event transcript

COMMITTEE FOR ECONOMIC DEVELOPMENT OF AUSTRALIA

# Free Trade Agreements & Infrastructure

## Address to CEDA Sydney, 17 August 2006


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Deputy Prime Minister,

Minister for Trade

Leader of the nationals


Thank you everybody for coming out to participate in this CEDA function tonight and, of course, it's well known across Australia that these events are well attended and well covered and I note just recently you've had the Prime Minister as a guest at one of your functions and can I recognise members of the Diplomatic Corps with us tonight from both Canada and the United Kingdom. Gentleman, it's great to see you here and other distinguished guests and ladies and gentlemen.

I was asked to address a number of issues and what I was going to comment on really is where we're up to in terms of our objectives as far as international trade is concerned, but also some of the fundamentals that we need to underpin that with back here in Australia to support the export effort, and of course we do, and it's probably less so today than it has been in the past, but confront the tyranny of distance in dealing with markets across the world, and so we have that impediment to start with, but the Australian culture and the Australian psyche is such that we're always in for a bit of a challenge and we've managed to, as a nation, do that fairly well. In the last ten years we've moved our gross earnings from freight and good and services from 99 billion Australian dollars to 192 billion Australian dollars and it's continued to increase and that's important, but there is an enormous amount left to be done.

But I'm going to start with a small anecdote just to give you an idea of the diversity in the variety of things that Australian businesses and exporters are doing. Just a little example, in Hawaii there's a retail chain called "Times Supermarket". Its seafood manager, Tamita * [name] has just started stocking Australian fish. Apparently Australian snapper is selling well. Now this seems a bit strange in Hawaii, you'd think there would be plenty of fish there, but we're selling Australian snapper there and the chain is working on persuading its shoppers to try Barramundi and Moreton Bay bugs with cooking demonstrations and the usual sorts of samples in the aisles. But it's just an example of the success of one industry that's fundamentally a primary industry, the seafood industry, and it shows how our agrifood exporters are looking beyond Australia's traditional bulk markets to sell more high-value products. This is one of the challenges that we do face in that we're traditionally well known as a commodity trader, but more and more smaller operators, SMEs if you like, are looking to selling products in the niche markets at premium prices and extracting better value out of the market place.

One of the challenges that we continue to face in Australia as far as making sure that the platform off which our exporters compete in the international market place. The condition of that platform is that we're continually challenged as far as infrastructure is concerned and there's still an enormous amount to be done and again with our seafood industry, and there's one and a half billion dollars worth of seafood exported out of Australia, and that's processed and unprocessed - it's a very, very important area – and all those exports depend on our ability to transport employment production through the logistical supply chain and out through the ports out of Australia.

The Bureau of Transport and Regional Economics has famously predicted that the amount of freight moved around Australia will double in the next two decades and so it gives you an indication of the expectations of growth and the demand that's going to be there on that infrastructure and I continue to make the point that a lot of this is moving to ports to be exported into markets overseas.

We've been responding to the challenge by increasing our investment in transport infrastructure and by improving the way it is planned. We were just having a discussion at the table about what are some of the impediments left that need to be addressed in this country and I'm probably one of the strongest centralists if you like in our Government and one of the impediments still is the

Federal structure we have in this country.  I don't advocate changing that constitutionally, but we've certainly got to address it because it still does leave many, many inefficiencies.

Example, only this week we released the first integrated strategy for the Sydney to Melbourne transport corridor in conjunction with the NSW, Victorian and ACT Governments.  So I suppose the point is there is some progress being made.  Now this link, as you recognise, is the busiest road link between capital cities in Australia.  Now road link, although rail is becoming increasingly more competitive, it still has a long way to go and we all know the history of why it's in that circumstance but you'd think that someone in the past would have recognised the value of planning the road and rail connections together along with ports and airports at each end.  After all there's not much point in having a four-lane highway that ends at the front gate of the port, but the reality is and historically in Australia much of the infrastructure has evolved rather than been planned and if there's something of a serious nature that we need to be looking at and investing in that's going to benefit the domestic economy as well as the export economy, it is that.

That planning didn't happen and in 2004 my predecessor, Deputy Prime Minister John Anderson, introduced the AusLink program which started to reach right across the hierarchy of roads, if you like, in Australia between commonwealth, state, local roads and responsibilities with rail and looked strategically at the overall transport path and what we needed to do and the level of investment and planning and, of course, it's going to take a great deal of cooperation to deal with it but we've started.  We've made a start, we've allocated about 15 billion dollars to the task initially, but it's going to require the cooperation of all the state governments.

Now, you've heard the Prime Minister talk about our notional concept of cooperative federalism and what it really means is if we want the states to do something we've got to give them money to do it, but,  nevertheless, if that's in the national interest, that's what we should do.  So we've started this reform agenda that parallels our infrastructure investment program and the Council of Australian Governments agreed on the reform agenda earlier this year, so they agreed with us and what we need to do.

The reforms range from pricing road and rail infrastructure more efficiently through to reviewing state regulation at ports.  The agenda will also look at developing a more consistent national system of rail access regulation and, of course, if you think about the transport task that is being undertaken at the moment as far as our export is concerned, and I know I think we've got some coal miners in the room, vastly different in the resources sector on the eastern seaboard in terms of rail operations and in port operations than it is on the west coast with iron ore operations or gas operations where the rail links and ports are privately operated and when there is a requirement for investment the investment takes place and we've got to start reconciling some of these things.

I go back to my earlier point that it is going to take a great deal of cooperation from the states, but nonetheless, whatever it takes to get that level of focus is going to be critically important for achieving some very, very important national interest goals in the future in this area.  I just make those comments because it underpins our competitiveness and efficiency when we sort of launch into the international market place and of course it's very, very important that we do this at this time because we can't always rely, given the strength of our domestic economy, on a competitive exchange rate.  It's easy to compete in international market places if there's a 58 or a 60 or even a 65 cent dollar, but when it's consistently been at over 72 and 75, 76 cents and plus, then all the other elements of the equation have got to be as good as we can get them and so it's just something that we need to confront as a nation.

The second part of that, obviously, is the other structures within which our manufacturers and producers and exporters operate in Australia and, of course, really it comes down to the economic management of the nation and it also underpins our ability to invest in the infrastructure that has been neglected for many decades and we are in a circumstance at the moment as far as Australia is concerned that we're very, very lucky and we're a very lucky government in being able to sit down and make significant decisions in the national interest and allocate large amounts of money to that investment without having to borrow it.  I was there in the days in 1996 and beyond when we really had to sort of carve up things and run a very, very tight fiscal ship for a number of years until we sorted out the structural inadequacies in the economy. We've done that and we need to still maintain a tight fiscal rein on things but at least now we have the ability to be able to invest significant amounts of money for the future in very, very important structures in the country.

You all know the key statistics that have resulted from the sound economic management that has been deployed: 1.9 million new jobs. We haven't created them, you've created the jobs. All we've done is given you a good economic environment in which to work. The story on real wages over the last 10 years that have grown by about 16.8% based on productivity gains, not based on negotiated outcomes. They're things that are critically important structurally in our economy that make the economy more robust in dealing with shocks and movements and, of course, the unemployment rate this week 4.8% and they are levels that five to 10 years ago we only dreamed about in this country and now they're a reality and we're able to implement policies to keep pushing down. Now that's the national unemployment rate. In Western Australia it's 2.7% which is just a phenomenal statistic and I know that many in industry are sort of railing about Western Australia sucking all the skilled trades people and the work force across to the West and it is an issue that is a new phenomenon that we need to address, but importantly, it's taking place and we do live in very, very lucky times and the central message I suppose that I wanted to leave with you was that because we do, because we are where we are at the moment as a nation, we must take advantage of that as far as some of the nation building challenges we've got to undertake for the future.

I couldn't let this opportunity go by without talking about the new Work Choices Legislation, strangely enough there are many, many more people moving on to AWAs than a lot of the doomsayers forecast and as the implementation rolls out there will obviously be from time to time - there may need to be things that need to be addressed, but nonetheless, it's the third tranche of reform, if you like, over the last 10 years in the work place. We had the first range of reforms that Peter Reith introduced and then the now very famous Waterfront Reforms that we were told a) it couldn't be done and b) wouldn't achieve anything and at the time the efficiency rate on the waterfront in the container ports was about 16.9 containers per crane per hour and we were told as a government at the time, "You will never improve on that. You won't change it." and the target was to move to about 25. The average crane today is 27.2 and these are TEUs lifts per hour per crane. To a lot of exporters it's probably been the most fundamental reform that has improved their competitiveness and reliability and their relationship with customers, and all those things, of all the reforms that have taken place.

But if you think back to 1996 and a lot of the challenges we faced and if you said in 1996, "We are going to have three rounds of reforms in industrial relations, including the Waterfront, we're going to reform the taxation system and introduce consumption tax in Australia, GST, and we're going to eliminate all this debt and by 2006 there's going to be an unemployment level of 4.8% in Australia" you would have been told you're stark raving bloody mad. But it has happened and it has happened and as the Federal Government ahs been prepared to take the risks and make those decisions, but the point I always make is that 20 million Australians have implemented those policies. We've made them, introduced the legislation and then the national has gone with us and said, "Ok, we're heading in the right direction, we'll keep risking our hand with these guys." And so we've arrived at this point where we are debt free, where we're running surplus budgets, where we have started making significant investments structurally and I talk about the Future Fund to account for future liabilities so they are not off budget every year, and all of these measures are relieving pressure off the budget each year and it means then that the discretionary spending on all sorts of infrastructure, whether it be telecommunications, whether it be hard roads, rail, ports or whatever, we can undertake that as we see fit and know that we are investing in the future of the country.

And so that brings me to the next element of the equation if you like of what we're doing as a trading nation in trying to elevate ourselves as far as efficiency is concerned and that's access, access into markets and much fairer access into markets and, as Catherine mentioned, there's been a range of things that I've been doing since I've been the Minister which has fundamentally been focussed on improving our opportunities for agriculture. You say, "Oh, well, you know, I'm in manufacturing industry" or "I'm in the resources sector, what do we want to know about agriculture for?" Well, the reality is that we reformed all those other areas in terms of global trade about 50 years ago but we've never reformed agriculture and that's why it's still left to be done.

Examples: On average agricultural tariffs are more than three times higher than tariffs on non-agricultural goods. The tariff on some beef products into the European Union is 85%. Anybody selling widgets out of Australia into most markets of the world wouldn't probably face much more – other than developing countries – much more than maybe a five percent tariff. The tariff on rice into Japan is over 700%. The tariff on beef into Japan is 39%. Now these are all taxes on their consumers, but their impediments to our exports and they're the things that we want to remove and what's more, the prices our exporters receive are then depressed because there are other wealthy economies that heavily subsidise the production of agriculture and depress prices in global markets and here the classic example is the United States of America and we've got two representatives from Canada who live right on the door step and suffer from this on a daily basis.

So that is fundamentally the simple rationale why we are so aggressive in our pursuit of reform in this area. There is no justifiable reason left why the richest countries in the world should subsidise and support the production of agricultural products the way they do today any more. There is just no reason and at last, at last, the economic pressures are coming on. For example, in the European Union, and I recognise Tim representing the United Kingdom, a member of the European Union, but one of the more liberalising members of the European Union, and to give the European Union credit, what they did with enlargement when the European Union went from 15 member states to 25, they didn't expand the actual amount of money being paid into common agricultural policy, so it's now being spread over 25 countries rather than over the 15. So they're the things that we're trying to deal with in some of the trade negotiations and particularly in the WTO.

Agriculture is an essential part of the Doha Round, but it's not the only part. Now, you've all read the stories in the newspapers, but despite the recent suspension of negotiations in the round, a comprehensive outcome is still in the offering. If you ask me when, I don't know when. It might be next year, it might be in two or three years time. We need to understand that this process sometimes takes a fair bit of time. We've been now negotiating in the Doha Round for five years. The Uruguay Round I think took in excess of seven years and it's just a matter of staying at the table, keeping the negotiations focussed until such time as the countries that still have more work to do to bridge the gap actually do that and are able to show more flexibility and that is always and only ever going to come when they've got the right political environment back at home and that's the difficulty and that's the thing that needs to be understood. Just at the moment that doesn't exist in the United States and doesn't exist in the European Union and the G10 countries, particularly in Japan.

What are we doing? We are keeping people talking, we are keeping engaged. The Northern Hemisphere has gone on holidays during August. August in the Northern Hemisphere, and particularly Europe, is the equivalent of our January, so at the end of this month we will start dragging people back together and trying to push and poke and prod and find ways of moving forward and of course early in that process we will be holding the 20th anniversary meeting of the Cairns Group and of course the Cairns Group is a group of likeminded countries that was put together 20 years ago in the Uruguay Round, all agricultural producing free traders, agricultural exporters looking for better access and removing those barriers. Australia has been the permanent chair of the Cairns Group since its inception, about 18 country members, a lot of Latin American countries, South Africa, Indonesia, Malaysia, Thailand, Philippines. Our latest member country to join was Pakistan and it is quite an influential group across a diverse range of economies. The three developed countries in the Cairns Group, Australia, Canada and New Zealand, would be across the broad membership of the WT, probably the strongest advocates of reform of agricultural trade policies across the world and we've been doing it for the last 20 years. It achieved some outcomes in the Uruguay Round, but we've taken a very, very clear view as far as this round, the Doha Round is concerned, that we're not going to sell the thing short. If we conclude on this too cheaply then it could be 10/15 years before we get another chance to drag the big subsidisers and protected markets to the table and our economies are just about pretty well open. We've not got too many bargaining chips. I mean the Uruguay Round, we liberalised all of our agriculture in Australia, a lot of non-agricultural industries, we've got two tariff peaks in Australia, one in the TCF industries and the other in PMV in motor vehicles. So we've not got a lot of negotiating chips to play with.

The rationale behind our energetic pursuit since the failure of the meeting in Seattle in 1999 of bilateral free trade agreements is the notion of competitive liberalisation.  That's something that ourselves and the Americans and a number of others have pursued and some experts say that the notion of that competitive liberalisation, countries doing things bilaterally and others getting the notion "We're going to get left out of this market if we don't do something" actually moved the conclusion of the Uruguay Round. NAFTA I think was being negotiated at the end of the Uruguay Round, the North American Free Trade Agreement between the United States and Canada, the APEC Summit was on and some argue that that actually galvanised the membership of the WTO to agree on a conclusion in the Uruguay Round in 1993.  I saw the same effect when we launched the Doha Round in Doha in 2001. After the failure of the Seattle meeting, we all recall that, in 1999 a number of us went off and started negotiating bilateral deals.  We started with the United States and Singapore and Thailand.  The Chileans were doing a lot of negotiations and what it did it sort of got people focussed and particularly those countries that don't have the economic muscle to be able to go and negotiate bilaterally.  So we've got to get the multilateral round going because that is the only way we're going to get new access and better opportunities and that was part of the equation in pushing the launch of the round in 2001.  So as we continue to pursue a range of bilateral negotiations we believe it will ultimately energise the multilateral round through to a conclusion.

As I've indicated, for about 23 or 24 years now we've had a free trade agreement with New Zealand called the CER, Close Economic Relations Agreement, with New Zealand.  Then we've negotiated with the United States and Singapore and Thailand, and I will outline a few more that we're working on at the moment, but those agreements have delivered benefits and of course the scribes will say, "It's been enforced for 12 months where are the benefits?"  "There haven't been."  I mean for example with the United States our beef exports in the first 12 months of the operation of the FTA actually dropped.  They didn't drop because of market circumstances because of the FTA, it was because the Americans were locked out of the Japanese market and all our high value product was diverted to the Japanese market from America to take advantage of the prices.  But importantly - and in those agricultural industries, beef, dairy, lamb, got better access into the US market and they're all taking advantage of that - but probably the sector that is going to benefit the most is the services sector and particularly with the access government procurement markets in the United States.

The US is a services-driven economy and just getting access to the government procurement market and getting national treatment for our service providers puts them on an equal footing with US companies in that market and it's a very, very important opportunity that they are taking advantage of and the same goes for Thailand and Singapore.

Prospectively we're negotiating with everybody with China and if anybody thinks that we're going to knock China over as a deal in the short term, well think again. I said at the outset, "This will not happen as quickly as the deal did with the United States. We are going to have to be patient and be prepared to spend the time on this that the Chinese will be prepared to spend on it." but it is terribly important and there's been some critical comment and of course at this stage of the process – we're lining up to negotiations – all the special interest groups come out and say, "Not me, not me, not me and you've got to keep this in place", these negotiations are not just about new market access - terribly important. China is our fastest growing market. It's driving our resources boom, but we're getting a lot of other service in there, education services, enormous education trade with China.

These bilateral negotiations are also about consolidating a position we already have in the market, taking up that space in the market place before Joe Bloggs down the road lobs in and starts doing it because you've got emerging countries like Brazil and like India and other larger developing countries that are eyeing off some of our markets. This was one of our main motivations also with the United States that, yeah, we had significant access in critical areas, but we needed to lock ourselves into that relationship, and certainly with China we need to do that. We should not just take for granted the fact that we're selling billions of dollars worth of iron ore and gas and all sorts of other commodities to China. We can't take that for granted. We've got to continue to strengthen the relationship and put some more formal structure around it and that's certainly my objective with China. At the same time I understand we've got to be sensitive to industries we have in this country that are already exposed to the low cost production countries like China and some of the ASEAN countries. So China is going to be there, it's going to remain a challenge and we will continue to push ahead with China for the obvious reasons.

We're negotiating with Malaysia as well as the 10 ASEAN countries and we worked on this for years and years to get this up and going where the 10 ASEAN countries who've got a free trade agreement called AFTA, ASEAN Free Trade Agreement, are negotiating with Australia and New Zealand, the two CER countries and we're engaged in that at the moment at of course there's a diversity of economic structures in the 10 ASEAN countries and that makes it a bit more complex, but it is very, very important because it is all in our neighbourhood, it's all in our back yard and we need to have some structure around that and that has sort of helped lead into Australia joining the East Asian Summit last year in Kuala Lumpur which was a significant step forward in terms of our regional relationships within the region.

Catherine also mentioned [that] we've been negotiating with the United Arab Emirates and we have and we were well progressed with the UAE and then the six Gulf states - the Gulf Cooperation Council have now established their Customs Union and the GCC countries which are the United Arab Emirates, Bahrain, Qatar, Kuwait, Oman and Saudi Arabia – so they've said, "Oh, ok, the Emirates, you're doing well with this negotiation with Australia but you've got to put it on hold now because we're going to tell you you can't do that. Australia has now got to negotiate with all six." And so we're just assessing at the moment how we sort of morph a negotiation with the UAE into a negotiation with the six Gulf states. It is a very important market for Australia, around about five billion dollars worth of exports into that regional market each year - quite diverse. Our largest market for fully built up motor cars, as well as a lot of the traditional products we're selling to that market and so we're going through that process at the moment and I suspect – personally I support going ahead with that broader negotiation with the CGG countries and it is going to be – and anybody who has been to that part of the world, there's a lot of wealth there and we all know why and there's been some significant linkages created with Australia, particularly with some of the air services that are now coming into Australia. For example, there are between five and six thousand ex-pat Australians living and working in Dubai and this linkage, this people to people linkage, has really built up and we've provided a lot of the wear with all and the skills as they've developed their market there.

And so we have some significant challenges in front of us. Probably no more than the China FTA and I can't reinforce the point strongly enough how important this is to the future of our country and our economy.  If you think about over 50 years ago when we negotiated the Commerce Treaty with Japan and after the Second World War our resources sector – we resourced the industrialization of Japan – what that did to Australia during that period we can do that into the future with China, but we think obviously the benefits are going to be far greater because of the sheer size, 1.3 billion people.  I was at a function recently listening to Guy Russo.  He's an Australian senior executive with McDonald's who now is running McDonalds in China and he reckons it's the most fascinating challenge that he's had and he rattled off a whole heap of facts – really some would think mundane statistics, but really interesting statistics – and some of those are that China is already the world's second largest economy in purchasing power parity, third largest trading national after the United States and Germany, economic growth in China has averaged nine and half percent over the past two decades and the Chinese themselves maintain they're going to drive that through 2020.  In 2005 China alone accounted for around one quarter of world economic growth and the Chinese economy looks set to develop at a rapid pace in the immediate future, having grown at 10.3% in the first quarter of 2006.  China now consumes 25% of the world's base metals and well over 30% of iron ore and coal supplies.  Two billion square metres of building space is being constructed in China every year, an amount equivalent to the total in all of Canada.  Two billion square metres of building space.  Last year Chinese enterprises produced 50% of the world's digital cameras, 37% of its computer hard drives and around 25% of its major kitchen appliances.  ABARE, the Australian Bureau of Agriculture and Resource Economics forecasts China's share of world trade will rise to a massive 16% by 2015.  In 1988 that was only 1% and then that grew.  So it was 1% in 1988, 6% in 2004, forecast to be 16% of world trade in 2015.  It is mind boggling to try and comprehend the growth and the expansion in China.  We're having this debate in Australia at the moment still with regard to our communications system, and rolling out access to broadband on the internet and the like and arguing about copper cables and fibre optic cables and the like. They're not even going to worry about laying any of that stuff in Australia. It's just all going on to wireless. They're just going straight to the future technology and we cannot afford to be left behind and left out of it.

So as you see, my critics talking about whether or not we should be engaging in China, just think about the what ifs if we don't and it brings me back to probably where I started where there are significant opportunities in that Chinese market, there are significant challenges. We've got to invest strategically in Australia to ensure that we have created the best economic environment and platform to be able to compete into that market and in third country markets against producers in that market. Rest assured the economic circumstances of 1.3 billion Chinese will rise, as the Japanese did over time, but in the mean time we will be at a disadvantage and we've got to be in the best shape here in this country to be able to compete against that in those critical areas.

So, along with opening up markets in the future, it's a part of the equation, an important part of the equation, we must improve the infrastructure along which the logistical supply chain flows, and that includes that infrastructure that is either owned or controlled or regulated by state governments in this country. We need to continue to improve our efficiency and competitiveness in the work place and as your government we certainly intend to do that and, most importantly, we've got to maintain tight control over a strong economy to ensure that we extract the best benefits out of that and that in an economy that is growing as we are is a challenge obviously because some of the domestic indicators have an impact on, as we've seen recently, monetary policy. It can have an impact on our productive capability and our efficiency and also it has an impact on thinking as far as fiscal policy is concerned, where we spend, what it does to the economy, but my clear view, and shared by many of my colleagues, is that we are now at a situation in the history of our nation where we can afford to do many, many of those things that many of our fore fathers have dreamed about doing as far as setting this country up for the future.

And if I can leave you with one challenging thought from tonight as I conclude, we cannot let the federal structure in Australia stand in the way of that. We cannot provide excuses as to why that delivers inefficiencies that we are prepared to put up with. If you think about the rail system in Australia, the road system in Australia, it has evolved as a result of that structure historically in this country. We now have an historic opportunity to deal with it and deal with it for once and for all. We will continue to challenge our colleagues and state governments to do that. We know that we're going to have to spend money to do it. As I said before, the best way to get state governments to do something is give them money and we're just going to have to be prepared to do that because this is a golden opportunity that we cannot miss for the future of our nation.

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