

**The Hon Simon Crean MP  
Federal Shadow Minister for Trade & Regional Development**

**Address to the Australian Industrial Research Group  
Pre-Conference Dinner Meeting**

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Thank you Dr Errol McGarry, ladies and gentlemen, for the opportunity to share my vision for an enhanced trade policy, and Labor's enduring commitment to an integrated trade and industry policy.

As an organisation that represents businesses with a focus on innovation and technological development, you are at the forefront of the expansion of R&D in this nation and the crucial role industry must take in this regard.

We greatly value your input into the trade and industry agendas.

Labor understands the crucial role of innovation as a key driver of the nation's growth. Both as a nation and for our people.

By becoming clever, innovative and creative, we enhance our growth and our competitive advantage. We create interesting job opportunities.

Throughout my working life I've been committed to encouraging innovation to enrich the life of the nation and drive growth:

- as Minister for Science and Technology I established Cooperative Research Centres to link researchers with industry to focus our R&D efforts and stabilised funding to scientific organisations based on 3 year funding programs. Together with John Button I worked to lock in our commitment to the 150% tax deductibility for R&D;
- as Primary Industries Minister one of my key objectives was to work with rural industries to value-add their resources through innovation, and restructure the industry bodies to focus on research and marketing. This followed John Kerin's establishment of the Rural Research and Development Corporations to improve the link between research and product development. This led to a renewed focus on entrepreneurship and innovation in the sector;

- as Minister for Education, Employment and Training I embraced the role of the skills agenda to address unemployment including initiatives including Labor establishing the Australian National Training Authority, building competition in the private sector for the delivery of training incentives through Traineeships, the Training Wage, and such as the School to Work transition programs and accredited on-the-job training; and
- through my various Shadow portfolios including Treasury, Trade, Regional Development and Industry I have continued to advocate innovative policy solutions to drive research, creativity and innovation to develop our regions and industries.

The nation has reaped the benefit of the historic decision to establish 50 CRCs in 1990. They were about driving both basic and applied research but importantly established linkages between our research bodies and business.

They remain one of the few initiatives to have survived the change of Government in 1996. Today, there are currently 56 CRCs operating in 6 sectors.

Since the commencement of the CRC Program, all parties have committed more than \$11 billion (cash and in-kind) to CRCs. This includes more than \$2.6 billion from the CRC Program, \$2.8 billion from universities, \$2.1 billion from industry and more than \$1.1 billion from CSIRO.

I also welcome this evening's opportunity to share my reflections on trade policy and negotiations – what has gone wrong, what needs to be done better and what has gone right.

The future continuation and expansion of R&D is dependent on a host of factors: energy policy, an ageing population, water conservation and efficiency, the R&D incentives provided to industry.

But one of the most important factors in this is the role of Government in genuinely committing to an integrated trade and industry policy.

Despite the resources boom, Australia's trade performance has been woeful.

- Australia has been in trade deficit for five consecutive financial years with a deficit of \$12 billion recorded in June;
- Export growth has slowed to an average of 2% a year over the past five years, compared to 8% under Labor;
- Over the past five years exports of services, elaborately transformed manufactures and resources have all averaged growth less than a third of that recorded under Labor.

This appalling performance must be addressed by:

- increased market access, with multilateral agreements being the best method to do this;
- assistance to companies through market export enhancement programs to gain access to new markets; and
- focusing trade negotiation efforts on the difficult issues that affect services and high end manufactures exports. It is in these sectors that greatest gains from freer trade are likely to come in the future.

I will come to these points in a moment.

But there must be a significant shift in our domestic policies to ensure Australian businesses are able to take advantage of these opportunities and are able to compete on the world stage.

This involves a commitment to:

- investment in the drivers of export and economic growth: skills, infrastructure and innovation; and
- develop integrated trade and industry policies

### **Domestic policies and integrated trade & industry policy**

The Government has failed to develop or apply a coherent trade policy and has run-down the framework of support for Australian exporters.

This failure is a key factor in Australia's poor export performance.

We should be doing much better. In light of the significant global demand, especially from China and India and the current resources boom – the most significant in living memory.

It shut down successful programs such as International Trade Enhancement Scheme & the Innovative Agricultural Marketing Program.

The value in real terms of the Export Market Development Grants (EMDG) scheme was cut in half since 1995-96.

But cuts to investment in R&D also have a significant impact on firms' ability to stay competitive in global markets.

Labor recognises innovation is a key driver of the nation's growth.

Labor's investment in R&D and encouraging business investment through programs such as the CRC's paid by dividends.

Labor has always understood the importance of encouraging R&D and innovation, both at the macro and micro levels.

In the 1980's and 1990's, Labor in Government:

- Committed to a 150% tax concession
- Syndicated R&D for start up companies
- Invested in R&D
- Increased expenditure in R&D

When they came to office, this Government cut the research and development tax concession from 150 per cent to 125 per cent and has seen business investment in R&D grow at half the rate of the previous decade.

They cut the syndicated investment in R&D.

Government investment as a proportion of GDP has fallen from approximately 0.24% in 1995-96 to 0.18% of GDP in 2004-05.

The results of this on business investment in R&D are stark.

Average annual growth rate of real business investment in R&D (BERD) fell from 11.4% (1986-87 to 1995-96) to 5.1% in the period 1995-96 to 2004-05.

Throughout the 1980's to 1996 we saw steady growth in business investment in R&D. Both as a proportion of GDP and in terms of real dollars.

But between 1996 and 2000 we saw negative growth in both business and Government investments in R&D

This is a wasted opportunity.

Years of underinvestment have hampered our industries' capacity to innovate, to value add their products and better compete in global markets.

The problem is this Government sees this as a cost rather than an investment.

It's the same story on broadband.

They are not prepared to invest in the future.

This has a significant economic cost to regional Australia and to the regional firms and businesses that need and deserve a first class broadband network.

The Australian Local Government Association (ALGA) found in its State of the Regions Report last year the cost of inferior broadband in 2006 alone was \$2.7 billion in foregone gross domestic product and 30,000 regional jobs.

Only Labor has the commitment to provide 98% of Australians access to a fibre to the node National Broadband Network delivering true broadband speeds of a minimum of 12 megabytes per second. The 2% which cannot be covered by fibre due to their geographical location will be guaranteed broadband access through alternative technologies.

Imagine the economic growth and job creation opportunities that would have been created if the trend in R&D growth Labor created had continued.

Imagine the opportunities that would have opened to individuals, families and businesses, particularly in regional Australia, with a commitment to connect all Australians to affordable, fast broadband over the Internet.

Australia's farm exports are facing increasing competition from developing countries – not only due to their low costs but also because they are now investing more on productivity enhancing R&D.

Sustained productivity growth in our key export sectors has underpinned Australia's ability to compete and succeed in global markets.

We cannot afford to waiver in our commitment to R&D.

Labor is committed to invest in the drivers of economic and export growth: skills, infrastructure and innovation.

Labor has also committed to implement trade policy from a whole of Government perspective.

Trade initiatives will be progressed in tandem with other relevant initiatives in industry and innovation, agriculture and finance.

We will restructure and broaden the mandate of Austrade to ensure that it provides better service, is receptive to industry demands and is responsive to the ever changing challenges of exporting.

Labor will look to strengthen the EMDG scheme to ensure that businesses are encouraged to export.

An integrated trade and industry strategy is also about investment in infrastructure and skills. Labor's commitment to *Infrastructure Australia* – a statutory authority to overhaul reform, planning, development and investment in the nation's infrastructure needs, together with Labor's commitments on skills, are essential to an integrated strategy.

We will consider in particular how we might be able to encourage further exports of services.

For example, we are keen to make Australia a financial hub. You may be aware we have announced our commitment to halving the withholding tax on distributions from Australian managed funds to non-residents from 30% to 15%.

We also recognised that the broader services sector has a significant role to play in improving Australian exports and economic growth.

This potential has not been given the attention it requires by this Government.

## **Increasing market access – multilaterals**

### Redoubling efforts on Doha Round

So in addition to a renewed focus on domestic policies, we must also look to our international trade policies.

There could not be a more opportune time to do so.

With the eyes of the world on Australia as the host of APEC, Australia has a once in a decade opportunity to drive the regional and global trade agenda.

In June, the collapse of the G4 talks in Germany reminded us of the precarious situation that the Doha Round is in.

It reminded us that multilateral trade negotiations have to be the highest priority in trade policy.

Labor puts primacy on the WTO, followed by bilateral and regional agreements.

It is in this order that Australia can best advance its trade interests.

What is required is a redoubling of efforts to push for a conclusion to the Doha Round.

Australia can and should play a large part in this.

Mr Truss has suggested that Australia should be canvassing APEC members to drive an outcome to Doha.

If this is the case, Australia should be canvassing APEC members to develop a caucus of pro-WTO countries to drive an outcome to Doha.

The Cairns Groups once drove the WTO agenda in the Uruguay Round but has lost its clout as a forum in the WTO.

This is partly the result of the neglect of the Cairns Group by its Chair, Australia, over the past ten years.

As a result the G20 group of developing countries in the WTO has emerged as the third major force, with the EU and the US, that the Cairns Group once held.

For Australia to again punch above our weight in the trade arena we need to build APEC's role as a key forum influencing the Doha Round.

I will speak more about the Agenda for APEC shortly.

### Bilaterals Failing

Multilateral agreements provide the best potential outcomes for free trade but bilaterals can play a part in Australia's suite of trade policies.

However, we need to ensure that bilaterals FTAs that we do sign are the right ones, not just agreements for the sake of it.

Bilateral agreements need to be complementary and cannot be the driving force behind a trade strategy as has been the case under this Government.

In fact, Australia's bilateral free trade agreements are not working.

Australia has signed agreements with the United States, Singapore and Thailand over the past three years.

Since coming into effect, Australia's trade position with each of these countries has deteriorated. Our deficits with the United States and Thailand have increased and the trade surplus that we had with Singapore when the SAFTA came into effect has become a deficit.

The Government has rushed to secure these bilateral agreements for the sake of signing any agreement as though they are collecting trophies for the trophy cabinet.

The Government says the WTO is its number one priority but the evidence is to the contrary.

As a result the agreements that have been signed have not been in the best interests of the Australian economy or industry as a whole.

- There have been significant carve outs and important issues left out of these agreements.
- Significant concessions have been given away without similar openness being given in return.
- There is a risk that intellectual property provisions will not be strong enough in future agreements.

As a result, and understandably, many are losing faith in the bilateral FTA process.

That said, there is a role for bilateral FTA's in Australia's overall trade policy but they need to be built on multilateral agreements. They need to go further and make deeper cuts than multilaterals.

Labor's policy was in the order of Uruguay, followed by APEC through Bogor, followed by bilateral agreements.

This was and remains Labor's policy.

Regional free trade agreements should be WTO plus, going further than the multilateral round. Bilateral agreements should go further again, being WTO plus, plus.

However, the Government has reversed this policy, driving an inconsistent strategy through bilaterals and undermining our position in the multilateral round.

To be effective bilaterals must go further than multilaterals and they must be consistent with the ultimate goal which is an outcome to the WTO Doha Round.

The secrecy in bilateral trade negotiations remains. There needs to be greater openness in the availability of information.

Labor would make the process of Australia's signing of bilateral free trade agreements more open and democratic.

This would mean that prior to commencing negotiations for bilateral or regional free trade agreements, we will table in both Houses of Parliament a document setting out its priorities and objectives, including independent assessments of the costs and benefits of any proposals that may be negotiated.

The assessment should consider the economic, regional, social, cultural, regulatory and environmental impacts which are expected to arise.

It also means being assured that there is a strong intellectual property chapter to such agreements.

There is a bipartisan position on trade so let's work these issues out.

For existing free trade agreements such as the Australia US FTA, it is important that we use the review process to ensure issues raised by industry are dealt with appropriately.

The Government has rushed in to sign bilateral free trade agreements for political reasons.

The US Free Trade Agreement is case in point. With the election looming in 2004, John Howard was itching to sign any agreement to add another trophy to the cabinet without considering properly whether this was the right agreement for Australia to be signing.

There are opportunities for all sectors through multilateral and bilateral free trade, however the greatest advantages are likely to be in the services sector and in elaborate manufactures sectors with a high services embedded component.

There is a myth around that Australia cannot compete in manufactures. The manufacturing industry in Australia proves this is not correct.

Manufactures with a high level design or services component can compete on the international market because they play to our comparative advantage.

That comparative advantage is our high skilled, highly educated workforce.

As China and India move further up the technological productivity curve Australia can stay ahead but it requires an investment by Government in skills, in education, research and development and innovation.

## APEC

Australia hosting APEC in 2007 provides a golden opportunity for the Government to deal with the problems of Australia's and the world's trade agenda.

Australia, under Labor, was a foundation member of APEC and a driving force behind its establishment.

Over the past ten years APEC has drifted from its original purpose. While the issues it has focused on have been important, they are not the main concerns APEC was established for.

APEC was and is a forum established on a trade and economic agenda.

Australia used APEC to give impetus to the Uruguay Round by establishing the Bogor declaration which provided a timetable for regional trade liberalisation. That is a regional approach that is consistent with multilateral principles.

The threat of a regional free trade agreement in APEC provided the impetus for the US and the EU to drive harder for an outcome in the Uruguay Round.

This could also be the case for the Doha Round but it requires a member country to take up this position and lobby other members to make it APEC policy.

Regardless of the outcome of the WTO negotiations, there is much to be gained from a stronger APEC.

A stronger APEC should be seen as the second best fall back option for Australia's multilateral free trade agenda.

Australia is in a unique situation to strengthen APEC in 2007 and there are a number of issues other than the Doha Round which need to be on the agenda.

First, Australia should push for India to be admitted to APEC when the 10 year moratorium on new members runs out this year to ensure APEC remains relevant and the premier economic forum in the region.

APEC is the most important forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. It is critical that India is part of the mix.

India is emerging as an economic powerhouse:

- It is already the fourth largest economy in the world.
- For more than a decade the Indian economy has averaged annual growth of around 6 per cent.
- In the past three years it has averaged annual growth of 7.5 to 8.5 per cent.
- India is forecast to maintain economic growth above five per cent for the next 50 years while growth in China is expected to slow.
- If such rates of growth were achieved India would become the third largest economy in the world by 2032.

The inclusion of India will make APEC stronger by including the world's fourth largest economy in the forum, ensuring it remains the premier economic grouping in the region.

Second, the issue of enlargement raises the broader matter of governance of APEC.

The members of APEC need to find a way of dealing with applicants for membership to the forum.

Currently decisions by the forum require unanimous agreement by members.

The move to enlargement should involve this requirement being reviewed.

Third, APEC also needs to adopt a new urgency not just in trade liberalisation but in capital flows and investment.

Trade ministers have an important role in APEC.

However, economic ministers have a more important role to play and this needs to be recognised within APEC.

We should heed the lessons of the Asian financial crisis and take more of a lead role in insisting on better governance from both Governments and Financial institutions. This is economic ministers' responsibility.

The harder issues of free trade in the region require work by economic ministers to resolve.

These issues are transparency, industry regulation and behind the border issues.

For example, some notable 'behind the border' initiatives, which APEC is well placed to advance include:

- (i) strengthening of intellectual property rules, which is essential to protecting the proprietary rights of businesses wishing to invest or sell their products or services in other markets without fear of 'piracy';
- (ii) improving transparency of economic policies and regulatory requirements to give businesses certainty and confidence when operating in foreign jurisdictions;

- (iii) promoting best practices in corporate governance, including in accounting practices and reporting to build the confidence of equity investors; and
- (iv) extending work on strengthening legal infrastructure, such as on alternative dispute mediation, to ensure commercial disagreements are dealt with in an efficient and transparent manner.

But there must be leadership and a genuine commitment to improve these factors from economic ministers.

Fourthly, APEC presents a golden opportunity to advance solutions on climate change.

The Prime Minister's push for climate change discussion in APEC has a potential to deliver some positive results.

It is important, however, that should APEC reach a commitment on emissions targets and trading, that these are globally compatible, that is, will be able to operate with arrangements being developed elsewhere, such as in Europe.

We must avoid establishing competing regimes.

Australia and APEC must create a unifying force that brings together the initiatives that may be pushed by Europe on one hand and the US on the other.

The APEC initiative must also recognise the importance of ratifying the Kyoto Protocol. From Australia's point of view, ratification of Kyoto remains important, as it would allow us a credible voice at the table, particularly as the rules are developed for international carbon emissions trading.

The APEC initiative must also help promote growth in clean technologies, for which Australia already has a comparative advantage. But it is an industry in which we have not yet punched our weight and the economic opportunities it offers our regional communities and our innovators, have not yet been fully realised.

APEC can play a role in encouraging development of this essential industry.

Finally, Australia needs to push for a stronger framework within APEC to ensure that bilateral agreements in the region are consistent and assist in building the WTO rounds rather than detracting from them.

Global free trade is at a cross roads, with the Doha Round in the balance.

Australia is in a position to play a pivotal role in the future of the regions and the world's free trade agenda but we need to take the opportunity provided by APEC in 2007 to once again punch above our weight in world trade.

There is a clear agenda for the Government to follow on APEC and it is up to the Government to take this opportunity and begin lobbying member countries now so that there can be real progress in September.

## **Conclusion**

Labor's commitment to investment in innovation and an integrated trade and industry policy cannot be questioned.

Despite the prosperity Australia has enjoyed for the past 11 years, there has been no genuine commitment through Budgets to value-add our resources base, invest in skills and innovation and diversify our economy.

The role of Governments is to secure a sustainable social, economic and environmental future for our nation.

I look forward again to the opportunity after the next election to complete the unfinished business of Labor's last term to secure a sustainable future for our nation.

In Government, Labor will continue to be activists for innovation as part of that future. We believe in it and we will not waiver in our commitment.