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Mr Price (Acting Chair)
Mr Hollis

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ACTING CHAIR (Mr Price)—Good morning, ladies and gentlemen. Firstly, I would like to apologise on behalf of the chairman of the trade subcommittee, Mr Nick Dondas. He was scheduled to be here. Unfortunately, his father is very seriously ill and I regret he cannot be with us today. I would like to welcome you to this seminar on optimising Australia's trade beyond the year 2000.

I am joined by Colin Hollis, the member for Throsby. Unfortunately, the Prime Minister has indicated that there is likely to be a triennial shareholders meeting and other members of the committee, rather than attending to the affairs of the nation, are somewhat more concerned about the needs and aspirations of the shareholders. That is why we have such a small turnout. And, of course, Premier Borbidge has very inconveniently called an election for tomorrow.

Having said that, I say a very sincere welcome. It was probably Ian Sinclair, now Speaker, who as Chairman of the Joint Foreign Affairs, Defence and Trade Committee really developed the idea of these seminars as a very good way of bringing top people from the nation to focus on a particular problem and allow discussion of those points of view and questioning. Because of an austerity campaign, we do allow for questions and it was our practice to offer $20 to the first questioner in each session. We are no longer able to do that, so I do apologise. But we would still welcome that very first question. Participants have a copy of the program. We will try to run fairly tightly to script. I will now briefly give you the speech that Nick might have otherwise given in different circumstances.

Over coming years Australia will face numerous challenges in optimising trade. Whilst our recent export results have been promising with exports of goods and services at $94 billion, an increase of 10.5 per cent over the corresponding previous financial year, Australia must strive to boost its international competitiveness and adopt international best practice if we are to capitalise on the new export opportunities which will emerge in increasingly complex and dynamic world economies. This trade performance has been achieved despite the tumultuous situation in some countries in Asia and is due to the initiative of our exporters and the facilitation provided by government agencies.

Diversifying our markets beyond Asia into countries such as Egypt, South Africa and Iran has obviously assisted in achieving such a result. This is not to say that trade with Asia is not important, clearly it is vital, with Japan continuing to be our largest destination for exports and second largest source of imports and Korea remaining our second strongest export destination, responsible for eight per cent of our total trade exports.

Having highlighted this trade performance, there is no doubt that the financial crisis in Asia that we have all witnessed over the past 12 months will have an effect on our trade within the region. The effects of this crisis were considered at our last seminar and copies of the recently tabled report are available here today. I will not delve into this matter in great detail here, although I would expect some of our presenters will explore its longer term effects on our trade. However, I would like to highlight one outcome of the APEC finance ministers conference in Canada.

To help ensure that the region returns to sustainable strong growth it has been announced that Australia will assist in the program of improved training of financial sector regulators. Our contribution principally will be through the Reserve Bank of Australia and the Australian Prudential Regulation Authority when it is established. I should mention that the Wallis reforms have gone through the Senate.

We will also play a lead role in a collaborative initiative to improve corporate governance. This is a complex area as some of our neighbours seek to undertake difficult reform tasks. However, Australia's expertise will help to identify practical and necessary steps in meeting inadequacies in regional bankruptcy laws, accounting standards, disclosure laws and practices, and the like. These are important initiatives and point to what a regional forum such as APEC can contribute to the broader environment in which responses to the crisis are being formulated.

In addition to these initiatives, Australia sees three pillars for APEC attention over the next year or so. These all have the potential to markedly influence our trade environment. The first is regional trade and investment liberalisation. Whilst there have been some incremental liberalisation undertakings during 1997—highlights include Korea reducing tariffs on 182 items, including sugar and wool; China reducing its average tariff rate from 23 per cent to 17 per cent; and Singapore introducing competition in the electricity supply area—the real significant outcome last year on trade liberalisation was agreement to pursue a program of early sectoral liberalisation in 15 selected sectors. Nine of these, including energy, chemicals, fish, precious metals, and environmental goods and services are to be implemented from next year. A further set of six, which includes food products, will be developed for consideration at the end of this year. It will not be easy, particularly in the current environment. However, the sectoral liberalisation process is potentially of very great benefit for APEC. The 15 sectors involve over $800 billion of intra-APEC trade. Liberalisation would not only generate economic benefits for the region but also send an important signal to the wider international community.

The second pillar of that is the trade facilitation program. In many ways, APEC's trade facilitation program has a more immediate impact on business in the region than does trade liberalisation because it continues to address the many administrative and regulatory impediments to trade and investment. Harmonisation and mutual recognition of the standards, for example, have a central role in improving the environment for business in the region and reducing transaction costs.

The last pillar is economic and technical cooperation. The government's view here is that this area requires a greater focus and must be more responsive to business priorities. On the WTO front there are some interesting developments as a result of the second WTO ministerial conference held in Geneva four weeks ago. We now have the green light to begin work preparing for services, industrial tariffs and agricultural negotiations. This is vitally important to Australia as our farmers alone are facing subsidies in the OECD of over $280 billion per year. As a result of the Geneva meeting, the 1999 ministerial meeting expects to be able to take a decision on the scope, structure and time frame for a new round of trade negotiations. Australia and the Cairns Group of agricultural trading nations are playing an important role in seeking to improve access for Australia and other international exporters.

Whilst these initiatives will test WTO member governments and the secretariat, there are now new challenges confronting them. Without stealing later speakers' thunder, the issues are the call to use the WTO and its disputes settlement procedures for issues related to trade such as environment and human rights, and the challenging nature of services trade due to the information revolution, together with the expanding list of applicants to join the organisation. All are complex issues and certainly not exhaustive that could tend to take the focus away from key issues still not resolved from the Uruguay Round.

Whilst I have outlined some of the more prominent regional and multilateral frameworks and influences on our immediate trade future performance, I would suggest that domestic issues are going to be at least equally important.

As for reforms in the taxation system, whichever side of the political fence you sit on, changes to finance regulatory arrangements and the way we employ our labour force are amongst a myriad of national influences that will affect the way we do business with our overseas customers in the future. Whilst no specific area of today's seminar has been allocated to domestic politics, this is clearly an area where we have some influence, so I would hope that those involved in the afternoon sessions identify where opportunities for reform are likely to have most impact.

Today we have the opportunity to contemplate what is likely to be the key influences on some of Australia's trade performance in the future. I would expect that some initiatives, whilst benefiting a certain sector or region, may adversely affect others, and so invariably a range of factors have to be considered. However, I would encourage you to speak up and articulate what you believe this committee should be recommending to the parliament to ensure our trade performance in the future reaches its true potential.

SESSION 1: FRAMEWORK TO BUILD THE FUTURE—AUSTRALIAN TRADE AT 2000

A View from Business Mr Jeff Schubert, Economic Adviser, Australian Business Chamber

A View from AcademiaProfessor David Robertson, Melbourne Business School

ACTING CHAIR—It is my very great pleasure now to introduce Mr Jeff Schubert, who is the Economic Adviser of the Australian Business Chamber in Sydney. Here his key responsibilities lie in the areas of Australian and world economic issues and Australian taxation reform. Jeff has previously worked in the banking industry, as a business consultant in Sydney and Russia, as a writer for the *Australian Financial Review*, and as an economist with a number of government departments including ABS, Commonwealth Treasury, PM&C, and the Reserve Bank of Australia. I do not know why we let you go, Jeff! Welcome, and I look forward to hearing your perspective on what Australia's trade environment might look like in the year 2000.

Mr SCHUBERT—I guess I am part of a duo here in the first session—I thought I was part of a trio—so it is a little hard when you are in that situation to exactly work out what you should be covering without just repeating what other people might be saying. I think what we are required to do in this first session is to give the big picture. The world is a pretty big place. I have 20 minutes so I have decided to skip over a few things—the sorts of things that I do not have too much disagreement with—and move on to a few issues which I think are quite important.

The things that I really want to skip over are the performance of the US economy and the outlook for that economy in the year 2000. It is only 18 months to go and to some degree we can extrapolate forward. Alan Greenspan is having a lot of trouble coming to grips with why the US is able to grow so strongly with such little inflationary pressure, and I have no intention of trying to beat him at his musings. Certainly the US economy is chugging along nicely, and there are signs that Europe is growing quite well, particularly in Germany and the UK.

I know you have had an Asian seminar, but unfortunately that is where the problems are and that is where most of the uncertainties are. You would have seen reports in today's press that Japan may well be getting additional data today suggesting that it is in some sort of severe recession. In recent months I have actually spent a lot of time looking at Indonesia and South Korea. I have spent time in those two places trying to come to grips with the problems there.

I came away from Korea feeling quite optimistic. There is quite a severe recession there this year—maybe a decline of five per cent in GDP or more. 1999 might be a flat year but I think by the year 2000 we will start to see a recovering Korean economy, provided that nothing else goes wrong in this world. That is going to be good news for Australia's exporters and good news for some of the other countries in Asia. The essential strength there is the newly elected President, Kim Dae Jung, who is saying all the right things, trying to do a lot of things, trying to force the pace of reform along against some resistance from the chaebol, business groups and labour unions. But there is an underlying strength in the Korean society, the Korean economy and now the new government and I think there is going to be a reasonably good recovery by the year 2000, so I think we can chalk that one up as a tick, as a positive.

I guess I am a bit hesitant to talk about the rest of the region, particularly China, because I really have no personal experience or knowledge of it, but there is often talk now that a threat of the devaluation of the Chinese currency may well lead to a new round of currency instability in other Asian countries. I might leave that one to other people at this stage.

What I really want to talk about is Indonesia. I think there is a massive problem there, and I think it is going to be a massive problem over the remainder of this year. I think it is going to be with us through 1999. I also think it is going to be with us in the year 2000. I will just give you some statistics first of where the Indonesian economy is. At 8,000 rupiah to $US1, the Indonesian GDP is worth about $US80 billion. At 12,000 rupiah, which is a bit closer to where we are today, it is probably closer to $US60 billion. That is the whole economy. The total foreign debt is $132 billion. The public sector debt is $65 billion. The non-financial corporate sector debt is $US58 billion, maybe $US70 billion. So that corporate debt is almost the same size as the Indonesian GDP at current exchange rates. This is a massive impediment to the Indonesian economic recovery. Some of the people I speak to in Jakarta are forecasting that GDP will fall 20 per cent, maybe more. That means that unemployment, currently 17 per cent, is going to be skyrocketing above that.

There is not a lot, it appears, going on in Indonesia to try to resolve these problems. Political uncertainty seems to have led to quite a bit of paralysis in economic decision making. There has been an agreement put up between foreign bank lenders and the Indonesian government or Indonesian corporates for a framework for individual resolution of Indonesian corporate, Indonesian bank debts; that is, an agreement which has been put in place that is based in a way on the Mexican Ficorca arrangement of the 1980s does not solve the Indonesian corporate debt problem. It puts in place a framework where the corporates can negotiate with the banks to try to resolve the debt situation.

Bearing in mind the fall in the rupiah, many of these corporates are going to be unable to find enough rupiah to pay these US dollars to repay this debt. The foreign banks have not yet said they are going to take losses or write off these loans. It has been rescheduled or there has been the possibility of it being rescheduled and the repayment of these US dollars some time into the future. So unless there is a dramatic recovery in the rupiah, which I think is unlikely, many of these Indonesian corporations just will not be able to repay these US dollars. This is a massive impediment to further inflows of funds into Indonesia and a revitalisation of the economy.

There is a similar story relating to trade credit, too. Despite some efforts by the international banks and the Indonesian Central Bank to get trade credit flowing again to finance imports into Indonesia so that Indonesia can export, it is not working very well, and Indonesian corporates are having a lot of trouble purchasing imports which they can then use as inputs for their exports. Indonesia is now at a very competitive situation. Its currency is very low. Its manufacturers are very competitive but they just cannot take advantage of it.

I just want to say a few words about the involvement of the IMF in Indonesia and draw on my Russian experience. Generally the IMF has a very good approach to the Asian crisis. I think, though, that the IMF sometimes has an approach like that of the theoretical economist—not strong on detail, not strong on some of the individual practical aspects. Just harking back to my days in Russia when I was not working as an economist but I was wandering around the country looking for good investment opportunities in privatised firms, one of the big problems there was that privatisation is fine if you are a theoretical economist but, before you do that, you need to put in place the right accounting framework, the right legal framework and the right financial markets framework. Firms need working capital, they need legal certainty and they need to understand the accounts of other corporations and themselves and they need to pay taxes. The result of the IMF's fixation with privatisation and lack of attention to these details has been massive additional corruption, crony capitalism, financial industrial groups, widespread theft of government assets and a contribution to the massive decline in GDP.

I think in Indonesia's case the IMF contributed very much to the downfall of Suharto with a heavy-handed approach in some of this demanded reform. The reforms that Suharto initially agreed to, he could never deliver, but so far so good. We have got away with the elimination of Suharto without too much problem, at least politically, but the downside of that is that all the problems that are associated with the downfall of Suharto over the last few months have contributed to further problems in the economy and to a further downward spiral in the Indonesian economy. This is going to affect our direct exports not only to Indonesia, which are not gigantic, but to the whole region, I think—Singapore, Malaysia, the whole region. Even people in neighbouring countries are still coming to grips with what is happening there. Australia perhaps needs to take a pretty proactive role in this. I think Alexander Downer's trip to Washington to talk to the IMF and the US was a very sensible thing to do.

The US is very concerned with Russia. It has nuclear weapons. The US bends over backwards to help the IMF finance the Russian government, even when it is fighting wars in Chechnya, et cetera. But the US is going to be less concerned with what is happening in our backyard in Indonesia. Australia needs to be prepared to put its hand up and take a firm line to the degree it can in ensuring that the IMF's reforms are appropriate and do not backfire. Certainly, the IMF needs to be involved because we need all that international finance and the US needs to be kept on-side because we need the finance in the IMF, et cetera.

Australia has a very significant role here in two areas. As I mentioned earlier, one of the problems in major economic change, in structural adjustment, is getting the detail right; not just getting the big picture right. If you get the detail wrong, the big picture things that you get right can be stuffed up. Australia has significant experience in Indonesia in terms of government departments, businesses, academics, but I do not think there is sufficient experience in the bureaucracy to handle a situation like this, which is really outside the experience of most bureaucrats anyway—it is outside the experience of most people.

I really think there needs to be a coordinated effort to try to come to grips with the detail of what is happening in Indonesia. I think the government really needs to bring in the business community in this in some way to try to understand what is happening, to work out the best way to handle the situation and the best way to try to guide the effort and maybe even put pressure on the IMF. Of course, if the Australian government is going to put on this sort of pressure, it needs general Australian community support and needs the best arguments. The best way to do that is to get people involved at this stage. I hesitate to say this, but I suspect that Australia will need to fork out quite large sums of money to Indonesia over the next few years. I do not think it will just be hundreds of millions; I would imagine a billion dollars would go down well in terms of our own interest over the next few years.

There are areas that really need addressing, as I said. To reiterate a couple of them, one is the trade credit issue and the other is bank restructuring. I think Australians could play a role in helping that bank restructuring process. The problem is that it is great if we restructure banks, but the faster you do it, the more you try to recapitalise banks at a quick pace, the less they will lend. So you need moderation in these areas. You need moderation in the privatisation process. As I have already said, in Russia immoderation, lack of moderation, privatisation, led to enormous problems. Even now, some of the privatisation processes occurring in Indonesia are starting to stir up come controversy.

Just moving on to Australia and how we should be handling this situation, once again, it is very hard to get away from the present because the year 2000 is only 18 months away. I think the devaluation of the Australian dollar which we have seen is an entirely appropriate situation. We have to recognise that this is not a cyclical thing in Asia generally; it is a structural thing. As I said earlier, Korea will come out of this much faster than Indonesia because it will be able to handle this situation of restructuring much faster. Indonesia is going to find it very difficult. They are really building a system of business from scratch now. The old Suharto way is gone. Businessmen can still add up like they could then, but they need to have a new approach to the way they interact with each other and deal with each other. They need to rebuild confidences, networks and relationships. This is not something which is going to go away quickly.

The Australian dollar may well be undervalued, but only slightly; not grossly so. Given the situation, the structural changes in our export markets, it is appropriate. I also think it needs to be borne in mind that in late 1996, through 1997 and early 1998 the Reserve Bank was quite happy to see a strong currency to help push down import prices and inflation. I would even argue that, in fact, there was a period of overvaluation of the Australian dollar.

What we have seen now is a reversal of that overvaluation into a period of undervaluation. This possible undervaluation is something that needs to be here, and not only this year; it probably needs to be here for the next few years and into the year 2000.

It is worth making the point—though I am sure you will all understand it—that the weakness of the Aussie dollar is really against the US dollar. This morning when I spoke to some people in the dealing rooms in Sydney the US dollar equalled 144 Japanese yen. It is a very strong US dollar and the Australian dollar is weak against that. But we are not so weak on a trade weighted basis or most other broad based measures. It is appropriate that we are there and that we stay there.

Lastly, I want to get onto the business hobbyhorse of tax reform, which has already been mentioned. You might be aware that most business groups are very strongly in favour of the abolition of payroll tax. Some of the economic theoretical arguments for the elimination of payroll tax are not as strong perhaps as many businessmen would hope. But, certainly if you talk to business people, they do perceive payroll tax as being something which impedes their exports. It adds to the cost of their employing labour and the cost of producing things for export.

The theoretical economists' answer to that is, 'Well, the exchange rate adjusts to take account of any increased costs associated with payroll tax.' However, if we look around the world now we will see that exchange rates do not quite move in these nice theoretical fashions. Nevertheless, there is a bit of a plea here from business groups—on behalf of the Australian Business Chamber, which I represent, and the national business coalition for tax reform—that that payroll tax be eliminated and replaced with a GST.

Certainly, a 10 per cent GST could raise enough revenue to eliminate payroll tax. A GST will cause zero rates of exports, so exports will not bear the cost of a GST, and that is the attraction—taking off the payroll tax cost and having no indirect tax cost on exports at all. I guess I have covered a variety of areas and have not quite stuck to the 2000 script, but I hope these comments are useful.

ACTING CHAIR—To provide the second of our perspectives, I would now like to welcome Professor David Robertson from the Melbourne Business School. He holds the appointment of the John Gough Chair in the Practice of International Trade and has done so since early 1997. His current research interests include assessments of the Uruguay Round agreements affecting developing nations. He has been a consultant to the World

Bank, the OECD, UN agencies and the Commonwealth secretariat. In addition to a number of academic postings, he has also worked for the Industries Assistance Commission, the Department of Treasury and the Office of National Assessments. I invite Professor Robertson to address the seminar.

Prof. ROBERTSON—When it came time for me to think about this subject, I was reminded of an old story that most of you will have heard already about the gentleman from London who was on a walking holiday in Cornwall and he got lost. He wandered on through the fields for a while and he met an old yokel leaning on a gate wearing a straw hat with a straw in his mouth and he thought, 'I will ask him the way.' So he went up to him and said, 'Could you direct me to St Mary's at Chalfont, please?' The old guy hesitated, chewed his straw for a while and said, 'If I was going there, I wouldn't start from here.' Looking at the year 2000 at the moment is not something that I find terribly attractive.

It is quite clear that the conditions for trade in the year 2000 are going to be pretty precarious. I do not think we have thought hard enough about where we are sitting at the moment, because there are a lot of problems ahead that are just being passed over. There are quite clearly many uncertainties. We are only just beginning to see the effects of the Asian crisis on Australian exports. In the first four months of this year, exports to the East Asian region as a whole were down whereas last year they were growing strongly.

That is the result you would expect from having economies that are going through serious structural adjustment. The first thing they do is to contract their imports. We have relied on rapid growth in their exports in order to sell our exports to them, because most Australian exports to the region are actually either primary products or semi-processed products. Thus the immediate impact is that they cut imports because they do not need those inputs any more. I think those effects are only just beginning to show in our export figures.

On top of that, a lot of other things are happening in Asia that could make things even worse. Jeff alluded to China and Japan. I think those two are particularly important to us, not only directly because we export a great deal, particularly to Japan, but also indirectly because they are integrated into the whole interdependence of the East Asian region; so if they go adrift as well there are going to be a lot of repercussions—multiplier effects—going through East Asia that will come back on us.

Before I turn to an assessment of that trade outlook, I would like to make two points in addition to looking at the trade outlook. The first point is about the program. The program focus is on exports. If you look at the agenda for this afternoon, it is all about our major export industries, but there is another side to trade and that is imports. Indeed, as a theoretical economist you can argue that the benefits that come from trade are in the form of imports because that is where you get a higher quality product or a cheaper product or a product which you cannot produce yourself. That is what trade is about: it is actually about exchanging what you are good at producing for the things you are not so good at producing.

So we need to look at the import side as well as the export side. We have focused generally on the lower levels of our exports, but in fact what is happening to our imports, with prices going way up, is going to raise the costs of importing the technical equipment that we use in manufacturing. It is also going to lower living standards because we depend for our living standards on imported high quality manufactured goods. We need to bear in mind that there is this other side to the picture, and that is one thing that I want to talk about.

The second point I want to make is that we must be aware that Australia is too small to influence much that goes on in the world. Our ministers and officials go to international forums like WTO and APEC, and I can speak from personal experience that they punch above their weight, but they are not actually going to achieve a great deal because we are too small. The only way we can react to the problems that are happening in Asia is at home. We only have control over domestic policy. So it is absolutely crucial that we keep in mind that what we do at home is the most important thing, because the other things are going to happen whatever we want to happen.

That brings us to some of the hysterical demands for protection that we are hearing at the moment and to some of the policies that we have had in the last few years which have not done the right thing, in my opinion, to enable us to become a stronger and more competitive exporter. We need to deregulate further—and I will come to that as we go along. Only by doing that can we position ourselves to take advantage of the opportunities that will arise beyond 2000.

I think we are going to go through a very rough period from here until 2000. Soon after that, there will be new opportunities as some of the Asian countries recover their export markets and their economies go back to their former strength. We have to be ready to go in at that point, and the only way we can do that is by ensuring that through domestic policy our producers are set up to be competitive both at home and overseas.

They are the two additional points. I have three points that I want to cover. One is the trade outlook for 2000 and beyond. The second one is the need to consider imports as well as exports. The third one is the significance of domestic policy settings for the optimising of our trade beyond 2000. Let me start with the trade outlook.

On present evidence, trade conditions for Australia in the year 2000 will be less favourable than they have been for a very long time. I think we might find it difficult to find another occasion when it is going to be so grim. Starting on a nice bright point, world trade in 1997 increased extremely quickly. The latest WTO figures show that the increase in world trade was 9½ per cent. That is the second highest annual rate of increase in the last 20 years. The other year was 1994 when it was just 10 per cent. So those two are much the same. We start off from a point where world trade is going very well. The Asian financial crisis is unlikely to have an enormous effect on the world trade figures because the five countries involved in the Asian crisis are really quite small. They account for about four per cent of world gross domestic product and only 2½ per cent of imports into the European Union. So you are not looking at major forces on the world economy as a whole.

In our region, they account for much more. If the growth in other regions can be maintained—and last year there was strong growth in North America, South America and Europe—the chances of these East Asian economies recovering quickly are better, quite clearly, than if those economies do not continue to grow rapidly. If they do, the process of building up exports from those East Asian economies will be that much easier. Unfortunately, there is the problem of Japan and China. They are also facing serious structural difficulties. With China you would not be surprised. They are going through an enormous change in their economic structures anyway. We know that the Japanese economy is not growing. Although last year its exports grew quite well, its imports did not grow very much at all. If those economies do get into difficulties, that will spill over into further weakening in East Asia.

Australia's position is rather different, because we have this very strong dependence on East Asia. East Asia takes something like over 60 per cent of Australia's exports. If you have that much of your export markets at risk, you have a big problem. East Asia provides us with about 37 per cent of our imports. What happens in that area is clearly going to be important for Australia. What did the latest data show? First of all, in the nine months to the end of March 1998, exports to the whole of East Asia grew by nine per cent, over the same period in 1997. If we look at the most recent four months, from January to the end of April 1998, there was a three per cent decline over 12 months earlier. That decline was particularly in foods and manufactures. Exports to Japan, Hong Kong and Vietnam increased in that period, but they went down for all the others. In the five Asian crisis countries there was a reduction of about 20 per cent on average.

There are major effects on exports which still lie ahead, it seems to me, because the second half of this year is where we are going to really feel the impact of the contractions going on in those economies. What I fear is that this will go on well beyond 2000. That is why I say the year 2000 is not a good year to start.

The imports from the five crisis economies—the five Asian countries that are in crisis—have already contracted sharply, and what we are looking for is when their exports will start to rise. This pattern has been common in countries with financial crises recently. We have seen it in Mexico and in Sweden—that the immediate reaction of a sharp financial crisis is that imports contract and then after a while exports start to expand. The extent to which the Asians can do it is clearly going to depend a lot on the way the OECD countries react to increased export competition. As I said, in the case of the European Union only about 2½ per cent of its imports come from that region. The trouble is there are a lot of people around who are very protectionist in Europe. I will not mention agriculture; that is obviously not a question we need to talk about.

There are a lot of protectionist pressures in Europe and there is this great fear that these manufactured exports are based on ‘cheap labour’, which is missing all the point about productivity, wage rates and so forth. Any sharp increase in imports from east Asia could lead to a reaction in Europe, which would result in using tariff barriers or some other form of protection to keep out those goods. That is not to our advantage, so what we have to hope is that the OECD countries remain open.

The United States takes something like eight to nine per cent of its imports from east Asia. So that is a much bigger figure but it has been bigger in the past as well. So a lot will depend on how the east Asian exports actually recover over the next three years or so. I think that is going to happen beyond 2000, which is why it is so important to position yourself to be ready to go.

To summarise, I can only say that a period of continuing contracting markets in east Asia seems assured, and we are going to find life a bit more difficult in the next 18 months. How long it lasts beyond 2000 is difficult to judge because of those various factors I mentioned.

The second point is import competition. Historically, Australia has shown low dependence on trade. If you go back to the 1960s, the share of Australian exports in gross domestic product was around 12 per cent, which for a country this size is really very small. Fortunately, the policies we have had in the decade from 1986 to 1996 have seen major changes in that. The GDP share of exports of goods and services is now over 20 per cent, and the dismantling of border barriers and the deregulation of domestic markets have led to a major improvement in Australia’s productivity and therefore its competitiveness.

According to an EPAC study that was done in about 1996, the full benefits of the decade of liberalisation from 1986 to 1996 will not appear until 2005. These are the sorts of lags you get when you start doing major restructuring of policy. So we still have some benefits to come from that but it is not something about which we should sit back on our laurels and relax.

Because we have a high degree of specialisation by commodity in our trade, Australia is still incredibly sensitive to swings in its terms of trade. Even now, primary products and semi-processed goods account for around three-quarters of Australia’s export earnings, and that is a major figure. If you look at the commodity price indices, you can see that, although things went pretty well in 1995 and the beginning of 1996, there was in fact a sharp fall in the prices of mineral exports and agricultural exports in 1997 and into 1998.

The US dollar values of exports are really under pressure and only the depreciating Australian dollar has sustained Australia’s export earnings. One of the things we always have to watch is what currency you are measuring things in. So the exports that were growing at 10 per cent last year, because of the depreciation, were probably a volume decrease because they are measured in Australian dollars.

The *Economist* figures, which were the ones that were readiest to hand, show that the US dollar and SDR prices have been falling in all commodity categories over the past year. In US dollar terms, these falls are very similar to the depreciation of the Australian dollar. It is between a 20 and 25 per cent reduction in commodity prices. And that is exactly what has happened to the Australian dollar vis-a-vis the US dollar: it has fallen by about 20 per cent compared with the ECU and by about 23 per cent compared with the pound sterling.

These figures we have to bear in mind because they have not stopped falling. Commodity prices will go yet further if China and Japan do go into a contractionary stage. On top of that, data shows that there are huge stocks of raw materials out there in the world, so demand is not going to suddenly pick up. People have got stocks to use anyway. So the full effects of the Asian decline on prices may not be completed yet. We can look for, in those terms, a continuing fall in the Australian dollar.

These reductions in commodity prices exert downward pressure on the exchange rate quite clearly, and this has protected the incomes of primary commodity producers in Australia. But the effects on imports are much less desirable. Real living standards in the community decline as the Australian dollar prices for imports of consumer and high-tech capital goods rise. And rising import prices directly affect many people’s living standards, whereas the exporters that enjoy the rising dollar incomes from the depreciation are a much smaller proportion of the community. This is worth bearing in mind because one of the problems with trade policy is that people—governments, that is—tend to react to sectional demands rather than looking at the effects on the consumer and the community in general.

There are some other problems that come with this. I had not explored these very thoroughly, but the depreciation increases the cost of servicing our external debt. What has been happening is that, because world interest rates and Australian interest rates have been coming down in the last few years, our debt servicing burden has been coming down too. But now that we have got a 25 per cent depreciation of the Australian dollar, the cost of servicing those foreign currency debts are going to go up, and indeed the total stock of debt is going to go up too, because we put that into our accounts in Australian dollars. There are problems on that score that we will need to be aware of in the future, because some of our ratios that are used to assess external debt can be important.

Disentangling these different changes in exchange rates could be difficult. Although I have got some numbers, I think most of them have changed since I did them on Wednesday, so there is not much point in talking about them. But the following is clear: currencies against which the Australian dollar has depreciated account for 41 per cent of our imports. A lot of that is from North America and from Europe. The East Asian countries account for about 29 per cent of our imports, and that includes Japan. As you know, vis-a-vis

Japan, the Australian exchange rate has been stable and there are good reasons for that. This is becoming the numeraire for currencies in this region and by keeping our prices linked to the yen we are maintaining our competitiveness in those East Asian markets which, as I said, take more than 60 per cent of our exports.

What about the domestic policy settings? This is where I start treading on toes probably. There is no doubt that international economic conditions have moved against us sharply in the last 12 months and there will be further impacts on the Australian economy. The recent depreciation of the dollar and its effect on import prices leads to something that economists call the J-curve effect, which some of you may remember from the days when we had fixed exchange rates. What this means is the day you make the change, if it was a big change—and, after all, the $A depreciation has been over a fairly short period—the prices of your imports go up immediately. So, your import values in Australian dollar terms shoot up, in this case by 25 per cent. A change in volume takes time.

On the other hand, on export account, what you have to do to increase the value of your exports is to find new markets and increase the volume, and that takes time. So we have this immediate impact on the current account which is already beginning to reach proportions that represent a problem for us. It is already around five per cent of GDP, and that is without the full effects of the depreciation. If Japan and China also face structural problems, then we are going to have even more difficulty, because that is going to push the Australian dollar lower and widen the gap on the trade balance even further.

What happens at home is that the Australian dollar exchange rate alters the relative prices of traded goods—that is to say, imports vis-a-vis exports—and it means that some of our domestic production becomes more competitive. The only way that these changes can take place and we can position ourselves to be able to do very much after 2000 is if we allow labour and capital and other resources to move freely within the economy. This adjustment will take time, but what we must do is not impede it. Any attempts at impeding these reallocations that are crucial for the adjustment of the Australian economy will make things worse.

There are protectionist pressures around, which have been reviving in Australia in the past couple of years following—how shall I put it?—a sympathetic response to continuing protection for passenger motor vehicles and textiles and clothing. These kinds of pressures have to be resisted. The exchange rate depreciation has lifted import prices into Australia by something like 20 per cent. That is a much bigger increase in protection of domestic production then you get from a tariff. In the case of motor vehicles and textiles, that is added to the existing level of protection, so there is even higher protection. This amounts to a plea for saying, ‘Why doesn’t the government stand up and say, "Look, you have got a major increase in your protection that has been brought about by the exchange rate change. We are going to remove those tariffs beyond the year 2000."’ That would at least set the right tone. The problem at the moment is that, because they get a sympathetic hearing, all kinds of businesses claim they need special treatment. The answer to that is to come out clearly saying that we want to have a competitive economy by the year 2000.

Australia cannot use a number of protectionist measures we have used in the past. For example, subsidies are now subject to the subsidies code in the WTO and we have already had some trouble with the Americans over that. Contingent protection, use of voluntary export restraints, anti-dumping procedures and other systems are also subject to more stringent review internationally. So we should be aware that the number of protectionist instruments available has been reduced. For Australia to minimise economic damage from the exchange rate change requires the present industrial restructuring to be pursued as rapidly as possible to raise productivity and efficiency. The depreciation, as I said, has improved the position of import competing industries and they should not need any other help than that price effect.

What sort of economic reform is possible? There are many things I would like to see done, but a lot of them are pretty unpopular in this House. They include deregulation of foreign investment—getting rid of the Foreign Investment Review Board and foreign investment policy—allowing more competition in the media and banking, and relaxing takeover restrictions. Indeed, although I come from one of the sheltered workshops these days, I believe we should also run a sweeper through our university system, because the universities are going to be places where the research and the training are done if we are really going to become competitive.

Let me wrap up with a few final comments. The outlook for Australian trade is, in my opinion, bleak. It is bleak for goods, for services and for tourism. The major adjustments still lie ahead. By 2000, our regional trading partners may be on the road to recovery and there will be some new opportunities beckoning, but only if we position ourselves properly.

There is, of course, always the possibility that the depreciation of the Australian dollar against the US dollar and the European currencies does offer us a more competitive position there, but Europe takes just four per cent of our exports. There is plenty of scope, but can it counterbalance what is going on in Asia? So, to exploit these opportunities, there is no doubt we need appropriate domestic policies. That is the only option we have. There is nothing else we can do. We need to look very carefully at making sure we do get these changes made at home that will position us to take advantage of these opportunities when they arise.

The thing to remember about industry assistance and trade policy—and this is the thing I keep telling my students—is that it is about domestic income distribution. You do not do anything to the foreigners when you increase protection; basically, you take income away from your own consumers and give it to a company that is getting the protection. As long as we recognise that, we will probably get better policies.

Living standards in this country have been falling relative to the rest of the world for a very long time. The only way to reverse that is by raising productivity. That means doing things at home. So the fundamental prospects in 2000 will depend on the domestic economic strategies that we pursue over the next 18 months. This is the only direct action we have to ensure that we can do something after the year 2000. Thank you.

ACTING CHAIR—I thank you very much for those two very worthwhile contributions. I apologised to you at the beginning because I cannot offer $20 for the first question, but I am sure you have some questions. Mr Henry, I will give you a voucher for a free coffee at morning tea.

Mr HENRY—The $20 would have come in handy to defray part of the air fare, but not to worry. There is something I would like to pursue, drawing together the comments that both the speakers made. Jeff Schubert talked about Australia needing to wield a little bit more influence in the IMF, and Professor Robertson made the point that our ability to actually influence things internationally is probably a little bit circumscribed because of our size. I would like to explore that a little bit. How can we possibly use some influence in the IMF to bring the conditions in the countries in our region back on track? That is obviously to our advantage. They remain our major markets, and we need to get them back on track as quickly as possible. So, what practical things can we do if our influence in the IMF is that little bit circumscribed—short of the suggestion which one of the gentlemen made to throw $1 billion at them? There would obviously be some domestic constraints on pursuing that course.

Mr SCHUBERT—I think David is right about the limited influence. The best way to have influence in that situation, short of throwing money at it, is to know what you are talking about, to get on top of the detail and to have people on the ground who know what is going on and can give good advice and demonstrate they are giving good advice, both in the country concerned and to the IMF. As I have said several times, it is the detail which is important, and that is the hard work. The thing that theoretically economics is not good at is the detail, but it is crucial. The only way to do it is for Australia to coordinate its efforts in the academic community, in the business community and in the bureaucracy, and to get on top of the detail, know the right thing to do and add a few dollars as well.

Prof. ROBERTSON—I did also say that Australia punches above its weight, and I think that is true. I have had a fair bit of experience of going with ministers to the IMF, World Bank, WTO and all the rest of it. I think we do have a lot of influence, mainly because of the quality, which is always respected. But on the question of the IMF, I think Australia did have an impact on the IMF as far as Indonesia was concerned, where they did come back and review the situation. We can have that sort of influence. But what I am really saying is that what happens in the whole world to the world economy is something that we can play only a very small part in. We cannot influence it; we can only make sure we are ready to make the best of it.

K. Sheik HASSANAI—One of the concerns raised here is that there are not enough new markets for Australian primary products. As an Iranian, I know that we are importing $1 billion worth of primary products from Australia and that there is room for expansion of this figure. But since there is a great trade imbalance, Iran is discouraged from going ahead and expanding this trade. Do you think that you can think of ways to encourage countries like Iran, and other Middle Eastern countries, to export to Australia so that the two-way trade can improve? For example, Iran has oil to export to Australia, and this is a good way to increase the two-way trade between the two countries.

Prof. ROBERTSON—I think that the only way we can see any big increase in trade between Australia and Iran is if Iran stops using bilateral trade balances. The main objective of the post-1945 system has been to have multilateral trade liberalised. That means that you do run imbalances in trade with particular countries—all you have to do is make sure that you keep your balance roughly right globally. To give you an example that I often quote, because Americans find it hard to believe, the fact is that Australia has a trade surplus with Japan. I would not like the Japanese to come along and say, 'We want you to take more of our exports because we are running a trade deficit with you,'—because that surplus affects our bilateral deficits with Europe and the United States.

Basically, what we need to do is to strengthen the multilateral trade and payments system that enables the whole world to cooperate and accept that imbalances will occur between countries. There could well be an alarming imbalance between Iran and Australia because Australia exports a lot of things. Because we also have a lot of our own fuel, which is your major export, we are not likely to take too much from Iran, but Iran can export that to Europe and the Europeans will pay you the money and then you pay us. That kind of multilateral system is the way to go. Looking at bilateral balances is incredibly dangerous, and the American-Japanese imbalance has already caused us a lot of trouble.

Mr ROBERTS—I would like to ask a question of Professor Robertson. You mentioned the desirability of putting a hoover through the university system. It seems to me that one of the fundamental things for us to be competitive is to have a good high standard of education and it has to be focused in areas where we may be able to take advantage of our knowledge. What precisely do you mean by putting a hoover through the universities? Obviously, there are very many different areas where we will need to have a very high standard of education for our future competitiveness.

Prof. ROBERTSON—Good point. How you deal with this problem is something I was trying to avoid because I realise how difficult it can be. I agree with you entirely. What we need to do is put a lot more effort into high-tech areas that will benefit our exports. And of course we do lead the world in your particular area—in agricultural research, crop improvements and so forth.

One of the problems I think we have in universities is tenure, which makes it very difficult to adjust labour to demand. Switching to five-year contracts, which is what Melbourne Business School has, means you can get rid of somebody if he is not up to the mark or if that particular area of study is no longer in demand. But, if you have tenure, you have people on the books who are very difficult to shift.

I think also that the university administrations have blown out in size, partly because the universities are now run directly from DEETYA. So one of the things that maybe we should do—and I think this is in the recent West report—is switch towards vouchers, where the students have a voucher and they are free to choose where they want to go, and the courses would then be chosen by the students.

Coming back to Jeff's point about theoretical economics, one thing that is for sure is that university economics departments are under severe pressure because they do not teach what people want to be taught, and their student numbers are contracting very sharply. So you have to allow the 'market' to work, and that means changing the university systems in some pretty radical ways that will not be popular. But, since the universities' academic staff are not that many and the rest of the population think it is probably a good idea, you should probably be able to get away with it.

Mr DeKOK—I have a comment first, then a question. Professor Robertson talked about his fear of the possible increase in protection in the European and US markets. Obviously, I cannot speak for the US, but I think it is abundantly clear that the Europeans have indicated that they will play by the rules of the WTO, like the Australians have, and that any measures that would be taken would be taken in the same light as the Australian government has. For instance, Deputy Prime Minister Fischer indicated this week that an aid package to the pig farmers and the pork industry is totally compatible with WTO, and I am sure that if similar measures were to be taken in Europe they would make sure they were compatible with the WTO as well. That is a comment.

The question is this: there are two things that are going to happen in Europe in the beginning of the next century. First, there is the introduction of a common currency, the euro; second, maybe a little later but certainly in the first few years of the new century, there will be the enlargement. I am somewhat surprised that neither of the speakers so far this morning has spoken about that. I think it would be of great importance for the Australian business community to become ready for the introduction of the euro. I think that would certainly facilitate the possibility of more trade with the European Union and also in terms of the financial services. Of course, later, probably in the year 2003 or around there, the enlargement will impact greatly on the European Union and, as a consequence, will have implications for Australia's trade with the European Union.

ACTING CHAIR—Would either or both of you gentlemen like to respond?

Mr SCHUBERT—Just on the Australian business community's approach to this, I think there is a bit of a scramble going on now to get on top of what is happening in Europe. I think Asia became a sort of catchcry and everybody was focused on that in the early 1990s. What has happened more recently in Asia I think is a bit of a wake-up call in the sense that a more balanced approach might well emerge from this. We do not want to become too anti-Asian, too focused on the non-Asian part of the world. But certainly I think businesses generally are trying to focus—just as is our organisation—their efforts and minds a little more on what is happening in Europe and give the whole thing a bit more balance.

Prof. ROBERTSON—I am not quite sure where to start on this. One of the problems with the European Union is what, in technical terms, we call hub and spoke agreements—that is, just one long stream of preferential trade arrangements made between the European Union and developing countries, either Lome or GSP. There are preferential arrangements already with the Mediterranean and Eastern Europe. So Australia will always be on the back foot because we are not in a preferential trade arrangement with the European Union.

You mention that Europeans obey the rules; that is true. But the CAP still costs European consumers a fearfully large sum of money. If the European Union opened up its agricultural markets, we might export more than four per cent of our exports to Europe. The enlargement to include Eastern Europe will aggravate that problem with agricultural exports, because many of those countries depend on their agricultural exports and have special preferential arrangements with the European Union. So none of those things seem to me to be terribly positive, from our point of view.

The other thing is the use of protectionism. One of the things I would object to in recent European policy is the introduction of standards for labour into, I think it is, the Lome agreement, whereby countries that accept core labour standards get preferential access over others in exports to the European Union. That I call protectionism. So they may play by the rules, but they are preferential rules under article 24 of the WTO, and they are not the rules that apply for MFN.

So I do not see any great scope for us in Europe. I think we have a competitive edge in perhaps some of our so-called elaborately transformed manufactures, because most of the European imports are manufactures; we have some hope there. But on agricultural products I think we are fighting uphill.

Whether the protectionism is there or not, I would always be fearful that the European Union, for example, would use their anti-dumping authority. Australia uses anti-dumping, and I think it is appalling. But when it is used in Europe, it is clearly a protectionist measure. As I say, I do not know quite where to start or where to stop on this question.

ACTING CHAIR—I will take up the suggestion that perhaps we will stop. But on everyone's behalf, I suggest that we thank our first two speakers. Thank you very much indeed.

Proceedings suspended from 10.50 a.m. to 11.10 a.m.

SESSION 2: CHALLENGES TO BUILD THE FUTURE—REGIONAL AND INTERNATIONAL TRADE FORUMS

WTO Beyond 2000Mr Peter Hussin, FAS Trade Negotiations Division, DFAT

ACTING CHAIR—We are looking at the challenges to build a future regional and international trade forum. Our first speaker is Peter Hussin. Peter has a long history of trade policy work, having joined the Department of Trade in 1971. In 1983 he worked as Private Secretary to the Minister for Trade. With the amalgamation of the departments of Foreign Affairs and Trade, Peter took up a position as Assistant Secretary, Multilateral Trade Branch, and subsequently worked as Minister and Deputy Permanent Representative to the Australian Mission to the GATT in Geneva. Peter will consider the future for the GATT's successor, the WTO, beyond 2000.

Mr HUSSIN—Thank you very much, Mr Acting Chair, for inviting me to participate in this seminar. My colleague and I arrived in the midst of David Robertson's discussion piece. I thought that what he had to say was very interesting, as were his responses to some of the questions. I would like to, as the chairman has indicated, look at the WTO in particular. It is very appropriate at the moment to focus on the year 2000 and beyond as it is likely that, at that point, the WTO will be charting a new course in the form of a new round of trade negotiations or something akin to that. I would like to give you a little bit of a run-down on the outcome of the WTO ministerial meeting which was held from 18 to 20 May, which was significant in the lead-up to the year 2000 and beyond. I would like to put that into context and outline some of the positions of the major players and the likely content of those negotiations.

Firstly, the backdrop to 2000 and a possible new round is the Uruguay Round outcome. David may have mentioned this—I am not sure as I arrived during his address—but there were some key features to the Uruguay Round that made it different to earlier negotiations. Firstly, it expanded the old GATT system into services and intellectual property. Secondly, it brought agriculture into the multilateral trading framework in a meaningful way for the first time. Up until that time, the rules that applied to agriculture were actually different and allowed, for example, prohibitions and quotas on imports. Also, the subsidies rules, as applied to agriculture, were different and quite ineffective.

Thirdly, the Uruguay Round saw developing countries participate for the first time more actively across the system. It saw them bind tariffs and participate in some of the agreements that, up until that time, had only been participated in by developed countries. It also greatly strengthened the dispute settlement system. We have seen the burgeoning use of that system since 1995. While it does introduce a degree of conflict between countries, it also encourages compliance with the rules and increases the predictability of commitments that have been negotiated. So that is the backdrop of the Uruguay Round—a change, a watershed, in the way the trading system works and the breadth of it.

Since the Uruguay Round, since the Marrakesh meeting in April 1994, the system has really been focusing on implementation issues to do with the Uruguay Round and in getting the WTO, which was a new organisation essentially, up and running. Until the Uruguay Round, the old GATT system was actually a provisionally applied system. It had never been one of the major bodies governing the world trading and financial system. It originally had been envisaged as one of the three pillars along with the IMF and the World Bank. In 1994, with the Marrakesh agreement, the WTO came into being as a permanent and much broader body. So the emphasis since 1995 has been to get that organisation up and running.

The first ministerial conference of the WTO in Singapore in December 1996 mainly looked at those implementation issues. It was not broadening the scope other than to launch some work programs in two or three areas, on investment and competition policy and on government procurement. Subsequently, there has been some sectoral progress made in the trading system on financial services. On telecommunications there have been agreements reached that were really ongoing business from the Uruguay Round. There has also been a sectoral information technology agreement, which has basically lowered tariffs on information technology products. They have been the achievements since the Uruguay Round was ended.

The movement towards a new round has really emerged in the last year or so. It has been stimulated by a range of influences. Firstly, I think there has been a degree of sectoral exhaustion. In other words, we have looked at areas where there was a reasonable constituency for further progress on a sectoral basis. I think the future prospects for further sectoral liberalisation in the WTO are limited. Secondly, there is a built-in agenda of reviews across the various agreements in the Uruguay Round scheduled for 1999-2000 and also mandated continuation of negotiations on agriculture and services. These are to start by the end of 1999 in agriculture and the year 2000 for services. So we already have some agreement for some negotiations to begin.

Thirdly, with the spread of globalisation, although it does bring with it some fears, there has been movement in developing countries to greater open their markets across the board and also to cut tariffs. So, in a sense, developing countries have created negotiating coin for themselves because they have made unilateral improvements over the last five years. They, therefore, have some negotiating coin to take into a negotiation to actually bind those cuts and that market opening. Fourthly, new issues such as services are increasingly important. Electronic commerce, for example, is a burgeoning new area where there is a need to regulate the relationship of electronic commerce to normal types of commerce.

Finally, there has been an expansion of regionalism. David Robertson mentioned the expansion of the EU. We have movement towards preferential arrangements in some areas of the world, in South America. We also have in our own region continuation of the discussions amongst the ASEAN countries, although obviously the Asian financial crisis is impeding further movement there. But there is an expansion of that regionalism. I think many see the need to multilateralise any concessions that are made within closed regional arrangements, so that the multilateral system itself can keep pace. If there are improvements made, whether they be in Europe or in the Americas, those improvements can be brought into the multilateral system so that they are available to all rather than just those who are in those limited agreements. Australia was certainly one of the early voices in support of a new round of negotiations. The EU was obviously another, in the form of Sir Leon Brittan in his call last year for a millennium round to begin in the year 2000.

Moving now to the second WTO ministerial meeting held last month in Geneva, that, for the reasons I have mentioned, had a different character. Rather than looking at implementation or a sectoral focus, it focused on a future work program for the WTO. There were really four notable elements to the declaration. I just mention that I have put some copies of the declaration on the side table here for you.

Firstly, from our perspective, we were very pleased to see the prominence given in the declaration to the mandated negotiations on agriculture and services, to ensure that they will start on time. I know in earlier discussion our objectives in the agricultural field have been mentioned. Obviously, we saw the Uruguay Round as an important start. But there are significant flaws in the agreement that was reached there. There is a continuation clause in the Uruguay Round agricultural agreement which we want to see come to fruition with an ambitious negotiation on further agricultural reform. So we were pleased to see that that commitment was reflected in the outcome of the Geneva meeting.

Secondly, that meeting launched a broad preparatory process for future multilateral negotiations. The decision on the scope of those negotiations will not be taken until next year, but we believe that something akin to a round of negotiations is the likely outcome. A third positive element was the high profile given to the WTO and to the multilateral trading system by President Clinton in Geneva—clear signs of renewed US engagement. I think it is fair to say that the US had been equivocal up until that point about this idea of a broad negotiation and much more inclined to stick to looking at sectoral issues that were of interest to it. So we were pleased to see that development. Also, the United States is to host the crucial ministerial in the last quarter of next year where we will determine just what will be negotiated in 2000 and beyond. It was also encouraging that he indicated that next year he would seek once again a fast track from the US Congress to give the United States a negotiating mandate.

Finally, there was an agreement for a temporary standstill on electronic commerce barriers; that is, to maintain duty free status for goods or services that are ordered and delivered electronically. That certainly is something that is a plank of our IT industry policy. We were pleased to see at least a standstill on duties for electronic commerce implemented. There will be a new work program in the WTO to look at the other elements of electronic commerce and how they interact with the existing agreements in the WTO. That is where we stand at the moment.

We have a preparatory process that will begin in September. To look at where countries are lining up may be of interest to you. As I mentioned, the EU has been a supporter of a comprehensive negotiation for some time. I know the representative from the EU is here. He might forgive me for mentioning our assessment that the EU has objectives across a fairly wide range of the negotiating agenda, in services, industrials and investment. They are also setting out at the moment on another round of reform to the common agricultural policy, which I do not think goes anywhere near far enough for us, but in Europe it is a positive move. I think the EU would like to negotiate agriculture in a broader context on the basis of its own internal reforms rather than negotiate agriculture alone.

Japan and Korea, for similar reasons, I think, are in support of a new round. They would rather negotiate the mandated areas of agriculture and services in a broader context. Plus I believe that there is some concern in those countries about the issue that I mentioned earlier, the focus that has been given to regional arrangements. They, like Australia, are not party to a broad regional arrangement.

The US position, as I have mentioned, is a bit more nuanced. They have now accepted the idea of a broad based negotiation in terms of sectors and rules areas, but they have reservations over the perceived downsides of a traditional round of negotiation—the length of time traditionally it has taken to complete a negotiating round; the complexity that is involved, particularly with new areas coming into the negotiating sphere; and the rigidity of linkages that comes in a single undertaking where every area of negotiation is in the same time frame. So their position is more nuanced in terms of what they would like to see next year.

The Cairns Group of countries, as you would be aware, has been very active in the last year or so in pushing for further agricultural reform. There was a ministerial meeting held in April in Sydney where our ministers made clear the extent of their ambition for the agricultural negotiations which are to start next year. So that in itself has been a contributory element towards a push for broader liberalisation.

Most middle order countries, other than the ones I have mentioned in the developed countries sphere—OECD countries and a range of developing countries—have been supportive and have shifted the centre of gravity towards a further broad based liberalisation, although it is important to note that there is still a range of developing countries which hold reservations about the pressure of change. The implementation of the Uruguay Round commitments is still in some cases pending, and obviously any change brings with it domestic difficulties. There is a feeling amongst some of them that the Uruguay Round has not delivered as much as it should have in the implementation phase, from their perspective, so they have reservations about going into a new range of negotiations, although it is fair to say that they will in the end—if their interests are sufficiently represented—be prepared to participate.

We now have a preparatory process which starts in September and will run for about 12 months, as I mentioned, until the ministerial in the United States next year. We have to come to decisions on several important issues. Firstly, what subjects should be included in the negotiation and how wide it should be. As I mentioned, we have agriculture and services already mandated. Industrial tariffs is an area that is likely to be added. There could also be a combination of rules based issues and new issues—areas such as investment, competition policy and the environment—that will be put forward.

The second issue is: what sort of time frame? As I mentioned, the United States and some others are dissatisfied with any idea of a repetition of the length of the Uruguay Round, which took about eight years to complete, and have been talking about a three-year exercise. Obviously, the breadth of the subject coverage and the length of the endeavour will be linked in certain ways, and we will have to determine exactly what sort of time frame along with the subject coverage will be involved.

Thirdly, and related to the time frame, is how rigid the undertaking should be. Should it be the traditional single undertaking where nothing is agreed until everything is agreed or will there be scope for early agreements in some sectors, leaving others to be negotiated further? These are the sorts of issues that will be the focus in Geneva for the next 12 months.

In terms of Australia’s ambitions, we will be consulting obviously very closely with our industry over the next few months. On agriculture, our ambitions are very much set out in the Cairns Group documents that came out of the April meeting in Sydney. We are seeking the early and total elimination and prohibition of export subsidies. There were cuts in the Uruguay Round of about 36 per cent on export subsidies. They are feeding through, but there is still an enormous capacity out there to subsidise exports.

We want to see deep cuts to all tariffs and the removal of tariff escalation. In the agricultural field there was the tariffication, or the replacement of quotas and prohibitions by tariff levels. But some of those are exceptionally high and we want to see deep cuts in those, and we want to see the removal of remaining non-tariff barriers. Some countries were able to keep quota protection for products like rice and dairy. So those remaining non-tariff barriers are an objective of ours.

On services, we will be pushing for much greater market access on professional services across a whole range of disciplines. We are also keenly interested in areas like construction, maritime, and education services.

We also have a range of interests in the intellectual property area: for example, the intellectual property aspects of electronic commerce and geographic indications and expressions. There have been some agreements in the intellectual property area for protection of geographic place names being used for products such as food and wine. That will be another area that will be under negotiation and is of concern to us.

In industrials, we want to see wider bindings at lower rates, particularly from developing countries which in the last round did bind tariffs quite substantially but at very high rates. In our region there are particular products that are of great interest to us, such as auto parts, where we would like to see tariffs come down.

Looking forward for the WTO as an institution, there is obviously concern across the membership that the system remain contemporary and able to respond to globalisation and technological developments. One of the areas I have mentioned is electronic commerce and how that can be brought into the system in a way that encourages liberalisation but at least uses the existing rules to regulate certain aspects.

As I mentioned, there are new areas which go beyond market access to cover domestic regulation and activity which often determines the real impact and effectiveness of market penetration and establishment. It is one thing to be able to establish a company in a foreign market and also to be able to be guaranteed access, but what happens behind the border in terms of distribution and in ensuring that the treatment there is non-discriminatory—the same as for the domestic product—is another. This goes beyond the border and is something that some countries would like to see tackled in the next round of negotiations. Obviously areas such as government procurement, investment and competition policy have some sensitivity to them and we will have to gauge the extent to which negotiating these issues is feasible.

Also, at the meeting last month President Clinton raised issues such as the links between trade and labour and trade and the environment and also the need for greater transparency in the WTO's work. These again are matters that we will have to handle carefully, given their sensitivity. We believe there is scope in these areas for positive outcomes—some of them in the WTO; some of them elsewhere—but there is also the scope, if they are pushed too hard, to damage the WTO's ability to effectively regulate the trading system.

Based on what I have said, the outlook or the prospects are that we will have broad based negotiation beginning in the year 2000 that will broaden the trading system. There will be a degree of opposition to the extent of that broadening, but the most likely outcome is a comprehensive negotiating agenda something akin to a round. The actual content, the linkages and the time frame are as yet indeterminate.

In concluding, there are some other major issues which would affect the WTO in its activity beyond 2000. One of those is the size of the institution. There are now 130 countries. It is a much bigger enterprise than it was when I was in Geneva in the early 1990s. It has expanded at that sort of rate in the last six or seven years, and there are 32 countries presently negotiating accession. They cover a range of countries from eastern Europe, but two in particular, China and Russia, will obviously have an influence on the system. The form of their accession and the rules that we are able to negotiate—and that they will accept—will have a very fundamental impact on the WTO.

Obviously, we are trying to have those countries join the WTO on the sorts of rules that are comparable to those that existing members observe. The degree to which we achieve that will determine whether the WTO will be able to continue as an effective organisation. It is very important, given the size of those economies, that they do enter the WTO in the right frame.

The second major area that will affect it is the area of regionalism—the degree to which the benefits that are being negotiated within article 24 of the old GATT allow for regional arrangements, and the degree to which the integration and the cutting of barriers are achieved within those free trade areas or regional arrangements and are actually able to be brought more broadly into the trading system so that everybody benefits. The corollary obviously is that, if that is not achieved, it will impact to the disadvantage of the rest of the membership and also of the institution itself. I will stop there, Mr Chairman. Thank you very much for the opportunity.

ACTING CHAIR—Thank you very much indeed. Our next contributor is Mr Philip Sparkes, Assistant Secretary of the APEC branch of the Department of Foreign Affairs and Trade. The branch has responsibility for the oversight and coordination of the government's participation in APEC. I invite Philip to address us, please.

Mr SPARKES—Thank you. As an old colleague of Mr Hussin, I find myself following him around the world and onto this platform as well; it is not a bad precedent, I must say. Firstly, a plug for our information on APEC. For those who would like more information but who do not wish to be taking too many notes, a lot of what I will be saying this morning is drawn from a quite detailed submission which the department put in to the Senate Foreign Affairs, Defence and Trade References Committee inquiry into APEC, and that is on our web site. So you can tap in and find out quite a bit of information about APEC, including much of what I will be saying this morning.

When I was looking at this question of optimising Australia's trade beyond 2000 last night while putting together some notes, it seemed to me that there were three questions which were worth asking. The first question was: what parts of APEC's agenda will impact on Australia's post-2000 trade environment? The second one was: where will the impact be made? And the third one was: how quickly will it be made? In trying to answer these questions, we will need to look at what influences will drive the implementation of APEC's agenda over the near term.

Looking first at what parts of APEC's agenda will work towards optimising post-2000 trade, we need to look at what APEC's agenda is. That is normally characterised as having three pillars: the first is economic and technical cooperation—the short term for that is, of course, ecotech, and that is historically the first pillar of APEC. The second is trade facilitation and the third is trade liberalisation. The latter two, trade and investment liberalisation and facilitation often pull together under the acronym of 'TILF'. All three pillars will affect the trading environment, some more directly than others.

When Australian observers talk about APEC in this context, they normally focus on the Bogor commitments—that is, the commitment made by APEC leaders at their meeting in Bogor in 1994 that there would be free trade and investment in the APEC region by the year 2010 for industrialised economies and by the year 2020 for developing economies. That was a general statement which was translated the following year at the leaders meeting in Osaka into an operational plan—the Osaka action agenda. Again, for background, I brought a few copies of a sheet which has on one side an outline of the Osaka action agenda and on the other side the principles which govern the implementation of that agenda, and I have left them on the table over there.

The Osaka action agenda resolved the initial dilemma which faced APEC—as to how to implement the Bogor agenda. The framework in which these were to operate was in fact set out in 33 pages of quite detailed text. We have managed to bring it down to one sheet of paper, but obviously a lot of detail is missing. Under the framework it was agreed a number of things were to happen. Each APEC economy was charged with preparing a plan, which later became known as an individual action plan, or IAP, which set out how it would implement APEC's trade and investment liberalisation and facilitation goals in 15 different areas. These ranged from tariffs, non-tariff measures, services and investment—which is really the trade liberalisation side—through a raft of other measures which pick up on the trade facilitation side through standards, competition policy, intellectual property and a number of others. These plans were, however, to be subject to general principles, objectives and guidelines which apply to each of these issue areas. That, as I say, is the other side of that sheet, which runs through the principles that were to be taken into account in preparing the IAPs.

The plans were to be subject to discussion and comment whilst being prepared and then, following their implementation from the beginning of 1 January 1997, subject to review. That review is to happen on an annual basis.

In addition, APEC was to proceed in each of the 15 areas with collective actions. These were joint activities undertaken by APEC members directed at harmonising or simplifying administrative procedures and regulatory requirements and removing related impediments to trade and investment. These are embodied in the so-called collective action plans, implementation of which is oversighted by the committee on trade and investment, which works as part of APEC'S key fora.

The approach to trade liberalisation endorsed at Osaka was a unique mixture, involving actions by individual economies on the one hand and collective actions on the other. It has often been described as concerted liberalisation, although that term does not actually appear in the Osaka action agenda itself. In a sense, it represented a middle course between full GATT/WTO-style negotiations and a completely unilateral approach which would have allowed each economy to move towards liberalisation without any collective agreement on principles and guidelines.

APEC's middle way was ideally suited to the immediate circumstances the region faced, in which a number of economies were moving to implement domestically difficult outcomes negotiated in the Uruguay Round. It was also suited to APEC's ethos as a cooperative process based on consensus and respect for the equality of its members.

The general principles applying to what is called part one of the Osaka action agenda were perhaps the most controversial part of the entire package. The wording of specific principles on comprehensiveness, comparability and flexibility were the subject of difficult negotiations at the Osaka ministerial meeting itself. The principle that liberalisation to reach the Bogor goal should be comprehensive, covering all sectors and barriers, proved difficult to resolve and was, in a very real sense, a debate on whether agriculture—of particular sensitivity to Japan and Korea, but of strong export interest to Australia, New Zealand and others—would be included in the Bogor objective. Comparability, another principle—the idea that liberalisation plans would be roughly comparable, taking into account the level of liberalisation already achieved—was also seen by the active proponents of liberalisation as essential if its unique approach to trade investment liberalisation was to succeed.

The IAP process has a number of strengths. The fact that governments are required to consolidate in one document which must be revised each year all liberalisation measures, including a forward liberalisation plan, is itself a positive factor encouraging liberalisation. The process of formulating their IAPs also imposes a discipline on governments, inhibits backsliding and requires domestic agencies to address liberalisation measures that they might otherwise wish to avoid or defer. It aids the liberalisation process by allowing governments to demonstrate to domestic constituencies that their economy is not alone in embarking on comprehensive liberalisation. In some cases, it has encouraged economies to carry existing plans further or faster than originally envisaged. The peer pressure of annual APEC ministerial and leaders' meetings—an ingredient generally absent from the WTO—is also a critical factor in the ongoing dynamics of the APEC process.

Having outlined the Bogor objective and how that was to be taken forward, I guess a key question to ask at this stage is: how are economies delivering against their Bogor commitments through those IAPs? The first point to make is that this is a new process. The first IAPs were tabled for the first time only in November 1996 and there has, of course, been a second round in November 1997. In this most ambitious and difficult part of APEC's agenda, APEC has made what the Australian government would characterise as a modest but credible start—a baseline on which to build.

There are some practical benefits recorded in the first two IAPs for Australian industry. Importantly, they reinforce and make explicit the direction of trade policy in the region towards more liberal trade investment regimes, including in areas of commercial benefit to Australia. For Australian business, IAPs do three things: firstly, by helping to maintain the momentum of future policy toward more liberal trade and investment regimes, they help create a more favourable operating environment for business in the region. Secondly, they promote liberalisation on a most favoured nation basis, as distinct from discriminatory liberalisation within free trade agreements. I guess that is a point which we need to remind ourselves of: APEC is not a free trade agreement. Thirdly, most plans include at least some measures which improve market access for Australian business.

The IAP process, as I was saying, is still in its initial phases. Most members—at least on tariffs—appear to be on track to meet their target and the trend in the region towards lower tariff barriers. I think one would have to say that commentators have been a little more critical, however, about the areas of liberalisation apart from tariffs—in particular, services, investment and non-tariff measures, which are politically more difficult for all economies to deal with. It would be fair to say, however, that IAPs to date have been uneven, partly reflecting the debate I referred to earlier in terms of the crafting of the Osaka action agenda and the principles that were involved in its implementation. For the most part, the plans contain steps which economies were already committed to, either under the Uruguay Round or unilaterally.

In their 1996 IAPs, for instance, which, in most cases, have only been moderately improved in 1997, the Philippines, for example, included a previously announced policy to reduce its applied tariff from an average of 16 per cent in 1996 to five per cent for most products by 2004. Indonesia included its previously announced commitment to bring most tariffs on manufactured products of over 20 per cent down to a maximum of 10 per cent by 2003. At the same time, however, many of the plans did include new liberalisation initiatives. For example, China committed to reduce its simple average tariff from 23 per cent in 1996 to 15 per cent by 2000. Hong Kong and Singapore, in the context of implementing their Bogor commitments, agreed to bind all tariffs at zero by 2010.

Overall, looking ahead, it is likely that IAPs will deliver incremental improvements over the next few years responding to pressure from individual economies, from the more general political pressure by leaders and trade ministers and capturing measures from unilateral, regional and possibly more global and sectoral liberalisation initiatives. What pace of reform will accompany the current turbulence in the region is clearly an issue that we will have to watch.

It has to be said at this stage that the current crisis in the region, which includes economies which are all members of APEC, will inevitably bring pressure on governments to slow the pace of liberalisation, although at Vancouver leaders underlined the importance for regional recovery of maintaining an open market system. In fact, it was a very important observation by leaders at that stage that they reinforced the importance of maintaining open markets in circumstances where there were calls from some regional players to the effect that the marketplace was part of the cause of the problem. I think it was an important restatement of the general APEC commitment to liberalisation that in Vancouver leaders reinforced the need to continue to embrace the global economy and to open markets.

Even if IAPs do record slower liberalisation over the next few years, we need to recall that the target dates here are 2010 and 2020. To pick up the theme of your seminar, Chairman, that certainly is well beyond 2000. It is a long way out, particularly for developing economies, and, as my colleague was saying, before 2010 we can expect that a further round of multilateral WTO negotiations will have started and hopefully finished. That, of course, will also have an impact on the regional commitment to trade liberalisation. Developments in other subregional fora such as ASEAN, in particular AFTA—the ASEAN Free Trade Agreement—will also play into the environment in which APEC's longer term trade liberalisation is running.

Having looked at IAPs and concluded that they are in an implementation stage and are moving incrementally toward their targets, I should move to the other side of the trade liberalisation agenda, which is where most of the commentary in the last 12 months or so has been, and that is so-called early voluntary sectoral liberalisation, or EVSL—or 'Evils' as some people like to describe it. This was a package agreed to in Vancouver in November last year involving a commitment to develop through early liberalisation 15 sectors of interest to APEC economies covering a wide range of industries and measures and comprising nine which are scheduled to be implemented next year in 1999. They are: environmental goods and services; fish and fish products; forest products, which of course includes paper; medical equipment and instruments; telecommunications—that is a mutual recognition agreement, not a trade liberalisation exercise; energy; toys; gems and jewellery, which include precious metals including gold; and chemicals. They are the nine for implementation next year.

There were a further six which are candidates for finalisation next year. They are oil seeds, food, rubber, fertilisers and automotives, although that is a standards issue again, not a liberalisation issue, and civil aircraft. The 15 sectors involve over $US800 billion in intra-APEC trade. This initiative in part was intended to build on the role that APEC played in the successful outcome of negotiations for an information technology agreement in 1996. Sectoral approach has been strongly favoured by the United States reflecting the US administration's existing trade mandate derived from the Uruguay Round to negotiate in certain sectors.

How is the EVSL agenda travelling? I think it is too early to provide a good guide on the likely detail which will be agreed across that sector in terms of the issues that need to be agreed—product coverage, end rates and end dates, including whether we are going to cover tariffs, non-tariff measures, ecotech elements and trade facilitation, for instance. The reason I cannot say very much about this is that next week there will be negotiations precisely on this issue at senior officials level and then at ministerial level when APEC trade ministers meet for their annual discussions on 22 and 23 June in Kuching in Malaysia.

I would have to say, however, that important differences have emerged at the officials level, which we are hoping ministers will help us to resolve, over the EVSL approach.

They reflect differences of interpretation on what the voluntary part of early voluntary sectoral liberalisation means. If you look at the mix of APEC economies, frankly, you do not have to look very far before you come across most of the tensions which are visible in the wider multilateral trading community, and if you look at the particular players, it is easy to see where the sensitivities will lie. Those sensitivities, understandably, are being played out in these negotiations.

If the package reflects the more ambitious end of possible outcomes, clearly there will be important market opening opportunities for Australian business in the region in the post-2000 period and, depending on what the time frames for the starts and ends of these sectoral liberalisation initiatives are, some of those market openings could be coming through early into the next century.

Moving away from trade liberalisation, I will move very briefly to the other two legs of APEC's agenda. The first is the trade facilitation agenda. This has grown considerably in recent years. It now encompasses detailed work in those 15 areas of the Osaka action agenda which I mentioned earlier. Briefly, to let you know the breadth of the issues, we have: standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation, mobility of business people, and implementation of the Uruguay Round outcomes. It is a very large agenda and one which I think will increasingly become important in terms of the next WTO agenda as well, when some of those issues of facilitation will start to move through into the WTO.

As Peter Hussin was saying, it is important to move in behind the border measures and work out how one can reduce transaction costs and move things past the borders. The trade facilitation agenda seeks to find solutions and improve the business environment in the complex areas that I have just been covering. They do that through agreed plans of implementation at a collective level across all APEC economies. While not as dramatic a market opening as the tariff liberalisation or sectoral liberalisation exercises, the trade facilitation agenda responds directly to business concerns in practical ways, and over time it will act to improve the regional trading environment for Australian business.

The third arm of APEC, ecotech—the economic and technical cooperation arm—is, as I was saying before, the oldest and also the most expansive part of the APEC agenda. It aims to achieve sustainable growth and equitable development, reduce economic disparities among APEC economies, improve the economic and social wellbeing of the people and deepen the spirit of community of the Asia-Pacific region. It seeks to do that through a number of activities covering areas such as telecommunications, transportation, energy, and human resource development.

A number of projects are closely related to and reinforce the TILF agenda. Other elements have the potential to improve regional growth rates by addressing important bottlenecks to growth, such as lack of economic infrastructure. The areas covered, as advanced by the various working groups which have responsibility for the ecotech agenda, are also covered on that sheet which I brought into the room earlier on.

To try to bring a bit more focus to this ecotech agenda, which runs the risk of being a little too all-encompassing and lacking a little in focus, in 1996 leaders endorsed some priority areas on which ecotech is required to focus. There were six areas: strengthening economic infrastructure; promoting environmentally sustainable growth; encouraging the growth of SMEs; developing human capital; harnessing technologies of the future; and fostering safe, efficient capital markets. The last one is particularly pertinent at the moment.

In many ways, the ecotech agenda responds to the need for capacity building in developing APEC economies through the many collaborative programs of information sharing, seminars and similar projects aimed at establishing best practice in areas like infrastructure, for instance, in public and private sector dialogue on the very critical question of infrastructure. While clearly having less direct impact on the immediate environment for Australian exporters, if it is successful in underpinning a more sustainable economic development through our region, ecotech will also have done a great deal to underpin Australia's future export performance in the region.

To sum up very briefly where we are with APEC, APEC is characterised as having some very ambitious targets, and you cannot get much more ambitious than free trade and investment on an MFN basis, but it has very long time frames. 2010 and 2020 are beyond the attention span or certainly the business planning horizon of many Australian businesses.

We have seen real progress in the development of the vision for APEC, but implementation is, frankly, only just now starting to occur. There is also no question that implementation will run the risk of being blown off course, to some extent, by the current regional crisis and will be caught up with the timing of the next WTO round. Many economies will certainly not want to negotiate in two fora at the same time.

There are some other elements which can destabilise APEC's implementation. One of those will be expanding membership, and at the end of this year we will have three new members: Vietnam, Peru and Russia. I guess one of the challenges for APEC will be to bring those three economies—one of which is, of course, enormously large—up to a full understanding of the APEC processes and commitments.

My last comment would be that, while the attention of the APEC community and those who observe it will be on the more obvious elements of trade liberalisation over the next little while, and particularly we will be looking at how well we jump over the EVSL hurdle, I think we really should keep in mind too that the less spectacular parts of APEC's agenda—trade facilitation and the ecotech agenda—are going to be quite important in terms of setting that business environment in the period beyond 2000. Thank you very much.

ACTING CHAIR—Thank you very much, Philip. Questions?

Mr ALLEN—My question is to Mr Hussin. Mr Hussin, you mentioned the duration of the last Uruguay Round. Over the last 40 years, each succeeding GATT round has broken the endurance record of all its predecessors. You mentioned that some countries at least are hopeful that in the next WTO Round there will be only a three-year negotiating period. On past performance, they would either have to reduce the scope of the negotiations or find some productivity improvements in the way those negotiations are carried out. Could you elaborate a bit more and give us an idea of what Australia might realistically hope to achieve out of the next WTO round?

MR HUSSIN—On the question you raise, yes, obviously the Tokyo Round was about six years and the Uruguay Round was seven. Then you are looking at implementation, so you are looking at a long time frame to achieve the reform. That is, as you say, a concern of a lot of people. It is certainly a concern of ours as well. That is the sort of issue that we will be looking at.

One idea that has been around is that of trying to break negotiation up into clusters. You would try to find a group of issues where there is broad interest, enough to provide something for everybody, so that there is an internal balance in a certain cluster of issues that might perhaps be more readily achievable in that they are not so complex. You might leave other areas which are just being negotiated for the first time, recognising the differences in economic systems. For example, some of the issues which impinge on people's domestic systems and those domestic systems are very different and you might need a longer time frame to tackle those. That is one idea that has been put forward.

From our perspective, in areas of interest to us, in agriculture we have a long history. We know what the problems are. We know what the solutions are. It is a matter of political will. There is obviously difficulty in adjustment for a lot of countries, but we have a framework that has been achieved in the agricultural agreement in the Uruguay Round. There are flaws in that framework and how it works. Those flaws could be resolved. They are to do with the instruments themselves. The fact is that, although there was a 36 per cent tariff cut, there is only a requirement for 15 per cent on particular items, which allows some tariff peaks to be shielded. Equally, in the area of cutting back domestic support or domestic subsidies, there is an overall obligation. But there is the ability to meet that obligation, firstly, through a market movement which, when world market prices rise, delivers the outcome of a reduction in the amount of domestic subsidisation involved, or in a situation where you can raise support in one area but use reductions in another area so that the liberalisation outcome in some sectors is not delivered.

There are flaws to the agricultural agreement, but it is quite easy to see how you correct those flaws and drive on with the process. It is a much more simple negotiation, or should be. Obviously, the political dimension complicates it. But there are issues like that where there is a difference in the complexity of the actual intellectual exercise and there may be ways of breaking down the negotiation so that you can finish some areas quicker than others.

Mr HENRY—I do not want to cause any undue alarm with this question so I need to provide a little bit of background. We have just kicked off a project in our department, which we intend will be called Queensland 2015, which is looking at the possible trade and investment environment there will be in the years 2005 through to 2015. The only realistic way to approach that is not through any sort of forecasting, which is evidently quite impossible, but to take a sort of scenario approach where we look at some possibilities of what might happen. With that as background, may I ask, probably Mr Hussin, a question? There are extant protectionist forces around. What sort of weighting do you give to the likelihood of a resurgence of fairly widespread protectionism and, in the case that there is some weighting given to that, what sort of measures is Australia taking to deal with it?

Mr HUSSIN—What weighting would I give it? It is very hard. You can obviously create scenarios and look at them but it is very hard at this point to predict where things will be running. There are pressures at the moment because of the financial crisis and we are yet to see how far that will feed through. There is obviously more information becoming available daily and weekly. To date we have not seen that result in a resurgence of protectionism. In fact developed countries at the G8 summit, at the OECD and at the WTO were conscious of that problem and were keen to commit themselves not to see that sort of resurgence.

That said, there will be pressure obviously, we know, in the United States. They can expect, as we can, a quite severe blow-out in the their trade account. Some predictions have it reaching $150 billion in the coming year. The impact of that and the reaction to that is something, obviously, everyone will be watching. But, by and large, people are wary of returning to a protectionist situation and a lot of the developing countries themselves can see that that is not the way forward. In a sense, some of the reforms that are being forced by the financial crisis, as I mentioned earlier, do create negotiating coin that can be taken in. If liberalisation is basically what has to happen in financial markets, commodity markets and goods markets, then it does create in fact an ability to use that in a negotiation that will bind those improvements.

So we certainly are not foreseeing a resurgence. We hope it will not happen and we are doing everything we can to encourage countries bilaterally and regionally, through processes like APEC and the WTO and the OECD, et cetera, so that that situation does not come to pass.

ACTING CHAIR—Surely part of the solution of the country's problems is net exports, and it is a bit scary if they are not allowed to export their way out of the problem.

Mr COLEBATCH—I am from the *Age*. I have two questions on APEC. Firstly, on the early voluntary sectoral liberalisations, which is the first significant trade negotiation that we have been involved in since the crisis broke, is there any discernible impact of the crisis in terms of the way countries are responding? Secondly, could you explain what the fuss over the word 'voluntary' is and how other countries are interpreting it?

Mr SPARKES—I guess the impact of the crisis is difficult to divine out of the general resistance from some economies to the concept of sectoral liberalisation. Part of the difficulty we have is a difficulty all negotiations face, which is that we have been tasked by political leaders with a quite ambitious agenda and, when you trickle that down to the official level and put into the negotiations some officials who see their main responsibility being to defend their turf, you do not always get very positive responses from some of those officials. So part of the problem we have is that the political momentum behind this approach needs to be reinforced at that political level again to raise the level of ambition of this exercise.

Having said that as a general comment, I think a number of the developing economies in the region are obviously distracted by their domestic concerns, real concerns, and to some extent bureaucratic resources have been concentrated on dealing with the immediate urgency of problems rather than dealing with questions like sectoral liberalisation. In prioritising their agenda, having to deal with a meeting of officials to talk about sectoral liberalisation comes further down their list than some other more urgent issues. I do not think there is anything life threatening about the regional crisis in terms of the sectoral liberalisation; at least, we hope not. We hope that ministers, when they meet in a few days time, will be able to give us a bit of clear guidance to officials levels to take us through to the end of the year and develop a good outcome.

On the question about the word 'voluntary', part of the difficulty here is that, while there was quite a clear delineation of the sectors which leaders approved for development in Vancouver last year, there was also some language in the decision which said that, in accordance with the usual APEC approach, it would be for each economy to decide which sectors it participated in. At one extreme, some economies are interpreting that in what I guess I could describe as a permissive way, saying, 'We would only want to participate in three of the nine fast-track sectors, and within those we only want to participate in the trade facilitation and ecotech parts, not the trade liberalisation part, and within the trade liberalisation part we might only what to pick 25 per cent of the tariff items which have been mentioned there.'

That does represent an extreme view, but, if everyone took that approach and quietly crossed out all of their sensitive areas, then there would not really be very much of a package left at the end of the negotiation. We are looking to ministers to focus on that, to provide a bit of rigour back into the negotiations to make sure that at officials level we do not spend the rest of the year arguing about what 'voluntary' might mean. We will have some clear guidance.

ACTING CHAIR—Did you have another question?

Mr COLEBATCH—I did have another question.

ACTING CHAIR—There are real productivity increases here!

Mr COLEBATCH—Very much on the question of productivity and priorities, the trade facilitation and ecotech agendas, as you have mentioned, have expanded hugely. In this town there is certainly a lot of concern that APEC's activities have grown far too big for it to be able to come up with any substantial achievements. Is this a perception held in countries other than Australia, and is there any action likely in the next year to try to slim down APEC's activities and focus on actually achieving results?

Mr SPARKES—There are a couple of ways to answer that question. A number of economies, including our own, are concerned to make sure APEC is as sharp an organisation as it can possibly be. There is a concern that the agenda has grown perhaps more rapidly than good governance might have suggested it should have done. That is partly a function of the fact that APEC is a very young organisation and a lot of ideas which might not now be regarded as absolutely central to securing APEC's agenda were considered to be so a few years ago. So, yes, there are some concerns and, in fact, there will be a debate at the senior officials meeting next week to address precisely that issue.

A number of economies clearly see the trade facilitation agenda and, particularly, the ecotech agenda as being very important to their commitment to the APEC process. As I suggested, perhaps a little obliquely, in my talk, I think a number of developing economies, particularly those which have been hit by the current crisis, to continue to embrace the trade liberalisation agenda in a very positive way are looking for a bit of help in terms of the ecotech agenda—for instance, to strengthen the institutions which have been found wanting as a result of the crisis and which have made the crisis more intense than it might otherwise have been.

I think there is an obligation on all of our parts to be seen to be responding to that concern. Frankly, this is partly from a defensive point of view, to make sure that the amount of backsliding that we might otherwise see is minimised, and also to try to underpin the sustainability of the recovery when it comes, which is in our enlightened self-interest to do.

ACTING CHAIR—I thank our two speakers, Mr Peter Hussin and Mr Phillip Sparkes. If there are more questions, perhaps you could take advantage of the luncheon adjournment. We are running a little late, so perhaps if we reconvene at five past one we could still be consistent with Professor Robertson's admonition about productivity.

Proceedings suspended from 12.19 p.m. to 1.07 p.m.

SESSION 3: BEYOND 2000

Mining—Mr John Roskam
Mr Richard Knight

Manufacturing sector—ETMsMs Linda Botterill
Mr Pat Boland
Mr Peter Tyree

Agriculture—Mr Lyall Howard
Mr Mitchell Hooke
Ms Rhonda Treadwell

ACTING CHAIR—We will now have a number of panel discussions. We are fortunate to have John Roskam from Rio Tinto and Richard Knight from North Limited with us. Richard has extensive experience in mining, from the coalface as an underground miner to his current position as a board member and Executive Director—Development at North Limited.

North Limited through ERA owns and operates the Ranger uranium mine and owns the neighbouring Jabiluka uranium deposit. The company also operates iron ore, copper and gold mines in Australia, a zinc mine in Sweden, an iron ore mine in Canada and is participating in the development of a large copper mine in Argentina. North also has active mineral exploration programs on six continents.

Mr ROSKAM—Good afternoon to the participants. Congratulations to the committee for organising this seminar and to Simon for his excellent organisational work. I am here on behalf of Rio Tinto. My background is in law and economics. I thought I would not speak for very long, but give you an outline of some of the issues as Rio Tinto sees them for Australian trade and then open it up for questions after Richard's presentation. I thought I would provide a bit of a historical context for Rio Tinto's engagement in trade and then provide some directions and suggestions for the committee and commentators to consider.

Firstly, if I can talk about some background to Rio Tinto. Rio Tinto is the world's largest mining group. It has a market capitalisation of about $US20 billion. Rio Tinto was formed in 1995 as a result of a merger between CRA in Australia and RTZ in London. It has diversified into exploration, mining and processing. We have experience of globalisation. Rio Tinto has 94 sites in 23 countries. Our major assets are in Australia, North and South America, Asia, Europe and Southern Africa. Our principal commodity groups are aluminium, copper, energy—which includes coal and uranium—gold and other minerals, industrial minerals and iron ore.

In the context of the Asian environment and what you would have been hearing about today, Asia takes about 40 per cent of Rio Tinto's total sales and out of that Japan is about half. The key elements of our trade with Asia are iron ore 25 per cent, aluminium 25 per cent, coal 20 per cent and copper about 10 per cent. An interesting development over recent years is the emergence of China and that has got great interest for Rio Tinto. In 1997 China was the world's biggest steel producer. Its inputs of iron increased by about one-quarter. So for the first time last year Rio Tinto's sales to China were as big as our sales to Japan. With the issues in Asia at the moment, Japanese steel production is expected to decline.

The first thing to talk about in relation to trade and opportunities is that as a mining company Rio Tinto takes a long-term view. Our mines are expected to run for decades often and you will see in our annual report, for example, that we make projections for the life of mines going past the year 2018.

A little bit about our position on Asia might be of interest to you. Certainly our view, as with most commentators, is that the prospects for Asia are uncertain. The main impact for a company like Rio Tinto is going to be lower prices for the commodities rather than lower volumes. However, at the same time—and I gather you would have got this today—the US economy and the European economies are very strong and especially in continental Europe there are prospects for improvement. The US, however, continues to be our biggest market for most commodities. So when you balance out the Asian issues with Europe and the United States, the outlook for us, as we have said publicly on a number of occasions, is perhaps not too bad.

In relation to Asia very briefly, the surprise with which the crisis was greeted really reflects the uncertainty and perhaps the lack of understanding of key aspects of Asia and the fact that Asia is not one homogeneous unit but a number of regions and a number of countries and, therefore, the impact of the Asian crisis will be different across countries. Again without considering all of the aspects of why it has happened and why it has happened now, if you look very briefly to the outcomes of the Asian crisis, there are a few which we have certainly been considering.

The first outcome will be economic liberalisation generally throughout the region. With that will come a greater transparency to markets and to the economies. At the same time the underlying strengths of Asia, which are important to us, and I dare say to many of us here today—the skilled labour and the larger markets—will be maintained, as will the propensity to save. It is a paradox that at the same time as we are talking about the propensity to save and how important that has been to Japan of late you now hear commentators talking about how Japan has to encourage its country to spend.

In relation to the rest of the world, the concern of Europe is certainly with unemployment, monetary union and probably over the next four or five weeks the World Cup. In the United States the economy is booming. You might have seen today in the *Australian Financial Review* Alan Greenspan saying that the economy is as strong as he has seen it for the last 50 years. It is also interesting that he says he does not know and we will not know what the factors are that are influencing that economic performance for another four or five years.

The historical background to not only Rio Tinto's or CRA's involvement overseas but with this country generally is that Australia's economic development has been based on our export trade, specifically after the Second World War our close relationship with Japan and Asia, agricultural exports, resources exports and manufactures. That trade has been built on long-term relationships and, of course, long-term relationships with Japan that go back to before the Second World War. Those relationships and their strengthening were important then and are important now, and perhaps are even more important—and this is recognised. So, for example, in the midst of all the uncertainty about Indonesia, it is very interesting to note that the Northern Territory minister who is responsible for Asia, Daryl Manzie, is in Indonesia as we speak.

So there certainly is a recognition that all of those relationships have to be maintained and strengthened. Certainly this is a theme you will hear often from us and other mining companies: now is not the time to abandon those relationships; now is the time to strengthen them. The experiences of Rio Tinto and other mining companies are that those relationships take many, many years, if not decades, to develop.

It might be worth while to talk about some of the challenges for Australia in the current environment. Perhaps the first thing—and it is quite specific, but it is important to Rio Tinto and to Australia generally—is our relationship with China. Generally, trading blocs are at risk of hampering the development of our trade overseas. The European Union is growing, and there are negotiations for free trade continuing in the Americas. We can have a debate about whether or not protectionism in the United States is growing. But certainly you could conclude that, within the Americas themselves, there is a growing demand for a larger free trade area.

In the context of all of this, we regard China as the prize—and that is a term we have used before—because of its size and the long-term strength of its economy. Trade between Australia and China is growing at about 15 per cent a year. China is going through massive change and, again, the arguments for and origins of that change can be debated. Increasingly, people are looking at the 1994 devaluation undertaken there as perhaps a stimulus for that. But, similarly, there are changes through which the strict central control is being eroded. Increasingly, state owned enterprises are being wound back. And, of course, that has unemployment consequences as well for China. So certainly China is one of the key themes I would like to mention today.

To a more general level in relation to what Australia needs to do to encourage trade and to consider its options: generally, we need to consider that trade is two-way—exports and imports. That is a truism and it is trite, but it needs to be emphasised. In the same way as Australia is developing its relationships with countries overseas—as is Rio Tinto—increasingly, Asian partners are taking an equity stake in Australia. The Australian government and policy makers have to take account of that. For example, Hamersley Iron has a mine in which the Chinese have an equity stake. We have coal mines in which the Japanese and the Koreans have equity stakes. One of the key reasons for those equity stakes is to ensure security of supply. But the treatment that those countries and those companies based overseas receive in Australia certainly influences their attitudes on how we deal with their exports.

It certainly is the case at the moment, unfortunately, that there is a perception that excessive regulation is hindering Australia's attractiveness as an investment destination. Again, you would have heard today about globalisation, about footloose capitalism and such things, and that is certainly the case. Rio Tinto, for example, is technically an overseas company. If Rio Tinto wishes to buy a single house for one of its employees, it needs specific approval from the Foreign Investment Review Board for that specific house and that specific individual to live in that house.

No-one is arguing the legitimate role for some government oversight of foreign investment—and, indeed, that is important. But we can certainly debate whether that excessive regulation, dated often in the late 1960s and early 1970s, might not be reviewed. The debate we have had about the Multilateral Agreement on Investment is interesting because it has raised all the challenges about freeing up the economy and policy makers coming to understand the open nature of Australia.

Whether it is for imports or exports, Australia needs to consider generally its competitiveness. Again it is trite, but companies like Rio Tinto look at the tax regime for areas, the land access regime and matters such as industrial relations. Again that is important. To some extent it is often less one particular aspect of a country, such as tax or attractiveness to invest, and more a perception that is allowed to develop as a result of a number of factors. All of those things in relation to competitiveness not only relate to the ability of us to invest here and overseas but also relate to our ability to secure reliable exports—and that is very important again, as you would know, with all our Asian customers. So far with iron, Rio Tinto has been reasonably successful in maintaining that. Of course, you might know that with coal sometimes it is a different story.

To summarise: some of the lessons for government and some of the things the committee might consider over time are, as I said, firstly, what are the issues that relate to the competitiveness of Australia? It is something that is examined all the time, but it is worth while to have continuing re-examination.

Secondly, we need to consider how those long-term relationships can be maintained, whether political relationships or business relationships; and then it is support for those business relationships. Again, some specific things, such as support for business councils and chambers of commerce, are very important and very valuable. The Australia China Business Council, for example, is an important conduit and network for not only the Australian government but also Australian business people dealing with the Chinese.

Then there are specific areas and incentives. The invest Australia program, instituted by the current government, has been well received; it has been received as a recognition of the need to create a perception that Australia is encouraging trade and is encouraging investment. Similarly, the work of DFAT, for example, considering what are the aspects that will bring people to Australia and encourage our exports, is important, especially in the environment that is seen to be regarded in relation to Australia's position in Asia and some of our politicians' positions in Asia.

I hope that provides a little bit of a background of what Rio Tinto does and what Rio Tinto thinks are important issues for the future. Thank you. We look forward to your questions at the end.

ACTING CHAIR—Thank you, John. Richard, would you now like to speak?

Mr KNIGHT—Chairman, ladies and gentlemen, John has given you a broad brush coverage of the topic of the globalisation of the mining industry. I want to address it from a slightly different perspective, using North Ltd as a case history. We are only about one-tenth the size of Rio Tinto, and our decision to diversify overseas is a relatively recent one. So it is still well within corporate memory.

I will not go through all of this blow by blow. North Ltd is a company that was founded in 1912. It was one of the Collins House Group, and it was fundamentally an investment holding company until 1988.

Post the Wesley Vale pulp mill decision in 1990, we realised that we had to reinvent ourselves; that in order not only to survive but also prosper and grow we had to re-examine the way we did business. We had to re-examine our future opportunities. All of this led to a process which led in turn to a decision to go overseas. This all happened during the early 1990s. Until that point, we had a very strong dependence on Japan, but our view was that that was unhealthy in the long term. Having said that, we are by no means turning our back on Japan. I would like to reinforce one point that John made relating to relationships. Perhaps the most important single factor in being a successful diversified mining company is the relationships that you build. You build them over 10, 20 and 50 years, and that is something you can never turn your back on.

Globalisation is not new to mining. It is relatively new to Australian mining companies but in previous generations, European companies globalised, then United States companies globalised and, more recently, Canadian companies globalised. Why have they done so? Fundamentally, the underlying reason I believe is that mineral prices are decreasing in real terms and have done since time immemorial. So there is a constant pressure to reduce costs, and that translates into a constant pressure to develop better and larger resources. That is the primary driver behind the whole initiative.

In 1994 North restructured itself and created the Development Division to drive its international initiative. We were given a growth charter and we were given a strategic direction. We are responsible for North’s strategic planning. The first initiative was to go overseas into five regions with exploration. We have since made a series of acquisitions. Post the exit from APPM—the pulp and paper business—we fortunately had a very strong balance sheet and a substantial amount of cash. Our first acquisition was in Argentina. We subsequently acquired a zinc mine in Sweden and have most recently acquired an iron ore operation in Canada. Each of those posed some significant challenges which I will come to in a moment. Argentina, in particular, has been an immense learning experience. Although most of the people that we deal with in Sweden speak English, the first thing we realised is that they do not think the same way that we do. Even the Canadians have a slightly different approach to life and to business.

What we are trying to do is to build all of our businesses into significant units on a global scale. Five years ago at least 95 per cent of our assets were in Australia. Now, as you can see from this pie chart, we have 61 per cent in Australia, 22 per cent in North America, 10 per cent in South America and the final seven per cent in Europe. That is a much better balance from our point of view, and I would venture to suggest that in terms of the health of Australian mining companies it is a much better balance as well. I will elaborate on that point in a minute. Fundamentally, to have a healthy mining industry in Australia, you need healthy companies. To have healthy companies, they need to have a foot outside the Pacific Basin.

To some extent I have pre-empted myself on this slide, but another fundamental truth of the mining business is that mineral resources are a depleting asset. You are in constant need of renewing them. By restricting your activities to one country, you are actually restricting your opportunities, no matter how large and prospective that country is. There is considerable competition for prospective ground in Australia. The Australian mining industry is mature; it has a high level of expertise. For any company which reaches the critical mass that North has reached, you have to take the decision to spread your risk, to fast-track your growth and to improve shareholder returns by going overseas. I emphasise the point of fast-tracking growth. No company can afford to be stagnant. This is the era of shareholder value and the global economy. If a company does not reward its shareholders, they will vote with their feet and that company will disappear by one means or another.

In Australia, unfortunately, we have had one or two disappointing experiences. We are still, as you well know, in the final stages of getting approvals for Jabiluka. That is a process that has taken more than 25 years and has effectively broken the company that found the deposit. I do not want to make too much of an issue of that, because you do not avoid those sorts of issues by going overseas. When you go overseas, there are equal challenges and problems. The only thing is that they are probably different. Mining is also a global business with international customers. It has very much a customer focus. We divide the world into regions. We look at the commodities we are in, we look at the customers for those commodities, we look at what sorts of products those customers want and try to anticipate what they will want in future, and we try to find the resource which best matches the needs of those customers and also delivers the best possible margin to North.

I say that mining is a global business. The top 50 mining companies around the world are responsible for almost two-thirds of world mineral production. The top three companies alone account for about 18 per cent of non-fuel production. The characteristic of those companies is that they control world scale assets and that they are diverse in their assets so that they can weather the cycles in mineral commodity prices, which are not all in sync. As a company grows, growth becomes progressively more difficult. Believe me, the competition for the best assets around the world is intense. I mentioned a little while ago that at the beginning of this decade we were very heavily dependent on Japan. We have now reduced that dependence to 37 per cent and fundamentally have a better balance around the world. What we do, especially in bulk commodities, is we look at the world in two halves: the Atlantic Basin and the Pacific Basin. We want to get a balance of assets, earnings and customers between the two.

I turn to opportunities and challenges. The opportunities in going international are vast. They are about as numerous as the pitfalls. The first opportunity is access to those parts of the earth’s crust most prospective for minerals. Rather than be content with perhaps less prospective ground in Australia, you can zero in on the most prospective ground internationally. Going international gives you access to capital markets. We now have a higher proportion of overseas shareholders. We are able to raise capital, especially in North America and Europe, more readily than we could in the past because we have a profile in those parts of the world.

We have enhanced our competitive position by accessing bigger and higher grade resources. Most importantly, we are closer to all of the regional markets and their principal customers, not just North Asia. We also target prodevelopment environments, where there is political support for mining, where the approval processes are efficient and—another point that John touched on—where there is fiscal stability. We are also looking for strategic alliances with like minded peer companies. We are seeking overall in a global sense a better balance between risk and reward. The bottom line is improved returns for shareholders.

Those are the opportunities. What are the challenges? They are indeed widespread. What you have to do is be focused. You have to know what you are seeking, you have to be selective and make sure that what you acquire is the best available and, above all, you have to be patient. The key to effective management overseas is two things: people and capital. People are by far the most important. If you want to be a success on the international scene, you have to have not only a clear sense of purpose but also an integrated international culture. That is the biggest challenge facing Australian companies going global.

We have learned some lessons in Latin America, we have learned some in Sweden and we have learned some in Canada. What we also know is that we have a lot more lessons to learn. With a global organisation, it is important that you have proper delegation, that you give the local management authority but with accountability. You have to be politically aware—that is easy to say but much more difficult to achieve in practice—and you have to have a single set of global standards, both technical and behavioural. You cannot behave in one country in a way that is not acceptable in another. There has to be a global standard. Thank you.

ACTING CHAIR—Thank you very much indeed. As there are no questions, we will move on to the next session, which deals with elaborately transformed manufacturing. I welcome Ms Linda Botterill, the Senior Industry Policy Coordinator with the MTIA; Mr Pat Boland, the Joint Managing Director of ANCA; and Mr Peter Tyree from the Tyree Group of Companies.

Ms BOTTERILL—I am here this afternoon not in my own capacity; I am here to represent Leigh Purnell, who is the Director of MTIA's national office in Canberra. He sends his apologies; he was unavoidably unable to be here this afternoon. MTIA is Australia's manufacturing, engineering and construction industry association, representing 7,000 companies across Australia. The 18 key industry sectors which MTIA represents range from the traditional basic metals, foundry and forging sectors through to the information technology, automotive, food processing, transport equipment sectors and all major constructors, to name just a few.

As many of you will be aware, MTIA and the Australian Chamber of Manufactures are merging to form the Australian Industry Group. This merger will most likely officially occur from 1 July this year. The newly combined organisation will represent 11,500 companies with more than $90 billion worth of output, over 800,000 employees and exports worth $25 billion. We will be one of the largest industry associations in Australia, with offices in Melbourne, Sydney, Brisbane and Canberra and in regional areas, including Newcastle, Wollongong, Geelong, Ballarat, Bendigo, Traralgon, and Albury-Wodonga. We also have overseas offices in Jakarta and Osaka.

The industry sectors currently represented by MTIA account for the bulk of Australia's manufactured exports. Before addressing some policy issues, I would like to quote some figures: total Australian ETM exports in 1996-97 were valued at about $20 billion and constituted 24 per cent of total Australian exports. Ten years ago, ETMs constituted only 14 per cent of total Australian exports. The largest subcategory of ETM exports is engineering products, which constitute 15 per cent of total Australian exports.

Trend growth of ETMs over the last 10 years, 1986-87 to 1996-97, was 15.7 per cent. The fastest growing category of ETMs is chemicals and other semi-manufactures, which grew at a trend rate of 18 per cent over the same period.

Looking at ETM exports by sector, the top 10 categories of ETM products by value are:

transport equipment and parts, valued at $1.108 billion and representing seven per cent of total ETM exports, with a trend growth of 25 per cent over the past 10 years; new passenger motor vehicles assembled, valued at $1.069 billion and representing 6.8 per cent of total ETM exports, with a trend growth of 29 per cent over the past 10 years; office machines and automatic data processing equipment, valued at $889 million and representing 5.6 per cent of total ETM exports, with a trend growth of 26 per cent over the same period; electrical machinery and apparatus, excluding household, and parts, valued at $854 million and representing 5.4 per cent of total ETM exports, with a trend growth of 22.8 per cent over the past 10 years; machinery specialised for particular industries and parts, valued at $848 million and representing 5.4 per cent of total ETM exports, with a trend growth of 18 per cent over the past 10 years; medicaments, valued at $612 million and representing four per cent of total ETM exports, with a trend growth of 26 per cent over the past 10 years; universals, plates and sheets of iron or steel, valued at $554 million and representing 3.5 per cent of total ETM exports, with a trend growth of 9 per cent; internal combustion piston engines and parts, valued at $533 million and representing 3.4 per cent of total ETM exports, with a trend growth of nine per cent over the past 10 years; professional scientific and controlling instruments and apparatus, valued at $519 million and representing 3.3 per cent of total ETM exports, with a trend growth of 12.7 per cent over the past 10 years; and, finally, other road vehicles, parts and accessories, valued at $495 million and representing three per cent of total ETM exports, with a trend growth of 12 per cent over the past 10 years. I would like to point out that MTIA's core membership represents nine out of these 10 industry sectors.

A major success story of the 1980s and 1990s has been the strong growth in manufactured exports. The ratio of ETM export earnings to domestic imports has nearly doubled since the 1980s, from around one-sixth to nearly 30 per cent. Had it not been for this outstanding performance in sharply increasing the ETM ratio, Australia's annual current account deficit would now be some $7 billion higher.

Clearly though, given events in Asia, further strong rises in the ratio of ETM exports to imports cannot be taken for granted. As all here would know, the latest figures show that Australia's current account deficit ballooned out by 33 per cent in the March quarter to $7.5 billion seasonally adjusted—the largest deficit in three years and the largest dollar increase ever recorded. Exports of goods and services fell by 3.6 per cent in the March quarter.

These results were not a surprise to MTIA. Our own surveys of members undertaken in the final quarter of 1997 and first quarter of this year confirmed the significant exposure of industry to the Asian crisis and the wide-ranging and intensifying impact on businesses. Of the two-thirds of companies indicating direct exposure to the crisis, 91 per cent have already been affected.

The survey covered some 215 companies employing 160,000 people with an annual turnover of $18 billion. The survey showed that companies are being hard hit on a broad front, particularly through reduced export orders, and 72 per cent of those surveyed indicated that was affecting them. Forty-three per cent were affected by project deferrals, 40 per cent affected by increased import competition and 28 per cent by contract cancellations. Almost all of the companies directly affected by the crisis expect a deterioration in their exports to the Asian region over the next 12 months. Thirty-six per cent expect the reduction to be significant and 35 per cent moderate.

However, if we look at Australia's export destinations in 1997, there are clearly some critical markets beyond Asia. If we look at the latest official figures, Australia's top three destinations for ETM exports are New Zealand, the United States and Singapore, which are the recipients of $4.2 billion, $2.7 billion and $1.4 billion of Australian ETMs respectively. These three countries alone represent 43 per cent of all ETM exports which does give us a degree of comfort.

Nonetheless, when we broaden the scope and look at the top 20 ETM export destinations, the highest trend growth was in exports to the United Arab Emirates, growing at a trend rate per annum of 29 per cent from a very low base; the Republic of Korea, growing at a trend rate of 27 per cent; and Thailand and Malaysia, both growing at a trend rate of 25 per cent. East Asian countries which have been seriously affected by the Asian crisis were the destination of 38 per cent of Australian ETM exports, valued at around $7.7 billion, in 1997. Ten years ago, 25 per cent of Australian ETM exports were destined for East Asian countries. Trend growth to East Asian countries over the past 10 years was 21 per cent. Narrowing this down further, ASEAN countries were the destination for 19 per cent of Australian ETM exports, valued at about $4 billion. Trend growth to this region over the past 10 years was 22 per cent. Clearly, then, our trade to these countries directly affected by the Asian crisis is significant and poses major issues for Australia to address.

I have taken some time in giving a detailed statistical break-up of our ETM exports because of the clear significance of Asia to this trade. So, in this context, how do we position ourselves to best optimise ETM trade beyond 2000? Clearly, our economic wellbeing rests on the ability of Australian industry to implement timely and effective commercial strategies in response to these regional developments, coupled with critical government policy responses. On industry's part, we need to ensure our management and skills bases are world competitive, that our emphasis on R&D is strengthened, that offshore market penetration is consolidated, and that renewed efforts are made in new markets.

While they are undoubtedly pursuing opportunities in other markets, our members are not walking away from Asia. On the whole, industry has put too much effort into developing contacts and expertise in Asian markets to now turn away from the region. In talking to our membership, companies active in the region are seeking to maintain their market presence while taking steps to minimise their exposure. In the short term, maintaining existing distribution arrangements in markets affected by the crisis is important. Companies are also seeking to wind back their business operations in these markets to get as close to break even as possible, while avoiding entering into new high-risk ventures.

However, the Asian economic downturn has created not just threats but opportunities as well. The crisis is presenting investment opportunities and these are being carefully considered by some of our member companies in relation to their long-term strategic plans for the region. On the government’s part we need: a competitive domestic economic framework; timely and detailed analysis of precisely what is happening in the markets in our region and other opportunities around the world; to assist and encourage our trading partners to implement appropriate fundamental economic reforms in response to the crisis; effective export promotion and export finance programs; strong and appropriately timed advocacy on market access issues; and emphasis on positive import substitution programs.

The need for improving trade competitiveness must be addressed by: implementing fundamental tax reform; continuing and accelerating broad microeconomic reforms covering such areas as labour flexibility and transport; introducing additional export support measures; abolishing unwanted domestic cost imposts such as the three per cent duty on business inputs entering Australia under the tariff concession system; ensuring Australia’s policy settings are right in order to generate increased innovation and R&D, and to aggressively boost both domestic and foreign investment; increasing our actions to improve market access conditions; and ensuring Australia’s domestic market is not subjected to unfair import competition.

It is not possible to go into any more detail in the time allowed, so I would like to hand over to Pat Boland and then Peter Tyree to offer their companies’ perspectives on the issue.

Mr BOLAND—Good afternoon. First of all, I probably should give a brief introduction to my company, which would be unfamiliar to most people. ANCA is in the business of manufacturing high precision grinding machines. We are a first generation company. I and Pat McCluskey started it 21 years ago. We are a global company. We have subsidiaries in the US, Germany, England and France. Ninety-five per cent of our production is for export. We are totally dependent on the global market.

Firstly, I would like to comment on some of the macro global trends which are starting to impact on our business and long-term planning. The first thing is that the enabling technology for the globalisation of business is proceeding at an incredible rate, but still has a long way to go. We are really just starting to see it. It is still quite expensive in real terms—in terms of running multinational businesses of a more moderate size. The trend lines are down but there is still some room for telecommunications costs to move down.

Along with that globalisation of business will come, probably, the decline of local markets. An impact on that is the increase in the barriers to entry. To become a player now you have to be global. In other words, to get a business up and running in this day of global commerce you have to get to a bigger size than you had to when you just had to tackle the Australian market. That is going to rapidly increase with the increased availability of electronic commerce.

There are two other very significant macro factors. One is the worldwide excess capacity in manufacturing. What keeps our business going, thankfully, is the changing technology which makes a lot of the equipment currently in manufacture obsolete. We see amongst our customer base more and more manufacturing capacity chasing a restricted market which is slowly contracting. Another factor we are starting to think about, which will impact on Australia, is the decline in the populations of most of our major markets in Europe, Japan and the US.

Another factor which is specific to us in the machine tool business is the rapid pace of development. Current enabling technologies are probably way ahead. The available processing power you can buy with computers is way ahead of what is available in software. A huge investment in software is required if you are going to stay up with the market. Another factor is improved quality. The quality of cheap Taiwanese machine tools is probably equal to or better than the best Swiss made machine you could buy 10 years ago. That improved quality has come about primarily with the impact of mechatronics, I suppose you would call it, onto the machine—the mechanics are getting much simpler whereas the control technology and software are getting far more sophisticated.

Along with this improved quality there is a distinct decline in real price. My estimate is that the price of machine tools in real terms has declined by about 75 per cent in the past 10 years. Part of that is technological—the simpler mechanics and the rapidly decreasing cost of computer hardware—and part is the fact that a lot of the world's most significant manufacturers based in Germany, Switzerland and Japan have been shifting manufacture to the Third World. Our major competitor, which is a German firm, has shifted all its manufacturing to the Czech Republic so we are in effect competing with a company with a third-world cost structure but first-world management and R&D.

Just as an example of what is happening now in the globalisation of business, we have a customer based in Holland who has opened a subsidiary in the US. It is really a sales and manufacturing outlet. Any queries are sent electronically to the head office in Holland where VRML—virtual models—of the product they are going to sell are prepared and emailed back to the client, who can manipulate them in any web browser, approve them and send them back to Holland. The manufacturing details—the CAD files—are sent to the manufacturing base which is closest to the customer, which generates the component which then gets delivered.

I would like to talk briefly about some of the problems facing ANCA and, I think, most ETM machines and that primarily is the distance to market. Of all our competitors, transport costs, to us, are highest. The aspect which is the most expensive is one which has possibly not been addressed in a lot of the focus on waterfront reform. The major cost to us is not the actual cost of the transport, it is the time value of shipping equipment to

Europe or the US. With regard to our equipment, you are typically looking at a container, which would be $1 million. Just the time and the amount of capital you have tied up in goods in transit become a major part of our funding. Something which would be of great assistance to us would be a focus on higher speed sea freight. We read about these very high speed people ferries, but any exporter of ETM equipment—high value containers—would be willing to pay three or four times the cost of current sea freight and still be well ahead in terms of cost.

In terms of the competitive nature of the product development, all our competitors have, apparently, attractive R&D schemes—more attractive than what we have. In Europe the Esprit system and others seem to offer far more assistance in terms of product development than is now available under the Australian 1.25 per cent tax deduction. The 150 per cent system has been of enormous assistance to our company to grow. I can guarantee you that we would not be employing what is now 350 people if it were not for the 150 per cent system. Reducing the system to 125 per cent is a very retrograde decision and jeopardises the extraordinary growth that Linda was highlighting.

ACTING CHAIR—Thank you very much, Pat. Peter Tyree is the CEO and vice-chairman of the Tyree Group of Companies, manufacturers and suppliers of electrical and electronic equipment with operations both in Australia and overseas.

Mr TYREE—Good afternoon, distinguished guests, ladies and gentlemen. Just to follow what Pat did, I might, in addition to our chairman, give a quick overview of our organisation. We are a producer of high voltage transformers. You cannot get electricity into your house without them. We are a producer of electronic control equipment. So when you turn your washing machine on it goes up and down, around and about and back and forth and washes your clothes. You cannot do that without the electronic controllers for it.

We also produce electronic gas ignition equipment. You might have a Miele gas cooktop at home. If you do, it has in it a product that we make in one of our factories in Adelaide which turns the gas on, lights the flame and, if the flame goes out, stops you from gassing yourself in your kitchen.

It is interesting to have the mining sector go before us. I think our organisation is the second largest consumer of copper in Australia, turning it into value-added or in some cases elaborately transformed downstream products. You cannot have an electronic motor, a transformer or a fluorescent light without the copper wire that goes into all of those electrical devices to make it work. I will come back and discuss one of the plants that we have in Indonesia later on to draw some sort of parallel with what we do in Australia and what we might do overseas.

The topic today is ‘Optimising Australia’s trade beyond 2000’. Firstly, why worry? Why optimise Australia’s trade beyond 2000? Why do it? What is the logic or what is the need? The answer is: if we do not generate more income and therefore more taxes from wealth generating industries, Australia—and excuse the vernacular—is stuffed. Australia will be stuffed if we do not generate those taxes.

I might quickly define ‘wealth generators’. They include the mining sector, the agriculture sector, the manufacturers, the tourism sector and the support industries that go with them. Without the wealth generators there is a collapse in the ability to pay the wealth consumers—the public servants, the running of this beautiful building that we are sitting in here today, the roads, the services, the welfare, the health, the majority of the prisons in the country and the schools, if I make my point. So if you are not earning it in the first place, then you go broke.

It is very easy when you are at home to make that point. If the income earners in the family do not bring in enough, you do not eat, you do not pay your electricity bill, you do not pay your rent and you are out. It is a bit harder to get the concept when you are looking at an overall country, but the same principle applies. If we do not earn those moneys, then we cannot afford what we are sitting or standing here today enjoying.

To give you a little bit more of an insight into what I am talking about—and I picked this example just because I knew the mining industry was going first—let us have a look at Mount Isa, the township in Queensland. Twenty thousand people live in the township of Mount Isa. There is no reason for Mount Isa to be were it not for Mount Isa Mines Ltd. You would not even have a country pub on the intersection of two highways because it is in the middle of nowhere on the way to nowhere. But Mount Isa Mines Ltd employs merely 3,000 employees—it might be a bit less these days. The point I am making is that those 3,000 employees support 20,000 people, a ratio of about 7:1. So 20,000 people are able to live in that place because 3,000 people are wealth generators in the first instance.

MIM is truly a wealth generator. I am sure North, RTZ, Tyree and ANCA are also wealth generators. Australia’s wealth generating industries—those manufacturers, the miners and the agriculture, tourism and various associated support sectors—employ nearly 3.1 million of the total of all Australian workers, which is 8.4 million. The 3.1 million, therefore, has to provide enough wealth—it almost does—to support the 5.3 million, being the difference of the 8.4 million less the 3.1 million. Further, the same wealth or income generated must support broadly all the 18½ million Australians. It is interesting perhaps to just dwell on the maths—3.1 million times six is 18.6 million, which I think is exactly the population that we have got in Australia at the moment.

The microcosm of Mount Isa shows us the overall position of Australia. There is a limit on how many people can be supported by the wealth generators. We are already at our limit. But it is worse. Last year we consumed $62.6 billion worth of manufactured goods; we produced $61.1 billion. In other words, we got a deficit. So how do we do the make-up? We import; we import the rest of the manufactured goods. But it is still worse.

Whilst I freely hand out all sorts of accolades to the mining industry, by definition a lot of what they do is extractive and connected with a non-regenerative or non-renewable energy source. So if, according to ANZECC, there is about $5.2 billion or 4.4 per cent of our GDP going into that non-renewable sector, perhaps we should just be thinking that a little bit further down the track one day it will run out. That is the definition of a non-renewable source: one day it will run out.

So do not knock it in the meantime, use it, but plan for the day we will not be able to generate export earnings from that non-renewable sector. We must plan to increase our manufactures by more than $6 billion in, say, 20 to 25 years. Otherwise—and I go back to the foundation point I made here today—we will not be earning enough money to pay our bills. We have established, therefore, a very good reason to build up our manufactures: build them up, or we go broke; build them up to generate the taxes to support the cost of government, education, health, cultural and recreational services and everything else that is a wealth consumer.

Now the tough part: how do we build the contribution of all manufactures in proportion to the total of GDP? It is in the order of 15.3 per cent at the moment. How do we make it more? How do we reduce the quantity of imports? How do we increase our exports of manufactures, or ETMs? How do we build up our manufacturing industry?

Chairman, ladies and gentlemen, I suggest that we—you, me, the rest of Australia—agree what is needed. Perhaps we should start with the following. No. 1, the right culture: a culture throughout the country that accepts the important role of manufacturing; a culture that takes pride in the role of factories—a bit like Germany perhaps.

If you go and ask a worker in Germany, 'What do you do?' he will stick his chest out and say with pride, 'I work in a factory; I am in a factory that is making Mercedes Benz or BMW cars,' or, 'I make machinery that is used and exported all around the world.' He will say it with pride, and people will respect him or her as an employee, a worker in a factory. Ask the same in Australia, 'Where do you work?' The mumbled reply will be, 'In a factory.' You will not hear people stand up and say with pride, 'I work in a factory.' We do not have the climate, we do not have that culture to accept that that is good. It is much better if you are a lawyer or a doctor, for then you are a person of standing in the community. But you probably do not generate the wealth; you are a consumer of the wealth. It is vital that this important sector is seen by others from the outside as being a great place and one that we should all be proud of.

If you go back to a few years ago in the tourism industry, before we really recognised that tourism was a wealth generator, it was not acceptable all that much to say, 'I work in a hotel,' or 'I'm a chef.' Look at it today. It is not a bad career to be a chef, a hotel manager or part of the staff of a hotel. People see that these days as a good career. But, of course, the contribution of tourism—and today you can stand up and be proud to be in that industry sector—to the GDP is about a quarter or a fifth of what it now is from ETMs or the manufacturing sector.

Perhaps I could also make a comment to the sceptics who might say, ‘We cannot make it in Australia.’ About a year and half ago—before the current strife in Indonesia—we closed down a factory that we had in Indonesia making goods. We started that factory up because there was tariff protection of 45 per cent plus for anything that we made anywhere else in the world and brought into Indonesia. We saw the tariffs were going to come down under the APEC arrangements.

When we looked at our costs it was not a very difficult decision at all and we decided that we could make product here in our Mittagong or Melbourne factories cheaper than what we could make it for in Indonesia because our cost of energy was cheaper. Our cost of labour in those industry sectors is four per cent. It does not matter if you are paying a couple of rice bowls per day for your labour; the electricity supply and infrastructure in Australia are better, and, in our case, we are a lower cost producer. Maybe it does not work out that way when you are making shirts and shoes, but it does with a lot of other products such as the ones that we make in Australia and export.

I will move on to point no. 2: the right education, educational levels which will stand the test of benchmarking against the world’s best industrialised countries. Education includes schools, TAFE colleges, universities and training institutions. No. 3 is the right incentives and setting the climate for organisations to invest in manufacturing, especially those with an export focus. ETM exports—as Linda has shown—have proven themselves as capable of growing. We are coming off a record that we can already say is good. ETMs are growing, but how do we grow them more? One place we could start is by giving rewards of more profits to the exporting manufacturers.

Let us look at some specific examples: accelerated depreciation allowed for plant and equipment proven to be used in export businesses; and tax holidays for profits especially invested into export businesses. For example, no tax on the first four years of profits on export earnings, providing the companies reinvest that money into export earnings to increase at a certain rate over the base rate identified. In other words, create the climate so that people in industry will reinvest in the latest technology and manufacturing equipment in Australia, which is the lowest cost manufacturing equipment in the world, and give them the climate to make those investments in Australia close to the source of the raw materials where the electricity, gas and primary inputs are lower than many of these other countries.

There could be a 150 per cent or more tax deductibility for export orientated travel, training and finance costs associated with the exports and a 200 per cent tax deduction for R&D which is spent on products which ultimately lead to exports. Our organisation and Mr Boland’s organisation are involved in a CRC together. I cannot speak for how successful Pat’s has been, but the few million dollars that our company and a couple of others have put into that CRC on a specific project that we are involved in now looks like having income earnings of more than $100 million in the next three years. It is all Australian made product going out of this country; not a bad return.

Perhaps I could go on to the next point which is regulation; government regulation that requires, say, 20 per cent of all superannuation fund investments to be invested in Australian owned manufacturers involved in export businesses, who in turn must invest in export orientated plant and equipment, R&D improvements and so on. Chairman, I understood that, because we were running a bit early, I could creep a bit on the time.

ACTING CHAIR—You are doing it very successfully, like most of what you are doing.

Mr TYREE—Thank you. We need regulation that sees investments in people to be employed in export based activities—cadetships, apprenticeships and so on, so there is a lot of a role for spending our taxes wisely here—and regulation which sees the advancement of some major infrastructure projects such as a Sydney-Canberra-Melbourne very fast train, which requires a minimum of, say, 70 per cent local content with an ongoing export component. Wouldn't it be fantastic on the 50th anniversary of the Snowy Mountains scheme to announce that a very fast train project would be going ahead in Australia? It would get out of the sky all the planes that fly over my house and, of course, there is the wasted fuel: a plane going to Melbourne takes about 65 per cent of its fuel just to get up to its altitude, and the rest is downhill, so to speak.

We need regulation which entices multinationals to build a bigger, better manufacturing industry in Australia and regulation which sees successful privately owned Australian companies go through the transition of ownership from one generation to the next without having to be broken up, which therefore causes a loss of their skills and expertise.

Lastly, we need incentives for employees to train more, reach higher levels of education and possess trade skills over and above that of other classifications of employees. On that note, I might give a last example. In our organisation you might have a person who goes through high school into a trade certificate, into a university and then on to graduate, and perhaps he comes out of that at the age of 24. At that stage the chances are that he is earning less than an unskilled process worker who is getting a little bit of overtime. Where is the incentive in our current scheme for a person to go and reach the higher education levels when he or she is not coming right into the prime earning period that they should really be in in their life? When they have just got married or when they are setting up a home, that is when they want the maximum disposable income. We do not have those incentives. Thank you.

ACTING CHAIR—Obviously you have taken far too literally the things that you feel we should be changing, but I appreciated your address very much. Are there any questions?

Mr NEWLING—I would like to touch on a point that Linda made; Peter extended the argument in his closing statement. Linda, you made two points that implied government intervention is a future success factor for continued growth in ETMs: you mentioned the availability of export finance programs—and I am assuming that is at a lower cost of capital—and you also mentioned the removal of unfair competition. Peter talked about government regulation directing superannuation funds et cetera. My question is: do you see government assistance as an integral success factor for optimising trade beyond 2000? Extending on that argument, how do we ensure that is not misconstrued as a government subsidy for the industry?

Ms BOTTERILL—As I explained, I am sitting in for Leigh Purnell. This is not entirely my area, but one area that we feel strongly about, in terms of government investment, is the area of research and development. As Pat mentioned, we were very disappointed when the tax concession for R&D was reduced from 150 to 125 per cent. Basically our view on this is that the case has been made very thoroughly by the Industry Commission, the Bureau of Industry Economics and most of the economic literature that investing in something like R&D and innovation delivers spill-overs and benefits to the community in excess of the investment by the taxpayer. Certainly in the area of research and development, we feel that there is a very strong case for government investment in this area. If we are going to be moving into ETMs, that innovation at the R&D stage of the process is very important.

Mr TYREE—Can I add a comment to that. It comes back to that climate or setting the scene of why you will invest. We are in the world arena so the incentives to make the investment, as I think Richard was saying earlier, are that the shareholders ultimately want to see a return on their investment of the company's profits and the country needs to see a return on the investments that it makes. So if there are concessions given that give people an incentive to go and invest in the latest technology or the latest equipment and R&D—any one or all of them—then there have to be conditions that will then guide those investments back into generating more wealth. Ultimately, the country will do better out of it by making those investments. If you do not create those incentives, someone else—Germany, Brazil, Chile or Afghanistan—will.

Mr BOLAND—Maybe I can comment with the specific details of my company and the impact of the 150 per cent scheme to spell out why I say we could not have been where we are. My company has been a start-up company really since 1991. Our turnover was about $7 million a year. Today we are about $70 million. We have averaged just over 30 per cent growth a year. As well as that we have had to fund exports and so on. The amount of working capital which was required to grow that company has been immense. In a way the major impact we had was the fact that back in the late 1980s and early 1990s we were developing a whole suite of new products and were really spending more money than we had. We ended up with a substantial tax loss situation because of the 150 per cent growth.

Our products have done very well in the market. Our company has been very profitable. But during particularly the early 1990s when we were growing very strongly and putting on a lot of people, we were operating in a tax-free environment because of accumulated tax losses due to the 150 per cent scheme. That really was the key factor in the ability of our company to grow so quickly. If we were paying company tax on our profits, it would have been impossible to grow at the rate we were growing. You just cannot do it. You will run out of money. The 150 per cent scheme in effect was the system that enabled a private company to grow.

ACTING CHAIR—So you are really saying that what you would have paid in income tax you were using to increase the capital base of the company?

Mr BOLAND—Yes.

ACTING CHAIR—Are there any more questions?

Mr ROBERTS—I was interested in the recent responses here and I was thinking in terms of the provision of assistance for industries and the periodicity of it. The final speaker mentioned a number of ways in which support could be given so that industries would be developed and ongoing here. To what extent is it likely to be necessary to have that kind of assistance ongoing in order to keep businesses here, because it is my understanding that many businesses today have very mobile capital and can move from one country to another? Does this mean that some of these businesses will stay here only provided that support is continuous and provided other countries do not provide more?

Mr TYREE—That is a very good question. I guess it comes down to the morality or the culture within the organisation. We are an Australian owned private company and we were very quick to turn off the equipment in Indonesia. Every time we have been in a pretty deep recession in our 50 years of history in Australia we have never turned all of the equipment off and closed the door. That might come down to a certain morality of looking after your own Australian work force where you have some extra form of love for your country. This gets into the warm fuzzy stuff, but I think it is a real part that does work.

I am not wanting to lambaste, necessarily, foreign owned multinational companies that may not have quite that amount of heart in them. That might make the formula a little harder as to how you issue any of those incentives and get a win-win situation so that after they have made their money they do not have any other restraint or moral reason to stay in Australia to continue to give a better return and a longer return on the next phase of any development they do. Toyota seem to be showing a lot of morality in what they are doing in Australia by continuing to invest in plant, equipment and manufacturing.

If you have the honour, as I have had, to meet the chief executive and chairman of Toyota, he will very quickly tell you that the manufacturing costs and quality of the product they make in their Melbourne factory are the best in Asia and one of the best, if not the best, in the world. That might be the main reason they are staying here. There is the educated work force. There is the climate that has been negotiated from time to time to keep them here. It is capital-intensive, unlike some other businesses. I know we export to a Japanese owned company that takes pride in the fact that it can pack up all of its manufacturing equipment, put it into 40-foot containers within a week, move to another country with which it has negotiated some fantastic terms and conditions to set up its business there and be operational within another week, assuming it has already set up or identified a factory that is pretty simple. It has gone from places like Samoa to Indonesia to Fiji. That company hasn't got any morality, if you like, to the local country and its population.

So to try to focus on a direct answer, I think it is by morality, by investments that are not transient—and that is where people I think can identify them—and by a continuing climate, which is a bit like the golden handcuff that you talk about with some employees; they get caught in the place as long as they are making profits.

ACTING CHAIR—Again, we thank our panellists for a very stimulating session and plenty of suggestions for directions for change, which is much appreciated. Our next group of panellists will speak on agricultural exports. We are fortunate to have Mr Howard from the National Farmers Federation, Michelle Hooke from the Food Council of Australia, and Rhonda Treadwell from the Australian Bureau of Agriculture and Resource Economics.

Ms TREADWELL—Thanks for the opportunity of talking today. In the 1990s, Australian agricultural exports have grown in value to about $22 billion. They have contributed fairly consistently about one-fifth of Australia's exports. It has fluctuated a fair bit, being agriculture, but it has been about one-fifth. Despite the Asian downturn late last year, it looks as though agricultural exports this year might rise. Next year, they are expected to fall.

In the long term, Australian agricultural exports have occurred against a backdrop of falling real prices, subsidised production in quite a few other countries, especially the EU and the US, and barriers to getting into quite a few overseas markets. There has also been very strong growth in our nearby Asian markets. We have tended to concentrate on producing goods which use far more capital and land than labour. Agricultural exports in Australia are still dominated by wheat, wool and beef. We have tended to concentrate pretty well on our comparative advantage.

For most of agricultural exports, Australia is not big enough to influence world markets. Wool is the only export where Australia really dominates the world market. At the same time, many agricultural industries depend on the export markets for most of their sales. For instance, about 80 per cent of our wheat is exported, more than half of our beef, most of our wool and most of our cotton. To face those sort of challenges, we need a flexible, open system so that producers and marketers can adapt quickly their production levels, the type of production and where they market it, and they can adapt quickly to changing market conditions. Having an open market is also important to ensure that farmers get the right signals to not only adjust their product output but also improve their production processes and maintain their competitiveness.

Australia has been steadily removing industry protection for a number of years and moving to free trade to gain the benefits that it brings, such as efficient resource allocation and expanding market opportunities. It is important to keep that process moving in the future. At the same time, it also needs to be careful not to sacrifice Australia's relatively disease free status, given the potential increases in the costs of production to Australian agriculture. It would also have implications in losing market opportunities, given consumers' concerns with disease free status, safe products and our clean, green image.

The open market has helped Australian farmers maintain their position as some of the world's most efficient agricultural producers. That has happened with agricultural productivity improving right around the world. The long-term trend is really for agricultural product prices to decline. That will occur in the future just as much as it has in the past. In real terms, agricultural prices are likely to keep falling. For farmers to keep improving the way that they produce agricultural products, they only need the incentive or the imperative to improve, which the open market system will give them. Research also has a vital role in that respect.

I mentioned before the need for flexible systems to respond to market signals. Asia gives you a good illustration of what I am getting at there. Historically, to about the 1960s, Britain was our main market for agricultural products. Britain joined the EU and basically shut us out of preferential treatment in their market. The Australian agricultural industry responded reasonably well and found and developed new markets, mainly in Asia. It has benefited from the very strong growth in those markets over the last couple of decades.

The recent Asian turmoil again shows the need for flexibility. It also provides some warnings about the risks of concentrating on too few markets. The worst affected agricultural industries were probably the live cattle industry and the horticultural and dairy industries. In the live cattle industry, around 90 per cent of exports was going into the three markets of Indonesia, Malaysia and the Philippines. Indonesia virtually pulled out overnight after its economic turmoil. The industry has responded and is developing other markets in Libya—some could say that that is just as risky as Indonesia at the moment—China and Mexico. Some producers are switching back to producing beef as the US market is starting to recover.

The dairy and horticulture industries have also been reasonably successful in diverting some of their trade to other markets, particularly into the United States, Central America and even Africa. The fall in the Australian dollar has helped them find other markets successfully and improve their ability to compete in those markets, which were a bit further away.

For the future, ABARE has forecast increasing Australian agricultural exports in the order of about $1 billion over the next five years. This is expected, even though export returns are still going to decline. In other words, we expect that farmers will continue to improve their productivity. The challenge is really to keep improving their productivity and to keep pushing for freer markets. This will be especially important in the near term, especially in Asia. One reaction they may have to the current downturn is to close up shop and close their markets. Rather than that, we should push them to open their markets and try to trade their way out of the difficulties.

The opportunity facing agriculture is to expand the range of the markets we are supplying, particularly while the Australian dollar is down. We have that opportunity. That will help to reduce the risk inherit in concentrating on very few markets. In a nutshell, that is where we see agricultural exports going.

ACTING CHAIR (Mr Hollis)—Thank you.

Mr HOWARD—Thank you for the opportunity to present the views of the National Farmers Federation on Australian trade beyond 2000. Over the past 20 years, the economic climate has swung strongly in favour of the free market, deregulation and the global system. Trade is booming. The WTO estimates that, during the 1990s, world trade in goods is four times the growth in world output. This shows that national economies are becoming ever more closely linked. Foreign direct investment, another gauge of international economic integration, is also soaring. Annual cross-border investment flows are over $350 billion. It is therefore remarkable that in many parts of the world the global system has had very little effect on agriculture. Indeed, the complexities of government intervention in agriculture today are as great, if not greater, than they were 20 years ago.

Compared with industrial goods, where successful rounds of GATT negotiations have reduced tariffs on manufactures to an average of just 3.8 per cent in rich countries, agriculture has barely got a foot in the door. Trade in food and agriculture is the most distorted part of world trade. This is because agriculture has always been an exception to the rules, whether negotiated on a multilateral or regional basis. From the inception of GATT in 1947, quotas on imports were permitted for agricultural products under Article XI and export subsidies were permitted under Article XVI. For trade in manufactures, both measures were prohibited.

On a regional basis, the task of achieving agricultural liberalisation in APEC has been an uphill battle. The North Asian members of APEC, who are traditionally very cautious about agricultural liberalisation, have singled out agriculture as being too sensitive for voluntary reform. The special treatment of agriculture in the GATT facilitated the development of the Common Agricultural Policy, known as the CAP, by the European Community in 1962. The use of variable levies to restrict imports and export restitutions to dispose of surpluses would not have been possible had agricultural trade been subject to the same disciplines as industrial goods.

The CAP has become a major stumbling block for trade reform in world agriculture.

Despite being very expensive in terms of resource misallocation and despite the burden on the union's budget and the political cost of trade disputes, there is a great deal of reluctance in Europe to face up to reform. Agenda 2000 is the European Commission's proposal for the future of the CAP. The proposals contain deeply unsatisfactory compromises and they will not prepare the Union for the reforms required in the next negotiating round. Everyone knows that real reform is inevitable, but history shows that change in European agriculture can be agonisingly slow.

The European Union is currently grappling with what the *Economist* has described as an awfully big adventure, deepening the union with a single monetary policy and widening the union with the addition of 10 other countries. This will be an enlargement like no other and the big agricultural players are in the first wave: Poland, Hungary, Estonia, the Czech Republic and Slovenia. If all 10 countries joined tomorrow, the number of farmers in the EU would double and the arable area would increase by over 50 per cent. The commission and the member states know that the present CAP is unsuitable for a Union of 20 or more. The internal pressures to bring about CAP reform are real. Further, as the US has substantially reduced its own levels of protection for agriculture in the last farm bill, there will be additional external pressure on the EU to liberalise. This will tend to put Europe on one side of the fence and the US and the Cairns Group on the other.

The Uruguay Round outcomes on agriculture were a significant achievement. The rules and disciplines of the GATT have been extended for the first time to trade in agriculture, a goal that eluded the global trading community for 45 years. The Uruguay Round got the door open, but a lot more needs to be done. As nearly 80 per cent of the value of Australian agricultural production is exported, the future growth and profitability of Australian agriculture will depend on a successful outcome from the next multilateral round. A special provision of the Agreement on Agriculture in the Uruguay Round called for further negotiations in the fifth year of implementation, 1999. In one sense, the process of getting results will be easier in 1999 because it has been accepted that agriculture is part of the main game. In another sense, this time around will be tougher. There is a growing international constituency opposed to reform. There is a need to push for wide-ranging trade talks so that exporters of industrials can secure a better deal through sectoral trade-offs.

For Australia, the Cairns Group will be vitally important in the lead-up to the 1999 Round. On our own, we do not have a lot of weight. However, when we are with the Cairns Group in a multilateral context, we have a chance to make real progress. In the first week of April this year, the National Farmers Federation hosted a meeting of leaders from the peak farm organisations in the 15 Cairns Group countries. The president of the peak US farm organisation, the American Farm Bureau Federation, also participated. The purpose of the meeting was to launch an international campaign for global trade reform in agriculture. The Sydney meeting was held in parallel with the Cairns Group Ministerial. It was the first time that farm leaders from the Cairns Group countries had met. The meeting sent a strong message to the world that fair trading farmers have a vital interest in fundamental trade reform in agriculture.

Within the next two months, the NFF plans to launch a Cairns Group web site. Interactive online communication is seen as an essential tool for the Cairns Group to coordinate its worldwide campaign. The web site will provide a forum for documents, statements and policy positions to be posted by all Cairns Group countries. Online text based real-time discussions, news groups and eventually video conferencing and voice-over on the Internet will keep the reform campaign active. The web site will act as the public face of the Cairns Group farm leaders, with links to all relevant web sites around the world. Policy makers from other parts of the world that the Cairns Group wishes to influence will be sent electronic messages automatically.

In summary, the challenge of agricultural trade reform is still ahead of the Cairns Group. The benefits from reform are as large as ever. As a big, efficient exporter of farm products, the benefits to Australia can be measured in the billions of dollars. There is clearly a role for the Cairns Group to act as a significant force in the next negotiations. Farm organisations in the Cairns Group countries have a major opportunity to shape the agenda. The National Farmers Federation has taken a strategic decision to lead the industry groups around the world towards a successful outcome in the WTO in 1999.

ACTING CHAIR—Your comments on the CAP were interesting. There was a slight discussion this morning on the CAP. One of the delegates from the European Community is here. He may wish to ask you questions later. Our next speaker is Mr Hooke from the Australian Food Council.

Mr HOOKE—By way of introduction, I will introduce the Australian Food Council. It was established nearly three years ago, when it became operational. If you want to take a message on what it does in a one-line cliche, you could say that it is the National Farmers Federation of the processed food and beverages industries. Our membership has grown to the point where it now covers somewhere in the order of 80 to 85 per cent of the gross dollar value of the sector. Our role is to concentrate on such things as are before this committee; that is, to influence a policy environment and determine an agenda for investment growth and profitability, to identify the opportunities and to tackle the impediments to growth as a collective of often fiercely competing companies.

By any measure, the Australian processed food and beverages industry is a significant contributor to the economic and social welfare of all Australians. It is the largest manufacturing sector in Australia. It employs one in five of the manufacturing work force, has an annual turnover in the order of $43 billion, exports about 17.7 per cent of total sales, which is second only to metals products manufacturing among the manufacturing sectors, and is ahead of the average export performance for total manufacturing of 15 per cent of sales. Its exports of all processed foods are about $11 billion currently, of which $5 billion are highly processed, highly differentiated products, out of a total of all agrifood exports, net of wool and cotton, of around $17.2 billion. When you put it together with agriculture, the agrifood industry is valued in the order of $64 billion, accounting for about 12 per cent of national GDP, eight per cent of employment and 23 per cent of the nation's exports. So it is quite a significant industry.

As you heard from Mr Howard, underpinning the industry's successes are its natural and creative comparative advantages. We have an abundance of raw commodities. We have a reputation for quality, hygiene and safety. We have leading edge technology. We have a multicultural society whose demand for a diversity of products equips us well to meet the varied demands of export markets. We have substantial geographic proximity to the expanding food markets, notwithstanding the hiccup currently going through parts of the Asia-Pacific.

We know that we cannot continue to rely on our comparative advantages to underpin our competitive strength. The two are not always the same. We are finding that at the value added end of the chain, notwithstanding our substantial growth in elaborately transformed manufactures, we have some issues of competitiveness, especially when you couple that with the barriers we face in the international markets. As Mr Howard said—the average trade weighted industrial tariff is running at about 3.5 per cent—you will find that we cannot actually calculate a figure on what it is for processed foods and beverages around the world. We think it is somewhere in the order of 80 per cent. We have the World Bank looking at it, and we are doing some of our own work. It ranges from anything between 25 to 30 per cent in some countries up to 200 per cent in others.

You have to understand that tariff escalation is a prominent feature of the market for highly differentiated food products; that is, the more scope for industrial transformation of the product, the greater the tariff trade barrier. In addition, trade is littered with non-tariff barriers: all sorts of labelling standards, quarantine and inspections, certification, health standards and the like. The industry faces these impediments of high tariffs and non-tariff barriers. It also faces the subsidised competitiveness of other exporters and domestic producers through domestic price and investment support arrangements and/or export subsidies, which artificially lower their costs and enhance their price competitiveness. As a consequence of the protection and supports for agricultural producers, many food manufacturers offshore and here in Australia are required to pay unduly inflated prices for their raw materials, which are not adequately compensated for when competing in third markets. As I said, we also face differing standards and excessively costly regulatory and technical impediments through product health, quarantine and labelling standards and inspection processes. It is more offshore than onshore, but it is still a problem onshore.

Whilst we see industry policy and this whole area of 'Optimising Australian trade beyond 2000' as a confluence of domestic, economic and industrial policy and domestic and international trade policy, I am going to confine my comments, for the purposes of this committee hearing, to trade reform.

The outcome of the GATT Uruguay Round of multilateral trade negotiations has undoubtedly proved critical to the global integration of trade and commerce and stronger economic growth. I do not think anybody would argue with that. Equally, there were some very useful things that came out of it in terms of establishing some fundamental rules to trade. In particular I refer to the dispute settlement procedures which, in changing the emphasis from one of consensus to adopt to one of consensus to reject for the determination of disputes, militated against the power of veto which previously existed. The determination of those disputes is really laying a fundamental principle of international trade on the table, and that is that no country is going to be able to get away with discriminating trade on the basis of production related processes or in consideration of their own domestic social, ethical, environmental or whatever other grounds they may seek to use to discipline the trade and production policies of other countries. I think that has to the one of the most profound outcomes of the Uruguay Round. But the accord did little to address the impediments to trade and investment in processed food and beverages. Quite simply, we were not even on the agenda in any meaningful way. That was despite the Round’s focus on agriculture and that processed products are similarly covered under chapters 1 to 24 of the harmonised system of tariff classification. As such, we continue to bear the legacy of a continuation of high tariffs.

I referred to the trade weighted tariff of industrial products versus processed foods before. Bound tariff rates are often higher than existing operative rates. That is particularly the case in many of the Asian countries and ASEAN countries too. That provides scope for what you might call a WTO legal reversion. There is entrenched tariff escalation, which I referred to earlier on. There is also increasing pressure on downstream manufacturers to bear the cost of inflated inputs. There has been, according to the OECD, little if any sponsored change in trade growth of processed products, notwithstanding that trade growth has been more rapid for processed products than basic agricultural products.

I guess there are a couple of other points I should make in that sense. Globalisation has had a profound impact on the trade of processed food products, and indeed on their production. I was interested in some of the comments before about moral obligations about where people are siting their production facilities. Let me give you a few take-home statistics, if I may. The trade in processed or value added products around the world is expected to increase to 75 per cent of global agricultural trade by the year 2000. That is off about 50 per cent in 1985, and it is growing at more than twice the rate of primary product trade. So product differentiation, meeting the more sophisticated and discerning requirements of consumers around the world, the interplay of higher economic growth and increased consumer purchasing power are having a profound impact on product differentiation in the market—it is an increasing feature.

The second aspect is that increased foreign direct investment and the location of production facilities where that is strategically beneficial to do so is another feature of the market. Corporate production processes are increasingly integrated worldwide. They are developing strong interdependent linkages up and down the food production chain in the form of strategic alliances and joint ventures. They are changing investment and component sourcing to the point where few elaborately transformed or complex products are now wholly manufactured in any one country, and that is increasingly the case in the food industry. Foreign affiliate sales worldwide of processed food and beverage products will exceed exports of those products by a ratio of 5:1 by the turn of the century. It is currently running at about 4:1, though it varies across countries, of course.

Getting back to the trade issues, as I said, the industry suffers this legacy of having not been on the Uruguay Round agenda in any meaningful way. The underlying problem of the Uruguay Round agreement on agriculture for my industry was the fundamental mechanism or the negotiating modality of that agreement, which was aggregation. This, of course, permits flexibility great enough to defeat the discipline of the trade rule where, by aggregating groups of food products, it is possible to blunt the application of the rules to sensitive sectors yet still meet reduction commitments. Quite simply, in the areas of export subsidies, domestic support, market access, tariffication and minimum access we suffered the ill effects of aggregation.

Our trade reform objectives are, firstly, to get us on to the agenda, and I think we have done that. We are certainly factored in to the WTO’s considerations, to this government’s considerations and to the OECD’s considerations, and I accepted recently the position of chairman of the International Trade Committee of the world’s food and drink associations and leave for Europe on Monday to chair a meeting of that committee in London.

Our ultimate goal is for world trade in agricultural commodities and processed foods to be market orientated and governed by an internationally agreed set of trade rules, standards and conformance procedures. We are somewhat optimistic—youthfully so, I suspect—about the outcome of WTO agricultural negotiations mandated to commence in 1999. We will engage vigorously in that opportunity.

We also will participate in reviews of various agreements—sanitary and phytosanitary, the technical barriers to trade, the trade related aspects of intellectual property, the trade related aspects of investment measures and the work of the WTO committee on trade and competition policy, trade and the environment and so on—all of which will be to ensure that the fundamental goals and aspirations that we have are met, and that many of those trade related aspects are not used to undermine or introduce other trade distorting measures. We will certainly participate in the WTO procedures.

We are committed to regional free trade agreements and arrangements which can reduce barriers to trade and investment in a region but that reinforce and not undermine the multilateral trading system. We also support those particularly where they can act as a catalyst for promoting global trade liberalisation. In that respect we have been active in the APEC forum in developing and promoting Australia’s food nomination for early voluntary sectoral liberalisation. We worked thoroughly with the Australian government and my colleagues in the National Farmers Federation to promote that process. We have also been signatories—in a policy sense, anyway, if not formally—to the APEC mutual recognition agreement on food products, which is all about getting some homogenisation on conformance procedures. We will strive to further enhance some of the bilateral efforts and also unilateral disarmament—if I could call it that—in Europe and in the Americas.

That opens up the basis of where we are going and what we are about. The negotiating modalities for the WTO agricultural negotiations are fundamentally important. If we go back to aggregation, we will get lost in the swill of that stuff again. We need to ensure that we have a harmonised approach to our negotiating modalities that can enable us to take out the tariff escalation or tariff peaks and will allow and cater for zero-for-zero negotiations, but, most importantly, caters and accommodates for the necessity for much deeper cuts in terms of market access barriers, yet mitigates against many of the trade distorting support mechanisms in some of the raw agricultural commodities across the globe which impact on our international competitors.

ACTING CHAIR—We are running very close to time. We have time for a couple of questions. Do you have any questions to any of the speakers?

Mr TYREE—On the last point, you guessed that the average tariff protection worldwide will be 80-odd per cent and what was called 'trickery' was alluded to. I wonder if Australia should simply be saying, 'If you do not have a straightforward regime in place for tariff reductions over a number of years, and if you do have these funny businesses that you are referring to, we will block your imports into our country.' Would that work?

Mr HOOKE—That is a real 'cut off your nose to spite your face', with great respect. We are a country that is exporting $11 billion worth of processed foods.

Mr TYREE—It would have to be enforced worldwide.

Mr HOOKE—We import $3 billion worth. Those sorts of disciplines can only really be applied usefully and effectively by virtue of international trade rules. If I were an American I would probably have a little bit more clout, but when you are little more than a mosquito on the back end of an elephant you have to take whichever way the elephant is going to go. Anybody who has noticed and watched the sheer hypocrisy of the Europeans and the Americans over a number of years—and wearing my former hat of CEO of the Grains Council of Australia, I am pretty familiar with subsidies on wheat—will know that you really have to continue to work with these people for the overall objective of international trade reform.

The trickery, kind of jargon for non-tariff measures, particularly in these areas of food standards and conformance—and that is labelling, sanitary and phytosanitary, technical barriers to trade and all that sort of stuff—is a pretty difficult area. We are all aspiring to the international harmonisation of standards and conformance procedures, and the Codex Alimentarius Commission is the body by which we proceed down that track. But there is always this alleged risk of the lowest common denominator. The consumer lobby here in

Australia will argue that we ought to have standards designed for Australia and to hell with the rest of the world. That is isolationist stuff and really is not conducive to the fundamental objective of international harmonisation.

I have not yet come across an instance where Australia's standards have been compromised by our efforts to have them internationally harmonised through Codex—not one. There is always the risk, and that sort of rhetoric is trotted out at us all the time; but we have not yet had one instance where that has happened. It is a slow and tedious process, working through Codex, and you really have to have a lot of patience. But there is a great deal of movement in that direction.

ACTING CHAIR—I would like to thank the three speakers very much for covering a very interesting area, an area that has tremendous challenges and also tremendous potential. Thank you very much for sharing your time with us.

Proceedings suspended from 3.03 p.m. to 3.21 p.m.

SESSION 4: BEYOND 2000

Information Age Technologies Mr Andrew Coulsen
Mr Rene Frei

Service based exports—legal, accountancy, recruiting, health careMr Peter Levy
Mr Geoffrey Applebee
Mr Andrew Banks
Dr Barry Catchlove

Closing RemarksActing Chair

ACTING CHAIR (Mr Price)—As they say, we are in the home straight. Notwithstanding the most stimulating of speakers, we seem to lose a couple of people every session, so I invite our contributors to be even more stimulating. We are into the information age technologies. Mr Andrew Coulsen, the Chief Finance Officer of ComTech Communications, considered to be Australia's leading national network integrator, will lead off this session.

Mr COULSEN—I, like most Sydneyites, am suffering from this unbelievable flu that is running around. You will be pleased to know that my presentation will be very short as a result because my voice will probably not last the distance. I hope my presentation is as stimulating as those of the other presenters. I will give you a quick outline of ComTech.

ComTech has been around for about 10 years. It started as a value added distributor basically selling network integration products. About two years ago it moved to change its business model into the actual implementation of network infrastructure. What we mean by network infrastructure is the switches, the hubs, the communications and the applications that go on top of those technologies. At that same time, a group by the name of Dimension Data, a South African company, bought into ComTech, and that basically gave ComTech a worldwide business with operations in South Africa, London and Asia, and obviously in Australia. Nine months ago, the Dimension Data group, along with ComTech, purchased Datacraft Australia—you may have seen it in a newspaper—which was a $320 million acquisition in which we folded the Australian operations together, left Asia running and supported what they had in the UK. Obviously, South Africa remained as it was.

I would like to go through some of the trends in the IT industry, if you can call them that. One of the big problems in the IT industry is that a year in the IT industry is actually a dog's year, that is, we say that we have seven years in every one year with compound annual growth rates of around 20 per cent. Trends are very shortlived. The time to market is absolutely critical. I know that applies to most businesses, but certainly in the IT industry it becomes more and more critical as time goes on with technology applications.

The biggest challenge that we all face specifically in the IT industry is that we have got to do things with less resources; greater productivity, obviously; huge competition; pressure both on a local basis and a worldwide basis; and reducing margins. Obviously, as technology becomes more and more obsolescent, margins come down and time to market becomes more critical. At the same time, our customers are demanding more and more from us. Access to information is one of the key things that we struggle with on a day-to-day basis.

Access to information is, as I said, one of the competitive advantages that we believe every business will face in the future. That means the integration of our business partners—people who supply us with kit, product, manufacturing rights or whatever it may be—getting information from our employees and focusing that back to satisfy our customer needs and, obviously, increasing demand. To do that, we obviously need the infrastructure in place, we need to have the communications in place and we obviously need to have the applications that sit over the top of the hardware to make things happen and make things happen quickly. That requires a huge capital investment.

I spent some time talking on this issue, and I think we both agree that capital investment needs to be supported by government—initiatives such as R&D and things such as depreciation rates. Technology itself in our industry is not the competitive advantage; it is the application of the technology that will make our industries and other industries more and more competitive on a global basis. I am referring to applications such as the Internet—which is the key, and I want to spent a bit more time on that—video conferencing, mobile telecommunications and new buzz words like IVR and CTR technology, which is voice activated technology and computer telephony interface—in other words, paying Telstra bills over the phone. That sort of technology will make things a little easier and time to market for our customers more and more important.

Providing information to our customers to improve satisfaction is one of the key things that we need to focus on. I want to focus on the Internet as an example, because I believe it will provide companies with huge competitive advantages worldwide. There are some recent examples. I am sure everyone has heard about Amazon.com. To make this an interactive presentation, I am sure that a large percentage of Australians have bought products on Amazon.com. It is a very easy way to do business. They have basically no presence in Australia, there is no capital infrastructure, there is no ongoing maintenance of premises, facilities, staff, et cetera. About five to six per cent of their business comes out of the Asia Pacific region. The majority of that is based in Australia.

If we take the Internet as one of the ways of looking beyond the year 2000 as increasing our competitive growth in Australia, our industry and the whole IT industry are focused on the Internet. The Internet is going to be as easy to use, if it is not already, as the telephone. It will be as accessible as the power that we have coming into our homes, and it will be a commodity like our cars are turning out to be. It is going to be easy to use in the long term. It does require huge capital investments from both the private sector and the public sector. To do that, it also needs to be unbelievably dependable. Like our telephone system, we rely on it being there when you pick up the handset. But, if the Internet access is not there, people will not use it and it will not go forward. As I have said, that will require a huge capital investment.

Is it really going to happen? We keep hearing time and time again that it will happen. Critical mass is there. The investment is coming on a global basis. National and global networks are being invested in at an unbelievable rate. We recently received a survey from the Gartner Group that said two years ago probably five per cent of all IT spend was on infrastructure and communicating with our customers. That percentage has now moved up to 20 or 30 per cent, and that is literally in two years. That is a huge capital focus both on a public and private sector basis. Networks definitely need to become more robust, reliable and easy to access. Bandwidth, bandwidth and bandwidth—it is like location, location, location. Bandwidth obviously means speed. There is a catchcry going around called IP dial tone. IP dial tone is basically communication dial tone to networks, and that needs to be made available to homes and to business, which most of us enjoy today.

A more important factor in the whole equation in relation to competition is security on the Internet. Privacy and integrity lead to our ability to transact on the Internet. We have all seen IBM investing huge amounts of money in e-commerce. Most IT companies, both on the hardware platform and on the integration side, are spending a lot of time and resources doing that. If we can get this right, if we can get government to invest, if we can get government to provide, I believe we need incentives to do that. As I said, this does not happen on a shoestring. We can get our telcos to provide the infrastructure that we require. We can invest in our staff to get our skills matrix up. In Australia I think we can put ourselves in an unbelievable position to compete nationally and globally, but we do need incentives.

We need the government to go back and look at the R&D situation. We need to look at grants provided to start-up companies. We need to look at our depreciation rates. We need to look at the regulatory environment that surrounds telcos in relation to rolling out infrastructure not only in populated areas but also in areas that are extending outside the population in general, such as regional areas. Coming into that fold is the regulatory environment around it. The Internet and e-commerce are a regulatory minefield. I do not think anyone has the answers. In the US they are struggling consistently with things like encryption. Getting the standards on a global basis will make the competitive nature of Australia, certainly in the Asia Pacific region, far more successful. I think we have seen that with other technology, such as the GSM implementation across the world.

If we look at the web, what is interesting to note is that two years ago people would have said that the web was a dead web. We would use it a lot for e-mail, for pushing technology and information out to customers and to our staff. It has made a huge change in the last two years as applications develop. I think another gentleman spoke before about proving purchase orders around the world. That is application development. It relies on the infrastructure, but that is really where the development comes. That technology is being used, and we now have things called push technology, where customers' information is logged into company databases. When preferences come up or the right products come into stock, that information is pushed out to the customer. That improves customer satisfaction. It gets away from any barriers that the customer has in relation to picking up the phone and calling. Hopefully, with security, they can then purchase directly over the Internet. Keeping the time of the transaction and the delivery of the transaction down to the smallest possible time improves customer satisfaction and drives the dollars back into Australian organisations.

Can we make money on the Internet using it as a technology base on a global basis and on a national basis? I think the answer is: absolutely. We have seen companies such as Amazon.com in the US, which is probably the most common one, and companies in Australia which are using it very successfully now. I believe companies that sit inside the core arena—companies that can deliver products electronically, products that can be drawn down from the Internet and from other communications such as IVR and even through video conferencing—can compete globally. There are no barriers to entry. The only barrier to entry is access to the Internet or using what we call IP dial tone, which is there on a worldwide basis and is being used.

People who provide the infrastructure that sits behind the application technology—the network integrators, the hardware manufacturers, the OEMs around the world—will make money out of it, as will people who provide content. I think that in itself means that people will use the Internet more, and they will become more familiar with it. When you put security on top of that, when people become more comfortable with putting their credit transactions on it, having encryption and feeling comfortable with it, then I think we can compete on a national and a global basis.

In summary, from a company's perspective, if we use the technology correctly, we can certainly reduce our cost of entry into other markets, which is critical, particularly as margins reduce and as the time to market becomes more critical. We will have easy reach to customers. As I said, all they need is access to the Internet. Obviously you need some level of market presence, but you do not have the huge infrastructure in place as far as putting premises in other locations, gearing staff up and having regional management issues across the board.

There is a requirement to look at the regulatory environment, which we discussed before. Certainly we need to get government and organisations to focus on the investment required both at infrastructure level and at application development level. I know that Rene will speak a little bit more about that—not that our presentation has been coordinated, but we did have a 30-second conversation beforehand. If we can do that, I think we will get a huge boost from trade. As I said, regulatory environments need to be looked at. I do not think anyone has the answer in relation to generating taxes from the Internet. I think that is one of the key requirements for this country to look at. It does generate income, as we have spoken about in the last session. We can get access to our customers far more easily. The time to market is reduced significantly. Outside the physical delivery of product, if it is a tangible product, things such as customer satisfaction should improve and make us far more competitive as a nation.

ACTING CHAIR—Thank you very much. Rene Frei joined Siemens Nixdorf Information Systems as the managing director for the South Pacific region in 1991. He has worked 25 years in the information technology industry, mainly in sales and marketing with large multinational organisations. Over this period he has worked in executive positions in South Africa, UK, Germany, Italy, USA and Australasia, bringing considerable global expertise to his current position. Rene, would you like to address us, please?

Mr FREI—I think Andrew covered most of the issues already, so I have to change a few aspects of what I have noted down. As we look into the new millennium, it is important to look at the currency of this country, which is really going to be knowledge, skills and nothing else. This is driven by the global economy and technology. As we move from a routine based industry to a knowledge based industry, the only thing that will have an effect is the knowledge that a country has, and, as I said, this is driven by globalisation and technology.

As Andrew mentioned, you can buy any merchandise anywhere around the globe at virtually the same price, and sometimes it is cheaper back here. This is the way things are going around the globe. We need to look at knowledge. If you take the price of a frigate that we put into the sea, the knowledge based component is considerably higher than the physical cost of the ship. If you have an accident in the cars in the future, they will automatically dial up the ambulance and police, tell the hospital what injuries you have, and so on. Barry may talk about these things.

It is all knowledge driven. But what does that mean? Basically, it generates employment. For example, in the IT industry today, there are only about seven people to fill every 10 full-time positions. We have got an escalating shortage of people. This was, in fact, just covered by the Gartner Group a few weeks ago.

Recent research at Dartmouth College in Massachusetts—and I was recently at MIT in Boston—has found that we already have knowledge handling techniques coming to the forefront that will cut innovation cycles by some 60 to 70 per cent, that will cut the cost of new inventions by 70 to 75 per cent and that will cut, minimise, the risk by some 60 per cent. Those are frightening figures. If we are not cognisant that those facts are going to effect us in the next millennium, we are going to have a problem as a country.

We should also not forget that the income of a country which has a knowledge based industry is considerably higher than that of other countries. For example, a recent survey by Cullen Egan Dell just released two weeks ago in the *Financial Review* clearly stipulates that incomes of $65 to $105 per hour are common in the information technology industry. This is what we call ‘wealth creation’. We need to look at this.

A lot of people think that technology is taking jobs away. This is correct: it takes jobs away from outdated industries, but it creates jobs in the knowledge based industry. Every job that is generated in the information technology industry generates another 2.4 jobs in the community. These figures have been released recently by the New South Wales department of regional development. Information technology and associated skills are the driving force in moving towards a knowledge based industry.

That presents another challenge for us as a country because, if you look at the skills availability, we have to constantly regenerate skills. We have to understand that we have to become constantly a learning organisation. If we have a shortage of skills, it is going to be a threat to the economic growth of this country, and today we see this happening. Already Harris Miller, the President of the Information Technology Association of the US, has said that the biggest threat to the US today is a skills shortage. Hence, you see already that we are losing a lot of skills in Australia—they are moving to the US. The Clinton administration has put a federal effort and a program in place to train more IT people, yet in Australia only two per cent of organisations are really investing efficiently in R&D.

Israel, as an example, is very successful in information technology. It is totally different. As you invest in research and development you are getting the skills that you require from university. If you do not, you are going to have a shortage of skills in university. Today Israel generates 140 engineers per 10,000 people. These are staggering facts if you compare it with our country. If we do not solve this, we are going to have an incredible shortage of knowledge based people.

The other quite fascinating aspect is that Ireland as an example—and I am going to cover this—was a basket case 20 years ago and even 10 years ago. Today 39 per cent of Ireland’s exports are in information technology and knowledge based industry. This is thanks to generating the ability of investments. One should realise that a totally integral part of business—and Andrew has covered it today—is more and more information technology. Today this is the integral part of business and we see more and more companies that use that as the underlying way of investing profitability. Yet it is not what we are teaching in our university.

We teach them cobol and things like this, which are history. This is because the technology changes so fast that we cannot change the education system. I think we need to look another way. Maybe a way of doing this is to start another curriculum which says, ‘Why don’t we have people at university for three days and two days working, so as they do this they are constantly into the new changes that they cannot do today in university.’ Often when we take people on board it takes us two or three years until they become efficient. What is happening is that everybody pinches people from each other. That is not cost effective and we are not getting the skills.

The other thing is that those skills are becoming more mobile. A global economy by itself dictates that those skills are becoming mobile, travel the world, where it is most efficient and so on. So the relevant education systems together with study and work I think will create that learning environment that we need. If we look at that, the next issue is really to keep and retain those skills and attract investments and industries.

We are in a very globally competitive world. We have a beautiful country that we live in—and I have become Australian because I think it is a great country—but in a global environment you have to be competitive. It is not good having nice people and a nice country. At the end shareholders want a return. So you have to be competitive and see where you invest. This is I think where we have come to.

The investment attractiveness here is not really given in a lot of areas. It is improving tremendously. The government is trying very hard and is doing a few good things, but I think we must address a simplified tax system that is more competitive, because indirect tax is also connected to unemployment. You go anywhere in the world. The highest tax regimes have got the highest unemployment—you cannot run away from that—and the lowest tax regimes have got the lowest unemployment. So something is in collaboration. I think we need to understand that.

We talked about education investment earlier on. Access in this industry—and Andrew covered it—is very important access to venture capital. It is a risky business. Why should the venture capitalists invest money in a few areas with all the high risks—there are good returns if you win—when you are then taxed on your capital gains? It does not add up. I think one needs to look at it.

The last but not least important point for us in this global economy is a unified national approach. Ireland has shown that. We have today in Australia different departments and different states. We have different departments that make policies on IT. We have different states with different policies. It is not national. It is like many countries that make policies—they are not unified. If you want to use the strengths and the skills of this country, you need to unify those approaches because in a global economy we have to make it attractive, otherwise you are going to lose the skills—and it is already happening and we are not getting the investments we require.

The other thing is that if we want investments we have to find a cooperative way of having industry and government working together. It is our aim to achieve the clever country and to get a fair share of knowledge based industry. I absolutely agree with the government where it takes a hands-off approach in putting in regulatory frameworks. That is what the government should do: regulatory frameworks for the Internet, regulatory frameworks for education and so on. But leave the rest—I sincerely believe this in a global economy—to the industries.

I think we also need to look at cabinet responsibility for IT, which takes away the issue of having it across various portfolios. It might help because, as I said, we need to have a unified approach. When you look at the PFD—the partnership for development program—we have been associated with it for years. I did not say at the outset that we are a $100 billion company worldwide. Out of that, $40 billion is for information and communication. In Australia we are just below $1 billion, and we employ 2,000 people; we are fully committed and we have delivered. But that is only for outsourcing, and there are now other things which need to be considered. You wonder about all the investments that have been done in the past—and we are not the only company.

Between departments there are different views, and I do not have a problem as long as we all sing the same song. If we can achieve that, I think it will help because we would then foster the partnership with industry. For example, outsourcing for us as a company is not an issue of cutting costs; it is an issue of delivering better services to government customers in a more effective way. The way it is done in the UK and other countries, and we are on the way here, is to have a partnership which is called the PFI—private finance initiative. Private industry takes the full risks, looks at where it is today, re-engineers the delivery of a product and then becomes more efficient. It shares the benefit with the government and, if the government wants to keep it within government instead of privatising, that is fine. There are various ways of doing it, but I think we should not just look at outsourcing as a way of cutting costs. I do not like the term ‘outsourcing’ per se. I think it is yesterday’s way of doing business. We need to look at a way of delivering the whole value chain better, and this is what industry and government should work together on; that is, a true partnership which allows us to be in the forefront of technology, to retain the skills in Australia and to become an exporter of those skills, in a very cost-effective manner.

The other aspect is that America’s investment in IT is 6.7 per cent of GDP, while Australia’s is 3.5 per cent. Something does not jell here. The US has nearly twice the investment in information technology, and it is the country with the best knowledge base capability. There must be reasons for it. Coupled with that, we have a local market which is not too big, and this is an opportunity for us to take the skills and go into an export mode.

A lot is being done. It is not an easy thing to resolve when things change that fast, but we have to adjust to that speed because we cannot run away. That is life today. I think we all need to do more, there needs to be more consistency, it needs to be less complex and we need to find a more attractive investment environment. This, coupled with Australia’s capability of taking on technology—which we have proven in the past—will ensure that Australia can efficiently compete in a knowledge based industry.

As I said before, it is not necessary just to be a nice country to live in and it is not necessary just to have nice people. We should also recognise that only—an absolute only—technology, skills and knowledge will make our country competitive in the future. Technology and knowledge will determine the prosperity of our country. Thank you very much.

ACTING CHAIR—Thank you very much, Rene. Are there any questions?

Mr HENRY—Rather than ask a question, I wonder if I might make a quick statement for the committee's consideration.

ACTING CHAIR—Yes, certainly.

Mr HENRY—It actually draws on a comment which Mr Frei has made. This session is on Information Age technologies but there are, in fact, Information Age technologies that are not IT as such. One of those is biotechnology. Last year the Queensland government identified biotechnology as a very valuable future wealth driver for the state and made a decision to commit $15 million to the establishment of a centre for molecular bioscience based in the University of Queensland, contingent on matching funding from the federal government. As you would be aware, the federal government announced that matching funding yesterday.

ACTING CHAIR—This is a surprise!

Mr HENRY—A gratifying surprise, I might say. The funding is along with a commitment of $10 million from a private investor. I do not have here the full details for the centre but I can provide those to the committee if you wish.

ACTING CHAIR—Thank you.

Mr HENRY—The point I would simply wish to make is that we do need to identify those areas which are likely to be future wealth drivers. They do take a certain amount of government investment. We certainly did not think that $15 million was a lot on the Queensland side. That has obviously been recognised; it has been matched.

That will provide the physical infrastructure to bring together a series of existing ventures including the centre for drug design and development at UQ, which will provide under one roof your entire value-adding stream from absolute basic research right through all your development and through to commercialisation. I would certainly like to commend for the committee's consideration that that is one sector that Australia should really be looking at quite hard.

ACTING CHAIR—Thank you. Are there any other questions?

Mr BLACK—Mr Frei, you talk about information technology and the knowledge era. I would like to put forward the proposition that the knowledge era has probably got more to do with people, culture and skills than it has to do with technology as such. How are your firms coping with the need to integrate a technology focus with a people focus?

Mr FREI—Obviously they go hand in hand: that is why I am saying skills are people. You can have the best skills, but if you do not have technology that allows you to use those skills, it is all wasted—so they go hand in hand.

If you look at knowledge based industry, through history—go back to the Roman empire—there has always been an awful knowledge. If you look at the libraries, there are masses of knowledge. The issue here is different now in a knowledge based industry: it is not the knowledge you have; it is what value you add to that knowledge. That is the key issue.

If you take the new work force, the key issues for that are where you have the knowledge, how you go after that knowledge, and that you know where to get it. This is where management changes have to be: how do you link the knowledge around the globe with the people and how do they access the knowledge? How do they add particular value where they are with the knowledge? The people are the key issue. Without that there is no chance.

Do any of know you the famous example? You must have heard of the learning curve theory. Japan is an example. In the manufacturing area in routine based industry Japan made the learning curve so steep that it was very difficult. But eventually somebody caught up to it. Then you just do the same thing or you do it a bit smarter. In a knowledge based industry when you catch up it is too late because it goes forward again. This is one of the big challenges for Australia, because if we do not put a stake in the ground and move on it, we will always run behind. In a knowledge based industry you have absolutely no chance if you are running behind. You have to take the forefront. This is one of the challenges we have.

This you also see in other areas. To take the telecommunications aspect, if you make a phone call from New York to Chicago they charge you a certain price. If you phone from New York to Sydney you pay a different price. But the cost of that call is the same, because it just beams up to the satellite and down. There is going to be some unbelievable price competitiveness coming up because of that. This is a different challenge. The old paradigm in a routine based industry is ‘throw it out of the window’. This is a new paradigm. We have people all our lives. But if you didn’t have technology, you couldn’t do what you do. You couldn’t network.

ACTING CHAIR—Could we again sincerely thank our two panellists.

Dr CATCHLOVE—I represent a company called Mayne Nickless, Health Care of Australia being the trading arm of that. Mayne Nickless is a global transport, health care, logistics and telecommunications company. If that is not a strange mixture, I don’t know what is. We are really the first true Australian global multinational major public company to get involved in for-profit health care.

When Mayne Nickless started health care in the beginning of the 1990s we represented a tiny part of their activity, less than 10 per cent. Most of the market analysts thought the company had lost its marbles in getting into health care, and kept saying ‘What’s a trucking company doing in health care?’ Eight years later, when we represent over half of the company’s bottom line, the analysts are arguing, ‘What’s a health care company doing in trucking?’ We are now the largest private hospital operator, the largest pathology operator, and the leader in the interface between public and private sector.

As to our relative size in the world—and if we leave out the major pharmaceutical companies—in terms of private health care deliverer globally, we rate about seventh. So it is an immature industry. Four years ago we decided that if we were going to grow into the year 2000 and beyond we had to look beyond Australia and look to the region. We have been beavering away for the last four years in Asia. I made 17 trips to Jakarta and my colleague who works with me made 21 between signing an MOU with our joint venture partners and forming a joint venture. I think that has a lot to say about the significance of MOUs in those markets.

We have targeted a limited number of countries, in particular Indonesia, the Philippines and India. It seems that, wherever we go, they do some strange thing like letting off nuclear bombs, electing strange people as presidents or shooting students in the street. I have to pay a great tribute to Austrade which have been quite outstanding in their support of our involvement in health in Asia. We currently have two joint ventures in Indonesia: two hospitals are functioning. We opened one a month before the riots in Indonesia; we are opening another one in September. We are actively pursuing the Philippines and India, as I said.

I want to make a couple of points about Indonesia because I think there is a lot of hysteria being talked about it. As far as health care is concerned, we have only seen a moderate downturn in the utilisation of health care. Although it is very early days, this parallels the experience that I think the government has seen in the registration of visa applications for education. So there is a contention that, despite the current problems and despite the fact that many people might not buy a new Mercedes Benz or go on a golfing holiday, health and education are two areas that people place a great deal of priority on in those countries.

I just want to make a couple of comments about the opportunities that exist for Australia. I think in the Asia market we are the best positioned of any country in the world. We have no baggage. The Americans have come and gone on a number of occasions. The Europeans have a lot of history, as do some of the other Asian economies, in places like Indonesia. Geographically, it is close. I think from my experience we are the most culturally adaptable group of people. We do not believe that nothing exists beyond the Pacific Ocean and the west coast of the United States. We are prepared to adapt. In health care, I think we have been reasonably successful. This, combined with the strong professional ties and the proximity, gives us an opportunity. We run our Asian operations out of Perth—3½ hours door to door to Jakarta, and not too far distant to the other major centres in Asia.

As I said, it has been extraordinarily tough. Someone once said, ‘If there was an easier way to make a quid, you wouldn’t go to Asia.’ We remain extremely bullish about Indonesia. We believe that what has happened is in fact improving the opportunities for Australian companies. To give you an example, we were the unsuccessful bidder for an American group of hospitals in Asia. We bid of the order of $240 million. We were outbid by an Asian group by over $80 million. That was based on ridiculous property values that people placed on assets in those countries. That situation has changed dramatically and there are real opportunities. We are confident that Indonesia will emerge.

I think India is one of the most exciting global opportunities that I have ever seen. Estimates are that there are 200 million middle-class people in India, of which 100 million can afford private health care. There is a shortage of 60,000 beds in the Indian subcontinent. That is an enormous opportunity. Not one other international player has established any foothold in that marketplace at this point in time.

I would like to conclude with a couple of comments about our experience in health care. As I said, full marks to Austrade. I would not have said that five years ago. I think there are a lot of people in Asia scratching their heads as they have visits of upwards of seven ministers for health or, as far as they can tell, people ‘representing Australia’. The number of state missions going through countries is a major problem. Every state has developed some form of export arm for health care. I suspect they are confusing the people up there. Government agencies are not able to take risk in foreign countries; nor are they able to equity invest, which is a key activity.

As a counter to that, I must say that I am disappointed that the present government is not encouraging enough visits at the federal level to Asia. I think there is a wonderful opportunity to get up there and, as a neighbour, put our arms around countries that have got financial troubles. The restriction on ministers and parliamentarians travelling is, I think, unfortunate.

The second point I would like to make is that there has been far too much hype talked about importing patients. We own a hospital on the Gold Coast that was predicated on jumbo-loads of Asians flying in for health care, which is a joke. Even with the greatest will in the world, the numbers who are prepared and capable of flying in for health care are relatively small and it is related to doctor activity; it is not related to anything else. When Victor Chang was shot, the workload at the St Vincent’s Private Hospital in Sydney dried up overnight. It was more about Victor Chang than it was about Australian health care or about St Vincent’s Hospital.

The last point I would like to make is that there is a major problem in our country in that there is a very great lack of understanding at the geriatric level, in which I include myself. When I look around the boardrooms of Australia and ask how many people who are in positions of authority have ever been to India, the answer usually is, 'I stopped over on the way somewhere in Bombay airport for four hours and it was very hot.' There is a complete lack of understanding of those markets.

That is an exaggeration, but we have a major need to educate industry more about opportunities. We are beginning to understand more about Asia, but, as we go further afield into Asia proper and the Middle East, we have an enormous challenge to educate people and for them to understand the importance and the opportunities of those markets.

ACTING CHAIR—I really enjoyed your presentation. I thought you had some very worthwhile recommendations.

Mr LEVY—The Law Council of Australia is the national representative body of the legal profession in Australia. The export performance of Australian lawyers over the past few years in relation to legal professional services has been quite impressive.

According to official statistics published by the Australian Bureau of Statistics, in the 1995-96 financial year exports by the legal sector grew by 19 per cent to $173 million. The export of legal services generally involves the provision of services by Australian lawyers to foreign clients overseas. These services are typically delivered by Australian law firms and lawyers based in Australia but may involve travel overseas by lawyers or travel to Australia by the client.

Professional legal services which are commonly recognised as being exported from Australia include commercial advising on investment into Australia, corporate structuring, taxation and strategic advice relating to investment overseas, international capital market and related transactions and legal consultancy services to foreign governments or public sector clients.

Intellectual property and industrial property rights are significant in international trade and some 80 per cent of patent applications lodged in Australia are of overseas origin. Fee earnings by patent attorneys are included by the ABS in data for traded legal services. The International Legal Services Advisory Council has estimated that these earnings are probably in the region of $33 million each year.

The official statistics understate the true value of legal services exported, because they do not include legal services provided by means of a commercial presence overseas, even if that presence is in reality an extension of an Australian law firm. Many would regard such services as a form of export activity. In this context, I note that it was estimated that about $18.8 million was billed from the overseas offices of seven of the large Australian legal firms in 1991-92.

I should also mention that international legal education and training services may be considered as a form of exportable legal services. The value of these services was not included by the ABS in that figure of $173 million that I quoted. It is thought that the value of international legal education and training exports is of the order of $17 million annually, and that figure would include related export income such as student accommodation and living expenses.

The final category of law related services exported by Australia relates to arbitration of international commercial disputes and international commercial mediation. Services include those of arbitrators as well as lawyers and mediators, and also the services of dispute resolution centres. There are no official statistics on the export of Australian international commercial dispute resolution services but, again, the International Legal Services Advisory Council has estimated that export income currently from these services would be around $5 million annually.

The larger Australian legal firms have maintained a commercial presence offshore for many years, traditionally in London, but since the early to mid-1980s increasingly in the Asia-Pacific region. The phenomenal growth in international trade and investment presents significant opportunities for the Australian legal profession, particularly in relation to Asian markets, where 60 per cent of Australia's exports are now directed.

What about future prospects? In a 1994 survey in which legal firms were asked to identify the main future export markets, the following markets were identified in order of export potential: USA, Indonesia, Japan, China, Singapore, Taiwan, Hong Kong, Thailand and Canada. So, while the USA was identified by 30 per cent of respondents as the main future export market, the Asia-Pacific region clearly dominates. I would agree with the previous speaker that India is a very significant potential market.

With the globalisation of business, Australian law firms face strong international competition, particularly from law firms based in the United States and the United Kingdom, and from other countries such as Canada, France and Germany. It is essential that Australian law firms maintain a competitive edge. It appears that Australian lawyers are able to offer high levels of commercial and other legal services at competitive rates compared to lawyers from other countries practising in the region. The International Legal Service Advisory Council has advised me that in 1996 a survey was undertaken and it showed that United Kingdom commercial lawyers reportedly had the highest average fees at between $US375 and $US585 per billing hour, Japan had the highest in our region at between $US350 and $US550, and Australia came in at a much more modest rate of $US200 to $US300. The chief executive partner of one of Australia's leading firms has said that the best way of dealing with these competitive pressures is for Australian law firms to continue with their strategy of being at the cutting edge through investment and expertise, and in technology and research and development.

To conclude my presentation, I need to say something about the significant trade barriers which still exist in the area of international legal practice, particularly in the Asia-Pacific region. It is very important that the efforts of individual lawyers and law firms are backed up by concerted and systematic effort by all governments in Australia and the professional legal bodies, in particular the Law Council, which is the lawyer's peak body, to work towards the removal or liberalisation of rules both in Australia and in overseas countries which either prohibit or unduly restrict international legal practice.

This work has a domestic and an international dimension. There are two important developments that I would like to report on in relation to Australia itself. The first is the development of a truly national legal services market in Australia. State and territory governments, with the support of the federal government, are implementing a Law Council proposal for a travelling practising certificate which will allow a lawyer admitted in one state or territory to practise anywhere else in Australia. In the context of international legal practice, this is vitally important because Australia can hardly lobby overseas countries to liberalise market access rules for overseas lawyers if, within Australia, we restrict the practise of law across state and territory borders. The second development concerns the introduction of legislation in each state and territory called the practice of foreign law bill, which is designed to encourage and facilitate the internationalisation of legal services and the legal services sector within Australia by providing a framework for the regulation of the practise of foreign laws—not Australian law, foreign law—in Australia by qualified foreign lawyers.

I have mentioned these domestic initiatives in Australia because one of their perceived benefits is that they will enhance Australia's capacity to provide first-class international business and financial services and thus will complement federal and state government initiatives to establish Australia as an attractive base for regional headquarters for multinational corporations.

The prospect of setting up Australia as a regional or international business centre provides an additional growth area not only for lawyers but also for other service providers such as the accounting profession. One of the principal benefits of Australian professional service providers is the contact they would provide with corporations operating in the region. This provides a competitive edge in being able to sell and cross-market services to these corporations.

Given the desire of many businesses today to receive integrated business services advice, a very topical policy question which I think needs to be given far greater attention in Australia is whether rules should be relaxed to allow multidisciplinary partnership or practices between lawyers and accountants. The Law Council is actually considering some major papers on that this weekend.

Turning to the international dimension, I should note quickly that the work the federal government is undertaking at the multilateral level within the World Trade Organisation, within APEC at the regional level and also in direct bilateral negotiations is extremely important in getting trade barriers removed in the legal services area. I note a recent example of successful bilateral negotiations: those undertaken by the Deputy Prime

Minister and Minister for Trade, Mr Tim Fischer. He had considerable success with the Chinese authorities which resulted in China granting two more licences to Australian law firms to practise foreign law in China.

The Law Council attempts to complement the work that the federal government is undertaking in the international arena, and we undertake bilateral visits to many of the Asian countries to strengthen institutional linkages. We push the arguments for opening up markets for foreign lawyers. We do this at regional fora. We recently hosted a prestigious conference in Canberra for the presidents of law associations in Asia. The theme of that conference was 'Globalisation in the Law'. We continue this strategy at the multilateral level in fora such as the International Bar Association.

I would like to conclude my presentation with this observation: legal practice, and particularly the provision of business law services, has been dramatically and irrevocably changed by reason of the rapid globalisation of business, the international capital market, the ease of international travel and the increasing sophistication of technology and telecommunications. It is simply not practical or realistic for governments or legal professional bodies to ignore the effects of globalisation and to seek to build protective walls around their national jurisdictions and their national professions.

ACTING CHAIR—Thank you very much, Peter. Next is Andrew Banks. Thank you very much for being able to make it today, Andrew.

Mr BANKS—My pleasure. I stand here not just jet-lagged but as a self-confessed human resources evangelist. Politicians, priests and spiritual healers believe they can make the world a better place, but I am afraid it is only human resources practitioners who can really achieve that.

We are a firm of about 1,040 people—a public company. We are basically in the business of providing everything that a human resources department would provide to a corporation, only, as an outsourced firm, we have to identify the service and charge accordingly. We have had two or three years in Asia, New Zealand and the UK. About 20 per cent of our revenues are from overseas.

I have two simple and fairly brief points to make in terms of optimising Australia's trade in that services area as it relates to the human resources sector. Firstly, on an outer space or traditional export, Asia in particular has been very good and more efficient than the decaying West at moving containers around and making footwear and clothing and many other products. But in the services sector there is huge opportunity. As far as human resources best practice is concerned, they are quite a long way behind the 'decaying' West, because by definition you do not have to be that smart to manage a business when the tide is coming in at nine per cent a year in terms of GDP growth. I do not mean that in an insulting way, but I mean that really we are helping a lot of clients in Asia actually start to come to grips with what it means to have a coherent process in terms of finding, identifying, training, retaining and rewarding people.

There is a huge opportunity for the export of human resources services. Outplacement is now growing quickly. There are education and training, of course, recruitment and reward consulting. As the marketplace deregulates, the concept of permanent work will break down, as it has done in other markets, and it will be quite popular to have temporary and contract work. That will provide significant opportunity. Interestingly, most of the competitors we come across are British or European; very rarely do we come across Americans. That is because they are quite busy at the moment in an economy that is boasting full employment and lots of opportunity on its doorstep. So we continue to see big opportunities for growth in the export of human resources services, and clearly that will extend not only to Asia but also to Europe. In particular, the European connection is that we estimate there is about a $200 million market in just moving lawyers, doctors, accountants, IT people and other engineering professionals between Australia, New Zealand, the UK and South Africa. We obviously have part of that traffic, which is very significant.

Perhaps the most important point is really the second area, which I call inner space. We have heard a lot about technology and how it allows us to move work to people for Australia to be truly competitive. We actually can create great opportunities for export by having a work force here that is able to handle it. I am not just talking about the traditional areas such as a flexible, well-educated work force; that kind of goes without saying. It is more that the job market is very dysfunctional. People who look for work and people are looking to fill jobs, permanent or part-time, are part of a very inefficient process. I am not talking about Employment National, the CES or even Morgan and Banks—I am saying that the whole process is not that efficient, though it will become more efficient with distribution systems like the Internet.

There are things that Australia can do to become more proactive. For example, we are helping the Victorian state government to focus on areas where there are pools of unemployment and do due diligence on those pools of unemployment—in other words, putting them through basic assessment centres to see what they could be trained to do. That then helps them to go and find someone who might be bringing a call centre to Victoria and make sure that the call centre is actually placed in the right area. So it is an added bonus to bringing work to Australia. As an efficient country and work force, we import either employment or unemployment, and it is really our choice.

We are always interested in a deregulated and flexible work force. There is a responsibility for government, business and the education sector to keep creating that learning environment that many speakers have talked about. But I am saying that we should go one stage further, that is, be much more proactive and creative about how we identify where our competence lies in the community. It is almost as though we had a national database of competence so that we know that there are Japanese speakers in these parts of the community, so that when American Express comes to town and wants a call centre on the Gold Coast we know where to find those Japanese speakers and make them aware that there is work that might suit them. So there needs to be more data on where our competence is. That will lead to a whole range of export opportunities which by definition are bringing work to Australia, as opposed to necessarily assuming we have to make or sell a product and send it overseas to improve our balance of trade.

ACTING CHAIR—Thank you very much. Our next speaker is Geoff Applebee from Ernst and Young.

Mr APPLEBEE—Mr Chairman, ladies and gentlemen, I am going to deal with three areas.

Overhead transparencies were then shown—

Mr APPLEBEE—Firstly, to perhaps define accountancy—and that was the definition that was actually put up—I think in our industry today and in looking at the challenges and opportunities there, very significant tiering is occurring. The big firms are tending to get far more global and multifaceted in the delivery of services delivering a wide range of services, including legal services, engineering services and project management services globally.

The second tier is generally dealing with regional regulatory matters—the traditional accounting, auditing and taxation matters. So within our industry I think there is a very strong flex between globalisation and regionalisation. I am going to try to address today the capacity for accounting firms to address those opportunities. We have to be able to cross borders, not just state borders, and be able to deliver services in a global context anticipating the fact that our clients—major corporates and, to some degree, governments—are actually decision making on a global basis. These factors drive the nature of the services that we are trading.

Moving on to the challenges, there has to be clear recognition of the globalisation of business. It is here and now. The way in which technology is driving it means that firms such as ours are currently able to use platforms to share information internationally and to trade and expose our capabilities internationally. Dealing with virtual consulting—picking up on Mr Banks's point—we are able to consult from Australia throughout South-East Asia through our network with people in offices spread throughout this country. Similarly, we can trade into Australia in the same context with people stationed outside. Huge investment has been made and will continue to be made in the development of the knowledge and the capability of our people. The greatest challenge there—and I think this is picking up on the information technology presentation before—is the extent of investment required. That will probably continue exponentially.

Another challenge is for Australian firms to understand that they do have some competitive advantages and to be prepared to sell on them. They do have good levels of knowledge. There are good processes applied in this country in international demand. Pricing is to our advantage at this point in time in an international scale. As well, perhaps we need to be able to get beyond the point of charging on an hourly basis, which has been the traditional context of earning fees and earning export fees, and to be able to set a fee based on the value provided within that international arena. That may have no context at all to the hours input.

A great challenge is the pace of global change, obviously. 'Exponential' is the pace and it has a huge impact on firms delivering services in this realm. That pace impacts on culture and, therefore, organisations have to be able to have cultures that are encompassing those global change initiatives. Traditionally people worked in offices. Now with the technologies that is no longer the requirement. In our industry it means in essence being in the face of your clients wherever they are or communicating with them wherever they are and being able to cope quickly with the change in initiative that our clients are presenting.

A challenge always put up is that of time zones. We have to be able to cope with that, probably in the context of having facilities with 24-hour, around the clock businesses. We have to get beyond the point of Australia as a country being considered as the Antipodes, because we are right in the middle of a lot of opportunity for export income.

I believe that, certainly within our industry, as it is expanding the opportunities are immense. Given the backdrop that we have here of sophisticated and stable systems of governance—corporate governance, and governance in a wider context—we can create processes that are able to be transported elsewhere. That is part of the knowledge base that we have to be able to export. We have very well developed skill sets on an international scale. Of course, the Aussie dollar is very competitive at the moment. When you look at it in the context of what our British firms and US firms and so on are charging, we are small fractions on a hourly basis for the delivery of services, I would say, delivering better value.

The opportunities—moving on from that backdrop—include competing globally. I was talking before about the tiering. The larger firms will become much bigger in the driving of business change processes, in the driving of changes within regulatory frameworks. That is where we are seeking significant skills and opportunities.

There are strong networks within our existing international firms. To give you an example, I recently had a request, which came through our latest email platform, enquiring whether I would be interested in putting my resume up to do a review of an audit office in Nepal, and it came via Bombay. They had been through our international network and seen that I had headed a couple of teams looking at Australian operations, similarly. So the capability was visible internationally, which creates a great opportunity for us. Within the networks we have invested strongly in technology, and will continue to do so.

Internationally, there are massive resource shortages. We are suffering them here, and I think just about every country is in the same condition. This must create opportunity—not necessarily for the transportation of people, but for access to knowledge that others need in different places around the world.

As well, with the Asian crisis, within our firm we recently had a team of some 30-odd corporate recovery people in Indonesia and a number of those places looking at banks. We were able to turn on expertise very quickly to deal with some international issues. Virtual consulting I think is a reality now. We have people here who are working through our Asia-Pacific region and creating solutions to problems.

For Australia—again picking up on one of the points Mr Banks made—there are great opportunities for service centres positioned here utilising surplus people from other industries after appropriate retraining. Those service centres are able to provide services internationally, given the right technology.

With expanding the skills base, there is a major opportunity for us to move further into totally integrated services. There is no doubt that that will continue. There will be, I suppose, much greater conglomerates of professional services—firms that are able to provide the global solution for our clients. As well, that may not create bigger firms; it will create different networks through organisations teaming, forming strategic relationships where there are specific skills that need to be turned on at a particular time for a particular assignment.

Ultimately, though, for success and for those opportunities to be realised there has to be a very strong client focus—a global client focus—as opposed to the regulatory focus, an ‘inside the borders’ focus that has traditionally been there.

ACTING CHAIR—Thank you very much. As there are no questions, I need to sincerely thank all who participated throughout the day. I particularly value the contribution of our panellists and having the opportunity to meet and hear some of the best in Australia.

Today’s proceedings are being recorded by Hansard. Everyone that has made a contribution will get a proof copy of the transcript to correct. Everyone who has attended today will get a hard copy of it. Within a couple of weeks the proceedings will be on the web site of the Joint Standing Committee on Foreign Affairs, Defence and Trade.

Last but not least, the proceedings today will form a report to the parliament. I think the report would lend itself to a number of recommendations advanced by a number of the participants being considered. I certainly see it happening that way, but it will be up to my colleagues.

I particularly thank members of the diplomatic corps and everyone else who attended and participated. I hope you find it has been worth while. If you have any suggestions about wanting to improve it, please write to Simon Gould, whom I must particularly thank. He is the seminar coordinator. We actually had him seconded from the Department of Defence. He has done an excellent job in putting the seminar together and will be involved in the preparation of the report. Ladies and gentlemen, thank you very much. I declare this seminar closed.

Forum adjourned at 4.38 p.m.