



Joint Submission by the ASU & FSU
to the
Senate Standing Committees on Economics
Inquiry into Australia's Innovation System

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Date: 31 July 2014

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Introduction

Australian Services Union

The Australian Services Union [ASU] is one of Australia's largest Unions, representing approximately 120,000 employees.

The ASU was created in 1993. It brought together three large unions – the Federated Clerks Union, the Municipal Officers Association and the Municipal Employees Union, as well as a number of smaller organisations representing social welfare workers, information technology workers and transport employees.

Today, the ASU's members work in a wide variety of industries and occupations and especially in the following industries and occupations:

- Local government (both blue and white collar employment)
- Social and community services
- Transport, including passenger air and rail transport, road, rail and air freight transport
- Clerical and administrative employees in commerce and industry generally
- Call centres
- Electricity generation, transmission and distribution
- Water industry
- Higher education (Queensland and SA)

The ASU has members in every State and Territory of Australia, as well as in most regional centres.

Finance Sector Union

The Finance Sector Union represents workers in finance, services to finance, insurance and superannuation.

The FSU was founded in July 1991 when the two main players in the banking and insurance industries - the Australian Bank Employees' Union (ABEU) and the Australian Insurance Employee's Union (AIEU) voted to amalgamate and create the FSU.

The Finance Sector Union exists to promote, improve and protect the working conditions and entitlements of its members. Offshoring continues to play a major role in the lives of many of our members and the FSU is increasingly concerned with the impacts of massive services sector job losses on Australian workers and their communities.

The ASU & FSU welcome the opportunity to participate in the Inquiry into Australia's Innovation System.

Together the ASU and FSU have created the joint campaign "Secure Jobs Secure Data" which focusses on the crisis facing professional services workers whose jobs are being offshored at an alarming rate. The campaign is also concerned about the offshoring of Australian's sensitive personal data which follows the jobs going offshore, and how this affects our privacy and security.

Australia's Innovation System

Innovation has long been recognised as a key driver of economic growth. In a broad sense, innovation may be new products, new processes, or new organisational methods that are novel and add value to economic activity¹. However, innovation is much more than the introduction of new processes, techniques, products and services. "It has been widely acknowledged that innovation is about creative, skilled and motivated people. A highly skilled, creative and motivated workforce will drive up participation rates, address skill shortages and boost productivity"².

The services sector plays a significant role in modern economies. Services are incorporated into the core of all economic processes with our Australian society being a services-oriented society or a knowledge-based society.

A well performing services sector is seen as a key dimension of an effective innovation system. In Australia innovation policies and strategies relating to the services sector are less developed when compared to policy in manufacturing innovation. Policymakers often measure the services sector by competitiveness, growth and jobs or in its potential to better address societal change rather than measuring and promoting services innovation.

The services sector has historically been viewed as having little or no productivity growth and being devoid of an ability to innovate³. This is unfortunate given the services sector accounts for about three-quarters of Australia's GDP and an even larger share of employment⁴.

One misconception concerning the growth of the services sector is that it is creating predominantly low-skill, low-value jobs as opposed to high-skill, high-value jobs. While the services sector includes some low-skill jobs, many other service jobs require high levels of skills or advanced education to perform complex tasks in the information economy.

In its *Servicing the future* report the Australian government noted "that the factors which drive innovation and the manner in which innovation takes place are very different in the services sector compared with the goods sectors, suggesting that quite difference policy instruments also might be required to promote it"⁵.

The report also acknowledged the shortage of skills and labour in the services sector. Learning new skills is often a lengthy process. This is why it is so important that the skills acquired are relevant to the skills needed in the services sector workforce. It is also important that these vital skills and the accompanying knowledge that is attained on the job are not lost when a worker is displaced and their job offshored.

¹ United Nations Economic Commission for Europe, *Promoting innovation in the services sector (2011)*, <http://www.unecce.org/fileadmin/DAM/ceci/publications/icp3.pdf>, accessed 17/07/2014

² Australian Government Department of Industry, *Australian Innovation System Report (2013)*, <http://www.industry.gov.au/science/policy/AustralianInnovationSystemReport/AISR2013/wp-content/uploads/2013/11/AIS-Innovation-Systems-Report-2013-v3.pdf>, accessed 10/07/2014

³ United Nations Economic Commission for Europe, *Promoting innovation in the services sector (2011)*, p.66, <http://www.unecce.org/fileadmin/DAM/ceci/publications/icp3.pdf>, accessed 17/07/2014

⁴ Australian Government Overview of Australia's services sector http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=efpa/services/report.htm

⁵ Ibid

Innovation offshoring

In recent years, offshoring has widened its scope and now also includes knowledge based services. Despite its growing importance, research into offshoring remains extremely limited with scholarly contributions focusing on the motives for research and development (R&D) offshoring or the choice of location with research on the consequences of offshoring remaining scarce.

Currently, business process offshoring (BPO) extends across services sector industries inclusive of technology, business, communications and financial services, and more recently, advertising, public relations, health services, legal services, research and development⁶.

Innovation offshoring has created a competitive challenge with growing concerns that innovation offshoring may extend the “hollowing-out” of the economy. Some fear that a loss of knowledge worker jobs to Asia may erode Australia’s innovative capabilities.

When a services sector job is offshored, the value of an Australian worker’s industry specific and firm specific knowledge is destroyed. For example, a highly paid IT consultant will typically know much more than just their IT role. In order to understand innovation we need to appreciate human and intellectual capital as core resources within a knowledge-based society.

Innovation is therefore based largely on tacit knowledge which is stored in the head of the employees, in business and management routines and which is transmitted informally in face-to-face contacts. The knowledge of the staff is the most important prerequisite for innovations in the services sector and also indispensable for the use of external sources of information which are required for developing innovations⁷.

As acknowledged in the *Servicing the future* report Australia is experiencing a shortage of skills and labour in the services sector. This in turn means jobs are being added offshore because the supply of higher-skilled workers has not kept pace with demand onshore. In the long term, businesses and governments in Australia need to address this critical skills gap if they wish to retain their technological and scientific competitive advantage⁸.

The National Institute of Economic and Industry Research (NIEIR) 2008 and 2012 reports

In 2008, the National Institute of Economic and Industry Research (NIEIR) was commissioned by the ASU, FSU and other concerned unions to produce their first report into offshoring. We raise this report here as it shows the future for services sector jobs if policy intervention to stop offshoring is not adopted as part of the innovation system inquiry.

⁶ Alison R. Owens (2014) Exploring the benefits of contact centre offshoring: a study of trends and practices for the Australian business sector, *The International Journal of Human Resource Management*, 25:4, 571-587, DOI: 10.1080/09585192.2013.807861

⁷ Licht, Ebling, Janz & Niggemann (1999) Innovation in the Service Sector – selected facts and some policy conclusions, ftp://ftp.cordis.europa.eu/pub/innovation-policy/studies/studies_knowledge_based_economy_wp6.pdf, accessed 17/07/14

⁸ Couto, Mani, Lewin, Peeters (2006), The globalization of white collar work: facts and fallout of next generation offshoring, https://offshoring.fuqua.duke.edu/pdfs/gowc_v4.pdf, accessed 10/07/14

The NIEIR 2008 report⁹ found that (for the base case) 850,000 Australian jobs are at risk of being lost offshore over the next two decades. This represented just under 10 per cent of total services sector employment and 8.2 per cent of total employment. The study also found that the majority of employment losses would be concentrated in the professional and managerial skill occupations.

Short-term strategies were proposed and included:

1. review of the tax system to remove any incentives or other benefits to off-shore and create an incentive for companies to develop target competencies in Australia;
2. review Free Trade Agreements to ensure Australian business operates on a level playing field; and
3. introduction of 'Right to Know' legislation (similar to 'Country of Origin') so domestic customers wanting to support businesses that source services locally will have the ability to do so.

In 2012 the ASU and FSU commissioned NIEIR to update their original report into offshoring that was released in 2008. The new report¹⁰ confirmed business offshoring practices are costing Australia 20-25,000 administrative and financial services jobs every year. It also estimates that an expected 700,000 to 1 million jobs will be moved offshore in the next three decades.

Occupations experiencing high rates of off-shoring are in ICT, financial services and administrative occupations.

The NIEIR report advised that the following classifications are at greatest risk:

1. **General Clerks**
2. **Specialist Clerks**
3. **Accountants**
4. **Bank Workers & Credit and Loans Officers**
5. **Software and Applications Programmers**
6. **Call Centre and Telemarketers**
7. **Contract, Program and Project Administrators**
8. **ICT Support Technicians**
9. **Keyboard Operators**

The offshoring of these jobs is a short sighted strategy on the part of Australian businesses. Australian workers cannot compete on wages with their Asian counterparts, nor should we try to.

To secure the services sector jobs of the future Australia must compete on service delivery, technology and innovation in order to have the edge in a global jobs market. If we are to be a nation that invests in jobs that will place Australia at the forefront of service delivery in the Asian region we cannot afford to allow white collar jobs in finance,

⁹ National Institute of Economic and Industry Research 2008 report

¹⁰ National Institute of Economic and Industry Research 2012 report

telecommunications, information technology, aviation and travel, legal services and data storage to be offshored.

The report found there is evidence that failure to deal with competitiveness of Australia's services industries is impacting the government's ambition to move toward being a knowledge-based economy and undermining the significant investment being made in education and training services.

Public opinion

Industry and independent surveys have regularly demonstrated that elements of the community most at risk of offshoring, and indeed the community at large, strongly believe the Government should do more to protect local Australian jobs.

In a 2013 Essential Media poll 74% of Liberal/Nationals, 76% of ALP voters and 75% of Green voters indicated that they believed the government should do more to protect services jobs from offshoring¹¹. Further to this poll, Bankmecu undertook an online survey of customers in which 45% said they would stop doing business with a company if it offshored Australian jobs and 41% said they might¹².

An unpublished poll by the Australian Council of Trade Unions in March 2013 revealed out of the 8 issues of concern in Australia, the increasing % of jobs being "offshored" was the number one concern of respondents, with over 65% being extremely concerned or very concerned and over 20% moderately concerned.

Australian communities are increasingly exposed to the experience of offshoring. As a direct result individuals are increasingly hostile to the practice of outsourcing local employment. As the rate of offshoring increases it can be expected that community hostility will grow and opinion polls will demonstrate a preference for Australian employment.

Overseas experience on offshoring - United States Call Center Worker and Consumer Protection Bills

Other legislators have attempted to address the issue of offshoring services sector jobs. Two recent examples in the United States provide interesting examples of what one of the world's largest economies is doing to keep jobs onshore by leveraging the power of government.

2011 Bill

This was the first of two Bills introduced by Congressman Tim Bishop (D-NY) which sought to end support from the United States Government for companies who offshore services jobs. It was also designed to empower consumers in the United States to exercise real choice about whether they would support call centres being offshored.

¹¹ Essential Research, *Essential Report: Offshoring questions*, (January 2013)

¹² Bankmecu, *If an Australian company offshored jobs, would you stop doing business with them?* Web poll, (July 2013)

By introducing this Bill, Congressman Bishop sought to disincentivise offshoring by mandating transparency on the register and at point of contact with customers. It also sought to remove eligibility for grants and guaranteed loans and make it harder for firms who offshore call centre jobs to win government contracts.

Unfortunately, the Republican House Majority leadership did not support the Bill, despite several Republican members of the House sponsoring it. According to Congressman Bishop, the Bill “was denied a floor vote by GOP Leadership in the House of Representatives despite attracting 135 bipartisan cosponsors”¹³.

2013 Bill

The second bill introduced by Congressman Tim Bishop (D-NY) regarding offshoring of workers was introduced to the House of Representatives on 1 August 2013.

The Bill is similar to the 2011 Bill introduced by Congressman Bishop, but has one small difference:

Section 3(a) subparagraph (2)(C) provides that “*The Secretary may remove an employer from the list required by subparagraph (A) if the Secretary determines that the employer has relocated a call center from a location outside of the United States to a location in the United States*”¹⁴.

The Bill is currently in the committee stage.

The Bills introduced to the United States Congress were premised on the idea that the federal government of the US should stop supporting companies financially who offshored.

This appeared to be both symbolic, in the sense that those supporting the Bills wanted the Government to ‘name and shame’ those who offshored by creating a register, as well as economic. A freeze in government support for those who offshore could assist in making offshoring less attractive financially because the incentives provided by jurisdictions seeking to attract offshoring companies could be outweighed, or at least partly negated. This diminishing direct financial margin, combined with the potential reputational damage and other risks associated with offshoring, could encourage some businesses to return to domestic labour.

These examples from the United States show the significant intervention that is being proposed by the US Congress to ensure government contracts create jobs in the United States. It will be open to current Australian government to also consider such options. We do not believe that there are any barriers preventing such measures as the following analysis of the Australia-United States Free Trade Agreement indicates.

¹³ Tim Bishop, *Bishop, LI Communications Workers Call for Vote on Anti-Outsourcing Legislation*, <http://timbishop.house.gov/latest-news/bishop-li-communications-workers-call-for-vote-on-antioutsourcing-legislation/>, accessed 23/8/2013

¹⁴ *United States Call Center and Worker Protection Act of 2013* (H.R. 2909), <http://thomas.loc.gov/cgi-bin/bdquery/z?d113:s.01565>; s 3(a)(2)(C), accessed 28/7/2014

The Australia-United States Free Trade Agreement

Australia has certain obligations in regards to Government procurement under the Australia-United States Free Trade Agreement (AUSFTA). These obligations are discussed in detail below.

It is unlikely that legislation similar to Congressman Bishop's offshoring Bills would have any impact on Australia's obligations under the AUSFTA.

The first relevant obligation is in Article 15.2 of the AUSFTA:

2. A procuring entity of a Party may not:

*(a) treat a locally established supplier less favourably than other locally established suppliers on the basis of degree of **foreign affiliation or ownership**; nor*

(b) discriminate against a locally established supplier on the basis that the goods or services offered by that supplier for a particular procurement are goods or services of the other Party. (emphasis added)¹⁵

It appears that discrimination or preferential treatment being given to domestic suppliers based on level of outsourcing does not fall under this prohibition. The words 'foreign affiliation or ownership' appear concerned with the ownership and structure of the company, whether by or involving foreign companies or governments. This provision does not appear to be concerned with discrimination based on the location of employees of a wholly Australian-owned company offshore, which would appear to be an operational decision not going to the ownership or affiliation of a company.

The other requirements in Chapter 15 regarding tenders are couched in broad terms, such as Article 15.9. The relevant provision is as follows:

Awarding of Contracts

5. A procuring entity may not consider a tender for award unless, at the time of opening, the tender conforms to the essential requirements of all notices issued during the course of a covered procurement or tender documentation.

*6. **Unless a procuring entity determines that it is not in the public interest to award a contract, it shall award a contract to the supplier that the entity has determined satisfies the conditions for participation and is fully capable of undertaking the contract and whose tender is determined to be the lowest price, the best value, or the most advantageous, in accordance with the essential requirements and evaluation criteria specified in the notices and tender documentation.***

7. A procuring entity may not cancel a covered procurement, nor terminate or modify awarded contracts so as to circumvent the requirements of this Chapter. (emphasis added)¹⁶

¹⁵ Australia-United States Free Trade Agreement, Department of Foreign Affairs and Trade, http://www.dfat.gov.au/fta/ausfta/final-text/chapter_15.html, accessed 16/8/2013

¹⁶ Australia-United States Free Trade Agreement, Department of Foreign Affairs and Trade, http://www.dfat.gov.au/fta/ausfta/final-text/chapter_15.html, accessed 16/8/2013

Clause 15.9.6 appears to allow significant scope for policy considerations to be incorporated into tendering processes, so long as they are not fundamentally discriminatory on the sole basis of foreign ownership or affiliation (per Article 15.2). It is likely that a preference being given to companies not on a register of offshoring companies would not breach the provisions of Chapter 15 of the AUSFTA.

Keep Australian Services Sector jobs onshore

The ASU and FSU acknowledge the importance of an effective innovation policy but maintain keeping Australian services sector jobs onshore is vital to Australia's ability to stay afloat as a modern economy of the future. White collar jobs are the Australian jobs of the future. Below are five important strategies our Services sector should implement:

1. Develop a Services Sector Industry plan

Developing a white collar services sector plan that focuses on areas including; future job needs, skills and training, domestic and regional growth opportunities, leveraging new technologies, infrastructure development to support industry development and investment potential.

2. Review tax incentives and disincentives to retain Australian jobs and competitiveness

Building of tax incentives designed to retain jobs in Australia as these jobs will contribute to the ongoing development of Australian competencies and competitive advantage. These incentives must be aimed at creating a more favourable tax treatment for income earned in Australia compared to income earned from offshoring work that was/could be undertaken in Australia.

3. Introduce “Right to Know” legislation – consumer consent and privacy

Free Trade Agreements that amount to little more than political treaties that achieve diplomatic purposes but do not advance Australia's trade position should be immediately re-examined. Future agreements must be negotiated on the basis of real benefit to Australia generally and specifically for those parts of the economy regarded as Australia's core competencies.

4. Free trade agreements need to benefit Australians

Given that services often involve the passing of information and data on individuals, Australia should introduce 'country of origin' legislation for services to match similar requirements for manufactured goods. This will involve the development of a framework to:

- ensure that consumers, businesses and government have transparency as to where services are provided from.
- allow consumers to make decisions about where their data is stored.

Government will lead the way in ensuring the private, personal, financial and health records of its citizens that it maintains is kept secure onshore and protected in accordance with Australian laws.

5. Government procurement policy needs to focus on supply chains, Australian providers

As a major purchaser of goods and services, Government policy will ensure through its own procurement arrangements to only contract companies to provide goods and services to and for the government that:

- have transparent supply chains
- onshore its labour needs and forego off shoring
- have a track record of ethical employment practices.

To achieve the goal of keeping white collar services sectors jobs onshore Government should also consider whether it wants to enact legislation similar to what is currently before the United States Congress.

Conclusion

Australia cannot allow the services sector to follow the same path as manufacturing where competencies (skills and knowledge combined with invested capital) are transferred overseas effectively removing the sector's foundations¹⁷.

As evidenced in both NIEIR reports offshoring tends to decrease employment in this country as jobs are exported. This is not in the interests of the Australian community. Long-term competitive success requires access to the best and brightest globally. Without people to create, apply, and exploit new ideas, there is no innovation process. In every country the talent pool must be actively nurtured, it is one of any nation's key assets and exceedingly hard to replenish¹⁸.

We need a services sector plan: a strategic approach to develop service skills and business like we have for industries such as manufacturing. Australia can stem the tide of offshoring by offering a more favourable tax treatment for companies retaining work in Australia and by encouraging business to develop Australian competency to ensure our skills base is not irretrievably hollowed out.

Offshoring frequently diminishes the quality of the work performed by underestimating the necessary synergies provided by internal providers, and the resultant deskilling of the workforce is a major blow to the competitiveness and sustainability of our services sector.

The Australian Government needs to address the growing shortage of technically skilled talent, develop new macroeconomic policy initiatives, and vigorously promote new investments in services sector innovation.

¹⁷ National Institute of Economic and Industry Research 2008 report

¹⁸ Couto, Mani, Lewin, Peeters (2006), The globalization of white collar work: facts and fallout of next generation offshoring, https://offshoring.fuqua.duke.edu/pdfs/gowc_v4.pdf, accessed 10/07/14