia;
- b. the availability and mobility of domestic contract labour, and the likely effects of such a scheme on the current seasonal workforce;
- c. social and economic effects of the scheme on local communities;
- d. likely technical, legal and administrative considerations for such a scheme; and
- e. the effects of the scheme on the economies of Pacific nations.

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Committee met at 9.00 am

CHAIR (Senator Marshall)—I declare open this public hearing of the inquiry into Pacific region seasonal contract labour. On 7 December 2005, the Senate referred to the Employment, Workplace Relations and Education Committee an inquiry into the need for new measures to meet the seasonal labour needs of the horticultural industry, with particular reference to the feasibility of meeting this need through the use of labour from Pacific island nations.

The inquiry follows renewed interest in this proposal by rural industries. During the 2005 Pacific Islands Forum, renewed pressure was put on Australia and New Zealand from Pacific nation leaders to accept seasonal agricultural workers to help their struggling economies. The Senate inquiry will examine whether a seasonal work program can meet labour shortages in rural Australia and, at the same time, advance the economic development of Pacific nations. It will consider the likely effects of such a policy on the current seasonal workforce and the likely social effects on regional cities and towns.

The committee has visited various centres on the Murray, as well as sites in Queensland, the Northern Territory and Western Australia. Yesterday the committee heard from a variety of witnesses representing government, academia and industry, and members look forward to continuing those discussions today. The committee will report on 17 October.

I remind all witnesses that, in giving evidence, they are protected by parliamentary privilege. This gives special rights and immunities to people who appear before committees. People must be able to give evidence to committees without prejudice to themselves. Any act which disadvantages a witness as a result of evidence given before the Senate or any of its committees is treated as a breach of privilege.

[9.01 am]

RATTRAY, Mrs Anna, National Policy and Industry Development Manager, Australian Tourism Export Council

CHAIR—Welcome. Are there any alterations to your submission?

Mrs Rattray—No, there are not. But with your permission I will put on record the apologies of my managing director, Mr Matthew Hingerty, who could not attend today.

CHAIR—No worries. Thank you. I invite you now to make an opening statement, to be followed by questions from the committee.

Mrs Rattray—Thank you very much. Good morning, Senators. I would like to thank you for the opportunity to give evidence at this important inquiry. I would also like to take this opportunity at the outset to draw to your attention the fact that the Australian Tourism Export Council will also be making a submission to the House of Representatives inquiry into workforce challenges in the Australian tourism sector. So, many of the issues we present here will quite clearly be echoed in that submission.

By way of introduction: the Australian Tourism Export Council, or ATEC as we are known, is the peak industry body, which represents the interests of over 1,100 companies throughout Australia that provide tourism services to foreign visitors. It is important to note that, whilst those services are consumed in Australia, they are purchased by foreigners and are therefore exports. We are based in Sydney and we have eight branches around Australia and count amongst our membership over 40 regional tourism organisations, representing thousands of small to medium enterprises.

The Australian tourism industry is a key driver in the Australian economy and generates some \$59 billion per annum. The inbound tourism sector is worth \$18.3 billion annually. Tourism is a labour-intensive industry, employing proportionately more people per dollar of GDP than most other industries.

The remarks I wish to make today relate specifically to the scope of the inquiry. I understand there are terms of reference. However, I did want to highlight the importance of labour shortages being felt by other industries, not just agriculture, and in particular tourism and hospitality. It is well documented and widely acknowledged that this is the case. ATEC supports an approach whereby all industries would have access to controlled migration options to resolve labour issues and which sees that agriculture, whilst important, is not in a silo.

I understand that the committee has some interest in the impacts and involvement of the backpacker tourism sector in relation to labour shortages. Backpacker tourism is worth some \$1.3 billion annually and is an important component of our tourism mix. Backpackers are good not only for our national tourism figures but, more importantly, for regional Australia, as they disperse widely throughout the country and spend the money that they bring, and possibly earn, here and in local economies.

ATEC asserts that the best solution to the labour crisis being felt by all sectors, tourism included, is best addressed through a combined approach—access to contract labour to meet seasonal fluctuations and access to working holiday makers to grow regional Australia, its businesses and in turn our tourism export earnings. It is important that any approach considers all sectors and does not impact upon existing programs. The tourism and hospitality sector also feels the limitations of working holiday makers in a labour context vis-a-vis reliability and consistency. We feel that too. It is important to remember that working holiday makers' main purpose in visiting Australia is to have holidays, not to work, and this is a condition of their visa. Finally, I wanted to note that, coupling the trend of regional residents moving to 'the big smoke' to find work with an ageing population and falling birth rates, issues with access to labour are growing for regional businesses, and it is getting harder.

CHAIR—Thank you very much. I would like to start by saying that your submission starts alarm bells ringing for me because we have an inquiry into the horticultural and agricultural industries and they have unique difficulties in attracting and keeping labour in farms away from towns for what is at the moment very low-paid and very difficult work. The issues are quite different, I would think, to those confronted by the hospitality industry. I do not dispute what you say in terms of reliability and those other issues. The alarm bells go off for me when I ask: if we open the door in terms of the agricultural industry, do we then invite every other industry to say, 'We have unique circumstances as well,' and where does that end? It is outside our terms of reference to start looking at other industries anyway, but I understand that is the thrust of your submission: 'We have problems, albeit different ones, and we would also like to have access to foreign labour.'

I know from other inquiries I have been on that representatives of the restaurant and catering industries have talked about wages being too high. They would like to flatten them out. It concerns me that the request for access also to guest foreign workers would really be to achieve the purpose of lowering wages and conditions in the tourism industry. I am sure there are a couple of questions in there somewhere. I will pass it back to you to comment on those concerns that I have.

Mrs Rattray—Certainly. I understand where your concerns come from. However, I think that the issues being felt in tourism are not unique, and I do not think that because the industries differ the issues necessarily differ. I think it is fairly centred around the regional bases rather than the industry that they are in. However, having said that, I think that in tourism—I can certainly speak for tourism—because of the commitment to industry development and training that exists in the tourism industry, I do not know that that would transpire. I think that there are very real shortages being felt that could be addressed by a controlled program for specific needs as opposed to rolling out something willy-nilly, which is never going to happen anyway. I think that the combination of that approach with some very strong commitment across Australia from the industry in relation to training and development would ensure that that would not transpire.

CHAIR—Just for interest, what is the investment of your industry in training and development of the labour resource in the industry now?

Mrs Rattray—I could not answer with a specific dollar figure for investment, but I know it is significant. I can give a number of examples. There is a very strong push for and further development of the certificates I, II, III and IV in tourism and travel that are delivered in all

registered training organisations across the country. The industry is continually asked to sit on steering committees to redevelop those programs to ensure they are industry fit.

A TEC in particular has just developed a program called Export Ready, which is obviously specifically designed for export tourism, but it is an online module based training program pitched quite actively towards the regions for accessibility, because not everybody can get to training sessions and how-to sessions to upskill and increase their development. That is about to be launched in the next couple of weeks. So that is one example of quite a significant investment in training that is targeted at and tailored for regional Australians, and the response from our industry, certainly in the lead-up to the launch, has been very positive.

CHAIR—But isn't the real money—virtually all the money—invested in training and development in your industry actually government money?

Mrs Rattray—Some of it is and some of it is industry money.

Senator TROETH—Does the tourism industry by and large employ working holiday makers?

Mrs Rattray—We do, yes.

Senator TROETH—Not all backpackers have working holiday maker visas, do they?

Mrs Rattray—No, they do not.

Senator TROETH—Does your industry then employ backpackers as well?

Mrs Rattray—They have to be on a working holiday.

Senator TROETH—They have to be on a working holiday maker visa?

Mrs Rattray—Yes.

Senator TROETH—That is fine. I just wanted to ask that. If you would like to see an expanded tourism component of controlled labour migration, are there any ways in which you would expand the working holiday maker visa to cater for that?

Mrs Rattray—I think there are a number of measures that could expand the working holiday maker visa and improve the flow of workers. Whether it improves the flow of workers to the areas that need them you cannot answer straight up. Without wanting to get into too much of the detail behind our policy of how we would like to see working holiday maker visa conditions addressed, there are a number of extensions that have been granted recently by Immigration and Multicultural Affairs in relation to allowing six months rather than three months with one employer. We would like to see that extended again but also other extensions to include tourism and hospitality in that three-month harvest requirement that grants them their second working holiday maker visa.

We believe those sorts of things could definitely assist our stakeholders in addressing some of their labour concerns. Having said that, though, at the same time the reliability and consistency issue remains, whether the inflow is greater or not. There are seasonality implications for employers in tourism and hospitality as well, and it is arguable whether those would be fully addressed. Many are saying they would not.

Senator TROETH—No doubt your industry would have the same issue with working holiday makers in that often they only want to hang around for a short time, to earn enough money to go on to the next wave, the next nightclub or whatever. Is that an issue for that part of the hospitality industry as well?

Mrs Rattray—Yes, very much so.

Senator TROETH—So, while they are some part of the transient labour phenomenon, in other ways they do not fulfil all of the requirements that you would want.

Mrs Rattray—That is right. However, having said that, the value of them being in that area in the first place remains.

Senator TROETH—Yes, that is right. Thanks.

Senator McEWEN—I wonder if you could clarify this for me. In your submission you say:

A program for ‘guest workers’ that is limited to the agricultural sector could effectively displace working holiday makers ...

I am not quite sure what you mean there, given that there are allegedly shortages of labour in the agricultural sector, but you also say in your submission there are extreme shortages of labour in your sector as well.

Mrs Rattray—We believe and we assert that there could be a displacement of working holiday maker job opportunities if the workers were rolled out into one sector only, meaning agriculture. A lot of the jobs that working holiday makers take up are, of course, in that sector and that is in fact a specific requirement for those three months if they are to get their second year. We are not suggesting that there are not enough jobs around—I see your point—but we are concerned that, if it is rolled out just in one area, they could possibly take up that slack, and that could therefore mean that our working holiday makers are limited in their opportunities to find work in regional Australia. We are concerned that could happen if it is rolled out just for ag, whereas if it is rolled out for other industries then there is going to be less displacement.

Senator McEWEN—But given the significant shortages of labour in the tourism sector, even if there were a guest worker scheme bringing people from the Pacific islands, it would be unlikely that there would be hundreds of thousands of people.

Mrs Rattray—I realise that. It is just a concern we have voiced that there could be some displacement.

Senator McEWEN—That is fine. I think there is a suggestion in your submission that, if there were a guest worker scheme, the same workers who were brought in could do ag work and tourism work. Is that what you are suggesting?

Mrs Rattray—If they were able to, yes. That would be if tourism and other industries were included in the program. They could also work in other wider industries, it would probably be argued by industry associations from other sectors. Certainly, our view is that the acute shortages being felt in regional Australia that are voiced to us by our stakeholders are not being met by existing programs and are not being met by local communities, so they are seeking an alternative solution.

Senator McEWEN—That would throw up problems in administration in terms of multiple employers for short periods of time et cetera.

Mrs Rattray—Quite possibly. There would be some visa condition issues, I imagine, that would need to be ironed out.

Senator McEWEN—Do you have any statistics about how much on average a backpacker, particularly one on a working visa, earns when they are here and how much they spend?

Mrs Rattray—I can get some specific statistics for you on working holiday makers. They spend about twice as much as your average tourist. It is about \$4,900 per trip per person. That is across the board on backpackers. For working holiday makers, there are no specific statistics available on their spend or on their earnings. I doubt that that data is available, but I would be able to follow that up with a combination of Tourism Australia and the department of immigration. I can take that question on notice.

Senator McEWEN—All right. Do you know what their average earnings are?

Mrs Rattray—No. That is what I will try and follow up.

Senator McEWEN—Thank you.

Senator BARNETT—Just to clarify that last point, is the \$4,900 spend per visit for working holiday makers?

Mrs Rattray—Or backpackers. It is not specifically working holiday makers. It is the spend of anybody who is classified in the Australian Bureau of Statistics classification as a backpacker.

Senator BARNETT—How long do they stay here on average?

Mrs Rattray—They stay for an average of 68 nights, compared with 23 nights on average for all other tourists.

Senator BARNETT—You said the spend is about twice as much as your average tourist. Is it twice as much per day or twice as much because they spend more than twice as long here in Australia?

Mrs Rattray—There is that as well. They spend a lot longer here, so their spend is higher.

Senator BARNETT—Is the \$4,900 in total twice what the average visitor spends?

Mrs Rattray—Yes. It is more than double.

Senator BARNETT—Two main issues have been put to our inquiry over many months. One is that there is a labour shortage and the second is that there is an issue of reliability about using working holiday makers. I want to clarify if they are the same allegations made or views held by your industry, the tourism industry? Are they issues for you? Which one is more important and which one is less important? Can you describe the concerns that you have?

Mrs Rattray—Is that in relation to the use of working holiday makers?

Senator BARNETT—No. I am talking generally in the tourism sector about labour shortage and about the issue of reliability of your workforce. Are both of those concerns? I noticed that you said in your submission that agriculture is not the only sector of the economy that is suffering labour shortages. Obviously that is one, and I want you to flesh that out as to the reasons why you say that and as to issue of reliability.

Mrs Rattray—I think that in tourism the issues being felt are very similar to other industries in the sense that at the moment, particularly in remote and regional Australia, they are relying a lot on working holiday makers to fill some of their gaps. There is a reliability issue there because, as I said, they do come here for a holiday primarily and to work secondarily and top up their purses to continue on their next leg. For tourism operators, seasonality is very important. Of course, there can be external factors—they are not necessarily shocks—that can impact on visitation to any particular area or on tourism numbers and, of course, then their labour needs are affected accordingly. So, things can change quickly. The working holiday makers, whilst they are fabulous and they have been great and will continue to be great, are not necessarily picking up that slack. The operators are finding that there is a reliability issue because they do move on quickly—they change their minds and all of a sudden there is a phone call from another place and off they go. So, yes, that is very much being felt. That is not to say, however, that employers in tourism are unhappy with the working holiday maker arrangement and the access they have to those people, who are often very enthusiastic and enjoy the cultural exchange experience that is being delivered.

CHAIR—It is better than fruit picking.

Senator BARNETT—Or pulling beers.

Mrs Rattray—Most certainly. We are definitely feeling that. Our operators are telling us that. Of course, it is being felt most avidly in regional Australia. In metropolitan areas it is far less prevalent because your average working holiday maker comes here, gets the job in the city, then comes back to the next city to get the next job and then travels on. They use the city jobs as bases but the regional areas are suffering with that reliability issue, yes.

Senator BARNETT—So, it is primarily the rural and regional areas, or regional and remote areas and places like the Queensland islands?

Mrs Rattray—Yes. The Queensland islands suffer terribly from reliability issues.

Senator BARNETT—And labour shortage?

Mrs Rattray—And labour shortage.

Senator BARNETT—Do you have any evidence to support the labour shortage argument, because yesterday we had views or allegations that there is not a labour shortage. In your industry, do you have evidence to back up that claim?

Mrs Rattray—We do not have any hard data. We are looking into doing that and there are some things in train at the moment. However, it is difficult to measure. In the best of scenarios it is difficult to measure but we do not have any hard data. It is anecdotal comment mostly. We have done some basic polling but there is no hard data at this stage. We are looking into it.

Senator TROETH—To be fair, yesterday's comments were made particularly about the horticultural industry and some areas of labour shortage there, not so much the wider tourism industry.

Mrs Rattray—Yes. I understand that in the agricultural sectors it is very hard to quantify as well, and much of the commentary has been along those lines—that it is anecdotal; it is hard to measure. However, a lot of people are trying to find the best way through that, so that you can actually put some parameters around the size of the problem.

Senator BARNETT—But the evidence you are getting, or the anecdotal evidence, the feedback is that in the regional areas and places like Queensland and the islands there is clearly a labour shortage?

Mrs Rattray—That is right.

Senator BARNETT—We have discussed the reliability issue in the context of the inquiry, particularly in horticulture where they need people during the picking season or whatever for many weeks, sometimes months. Yours is a different sector: hospitality and tourism. Can you just explain how important that is? Is it important, because there will be more backpackers coming through? The churn does not worry you so much? Can you just explain the issues there?

Mrs Rattray—Sure. The churn is still an issue. Tourism is a very, very seasonal industry with peak periods and troughs, like other sectors, but they can be quite deep and they can peak quite high in certain periods of the year. As a result of that, tourism businesses—regardless of whether they are an accommodation provider, an attraction or a transport operator—have to adjust their labour accordingly, and they rely very heavily on casuals and those sorts of things that come in and out. They do have to put people on and off, depending upon what time of year it is. That is hugely prevalent in the tourism industry.

Operators in regional Australia feel it even more strongly, because they have to get the people there in the first place. Yes, as you say, the backpackers come through but if they do not come to that particular area in a seasonal period, and if they do not choose to use that drop-off point as a point for employment, then the operator needs to source employment from somewhere else. And

they are feeling the pinch quite strongly, even if they are a highly visited attraction in a remote part.

Senator BARNETT—We are looking at the Pacific region generally. Do you have a view that people from the Pacific region could be appropriate to your industry in terms of moving in and perhaps helping to meet the needs of your industry, or is that not the case?

Mrs Rattray—No, I think so. As I indicated earlier, I think tourism has demonstrated a very strong commitment to training and professional development, and I think the opportunities would have to be extended as part of the arrangements for any controlled program. And I think that would be good for both the business and the individual. I think that the strength of hospitality in those particular countries is probably a good prerequisite. So, yes.

Senator BARNETT—Okay. I just want to ask you about the issues of underpay and terms and conditions being cut, particularly for backpackers or working holiday makers. To what extent does that happen in your industry? If it is happening, how does that affect your sector?

Mrs Rattray—Well, I am sure in every sector there are elements of that occurring. No-one would like to see it but I think we would be foolish to suggest that it does not occur in every sector. The information that we receive does not suggest that that is a problem. We are not receiving any kind of negative feedback from our working holiday makers in relation to the conditions that they work in. We certainly have not received any information to the contrary, either, from employers who take on working holiday makers. So I think, by and large, that arrangement is working very well. It is continuing to grow and I think there is huge support across the backpacker sector, the general tourism sector and other industry sectors for that.

Senator BARNETT—So, when you hear of this pilot program, or an extension of a seasonal workers scheme of the kind we are looking at, being introduced into Australia, and the claim that they will be used to cut the pay and conditions for those people, and secondly that such schemes would take jobs from Australians, what do you say to those allegations?

Mrs Rattray—I think we always need to bring it back to what opportunities it will present to the businesses, particularly regional businesses. I can speak for tourism, and at the moment the growth opportunities for regional businesses are being somewhat held back by skills and labour shortages. There is a chance to grow those regional economies far more actively, productively and sustainably should they be given that opportunity.

Senator BARNETT—Just to clarify that: tourism growth is being stymied, to some degree—

Mrs Rattray—Yes.

Senator BARNETT—through lack of a workforce. Is that correct?

Mrs Rattray—Yes.

Senator BARNETT—Can you provide any evidence to support that or make any other comments in support of that?

Mrs Rattray—I can suggest that the information coming from our stakeholders, who make up our \$18.3 billion export industry, suggests that unless those issues are resolved the opportunities for growth will be limited. And with such an important industry that produces such an important amount of revenue for Australia's bottom line those issues need to be overcome somehow. And I make no claim that there are no other solutions, but for ATEC this is the best possible combination of solutions. Access to a workforce that meets seasonal requirements of an industry that has specific needs across specific periods of the year, combined with existing cultural exchange programs and other programs, is the best possible solution to ensure that the growth can continue.

Senator BARNETT—Very good. Does your industry avail itself of the 457 skilled migration visa? How does that work?

Mrs Rattray—Yes. We are quite actively involved in all the visa arrangements that relate to both tourism and work. The 457 visa is widely used by a number of our members, our stakeholders, particularly for ongoing arrangements. We quite actively promote that through our representation on the Tourism and Visa Advisory Group; we work with our colleagues at Immigration. We are quite active in promoting that through our Backpacker Tourism Advisory Panel as well, to encourage employers to look at all options in relation to visas that are available for their workforce, should they need to access them. There is a good uptake of that.

Senator BARNETT—Would you see any merit in extending the 457 visa definition to include 'semiskilled'?

Mrs Rattray—That is not a question I have specifically asked my stakeholders, but I would see, on paper, that that could be of merit. From an employer and employee perspective, I think there are benefits in the sponsorship arrangements that are associated with the 457 visa.

Senator BARNETT—Are you aware of a recent government report that showed that over the next five to 10 years we are going to have further skill shortages? There will be more jobs available but fewer workers to fill those jobs. Are you familiar with that report, and would you agree with that thrust as to what will happen in the next five to 10 years in Australia? It is a result of the ageing of the population and so on.

Mrs Rattray—I am not specifically aware of the report, but I certainly agree with the thrust of what it is suggesting. The falling birth rates and ageing population are having a huge impact on our workforce, as we have discussed.

Senator BARNETT—Thank you very much. Did you want make any further comment on your conclusion? In your last sentence you recommend:

... that the Commonwealth government consider an approach to contract labour which serves to address constraints felt across all economic sectors ...

So you are saying to us that we should not apply this process just for the horticulture-agriculture sector but across the board. Is that what you are saying?

Mrs Rattray—Yes, it is. ATEC's position is very much that the government should consider an approach that takes on board all the sectors. It is affecting most sectors; there is a labour shortage out there. We feel that there are limitations in looking at just one sector, and there could be a flow-on effect from that that could potentially have some implications for existing programs.

We also believe that, should there be an opportunity to resolve some of the shortages being felt so critically in regional Australia—specifically from the tourism industry's perspective—given that we are going down this path to a certain extent, we could go down that path for other industries rather than just for one. ATEC would certainly believe that there would be merit in a pilot program to roll it out in one particular area or region or however that may work. Obviously there are controls and testing that need to be put in place in order for those things to work. The combined approach seems, certainly to ATEC, to be the best possible situation for tourism and for other sectors.

Senator BARNETT—So you are talking about a pilot program perhaps focusing on horticulture and agriculture with the possibility of extending the program to other sectors. Is that your suggestion or proposal?

Mrs Rattray—I think that the pilot program could extend to other sectors initially, and I think that the best method for piloting it would be for one specifically contained area—arguably any regional area in Australia that we could easily put some bounds around. It could be rolled out for one particular region to test how it would operate. I think that would be a good start.

Senator BARNETT—Thank you.

CHAIR—Your argument, therefore, is really for increased permanent migration, isn't it?

Mrs Rattray—No, I do not think so. I do not think it is for increased permanent migration. I think there are seasonality requirements in tourism that are being acutely felt.

CHAIR—But you say that there is a skills shortage and you agreed with Senator Barnett when he referred to the report saying that there were going to be more jobs with fewer people to do them. You argue that not only agriculture has skills problems. I think you used the words 'labour crisis' about your industry and you say that there is also a labour crisis in other industries. Surely it is not good public policy to simply develop guest worker schemes for every particular industry sector to fill those gaps. Surely it is about generally not having enough labour available.

Mrs Rattray—I can speak for tourism, and I think for the tourism industry there are requirements that are seasonal, that are not year-long, which is the contract arrangement argument. I cannot speak for other industries, but I would imagine that those requirements are the same. I think that the combined approach is going to deliver the best possible solution to ensure that those economies can grow without running the risk of other measures that may, as you say, have as their public policy to address other issues. We do not want to throw it too far the other way, perhaps, but I do not know how that is going to happen.

Arguably, until there is a solution for businesses that are small and growing, are trying to come to terms with their position in the international marketplace and are in regional Australia, with limited access to many resources—limited access to training, business development opportunities and industry development opportunities—those solutions will aid them in growing on the international stage. Those regional businesses are the ones that are crying out the most and we need to find a solution that is going to work for them in the short to medium term.

CHAIR—Is that because they end up with a captive workforce under such a scheme? If people are brought over specifically to work in that industry in that region for six or eight months, they are effectively a captive of that arrangement, aren't they? And doesn't that distort the market?

Mrs Rattray—I would argue that there is a mutual need on both parts. The worker wants to work and wants to grow and learn in an opportunity that they may not otherwise have; the employer wants to grow his business. In order for them to do that they need access to labour and access to the people who actually want to be there and want to grow with them. I understand that even though it might be a short-term arrangement, if it is working and there are merits and opportunities in an ongoing capacity, it can be repeated the following year or the following season.

CHAIR—What are the wage rates in the industry we are talking about? We have had evidence from the horticultural industry that when wage rates were increased by a couple of dollars an hour there was no difficulty attracting local labour. The concern I have is that in the tourism industry, which you are arguing for, it is a matter of having a captive workforce. People are coming to work there at the lowest wages permissible because the industry does not want to put up wages. In effect it becomes market distorting. It is about having ready access to cheap labour as opposed to competing in the marketplace for labour.

Mrs Rattray—The labour market is a supply and demand arrangement—you are quite right. The labour market will react to those things or it will not react to those things. I believe that in all industries there is an issue about whether, if certain measures are taken, they are going to be enough. I know from other situations that even where measures have been taken to improve conditions or increase wages the benefits of that are still not meeting the requirements of that employer. So the argument is that perhaps, despite those things transpiring, the labour shortage remains. Whether or not an employer chooses to have bottomless pockets, they have a cost structure that they have to work within. Small to medium enterprises in regional Australia do not have a lot of money. They do not have endless funds in order to deliver that. There is no way that they would ever operate under the award.

Senator TROETH—Don't you find that strange, though? You mean they do not pay up to the award?

Mrs Rattray—No, they would not.

Senator TROETH—They pay below it?

Mrs Rattray—No; they wouldn't not pay award wages.

Senator TROETH—All right. Sorry, I thought you meant the opposite.

Mrs Rattray—No; they wouldn't not pay award wages.

CHAIR— I suppose we used to know what that meant, but I am not sure what that actually means in real terms anymore. In most places now the award is irrelevant if people to choose to apply the fair pay minimum—which is not the award, of course. Certainly submissions that we have heard in previous inquiries from the restaurant and catering association were that they intended to drive wages down. They clearly said that on the public record.

Mrs Rattray—Maybe there is scope for that to transpire. At the end of the day, I can speak only for my sector and what my members are telling me about what they are feeling.

CHAIR—Sorry. I am not suggesting that you have an ulterior motive, but these are the dilemmas that we are confronted with. If we have a guest labour scheme that comes in to assist your industry by increasing the amount of workers available who will be prepared to work for the minimum wage, you in effect distort the marketplace in terms of keeping wages up. Maybe that is not an argument we can have, but I just raise that so you understand why we are raising some of these questions.

Mrs Rattray—I do understand that, but I think at the same time there needs to be a line drawn in the sand somewhere. The problem exists one way and there is going to be a problem existing the other way. Where is that point? Where is that balance where you have adequate access to labour such that your business grows sustainably without those distortions taking place as that labour leaves and comes back again. But the reality of business—particularly in tourism and other industries—is that seasonality. Unless the business is able to fluctuate according to its needs, it is not going to grow.

CHAIR—Sure. I guess I would be happier if there were some evidence of what the industry rates of pay were. If we are still talking about the lowest permissible wage rates being paid and people cannot attract labour, that is one thing. But if there has been an effort to increase wages and conditions to make the jobs more attractive—and earlier you talked about the skilling, training and development that is going on in the industry—people ought not to be on the lowest permissible wages and, if there are still difficulties, people may come to a different conclusion.

Mrs Rattray—Certainly. It is difficult to quantify as well because in tourism and hospitality, for example, the range of jobs—and therefore wages—that exists is quite huge. There are many different jobs and many different awards that sit in the hospitality sector. The tourism and travel sector is different again. And then there is the age-old argument that tourism suffers all the time because it is technically not an industry—which is strongly argued by the Australian Tourism Export Council—and that it then goes on and on. What are the flow-on effects and where do they stop? Where does the tourism industry start and stop? If you are in remote or regional Australia and you have someone working at the local milk bar, but pretty much all they serve are tourists and a few of the locals, then is that the tourism industry or is that not the tourism industry? So it is very difficult in tourism to quantify where it starts and stops. Much work is being done to quantify the tourism industry. Of course, there are statistics available about the value of tourism and the indirect and direct spend, and the indirect and direct economic impact, particularly on local communities in regional Australia. But, again, therein lies the problem. If

you are talking about what the average wages are across an industry, the median might be better than the average.

CHAIR—All right. Thank you very much for your submission and your presentation to the committee today.

Mrs Rattray—Thank you, Senators.

[9.45 am]

BISSETT, Ms Michelle, Industrial Officer, Australian Council of Trade Unions

CHAIR—I welcome our next witness, from the Australian Council of Trade Unions. Are there any alterations or additions to your submission?

Ms Bissett—No, there are not.

CHAIR—I invite you to make an opening statement, to be followed by questions from the committee.

Ms Bissett—Thank you very much. I would like to thank the committee for the acceptance of the ACTU's late submission to the inquiry, and I do apologise for that lateness. In opening, can I say that the ACTU are opposed to guest worker programs, whether they are skilled or unskilled programs. Such programs, we believe, are used to exploit temporary labour, to drive down local wages and conditions and to provide employers with an easy way out of the requirement to train the Australian workforce.

Workers on guest worker programs have few rights, and work and stay in the country at the pleasure of the employer. Whilst there may be circumstances—and we do not suggest they exist at the moment—where temporary skilled migration may be appropriate, we do believe that there are a whole range of requirements that an employer should have to meet before they are allowed to engage in such programs. Under no circumstances, in our view, should employers be allowed to use temporary migrant labour where such labour is not paid at the market or enterprise rates of pay. This is not the award rate of pay but the market rate of pay.

The ACTU do not support guest worker programs based on unskilled or semiskilled workers from the Pacific region being brought to Australia for the purposes of providing labour in rural or any other industry. Systems such as those are, in our view, akin to slavery and are not supportable under any circumstances. As I said, it is our view that such workers will be open to exploitation and they will be used to drive down local wages and conditions. They will be vulnerable, even more vulnerable than the skilled temporary migrant workers who come into Australia now.

The use of temporary seasonal workers from the Pacific islands is not the way to manage Australia's responsibility to assist people from neighbouring countries in the Pacific. Whilst we recognise that many of the Pacific islands face the very real prospect of failed economies and/or harsh impacts from rising sea levels associated with climate change, this does not mean we should simply allow the increasing number of economic or environmental refugees to be exploited by self-serving employers who would sponsor those workers into the country for low-paid casual work. A temporary visa of the type contemplated makes it impossible for families to come with the workers to Australia, as there is no access to health or education services without private payment, and no longer term security of resident status.

If there is a genuine concern for the plight of Pacific island communities and a desire to offer some of the islander peoples a chance for sustainable incomes in Australia, this could be accommodated in our view within the current permanent migration programs. This already works for skilled migrants from those communities and could be extended to unskilled categories. Such a program would allow permanent migrants the opportunity to spend some part of the year back in their island communities.

We believe that the opportunity to assist our Pacific island neighbours exists through a permanent residency visa program that would allow them to be a part of the general Australian workforce, to travel to and from their country of origin within the terms of the visa, to genuinely choose whether to bring their families with them and to access pathways to citizenship. Any program put in place must give vulnerable workers from the Pacific protection from exploitation, particularly in the face of the industrial relations changes, and must support sustainable employment opportunities. More broadly, we believe the Australian government must take a greater responsibility for regional development that will generate sustainable industry and jobs in the Pacific islands.

The ACTU will not engage with arguments of employers for low-wage, short-term workers. We do have a close relationship with unions and communities in the Pacific and have consistently demanded some reform of the general migration program, which has, since 1999, been distorted towards skilled migration and away from other categories. In addition the ACTU does not accept the argued labour shortages that are said to exist in rural areas. Whilst unemployment is currently at five per cent, underemployment in Australia is at six per cent and youth unemployment in regional areas is as high as 22 per cent. If there is an issue about labour shortages in rural communities, we believe there are other opportunities that need to be examined.

Having glanced at some of the submissions that have been made to this inquiry, I have to say that there is some legitimate basis for our concern. One of the submissions that I came across yesterday as I was working through Senate site suggested that the employer should hold the passports of such guest workers while they are in the country, should effectively provide them with small amounts while they are in the country and not pay them the wages due to them until they returned home. The fact that there are people who make such submissions continues to give us grave concerns about the operation of any such program. Thank you.

CHAIR—Thank you for your very forthright and clear submission. We have certainly got the message from the ACTU. I want to discuss a few things with you because I have personally formed the view that backpackers and the use of backpackers have been used to hold wages and the natural evolution of growth in wages and conditions back in this particular industry. We see a very harsh industry where work is required to be done in extreme conditions, with very little in the way of progress in terms of the environment in which people work, at very low wages. Theoretically there is the opportunity, when the circumstances are right, to earn what might be considered a reasonable income for a period of time, but in my opinion, after working through this inquiry, generally wages are still at the very low end for very hard work in extreme conditions.

In effect, this industry already has a guest labour scheme in place. Forty-five per cent of the work that we are talking about in major regional centres such as Shepparton is already done by

cheap foreign labour in the form of backpackers, if I can describe them as that. When we go to other major regional centres such as Mildura and Sunraysia, it is 80 per cent. So foreign labour is doing it and employers have little concern for the standards of accommodation, the working conditions standards or the pay and conditions because their workers are not returning. They are simply here on a holiday in the spirit of adventure and if it gets too hot they will take off down the river, or when the surf calls at Bells Beach they will take off down that way. So we have not seen the natural development of wages, and it is very difficult to attract people. It is very difficult work. The regions are far away and it will require people to have to travel to them, and there is some expense involved in that.

We have heard some concerns you have raised with some of the submissions, and the committee has had many concerns about some of the submissions too. We have heard the throwaway lines about unemployed people not being willing to get out of their lounge room and away from their Xbox or whatever, and you can understand why if they have to completely relocate and move away for inconsistent, very hard and very difficult work where there is no guarantee. But I think that what your submission does not talk about are the specific difficulties confronting this industry.

The other thing—and I know this is a long preamble to what might not even be a question at the end of the day—is that there is a lot of investment going on, a lot of acreage has been planted and a lot of jobs will be coming online. The money is there and the land is there and the water is there, and there are a lot of full-time, permanent jobs to be created as spin-offs to the development of the industry. But the industry will not grow and flourish and survive if the industry cannot get the crops off the vines or off the trees. I am not saying that the industry is not quite responsible for developing this situation themselves, but again it is a very big industry and an important industry to the Australian economy and that is why as a Senate committee we are interested in looking at the issues. Some of the problems are exaggerated; some of them are perceived and not real. But some of them are real and we want to seriously look at those.

I do not think your submission really addresses those issues. It is more a philosophical position and about what can happen and, I do not dispute, may very well happen. But all the issues and the problems that you identify are things that the committee has also identified. If we were to recommend such a scheme—and I am not suggesting that we will or will not at this point—all those issues that you talked about would be issues that we have already identified and would require solutions and answers to if such a scheme were going to be recommended. Having said all that, I invite you to make a comment about my comments.

Ms Bissett—There are a few things I think that need to be said. The first thing is: what is the scheme about and what is the intent of the scheme? Is it to resolve a problem with labour shortages in rural communities—because that is one issue—or is it to assist our Pacific neighbours? It seems to me that your solution will depend on what the primary issue is. If the issue is about a real or otherwise shortage of labour in rural industries, then attention needs to be paid to how you can best intervene in the market effectively to make employment attractive in rural areas. We hear regularly the complaints about the dole bludgers who will not get up from in front of their Xbox and move to a rural community for three months or six months work. There may well be an issue in that. It may well be that the problem we have is the rates of pay that are being paid in the rural industry. It may be—and we suggest this in our submission—that training structures are not adaptable or flexible enough to meet the working patterns in rural industry.

In our submission we recognise that a lot of the work in rural industries is inconsistent. For people who work full time in the farming sector, for example, they do not do the same job all the year round. Because of the fluctuations of the season, demands vary on a seasonal basis. We believe that there is a capacity to develop more adaptive training programs, for example, to increase the breadth of skills that people in the industry have, or people who want to work in the industry can gain, to enable them to better move between the variety of jobs that are required to be done in the industry.

It seems to me that the question of seasonality is not new in the industry. It has always been there. It has been there forever. It is a fact of life of farming, horticultural work and so on. We need to understand the changing employment patterns that are occurring now and work out how we can best attract and keep people in the industry. The AWU in their submission give an example of work that they have done with one of the larger wine grape growers, where they have come to agreements that go to the use of permanent, contract, casual and part-time working patterns—that is, all sorts of working patterns—that are designed to ensure that that company can meet the variety of demands that exist across a 12-month period. If it is about attracting labour to the industry then we need to understand why labour does not go there and then go about fixing that.

The solution to not being able to attract labour to that part of Australian industry is not to bring in workers from other countries. They have very few rights and are effectively—and I dislike using the term, but I do not know what else to call it—enslaved to the employer. We do not believe that is the solution to the problem. On the use of temporary migrant labour, we see a whole range of problems currently in the 457 visa area, the long-term business visa area, for skilled migrant workers. There is a whole range of problems in the operation of that visa category that would have to be well and truly overcome before you could even contemplate moving such a scheme into the unskilled area.

CHAIR—I do not disagree with any of the things that you have said, and I do not think a seasonal contract labour scheme from the South Pacific was ever considered by anyone to be the solution. It may be part of a broader solution, but clearly the committee are also turning our minds to all of those other things that we have identified as disincentives to employment, and we will be talking about some of those issues in our report.

It was interesting—and I must say I was a little bit surprised, too—that the National Farmers Federation in their submission talked about it being essential to ensure that labour market testing was done in an area before consideration was given to letting that area access such a scheme; that such a scheme would have to be quite tightly controlled and regulated, with agreed rates and rights of people; that there would have to be accredited employers who could use the scheme to ensure that there were adequate levels of accommodation and at an adequate standard; and that there were adequate levels of pastoral care and cultural care. A lot of those issues, of course, would have to be dealt with. I guess one reason we are looking at this is that we do not want to be in a position where a crisis may eventuate. I personally do not think there is a labour crisis. I think that is clearly overstating the issue. There are some labour market difficulties in this area. I accept that. I have forgotten where I was going now! This would be only one part to be considered to overcome these issues. I do not know if you want to respond to any of that.

Ms Bissett—In that respect, I was pleased to see what the National Farmers Federation said. While I understand they encourage such a scheme, I was pleased to see what they said on the level of protection they were prepared to see in such a scheme. We would say that we need to fix some of the fundamentals with the temporary migration programs that we have at the moment before the extension of them. Certainly, if there were justification—and I am not suggesting that there is—for such a scheme then the sorts of protections the National Farmers Federation are talking about would be the starting point for some of the regulatory requirements you would need to put around such a system.

CHAIR—I recall where I was going now. In looking at such a scheme, if the government were ever going to consider or recognise or form the view that there is a labour market crisis in this area, I would certainly be very concerned if the answer were to simply throw open the doors in an unregulated way. To see some of the problems with other forms of visa that have been publicly talked about occur en masse, and at the lowest skill level as well, would be a serious concern. We were thinking that, if we were ever going to go down this track, we needed to look at the pitfalls, the concerns, the issues and have some strong recommendations about how such a scheme might work. Anyway, the committee is not at the point yet where it is formulating a certain view on the need for such a scheme or not. We have a little way to go. Having said that, I will pass straight over to Senator Troeth.

Senator TROETH—Ms Bissett, you will probably be astounded to know that on this issue I agree with you totally. I have had some experience in the horticultural area during my time as a parliamentary secretary and, like you, I firmly believe that we should be training and creating attractive opportunities for our own workforce, with the possible assistance of permanent migration, before we start to look at programs like this. I think the word ‘guest worker’ is somewhat putting a gloss on the situation and, although we have not yet written the report, I have reservations about this that are greatly similar to yours. I do have sympathy for the horticultural industry in trying to find labour within a day or a week to do the work but, in my opinion, we need more than a knee-jerk reaction to this and we need to put long-term solutions in place.

I am interested in your description of the program in the wine industry. Perhaps you could tell us if you know of any similar not just training schemes but permanent labour market solutions which try to address some of these issues of the fluctuation in the labour force required at various times of the year and also the certain skill levels required. It is my understanding that below a certain point there are not any gradations in skill that are paid accordingly in that particular workforce. You might know more than I do about that. What is your view of such a proposition?

Ms Bissett—I am certainly not aware in detail of the structure of the skill levels and rates of pay in the industry. We are suggesting—and I understand the AWU, the primary union in the industry, are as well—that we need to be a bit more flexible in the development of skills programs and developing qualifications in the sector so that we recognise the variety of work that is done by people in the industry. It seems to me that one of the issues in this debate is a perception that we are talking about unskilled workers. I think that is not the case. I think that, as the horticultural industry and the National Farmers Federation accept and agree on, we are actually talking about an industry that has skill requirements. They may not be equivalent to a fitter and turner’s skill requirements, but there are skill requirements. So there is a capacity to

develop proper accredited training programs that deliver qualifications that then give the mobility to the workforce and better suit the industry.

We are saying that we need to open our minds a little bit more on how we can frame those qualifications, the training and the delivery of training. Part of that process is perhaps the need to look more at the use of what are called group training companies in the apprenticeship area, where all of the risk is taken away from an individual employer in taking someone on for training and development and qualifications purposes. We should be investigating those sorts of programs in rural industries as well to assist in the development of skills. The issue of pay that goes with those skill levels then is an additional issue to be addressed. In the current framework of wage structures and how minimum wage structures are going to be formulated, I cannot even guess how that is going to operate.

Senator McEWEN—Thank you for your submission. In a previous life I might have written something exactly the same. I have a couple of things. You just mentioned the setting of wages into the future. Could you elaborate on the interaction between the new Work Choices legislation and how wages might be set—what opportunities or industrial instruments an employer might be able to use if such a scheme were proposed, and the advantages or pitfalls?

Ms Bissett—A critical issue at this point of time is what the Fair Pay Commission is about to do with any general adjustment on wages or just an adjustment on the federal minimum wage. No-one is quite sure the way they are thinking, and the first time round it is pure speculation. Certainly the Fair Pay Commission have another task in front of them, which is to establish the new pay and classification scales. The mechanism by which they will do that and how they might vary what is recognised as the current award structure for rates of pay in the industry, again, is a bit of guesswork. If you look at submissions that the employers made to the award review task force earlier this year, you see that a number of the employer associations will be looking for very few rates of pay. I think it was the ACCI that in their submission suggested that we should be looking at one single minimum rate of pay for the country. I think what that tells us is that, in the longer term, we probably cannot rely on the minimum rates of pay to establish a reasonable safety net for people who are working in areas where it is difficult to bargain.

One of the issues with rural industries and workforces that may move around the country—following the harvest trail or whatever it may be—is the capacity to get together and collectively bargain for longer term outcomes. It is much more difficult because of the itinerant nature of the work that they do. Issues will arise for the industry if we end up with lower rates of pay. I am not suggesting that rates will go below the current federal minimum wage—that is obviously guaranteed—but, if there is no move in the federal minimum wage, the capacity to attract people into the industry will become more difficult so the problem starts to feed on itself. We cannot get people into the industry. Wages are not shifting in the industry. We have more and more problems, so then there are demands for seasonal or migrant labour to fill the problem. What I am getting to is that, without a good safety net and a properly structured safety net in industries like this, the capacity to attract people into the industry is going to be more and more difficult.

Senator McEWEN—The NFF said that there will be award rates of pay, but in fact from what you are saying there will not really be such a thing as award rates of pay; it will be a minimum standard. The other thing some people mentioned in their submissions is that these people will be contractors. Can you explain to the committee whether such a thing as an award

minimum will apply and, if these people are in fact employed as contractors, what minimum standard will apply to them?

Ms Bissett—It is a very scary thought that there may be guest workers coming into the country as contractors.

CHAIR—Independent contractors.

Ms Bissett—It sends me to a place that I do not think my brain can quite cope with. It is so far beyond comprehension for me. It sits with the guy who said that the employer should hold people's passports.

Senator McEWEN—But it is not impossible.

Ms Bissett—No, not impossible. But my understanding is that the 457 visa program requires an employer sponsorship, so it actually requires an employer-employee relationship. Even though labour hire operates in the 457 visa area, it does mean you cannot have contractors operating under those types of visas—I hope, and keep my fingers crossed. In theory, there has to be an employer-employee relationship for the 457 visa to operate. A temporary migration visa that contemplated independent contracting, I do not think—I am not quite sure where to go with that one.

With respect to the award rates of pay, I note the NFF say in their submission that, if you did have a guest worker program, then the minimum rates of pay should be the award rates of pay. We would say that is not good enough. Part of the problem is that the structure of the industry and the rates of pay in the industry are not enough to attract people to the industry. If employers could then undercut any bargained rates in the industry by bringing seasonal or guest labour in on the minimum rate of pay, then the guest migrant labour is being used to drive down conditions, and that should not be the case.

One of our complaints with the 457 visa process is that there is a minimal requirement on employers to show that they cannot get labour in Australia, but the employer is only liable and can only be prosecuted if they do not pay the award rate of pay. There is even a minimal capacity to prosecute employers who are not paying the gazetted rate of pay for 457 visa holders, because the Office of Workplace Services only prosecutes on the award rates, and the 457 specified rates are higher than award rates in most circumstances. So the payment of award rates of pay is not good enough, and we would say that if there ever were a circumstance where such a program operated, the payment should be at the market or enterprise rates of pay.

Senator McEWEN—Along the same vein, people who have made submissions to us, particularly employers, have said, 'Yes, if we offered local workers higher wages and better conditions, then we probably wouldn't have a problem filling these jobs.' And in the same breath they say, 'But of course if we did we wouldn't be able to compete with horticultural producers in China and the Philippines.' What does the ACTU say to that argument?

Ms Bissett—Bingo! Certainly if they pay better rates of pay, then we are going to be able to attract local labour into the job. If this is about competing on cost, and labour costs, with China and the Philippines and wherever else it may be, then we should pack up and go home now. As

more and more free trade agreements are negotiated, these become live issues for Australia. We need to find the basis on which we differentiate ourselves.

The arguments of competition cannot be directed at a drive to the bottom in terms of labour costs because that is not going to lead Australia anywhere. We cannot take the low-cost, low-skill road. We have to find the basis. This is a much broader debate than a debate about just this particular sector. I appreciate it is a complex argument and that there are people who have economic training who will have much greater things to say about it than I, but the critical consideration has to be where we want Australia to be, and whether we want to see our labour costs driven down because we are competing with low labour cost countries.

Senator McEWEN—Thank you. There is one last question from me. I acknowledge the ACTU's long relationship with our neighbours in the Pacific and the assistance that Australian trade unions have provided to workers in those nations. We have heard from people from the Pacific nations that are being contemplated as part of this inquiry. They really want a guest worker scheme. Their reasons for that are many but they really want it. And they are not going to stop asking for it. They see Australia's continual refusal to allow such a scheme as discriminatory, particularly when they see the huge numbers of European backpackers that we allow into this country to do seasonal work. So I would be interested to know what the ACTU's response to our neighbours is when they raise those issues with us.

Ms Bissett—I do not know that they want a guest worker scheme. I think they seek employment opportunities and the capacity to remit payments back to the home countries. And I think that that is different. That does not mean they want a guest worker scheme of the type that we have been talking about. So I think it is a question of what they want and need, and what we can do to assist in the delivery of that. The shorthand has become a guest worker scheme, but I think that is shorthand for a whole range of other things. It is shorthand for assistance, sustainable industries and perhaps for a recognition of some long-term economic effects that they see in the future for their countries. They need assistance now to minimise the impact in the longer term of global warming and the lack of sustainability of industries and so on.

In talking to our Pacific neighbours we need to make sure that we understand what they want from us and then look at how we can assist in the delivery of those programs. And we believe that you can do it through permanent migration programs and other forms of assistance and aid.

Senator BARNETT—Ms Bissett, I would not want you to be under illusion that all members of this committee agree with the ACTU totally. I want to put that on the record up front because I am not one of those. In following through on that, I want to talk to you about slavery. You have used that word a few times this morning. What is your definition of slavery?

Ms Bissett—I think I used the term 'enslaved'.

Senator BARNETT—I thought you said 'akin to slavery' and you used the word 'enslaved' on the second occasion. Anyway, 'enslaved' comes from 'slavery', so what is your definition of 'slavery'?

Ms Bissett—There is no freedom of movement, there is no freedom of employment, there is no freedom of opportunities and there is no freedom to move beyond the employer who sponsors

you. The term that is used in the temporary visa application is ‘sponsorship’ and when the sponsorship is removed then your rights to remain in the country and your rights to ongoing employment in the country are removed.

Senator BARNETT—So is somebody being forced to act against their will and without payment—meaning their services are provided for free. Is that correct?

Ms Bissett—I did not say that.

Senator BARNETT—You used the word ‘slavery’. Does a slave get paid?

Ms Bissett—My apologies, Senator; I will go back a step. I was not suggesting that people would be not paid. I was suggesting that they would have no freedom of employment and opportunity and would have absolutely limited rights in the country, and that once the employer withdrew their favour then the person would be required to leave the country, as they are under the 457 visa program now.

Senator BARNETT—I put it to you that what you intended may not be exactly what you said. The common understanding of the word ‘slavery’ is that the slave is not paid. Under the program we have been looking at for many months as a Senate committee—it is referred to as a guest worker program—these people in every instance that witnesses have put to us do get paid, and they are paid the terms and conditions equivalent to those in Australia. Nevertheless, whether you agree or disagree with that, they are paid.

Ms Bissett—They are not free. That is what I would say in response.

Senator BARNETT—All right. Did the ACTU support or oppose the changes to the working holiday maker scheme that were made recently?

Ms Bissett—I do not know that we were consulted, Senator.

Senator BARNETT—You are not sure whether you oppose the changes which extended the working holiday maker’s opportunity to work for three months so they could stay in the country for 12 months?

Ms Bissett—I do not know that we were consulted. I doubt that we were consulted.

Senator BARNETT—Whether you were consulted or not, did the ACTU oppose that change?

Ms Bissett—I do not know.

Senator BARNETT—Do you accept that there is a skilled worker shortage in parts of Australia?

Ms Bissett—In parts of Australia are there problems accessing skilled labour immediately? Maybe. I think that the broad statements about skills shortages in Australia are a bit too sweeping. I think we have a bit of a mismatch between where the skills are required and where

the skills reside in skilled industries at the moment. Most of the debate over the last 12 to 24 months about skills shortages, however we describe them, has been about the traditional trades area. That has been the general contemplation and debate about skills shortages recently.

Senator BARNETT—Do you accept the use of the 457 visa?

Ms Bissett—Not under the current arrangements, no.

Senator BARNETT—Did you oppose the 457 visa arrangements when they were introduced?

Ms Bissett—I expect that we did. We have opposed them, complained of them and had correspondence with the relevant minister and the Ombudsman about it, at least for the last couple of years that I have been involved in the area.

Senator BARNETT—Are you aware of a recent government report—I cannot recall the title of it—referring to the forecast lack of workers in this country relevant to the number of jobs as a result of the ageing population, low fertility rates and so on? Do you accept the prognosis that we are going to be having more jobs and fewer workers to fill those jobs in the years ahead?

Ms Bissett—I have seen a number of iterations of reports, figures and tables that have been put together with respect to the forecasts for skilled workers. Since the *Intergenerational report* was put out I have seen, as has everyone, the forecasts on the ageing population. Do I dispute them? Without knowing specifically which particular report you are talking about it is difficult to know. But, yes, it is our view that there needs to be some positive intervention in training, education and skill development, and we need to intervene positively now to ensure that we are training people for the industries and the skills that we require in the longer term. We cannot wait until a problem occurs in 20 years time before we try to do something to fix it.

Senator BARNETT—All I am asking is this: do you agree with the forecast that there will be a labour shortage in Australia in the years ahead?

Ms Bissett—I would hate to argue with economic forecasters, so I would have to say that I probably do agree that there may be, if action is not taken, problems in labour availability.

Senator BARNETT—I want to go to the nub of your concerns. You say in your submission and you said this morning that you oppose the scheme that is being considered by the committee and you absolutely oppose the guest labour schemes. Going to the nub, do you oppose the scheme or do you oppose the terms and conditions that would apply to such a scheme if it came into place—believing that workers' rights, as it were, and the terms and conditions that would apply to the Pacific workers that would come in would be inadequate? Are you concerned about that or are you concerned about the scheme or is it both? I would like that clarified.

Ms Bissett—It is both. I am trying to draw a connection with your last question and I am not quite sure whether there is one, but in terms of the ongoing labour requirements of Australia the best mechanism to deal with those is through permanent migration. The problem that Australia will have is that we are not, and we are not going to be, the only Westernised, industrialised country that has a problem with skills and labour, and we will be in competition with a

worldwide movement of labour. Labour has become extraordinarily more mobile in the last 15 years than anything that I would have contemplated when I entered the workforce 30 years ago. We start from a basis of saying that what we should be looking at in labour requirements is a permanent skilled migration program. If there are special and humanitarian cases or special reasons for allocating parts of that program to particular parts of the country, they are decisions that the country makes from time to time.

Senator BARNETT—You have concerns with our industrial relations system in Australia, and I will come to that in a minute. But you are particularly concerned that the terms and conditions that applied to these guest workers from Pacific islands, or from wherever they come, would not be kept or abided by. That is a serious concern for you because you think that employers would act in the breach and those terms and conditions would not be satisfactory.

Ms Bissett—Absolutely. We do have a concern that, if such a program were put in place, the terms and conditions that would be applied to such workers may well not be market conditions.

Senator BARNETT—You are saying that based on Australia's record as a poor provider and as a country whose IR record is poor? Is that what you are saying?

Ms Bissett—We say it, in part, on the basis of what already occurs with the 457 visa program. In the area of skilled temporary migrant labour we have people being mistreated, we have conditions not being abided by and then in this program you see submissions from people, such as Select Harvests Ltd, where they say: 'This is how it would operate. We'll keep their pay. We'll give them a little bit of pocket money on a week-by-week basis and we'll keep their passports.' That does not give me any confidence at all—and I am not suggesting that all employers would behave like this—and it says to me that there are employers who will behave like that. That has to be an area of enormous concern to the committee and their considerations.

Senator BARNETT—I, and I believe all of us, should take your submissions and criticisms in the context of the ACTU's views of our IR laws and of our economy where, as recently as 5 June this year in Geneva at the International Labour Organisation Conference, Sharan Burrow branded Australia as 'among some of the world's worst' in terms of labour violations. I found that allegation outrageous and bearing no reference to the facts, when you look at the developing and developed countries around the world. So I see that in that context—

CHAIR—I now need to stop you because, as you know, I am a very tolerant chair and I have allowed you to wander, I think, far outside the terms of reference. But we are now getting into a position where we are arguing about different political points of view. You may be outraged at that; other people may not be. I am not sure where this is going and I would ask you to come back to the topic at hand. We are not debating Work Choices.

Senator BARNETT—Chair, I take a point of order: Ms Bissett has used the words 'enslaved' and 'slavery' in her evidence this morning. Ms Burrow has a comment on the record and her comment should be seen in that context, and that is where I am happy to leave it.

CHAIR—I am happy for you to respond, too, Ms Bissett.

Ms Bissett—Can I just say that there has been, I think, 10 years—maybe only eight years—of criticism of Australia’s labour standards by the committees of the ILO. There are decisions of the ILO that derive from the positions put by the ACTU, by employers and this government, and the ILO have come out with severe criticisms and ongoing criticisms of Australia’s industrial relations practices and its labour laws. Looking at this issue of temporary skilled migration only through the prism of industrial relations, I think, is a very limited view of how the ACTU approaches questions of migration, both permanent and temporary. Our views are formed from a much wider perspective than just an industrial relations perspective. It is about people’s rights, it is about their human rights and it is about treating people with dignity. Industrial relations and working conditions are about treating people with dignity. There is absolutely no question about it. But it is not only industrial relations primarily that drives our view—it is about human dignity. Our views on the use of temporary skilled labour under the 457 and 456 visas existed well before the most recent piece of industrial relations legislation. So it is not just about industrial relations; it is about people and it is about their rights.

CHAIR—Thank you, Ms Bissett, for your submission and your presentation to the committee today.

Proceedings suspended from 10.40 am to 10.52 am

MURACA, Mr Nick, Member, Horticulture Australia Council

NEWTON, Ms Kris, Chief Executive Officer, Horticulture Australia Council

REPPPEL, Mr Mark, Member, Horticulture Australia Council

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Reppel—I am from the banana industry.

Mr Muraca—I am also the President of the Australian Table Grape Association.

CHAIR—Do you have any additions or alterations to your submission?

Ms Newton—No.

CHAIR—I invite you to make an opening statement, to be followed by questions from the committee.

Ms Newton—I know the committee has been, as we are, very interested in the actual size of the problem. You will be aware that, unfortunately, our industry does not have national statistics on the exact extent of the labour shortage. I notice that Dr Luthria will be presenting to you after us, and hopefully she will be able to elucidate some of those issues a little more. In this financial year, the industry will undertake a major research project to establish some of that benchmarking data. I know it is a frustration for all of us because we are getting lots of anecdotal evidence from individual industries within horticulture, but the issue is serious and real. Certainly Dr Luthria's research in the Murray Valley in the *At home and away* report talks about there being in the region of 16,000 to 24,000 additional workers in horticulture in the Murray Valley in any given month. That is obviously a significant number.

As farmers, our preferred option is to be able to access short-term seasonal workers who are fit and have the right physical attributes, which might mean tall enough to climb the ladders, and are easy to induct, train and keep safe. Specifically, they should have some basic English language skills and be reliable and productive, preferably with previous experience to successfully complete the jobs at maximum productivity, and that includes optimal product quality levels. Obviously, this objective is not being met. As a consequence, it is having some severe impact on the outcomes for the sector. Horticulture operates under very tight margins. I know you will have heard varying figures, but the average accepted within horticulture today is that around 50 per cent of the cost of production is in labour.

High labour turnover is having some impacts—and I am sure you have heard some of these—on things like retraining costs, including slowing down existing skilled workers to act as a trainer or a mentor to new workers, management, administration, hiring costs and so on. More important is the loss of consistency of both quality and productivity levels, which impact on both our domestic market, particularly in relation to the major retail chains, and our export market.

Horticulture is, unfortunately, caught in the jam between skilled migration and being defined as an unskilled occupation. We would challenge 'unskilled' and would probably support the NFF in terms of semiskilled or farm skilled. Certainly my colleagues here can answer some more of your questions on that issue should you have any. Also, unfortunately, seasonal work is no longer being undertaken at the same levels as it was in previous years by Australians. Our preference, obviously, would be to take Australian workers, if they were able and willing, but sadly this has proved not to be the case. As I am sure you have heard in your deliberations, backpackers are taking up a significant and increasing proportion of the labour market. We do appreciate the change to the visa arrangements for backpackers, but it is still falling short of the labour requirements so we need to find some solutions and the horticultural industry is very keen to work with government to develop some solutions to the issue. Our view is that some pilot projects bringing in Pacific or Asia-Pacific workers in very tightly controlled arrangements where guidelines and selection criteria have been set up well in advance, as have the evaluation processes for the pilots, are an appropriate way to test the waters to see whether or not that is an appropriate move into the future.

We concur also with the NFF that if seasonal worker visas were to be expanded or established we would prefer to look at such an arrangement as complementing Australia's aid program in the Asia and Pacific region. There are many potential benefits to growers and to the sending countries, and we are after a win-win scenario. Following on from the last presenter, I need to add in that there is no consideration, from our point of view, of anything other than full Australian wages and working conditions. We are aware that growers will need to contribute extra on top of that in a partnership arrangement with local communities, local councils and the employees themselves to make such pilot projects work effectively, and we accept that the growers will be contributing over and above the current levels of wages and conditions to make that happen.

Finally, we are very interested in the suggestions by Dr Peter Mares. We think his suggestions are sensible and practical, picking up on both the strengths and the weaknesses of the Canadian model and looking at how such a program of pilot or test arrangements might be established. I will conclude my remarks there.

Senator TROETH—We have spent some time debating the distinction between skilled and unskilled work in horticulture, and I am glad you have picked up on that. I wonder whether either Mr Muraca or Mr Reppel could give us some idea of the skill level involved in their particular industry.

Mr Reppel—The banana industry is a 12 months of the year industry. We are not seasonal. Our jobs are done weekly—we harvest every week. We have crop husbandry that needs to be done every week, and we would argue very strongly that most of those jobs are skilled or at least semiskilled. For instance, we have machinery operators who drive elevating work platforms—we call them bagging machines. There is quite a lot of skill involved in that. It is an expensive piece of machinery and it can be very dangerous if an unskilled worker is on it, so you have to spend a lot of time training people to drive and to maintain those machines.

There are also jobs of injecting the banana bells before they come out of the trees. We would not put anyone on that job without at least six months experience but normally 12 months experience because it is so critical. If we have the wrong labour doing it and we miss the job, the

bunch is ruined or the quality is of such a degree that, three or four months down the track, when it is harvested—and you have incurred all those growing costs—it is a wasted effort. There are certainly jobs there where you can get people off the street and within a couple of hours you can get them to do that, but the majority of the work that we do is at least semiskilled and, I would argue, skilled.

Senator TROETH—Do you have training programs or apprenticeships within your industry to bring people through the industry?

Mr Reppel—I personally have taken two over the last seven years. I have taken two trainees from school and gone through the horticulture traineeship. It has been successful in that they are still with me. Whether they feel that that piece of paper that they have is of any use to them at the moment I am unsure. They have certainly stayed with me and they get paid accordingly, but I have asked them if they wanted to go any further—I think they got up to level 4 or level 5—and maybe it was just the stage of life that they were at but they both said no, that they were happy with where they were at.

Senator TROETH—But it would be possible for them to do it if they wanted to do that?

Mr Reppel—Yes.

Senator TROETH—Of the growers in your area, how many have your attitude to training people?

Mr Reppel—Through the traineeship scheme?

Senator TROETH—Through the traineeships. Would you say that is a common occurrence in your area?

Mr Reppel—Not really, mainly because it is hard to find people who will stay around long enough to be offered it. We cannot take someone straight out of school and offer them a traineeship and then in three months time have them leave, which is what has continually happened. Generally what happens is, if you have someone in and after six or eight months they look like they are the right sort of people, they are reliable and you can see that they have a feel for what they do, that is when you offer it, and if they take it up they do. But to get people to stay around for that long is very difficult.

Mr Muraca—The table grape industry is not unlike the banana industry, only it has different times of the year and things like that. But as for the traineeships that Mark has just spoken about it is very similar. There is very much a reluctance by the farmers to take on trainees because they are simply not interested.

Senator TROETH—Why is that, do you think?

Mr Muraca—It is generally more suited to locals, Australian residents, and they are not interested in working in horticulture. There are exceptions. It is generally a stepping stone to go to the next higher level and then eventually take up a position of responsibility as a mid-level manager, a lower level manager or something like that. But it is not commonly accepted and not

commonly practised, for two reasons: one is that they are not there and the other is that the growers are reluctant to do it.

Senator TROETH—Would there be opportunities for traineeships in your industry?

Mr Muraca—Yes, they do exist. There are things in place to be able to do it at TAFE in Mildura et cetera.

Senator TROETH—I noted in your very balanced presentation that you talked about the availability of workers from the Pacific. I have taken your point that you would like that to be of a wider geographic applicability if there was to be such a scheme. But on page 34 of your submission you have said that growers:

... are not only seeking increased supplies of labour, but also increased predictability and increased productivity.

That is, that you would like any workers who came over under this scheme to be able to work to improve your productivity level. You go on to say:

Unemployment or under-employment in the Pacific tends to be concentrated among the youth, particularly those in urban areas.

You go on to make the point that many of those have no skills, aptitude or interest in agricultural work so, if there was such a scheme, it would have to be targeted presumably to people who at least had some knowledge of agriculture, if not skills. I think that if you targeted that group of people on any Pacific island you would probably be taking away people who provided productivity to the Pacific island and perhaps removed the mainstay of families in the agricultural area rather than providing the social objective.

Ms Newton—Indeed, that would be a concern. It is certainly the case, in my own limited experience of the Pacific, that in many of the villages there are large numbers of young unemployed people. While most of the Pacific nations do not necessarily have horticultural industries as such, nevertheless the family or the village traditionally has subsistence farming, and they grow taro or whatever it might be. Some familiarity with the land and growing things would be an advantage, as would some understanding of the climatic conditions and ability to work within those, as well as an understanding of the occupational health and safety issues related to our climate. We are certainly not focused on any particular group but we would be wanting to ensure that any group was not going to then destroy the economy of the country which was sending the potential workers.

Senator TROETH—Has there been discussion in your association of such a scheme as the one that is being proposed?

Mr Muraca—Only at a very preliminary level. There are discussions happening now but I must stress it is very early in the game. It would be viewed very much as a pilot. While HAC's recommendation very much favours the Pacific islands, the table grape industry has an open mind about that. We are not specifically looking at an area at all. We are looking at the people who are best suited to the job.

Mr Reppel—The banana industry is actually in a bit of a unique situation at the moment after Cyclone Larry, as you can imagine. Could I take the opportunity to thank, on behalf of the Australian banana growers, all levels of government for the help that we have received up there. The industry is rebuilding but the largest concern we have at the moment is that we normally employ 4,000 people every week of the year and half of those people have gone.

Senator TROETH—They have gone to other parts of Australia to find work?

Mr Reppel—Yes, and to find housing. They were displaced, there was no work, they have gone and they just will not come back. When we do need them it will be in a big unruly manner.

Senator TROETH—I guess lots of people will be coming back on stream at exactly the same time if they replanted at the same time.

Mr Reppel—Most growers have kept as many of their core staff to get the jobs done as they can afford to keep. But when the fruit starts coming in those core staff are then going to have the responsibility of trying to train masses of new people, if they are available. The biggest worry that we have is that they are not going to be available. We cannot see where they are going to come from.

Senator TROETH—That point is certainly appreciated in light of your existing circumstances. You have also made comment in your submission about the fact that there will be added on-costs to any cost of paying temporary migrant workers. In any consideration of this scheme, do you really think that—I am asking this as a genuine question—on the one hand, growers may then have a strong permanent stream of workers, in the sense that they would have them for the time they needed them, but with significant on-costs? On the other hand, they may take the chance of finding labour locally but without those added on-costs. How have you weighed that up in your consideration of this?

Ms Newton—It has been difficult to do a full economic costing for obvious reasons. Our view is that, on balance, there will be productivity increases for the producers in the reliability of labour and the improvement in the quality. I know that you have heard submissions from the zucchini people in North Queensland, for example, about the exact size of the zucchini and how, if they get much bigger, they fetch half the price and so forth. Those sorts of issues are paramount in many areas of horticulture. It is our view that those productivity increases and quality—when the timing is exactly right, therefore producing the price return—would more than make up for the retraining costs, the lack of productivity and having to find workers at very short notice: ‘I asked for 20 workers and I have 10 this morning, oh dear.’ Some of the workers will have made the money that they needed to travel as backpackers to the next town and so they are off. Those sorts of issues would counterbalance the increased on-costs that the growers would be expected to pay. That is our view at the moment but, again, we are keen to pilot or test that.

Senator McEWEN—If such a scheme were recommended, and it may not be, where would you suggest would be an appropriate location or region for a guest worker scheme trial project?

Ms Newton—We have obviously been thinking about that. Clearly, we would need to set some criteria in conjunction with government about the sorts of areas that we might be looking

for. Obviously, existing labour shortages would be high on the list. Criteria may also include cooperation with the local community including the local council, the presence of sufficient growers to make up the numbers and whether or not the area is on the backpacker trail and how that would affect things. I would be suggesting that we looked at a couple of different pilots in a couple of different areas of Australia growing slightly different crops. I know that the Mildura-Robinvale area, for example, with the table grapes may not have anything else for these people to move on to, if you see what I mean, once the particular season is concluded. In North Queensland you might have zucchini, tomatoes, capsicums, table grapes, melons, avocados, mangoes and so on, so there is a potential for an extended season there. So perhaps an area in Queensland—the Lockyer Valley and Gwydir come to mind, and Bundaberg is another possibility—and certainly the Mildura-Robinvale area. I am not sure about the Shepparton area; my guess is that, while there are certainly some farmers calling for larger numbers of labour, I am not yet convinced that is a major area that would be worthy of a trial. We would certainly be happy to work with the government and identify what the selection criteria, if you like, would be and therefore to identify the appropriate areas to trial such a pilot.

Senator McEWEN—In your submission you mention, I think, in a couple of sections that there are—if I can paraphrase it—investors out there waiting to invest in export horticultural products in Australia, but they are being held back because of the labour shortages. Our experience has been that these people are investing and planting massive crops without any regard for the future labour shortages that are staring them in the face.

Ms Newton—Yes, I hear your point. I think we need to draw the distinction between the corporate or managed investment scheme investment in horticulture—some of which unfortunately have been behaving in the way you described, leading to shortages of scarce resources, which include water in some areas and certainly labour—and the investment by existing producers in their own production capacity and expansion. That is an area that has been hurting.

Senator McEWEN—Have you got any statistics or any sense of the amount of income that has been forgone because of the lack of labour that is holding back investment?

Ms Newton—No, unfortunately. This whole area is a bit of a black hole for us. We do not even have the figures for the labour; the income forgone would be a follow-on from that.

Senator McEWEN—Have you brought with you or could you provide any statistics on the levels of wages paid in the sector? I know roughly what it is but it is helpful for us to have an understanding of the minimum and maximum amounts that workers could earn.

Ms Newton—The maximum amount is probably a case of saying, ‘How long is a piece of string?’ but the minimum amount would be the appropriate award arrangements and they will vary from commodity to commodity and state to state under the current arrangements. I do not have the data but I could probably get that for you. As you will have heard, the maximum depends on whether people are placed on an hourly rate or a piecework rate. A piecework rate enables workers who are fit and willing to earn quite large sums of money, which I am sure you have heard from some of the other submissions—

Senator McEWEN—Yes, we have heard some spectacularly large sums of money mentioned—\$1,000 a day on one occasion. I presume that is a bit of hyperbole.

Ms Newton—Perhaps not. It depends on the commodity, the prices that you get for that commodity, how many hours a day you are prepared to work and the climate under which you are working. It is very difficult to give you one figure. Obviously, picking strawberries is completely different from picking mangoes, digging potatoes or cutting asparagus. It is a very complex and diverse sector. There is no one-size-fits- all, I am afraid.

Senator McEWEN—But surely there must have been some research done. When the Harvest Trail or something like that advertises these positions, they must say, ‘If you are going to go and pick bananas in Queensland, you can earn this much.’ Where does that information come from?

Ms Newton—My guess, and I reiterate that this is a guess, is that they would advertise the going rate—whether that was the award rate, the hourly rate or the piecework rate—and leave it to people to work it out from there, depending on the hours they work and so on.

Senator McEWEN—I am always curious about the attitude of growers to wages. In the evidence that we have heard, people have said that, if we pay enough, we will not have a labour problem, that people will come and do the work. They talked not just about pay but also about conditions, although particularly about pay. They said that if we pay enough, people will come and do the work, despite it being dirty, hard, hot and horrible. What is your view of that and is anything being done to increase the wages so that we employ first and foremost Australians to do the work?

Ms Newton—I have heard the argument before. The best response to that is to say: if that were the case, why are we having shortages of doctors, public servants, teachers and medical professionals in our rural and regional communities? I do not think that it is that simplistic. I think there are more issues at play here. We certainly are seeing many of our regional and rural communities reduce in size. There is a centralisation in our larger cities. Australia probably has the most centralised urban environments of any country in the world. I think that is a simplistic approach that does not take full account of all of the elements and nuances in the situation. If it were simply a matter of paying doctors more, we would have more doctors in regional and rural Australia. It does not seem to be an argument that actually works.

Senator McEWEN—But do you acknowledge that the low wages are at all affected?

Ms Newton—Clearly. The mining industry or the building boom in WA would not be able to attract large numbers of workers from many industries—not just horticulture—if it were not for the large salaries and the conditions that are being offered by those respective industries, but I don’t think it is the only factor, or even perhaps the major factor.

Senator McEWEN—Is anything being done to increase wages?

Ms Newton—Most growers, I believe, who are desperate enough to try and get labour will pay whatever they think they need to, to get the labour. But unfortunately, that is still not sufficient.

Senator McEWEN—There is a curious box in your submission, on page 17, ‘an innovative solution from New Zealand’. You report that in New Zealand, apparently, prisoners have been used to work in orchards. Are you seriously suggesting that that is a solution?

Ms Newton—No.

Senator McEWEN—Why is that in there?

CHAIR—It is just there, without any preamble or anything—between 20c and 60c an hour. That would be New Zealand cents, wouldn’t it? So what is that? About 5c and 10c?

Ms Newton—We have had the same question asked about people who are on Work for the Dole arrangements. I believe it would probably be a similar situation if you were using prison labour. One of the difficulties is that there are many ways of sabotaging such an activity, and unfortunately, many of those who are forced to work will take full advantage of those opportunities. So there is everything from the go-slow campaign through to actively damaging the vine or the tree or whatever, that impacts not only on this year’s productivity, but on next year’s production.

Senator McEWEN—So why is this included?

Ms Newton—To be honest, I am not quite sure why that is there, Senator.

Senator McEWEN—Would they have to wear the black and white striped outfits in the fields? Who is going to carry the ball and chain in Sunraysia when it is 45 degrees, dragging it behind them through the oranges?

Senator BARNETT—You say in your submission that there is a chronic or growing labour shortage and it is getting more serious. You say in your first sentence:

There is a severe and growing labour shortage in the Australian agricultural sector ...

And you have referred to it in your submission. That was debated this morning by the ACTU and even yesterday by a government department. What evidence and other views do you have to support that claim, which I know is supported by the NFF and, indeed, many other witnesses before our committee?

Ms Newton—Unfortunately, we do not have benchmark statistics on this. It is probably best to hand over to colleagues here from industry to talk about their own specific example. I know you have had other witnesses from other commodity areas such as horticulture who have given you their view. At this point—short of referring to the World Bank research, Dr Mares’ research and the work that Growcom did in Queensland a year or so ago—

Senator BARNETT—Does the World Bank research and the Mares report support your view?

Ms Newton—Absolutely.

Mr Muraca—Could I comment on the situation in the Murray Valley or in the Sunraysia district in regard to in what way it can be demonstrated that there is a shortage of labour. The continual raids by the immigration department are always claimed to be successful. I realise they have a job to do; I do not have a problem with that. I am not one who goes jumping up and down and talking to John Forrest over that. They have a job to do, and they label the raids as very successful. They always net 18, 19 or 30 workers. I am not referring to them as ‘illegal immigrants’; I am referring to them as ‘illegal workers’ because in a lot of cases they are legal immigrants but they do not have work permits or they may be on the dole or whatever. The fact that they continually come in, that there are what are regarded as successful raids and that they take away those numbers of people from the workforce must certainly demonstrate that there is a hole left there.

Senator BARNETT—Is there anything else you want to add?

Mr Reppel—In the banana industry in Innisfail and Tully, and even in the tablelands region, some growers have a permanent ad for workers in the paper because it is an ongoing problem. Quite often I will put an ad in the paper and nobody rings until about two or three weeks later; and quite often you then get the phone calls from people that want to know your details just so they can say they tried to get a job.

Senator BARNETT—How serious is the issue of reliability and the churn of working holidaymakers? Do you put that on par with labour shortage issues? Or is it worse, because they come and then the sun is shining brighter in the next state or something and they disappear again? How big an issue is that for your industry?

Ms Newton—I think it is a very big issue, but it is probably not as large an issue as the labour shortage. It is an added component and an added frustration for our growers. Even if you think that you have the numbers that you require, it may turn out that, as I think someone said, ‘Surf’s up at Airlie Beach,’ and you may not in fact have the numbers that you require.

That is a daily and in many cases a constant issue: people not being able to cope with the climatic conditions—which I perfectly understand—or deciding that they have made their money and that that is it and they are off. Those issues are a major frustration to our growers, because they add to the level of uncertainty. These people are not reliable workers in that sense. You cannot rely on them being back after lunch. You cannot rely on them coming back tomorrow or next week when you need them. And, if there are already large labour shortages, the difficulty is being able to replace those people at short notice, which becomes a major nightmare.

Senator BARNETT—Last year we had, I think, over 100,000 people come in to Australia. Are you pleased with the working holiday-maker visa changes? Would you consider or recommend any further changes to that arrangement such that there could, perhaps, be more numbers there to support your sector?

Ms Newton—Yes, we are pleased. In response we think it was an excellent move in the right direction. We would certainly promote a reconsideration of the taxation arrangements. We know they are paying in excess of twice the taxation that Australians do, and that is probably a disincentive.

However, overall, I think we would have to say that in extending the visa people are in fact extending it for the holiday. It is not necessarily adding any requirement that they do any additional work once they have done their three months labour. As I understand it, they are then eligible to extend their holiday visa, and that is in fact what many of them choose to do. So there is no guarantee at all that the change to those visa arrangements will actually mean any increase in the numbers available for work.

Senator BARNETT—So you are not making any recommendations to the committee or the government on changes?

Ms Newton—No—except on the taxation issue.

Senator BARNETT—On the 457 skilled visa, I know we have talked about the definition of ‘skilled’. You say that people in your industry are skilled in their area of expertise. Do you have any recommendations or suggestions to broaden the definition? Or are you not going down that track?

Ms Newton—We have not made a formal recommendation. We would certainly be interested in exploring the concept of expanding the definition to see if that made some difference, but there has been nothing formal.

Senator BARNETT—Are you aware of the views of the Tourism Export Council? We heard from them this morning. They say: ‘The scheme should not just be for horticulture or agriculture. What about the tourism sector?’ They put some arguments to us, which seemed to be valid from their perspective; I can empathise with them. They were talking about perhaps having a program or a pilot for a certain region, whether it be, as you mentioned, Bundaberg or the Queensland area. Do you have a view? Can you relate to their concerns about their needs for labour?

Ms Newton—Absolutely. We are obviously responding on behalf of horticulture, since that is the industry we represent, but we are not intending to make this necessarily exclusive. If there are other industries, and the safeguards, the guidelines and the criteria are established in such a manner in a pilot in a particular region, I personally have no difficulty with supporting that concept.

Senator BARNETT—There was a comment from the ACTU this morning where they expressed concerns about the scheme. They opposed the scheme and the arrangements, terms and conditions. They used the words ‘slavery’ and ‘enslaved’. Do you have a response to those allegations?

Ms Newton—Yes, we have a very strong response. We have no intention whatsoever of allying ourselves with any such arrangements. Should a pilot be recommended by this committee and eventuate, it is our intention that these people—and I take Ms Bissett’s term—are treated with the dignity they deserve and are given full rights, as any other Australian worker would be. This is not about slave labour. We do not want a repeat of the Kanakas in the cane fields. This is about a desperate need that we cannot meet with our local labour or backpacker labour, but it needs to be done under controlled circumstances. We are interested in the pilot concept to tease

out any of the areas that might need tweaking to make sure that this works appropriately for all concerned. A win-win situation is our ideal.

Senator BARNETT—Very good. I have two other questions. We have touched on this this morning and we have had witnesses from your industry tell us, as we have been around Australia, that investment is being stymied, is being held back, because we cannot access labour. Do you have any further—and you have touched on this in your submission—evidence or comments to support that claim?

Ms Newton—I will respond in much the same way as I responded to Senator McEwen. Unfortunately we do not have data, but it is an issue that has been raised by many of our member industries. This goes not to the area of corporate investment but to the area of the traditional family farm investment and the ability to reliably predict your labour requirements into the future, following any expansion or export target that you might develop for a market. Clearly, if labour conditions are such at the moment that you cannot even meet your existing needs, any thought of investing in an expansion or a diversification is pointless.

Senator BARNETT—Do your colleagues support that view?

Mr Muraca—I would like to comment on that, if I could, specifically in relation to the table grape industry. The labour requirement for a lot of the industries—including, for example, the table grape industry—is not as high in the early stages of setting up the infrastructure. I will use Timbercorp as an example. They will decide that they are going to plant 200, 300 or 400 acres of table grapes. They simply call in contractors and in goes the irrigation, up goes the trellis and in go the vines. For the first three or four years, the labour requirement is very low in comparison to harvest time. It is after three and four years that we will really see what the harvest labour requirement is. When you look at what is actually going into the ground around the Murray Valley area, it is quite clear that there is going to be a huge requirement.

Mr Reppel—I agree with Nick. But another side of that is this. As growers, we are continually being asked to improve the quality of the produce that we grow. We already grow very high-quality fruit, but every year or every couple of years the chain stores, through the consumers, require better and better fruit. To provide that requires either better machines to handle it or—as in labour intensive industries like bananas or table grapes, I imagine—more people to get to market the product that the chain stores require. You need more people and better equipment to do it. If you have a certain sized property and you have a certain number of employees then you have to put more people on just to improve the quality of the fruit. It is a never-ending raising of the bar.

Senator BARNETT—Thanks for that.

CHAIR—The World Bank report captured a question that we have been asking during our inquiry. They have worded it this way:

If labour shortages are as severe as growers attest, then why is there continued investment to expand the industry?

One of the reasons they give for that is the growth of managed investment schemes in horticulture. They say:

These schemes offer investors full tax-deductibility within the first 12 months, making them attractive as tax effective upfront investments and reducing the relative importance of the end return on investment when harvest is finally achieved. The prospectus companies that manage and promote these schemes can turn a profit on the provision of services at the front end (such as fencing, planting, and provision of irrigation), which can have the effect of disconnecting investment decisions from the future market prospects for a given crop.

I am wondering what you say about that and whether that is happening. It appears to me that if that is happening on a large scale, a successful crop at the end of the day is seen as a bonus as opposed to anything else. Whether there is appropriate labour there or not is not necessarily here nor there and that element in the investment change is not what is driving it.

Ms Newton—We certainly do have some concerns about the activities of some of the managed investment schemes—not all of them, I hasten to add. But I would have to say there are some who are not operating in a good corporate citizen role, certainly in terms of good collaboration with their local growers and their peak industry body. We have some examples of very appropriate behaviour at the end of avocados, for example, where managed investment schemes have joined the peak industry body working collaboratively with Avocados Australia on management information systems, production, predictions and so forth to establish appropriate management information systems for the industry as a whole so that the industry can forward plan, including, obviously, labour as one of the major components of that. Unfortunately, in some industries that has not occurred or has not occurred consistently.

Just to take you back to one of your comments about the tax deductibility upfront for the first 12 months—

CHAIR—I was quoting directly from the World Bank report.

Ms Newton—I believe that only applies to the forestry industry and not to horticulture. However, what does apply to horticulture is the same for all managed investment schemes—that is, the individual investors in a managed investment scheme, which are often called ‘farmers’ by those schemes, are eligible for the same tax deductions as an ordinary, traditional farmer. That is a bone of contention that we have, which goes to the heart of the report comment that it is the focus on the upfront establishment costs.

If you look at the managed investment schemes over the last couple of years, you will note that they have been heavily involved in crops such as wine and table grapes, olives, macadamia nuts, almonds, mangoes and so on. These have long lead times in most instances. In the case of mango trees, I think it is 20 years before you get a full production crop out of a mango tree. Certainly macadamias would be similar. The focus is on the input costs rather than on the outputs and the profitability or full commerciality of the venture, which is a concern for us, yes.

CHAIR—It occurs to me that it is market distorting—

Ms Newton—It is.

CHAIR—in the sense that crops have been planted driven by tax opportunity and write-offs as opposed to what the market is requiring. Therefore, you get more crop into the market

keeping prices down, which then has other effects. Is it an issue you have raised with the government?

Ms Newton—It certainly is.

CHAIR—It is a little bit outside what we are looking at, but with regard to labour and wages and fixing up some of those things, is it something we should be taking out of the market and restricting?

Ms Newton—We have certainly raised with the various elements of government our concerns about the current taxation arrangements for individual investors. While we are quite happy to look at it at an entity level, at a farm having exactly the same taxation arrangements as any other farm, we are concerned about individual investors, because if you invest on the Stock Exchange you do not get those kinds of tax breaks. So we are concerned about that issue. We are also concerned with encouraging managed investment schemes to become good corporate citizens in horticulture—to join their peak industry bodies to collaborate with their industry and their local colleagues to develop more effective planning and sharing of resources, because that has been an issue.

CHAIR—Thank you very much for your submission and your presentation to the committee today.

Ms Newton—Thank you.

[11.41 am]

LUTHRIA, Dr Manjula, Senior Economist for Pacific Region, World Bank

CHAIR—Welcome. Thank you for accepting the committee’s invitation to appear before us today, at short notice. In what capacity are you appearing—on behalf of the World Bank or as a private citizen?

Dr Luthria—I think I would have to be appearing as the lead author of this report, *At home and away: expanding job opportunities for Pacific islanders through labour mobility*.

CHAIR—Thank you. You have not made a submission but, as I indicated, you accepted the committee’s offer to make a verbal presentation to us today on the issues before us, so I invite you to do so. The committee will then follow that with questions. Over to you.

Dr Luthria—Thank you very much. I am absolutely honoured and it is a privilege to be invited to speak. I realise you might have a few questions for me, so I will be very quick and answer a few that you might already have in mind, because I have been asked them on other occasions. Just on the rationale for the World Bank’s involvement in this area—it is not something that we have been involved in for very long, so I might just say a few words about that and then also speak a little bit about our view of the economic prospects for the Pacific region. Of course, my focus here is economic development in the Pacific region; labour shortages in Australia just happen to be almost an extension of looking at where there are mutually beneficial gains from labour.

So, keeping my Pacific economic development hat on, I should point out basically the rationale for the institution’s involvement in labour mobility. It is actually relatively recent. Only about three years or so ago, when I moved from Washington to Sydney, I can tell you that none of my colleagues in Washington were actually working on this issue, other than a few who had started to look at it in Latin America. On my first trip back home to America, six months or so later, everyone in the World Bank—when I say ‘everyone’, I mean every trade economist—had started to look at this issue, and I wondered what had happened.

Two big pieces of data had been generated in the World Bank that had had a huge eye-opening effect. The first piece was the calculation of the benefits to global welfare of any further trade liberalisation in the world versus not a complete increase, not even a huge increase, but a really small increase in labour mobility in the world—three per cent. If you try to plot these two gains for global welfare on the same graph, one completely vanishes and the other overshadows it. Labour mobility, even the tiniest amount, seems to completely overshadow the gains for global welfare of any further trade liberalisation. In a sense, that is what you would expect because labour markets are much more distorted than goods markets.

The other piece of evidence was that remittances—something that has been going on quietly and relatively unnoticed—seemed to be about three times all official development assistance. Not only that, they seemed to be stable over time. They seemed to be countercyclical so, unlike private flows, they did not dry up when there was a crisis in the country; in fact, they actually

increased. So they were becoming a really important source not just of private capital but of social protection.

It was hard to ignore these two very compelling pieces of data. The bank position on this issue is evolving but it is now close to something like this—where we find ourselves sitting around the table with other multilateral institutions and bilateral donors such as you and talking about pro-poor aid, pro-poor trade policy and pro-poor technical assistance. And we think it is time now to talk about pro-poor migration policies as well.

We do not think that taking only the best and brightest is the most pro-poor migration policy, although even that helps. I would hate for the World Bank's view to be interpreted as implying that skilled migration is bad for the sending countries, but clearly rich country policies have a huge impact on the citizens of poor countries. So what used to be an issue of domestic policy alone is very firmly now a matter of international development. It is firmly on the agenda.

In terms of our view of the economic prospects of the region, our strategy was very clearly articulated about a year and a half ago—that it was going to be two pronged. We have to assist the small island nations of the Pacific to improve their own business environments so they can attract jobs into the region—there are some things they can do better than they are doing now—but that has to be complemented by allowing people to move to where the jobs are. And both parts of the strategy need to be pursued with equal vigour.

We have some new evidence—again generated by our researchers in the World Bank—that estimates the costs of size and remoteness. On this there has been a lot of new thinking in the last 15 years. There used to be papers written by very eminent economists that talked about small being beautiful and small size being more amenable to better governance, policy change and liberalisation. But the examples they used were always Switzerland, Qatar and Singapore. And their recommendation was: 'All they need to do is what Switzerland does, which is to export something that is high value, low weight.' And when we asked for an example we were told, 'Well, like the Rolex watch.' So these sorts of recommendations were obviously very glib, and when we did the numbers and looked at the cost of size and geography for microstates—those are countries that have a population of less than a million or so, so almost all of the Pacific nations would qualify—we found out something about the wages.

We have conducted experiments to see what the wage rates would have to be for these countries to be competitive and what the return on capital would have to be if capital alone was to bear the burden of being competitive. And the results are horrifying. They would have to be nearly zero or negative—clearly unsustainable wage rates and unsustainable rates of interest. If you add to that the economic volatility that comes from physical vulnerability—because some of these countries are on the ring of fire, with cyclones and things—it is very obvious that greater economic integration has got to be part of the answer. And bilateral donors support this in goods and capital markets. We would like to add labour markets to that as well. We see it very much as export diversification. Some countries will export goods, some will export services and some will have to export people to deliver some services.

There was a conversation that I was witness to yesterday between you and the people from AusAID who were referring to the report *Pacific 2020: challenges and opportunities for growth*, which AusAID has recently produced. It is an excellent report but I have to highlight one thing

that has caught my attention in that report. That is, when the authors were pressed to find countries in the Pacific region that might offer examples of best practice which other countries in the Pacific could look to, the countries mentioned were Cook Islands, Samoa and Tuvalu. When I think of these three countries I think, ‘Labour mobility, labour mobility, labour mobility.’

The Cook Islands is obviously completely integrated with New Zealand. Every Cook Islander has a New Zealand passport. Samoa has had the longest history of exporting people—1,100 people for the last 30 years or so—to New Zealand, under the Treaty of Friendship. And Tuvalu has exported people as well, through the seafarers. So it has been an integral part of the development of these countries.

Thank you very much for going through our report. I am not going to attempt to summarise it in any way. It does not raise an issue that has not been raised before; we are entering a debate that is reasonably vibrant but, in our view, usually based on anecdotal evidence or evidence from other parts of the world. In this report, we have made, through newly-collected household data, population projections data, an attempt to debunk some of the myths. As you have seen, in Peter and Nic’s chapter they actually calculate numbers on commercial viability and offer some general principles of dos and don’ts.

There is a question that we might have touched upon in the report but I have been thinking more and more about it since yesterday. Is what we are discussing now a sort of a subsidy to agriculture? Are we introducing a distortion? As an economist, when I think of distortion I think of something that prevents the market from working, something that prevents supply and demand, those two curves, from crossing and coming up with price and quantity. It seems to me that, if there are distortions in this market—institutional, informational or regulatory—obviously a removal of the distortions would be the way to go. The way I look at the description of the sector—and horticulture is just one sector; there may be others; we just did one case study—there is a distortion in the market already, and what we are arguing for is levelling the playing field.

It is very hard to answer the question that a poor Pacific islander asks: ‘Why is it that certain countries can access jobs in Australia and we cannot?’ You have to wonder about the global allocated efficiency that would obviously come into play were such labour market distortions to be removed. I know that it is natural to think in terms of improving labour market efficiency within the borders, but obviously recent events have taught us all that we do live in an interconnected world. It is a nice message to learn, but we are learning it the hard way. I do see that the bilateral donors have a vested interest in regional stability. A strong Pacific is in everyone’s interest.

The Samoans have said to us, ‘We did everything you said, but there has not been a supply response.’ I think we are all a little bit guilty of having raised the expectations of small island states in being able to attract investment. When you ask the Samoans what their interest is in supporting labour mobility when they are the ones who actually have it, they will tell you something that is absolutely true: the investor, sitting far away across the world, does not know how to distinguish between the Solomon Islands and Samoa. There is a negative externality from conflict. So a stable, prosperous region is in everyone’s interests—the small countries in the region as well as the large countries.

We do think that there is a chance to bring about greater allocative efficiency of labour where a small amount of added employment in the Pacific would have a huge benefit to the Pacific. I could go on, but I will stop there.

CHAIR—There is one thing I want to specifically ask you. I think you were here yesterday when the Department of Foreign Affairs and Trade addressed the committee in relation to WTO rules and whether it would even be possible to put in place such a scheme. Mr Mares and Mr Maclellan directly pointed to you and suggested that you may be in a position to give an authoritative view on whether that is or is not the case and how the WTO rules might affect a seasonal migration scheme such as we are considering in this inquiry.

Dr Luthria—Yes, thank you, it has come up before. My short answer is that it is not an issue at all to worry about, and I will tell you why. First of all, the WTO and migration do not mix. The WTO has basically two cornerstones that define the WTO architecture. The first is prices, not quantities, so trade has to be based on prices not on quota systems. The second principle is the MFN principle, the most favoured nation principle, which means that there will be no discrimination on the basis of nationality—everyone gets the same treatment. No country accepts these two principles for migration policy. We do not want to see competition on prices and we certainly do not want to see, and have not seen, any appetite for developed countries, or developing countries for that matter, to accept the MFN principle for migration. So countries are free to have any kind of migration policy and that does not interfere with any of the WTO commitments at all.

The real question becomes, though: when does it stop becoming migration policy and when does it enter this whole field of services commitments, which are called the GATS commitments, the General Agreement on Trade in Services. That is a valid question to ask and the WTO offers reasonably clear guidance on this and tries to help with defining what is a service, what is agriculture and what is manufacturing. The GATS commitments are on services; they do not apply to agriculture or manufacturing. The spirit of that commitment is truly for services liberalisation, and what they have in mind is, say, a country opening up its sector in telecoms or insurance. When you open up your sector and say that you are going to liberalise and you are not going to have a national monopoly and that you will invite tenders from everywhere, if you go down that path you are then not allowed to discriminate on the basis of nationality. Going back to the earlier principle, it has to be prices, not quantities and not nationality.

Harvesting, mining, drilling, fishing—all of these are called ‘services incidental to agriculture’ or ‘services incidental to manufacture’. There is no legal text in the WTO that is binding that says how you will define harvesting—there is no reason why you would define harvesting as being the same as telecom reform. Indeed, all countries do choose their own definition and stick with what the WTO says: that this is a service incidental to agriculture. Countries are completely within their rights to define it that way.

The other distinguishing feature is between calling something service liberalisation and a service incidental to agriculture. An additional litmus test there is whether it is an access issue in the sense of saying: ‘We open up the market and it is accessible; now everybody come in and give us your tenders,’ or whether there are home country obligations or sending country obligations. In our report we very actively encouraged very strong sending country obligations and, indeed, even going beyond the economic incentives and co-opting the social structures. As

soon as you get into home country obligations for cost or for penalty or for recruitment, then the guidance from the WTO is that you will get a much higher qualitative outcome if you pursue a bilateral route rather than try to have this classified as some sort of multilateral service liberalisation. It just does not make sense.

We have heard how easy it is—almost a no-brainer—in the context of article 4 of the GATS which allows you to do anything you want in the context of economic integration. It is on the cards already with the Pacific—it is called the PACER agreement, the Pacific Agreement on Closer Economic Relations—where Australia and New Zealand will be asking the Pacific to lower import barriers for their goods in the Pacific. We support this because we see benefits to the Pacific.

As we have said, the cost of small geographical size is that it is hard for things to get in and out of these countries. We say they are only shooting themselves in the foot by adding a tariff on top of that, so make it easy for goods and everything else to move in and out and consider removing these tariffs. These countries have a revenue argument there, though. They want to have a small tax base. They wonder if they lose the tariff where they are going to get the tax base. But it is very much on the cards. PACER has been triggered already, because the Pacific is already negotiating something with the European Union, and once the Pacific starts to negotiate an agreement with anyone, PACER is triggered. So it is officially going to be on the cards sooner than it might have been.

It is completely within the limits of that integration agreement to put in any types of arrangements, however restrictive or unrestrictive they might be. Those are the formal bank and WTO rules. I should probably stop there, but I am tempted to also just add what all of my colleagues who were at the WTO often tell me. They say that most countries have obviously given a range of options in which we can explore these, but countries do not seem to bother. They just go ahead and do the bilateral scheme anyway. If they are challenged in the WTO, then they will pick one of them and defend it on these grounds. It happens every day. I am not encouraging that route, given that I see so many legal ways to approach it anyway. So it seems to be a non-issue from our point of view.

CHAIR—Thank you for clarifying that. I knew there would not be an easy, quick answer. But I think the point you are clearly leaving us with is, if there is a will to achieve the sorts of things we are talking about, the sorts of things you have talked about in your report, there is no obstacle if in fact Australia wishes to proceed with that, and the WTO argument is really a furphy.

Dr Luthria—Absolutely. I would even extend that to some of the very legitimate concerns we have had from leaders, as well as over the last day and a half, on exploitation, on issues. These are very real concerns. These are questions that must be asked. Not only receiving countries but also sending countries should be equally worried about who we are sending, whether they are going to be exploited and whether this is really going to be good for them. I keep making the analogy, because I am a trade economist, to free trade. Three decades ago there were economists in my shoes arguing for improvement in the liberalisation of goods but it took a while for the policy and the politics to catch up.

There are costs associated with trade in goods. Anyone who says the difference between liberalisation of labour and liberalisation of goods is that the former has social consequences has

not talked to someone who lives in Michigan. There are social consequences of liberalisation of goods—of course there are—but we recognise them and we manage them. We do not use them as a reason to not discuss trade liberalisation. I would be very sorry to see these very valid concerns become reasons not to discuss this rather than to sit around and find ways to actually overcome them.

Senator BARNETT—I appreciate your last point, and I will just touch on that. There are a number of concerns about the fear of exploitation in Australia. They have been expressed this morning and they were expressed yesterday. The NFF and other groups have set down their proposed criteria. Do you have any views, suggestions or responses to the criteria that we should set to ensure that there is not exploitation here in Australia? Do you want to comment on some of the countries in the Pacific and the criteria that they should set down to avoid exploitation?

Dr Luthria—As you know, in our report we paid a lot of attention to the Canada-Caribbean scheme. It has become a bit of a darling of temporary work schemes. We of course hired Peter and Nic, who are some of the best people. Peter spent some time in Canada. I talked about a month ago to the gentleman who manages this scheme in Canada. They are a little nervous that they have so much attention on them right now. They do not think they are perfect. There are things that they might do differently if they were to redo it or were in fact to make some changes.

In the report we have not glossed over any of the inadequacies of that particular scheme. In relation to the issues of overstaying and exploitation, it seems to us that you are actually more likely to get those sorts of outcomes when there is not an aboveboard scheme that allows transparency, safeguards and the various stakeholders to take a long, hard look at the scheme. Rather, it is when it has illegality that you have all of the victimless crimes, where it is in no-one's interest to complain and obviously in no-one's interest to actually do anything about it. So I think moving to a legal, aboveboard scheme that is very carefully negotiated and looked at is the first step towards ensuring that the social ills we have talked about do not happen.

There are a few very specific things that we have picked out of the Canada scheme that we think should change. I know that in Canada workers were completely tied to an employer. There was a trade-off. There was a need for a dedicated workforce, but then there was also the social cost associated with that, with workers willing to do anything to come back to that employer. I think an element of flexibility there would help, as would the ability to be represented through a body, either trade unions or otherwise. There were simple complaints we heard out of workers in Canada where the attache was in the capital city. It was very hard because they actually had to use the employer's phone to call the attache. As soon as the attache was moved to the actual regional town, their access to recourse from any sort of abuse was improved.

So, as I keep saying, it is not rocket science. It is all about paying attention to the details. In the Pacific, I dare say the social structures are extremely important. We have had discussions with the consul general of Tonga who pointed out that until recently the overstay rate from the Tongan community used to be somewhere in the top five or so, because of course there was no legal way to stay back. There still is not, but, through education and coopting the community leaders in Australia, they have been able to get that overstay rate down considerably. Social structures in the Pacific are strong enough, and I do not see why they cannot be coopted to actually ensure that some of these things do not happen.

Senator BARNETT—We had His Excellency the Fijian High Commissioner here, and he supports such a scheme. From feedback from your consultations in and around the Pacific region, do they support such a scheme?

Dr Luthria—They think it is long overdue. They are absolutely keen on discussions. I do not think the Pacific thinks anything like this is going to happen overnight. I am working quite hard with the New Zealanders, indeed even with the Europeans and French Polynesia, if they have got any labour shortages, but there are many reasons for neighbours to look at it first, and there may be some movement across the Tasman. I think what the Pacific islanders are looking for right now is to engage on these issues of exploitation, overstaying, how much exactly will you make in six months and what will you do with the money—though that may not actually be a fair question to ask. If there are such questions they are eager to engage—but there has not been engagement. We are hoping that by entering the debate that there might be greater engagement.

Senator BARNETT—Is there a problem with discriminating in favour of the Pacific region? What about if we look further north? I have referred to Papua New Guinea and East Timor, but what about some of the Asian countries? Is there a problem with extending it more broadly to some of those countries? Why just the Pacific region?

Dr Luthria—You are right and, as an economist, I do ask myself: ‘Is this global first-best?’ The world’s poorest probably live in India and Africa, not the Pacific. But we are in a world of trade-offs; it may not be global first-best, but it might be regional first-best. There is a trade-off. The trade-off is in terms of the manageability of numbers on the receiving country’s side.

But, wearing my Pacific development hat, I have to argue that there are benefits. The small numbers of movements from India, China or Indonesia are likely to be unnoticed in these countries in terms of the development impact, but remittances, and I dare say not just financial remittances but the social remittances—the ability of the unskilled to be exposed to developed countries’ systems even for a very short duration—will over time increase their expectations and what they want from their government. The discussions we have about improving governance and institutional quality is likely to translate into pretty significant outcomes in the Pacific. I do not see huge development impact from a few thousand workers into India or China.

Senator BARNETT—In your submission you referred to horticulture and focused on that to some degree, but you have also said in your summary that there are likely to be several other sectors besides horticulture that might benefit. We have heard from the Tourism Export Council this morning. Do you have the view that perhaps it could be extended to other sectors, not just horticulture?

Dr Luthria—Quite possibly, particularly when you look at the population projections—and as someone pointed out earlier, it is not just in Australia, it is in all industrialised countries—where the ageing population means that there are fewer workers and more jobs. While the shortages in skills seems to get a lot of the popular media attention, that is not where the greatest demand for employment creation is going to be. In percentage terms it might be in skills, but in absolute terms it is really in what we call the hardcore non-tradables—the ones that you cannot trade, you cannot outsource and you cannot mechanise, the ones that actually require hand to haircut, or hand to fruit in this particular case. The demand for those sorts of services in areas such as aged care and retail is going to go up and there are not going to be workers.

Senator BARNETT—You said: why only take the best and brightest—that is, the skilled or the semiskilled? Have you considered the possibilities of extending the working holiday maker visa or the 457 or some other system to attack this problem or are you just focusing on this so-called guest workers scheme?

Dr Luthria—We leave it up to receiving countries to figure out what visa systems they might want to use and how this would fit in with maintaining the policy integrity of the skilled migration programs. Again, I see that more as an administrative issue. I think that, if there is a will, they can put in the administrative resources to figure out what sort of visa system might work.

Senator BARNETT—Thank you for your work and your efforts. I think the research you have done is tremendously useful.

Dr Luthria—Thank you.

Senator McEWEN—Just following on from the comments you made in response to Senator Barnett about future labour shortages in the industrialised world, is there a chance that, if Australia does not move to implement some kind of engagement with the Pacific region to bring in workers—I am not defining the scheme; it could be a guest worker scheme but probably it would more likely be permanent migration—we could miss the boat, given that people from the Pacific region have things that are valuable to Australia like that they speak English, have a similar kind of education system and have not dissimilar religious and cultural beliefs? If we do not take them, is somebody else likely to snap them up?

Dr Luthria—Yes. I think that, in addition to being an important issue, there is an element of urgency and there are a number of things that make it urgent. You are right in pointing out that right now the global hunt for talent seems to make the headlines but, as we as populations age, the global hunt for people to deliver labour intensive services is going to intensify. My colleagues and I sometimes joke that there should perhaps be another kind of temporary movement where we all move to these countries to retire—which would probably be temporary by nature. Where are we going to find the suppliers of these sorts of services which are obviously going to be badly needed not that far off? We were talking about 15 years away from now.

So you are right in that all countries will be looking for labour. But more important from the point of view of the Pacific is the information in an excellent paper by Professor Urdal, called *The devil in the demographics: the effect of youth bulges on domestic armed conflict, 1950-2000*, which shows what happens when you have a youth bulge and few employment prospects. In his paper he estimated mathematically the probability of social conflict in the absence of any migration and found that there would be an exponential increase. So I point again to not just the loss of workers—as you have said, somebody else might snap them up if we do not—but also the fragility of the region itself, which is becoming more and more acute.

Senator McEWEN—In their submission the Department of Immigration and Multicultural Affairs make something of the fact that the visitor non-return rate is high on a percentage basis for people from Samoa and Nauru in particular, and they compare those rates with that of Greece, whose NRR is eight per cent. They do not mention actual numbers of people, and I am

not sure whether you have seen the department's submission, but should we be worried about the non-return rate of people from the Pacific islands? Is it comparable with that for visitors from, say, the United Kingdom, US and Europe?

Dr Luthria—In terms of absolute numbers I am told that the No. 1 overstayers are people from the US and the UK. The percentages obviously show a different picture because the numbers of people entering from Kiribati or Tonga will be nothing like those of the entrants from the US or the UK. So it is percentages versus absolutes, which is obviously your question of where the absolute numbers are. The absolute overstayers seem to be from countries that we are not discussing right now.

I would like to go back to what I said earlier: if people have a legal chance to earn an economic livelihood, through some sort of accommodation of some permanent and some temporary movement where the unskilled are given a chance to earn abroad and consume at home, which is something they think of as the best of both worlds, they will not want to blow their chances of having a reasonably certain chance of getting a job next year, given that the chance of making an honest livelihood is close to zero. So I think people all over the world behave quite similarly when presented with similar economic incentives: 'Would you like a one-shot chance or would you like a future income stream that allows you to earn abroad and consume at home?' The Canadian experience seems to show that people respond to the incentives and pick the latter.

CHAIR—I guess many Australians, including me, have learned to have a very healthy distrust of economists over the last 20 years or so. People are quite rightly concerned about these sorts of programs and what they may mean to their standard of living and their ability to increase wages and have a better lifestyle. After all, a sophisticated industrialised society is supposed to deliver constant and better lifestyles for its citizens. So there is that inherent distrust and people question whether it will drive wages down. There is a bit of controversy, which we do not need to go into now but I am sure you aware of it, about general industrial relations reform, whether that be about a shortage of skilled workers or about abuse of visa arrangements. Without passing judgement on any of those things, that controversy is there. How do you as a senior economist in this area for the World Bank respond to those concerns, which are expressed by members of our community with what they see is some justification?

Dr Luthria—These are difficult questions. As part of moving up the value chain are there certain jobs that the citizens of rich countries simply move away from and into other jobs? That poses even more difficult questions about whether Australia, the United States or any other industrialised country has a comparative advantage in agriculture or in labour-intensive services.

I was hoping I would hear something yesterday, which I did not, from other departments which, I would hope, are seriously worried about these issues and are looking at plan B: if it is not going to be priced based competition, how do we differentiate our products so we survive in markets? It is a very real question and a very difficult one. Obviously, production patterns all over the world will shift quite drastically. As an economist, I would say that to the extent that there is removal of distortions, be they tariffs or non-tariff barriers—and in the case of labour markets they are non-tariff barriers; in a sense, a border is a barrier—is there a way to encourage a better allocative efficiency of labour? Should we be encouraging third-year university students or medical students to do agricultural work? Is that the best use of our labour? Every taxi driver I

have come across in the US and here tells me he has a master's degree and a PhD back home. Is that the best labour market fit? Protecting the policy integrity of each of these schemes, I think, is extremely important and if it allows a better skills match I think that is in the global economic interest.

CHAIR—Thank you, Dr Luthria. Is there anything else you would like to say to sum up, because you may be the last witness in this inquiry. We may get a worker in Melbourne, but you may well be the last. You have a couple of minutes if you want to sum up anything that you think we may have missed.

Dr Luthria—I will not say anything lengthy. I have been admiring all of you in terms of how thoughtfully and carefully you have been questioning and engaging with all of the witnesses. I will not prolong this other than to say that, from our point of view, we do recognise that there are benefits and costs. I keep making the analogy to almost any other economic policy that I can think of. The fact that there are costs is not a reason to disengage. It is even more reason to actually engage and to find a way to manage and overcome the costs. Walking away from this issue, I think, would be walking away from giving poor Pacific islanders an economic opportunity. Thank you for listening.

CHAIR—Thank you indeed for your presentation to the committee today.

Committee adjourned at 12.22 pm