6 May, 2022

Michael Wright
Acting National Secretary
Electrical Trades Union
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RE: Estimates of Compensation Effects Under Proposed Greenfields Enterprise Agreement Policy

Dear Mr. Wright;

A proposal has been advanced in the current federal election campaign for a new policy governing greenfields enterprise agreements for major new projects in Australia. Under this policy, major projects (with total investment value of $500 million or more) would be subject to a new regime in which a greenfields enterprise agreement could be effectively imposed by the Fair Work Commission, covering up to six years of project work, with annual wage increments set at least equal to the increases in the national minimum wage as determined each year by the Commission.[1]

Concerns with the operation of greenfields agreements, even under the existing legal regime, have been raised for several years, including:[2]

- The ability of employers (since amendments to the Fair Work Act in 2015) to stonewall genuine bargaining over the terms of an agreement, knowing it can proceed to the FWC to request registration of those terms even without agreement from covered unions;
- The potential application of greenfields provisions to a wide range of industries and businesses, not just time-limited construction or resource projects;
- Fixing agreements for many years at a time is clearly at odds with the traditional stated concern of business groups and government for 'greater flexibility' in labour markets, and

[1] The proposal is discussed in more detail in *Workplace Express*, 'Coalition moderates major project deals policy,' 19 April, 2022.

[2] For a more detailed critical review of greenfields policies, please see Alison Pennington, *On the Brink: The Erosion of Enterprise Agreement Coverage in Australia's Private Sector* (Canberra: Centre for Future Work), 2018, especially pp. 45-46; and Alison Pennington, *Collective Bargaining "Reform": What Does Business Want? And What Would Actually Fix the System?* (Canberra: Centre for Future Work), especially pp. 16-18.

takes away the capacity of workers and their representatives to renegotiate provisions in response to changing economic or operational considerations.

This proposal is clearly a step toward the more expansive approach to greenfields agreements that was advanced by the current government in its 2020 Omnibus IR bill (most of the provisions of which were subsequently withdrawn). That proposal would have allowed even longer 'project-life' agreements, which would eliminate the right of workers to collectively bargain for the entire productive length of major projects (again, across a wide set of industries, not just construction and resource projects). While the present proposal is not as far-reaching, it would nevertheless represent a significant expansion of the scope and length of greenfield agreements, and a corresponding restriction on the rights of workers to normal and regular collective bargaining. It has been welcomed by business groups, who nevertheless maintain their ultimate preference for even longer-lasting greenfields provisions,[3] and will likely continue to advocate for those more far-reaching changes.

This greenfields proposal has been advanced in the context of Australia's recent experience with unusually weak wage growth. Hence the implications of this new policy for wage determination are worthy of particular investigation. Since 2013, the traditional rate of growth in nominal wages (which averaged about 4% per year over the preceding two decades) was cut roughly in half, to about 2% per year. Over this period, average real wages hardly increased at all (causing a widening gap between real compensation and real labour productivity). And now, with the upsurge in inflation as the global economy reopens after the COVID-19 pandemic, nominal wages (still growing only slightly faster than 2%) are lagging far behind prices – and hence real wages for most Australian workers are falling quickly.

Much research has examined the marked and sustained deceleration of wages since 2013 – including its causes, consequences, and potential remedies.[4] Many analysts have noted the clear connection between weaker wage growth and the erosion of collective bargaining in Australia. Wage gains in enterprise agreements, especially when unions can leverage strong economic conditions into stronger wage growth, have played an important leading role in previous, more robust periods of wage growth in Australian economic history. But the rapid erosion of collective bargaining coverage since 2013 (just 11% of employees in private sector workplaces in Australia are now covered by a current enterprise agreement), and harsh restrictions on union activities (including industrial action) for those who remain covered, has reduced the capacity for collective bargaining to support stronger wages. This has been an important factor in the post-2013 slowdown in wage growth.

[3] See, for example, the views of business peak bodies surveyed by *Workplace Express*, 'Employers seek broader application of life-of-project deals', 22 October 2019.
[4] See in particular Andrew Stewart, Jim Stanford, and Tess Hardy, eds., *The Wages Crisis in Australia: What It Is and What to Do About It* (Adelaide: University of Adelaide Press, 2018).

In that context, I have considered the possible impact of long-term greenfields agreements, with wage gains tied to the national minimum wage, for wage payments in major projects. Those major projects represent circumstances in which superior wage provisions are both possible and economically justified. The productivity of work is strong (thanks to high capacity utilisation and technology investments); employers put a premium on stability (in order to meet construction and commissioning timelines); and the bargaining power of workers is consequently enhanced. Above-average wage gains in such projects can thus exert an important and positive influence on wage expectations in other sectors. The current proposal, by extending the life of greenfields and effectively capping their wage provisions,[5] would disable this potential positive influence on overall wage trends in Australia.

To estimate the dimensions of the resulting impact on realised wage growth, I have conducted a simulation exercise involving representative benchmarks for starting compensation and wage growth over a six-year greenfields period. The results of this simulation are summarised in the attached table. Simulations are conducted for three illustrative starting wage levels, covering a representative range of classifications:

- Average weekly wages paid in the broader construction sector as of end-2021 (as reported in the ABS *Average Weekly Earnings* database:[6] $1874 per week).
- Weekly wages for a mid-level (Grade 5) electrician on a major project ($2048 per week).[7]
- Weekly wages for a mid-level (C5) metal and engineering specialist working on a major project ($2469 per week).

Of course, specific wage trajectories (and implied losses in compensation resulting under the new policy) will vary for different positions.

The simulations also contemplate a range of potential wage growth benchmarks, against which we estimate the impact of the proposed new greenfields arrangement on wage trends. To proxy the likely path of minimum wage increases, we calculate the average annual growth in the national minimum wage adjustments determined by the Fair Work Commission over the past six years. From 1 July 2015 through 1 July 2021, the national minimum wage grew at an average annual rate of 2.74%.[8] The simulations assume that would be the average rate of increase over a future six-

[5] The proposal indicates that wage gains in long-term greenfield agreements must *at least* equal the annual growth in the national minimum wage. But accompanied by the provision that greenfield agreements can be registered by the FWC without agreement from unions (after six months of 'negotiation'), this floor will almost certainly come to serve as an effective ceiling: employers have no incentive to agree to wage increases higher than adjustments to the minimum wage, and that is what will likely prevail.

[6] See https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/latest-release, latest release for November 2021.

[7] This weekly wage and the weekly wage for the Metals & Engineering position below are as specified in the project enterprise agreement for the Queen's Wharf development in Brisbane.

[8] The effect of those increases was reduced partially in 2020 and 2021 by the FWC's decision to delay the implementation of minimum wage increases in certain sectors of the economy (including retail and hospitality) due to the impacts of the COVID-19 pandemic.

year period. Of course, there is no way of predicting those future increases, and hence our simulations must be interpreted as illustrative, not as a definitive prediction.[9]

The counter-factual to national minimum wage increases as the benchmark for wage gains in a long-term greenfield agreement would be some measure of a normal or freely-negotiated wage trajectory. In this regard, we consider several possibilities:

- **Lowe Benchmark (3.5%)**: The Governor of the Reserve Bank of Australia, Dr Philip Lowe, has indicated on several occasions[10] his belief that nominal wages should grow by at least 3.5% per year in order to be consistent with the Bank's target inflation rate (2.5%) along with ongoing growth in labour productivity (1% or more per year).
- **Average Construction Sector AAWI (3.85%):** From 2015 through 2021, negotiated wages specified in current enterprise agreements in the construction sector registered with the federal government increased at an annual average rate of 3.85%.
- **Kennedy Benchmark (4.00%):** The Secretary of the Treasury, Dr Stephen Kennedy, recently indicated[11] that wages could grow on a non-inflationary basis at 4% per year, following the same logic as Dr Lowe above but with the assumption of somewhat stronger trend productivity growth (1.5%).
- **Melbourne Metro (4.50%):** One example of a freely negotiated project agreement is the composite arrangement governing work on the Melbourne Metro Tunnel project, which provides for annual wage increments of 4.5% over the life of the construction.
- **Queen's Wharf (5.00%):** Another relevant example of the superior wage increases which can be freely negotiated in the context of major projects is the Queen's Wharf project in Brisbane, where an enterprise agreement covering numerous occupations and classifications provides for annual increases of 5% over the period of construction.

These five counter-factual benchmarks provide a useful range of potential experience, against which the impacts of the effective cap on wage increases in six-year greenfield agreements would be measured. While the wage terms of a freely negotiated future project agreement are unknowable and will reflect many circumstances (including the nature of the work, regional and national macroeconomic and labour market conditions, and other factors), the assumption that they would be somewhat superior to broader labour market trends is reasonable. In this context, our five representative benchmarks (assuming annual wage gains between 3.5% and 5% per year) provide a range of reasonable counter-factuals.

[9] What is crucial to the present analysis is the relative difference between those increases, and the other wage benchmarks described below. Factors which caused the rate of change in the national minimum wage to be faster or slower (such as changes in inflation, for example), would likely have similar impacts on the other benchmarks used in this simulation, and hence our findings on the *relative* impact of the new greenfields policy on compensation are not strongly affected.

[10] See, for example, Philip Lowe, Governor of the Reserve Bank of Australia, Evidence to House of Representatives Standing Committee on Economics, Parliament of Australia, Sydney, 16 February 2018.

[11] See Stephen Kennedy, Opening Statement to the Economics Legislation Committee, 16 February 2022, Treasury, Canberra, https://treasury.gov.au/speech/opening-statement-economics-legislation-committee-2.

By comparing those benchmarks of freely negotiated project agreement wages against an assumed cap (2.74% per year) based on the national minimum wage, we develop estimates of the resulting impact on compensation for workers on these projects arising from the new proposed greenfields policy. These estimates are detailed in the accompanying table. In even the first year of application, the restriction on wage growth resulting from the cap is significant:[12] reducing compensation for that year by between $740 and $2900, depending on the occupation and the counter-factual wage benchmark being considered.

However, the amount of foregone compensation under the cap grows over time, as subsequent wage restraint is applied against a wage base that is smaller than it would have been. By the sixth year of a greenfields agreement, annual wage payments are reduced by between $4187 (for an average construction worker, using the lower Lowe benchmark as the counter-factual) and almost $17,000 (for an engineering worker, using the higher Queen's Wharf agreement as the counter-factual).

Over the full six-year term of the capped wage arrangement, the cumulative loss in compensation is formidable. At a minimum, using the average construction wage and the lowest freely negotiated wage benchmark, a worker loses a cumulative total of over $12,000 in compensation as a result of suppressed wage gains. For higher-paid positions, and using more ambitious counter-factual benchmarks, the compensation losses are much larger. Compared to wage gains on par with the Queen's Wharf project agreement, a metal and engineering worker would lose a cumulative total of over $48,000 over the six years of the greenfields agreement.

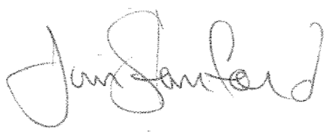
To these substantial sums should be added the superannuation contributions which these workers would also lose as a result of the suppression of their base wages. Those could add as much as $5000 to the cumulative total of foregone compensation – and would result in measurably lower pension incomes for them (and potentially higher costs to government for Age Pension benefits) after they retire.

In conclusion, it is clear that imposing long-term caps on the effective wage increases paid in major projects, as contemplated by the proposed new policy on greenfield agreements, would result in significant reductions in cumulative wage payments received by workers on those projects. Moreover, given that superior wage gains negotiated in such settings in the past have served as a positive influence on wage trends elsewhere in the economy, the suppression of wages in major projects – which have been a rare 'bright light' for wage growth over the past years of unprecedented wage stagnation in Australia – will have negative spillover effects on the broader wage trajectory, as well.

[12] The first year of wage restriction would normally be the second year of the greenfields agreement, since wage increases would generally be applied only at the end of the first year.

I hope this information is of use in your analysis of the potential implications of this proposal for your own members. Please be in touch if I can provide any additional information.

Yours sincerely,



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Impact of Greenfield Pay Caps on Cumulative Compensation

	Wage Benchmarks						Compensation Losses				
Year of Greenfield Deal	Average National Minimum Wage	Lowe Benchmark	Construc-tion AAWI	Kennedy Benchmark	Melbourne Metro Tunnel	Queen's Wharf	Lowe Benchmark	Construc-tion AAWI	Kennedy Benchmark	Melbourne Metro Tunnel	Queen's Wharf
	2.74%	3.50%	3.85%	4.00%	4.50%	5.00%					
	Position:	***Average Construction Sector***					***Starting Full-Time Compensation: $97,443***				
1	$97,443	$97,443	$97,443	$97,443	$97,443	$97,443					
2	$100,113	$100,853	$101,194	$101,341	$101,828	$102,315	$741	$1,082	$1,228	$1,715	$2,202
3	$102,856	$104,383	$105,090	$105,394	$106,410	$107,431	$1,527	$2,235	$2,538	$3,554	$4,575
4	$105,674	$108,037	$109,136	$109,610	$111,198	$112,802	$2,363	$3,462	$3,936	$5,524	$7,128
5	$108,570	$111,818	$113,338	$113,994	$116,202	$118,442	$3,248	$4,769	$5,425	$7,633	$9,873
6	$111,544	$115,731	$117,702	$118,554	$121,431	$124,364	$4,187	$6,157	$7,010	$9,887	$12,820
TOTAL	$528,757	$540,822	$546,461	$548,893	$557,070	$565,355	$12,066	$17,704	$20,136	$28,313	$36,598
	Position:	***Electrical Worker Grade 5***					***Starting Full-Time Compensation: $106,496***				
1	$106,496	$106,496	$106,496	$106,496	$106,496	$106,496					
2	$109,414	$110,223	$110,596	$110,756	$111,288	$111,821	$809	$1,182	$1,342	$1,874	$2,407
3	$112,412	$114,081	$114,854	$115,186	$116,296	$117,412	$1,669	$2,442	$2,774	$3,884	$5,000
4	$115,492	$118,074	$119,276	$119,794	$121,530	$123,282	$2,582	$3,784	$4,301	$6,038	$7,790
5	$118,657	$122,207	$123,868	$124,585	$126,998	$129,447	$3,550	$5,212	$5,929	$8,342	$10,790
6	$121,908	$126,484	$128,637	$129,569	$132,713	$135,919	$4,576	$6,729	$7,661	$10,806	$14,011
TOTAL	$577,882	$591,069	$597,231	$599,889	$608,826	$617,881	$13,187	$19,349	$22,007	$30,944	$39,998
	Position:	***Metal & Engineering C5***					***Starting Full-Time Compensation: $128,388***				
1	$128,388	$128,388	$128,388	$128,388	$128,388	$128,388					
2	$131,906	$132,882	$133,331	$133,524	$134,165	$134,807	$976	$1,425	$1,618	$2,260	$2,902
3	$135,520	$137,532	$138,464	$138,864	$140,203	$141,548	$2,012	$2,944	$3,344	$4,683	$6,028
4	$139,233	$142,346	$143,795	$144,419	$146,512	$148,625	$3,113	$4,562	$5,186	$7,279	$9,392
5	$143,048	$147,328	$149,331	$150,196	$153,105	$156,056	$4,280	$6,283	$7,148	$10,057	$13,008
6	$146,968	$152,485	$155,080	$156,204	$159,995	$163,859	$5,517	$8,113	$9,236	$13,027	$16,891
TOTAL	$696,675	$712,573	$720,002	$723,206	$733,980	$744,896	$15,898	$23,326	$26,531	$37,305	$48,221