



AUSTRALIAN INDUSTRY
GROUP

MEDIA TRANSCRIPT

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TRANSCRIPT

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Item: Fran Kelly speaks with Heather Ridout Chief Executive of the Australian Industry Group about a meeting of business leaders and Chinese Premier Wen Jiabao today. Ridout says they will discuss Australia's economic relationship with China, including the burgeoning trade deficit and Jiabao's intention for the free trade agreement.

FRAN KELLY: Uranium is not the only issue on the table between Australia and the People's Republic of China. The Minister listed just a few of them.

But business leaders are also meeting Wen Jiabao today in Canberra, with negotiations continuing on a possible Free Trade Agreement between the two countries.

The Australian Industry Group's Chief Executive, Heather Ridout, will be among those meeting with the Chinese Premier, and she joins us from Sydney Airport. Heather, good morning.

HEATHER RIDOUT: Good morning Fran.

KELLY: Heather, what's the thrust of today's meeting?

RIDOUT: Well it's going to discuss our emerging economic relationship with China. We have had a lot of discussion about our resource relationship. But of course Australia runs quite a substantial trade deficit with China - approaching \$6 billion - off the back of huge imports into Australia of manufactured products. China is our second biggest export partner, but it's also our second biggest import source.

So there are a lot of issues that we want to discuss, and we'd also like to raise the FTA and understand Premier Wen's ambitions for the FTA. The fourth round of negotiations took place at the end of February. The outcomes were quite mixed. Clearly it's a very ambitious agenda for China, but I think we also have our own ambitions for it, and it will be interesting to see what he has to say in response to that.

KELLY: Well let's look at the Free Trade Agreement, because as you say, the outcomes so far are quite mixed. A report in *The Australian* today quotes Premier Wen saying he wants to accelerate talks. Would Australian business be relaxed about that?

RIDOUT: Well I think it would be quite good really, because there's a number of issues emerging, particularly in the services and the investment and the agricultural areas, that really do require a lot of political will on the Chinese side.

A lot of the changes to investment and services guidelines for example will involve a range of regulatory agencies in China - not just the Ministry of Commerce that has the over overarching authority for the agreement - but it really does require change across the board in a lot of areas in China, and of course that is really held back by the communist system and their way of government.

So, I think politics will be really important in this. And of course you have to remember that China has never negotiated an agreement of this kind before. So, they've got their L Plates on, and yet there's an awful lot at stake.

KELLY: Well, as you say, a lot at stake for Australian industry – IP (Intellectual Property) is a particular problem there. When you say, talks so far, the outcomes are mixed; what are your concerns?

RIDOUT: Well, I just think the progress has been very slow. I think up until the last negotiation or discussions it's really been an information exchange process.

In the last round, we started to get more progress in getting our text on the table: what we were seeking from each side. But, you know, I think the outcome of those discussions was quite mixed.

And, from our point of view, we want a comprehensive agreement; an agreement that covers all sectors; not just one good sector for example. It has to go to all sectors. It has to really look beyond tariffs, to the non-tariff areas, the one you just mentioned, IP, but there are a whole lot of others, you know, the transparency in the legal system; the lack of legally enforceable contracts; and the lack of transparency in the application of taxes. There's a whole range of issues that really will make a difference, or make the difference in getting goods into China.

So, we need an agreement that does all those, and obviously, at the moment, it's a very very slow process.

KELLY: What's the danger for Australian business and industry, I mean, where can this go off track? Is the danger not so much in what ends up being written in the agreement, but how it's implemented.

RIDOUT: The dangers for us really Fran is not in this agreement. I mean, I think, in a sense, FTA or no FTA, Australian industry is going to be really dealing with a massive onslaught from China, as we have been – 70% of our manufacturing members say it's the most critical issue affecting their business; 90% of them are restructuring in response.

So, FTA or no FTA, this is a very big issue; the growth of China. The FTA though does give us the chance to actually address some of the inequities in that trading relationship. We can't do much about the exchange rate. I mean that's a sort of a tricky one. But we can deal with some of these issues that give us free and fair access to that market. And of course IP and those issues I talked about before, are hugely important.

But if we just have an agreement based on a rush of blood to get a resources kind of arrangement stitched up, that's not going to work. We

need an agreement that works for the whole economy, that gives all sectors a fair go in accessing and dealing in that market.

And, I guess what we're concerned about is making sure that in our enthusiasm for an agreement with China, we don't lose sight of the fact that it must be comprehensive; it must be WTO consistent; it must cover tariff as well as non-tariff issues.

KELLY: Alright Heather, just briefly on another issue – the Hendy - Warburton Tax Review will be handed to the Treasurer today. If its major recommendation, as suggested in one newspaper today, is that the corporate; the top tax rate rather, be cut, is it the major thing that your members would like to see come out of this?

RIDOUT: Well look, our position on tax reform is that it should go mostly to the bottom; the very low-income earners; people earning between 21,600 and \$30,000 a year. We think their marginal tax rate should be cut in half from 30 cents to 15 cents in the dollar, and some other changes made at that end to help the Welfare to Work transition; increase our participation; a whole lot of domestic policy goals should be driven by this.

Of course those changes would also go up right through the system. We also believe though that the top rate could be cut from 47 to 42 cents as part of that process. The eight and a half billion dollars will be spent on the bottom end; less than a billion at the top.

So I think what we're saying is, the weight of the investment should be at the lower end, and then we should also do something about the top end. And I think in a sense, the Prime Minister saying, we don't need major reforms, is a sensible proposition, but you can mix reform up with tax cuts which I think the government really should do on this occasion.

KELLY: Alright Heather Ridout, thank you very much for joining us.

RIDOUT: My pleasure.

KELLY: That's Heather Ridout, Chief Executive of the Australian Industry Group.

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