



CCIQ SUBMISSION

▼ Annual Wage Review 2015-16 Fair Work Commission

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

30 March 2016

Overview

1. CCIQ is Queensland's peak industry organisation for small and medium businesses. We represent over 25,000 businesses on the local, state, and federal issues that matter to them.
2. Our guiding focus is to develop and advocate policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community.
3. CCIQ welcomes the opportunity to provide a submission to the Fair Work Commission (the Commission) as part of the Minimum Wage Panel's (the Panel) statutory responsibilities to conduct an Annual Wage Review (AWR) each financial year under Part 2-6 *Fair Work Act 2009 (Cth)* (FWA).
 - a. As part of these responsibilities, the Panel must review both modern award minimum wages, and the national minimum wage (NMW). The Panel is required to make a new NMW order and may also vary modern award wages as part of this process.
 - b. The Panel is not required to increase either the NMW or modern award wages as part of the AWR process; rather, it is required to ensure the NMW and modern award wages continue to provide a fair and relevant safety net.
4. CCIQ supports an increase to the NMW and modern award rates of not more than \$7.90 per week. This is consistent with the position being taken by other employer organisations, and represents a fair and sensible increase in light of the various considerations that the Panel must take account of in making a decision.

Recommendation: With respect broader economic conditions, such as low wages growth and high youth unemployment, CCIQ supports an increase to the NMW of not more than 1.2% or \$7.90 per week.

5. As Queensland's peak industry organisation for small and medium business, CCIQ is well placed to speak about how setting and increasing the NMW and modern award rates, impacts on those businesses in Queensland employing award reliant employees. Small and medium businesses are major employers in Queensland and Australia, and the factors that influence decisions about whether to retain existing employees and create additional employment opportunities should be carefully taken into account by the Panel.

6. To this end, CCIQ urges the Panel to consider the relatively soft economic conditions in Australia's economy when making deliberations with respect to the NMW or modern award minimum wages.
7. Australia's economy is continuing to undergo a major period of structural transition including steeply declining terms of trade, and the shift from construction to production phases in the mining sector.
8. The labour market has also seen a sharp rise in youth unemployment (particularly throughout parts of regional Queensland), shifts in employment demand, and low wages growth.
9. While wage restraint is facilitating some recovery in labour market conditions, the labour market is also showing some spare capacity, with certain sectors of the labour market experiencing weaker conditions. This reflects CCIQ's concern that minimum wage decisions disproportionality impact particular sectors of the economy more so than others.
10. These stark economic conditions, reflected in low wages and revenue growth, as well as decreased levels of business investment, highlights the employers' inability to sustain or absorb wage increases in the current climate.
11. It is with these factors in mind that CCIQ encourages the Panel to resist any significant increases in the NMW or modern award minimum wage, as an increase would negatively impact employment outcomes.
12. Nevertheless, if the Panel does decide to award an increase to the NMW and modern award wages, then it should be modest, in keeping with projected inflation, and take into account the over-compensation provided in past decisions. This will ensure that the increase is in line with the pay rises that individual employers could realistically offer employees were they individually charged with making the decision rather than it being mandated under a centralised wage-setting system. The Panel's decision has far-reaching impacts beyond those workers whose wages are dependent on the NMW or modern award, extending to non-award reliant workers and organisations and influencing enterprise bargaining outcomes.
13. This submission focusses on issues specifically relating to the Queensland economy, its industries, and businesses to provide the Panel with a clear view of how their businesses experience the minimum wage adjustment process, and what impact it has on their operations.

The national minimum wage review process

14. The minimum wage process impacts on the competitiveness of all businesses, but particularly those in award-reliant industries. A key consideration for the Panel with respect to the minimum wage in Australia is a system that allows businesses to remain competitive in the global marketplace. This does not involve a 'race to the bottom' – rather, CCIQ is calling for a sensible acknowledgement that the minimum wage setting process must be appropriately geared to ensure that wages are set at a level that is affordable, does not erode profitability, and should not impact on the long-term sustainability of businesses.
15. With respect to the competitiveness of minimum wages on a global scale, Australia currently has one of the most regulated and highest minimum wages (converted in the \$US) in the Organisation for Economic Cooperation and Development (OECD). The minimum wage in Australia is well above other OECD countries including Japan, the United Kingdom, the United States and New Zealand. CCIQ also urges the Panel to acknowledge that the minimum wage only represents the base wage cost of employees, with additional on-costs including penalty rates, allowances, loadings, workers' compensation premiums, payroll tax, and superannuation and associated administration costs.

Wage increases compared with other economic indicators

16. Further, minimum wages have been growing at a substantial pace in Australia. The NMW has progressively increased each year since 2009-10. In 2010-11, the NMW increased \$26 per week to \$569.90. In 2011-12 there was a 3.4% increase to \$589.30. In 2012-13, the NMW increased to \$606.40. In 2013-14, another 2.6% increase to \$622.20, and in 2014-15 the NMW increased by 3% to \$640.90 per week. This past financial year, CCIQ was pleased to see the Commission implement a modest increase of 2.5% or \$656.90 per week, heeding calls from employers to approach rises in the NMW with caution due to broader trends in the economy. In this light, CCIQ urges the Commission to continue on the path of modest adjustments to the NMW, with consideration for other economic indicators such as productivity growth as a guide.
17. It is also concerning that rising wages in Australia are outpacing inflation and productivity growth. There are concerns that wages are rising at a much faster pace than the price of goods and services, particularly in award reliant industries. Queensland employers are frustrated by the fact that the increasing costs of employment resulting from the national minimum wage adjustment process and annual modern award reviews are not being offset

by productivity gains. This has implications for the ongoing viability of businesses if these costs continue to increase with no associated offsets or trade-off benefits for the business. These increasing costs are pricing some businesses out of the market, either encouraging them to move part or all of their operations overseas, close their doors or decrease their number of employees.

18. Productivity at the firm level is directly affected by the annual minimum wage setting process. To be productive, businesses need a competitive wage structure that encourages a shift towards higher value products and services and provides incentives for workers to move to more productive arrangements. Yet, Australia's annual minimum wage setting process has resulted in increases to the minimum wage above the rate of productivity growth. This is despite an underlying downward trend in Australia's and Queensland's productivity performance over the past decade, which has been worse than most other developed economies.
19. Queensland small and medium businesses are very sensitive to the impacts of minimum wage changes given the high concentration of minimum wage and award-reliant jobs amongst these businesses, particularly in the hospitality and retail sectors.
20. CCIQ urges the Panel to view their predicted increase to the minimum wage through the prism of the abovementioned arguments.

Exemptions for disaster prone industry sectors

21. Importantly, CCIQ stresses the importance of the Panel taking into consideration the impacts of natural disasters when reviewing changes to the minimum wage. Most pertinent for Queensland business are the impacts of drought on farmers and businesses in the agricultural supply chain, which are far-reaching and are not simply restricted to the period in which the drought is officially declared.
22. Currently, Queensland is experiencing a significant drought event, with around 80 per cent of the state drought declared (the largest area ever recorded) as at 14 March 2016. Around half of Queensland's agricultural industry (21,590 businesses or 48.8 per cent) are located in what are drought declared areas. Key impacts of natural disasters such as drought include a significant reduction in or no capital expenditure, loss of skilled staff and loss of crops and livestock. As the agricultural industry is a key economic driver in many rural communities, the impact of drought on the industry has significant ripple effects that can result in higher unemployment rates, reduced rural populations, and reduced economic activity.

23. The impact in Queensland of the most recent drought is still being felt by agricultural producers and related businesses, particularly in South West Queensland. Additionally, as Queensland is a de-centralised and geographically expansive state, the cost of fuel in drought conditions is still impacting the vast majority of agri-business.
24. With these points in mind, CCIQ urges the Panel to consider circumstances where an increase in the minimum wage may be deferred for farmers and agri-business affected by the ongoing impacts of the drought for this year.
25. In addition, CCIQ encourages the Panel to make similar exemptions for regions in Queensland that are impacted by cyclones, which have devastating effects on regional businesses.
26. CCIQ strongly argues that extenuating circumstances such as ongoing drought and exposure to the destructive effects of cyclones warrant exemption from the minimum wage adjustment for a given period.

Recommendations: any increase in the minimum wage should reflect the key considerations of productivity, economic growth and business conditions, particularly in award reliant industries. This involves:

- The Annual Wage Review take into account employers' capacity to pay any proposed wage increase; the economic and business conditions within those industries in which the minimum wage has the greatest impact; and the flow-on impacts of the decision;
- Link minimum wage setting to productivity improvements; and
- Exempt industry sectors exposed to natural disasters from award review processes until such time as the effects of the disaster are declared to have ceased.

Conclusion

27. CCIQ considers that in light of this submission, there is a clear case for the Panel to make only a modest increase to the NMW and modern award wages. Accordingly, we submit that an increase of \$7.90 is an appropriate; all things considered, fair and affordable.
28. CCIQ also respectfully observes that the AWR process remains inappropriately geared to acknowledge the special needs of small and medium business, and the impacts of excessive AWR increases on their ongoing profitability and viability. The process must enable greater consideration of employer capacity to pay at the firm level.