

AUSTRALIA AND EUROPE : DOING BUSINESS TOGETHER

Address by Senator Gareth Evans, Minister for Foreign Affairs and Trade, to the Australian Business in Europe Forum, Amsterdam, 18 September 1991.

I very much appreciate your invitation to address this Australian Business in Europe forum. ABIE does excellent work in Australia to develop business awareness and contacts between Australian firms exporting to Europe, and also between those networks of firms and their European counterparts. The Government has been happy to assist ABIE in those activities, and I am glad to have this opportunity to learn about, and if possible to assist, the work the group is doing here in Europe.

I want to focus today on Australia's trade and investment relationship with the European Community. It is true that for many years, for good reasons, we considered that relationship through the prism of agricultural trade problems alone - and, it has to be said, almost entirely through the perspective of our relationship with Britain. But things are now very different: we have long since comprehensively expanded, refined and reshaped that point of view.

The EC is of immense importance now to Australia, and will be of permanent importance to us, as a partner in trade and investment. The basic statistics tell the tale. The EC is Australia's second largest source of imports, the second biggest destination for our exports, and, by a wide margin, the biggest source of foreign investment in Australia. Our exports to the EC were valued at \$A6.3 billion in 1990-91, while imports in that financial year were worth almost \$A10.7 billion. The stock of investment from the EC in June 1990 amounted to \$A68 billion, one and a half times that from either America or Japan.

Let me make three supplementary comments about those figures. The first is to emphasise the vigour with which we are working to reduce the trade imbalance by expanding and diversifying our exports to the EC. The second is to note that, as a reflection of the expanding global reach of a number of Australian companies, the total stock of Australian investment in the EC has risen rapidly since the mid-1980s. The third is simply to remind a European audience that the size of our trading and investment relationship shows not only the EC's

importance to Australia, but also Australia's importance to the EC. There might be a lingering disposition in some quarters to think of us as a smallish country a long way away. But it is worth remembering that, while our population of 17 million does pale a little into insignificance alongside many of our Asian neighbours, we do have the twelfth biggest economy in the world - bigger than Korea's or India's or most EC countries, and larger than all six ASEAN countries put together.

Further development of the Australia-EC relationship is in the interests of both sides. In trade and investment, we have great many common interests and shared objectives. Australian government policy, naturally and rightly, concentrates on the problems caused for us by the Common Agricultural Policy. But that concern does not lead us to neglect the new opportunities opening up in Europe - through completion of the EC's single market; through the reunification of Germany; through the forthcoming expansion in EC membership; through association between the EC and the new democracies of central Europe; and through the massive changes now under way in the Soviet Union and its constituent parts. If Australians - Australian governments, businesses and investors - do not take full advantage of those new opportunities, then the fault will lie with us, rather than with the Europeans.

I realise that I may be preaching to the converted with this audience. But I can assure you that we are constantly repeating the same message at home, and backing up that message with extensive programs of support to those parts of the business community interested in building up links in Europe - support in the form of the provision of information, market guides, assessments of policy developments, and country economic briefs.

In this respect, I was pleased to receive recently a report which we commissioned from the Business Advisory Group on Europe (BADGE). Chaired by Sir Peter Abeles, Managing Director of TNT and constituted by some of Australia's most senior businessmen with interests in Europe, this group was formed to provide advice to the Government on finding ways to improve Australia's business performance in Europe. Its report makes a number of important suggestions which we are presently closely examining. It recommends, for example, the possible establishment of an Australian education centre in Europe and the creation of an Australian business office to assist companies to take advantage of opportunities arising from the single market. And it suggests, I think very constructively, the development of a continuing program of case history seminars

targeted at small to medium sized enterprises in which companies with demonstrated success in Europe would share their practical experience with aspiring entrants to the market.

There are now plenty of Australian success stories in Europe on which we can draw in encouraging others to follow. You will no doubt be familiar with our larger companies with established networks now in Europe, such as TNT, Pioneer, Wormald, Brambles, Mayne Nickless and John Holland. But we also have some quiet successes among our smaller enterprises - e.g., to take two more or less at random, Robotron, a Melbourne based computer company producing a range of computer aids for the blind; and Griffiths and Beerens, which produces chain saw bars and guides and has established itself in a number of Scandinavian markets.

Encouraging European business into Australia is just as important as getting Australians into Europe. The message in this respect, which we need to keep on repeating in Europe, is about the way in which we have been moving to change the whole climate and culture of business in Australia, by progressively integrating all sectors of the Australian economy with the demands, the disciplines and dollar returns of world markets.

Since the first election of this Hawke Government in 1983, we have been fully committed to modernising, streamlining and re-structuring all aspects of the Australian economy. That has been long, hard work. But it has been essential work, to make the Australian economy internationally competitive now and to give us the basis for sustained future growth - in employment, in productivity and in trade.

Many achievements have already been recorded. Australia's inflation rate is now down to 3.4 per cent, much lower than that of most of our trading partners, and the OECD average. Despite falling demand for some commodities, we managed last year to record a \$A2.5 billion merchandise trade surplus. That improved performance helped to underpin a further reduction in the current account deficit, now at its lowest level since the September Quarter 1988: now running at a very manageable 4 per cent of GDP, that deficit is expected to further fall to 3 1/2 per cent in 1991-92.

We continue to work systematically to improve the international competitiveness of our traded sector, and to build up the basis for further sustained reductions in

the current account deficit. The most important element in that program has been the Government's policy on border protection. There are now no quantitative restrictions on imports to Australia, with the sole exception of the textiles, clothing and footwear industries, where assistance is being phased out. By 1992, the effective level of protection will be half the level when the Government first took office. Assistance to the agriculture and mining sectors is negligible. Overall, the average effective rate of protection will fall to just 5 per cent by 1996.

Other important elements of the program involve micro-economic reform, especially in transport and communications. We have taken major steps to raise productivity - with the waterfront, for instance, productivity gains of up to 60 per cent having been already recorded. We have introduced limited privatisation, especially in regard to the government airlines. We have expanded competition, particularly in the field of telecommunications. We have reached historic agreements with our States for cooperation on national road and rail freight transport systems.

I simply cannot overemphasise the extent of change - in institutional structures, in performance and in habits of mind - which have already occurred over the last few years in Australia, nor can I overemphasise the Government's commitment to see those changes continue. There is no clearer illustration of the changes that have occurred than industrial relations. Even in sophisticated Europe, there are still old-fashioned and misleading impressions of Australia's strike record. But the real picture today is entirely different from the stereotypes of the past. In terms of unit labour costs, work practices and dispute resolution processes, the Australian labour scene is unrecognisable from what it was a decade or so ago. We in Australia know that we have to stay fully aware of the scope of change in Europe. But so too do European traders and investors need to keep themselves up to date in assessing what is going on in Australia.

Another recent and important change has been a shift in the composition of foreign investment entering Australia, away from off-shore borrowings, and towards greater equity. Inflows of equity capital now dominate foreign investment, a marked and welcome reversal of the pattern of the 1980s. This equity investment should increase our economic efficiency, and maintain the stabilisation of our foreign debt that has already occurred.

One recent example of such investment is Toyota's commitment to major

restructuring of its Australian operations, with a new \$A420 million vehicle manufacturing plant in Melbourne. That is a vote of confidence not only in the direction of Government policy, but also in business relations with the union movement. At the Toyota plant, agreements have been signed for single union coverage. Similar agreements are forthcoming in the power generation and the building industries. They reflect a new hard-headed rationalist approach by the Australian Council of Trade Unions (ACTU). And they indicate a real determination on the part of Australian government, business and unions to make the most of our comparative advantage and competitive efficiency.

Those of you interested in investment in Australia should also be aware of the steps taken by the Government to ensure that the aberrant excesses of some individual Australian entrepreneurs in the 1980s are not repeated in the 1990s. Our flame-outs were hardly the only ones to occur since the late 1980s, but they were among the more flamboyant, and did not help our international image. The Australian Securities Commission is being given wide-ranging powers to monitor and control situations open to abuse, in areas like loans to directors and related and linked companies, as well as the transfer of assets between companies and their associates.

I have talked about Australia in its own right, but it is also important to see us in the way in which we now see ourselves - as an integral part of the whole dynamic Asia Pacific region. To the extent that another old stereotype is at work here -that Australia is perched uncomfortably on the edge of Asia, surrounded by countries with different political, economic and social traditions, and really at a loss to find a place for itself - let me assure you that that is now entirely out of date. We are not isolated from the Asian economies, but engaged and enmeshed with them, just as we are ever more enmeshed in the political and security processes of the region. The emphasis these days is not on our differences with Asia, but on our common interests and the areas where we can work together. We were the lead player, for example, in instituting APEC - the twelve-nation Asia Pacific Economic Process now being consolidated as the major force for both economic cooperation and trade liberalisation in the region.

More specifically, we have established Australia as a highly successful base for companies wishing to do business throughout the Asia Pacific region. Our communications systems are at the leading edge of world technology. They are backed up by soundly developed public and private infrastructure. In some specialist fields, our own capabilities in high technology are well developed - for

example biotechnology, aerospace, computer software and advanced materials.

We have been working hard recently with the EC to create more two-way business opportunities, in particular by initiating a wide-ranging program of sectoral cooperation, in fields where we can learn from each other and can work to mutual advantage. We have set up systems for matching Australian and EC business interests and skills. We have established cooperative arrangements in the environmental field; our skills in environmental management and rehabilitation may have direct commercial applications in central Europe. We are working towards a framework agreement in science and technology, which will build on our respective strengths. There are already substantial bilateral programs of cooperation in science and technology, e.g. between Australia and France.

We are also collaborating closely in the energy field, through participation in the negotiations on the European Energy Charter. I should remind those in Europe who think of Australia's commodity base simply in terms of agriculture that we are also a major energy supplier, and that our energy exports - which in the case of Europe involve steaming and coking coal, and uranium - are cheap, clean and reliable. And we do not simply export energy to Europe: Australia's largest company, BHP, is actively engaged in exploration and development in the Mediterranean, the North Sea and the Soviet Union.

Just as we have been among the strongest enthusiasts for reform of the Common Agricultural Policy (CAP) - a subject I will return to in a moment - so too do we welcome the initial steps being taken in Germany, Spain and Britain to reduce subsidies for local coal production. The economics of this trade have been hard to understand. Australia can land low sulphur, low ash coal - coal which does not contribute at all to acid rain - in Europe at 40 per cent the price coal can be produced in the mines of North Rhine-Westphalia. Reliance on imports of energy, especially import from a diversified range of reliable suppliers, offers the same sort of energy security which Europeans have bought for too long at a prohibitively high cost by dependence on indigenous sources of energy.

The economic absurdity of some aspects of European energy policy pales beside what is perhaps the greatest economic absurdity, monstrosity even, that economists have ever created. But in talking about the Common Agricultural Policy, I would prefer on this occasion not to do so in terms of its impact on Australia, great as that is. Rather I want to urge Europeans - their governments, their farmers, and especially their taxpayers and consumers - to look again at the

economic and social costs imposed upon Europeans by maintenance of the CAP.

We fully recognise the social, political and environmental concerns which are built into the CAP: your concern for the welfare of rural communities; your perfectly understandable concern (which I wholly share) about preserving the character and quality of the European landscape; your wish to maintain the range and standard of local food production. But the CAP is not an effective or rational way to meet those concerns.

Depending on where you live in Europe, your consumers pay between 19 per cent and 52 per cent more for their food than they need to. Taxpayers pay up to 27 per cent more than they need to in direct taxes. The dollar-per-head subsidy you pay for each cow in Europe amounts to more than the income per head of two thirds of the people of the world. Your agricultural system allocates 80 per cent of its funds to the 20 per cent best-off farmers - those who least need assistance. And your own environment is damaged by the excessive use of pesticides and fertilisers needed to maintain excessive levels of production.

We in Australia have now documented these concerns and criticisms of the CAP in a brochure which will be distributed widely throughout the EC to consumer, taxpayer, union, environmental and manufacturing industry groups. We have done that not to be carping, negative, point-scoring critics - but to try to persuade you that the CAP can and must change - in your interests as Europeans as much as in ours. It is odd, to say the least - and at odds with the traditions of consistency and the civilised rationality we associate with the Continent - for the EC to be counselling the countries of central Europe on the need to adopt market economies when you so steadfastly resist application of any market principles in agriculture. It is odd for the EC to benefit so handsomely from liberalised trade in manufactures and services while resisting any moves to liberalise trade in agriculture. And it is odd for the EC to be thwarting movement towards resolution of the Uruguay round when the successful conclusion of the round would benefit the EC more than any other group of countries.

We in Australia know a great deal about the costs and risks of adjusting agricultural policies, especially traditional policies which have become sacred. We have imposed adjustment on all sectors of the Australian rural economy. We have completely dismantled the cherished reserve price scheme for wool. We have abandoned the Wheat Board's domestic monopoly in the selling of wheat. We have forced major re-structuring in the dairy industry. We have opened up

our agriculture - just as we are doing with other sectors of our economy - to the challenges of full international competition. It is against this background, and with this record, that we again urge the EC to move in the same direction.

Let me say in conclusion, on a positive note, that I do detect a mood of change in Europe and around the world which perhaps mirrors in miniature some of the more dramatic recent European political events. There does seem to me to be a growing maturity among many nations of the world, an acknowledgement of wider interests over the longer term, and a recognition of the importance of removing the last vestiges of barriers to an open world trading system. Whether that mood, in the event, does prove to be one that prevails over narrower, shorter term, inward-looking instincts is something we are going to have to wait a few more months to find out.

My fervent hope is that we do not waste the opportunity that we have in the final stages of the Uruguay Round to achieve a sensible and equitable outcome - for the future patterns of world trade are inextricably tied to the success or failure of these talks. Nobody in Australia, or in Europe, will be able to protect themselves from the results if those talks fail.

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