CONTENTS

1997 Industry Commission Australian Coal Industry Inquiry

Submission By Callide Coalfields Pty Ltd

Introduction

This submission to the 1997 Industry Commission Australian Coal Industry Inquiry is made by Callide Coalfields Pty Ltd in accordance with the terms of reference contained in the Industry Commission Issues Paper titled “The Australian Black Coal Industry” and dated August 1997.

This submission focuses primarily on section 2.2.2 “Work Arrangements” of the Industry Commission document.

The approach of the submission is to look at employment arrangements in Australian Coal Mining in general and site specific. Consequently, the focus of the submission will alternate between observations on the mining industry in general, and the Callide Coalfields operation specifically.

Callide Coalfields Pty Ltd

Callide Coalfields is located in Central Queensland near the rural township of Biloela.

Callide Coalfields commenced operations in 1942, and includes the Callide and Boundary Hill open cut coal mines. Callide Coalfields produced over 6 million tonnes of coal for the domestic market in 1996 and employs 403 people. The major customers of Callide Coalfields are CS Energy, NRG and QAL.

Callide Coalfields Pty Ltd is a joint venture between Shell Coal Pty Ltd and the Australian Mutual Provident Society. Shell manages the operation on behalf of the joint venturers and acts as sales representatives for the joint venture through Shell’s subsidiary, Callide Coalfields Pty Ltd.

Issue 1. The Coal Bonus.

The coal bonus, or variations on it, is an industry-wide condition in Australian coal mining. The specific terms of the bonus, however, such as the amount and method of payment are determined at the enterprise level.

The requirement to pay a coal bonus is a major hindrance to achieving cost effectiveness in the coal industry.

For Callide Coalfields, the cost of paying the Coal bonus in the bonus year 1996 was $3.9 million, which is over 10% of the **total** labour costs of running the Callide mining operation. It should also be noted that the coal bonus is paid to employees whose award rates of pay are significantly higher than the average Australian worker.

The administration costs of collecting the data, calculating the bonus, monitoring the progress of bonus payments, recording and then distributing the bonus are also a significant overhead.

Over time, the coal bonus has metamorphasised into a guaranteed payment, and the degree of productivity incentive associated with its payment has decreased. This has further eroded the benefit of the bonus to Coal Mine operators.

Given the mounting pressure on resource streams in Australian coal mining, the continued payment of a bonus (particularly the high industry bonuses) directly threatens the long term viability of mining operations.

The issue of the coal bonus needs to be addressed from an industry-wide perspective, and either reduced markedly or removed. If the bonus is to remain, it must provide a more tangible benefit. One possible option would be to link the payment of a coal bonus to other KPI's, such as safety performance and costs.

Issue 2. Union Militancy.

The militancy of trade unions with constitutional coverage in the coal mining industry in Queensland is a major threat to the ongoing survival of the industry.

Data published by the Australian Bureau of Statistics for 1997 shows the level of total industrial disputation in Queensland to be 4% above the National Average. This poor performance has been primarily attributed to industrial action in the coal industry.

The cost to the industry of industrial action is enormous.

Firstly, a direct cost is borne by companies subjected to union industrial action through lost production and sales revenue, as well as the overhead costs associated with maintaining the operation of the mine.

Secondly, significant damage is done to the credibility of the industry as a reliable supplier of coal.

Thirdly, the indirect cost of the disincentive to management to exercise their prerogative to remove inefficient work practices has a debilitating effect on the progress of implementing necessary change in the industry.

Callide Coalfields has an excellent industrial record. The results achieved through the cooperative, enterprise-focused approach that characterises CCPL are excellent, and little or no time has been lost through industrial disputation in the last 5 years.

CCPL is, however, always under threat of being dragged into National or district stoppages which impact directly on our business but over which we have no control.

The threat of industry stoppages has been reduced through the terms of the Workplace Relations Act 1996, which ban Secondary Boycotts.

This area of legislative reform is long overdue and must be further strengthened. The threat of national industrial action must be removed from the coal industry, and an enterprise focus encouraged and enforced by the appropriate legislation and all decisions made in reference to it.

Issue 3. Housing

The provision of housing for employees working in mining is an industry-wide standard in Queensland, and is primarily related to working in isolated environments.

In the context of Callide Coalfields, however, isolation is not a particularly large or relevant problem. Also, the average salary at Callide Coalfields is $65000 excluding oncosts. Based on the 1995 census results published in 1997, only 6% of the Australian wages or PAYE population are in this category.

Given this, the requirement that assistance be provided for purchasing property in the local area is extremely difficult to justify. Despite this, many employees in the industry see subsidised accommodation as a “condition” associated with employment in the mining industry. This requires companies to offer it to potential employees to attract the appropriate standard of personnel, and constitutes a large added expense.

The total cost to Callide Coalfields of providing some form of housing subsidy or purchase assistance for **all** its employees is in the order of $1 million per year. This figure excludes the cost of capital employed in owning houses and/or land, which is approximately $3 million, and the costs associated with administering the scheme.

Housing schemes across the mining industry in Queensland need to be reviewed, and their applicability determined on a case-by-case basis as opposed to the current blanket entitlement in the industry.

Issue 4. Labour Demarcations.

The Australian coal industry is increasingly subject to the rigors of unrestrained global competition. This has put downward pressure on prices, and, due to the high cost of operating coal mines in Australia, has decreased the profit margin for investors to a level that seriously undermines the industry's status as a worthwhile investment option.

The high cost of production per tonne of coal produced is directly due to inherent high labour costs and low rates of labour utilisation (productive time). This poor labour performance can be partly attributed to the artificial demarcations that have been erected between tasks on mine sites.

Demarcation is manifest primarily through the division of tasks into streams, which are directly related to the areas of coverage of unions operating in the industry.

Restrictions are placed by the industry unions on workers performing tasks not directly related to the stream in which they are employed. These restrictions have nothing to do with worker skill or ability. Rather, they are directly tied to maintaining the jobs and established conditions of current employees within the domain of the particular union.

The practical results of this include:

- expensive machinery remaining idle until an employee from the appropriate stream is available to operate it;
- employees not performing tasks because it "is not their work" (i.e. it is the domain of another union). The refusal to perform the work is irrespective of the skill or ability of the employee to be taught or to perform the task.
- restrictions placed on the use of contract labour, with unions opposing their employment for tasks that are "owned" by the mining unions and subject to mining industry pay and conditions.

The cost to mining companies in time taken to negotiate outcomes to disputes that arise over demarcation must also be recognised as a significant cost to these organisations.

Work arrangements based on demarcation are not sustainable given the pressures on the Australian coal industry. The structural inefficiencies associated with this artificial demarcation of tasks must be removed if the Australian coal industry is to survive in the global marketplace.

Issue 5. Work practices.

A number of inefficient work practices and employment conditions exist at Callide Coalfields. They include:

a) Overtime restrictions

Restrictions are placed by unions on the amount of overtime that employees can work. If employees are required to work overtime in excess of that amount, it must be done by agreement with the union. The restrictions are also “flowed on” to contract labour.

This has severe financial implications for Callide Coalfields, particularly when contractors are engaged to perform work and the job runs over time. The contractors must be paid until they can complete the work, and as the restriction on their activity is due to conditions for which they were not responsible, Callide Coalfields must bear the cost. This can and does add significantly to the cost of major equipment overhauls which happen regularly with large mining equipment.

Overtime for all employees must be able to be worked according to the needs of the business, and management must have the ability to allocate overtime as and when it is required.

b) The 35 hour week.

The short duration of the working week coupled with the pressures placed on mining organisations to meet increasingly robust production targets, guarantees that overtime will be worked.

At Callide Coalfields, overtime runs at around 20% for both the production and engineering streams, and adds significantly to the overall labour costs of running the Callide operation.

To overcome these problems, the duration of the ordinary hours working week needs to be extended to 40 hours.

c) Resistance to change.

Perhaps the most frustrating aspect of the work arrangements in the mining industry is the reluctance of industry unions to accept the need for widespread change in the way they work.

Industry unions in coal mining only change when it is forced upon them, and only to “keep up” with present standards. Industry unions refuse to be pro-active and forward thinking about changing work practices in Australian coal mining, and the level of change they advocate and accept is simply not sufficient to secure the future of the industry and the employees who work in it.

Many of the employees and their elected representatives do not believe the information with which they are constantly presented about the state of the industry. They do not perceive the magnitude of the threat they are facing, and view it only as a management strategy to attack the terms and conditions of their employment.

d) Seniority

The issue of seniority, embodied in the “Last On, First Off” principle, is a major problem in the Australian coal mining industry

Clearly this is inefficient, and all mining companies must retain the right to engage, dismiss and/or promote employees based on merit and the needs of the business.

e) Occupational Health and Safety

The perception remains that coal mining is an inherently dangerous occupation, with the number of safety incidents recorded in mining high in comparison to other industries.

To a degree this is due to the culture of the industry, with some employees and managers contending that accidents are a by-product of the type of work that mining requires.

This perception must not be allowed to continue. The need for mine operators to commit to maintaining high safety standards in mines they control, and to take positive practical steps to reinforce this commitment, cannot be overstated.

Callide Coalfields has worked hard on the issue of Occupational Health and Safety, and has achieved some very positive outcomes.

The gains made by CCPL in the area of Occupational Health and Safety have been recognised at the national mining industry level, most recently through a Highly Commended rating in the 1997 MINEX awards.

Issue 6. Management Competency

If the changes alluded to in this document are realised, coal industry management must act to ensure that maximum return is gained through their implementation.

It must be stated that all those working in the coal industry in Australia bear a degree of responsibility in boosting the performance and competitiveness of the industry. Just as we expect flexibility, fair effort, competency and reasonableness from our workforce, so to must these criteria be a requirement of management.

Management structures must add value to the business, and those in the structure must be held accountable for performance.

Management cannot tolerate or condone inefficiency in management while requiring efficiency from the workforce. Management must lead by example and not demonstrate double standards.

Management must be prepared to take the hard decisions when necessary to ensure that today’s expediency does not result in tomorrow’s inefficiency.

Management must identify, recognise and train competent people to take the industry successfully into the future. This requires making a substantial investment in today for the future.