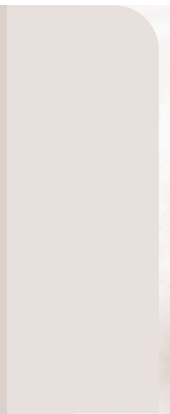
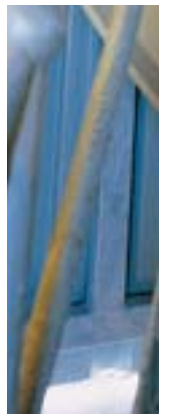


THE CASE FOR ONGOING FLEXIBILITY IN
EMPLOYMENT ARRANGEMENT OPTIONS
IN THE AUSTRALIAN RESOURCES SECTOR



AUSTRALIAN MINES AND METALS ASSOCIATION



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THE NEED FOR CHOICE

'Access to a full range of employment arrangements that provide flexibility at the workplace level is essential...'

The resources sector is a major contributor to the Australian economy: as a producer; as an employer and as an exporter. In recent years the sector has made dramatic improvements in efficiencies and productivity while continuing its unrelenting pursuit of improvements to occupational health and safety. Employer and employee innovation and technological developments have contributed significantly to these improvements.

The global nature of resources sector markets and the pressures this places on companies requires the pursuit of workplace practices, policies and a legislative framework that best foster productivity, growth and prosperity. Access to a full range of employment arrangements that provide flexibility at the workplace level is essential if companies are to remain viable in the face of intense international competition.

The resources sector is greatly concerned that flexibilities offered by the current legislative provisions, such as those enabling direct forms of employment arrangements, must not be eroded. It is especially concerned that the legislative pendulum does not swing back to a more highly regulated labour relations system that restricts choice in the development and implementation of arrangements most appropriate at the workplace.

The resources sector extends to all political parties its plea that the employment regulation options facilitating an enterprise-level focus on flexibility and productivity, now available under the Workplace Relations Act 1996, should not be eroded. Rather, the focus should be on strengthening and expanding the range of options available that will support the pursuit of internationally competitive enterprises.

THE SECTOR

The Australian resources sector comprises companies involved in the exploration, production, and processing of minerals and hydrocarbons, and service providers to these companies. Resources sector commodities include metalliferous minerals, industrial minerals, energy minerals¹, precious metals, diamonds and other gemstones.

The resources sector provides employment for an estimated 93,600 employees nationally: 38,500 in metal ore mining, 22,400 in coal mining, 6,900 in other mining, 7,800 in oil and gas extraction and 18,000 in services to mining.²

¹ The term energy minerals includes oil and gas and coal minerals.

² Australian Bureau of Statistics January 2004, *Australian Labour Market Statistics*, Cat. no. 6105.0, p.44. November 2003 figures.



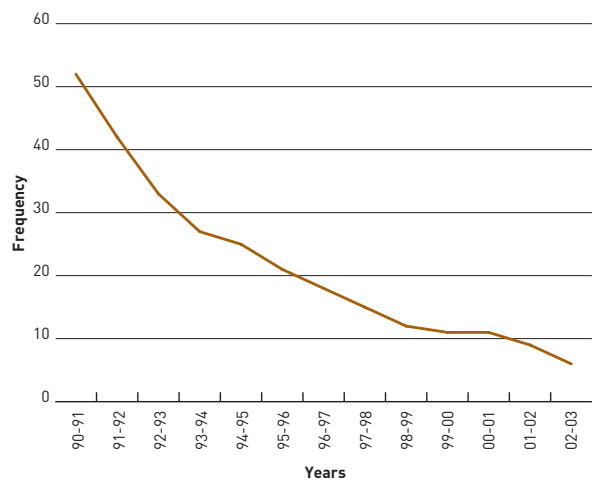


SAFETY

'Safety is an imperative'

Employee safety is an imperative in the sector. The primary concern is to achieve a sector free from fatalities, injuries and disease. Safety performance has shown steady improvement over the past decade. This trend is illustrated in Figure 1, which shows the lost time injury frequency rate for the sector.³

Figure 1: Total lost time injury frequency rate



³ Data extracted from Minerals Council of Australia – *Safety & Health Performance Report 1991-2000*, p.34, *Safety Survey Report 2001-2002* and *Safety Survey Report 2002-2003*. Lost Time Injury Frequency Rate is the number of lost time injuries per one million hours worked. Note that the Minerals Council report excludes the oil and gas and iron and steel industries in the scope of its definition of minerals industry.

LABOUR RELATIONS AND THE LEGISLATIVE FRAMEWORK

The resources sector has by necessity been at the vanguard of workplace reform in Australia. Since the 1980s, the Australian Mines and Metals Association (AMMA) has advocated the use of direct, cooperative and mutually rewarding relationships between employers and employees as the best means of achieving efficient and productive work practices. The non-coal resources sector companies have embraced this approach, utilising the framework of current labour relations legislation including the use of non-union enterprise agreements and individual workplace agreements. For instance, 50 per cent of all resources sector employees currently covered by a federal agreement are covered by Australian workplace agreements. As this figure includes coal mining employees and excludes those providing services to the resources sector, it is estimated that the figure would be closer to 80 per cent Australian workplace agreement coverage for the other than coal mining employees.⁴

An AMMA survey of Western Australian AMMA members in 2003 found that 82 per cent of respondents' employees were employed on individual arrangements of one kind or another.⁵ In fact resources sector operations in Western Australia have shown their preference for direct individual agreements by recording a 300 per cent increase in the take up of Australian workplace agreements in the 2002-2003 year after the State Government abolished the long-standing Western Australian workplace agreements.⁶

Use of direct arrangements has enabled companies to implement flexible employment practices, such as multi-skilling, flexible shift schedules suited to their production activities and performance-linked remuneration arrangements.

Another benefit associated with the use of direct employment arrangements has been the significant improvement in labour relations in recent years and the decline in industrial disputation. The sustained reduction in lost time due to industrial disputation has been supported by the passage of the Workplace Relations Act 1996, which has enabled access to more direct employment arrangements. The resources sector has been at the forefront in recognising the benefits of such arrangements. Figure 2⁷ shows time lost due to industrial disputation in the mining other than coal industry over the past decade. Since 1996, the industry has consistently lost less time due to disputation than the Australian industry average.

It is critical to the sector's viability that companies are able to continue to access a full range of labour relations regulatory arrangements, including direct individual agreement options. While it is important to avoid over-simplified conclusions, companies that have individual agreements in use do report improved industrial dispute records since the inception of individual agreements.

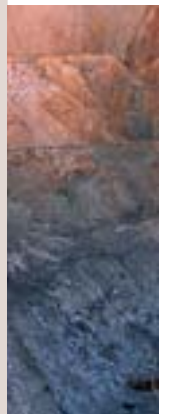
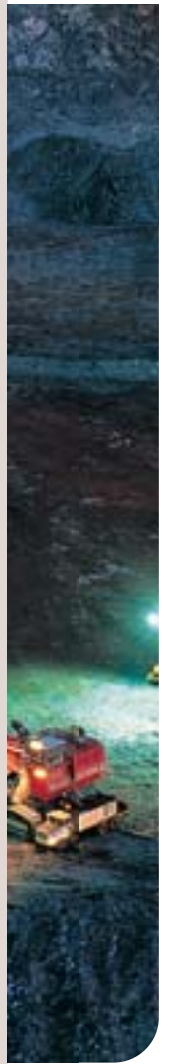
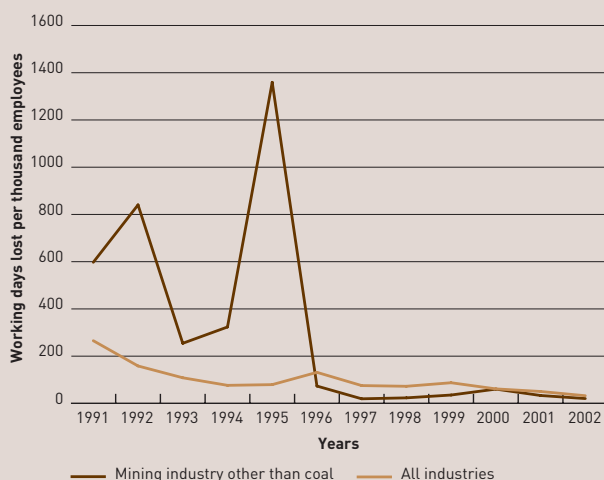


Figure 2: Working days lost due to industrial disputes



⁴ Advice from the Employment Advocate to AMMA, February 2004.

⁵ Australian Mines and Metals Association, *Conditions of Employment Survey 2003*, p.12.

⁶ The Office of the Employment Advocate, *Annual Report 2002-2003*, p.7.

⁷ Data extracted from Australian Bureau of Statistics 1991-2002 (calendar years) - Industrial Disputes Australia, Cat. no. 6321.0.

ECONOMIC IMPERATIVES

'Productivity in the Australian resources sector has been at levels well above the national average for the past decade.'

Given the economic conditions outside of the control of resources sector companies, such as volatile commodity prices and increased international competition, it is important that these companies closely manage the internal issues over which they do have some control. Two such issues are production costs and productivity.

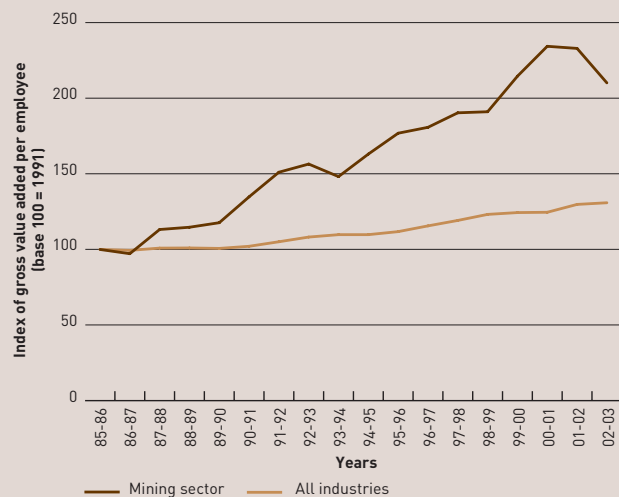
When managing production costs, companies need to place particular emphasis on the management of labour costs, a significant component of which is wages and salaries.

Productivity in the Australian resources sector has been at levels well above the national average for the past decade. Since 1993-1994 the gross product per hour worked index (Figure 3) has shown

a significantly greater rate of increase by the mining sector than for the overall economy. In fact the mining industry index has averaged an annual growth rate of 4.7 per cent over the years 1985 to 2003 compared to an all industries average of 1.6 per cent – in other words, more than three times the national average.⁸

While the continued rapid growth of productivity is essential to the maintenance of competitiveness in any industry, it is especially so in the resources sector given the sector's high exposure to international competition. Flexible labour practices and wages linked to employee performance and productivity are vital elements of the sector's employee relations.

Figure 3: Gross product per hour worked



⁸ Australian Bureau of Statistics Cat. no. 5204.0 - *Australian System of National Accounts, 2002-2003*, and Cat. no. 5206.0 - *Australian National Accounts - National Income, Expenditure and Product - Gross Value Added statistics - table 26, 1986-2002*. AMMA calculations of average annual growth rates in the ABS Indexes of Gross Product per Hour Worked.



ECONOMIC SIGNIFICANCE OF THE RESOURCES SECTOR

'The Australian resources sector is also a significant exporter of mining technology, equipment and services.'

Since the gold rushes of the 1850s, the resources sector has been a major contributor to the Australian economy. Today it continues to contribute significantly to Australia's balance of trade. In fact the top five commodity exports in the year ended June quarter 2003 were from the resources sector:

- » coal – \$11,829m (10.2 per cent of total merchandise exports)
- » crude oil and LNG/LPG – \$10,094m (8.7 per cent of total merchandise exports)
- » bauxite, alumina and aluminium – \$7,573m (6.5 per cent of total merchandise exports)
- » gold – \$5,259m (4.5 per cent of total merchandise exports)
- » iron ore – \$5,203m (4.5 per cent of total merchandise exports)
- » beef, veal – \$4,010m (3.5 per cent of total merchandise exports).⁹

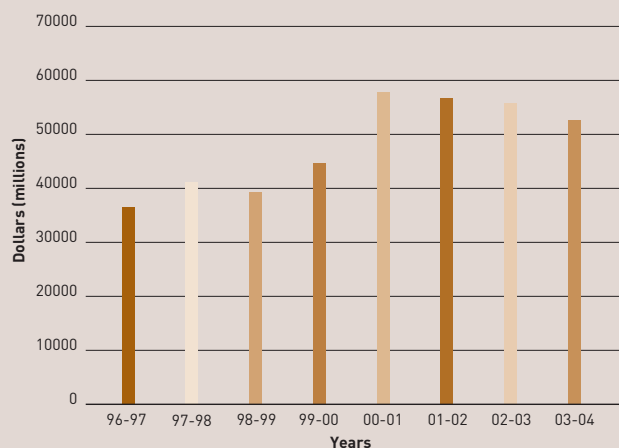
The minerals and energy sector achieved an estimated \$55.8 billion in export earnings in 2002-2003. Although overall minerals and energy exports are expected to decline by 5.5 per cent to \$52.7 billion in 2003-2004 due to a 13 per cent fall in returns from energy exports, exports earnings from metals and other minerals industries are expected to increase. Earnings from nickel and iron ore exports particularly are expected to increase significantly during 2003-2004.¹⁰

The value of resources sector exports over the past seven years, together with the projected figure for 2003-2004, is set out in Figure 4.¹¹

The Australian resources sector is also a significant exporter of mining technology, equipment and services – to the value of around \$1.5 billion in 2000-2001. These exports include 60 per cent of the software used in mining around the world.¹² The Australian mining technology services sector is currently seen as a global leader in several specialist areas, such as software applications for the mining and minerals industries.¹³ By 2005-2006, nearly three-quarters of Australia's mining technology services providers are expected to be exporting their products.¹⁴

'While minerals underpin Australia's wealth, it is the industry's innovation and development of technology that will continue to make this possible.'
MCA Executive Director Mr Dick Wells¹⁵

Figure 4: Value of resources sector exports



⁹ ABARE *Australian Commodities*, June quarter 2003, pp 320-323, ABARE *Australian Mineral Statistics*, June quarter 2003, p.5.

¹⁰ ABARE, *Australian Commodities*, vol 10, no. 4, December quarter 2003 - p.486.

¹¹ Data extracted from ABARE *Australian Commodities*, vol 10, no. 4, December 2003, p.582

¹² Minerals Council of Australia, *Australian Minerals Industry - Issues and Prospects*, 10/09/2002, paper presentation by MCA President Barry Cusack to the 2002 Steel Institute Convention, www.minerals.org.au, accessed 17/02/04. Also reference in AusIMM submission to Senate Committee Inquiry on *Increasing participation in paid work*, 2003.

¹³ ABARE Research Report 02.9 *Mining technology services in Australia*, Canberra, June 2002, p.iii.

¹⁴ *ibid*, p. 32.

¹⁵ Minerals Council of Australia, *Australian Minerals Industry - Challenging Perceptions 9/5/01*, paper presented by MCA Executive Director Mr Dick Wells to Fluid Power Expo 2001 Sydney, www.minerals.org.au, accessed 3.7/01.



During 2002-2003, resources sector companies respondent to the Minerals Council of Australia's survey reported contributions of more than \$3.3 billion to state and federal governments through direct (\$2.7 billion) and indirect (\$0.6 billion) taxes and charges. Total government revenue including taxes levied on lenders and shareholders as well as rail and port charges paid by these companies totalled approximately \$5.5 billion. Given that this survey does not include the oil and gas and iron ore and steel industries, total government revenue contributed by the resources sector as a whole was in fact well in excess of these figures.¹⁶

The resources sector has never received tariff protection but has been subject to tariffs on various inputs.

An effective resources sector is important for the Australian community. The multiplier impact of the sector is in the order of 2 to 2.5. Therefore, every dollar of output generated by the sector contributes 2 to 2.5 times that amount for the community.¹⁷ The resources sector also contributes social community benefits by building and maintaining public and private infrastructure in remote areas. Many regional centres and remote towns are heavily dependent on the mining sector.

¹⁶ Minerals Council of Australia, *Minerals Industry Survey Report 2003*, conducted by PricewaterhouseCoopers, p.28.

¹⁷ Clements KW & Ye Quiang 1995, 'Multiplier Effects of the Western Australian Mining and Mineral Processing Industries', Economic Research Centre University of Western Australia.
Also Australian Petroleum Production and Exploration Association Limited at <http://www.appea.com.au/IndustryInformation/Statistics/FactsAndFigures/>.

SECTOR PROFITABILITY

'Facilitative flexible employment arrangement mechanisms are essential.'

In recent years profitability of the Australian resources sector has reflected the subdued nature of economic conditions globally and a consequent lower world demand for minerals. This has resulted in historically low international commodity prices up until mid 2003 across virtually the full range of commodities. However prices have now improved significantly for most commodities as a result of increasing demand, especially from China, and a weakening American dollar.

The Minerals Council of Australia's 2003 survey found that net profit return on average shareholders' funds for the minerals industry was 7.3 per cent in 2002-2003.¹⁸ Figure 5¹⁹ shows the trend in this indicator.

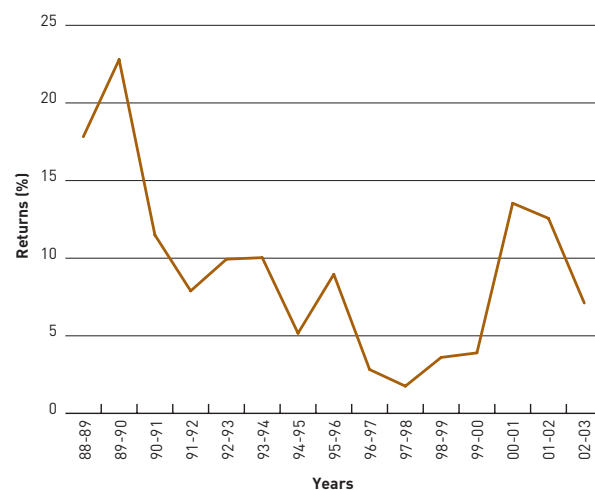
The relationship of the Australian dollar with commodity prices has had a significant impact on resources sector profitability. Whilst the return on shareholders' funds in 2002-2003 was still above the low levels experienced in 1996-1999, reflecting in part intensive company efforts to reduce costs (including writing down the asset value of unprofitable projects) and increased productivity, further strengthening of the Australian dollar may dampen what would otherwise be a strong commodity price driven recovery in shareholder returns.²⁰ This means that Australian resources companies are under increased pressure to find ways in which to improve their productivity in order to safeguard their viability. Companies must be able to employ operational strategies that are best suited to their particular situation

if they are to effectively compete in the global market. Facilitative flexible employment arrangement mechanisms are essential – a view supported by the Minerals Council of Australia:

'We commit to policies that enhance labour market flexibility, shifting the onus of responsibility for remunerations and other conditions of employment to the enterprise and individual employer/employee relations, further decentralising, disaggregating and differentiating conditions of employment in favour of determinants of productivity gain and performance'.

MCA Chief Executive Mitchell Hooke²¹

Figure 5: Net profit return on average shareholders' funds



¹⁸It should be noted that the Minerals Council of Australia's 2003 survey excluded the oil and gas and iron and steel industries in its coverage.

¹⁹Data extracted from Minerals Council of Australia – PricewaterhouseCoopers, *Minerals Industry Survey Report*, for years 2000 to 2003 – Including Appendix 3 of 2003 report, p.44.

²⁰Investor Resources Limited, Melbourne: advice to AMMA re commodity price-exchange rate relationship.

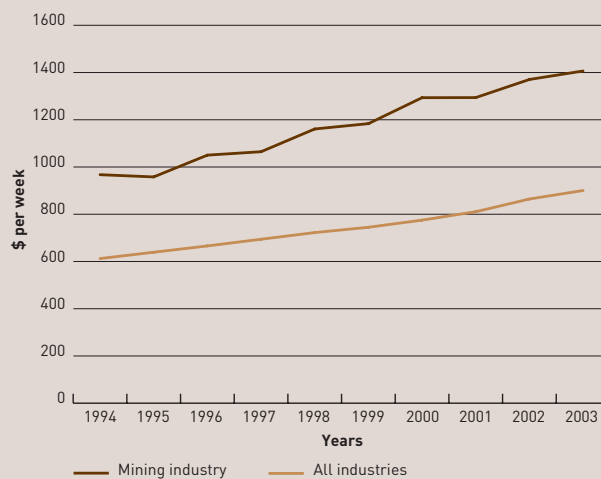
²¹Minerals Council of Australia Chief Executive Mitchell Hooke, *Policies for Growth*, presentation to Minerals Week annual seminar, Canberra, 3 June 2003.

EMPLOYEE EARNINGS

‘Productivity in the Australian resources sector has been at levels well above the national average for the past decade.’

It is worth noting that in a period of increasing use of direct individual agreements, remuneration for resources sector employees is well above those of other sectors. Furthermore, the gap between the resources sector and other sectors is increasing and has been doing so since the early 1990s. Figure 6²² shows the extent of this gap for ordinary time earnings since 1994.

Figure 6: Full-time adult ordinary time earnings



²²Data extracted from Australian Bureau of Statistics, *Average Weekly Earnings*, Cat. no. 6302.0, February quarter years 1994-2003.

SKILLS DEVELOPMENT

The resources sector places a high level of importance on developing the skills of its workforce, which contribute to its strong overall productivity performance. In fact the sector spends more on training per employee than any other industry sector, as highlighted in Figures 7 and 8.²³ The sector requires, and produces, a workforce that is highly skilled.

Figure 7: Direct training expenditure (Dollars) - 2001-2002

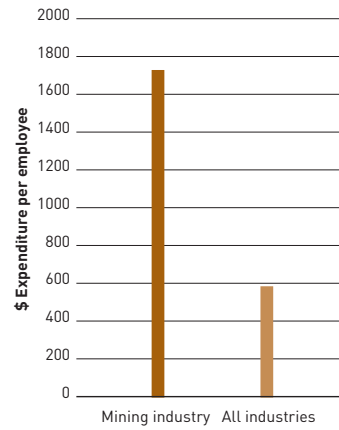
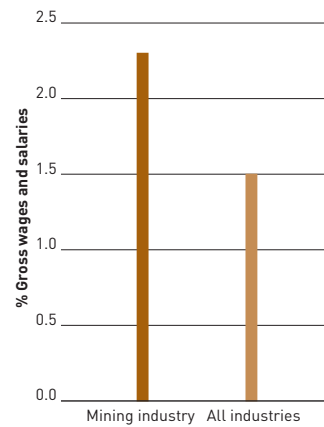


Figure 8: Net direct training expenditure (% wages) - 2001-2002



²³Data extracted from Australian Bureau of Statistics *Employee Training Expenditure Australia*, Cat. no. 6362.0. The data is for the provision of structured training in the 2001-2002 financial year, which is the most recent available from the Bureau. The ABS definition of 'mining' encompasses solid, liquid and gaseous minerals.

OCCUPATIONAL COMPOSITION

'The sector is ... reliant on a workforce that is technically and operationally skilled'

As shown in Figure 9, the resources sector has a significantly different profile from that of the total Australian workforce. It has:

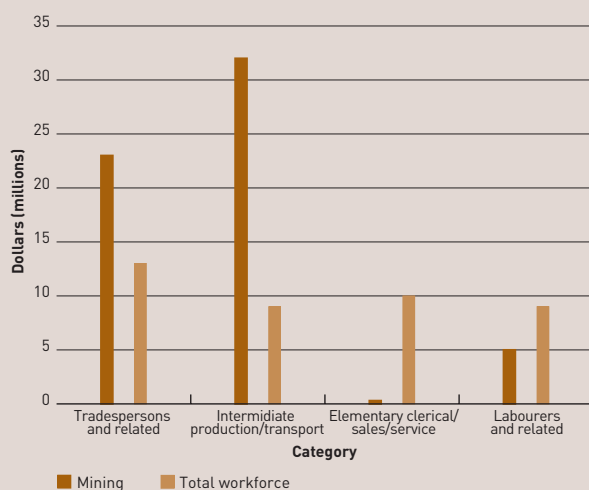
- » high representation in the Tradespersons and Related Workers category, well above the total workforce proportion;
- » the highest proportion of its workforce in the Intermediate Production and Transport Workers category; and
- » a proportion of its workforce in the two lowest skilled categories that is much smaller than that for the total workforce.²⁴

The sector is therefore reliant on a workforce that is technically and operationally skilled, more so than the total Australian workforce. This helps to explain the significant resources and time put towards training in the sector.

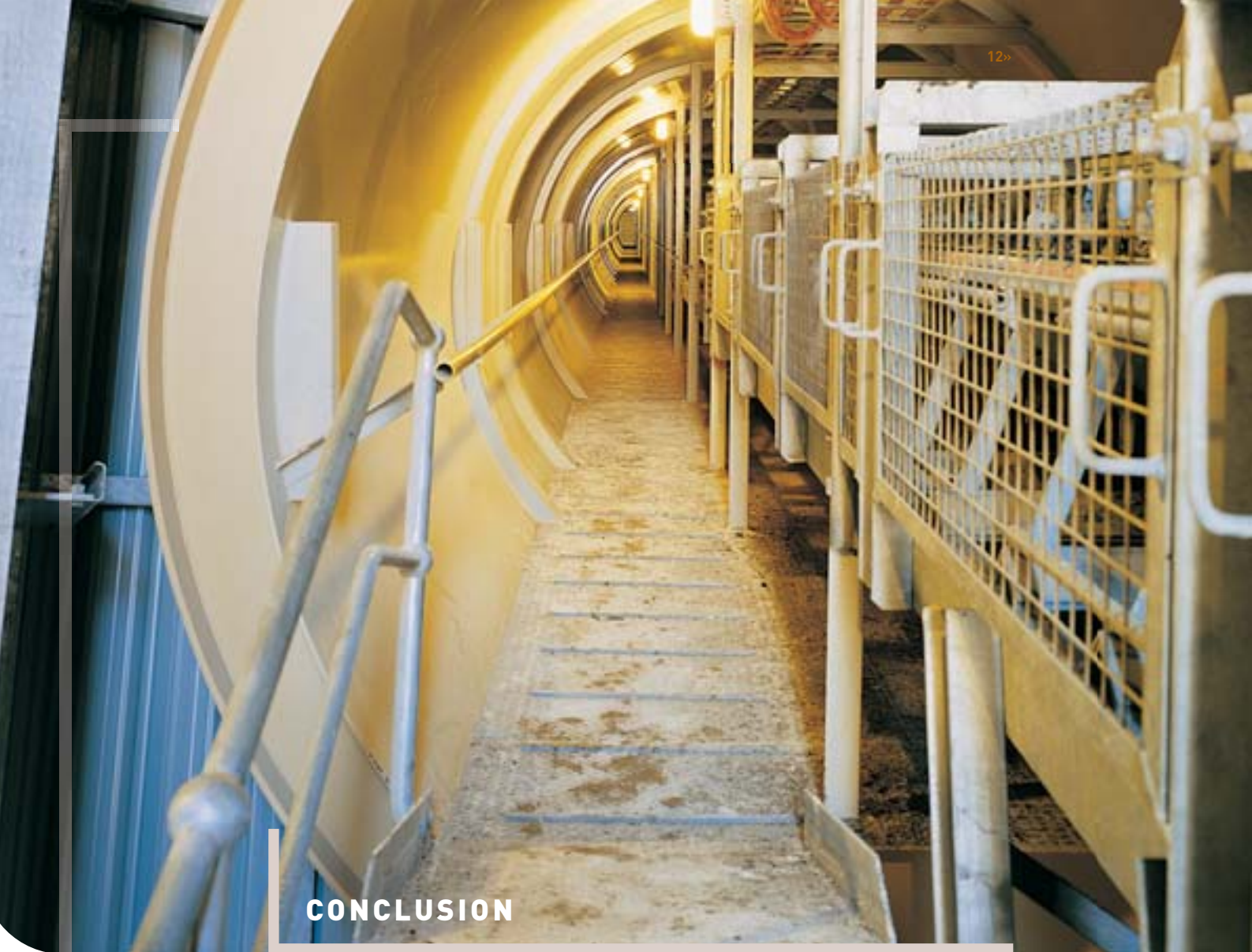
Major training initiatives for supervisors and underground miners are expected to significantly raise the sector's qualification profile over time.



Figure 9: Occupational profile - selected categories



²⁴ Data extracted from Australian Bureau of Statistics, *Labour Force Australia*, February 2003, Cat no. 6203.0 (This is the final issue of 6203.0 published.)



CONCLUSION

‘The sector is especially concerned that the legislative pendulum does not swing back to a more highly regulated labour relations system that restricts direct employer-employee agreements.’

The resources sector is a key contributor to Australia’s wealth and skills development.

The Australian resources sector operates within a global market. It has never received tariff protection but has been subject to tariffs on various inputs. Resources sector companies are under continual pressure to raise productivity and cost efficiency in order to compete successfully. The management of labour costs is an integral part of this ethos.

A critical factor in companies’ ability to prosper, or to remain at least viable, is access to employment arrangements that provide flexibility at the workplace level. Resources sector companies have successfully utilised the options provided

at the federal level under the current provisions of the Workplace Relations Act 1996 to best meet the conditions and needs of their enterprises. At the same time they have provided above average remuneration and training for their employees, prioritised safety and reduced disputation.

The flexibility offered by the current framework, such as that achievable through the use of Australian workplace agreements, must not be eroded. The sector is especially concerned that the legislative pendulum does not swing back to a more highly regulated labour relations system that restricts direct employer-employee agreements.

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