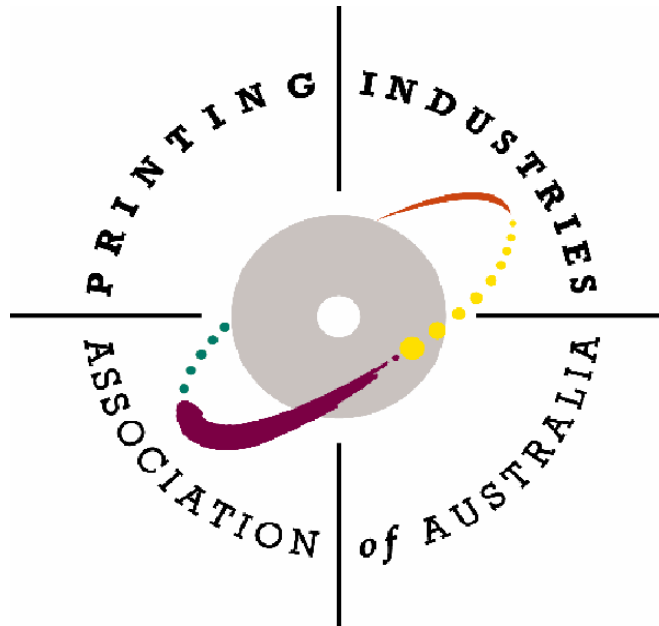


**Printing Industries Association of Australia  
Submission to the  
Australian Fair Pay Commission**



**28 JULY 2006**

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## Background

Printing Industries Association of Australia (*Printing Industries*) is the peak national organisation that represents printing, graphic arts, multi-media and allied industries.

Membership of Printing Industries comprises a broad cross section of companies including printers, desktop publishers, graphic designers, newspapers, prepress houses, publishers, software and hardware manufacturers and distributors, paper and paper board manufacturers, paper merchants, ink manufacturers, manufacturers and suppliers of printing equipment and consumables, packaging and flexible packaging, paper converting, binding and finishing, communication and media services.

Printing Industries provides a comprehensive range of business assistance services as well as industry representation to all levels of government. It represents and assists its membership in the areas of workplace relations, education and training, environmental as well as representation to other industries. Members are supported by a national network of offices serving all States and Territories.

The industry itself is a technologically advanced, highly computerised, dynamic industry, which is very much a part of the 'communications' industry. Digital convergence offers both opportunity and challenge to what is a major industry in Australia experiencing a paradigm shift from being regarded as a traditional 'manufacturing' industry to a 'service' industry.

The industry is the fourth largest sector of manufacturing in Australia employing more than 120,000 people. It has an annual turnover in excess of \$22 billion including more than \$9 billion in industry value added, annual exports in excess of \$1 billion and imports in excess of \$3.7 billion.

The industry also continues to keep abreast with the latest changes in technology and over the past decade, the average annual capital expenditure nationally has been \$655 million.

## Brief Overview of Wage Fixation in Australia

Australian tribunals have for most of the twentieth century relied on the principles espoused in the seminal ‘Harvester’ decision<sup>1</sup> in relation to wage fixation. The formula for a ‘fair and reasonable’ wage based on the weekly expenditure of a five person family unit has in essence not changed for a whole century.

We would submit the Australian Fair Pay Commission (AFPC) should review the concepts and formula behind such an historical Australian decision and consider whether those same principles should still be applied in 21<sup>st</sup> century Australia. It could be seen that such principles are still relevant to modern Australia, especially if Government is attempting to reverse a declining growth rate and promote increased family size. The corollary is that empirical observations show Australian family units to be declining in size, therefore the formulaic approach espoused in the ‘Harvester’ decision may require adjustment.

Alternatively, if approaches such as Federal tax relief and/or other Federal non wage related assistance would promote domestically based population growth then it could be seen that the ‘Harvester’ decision is no longer relevant. Overall we would submit the AFPC react conservatively toward increasing, if at all, any minimum wage if any ‘Harvester’ related considerations form part of the AFPC approach.

For many years after the Harvester decision the then Commonwealth Conciliation and Arbitration Commission adopted the national wage case approach to wage fixation and the centralized wage fixation process for the federal award system continued under the auspices of the Australian Industrial Relations Commission and the determination from the federal Tribunal was then considered by State Industrial Tribunals which generally flowed on the same quantum to the state award workforce.

In 1993 legislative change brought about the emergence of enterprise bargaining and following this shift in wage setting at the workplace level the Australian Industrial Relations Commission established the Safety Net Review Wages Case that determined an annual safety net wage adjustment to cater for the needs of the low paid and those with little or no bargaining power. It is important to note that Industrial Tribunals had no statutory obligation to cater for the needs of small business employers.

However, in both the former and later role of the Industrial Tribunal process for wage determination it became a “one size fits all” approach in that regardless of the economic circumstances of individual industries an across the board percentage or flat wage increase would be applied. This was also exacerbated by the tribunal insistence to rigidly apply an outdated relativity formula which focused on rate of pay benchmark for a tradesperson under the Metal Industries Award. In a modern economy and globally competitive environment it is fundamentally vital that the AFPC does not fall back on the outdated tribunal elements of wage fixation.

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<sup>1</sup> *Ex parte H V McKay* (1907) 2 CAR 1



## Wage Fixation in Australia after WorkChoices

Approximately 85% of businesses are now covered by the WorkChoices legislation and fall into the national workplace relations system. On that basis most employees would also fall into the Federal system. Therefore we submit the AFPC should pay little regard to the various recent 'State Wage Case' decisions determined by the State Industrial Relations Tribunals. We find that the State Industrial Tribunal approach to wage fixation unsound considering that the determinations made on 26 June 2006 by Western Australian Industrial Relations Commission (WAIRC) and NSW Industrial Relations Commission (NSWIRC). We find it difficult to accept that the WAIRC determined a \$20 per week increase to award wages where the State economy is booming and yet the NSWIRC in recognising that the state economy was not performing as well also determines that a \$20 per week increase is warranted. This is highlighted in the NSW State Wage Case Full Bench Decision (Matter No. IRC 5778 of 2005) paragraph 283 where it is stated:

*".....The NSW economy has not performed as well as the national economy but there is nothing in its performance which would indicate that we should adopt any different approach in this State than would be appropriate if one had regard to the national economy alone. That is because the fundamental economic indicators in NSW plainly indicate, as the NSW Government has submitted, there is a capacity to sustain the claim. We have given consideration to the potential for "disemployment" effects arising from an adjustment in minimum rates, but we do not think that any evidence has been presented in this case which would warrant a conclusion that any determination we make should be tempered on this basis. We are mindful that granting other than moderate minimum rates adjustments may have the potential, although inconclusively so on the present state of empirical studies, for some adverse employment effects the dimensions of which may vary considerably. However, we do not consider such adverse employment effects have been demonstrated in this case. We have identified in our decision the approach we propose to adopt in this respect but consider that moderate adjustments in minimum wages are sustainable without significant adverse employment effects having regard to the state of the national and State economies."*

The result of the State Wage Case determinations under the post reform workplace relations system is to impose significant labour cost increases to the most fragile forms of enterprise in Australia that being unincorporated companies and in this industry will no doubt cost jobs in order for the companies to pay. It appears the State Industrial Tribunals require evidence of actual job losses rather than economic evidence that supports wage restraint which if applied correctly would avoid such an outcome.

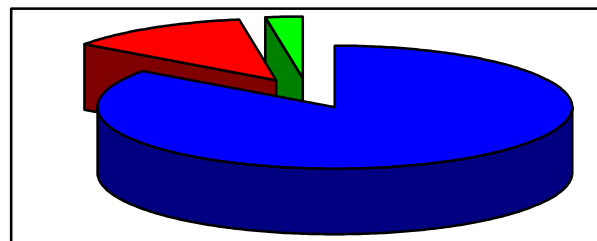
It is imperative that the AFPC conducts an industry by industry analysis in order to determine the real and economic sustainability for employers to afford wage increases. A compelling case has been made for different industry wage determinations which recognize for the first time that vastly different circumstances exist within industries.

Further State Wage Case determinations during July in South Australia, Queensland and Tasmania have resulted in three separate minimum wage rates applying in the state jurisdictions.

Finally we note from the Full Bench decision of the Australian Industrial Relations Commission on 21 December 2005 in Print PR966840 that a further wage review will occur for transitional employees following the AFPC determination. The Full Bench noted at paragraph 11:

*“.....It would be inappropriate in any event to bring forward the Safety Net Review by some 3 months, abandoning the practice of annual reviews which has operated for about a decade. And while it would be within our power to proceed with the claims before us so far as they relate to transitional employees, as the ACTU proposes, we do not think it is desirable that the Commission should hear and determine claims for increases in minimum wages for transitional employees before the AFPC has made any determination in relation to the bulk of the employees covered by the Federal system. This conclusion flows from the criteria which this Commission is to apply in setting wages for transitional employees, particularly the weight to be given to determinations and policy statements made by the AFPC. In the circumstances it would be undesirable for the Commission to pre-empt the AFPC’s role. Section 8(3)(a) of Schedule 13 requires that the Commission have regard to the desirability of consistency in the minimum rates for the two groups of employees concerned. The legislation gives the lead role in that regard to the AFPC.”*

In essence wage fixation in Australia now has a third dimension as illustrated below: -



## Legislative Framework

Although the Workplace Relations Act 1996 (“**the Act**”) as amended by the Workplace Relations Amendment (Workchoices) Act 2005 outlines various considerations in relation to the AFPC wage setting function and parameters, the Act would appear to delegate the creation of the actual processes of wage setting onto the AFPC itself.

Sections 23 and 24 of the Act stipulate the wage setting parameters and scope of the AFPC as follows:-

### ***“23 AFPC’s wage-setting parameters***

*The objective of the AFPC in performing its wage-setting function is to promote the economic prosperity of the people of Australia having regard to the following:*

- (a) the capacity for the unemployed and low paid to obtain and remain in employment;*
- (b) employment and competitiveness across the economy;*
- (c) providing a safety net for the low paid;*
- (d) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.*

### ***24 Wage reviews and wage-setting decisions***

*(1) The AFPC may determine the following:*

- (a) the timing and frequency of wage reviews;*
- (b) the scope of particular wage reviews;*
- (c) the manner in which wage reviews are to be conducted;*
- (d) when wage-setting decisions are to come into effect.”*

One of the Statutory obligations of the AFPC is to determine a standard Federal Minimum Wages (FMW) as stipulated by Section 195 of the Act which states:-

*"1. The standard FMW is \$12.75 per hour, subject to the power of the AFPC to adjust the standard FMW.*

*2. Any adjustment of the standard FMW must be such that the adjusted rate is still expressed as a monetary amount per hour."*

Printing Industries supports a conservative increase to the standard FMW as determined by the AFPC. However, Printing Industries argues strongly that such determination should be operative prospectively and not retrospectively.

With respect to the setting of special FMW Section 197 of the Act states in part:-

*"The AFPC may determine a special FMW for any of the following:*

- a) all junior employees, or a class of junior employees;*
- b) all employees with a disability, or a class of employees with a disability;*
- c) all employees to whom training arrangements apply, or a class of employees to whom training arrangements apply."*

In respect to the setting of special FMW Printing Industries argues that the AFPC should adopt the establishment of a minimum standard on an industry by industry basis as allowed by Section 199 (3) of the Act which states:

*"If the AFPC considers that the special FMW should operate as a minimum standard for one or more (but not all) APCs, the AFPC must, in the instrument determining the special FMW, include a statement to that effect that identifies those APCs, whether by description of a class or identification of the particular APCs or APCs."*

In respect of setting minimum basic rates of pay as applied by previous federal awards Printing Industries argues that no increase should apply to this industry as demonstrated by the economic evidence and other grounds contained in this submission.

We also seek to reserve the right to add further supplementary submissions to the AFPC upon the release of the Award Rationalisation Recommendations by the Minister for Employment and Workplace Relations.

## **Employment and Competitiveness across the Country**

Various reports claim the AFPC Chairman as having stated 'WorkChoices requires the Fair Pay Commission to eliminate pay differentials based on state locations over a three year period'. Therefore we submit a conservative view be taken so as not to cause overly detrimental impacts on market differentials that occur from State to State.

We also submit that regional and remote location employers in Australia should in future be regulated by a special FMW as determined from time to time by the AFPC. This will give employers in regional and remote locations in Australia the ability to employ more people.

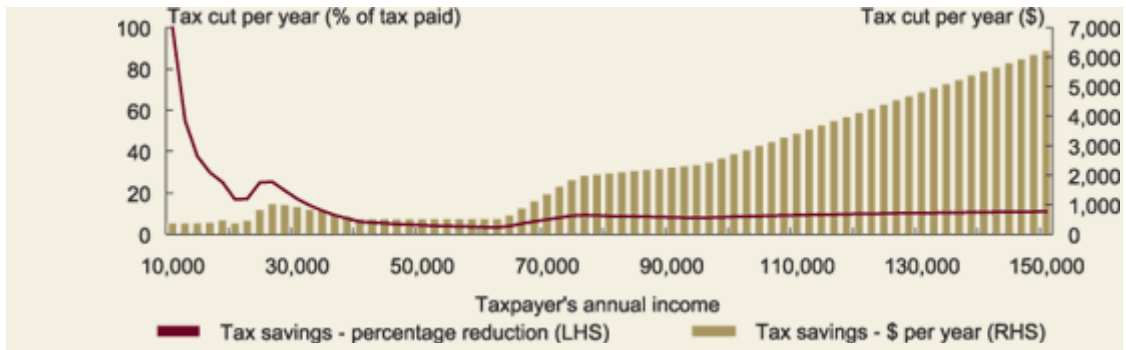
It is also submitted that as a result of the Federal May Budget generous tax cuts have been applied to the PAYG tax scales resulting in significant actual improvements in take home pay for the Australian workforce. The AFPC should take this into consideration when making any determination in order to form a balanced outcome.

### ***Continued structural tax reform***

This 2006 budget significantly restructures the personal income tax system to increase disposable incomes, enhance incentives for participation and to improve Australia's international competitiveness.

From 1 July 2006:

- The 30 per cent threshold will be raised to \$25,001
- The 42 per cent marginal tax rate will be cut to 40 per cent and the threshold will be raised to \$75,001
- The 47 per cent marginal tax rate will be cut to 45 per cent and the threshold will be raised to \$150,001
- The Low Income Tax Offset (LITO) will be increased to \$600 per year and phase out from \$25,000, up from \$21,600.



Tax savings from 1 July 2006 compared with tax payable last financial year.

In percentage terms, the greatest tax cuts are provided to low income earners.

Source: [www.budget.gov.au](http://www.budget.gov.au)

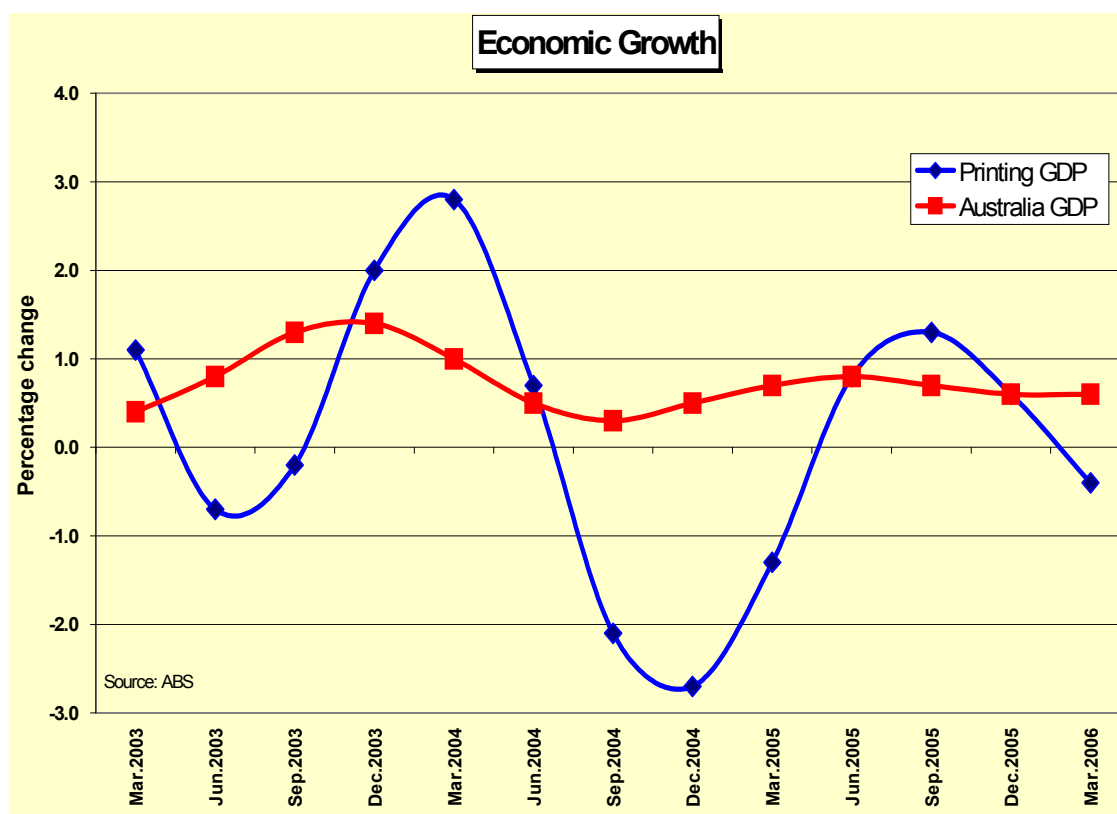
## Industry Economic Considerations

An analysis of contemporary economic conditions prevailing in the printing and allied sectors points to considerable deterioration in industry economic activity.

Both official data from the Australian Bureau of Statistics (ABS) and internal research material from Printing Industries are highlighting challenging economic conditions. The following data will briefly outline the current state of play by examining a number of key industry economic indicators. Full reports and related statistical data are available on request.

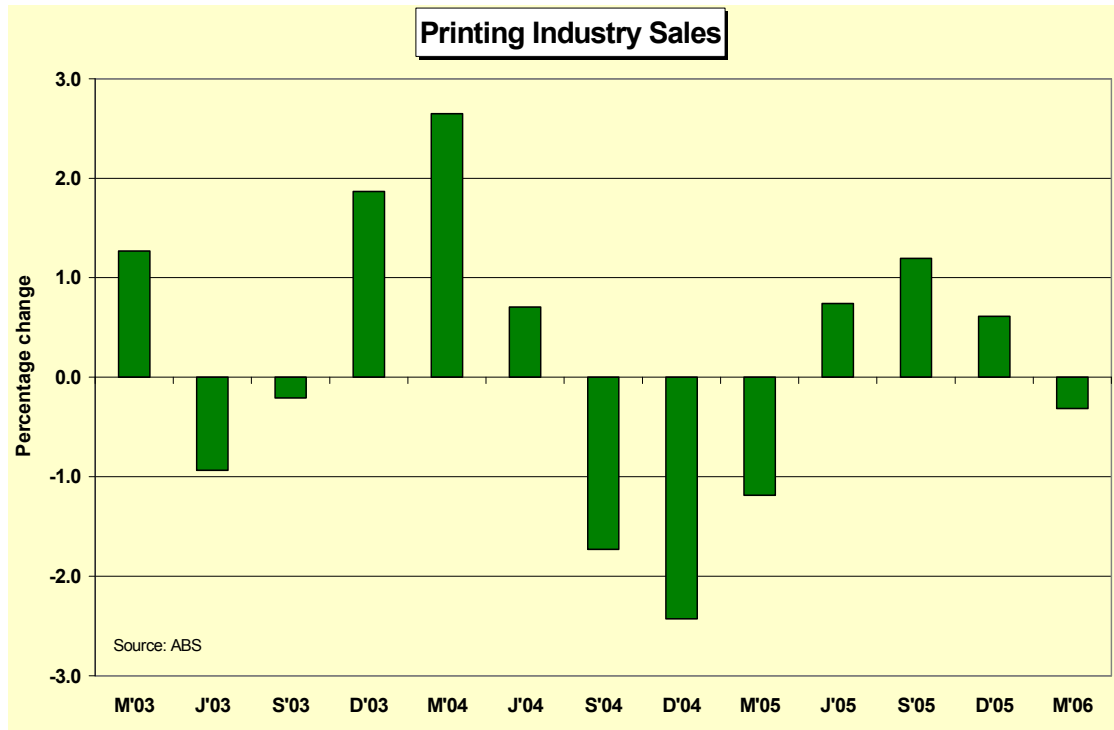
### Industry Gross Value Added

The chart below shows that the printing industry is currently going through a period of economic downturn. While the Australian economy expanded during the March 2006 quarter the printing industry contracted. Based on recent feedback from the industry it is highly likely that the June 2006 quarter will also be characterised by declining economic activity. If that occurs then the industry will be in a recession.



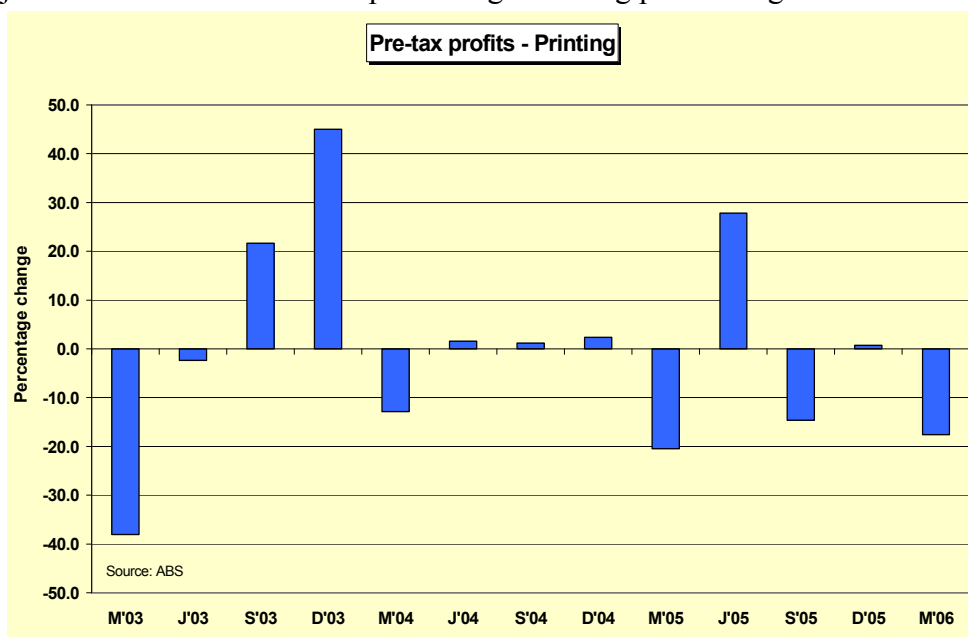
## Industry Sales

The ABS data also shows that industry sales followed the same trend with sales declining in the March 2006 quarter. If recent trends are consistent then there is likely to be another decline in sales in the June 2006 quarter.



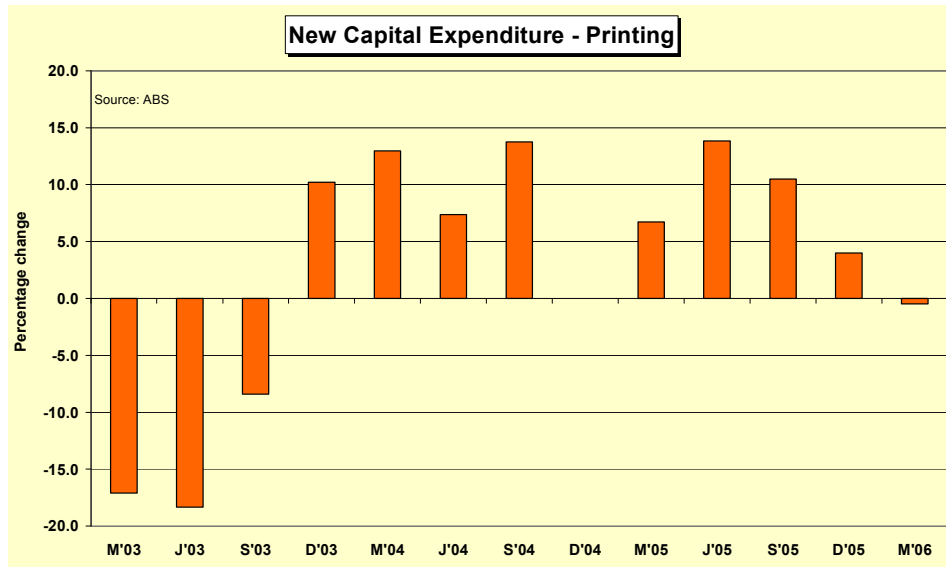
## Pre-tax profits

Another key indicator that deteriorated during the March 2006 quarter was pre-tax profits. The ABS data captures the performance of companies employing 20 or more employees. Given that 85 per cent of the printing industry employs less than 20 employees, the decline in this indicator means that the larger companies have now joined the smaller ones in experiencing declining profit margins.



## Capital Expenditure

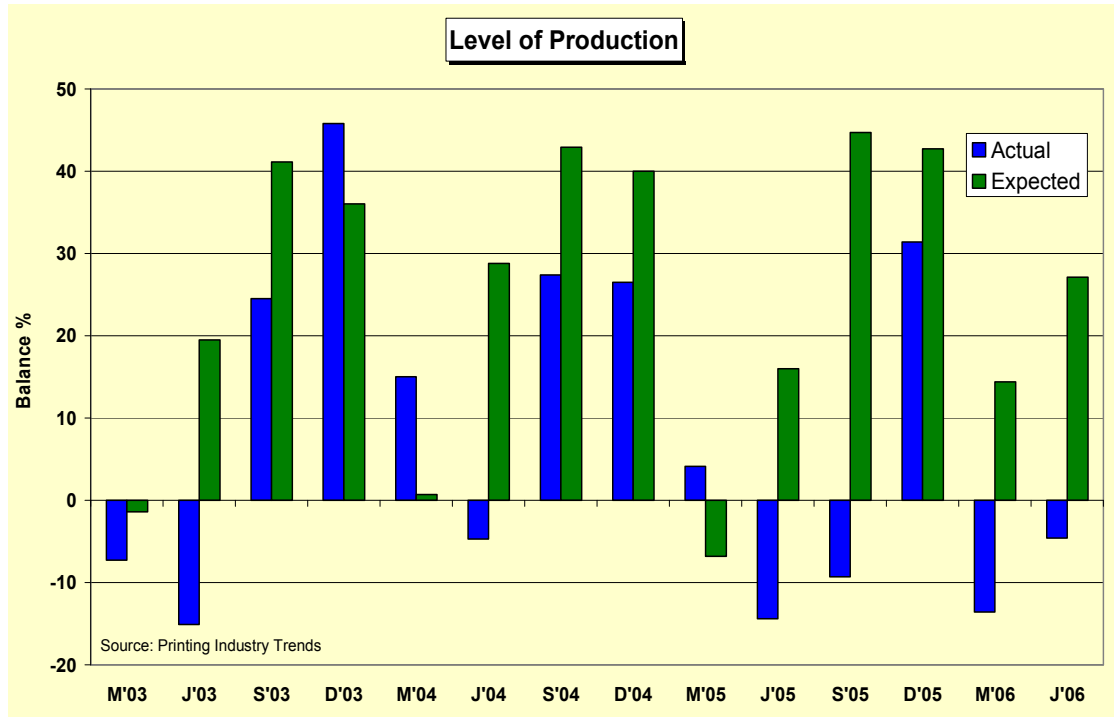
Given the reported deterioration in a number of key economic indicators it is not surprising to see that the strong capital expenditure performance of recent quarters has all but ended with the March 2006 quarter showing the first reported decline since September quarter 2003.



The official data from the ABS refers to the March 2006 quarter which remains the latest available data at the time of preparing this report. Printing Industries however is able to provide more recent data based on internal research. The following analysis is derived from the Printing Industry Trends Survey Report and refers to the June 2006 quarter.

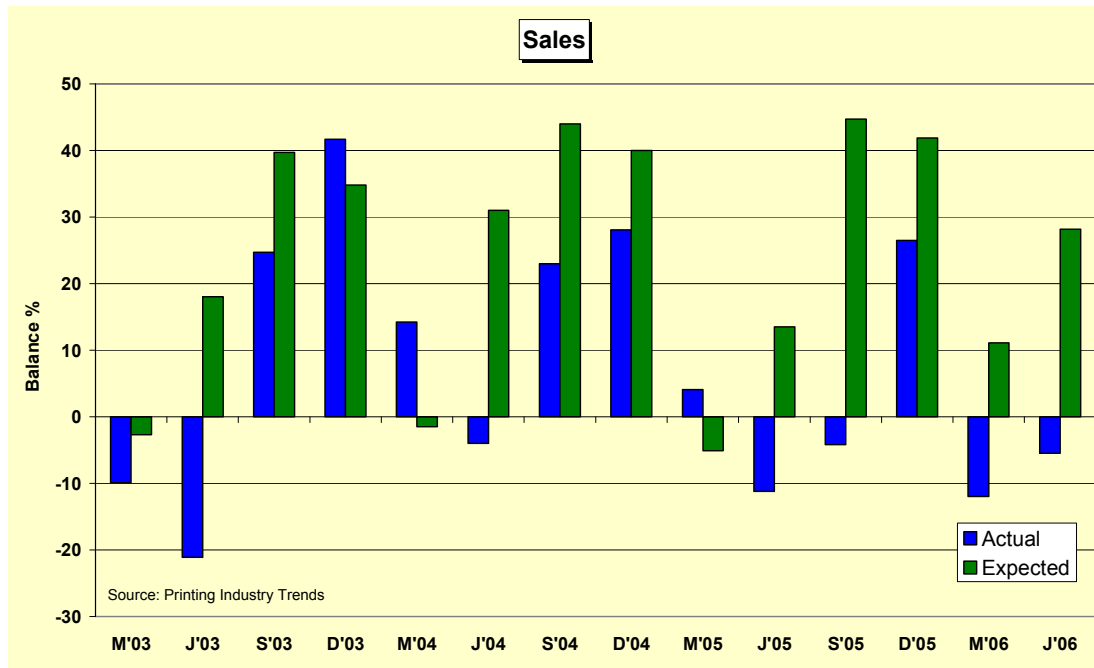
## Production

According to the Printing Industry Trends Report production was reported to have fallen for the second consecutive quarter during the June 2006 quarter. Again expectations were not met.



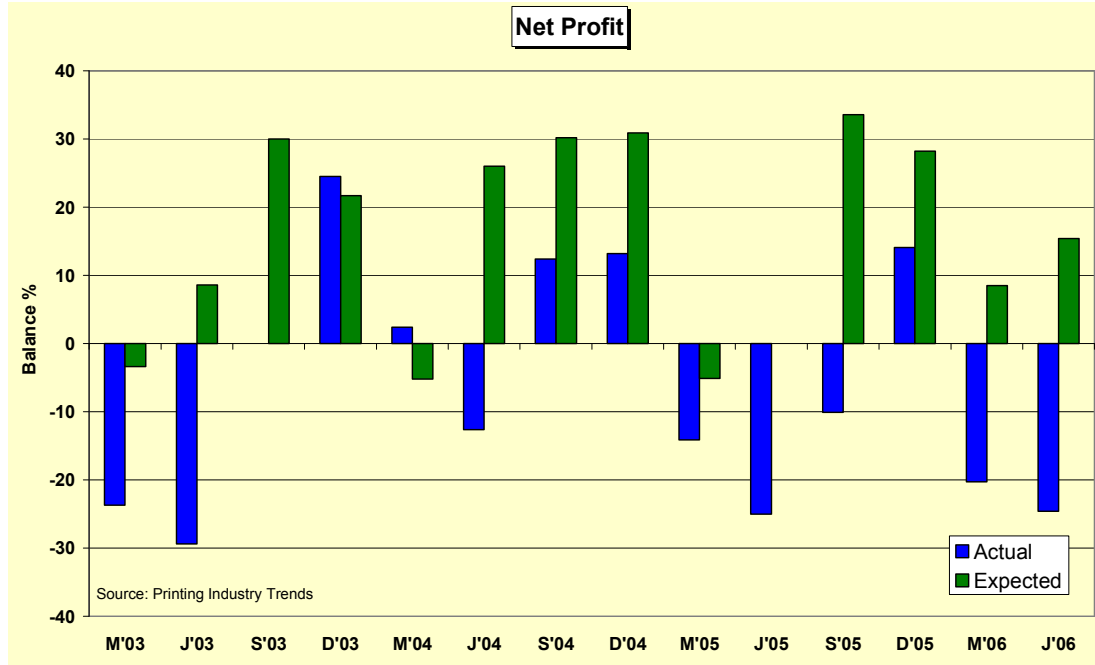
## Sales

For the second consecutive sales were also reported to have deteriorated during the June 2006 quarter. The poor sales outcome meant that sales expectations were once again not met.



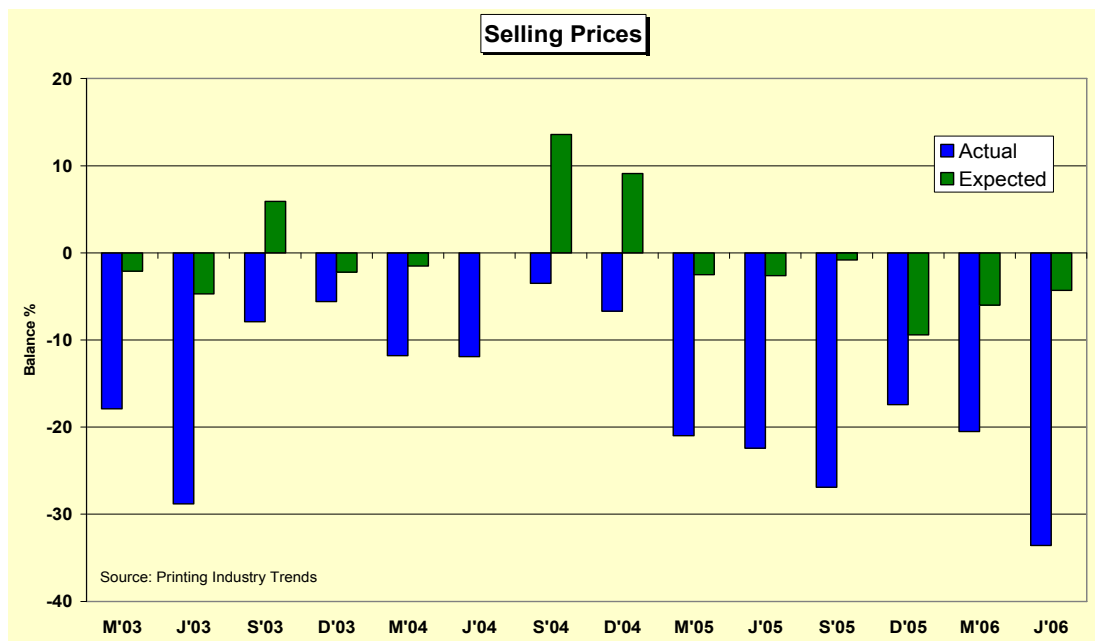
## Net Profits

A substantial net balance fall was reported in sales during the June 2006 quarter which dashed any hopes for an expected recovery in net profits.



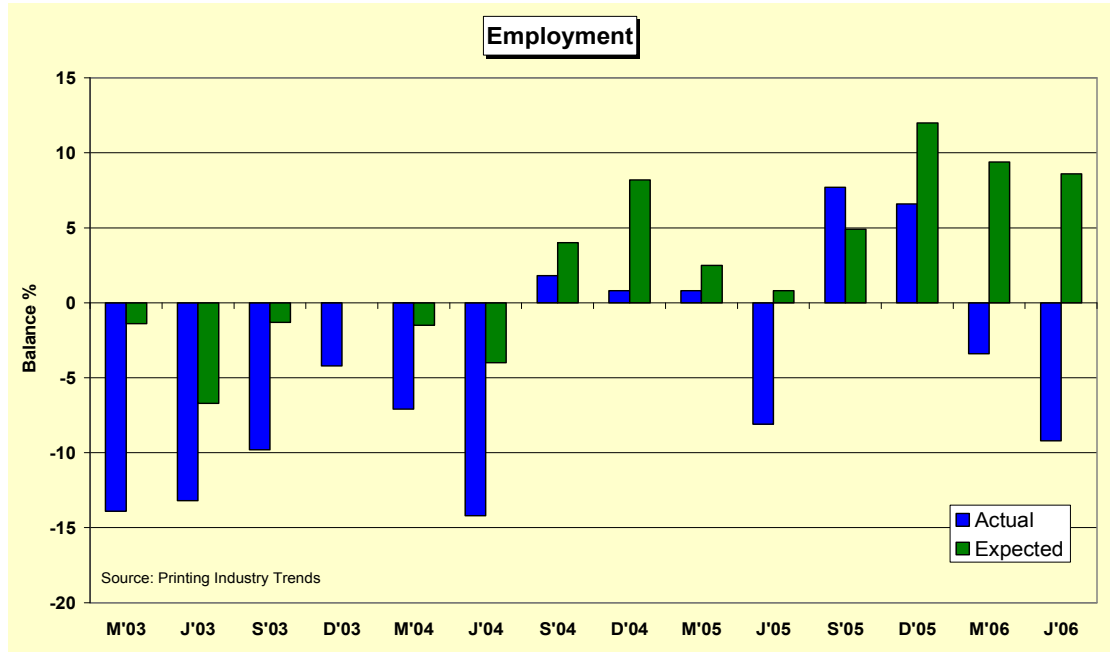
## Selling Prices

Output prices were reported to have fallen again during the June 2006 quarter for the 22<sup>nd</sup> consecutive quarter. The June 2006 quarter outcome was the worst outcome for this indicator since September quarter 1997. And with expectations now also becoming negative the outlook for selling prices remains bleak.



## Employment

Employment was once again weak during the June 2006 quarter falling for the second consecutive quarter. With employment intentions remaining weak substantial job losses are now possible during the next 12 months unless economic activity in the industry starts improving. Printing Industries employment projections show that based on current economic conditions more than 2200 positions are likely to disappear in the industry during the next twelve months.



## Conclusions

- In a modern economy and globally competitive environment it is fundamentally vital that the AFPC does not fall back on the outdated tribunal approach to wage fixation.
- It is imperative that the AFPC conducts an industry by industry analysis in order to determine the real and economic sustainability for employers to afford wage increases.
- A conservative increase to the standard FMW as determined appropriate by the AFPC is supported however such determination should be operative prospectively and not retrospectively.
- In respect to setting minimum basic rates of pay as applied by previous federal awards we argue that no increase should apply to this industry.
- Regional and remote location employers in Australia should be regulated by a special FMW wage rather than the award system.
- The federal 2006 May Budget has produced tax savings for the Australian workforce of which in percentage terms, the greatest tax cuts are provided to low income earners.
- The printing and allied sectors are currently going through a difficult economic phase. This is confirmed by both official data released by the ABS as well as Printing Industries own economic research data derived from the Printing Industry Trends Report for the June 2006 quarter.
- A range of key economic indicators such as gross value added; sales and pre-tax profits; selling prices; capital expenditure; employment and employment intentions have been reported to have deteriorated in recent quarters.
- Based on this economic context and given the ongoing impact of the forces of globalisation, it becomes imperative that excessive wage increases are refrained from being granted.