

# Transcript

Station: **RADIO NATIONAL**

Date: **09/02/2012**

Program: **BREAKFAST**

Time: **07:45 AM**

Compere: **FRAN KELLY**

Summary ID: **W00047407568**

Item: **DISCUSSION ABOUT VARIOUS MATTERS.**

**INTERVIEWEES: HEATHER RIDOUT, AUSTRALIAN INDUSTRY GROUP**

FRAN KELLY:

Let's stay with the pressures on our manufacturing sector. Earlier on *Breakfast*, the national secretary of the AWU, Paul Howes, unleashed on the Reserve Bank for keeping interest rates on hold this week which he says pushed the dollar higher. As chief executive of the Australian Industry Group and member of the government's manufacturing taskforce, Heather Ridout is one of that sectors most powerful advocates.

And as of next week she'll also be a member - she will be a member of the RBA board, giving her a direct say over future interest rate movements.

Heather Ridout, welcome back to RN *Breakfast*.

HEATHER RIDOUT:

Good to be with you Fran.

FRAN KELLY:

Heather Ridout, is Paul Howes right, did the Reserve Bank get its rate decision wrong this week at least as far as manufacturing is concerned?

HEATHER RIDOUT:

Look, what's going on in Alcoa and the manufacturing sector is a result of a whole lot of complex problems. The dollar is surging and it's staying at a high level for an extended period of time. And that's putting enormous pressure on the competitiveness of Australian industry whether it's aluminium production or car manufacturing or food.

Anything that's trade exposed, up against imports, trying to trade in export markets is very very tough.

We also have a range of other things that are happening, not so much affecting aluminium, but we've got rising electricity prices, we've got labour costs rising which aren't being matched by productivity increases, and of course we have the prospect of a carbon tax on those trade exposed industries from 1 July this year which - whilst there's a lot of support given to industries and particularly industries like aluminium, a lot of other industries are at the sharp end of it.

So there's a range of issues that are really bearing down on the industry.

And you know, I think are much more important in this [indistinct] problem we're experiencing.

FRAN KELLY:

So you're not saying it would have made any difference really to Alcoa's problem or position if the Reserve Bank had made a different decision.

HEATHER RIDOUT:

Well look what I think is that you know the economy's growing, it - the Reserve Bank manage the economy across the board, they look at the whole economy, what's going on in it. We have the chance through good government policy, public policy and fiscal policy to have a look at the industries that are on the wrong side of this boom.

You know, Fran, you have to remember that the twenty percent of the economy that is locked into mining - whether it's construction, the mining industry itself, mining services, and some manufacturing companies supplying to it - is growing by 15 per cent.

The other 80 per cent is growing by one percent. Manufacturing is one of them. And retail, tourism, all these other industries are on the wrong side, and you know, government's got to be very active in saying well that we need a diversified economy when this boom comes to an end.

And we can't necessarily know what it's going to look like, but we've got to shore up that part of the economy during this time.

FRAN KELLY:

Okay. I want to come back to those issues in a minute, but staying with the dollar, because in the past you've said - in fact I think you started this conversation - the government should do more to try and get the dollar down, jawboning part of that.

In recent weeks the PM has been talking about the dollar but basically telling us it will stay high for a long time, and urging us to see the positives of a higher dollar, reflection of the strength of our economy.

Is there more the government should be doing to try and bring the dollar down in your view?

HEATHER RIDOUT:

Well I think we're now having a more mature discussion about the dollar. You know, we've only ever heard it's muscular, it's a good thing, we can all go to 'Italy' on the cheap, you know, it's been a very ordinary debate. And you and I had this discussion now about a year ago saying we should have a more mature one and that the government should be out there saying there's winners and losers from this and we need to be conscious of it because there is a lot of froth in the currency.

And the currency is doing a lot of work for inflation, you know, it's an inflation fighter, a very good one. So I think we need a more mature debate about this. Because there is froth in the currency, you know.

There's a lot of speculation in it.

And there is, there's things that can be done down the track. I mean we do need, once we get our budget lined up, we do need to explore the stabilisation fund.

And that's been on the agenda for ages. We understand the government might want to pay back their debt first. But it needs to be done. And we need to invest those in offshore assets so we take the pressure off the dollar.

If we're going to have a dollar for a long time we have to - high at a long time we have to look at these issues and see what we can do over the medium term to get a more balanced economy.

FRAN KELLY: There's still very little discussion of something like a stabilisation fund. I mean is that something you'd like to build into what happens to the revenue stream that comes from the mining tax.

HEATHER RIDOUT: Absolutely. And we should be able to draw on that fund when we have bad times and build it up when we have good times, and, because, you know, these - also, these resources belong to future generations, not just current generations.

And we do need to think much more broadly about what we do with them.

FRAN KELLY: You're listening to RN *Breakfast*. Our guest this morning is the chief executive officer of the Australian Industry Group, Heather Ridout. Heather Ridout, you mentioned the carbon tax there. The Opposition lost no time in attacking the government over the threat of more job losses at Alcoa, blaming the carbon tax. Alcoa isn't blaming the carbon tax, though it does say input costs are a factor.

Will the carbon tax push up import costs for a company like Alcoa and others.

Alcoa I think gets remunerated as you said.

HEATHER RIDOUT: Well I think Alcoa's saying it's not a factor. The car industry is saying it's not a factor. And I think that's right. I mean you can't play politics over a lot of job losses and a lot of pain in industries, but the carbon tax generally for manufacturing is an issue.

We've obviously been very concerned about the high starting price of \$23 when the world price is, you know, a quarter - at least a third of that.

We're very concerned about the fact that there's a lot of industries that aren't going to give sufficient compensation. And we're very concerned about the huge amount of regulation that's just going to sit there, 475 pieces, which is another implicit carbon tax on industry.

So - and we're sort of concerned also that the programs that are meant to support industry are very slow being rolled out. And we'd like to see that process accelerated because this is looming on us.

And it's coinciding as you say with a whole lot of other issues for industry.

FRAN KELLY:

Well it is looming, less than five months away. Industry presumably is already taking the necessary steps to prepare for the introduction of the tax.

HEATHER RIDOUT:

Well I think industry - I mean we've done surveys in industry. Two separate ones. And not necessarily in relation to a carbon tax, but asking them the question - there's a huge amount of ignorance out there.

There's a great concern in industry about the impact - that companies are going to be directly impacted.

Well we know that only 250 to 500 companies at the most are going to be directly impacted.

There's a lot of ignorance about the impact of this tax on industry. And the sooner we can get good education programs running around this issue, the better it will be for industry and everyone else.

But you know I think the - in terms of preparing for the tax for a clean energy future, these programs do need to be built in faster, and I think it's inevitable we're going to go down that track and industry's getting on with it.

I would say industry's fighting back Fran around the higher dollar issue.

There's a lot of investment going on. There's investment in R and D. Our surveys for this year, our prospects - industry is trying to meet the competitive challenge. And as it will around the carbon issue.

FRAN KELLY:

The competitive challenge, industry would be more competitive if it was more productive. What's the key to lifting productivity without sacrificing relatively high wages?

HEATHER RIDOUT:

Well we have seen manufacturing production grow over the 12 months to September; in the national accounts industry actually grew.

FRAN KELLY:

That's the first time in a while isn't it.

HEATHER RIDOUT: I - well, yeah, it was a - it wasn't a bad result.

And at the same time manufacturing has seen 44,000 job losses in the last 12 months. So the numerator is increasing, the denominator's decreasing, so we must be seeing some rise in productivity in the industry - which is absolutely fundamental to lifting its competitiveness. Now we'd like to see the numerator rise a lot more and the denominator stay the same.

Unfortunately that's not the case.

FRAN KELLY: Are you there?

I think we might have lost Heather Ridout.

We'll try and get her back because we do want to talk to her a little more about her, you know, the future she - in a couple of weeks time she'll be appointed to the Reserve Bank board, so she will presumably have, be taking her views and her experience in the manufacturing sector to that board.

So it's pretty crucial that we'll get her back.

So we're trying. Heather, are you still there?

HEATHER RIDOUT: Yes, I'm here Fran, is that better?

FRAN KELLY: Yeah that's there. Heather before we finish or before the phone drops out again, I'm keen to talk to you about your future, because you will be a member of the Reserve Bank board shortly. If you're on the board this month would you have argued for a rate cut around that table?

HEATHER RIDOUT: Oh look, no Fran I want go into that. I think when I get to the Reserve Bank I'm sure I'll get a very big pack of data to read and analyse, and I mean I think when you sit on any board, you have to take the view that you've got to support all the objectives of that board, and that's for the whole of Australia.

But I do think I will bring to the board a pretty deep knowledge, not just about manufacturing but industry across the board, and a practical approach. A real world approach. And we (Ai Group) are where the rubber hits the road in our industries and this has been the case for a long time. So I'm looking forward to that opportunity.

FRAN KELLY: I know this is perhaps difficult for you, but you have described yourself in the past as a growth girl but not a stupid one. What did you mean by that?

HEATHER RIDOUT: Well I always believe economic growth is the source of all good things, and if we can keep growth going then we should err on the side of keeping growth going.

But at the same time I think in recent times we haven't worked hard enough on our - building up our capacity to grow. And we, that's in the skills area, the infrastructure area, making sure the industrial relations framework is competitive - which it isn't at the moment. So I think I'm a growth girl.

But as long as we're working on the preconditions at the same time.

I would say the government's done an enormous amount of work in the skills area for which industry is very appreciative, but generally we do need to work harder on those preconditions because that builds our capacity to grow faster, and that's what it's all about.

FRAN KELLY:

Paul Howes told us earlier that he thinks the Reserve Bank and the government should be slowing down the mining boom to keep the pressure off the dollar and keeping the other sectors going really - or certainly vibrant, which is an argue against growth in some sectors isn't it.

HEATHER RIDOUT:

Well you know I think the mining boom has a momentum all of its own.

We're going to have \$450 billion worth of investment in that space over the next decade, so it's massive, and it's very hard to slow down. There was an attempt to put a super profits tax which - in place, and we're seeing a version of that implemented shortly. That will have some impact - but the momentum behind this, and I've just been - recently up in China, you know, the momentum... coming from there for our boom is really unstoppable.

And I think we have to work more at the industry level to mitigate these impacts in trying to create some futures for other industries.

FRAN KELLY:

And just finally away from the economy but to the political situation at the moment, Labor's leadership tensions seem to have intensified over the last month to the frustration of many and certainly many listeners, but w... does business have a view on this?

HEATHER RIDOUT:

Look I think it is [*the state of politics*] really causing uncertainty, and it was all of last year. Businesses are heartily fed up with the state of politics in Canberra. I think like the rest of the Australian population there's such important issues going on out there, you know, 44,000 job losses in manufacturing, job losses in finance, it's - and a flat lining national productivity performance at a time when the competitiveness of the Australian economy is really under threat.

We are a high cost country. And we need to do something about it. And I think that the nature of the political discourse doesn't give you an awful lot of hope.

FRAN KELLY:

Heather Ridout, thank you very much for joining us on *Breakfast*.

HEATHER RIDOUT: My pleasure Fran.

FRAN KELLY: Heather Ridout. She's the chief executive of the Australian Industry Group. And her appointment to the Reserve Bank Board begins next week.

She'll step down from the Ai Group at the end of April.