

The Money Men

The Age, November 30, 2013, Royce Millar and Ben Schneiders

Faceless men or faceless man? The minutes of a May meeting of a mysterious company linked to the Australian Workers' Union record a "discussion" about finances before a motion that the company be wound up.

Proposed and seconded by the meeting chair and former Victorian union secretary Cesar Melhem, the resolution was passed "unanimously" by a "show of hands". Or so the minutes claim.

But the minutes were wrong. They should have read show of "hand", singular, because Melhem was in fact the only one at the meeting. He was sole director of Industry 2020, a union slush fund - Melhem's personal, union slush fund.

With contributions from big-name employers, such as builders John Holland and Thiess, and recycling giant Visy, Industry 2020 generated hundreds of thousands of dollars between 2008 and 2012. But a career change for Melhem, and some unwelcome publicity from Fairfax Media, made Industry 2020 inconvenient for the AWU, Melhem and his beloved ALP.

TWU federal secretary Tony Sheldon.

The wider public, including union members and shareholders in companies such as John Holland, may never know fully where the money went, who benefited from it, and who lost, because we have no legal right to know.

The little insight we do have about Industry 2020 came from Melhem himself when he spoke to Fairfax in December for an hour or two in an agitated interview as the union movement was reeling from the scandal around the alleged misuse of Health Services Union (HSU) money by its former leaders, Craig Thomson and Michael Williamson.

Just days before, AWU federal secretary Paul Howes had called for greater accountability for unions, insisting they had nothing to fear from public scrutiny. Melhem acknowledged he had spent some of the Industry 2020 money on elections in other unions - including tens of thousands on the 2009 HSU election in Victoria - and on "activities" in the ALP. Others in the party call it branch-stacking.

Since Industry 2020 was exposed to those moments of dappled sunlight 12 months ago, Melhem has flatly refused to discuss it. Industry 2020 is one of myriad slush funds, training schemes, and tricks for diverting union and parliamentary resources, that generate millions of dollars in funny money currently sloshing around the Australian labour movement.

Former ALP leader Mark Latham says such money is increasingly the lifeblood of union leaders who have declining industrial relevance but are intent on propping up their disproportionate hold on power within the party and, through it, Australian politics in general.

Crucially, it buys clout within the ALP that helps determine who gets to become or remain an MP, a cabinet member, and even a prime minister. Rank-and-file union and ALP members are pawns in such games.

"Unions have become more like 'virtual' bodies, poor in membership numbers but rich in resources leveraged from super financing, training funds and contractor extortion," Latham wrote in 2012.

But pressure is growing for this to change. The Coalition has threatened to clamp down on union funny money. Senior and rank-and-file Labor members are pressing for reform, especially in the wake of the HSU scandals and September's federal election drubbing. Many insiders are calling for an overhaul of the 120-year-old relationship between the political and industrial wings of the labour movement.

Hughie Williams loves a fight.

A working-class scrapper from the coalmines of Maitland in NSW, he used his fists in Jimmy Sharman's boxing tents before wrestling his way to the Tokyo Olympics. Williams' warrior instincts served him well during almost 20 years as the maverick, left-wing leader of the Queensland branch of the Transport Workers Union.

Sitting on the verandah of his humble Brisbane weatherboard, the soft-hearted tough guy admits to being an old-fashioned unionist who preferred to tackle his opponents head on. In the 2010 election for the Queensland TWU, Williams found himself swinging at phantoms. The famously frugal Williams ran a modest, old-fashioned campaign against the rival New Transport Worker Team - and was defeated.

The architects of that victory never revealed themselves, but Williams suspected outside interference. "It couldn't have been local money because the amount was enormous - \$500,000 or more."

An investigation by Fairfax Media has found Williams was overthrown by an elaborate campaign orchestrated by his own union's federal and NSW offices, with the active support of the HSU and interstate ALP operatives, including from the offices of right-wing powerbrokers then-Victorian senator David Feeney and former NSW senator Stephen Hutchins. Hutchins insists his staff member, Amber Setchell, was on holiday at the time.

The victory by the anti-Williams team gave it control of the \$11 million in assets Williams (a child of the Depression) had amassed over 20 years. For the buccaneers of Labor's Right, it was a raid with real booty.

More importantly, it allowed the factional bosses in NSW to transfer the TWU's block of Left votes at the Queensland Labor conference to the Right faction dominated by the AWU, the group behind former treasurer Wayne Swan and Bill Shorten. It was a textbook study in factional piracy, and of the array of resources available for union/factional chieftains to shore up empires.

Only a generation or two ago, a union official such as Bob Hawke could have a say on the economy and on the living conditions of a large proportion of Australians. And as a newly elected prime minister in 1983, Hawke entered an accord with unions, including on wage moderation, because unions were strong enough to deliver an outcome.

Now the unions' scope and influence is much diminished, and in the private sector, it is largely confined to old industries, many of which are in terminal decline - manufacturing in particular. Union membership has more than halved since the Hawke years to just 18 per cent of the workforce, and even less in the private sector, where barely one in eight workers is in a union.

The country's biggest unions - public service unions, including the teachers and nurses - are not affiliated with the ALP. Affiliated unions represent just 10 per cent of the workforce, and just over half of those union members are likely to be Labor voters. Yet the Labor unions control 50 per cent of delegates to party state conferences, which in turn elect the all-important committees that run the party and have a big say in who becomes a parliamentary candidate. Perversely, as the influence of union officials on the economy wanes, their grip on the ALP, hollowed out itself by declining membership, appears to tighten. Tellingly, it is these ALP-affiliated union leaders who tend to get embroiled in funny-money games and financial scandals. The HSU and TWU are obvious examples.

Of course, spats in the union movement are nothing new. In days past, the unions were an important theatre of ideological battle, especially for communists and Catholics. The point of more recent brawls is often difficult to fathom. Now the elections that generate the most heat and greatest misuse of resources tend to be territorial battles involving what Latham calls "sub-factional" warlords.

Geoff Robinson, political historian and lecturer at Deakin University, says the decline in ideological politics means union elections are about "money-driven empty personality politics". As an example, he points to the HSU elections in 2009 and 2012 - furious encounters by warring right-wing groups.

Preceded by public punch-ups and allegations of corruption, the 2009 election in Victoria descended into an expensive, no-holds-barred, three-cornered brawl. Sources from within all three groups estimated the total cost of the election at more than \$1 million in Victoria alone.

Fairfax understands that union resources and/or slush funds were tipped into the HSU election by the plumbers' union, the shop assistants' union, the AWU, and the National Union of Workers. The similarly gruelling poll in December 2012 was again resourced and run, in part, by outsiders, including Feeney on one side and factional allies of Shorten on the other.

"What was the HSU fight about?" say Robinson. "What was the division between these sub-groups? Nobody has any idea. It was about who got into Parliament, probably." Union members, says Robinson, were certainly not the winners.

And employers? Why do they seem to contribute so readily to slush funds and often questionable union training schemes? Employers are reluctant to discuss such matters publicly. But one senior construction industry executive - who would only speak on condition of anonymity - describes employer contributions to both as "greasing the wheels".

The unions themselves are more coy. Both Industry 2020 and the NSW Transport Workers Union equivalent, the McLean Forum, specify their primary objective as the promotion of "moderate" and "progressive" social policies and trade unionism. Cash, in other words, for moderation.

A case in point was the construction of the EastLink tollway in Melbourne's eastern suburbs in the late 2000s. The project was delivered by builder John Holland months before its deadline, due in large part to the flexible work arrangements agreed to by the AWU. At the time, Holland contributed to union coffers by buying union training services, buying tables at union dinners, and by tipping into Melhem's Industry 2020 fund. Industry sources have confirmed the AWU got the training work because of the importance of its relationship with the builder.

It is an almost iron law, measurable by close observation, that the bigger the role a union plays in internal Labor Party politics, the less of a role it plays as a vigorous industrial advocate.

National Union of Workers Victorian secretary Tim Kennedy admits his union operates best when it is less involved in Labor's factional dealings.

"We do see there is a direct correlation between our capacity to be an effective union and being involved in the machinations of the Labor Party."

The Australian Nursing Federation has grown quickly in recent times to become the largest union in the country. It is best known for its strident advocacy on behalf of members. It has no formal link to the ALP. The union that shares workplaces with the nurses is the HSU, which is bogged down by scandal, corruption and Labor's factional politics.

Looking back at the 2009 HSU election in Victoria, and only half joking, a seasoned factional boss told Fairfax Media the Labor and union figures involved should be "in jail" for their misuse of union

and parliamentary resources. Yet, troubling as misuse of resources and slush funds can be, the law rarely intervenes.

RMIT University workplace lawyer specialist Anthony Forsyth says it's unlawful for a union official to use a union's resources to support particular candidates in an election in that union or another. So, too, is it an offence to use parliamentary resources for union elections.

Beyond direct use of union and parliamentary resources, however, there is little or no regulation of labour movement funny money.

Most slush funds don't break any laws and are often defended as benign re-election accounts into which union officials are expected or obliged to regularly contribute.

Some funds allow unions to avoid using members' dues in election battles. These funds can play a positive role in union democracy. But across the labour movement, there are many different funds - some are certainly not what they claim to be - ranging from the relatively benign to the outrageous.

In his seven years at the helm of the AWU in Victoria, Cesar Melhem never faced an election challenge. Industry 2020, while legal, was unquestionably a slush fund for Melhem's factional adventures.

The Transport Workers Union's McLean Forum was established in the mid-1990s by then union chiefs and NSW Right luminaries, former federal MP Mark Arbib, ex-senator Stephen Hutchins and current federal secretary Tony Sheldon. Sheldon insists the McLean Forum cash comes exclusively from the contributions of TWU officials.

He also acknowledges using the fund for fights within the Flight Attendants Association of Australia and in the HSU's NSW branch. It is unclear if his officials were aware their contributions were to be diverted for elections in other unions. Such money is undeniably political. Yet it escapes the scrutiny and regulation - weak by the standards of comparative countries - that applies to standard political donations.

In opposition the Coalition vowed to rein in union funny money but in government has so far been more cautious than some unionists had expected. It has tabled bills to overhaul laws and rules around disclosure and transparency, including disclosing the pay of the top five union officials and tougher fines for non-compliance. Despite the tough talk, however, the government has been notably quiet on slush funds. The Coalition is well aware that it would be difficult to closely regulate union money without ensnaring its own equally dubious political fund-raising.

Change, however, may yet come from within the labour movement itself. Inspired by the recent rule change allowing members to participate in the election of the party's federal leader, Labor reformers are turning to what many regard as a deeper and more vexed question: what to do about unions.

Bob Hawke is one seeking a fine-tuning. "The party will always be a party which is sympathetic to the interests of working men and women," Hawke said last year. "But that doesn't mean that there has to be what is now an almost suffocating union influence. It will have to change."

Latham is pushing for a big reduction in the proportional influence of unions in the ALP - down from the current 50 per cent to a maximum 20 per cent. Others, including elder statesman John Faulkner, want individual union members to have a greater say, including on whether any part of their membership fees are paid to the ALP - the opt in/opt out system now in place in Britain.

This week rank-and-file Labor members in Victoria were angered by Fairfax reports of union/faction bosses in backroom deals over forthcoming preselections. In particular they railed against a plan to fast-track byelections and bypass ballots of local members.

Jane Rowe is a long-time ALP activist who has nominated for preselection in the upper house seat of Eastern Victoria. In an unusually strident protest by a loyal party toiler, she called for a "revolution" against the "back-room boys" of the ALP. "We need a revolution. We need to snatch democratic control back from the back-room boys and their deals."

But the main obstacle to reform is that those with the most to lose from it are those with the power, the numbers, the resources, and the positions.

Any law or party reform that may emerge from the current debate is unlikely to bother Cesar Melhem; as long as it's not retrospective that is. He took up his safe, upper house parliamentary seat in Victoria in May, just days before he closed down the fund that helped get him there.

Where did the Industry 2020 money go? He refuses to comment other than to say it has gone to a like-minded cause. Whatever that means.

Royce Millar is an investigative reporter and Ben Schneiders is a senior writer.