

BCA

Business Council of Australia

Senate Select Committee on Cost of Living

BCA supplementary submission

August 2024

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1. Overview

The Business Council of Australia (BCA) welcomes the opportunity to provide a supplementary submission to the Senate Select Committee on the Cost of Living. Inflation has passed its peak since the BCA's initial submission to the inquiry, but Australian households and businesses continue to face persistent cost-of-living pressures, with inflation up 3.8 per cent over the past year. Higher costs for business are contributing to inflation pressures, with producer prices accelerating 4.8 per cent over the past year. Wage gains not linked to productivity are also contributing to inflation pressures. This may be exacerbated as changes to Australia's industrial relations system continue to be implemented, such as regulated labour hire arrangement orders ('same job, same pay' orders) and multi-employer bargaining.

An efficient and well-run construction industry is vital for the Australian economy. Construction represents the fifth largest industry in the economy and the second largest industry by employment. Almost 1 in 10 workers are employed by the industry and the industry labour market remains tight. Construction industry job vacancies are up around 50 per cent relative to pre-COVID, in part reflecting the impact of public infrastructure projects. Recent revelations regarding the alleged criminal and other unlawful behaviour by the Construction, Forestry and Maritime Employees Union (CFMEU) have highlighted issues that may have impacted costs, competition and productivity in the construction industry.

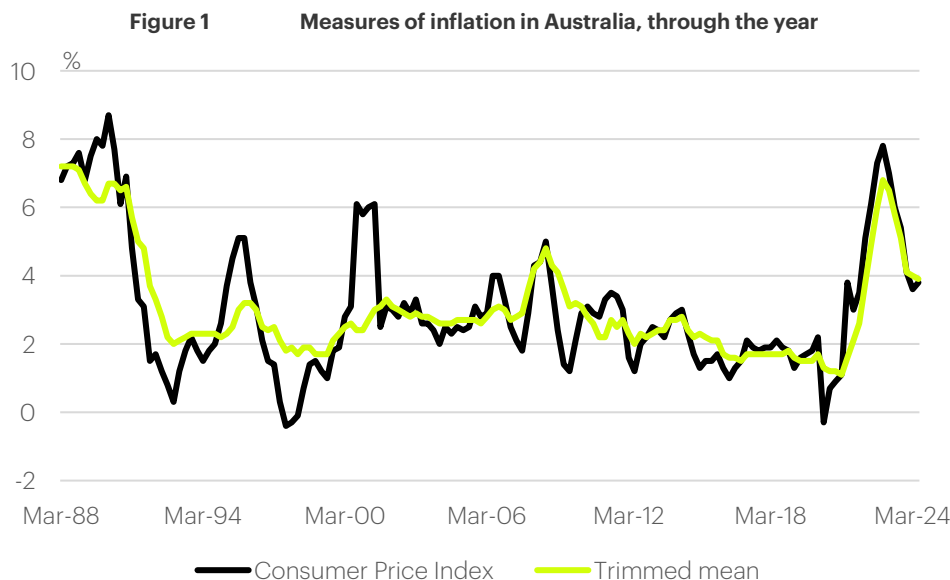
The BCA's original submission to this inquiry highlighted the importance of business investment and faster productivity growth for delivering sustained real wages growth and helping households manage cost-of-living pressures. This supplementary submission reiterates the recommendations in the original submission, while also making recommendations to address the potential cost, competition and productivity impacts of recent revelations as they relate to the CFMEU and the construction industry.

2. Key recommendations

- **Recommendation 1:** Commence a public, transparent and independent Commonwealth judicial inquiry into allegations of systemic corruption, criminal conduct and unethical behaviour involving the CFMEU.
- **Recommendation 2:** Review government-based procurement practices and codes for infrastructure projects across all states and territories, to determine whether these practices play a role in enabling systemic corruption and criminal conduct, or reducing competitive tension in procurement processes, which result in the taxpayer paying more than is necessary.
- **Recommendation 3:** Reinstate the Australian Building and Construction Commission, or equivalent body, to ensure proper ongoing scrutiny of the construction industry.
- **Recommendation 4:** The Commonwealth Government's Competition Review should extend its focus on labour markets to the dynamics, interactions and any potential gaps between competition and labour laws, and the impact on consumer prices.

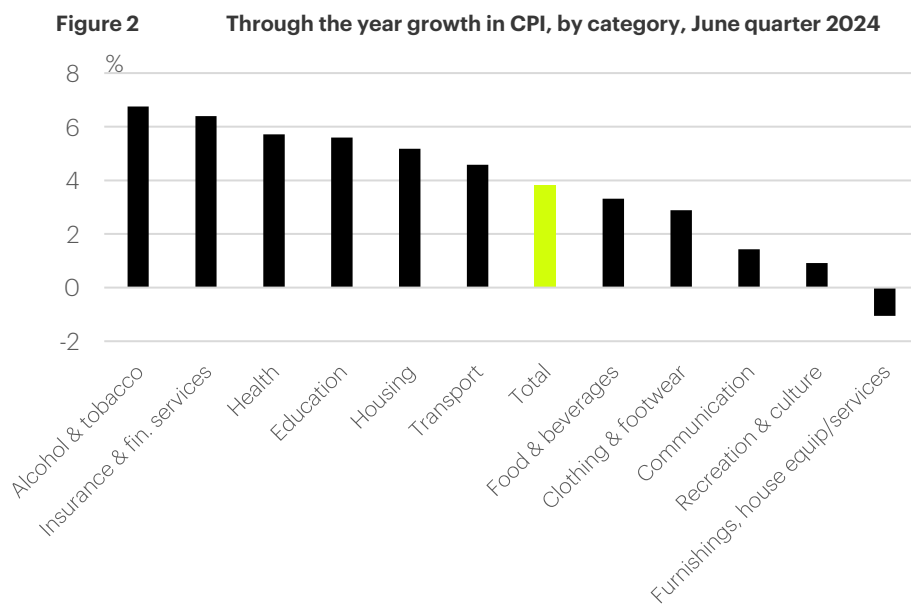
3. Update on cost-of-living pressures

Consumer Price Index (CPI) inflation peaked at 7.8 per cent over the year to the December quarter 2022. It has moderated since the peak to be up 3.8 per cent over the year to the June quarter 2024. However, this is an increase on the 3.6 per cent through the year growth of the previous quarter. Trimmed mean inflation has also moderated to be up 3.9 per cent over the year to the June quarter 2024. Both key measures of inflation remain above the RBA's inflation target. The persistence of Australia's inflation pressures remains a key challenge for policymakers.



Source: ABS

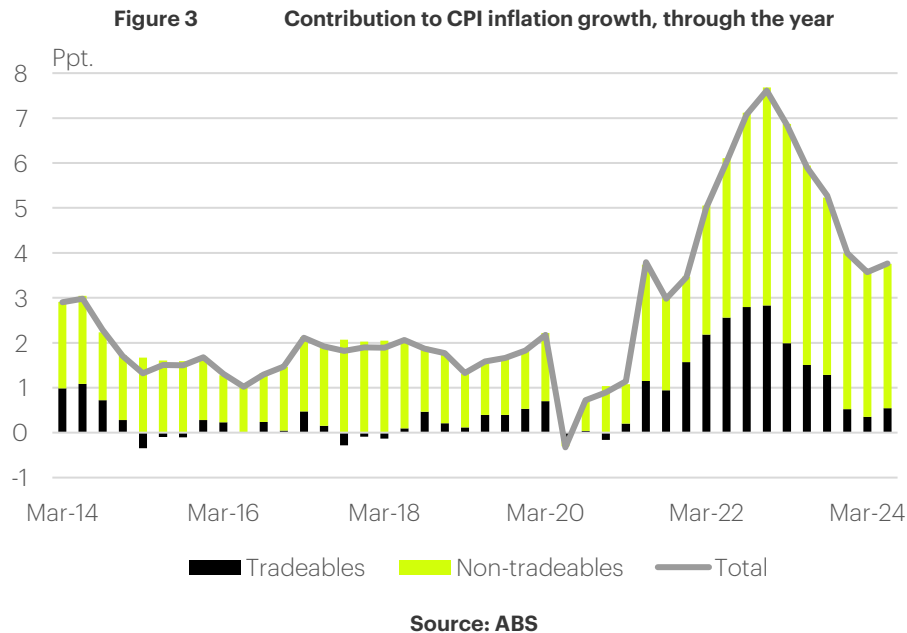
The fastest growing price category over the last year was alcohol and tobacco, driven, inter alia, by excise indexation arrangements. Housing was the fifth fastest increasing category, up 5.2 per cent over the year but the largest contributor to headline inflation growth. It accounted for 1.1 percentage points, or around 30 per cent, of the 3.8 per cent headline CPI inflation growth over the past year. Within the housing category, the cost of new housing and rents each contributed 0.4 of a percentage point.



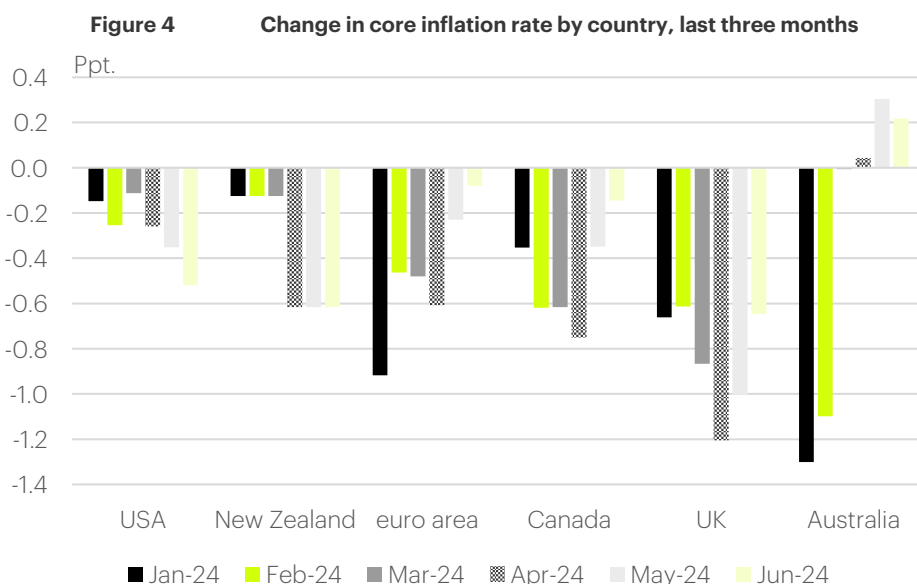
Source: ABS

Domestic ‘homegrown’ inflation represents around two-thirds of the CPI basket and remains a key contributor to inflation growth. This growth reflects a mix of ongoing demand pressures as well as supply factors, such as high labour costs alongside weak productivity growth, continuing labour shortages, and continued growth in input costs, with the Producer Price Index accelerating to 4.8 per cent over the year to the June quarter 2024.

The combined effect of several tranches of industrial relations amendments since 2022 mean less flexibility for firms in choosing the best-fit modes of engagement for their labour needs. Casual employment, on-hired engagement and independent contracting have all become more restrictive and attended by legal risk because of recent amendments to the *Fair Work Act 2009*. This, combined with amendments that result in higher wages unrelated to productivity improvements, such as the ‘same job, same pay’ framework, may place further pressure on inflation at the margin.



Inflation peaked later in Australia relative to other countries, which also means the disinflation process may lag that of other countries. However, the recent uptick in inflation means Australia is one of the few major advanced economies around the world where inflation is accelerating.



4. Construction industry

An efficient and well-run construction industry is vital for the Australian economy. The \$170 billion construction industry is the fifth largest industry in the economy and accounts for around 7 per cent of Gross Domestic Product. Almost 1 in 10 workers are employed by the construction industry. With over 1.3 million employees, it is the second largest industry by employment. As such, inefficiencies and additional costs in this sector will flow through the economy, impacting businesses and consumers.

Recent revelations regarding the alleged criminal and other unlawful behaviour by the CFMEU have highlighted issues that may have impacted costs, competition and productivity in the construction industry. These revelations take on an even more substantial meaning given the importance of the construction industry to the Australian economy.

There are numerous examples showing the impact of wages and conditions in CFMEU enterprise agreements on productivity and costs in the construction industry, and by extension the cost of infrastructure and housing. The impact is realised for the projects to which they apply (including as requirements for subcontractors), as well as indirectly as businesses compete for labour, particularly in a tight labour market where job vacancies in the construction sector are up around 50 per cent relative to pre-COVID. Examples of the impact of these agreements include the risk of increasing the cost of building apartments in Queensland up to 33 per cent, and 10 per cent in New South Wales.¹

Labour productivity is also a key challenge for the construction industry, having effectively flatlined over the past 25 years. By contrast, it has increased almost 30 per cent across the market sector

Any restrictions on the ability of firms to tender for projects, for example subject to the support of the CFMEU or CFMEU enterprise agreements, would have the effect of restricting competition and increasing costs. The Commonwealth Government's Competition Review has identified competition in labour markets as an issue for further consideration in the context of non-compete clauses. In this context, and considering recent events, the dynamics, interactions and any potential gaps between competition and labour laws warrants further consideration. For example, the 2015 *Competition Policy Review* considered interactions between the *Competition and Consumer Act 2010* and the *Fair Work Act 2009*.²

The BCA has called for the Commonwealth Government to launch a public and transparent judicial investigation into the allegations of systemic corruption and criminal conduct. This reflects the serious nature of the allegations raised and the potential impact across major taxpayer funded infrastructure and building projects across multiple states. The decision to appoint an external administrator to deal with the CFMEU does not provide the transparency and public accountability required to properly stamp out the allegations of systemic corruption, criminal conduct and unlawful industrial behaviour.

An administrator may deal with some of the issues raised but it will not facilitate the appropriate level of scrutiny by making public findings and recommendations, which would help ensure the culture that allegedly allowed criminal and corrupt conduct to flourish to be stamped out. It is confined to its purpose of actions taken to ensure the relevant branches of the union under administration can function effectively, with its powers limited to those contained in the scheme of administration approved by the Court.

At the same time, the Fair Work Commission investigation into the allegations has highlighted the limits to its powers around examining all relevant information and protecting whistleblowers. Administration alone will not be sufficient to get to the bottom of identified productivity issues in the construction industry, to ensure the industry is productive, competitive and not unnecessarily adding to cost-of-living pressures for consumers.

Recommendation 1

Commence a public, transparent and independent Commonwealth judicial inquiry into allegations of systemic corruption, criminal conduct and unethical behaviour involving the CFMEU.

Recommendation 2

Review government-based procurement practices and codes for infrastructure projects across all states and territories, to determine whether these practices play a role in enabling systemic corruption and criminal conduct, or reducing competitive tension in procurement processes, which result in the taxpayer paying more than is necessary.

Recommendation 3

Reinstate the Australian Building and Construction Commission, or equivalent body, to ensure proper ongoing scrutiny of the construction industry.

¹ <https://www.afr.com/work-and-careers/workplace/cfmeu-conditions-risk-pushing-up-queensland-build-costs-by-a-third-20240710-p5jsfn>;
<https://www.afr.com/work-and-careers/workplace/cfmeu-deal-helps-add-10pc-to-apartment-costs-20240709-p5js61>

² The Australian Government, 2015, *Competition Policy Review*, March.

Recommendation 4

The Commonwealth Government's Competition Review should extend its focus on labour markets to the dynamics, interactions and any potential gaps between competition and labour laws, and the impact on consumer prices.

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