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“Challenges And Benefits From Establishing And Developing Direct And Productive Workplace Relations”

By

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Industrial Relations events at our Iron Ore operations in Western Australia, especially since late in 1999 when we took a decision to offer individual workplace agreements are well known and have been widely reported in the media. I intend today to take you through many of the benefits and challenges we have experienced in establishing direct relationships with our employees who have traditionally been covered by Award regulation. I will also highlight some of the complexities and difficulties associated with our system of industrial regulation in this country.

Before going to that I will briefly outline our Iron Ore business. We are the third largest iron ore producer in the world behind the Brazilian producer, CVRD and RIO. We have approximately 1550 employees and a similar number of contractors.

Our operations are located across the Pilbara region of Western Australia, from Port Hedland in the East, Yarrrie in the North and Newman in the South East.

These operations include:

- An extensive resource of iron ore covering a range of mines across the Pilbara.
- 696 kilometres of railway linking our mine and port operations, including a rail fleet of 48 locomotives and 2224 ore carriages.
- Port and processing facilities at Nelson Point and Finucane Island, which are linked by an under-harbour tunnel and conveyer.

Customers of BHP Billiton Iron Ore are located all over the world, and are ranked by demand as follows:

1. Japan - 43%
2. China - 20%
3. South Korea - 17%
4. Australia - 9%
5. Taiwan - 7%
6. Europe - 4%

The iron ore industry is a highly competitive global industry demanding that successful producers be in the lowest cost quarter and deliver reliability of supply.

Prior to our decision to offer individual workplace agreements our operations had a thirty year history of multi-union awards and agreements which had in turn developed layer after layer of prescription and complexity which led to a situation where we did not have the flexibility to be able to adapt quickly to market changes and to the implementation of on-going efficiency measures.

The multi-union structure comprising the AWU, CFMEU, AMWU, CEPU and TWU also contributed to the inflexibility in respect to implementation of change and through competition for membership. Through 1998 and 1999 a major demarcation dispute arose between the CFMEU and the AWU over the CFMEU attempting to take over the AWU's traditional coverage.

This matter was subsequently resolved via a lengthy arbitration proceeding in the Western Australian Industrial Relations Commission but not before causing disruption to our operations through work stoppages and the general unsettling effects on our employees. Even after the arbitration decision tensions continued on the ground. This further caused us to lack confidence in the necessary stability to ensure continuity of supply.

Following the failed merger talks between BHP and RIO in respect to the merging of our respective iron ore businesses in Western Australia in mid 1999, we conducted a comprehensive review of our business. One of the key findings for us was that our traditional industrial arrangements were impeding the achievement of the full productivity potential of our Award workforce which led to a decision in November 1999 to offer Individual Workplace Agreements under the WA Industrial Relations legislation.

I will now go through the benefits that have been realised through establishing direct relationships with the majority of our traditional Award workforce. The benefits we have been able to achieve in terms of improved productivity have been significant and have exceeded our expectations. There have also been significant benefits for employees through better pay and conditions and more interesting jobs.

We have experienced two consecutive years of record production and profit. Whilst there are a number of factors associated with our record production and improved productivity including strong markets, capital expenditure and technological improvements, a key factor has been the introduction of direct relationships. We estimate the increase in productivity to be 15% - 20% across the operations.

It is also worth noting that we have achieved ongoing dramatic improvement in our safety performance across all metrics and reaching LTIFRs across our operations of around 1.0, far below our industry average and which benchmark well against any industry.

This has also been achieved in the face of an ongoing union campaign of opposition to the introduction of workplace agreements and frustration of the implementation of business efficiency changes in the work place.

The single most important dimension attributable to this improvement in productivity relates to the positive changes in attitude and behaviour displayed by those who signed workplace agreements. Immediately upon signing we experienced a change in people's attitude and behaviour with a willingness to be flexible and co-operative in respect to the implementation of change, assuming greater involvement in their jobs and displaying initiative in improving how things were done.

Whilst it is difficult to quantify these attitudinal and behavioural changes in hard measures, a discussion with any of our supervision would reveal that the change witnessed could simply be described as flexibility and co-operation. As opposed to the rigidities of our traditional award system which fostered an attitude of resistance to change, of “them and us” – classic adversarial traits.

In our experience there are a number of reasons for the immediate change in attitude and behaviour. The offer of individual Workplace Agreements provided for a performance based reward system whereby employees' salary and incentive pay is directly linked to the performance of the business and the individual's performance as opposed to the Awards system of “one size fits all” lowest common denominator standards.

This provided an opportunity for people to be recognised and rewarded for their individual contribution rather than the constraints of the Award system where performance was heavily influenced by the peer pressure of the “collective” and which many employees aspired to.

There was nothing new in the performance based reward system offered under the workplace agreements as it had operated for many years in respect, to our traditional staff and I'm sure similar to reward systems operated by many companies here today. The essence of such systems is that they provide for good pay and benefits, fair and objective performance measurement criteria and that individuals have access to an effective issue resolution procedure to resolve any issues, which may arise.

It should also be noted that the attitudinal and behavioural changes did not come about due to any major structural changes in how work was to be performed such as the removal of union demarcation issues or major Award restrictions. The changes simply related to a preparedness to be flexible and cooperative and to work within their full range of their skill competence and training.

Extending these changes in conjunction with the greater flexibility in areas such as working hours and the blurring of the lines between traditional staff work has allowed us to develop more interesting jobs for employees whereby employees can assume greater responsibility and in turn, greater rewards from a financial and job satisfaction perspective.

By way of example we have been able to provide our employees with 'Project' work which would ordinarily be the province of contractors. We were recently able to put together our own crew to rebuild a tailings dam which, due to the flexibility of work and hours required to complete the job, would not have been feasible under the Award conditions. Similarly we were able to transfer employees from our mining operations at Newman to assist with work at our Nelson Point Port Operations at Port Hedland on a short term basis at short notice.

All this leads to a greater understanding for employees of the total job in the context of the department's business plans and improved team work with less command and control style supervision inherently required under our Award system.

This change in attitude and behaviour also provided a sound basis for facilitating further business improvement through the introduction of our Operating Excellence (OE) initiative. Which is focussed in three main areas:

- **Improvement Methodology (6 Sigma Plus)**

This is a formal process based on the 6 Sigma Process. It utilises trained coaches to guide teams through a defined process of data analysis, improvement identification and then institutionalising the changes. Each project takes around 12-16 weeks to complete, depending on the scope. We have completed over 30 projects and currently have 15 in progress, with 13 full time coaches facilitating.

Some examples of the outcomes of this process are:

- o The Beneficiation plant in Newman is a continuous process and relies heavily on uninterrupted feed. Analysis of the delays and initiating improvements has seen a reduction in delays by 62%. This equates to increased saleable product of around 160 000 tonnes.
- o Diesel fuel is the single largest operating cost within Railroad. A team was formed to investigate fuel consumption on locomotives. The team identified several areas for improvement through an understanding of the root causes associated with excessive fuel consumption. By implementing a driver strategy and reporting to the drivers how much fuel was consumed on their trip, a saving of approximately 9% has been achieved. Enhancement of the driver strategy, introduction of communication plans and installation of automatic download hardware on the locomotives should see further significant savings.
- o A major component of our overall capacity is the time taken to load ships or Gross Loading Rate (GLR). Improvements in operating rates, reliability of equipment, yard efficiency and reductions in all delays has seen major improvements in GLR.

Gross Loading Rate – Reclaimer 6. In late 2001, we identified unutilised capacity of some 2000 tonnes per hour in Reclaimer No 6 at Nelson Point. Since then, a team has worked to optimise the productivity of this reclaimer, resulting in a 20% improvement in net loading rate. This improvement has increased port capacity and reduced ship turnaround time and therefore demurrage costs, delivering approximately \$700 000 in annualised savings.

- **Networks**

BHP Billiton is a large organisation. Without coordination, improvement activities could be duplicated or assets could continue to struggle with issues that have been solved elsewhere. Formal networks have been formed across the Company by practitioners in various disciplines. These networks are coordinated and resources by a central team. Maintenance, processing, operating, mine planning and supply networks ensure best practices from all BHP Billiton assets are shared and maximum value is generated from improvement initiatives. As an example, the Global Maintenance Network has developed a self evaluation tool that identifies areas of best practice as well as areas in which to concentrate further improvement activities.

- **Benchmarking**

This is focussed at identifying where real targets should be set to ensure that true 'stretch' goals are set and project opportunities identified. Examples of activities in this area include:

- o Standardising operating data definitions
- o Developing a database of operational performances from across the organisation and distributing this on a quarterly basis.
- o Benchmarking against external organisations.

We estimate our OE initiatives have resulted in benefits of over A\$20M in the last year alone.

Another initiative which we have implemented and which we are able to realise far greater potential from due to the positive change in attitude and behaviour of our workplace agreement staff is our Roadmap for Success.

We aim to be the safest, most efficient and profitable iron ore producer in the Pilbara. We realised that in order to meet these objectives, we needed to change our workplace culture to more closely align it with our business goals.

We have developed a number of tools to achieve this objective. One is the initiative for employees to embrace our Roadmap to Success concept. The roadmap defines our purpose, mission, strategic themes and how we measure success. It is consistent with company wide performance targets for all operation business and the push into Operating Excellence.

Components of this include site business plans, department business plans and individual and team goals and individual performance reviews. Employees have opportunities to contribute to this process at every level. They have their input at the workplace, at operational sites and within departments when setting individual and team goals. Our objective is to engage everybody within the company in the creation of a high performance organisation.

Everybody is able to contribute in identifying areas of cost reduction, operating excellence, true integration of the business from resource to the marketplace and satisfying customer expectations. Every aspect of our business has set business improvement initiatives with performance scorecards for each of the main components of our business. We have identified targets for areas such as Community Relations, Cost Management, Efficiency, Environment, Growth, People Management, Product Quality, Safety and Production (Tonnage).

To survive and grow in the globally competitive environment in which we operate, we need a workforce that is committed, adaptable and innovative, and not limited by restricted work practices. We have made good progress in involving our people in the process of change and making continuous improvements to our operations. Our Staff group, which now comprises our traditional staff and our employees on workplace agreements and who comprise the overwhelming majority of our total workforce, are now more than ever before fully engaged in our operations, and also have a stake in the company's business performance. Our challenge going forward is to align the Award workforce with the business needs. In this regard, we are about to implement a Performance Management System for this group following a recently arbitrated decision of the WA Industrial Relations Commission.

There is no doubt that introduction of such a structured business improvement approach, rewards linked to performance and the attitude and behavioural change I have spoken about have combined to drive dramatic sustainable business performance.

The main challenges we have experienced have revolved around the system of industrial regulation we have in this country. This particularly relates to the system of dual industrial regulation between Federal and State systems and to the overall complexity and bureaucracy inherent in our highly regulated system.

This system is not conducive to the needs of modern businesses operating within the pressures and uncertainty of global markets.

It also consumes significant resources, both people and financial, via legal costs involved in working through such a system.

By way of example, I will briefly outline a number of examples:

Soon after the offer of Workplace Agreements the unions filed for an Injunction in the Federal Court seeking to prevent the company from further offering Workplace Agreements alleging that we had breached the provisions of Sections 298 K, L and M of the Workplace Relations Act 1996.

The Injunction was granted on the 31st January 2000. The company appealed against the judgement and whilst we were successful in respect to some matters, the Injunction remained in place and the outstanding matters were listed for hearing in July 2000.

I do not intend to go through the detail of the case other than to indicate that we were able to successfully defend all allegations and by judgement of the Federal Court in January 2001 the Injunction was discharged and all alleged breaches of the Act were dismissed.

The key point here is really the amount of time and resources (not only legal costs but the amount of management's time) occupied in defending the matter from January 2000 to January 2001 during which time we were prevented from further offering Workplace Agreements. For example all hearings took place in Melbourne; the Substantive Trial continued over 3½ weeks and involved approximately 45 Company witnesses and approximately 35 union witnesses, the majority of whom were located in Western Australia. Both the Company and the unions involved senior legal counsel and the associated legal support teams.

Coincidental with the lifting of the Federal Court Injunction the State Government in Western Australia changed with the election of the Gallop Labor Government in February 2001 and on a platform amongst other issues, that they would remove the Workplace Agreements.

The new Industrial Relations Legislation was ultimately implemented some eighteen months later in August 2002. As an interim measure however it was foreshadowed that the legislation would include a limitation on the duration of the term of any Workplace Agreements signed after 22 March 2001.

The new legislation required the replacement of Workplace Agreements under the previous legislation within a period of six months or twelve months depending on when they had been signed. Workplace Agreements could be replaced with a Union Collective Award or Agreement or a form of individual contract (Employee Employer Agreement).

We took a decision that the individual contract option under the new legislation did not meet our business needs and elected to offer Australian Workplace Agreements under the Workplace Relations Act. The majority of the mining sector employees in WA have taken a similar path.

Again the main issue here was that as a result of a change in Government and a major change in industrial legislation we were forced to go through another lengthy period of uncertainty, which was highly disruptive and unproductive. Further these changes affected an industry that had been operating very efficiently and was universally recognised as providing pay and conditions well in excess of 'safety net' standards.

We were also involved in an arbitration proceeding for a new State Award in the WA Industrial Relations Commission from April 2001 to July 2002. Again a process, which occupied a significant amount of time and resources and which created another period of uncertainty and distraction.

Also during this period we were required to contend with the complexity and inefficiency of dealing with Federal and State Industrial Relations Systems at the same time. Early in the dispute in 1999 the unions initiated a bargaining period under the Federal Act and had over the course of the dispute taken protected industrial action in support of their claims for a Certified Agreement. At the same time the company was required to continue to afford benefits to the unions under the State Award which they were able to exploit and frustrate our business efficiency initiatives whilst they pursued actions in both industrial Tribunals. Those Federal bargaining periods are still current today despite the new State Award issuing.

Another difficulty associated with dual Industrial Relations Systems arose for us in respect to right of entry between State and Federal Union officials' where different conditions prevailed. Again this is highly disruptive and unproductive, causing us on a number of occasions to take action over breaches of right of entry.

In the context of the theme of this conference, our experience shows some of the issues that arise with a dual system. I believe the question of the benefits of a unitary system should be further considered with less emphasis on complexity and bureaucracy and the inclusion of opt-out provisions which allow employers and employees to enter into individual agreements which cater for their respective needs provided such agreements are in excess of reasonable safety net standards.

As I have referred to previously the essence of the direct employment relationship system is that employees have trust and confidence in the system.

This requires that our HR Systems and particularly in respect to Performance Management, Remuneration & Rewards and Issue Resolution Processes, are transparent and seen to be fair and equitable. In this regard we have conducted major reviews of all of our HR Systems and continue to make upgrades.

The direct relationship system places a heavy onus and responsibility of management and supervision requiring that their skills be of a very high standard and to facilitate this, we developed and introduced last year a Leadership Excellence Program. This Program recognises that the roles and responsibilities of leaders have changed dramatically and will continue to change. It is about defining, assessing and developing the competencies of our leaders and linking those competencies to performance. It also provides an opportunity to build skills which will create and facilitate an innovative, continuous improvement culture which I have referred to earlier. Additionally, the Program provides participants with nationally accredited Frontline Management qualifications. The Program commenced in August last year and all of our managers and supervisors will have gone through it by May this year.

In conclusion the course we set in 1999 was based on a business efficiency case. Global market pressures dictate that there is no way of avoiding the achievement of low costs, reliable supplier status and that the bar continues to be raised. The direct relationship system has allowed us to experience what is possible in respect of a system, which affords maximum benefits to employers and employees in the modern workplace.

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