

Transcript

Station: 2UE
Date: 17/11/2014
Program: YOUR BUSINESS DAY
Compere: STUART BOCKING

Item: INTERVIEW WITH INNES WILLOX, CHIEF EXECUTIVE, AUSTRALIAN INDUSTRY GROUP. WILLOX SAYS THE FTA WILL BE VERY GOOD FOR SOME PARTS OF THE ECONOMY, INCLUDING THE SERVICE AND AGRICULTURE SECTOR, BUT THERE ARE SOME CONCERNS IN THE AREA OF INTELLECTUAL PROPERTY RIGHTS, WHAT THE ROLE OF CHINESE STATE-OWNED ENTITIES WILL BE IN AUSTRALIA AND THAT IMPORT TARIFFS TO CHINESE PRODUCTS BE GRADUALLY PHASED OUT.

INTERVIEWEES: INNES WILLOX, CHIEF EXECUTIVE, AUSTRALIAN INDUSTRY GROUP

STUART BOCKING: The wash up to all of that and of course a lot of discussion around this free trade deal between Australia and China. The Australian Industry Group has been running the ruler over all of this. Invariably, there will be winners. Some will focus on losers as well.

Innes Willox is the Chief Executive of the Australian Industry Group and he's on the line. Innes, good morning.

INNES WILLOX: Morning, Stuart. How are you?

STUART BOCKING: I'm well, thank you very much. What are some of the concerns that you've identified - these five hot spots for manufacturers in this free trade deal?

INNES WILLOX: Well, like you said, there are going to be winners and losers and look, the FTA does have the potential to be very good overall for the Australian economy, and we've seen some of that particularly around the services sector. But for other parts of the economy there's a little bit of wariness around what all this will mean, and there are some concerns in a couple of key areas. That is, that Australia's intellectual property rights are maintained, particularly when doing business in China. That's going to be a very important thing that industry is hoping that the agreement upholds.

There are concerns around what the role of the Chinese Government businesses - the state-owned entities - will be. What access they will get to Australia and if Australian businesses are going to be able to compete with them. That's going to be a very important consideration for business. And another important issue is that we do have tariffs still in place for imports from China. They're not big; they're only about five per cent but [indistinct] phased down rather

than removed overnight just to give Australian business the time to adjust to the new reality of an open market with China.

STUART BOCKING: I suppose one of the interesting points from this is that when you look at many of the prices of clothing out of China, footwear out of China, car componentry, your household electronics, all of those often we see now - one of the problems with our manufacturing sector is the difficulty competing. Now, you say there are small tariffs on some of these items imported from China. How much cheaper could they get as those tariffs are phased out, Innes?

INNES WILLOX: Well, what would happen is say you bought a \$1000 TV from China. That would be about \$55 less under an FTA eventually because you'd have the five per cent tariff removed plus the GST. You know, a pair of pyjamas that you maybe pick up from Target or the like because they're \$20, they'd be just under \$19. So they are not huge cuts in price, but they are sort of significant enough in the overall scheme of things that they may tip the balance towards purchasing a product from there.

STUART BOCKING: Well, what about the idea that in a lot of these cases, yes, the prices are cheap for now - they go about making things difficult competition-wise for manufacturers in other parts of the world and then suddenly, over time, they start to bump their prices up bit by bit. Do you have concerns around that?

INNES WILLOX: There is concern around that, of course, but there are also concerns that the FTA is actually implemented. It's good that we've had over 10 years of negotiations to get this far. It's over a thousand page document, by all accounts. But the key to this is how it's implemented, how it's policed, and there's always concerns when FTAs are announced that the other side...

STUART BOCKING: Yes.

INNES WILLOX: ...doesn't stick by the rules. We saw that with the Thai FTA, when they overnight, after signing an agreement, changed all their rules around importation of vehicles. And that really put the Australian automotive sector in the hole because the rules changed overnight. And there are all sorts of things that go on behind the border. You know, new licensing arrangements, directions that you can only go through a few ports, and the like just to make importers - Australian, in this case, businesses trying to get into China - make their life just a little bit harder. So we need to really keep an eye on this.

STUART BOCKING: In light of that, then, how binding are these agreements? Are there penalties in place if one or the other parties does the wrong thing, or are they pretty well based on a feeling of good will?

INNES WILLOX: Well, it starts with good will and then there's usually a penalty regime put in place. Then the hard part is actually to get the penalties enforced, and while there might be a penalty regime it's sometimes very difficult to get that paid up and in the meantime, a lot of damage is being done to business. Stuart, I think we should just say that look, for big - for parts of this economy - Australian economy - it's going to be very positive. For the services sector, for agriculture and the like, and parts of manufacturing too, will do alright out of it, particularly those who already diversified into operating in China and importing componentry into Australia from China. They'll be able to do that more cheaply. So there will be some beneficiaries from this but others will - it'll be sort of another notch in the belt in terms of doing it hard.

STUART BOCKING: Okay. Yeah, that's right. I mean, they talk about the benefits exceeding \$18 billion over 10 years. We never truly know, though, do we? It's a bit like, you know, economic activity generated by X event or the arrival of some sports star - visiting star - whatever it might be. They're always a bit of a thumbnail sketch on the back of an envelope, some of these figures, aren't they?

INNES WILLOX: Oh absolutely. They're very rough guides and the economy changes. The makeup of our economy changes, the way we do business changes over time. So look, you can't be precise about this. One thing we do know is that the Government rakes in about just over a billion dollars a year from those tariffs from Chinese goods coming into Australia, so you imagine under an FTA they'll go. That's a good thing on one hand, but on the other hand, I've never seen a government yet willingly give up a billion dollars...

STUART BOCKING: Yes.

INNES WILLOX: ...without trying to find another way to get it back. So...

STUART BOCKING: That's right, yep.

INNES WILLOX: ...that is something else that we need to look for.

STUART BOCKING: That is very true. That's certainly a billion dollars that additionally won't be being paid by consumers for those items that eventually those tariffs passed onto them. But at a time when they're running

at a deficit and trying to find every dollar they can, they'll look to make up that billion dollars somewhere else.

INNES WILLOX: Oh, that's quite - that's more likely than not, and that is the reality of this. And it's just revenue that the Government will forego. So you'd imagine in a tight budget situation, they'll want that back somehow.

STUART BOCKING: Yes, that's an interesting point to it as well. I suppose symbolically in terms of what this shows with us having closer relations, closer ties with China, that can only be a good thing, given where we are geographically in the world.

INNES WILLOX: Oh, absolutely, and this agreement's been, as I said, 10 years in the making.

STUART BOCKING: Well, New Zealand's had one for about six years, haven't they?

INNES WILLOX: Exactly, but they have a very specific need out of that. That was for their dairy sector and that, in some ways, made it tougher for Australian negotiators because New Zealand negotiated a very specific, focused FTA based around that sector and they don't have as wide an economy as Australia, as big and diverse an economy as Australia. So there's a little bit of catch up there in the dairy sector and that'll be good for our farmers and our milk producers for sure to allow them to compete. But I certainly know from experience with friends who live in China, there's a view that Australian milk powder, for instance, at the moment must be better because it's more expensive.

STUART BOCKING: Yes.

INNES WILLOX: That's sort of the mindset. But we will definitely get some benefits out of an FTA, it's just how those benefits are shared around and in all these agreements, Stuart, there are winners and losers, and there will be some businesses that will do it a bit tougher out of - as a result of this.

STUART BOCKING: And in some cases, we won't necessarily know until 18 months or more down the track, will we?

INNES WILLOX: Oh, absolutely. Yeah, and sometimes you get commentators and people in government say, oh, we signed an FTA with country X, why haven't things picked up overnight? Business doesn't work like that. It takes a long time to negotiate deals, to negotiate new agreements,

so we probably won't know for another three to five years what the outcome of this will be.

STUART BOCKING: Yeah. Look, appreciate your time this morning.

INNES WILLOX: Not a problem, Stuart. Have a great day.

STUART BOCKING: Thank you very much. Chief Executive of the Australian Industry Group, Innes Willox, with his thoughts on this free trade agreement with China which is due to be signed later on this afternoon.