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Review of Export Policies and Programs
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Department of Foreign Affairs and Trade
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Dear Colleagues,

Please find attached the ACTU submission to the Export Review Panel. We would like to thank you for the extension we received if you have any queries about the report please contact Nixon Apple or myself.

Yours sincerely



Sharan Burrow
PRESIDENT

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**ACTU Submission to the
Review of Export
Policies and
Programmes**

May 2008

Executive Summary

Australia is experiencing a once-in-a-generation demand for a range of commodity exports, reflected in record commodity prices and earnings by a number of raw material exporters. In particular, the output of our primary industries, including both the minerals and energy and now increasingly rural sectors is being consumed by economies competing for sources of supply of raw materials, energy and food to sustain growth and living standards.

While exports of commodities have dominated export revenues, the competitiveness of the manufacturing sectors have been challenged through a rising exchange rate, Nevertheless, there are significant parts of our export sector including manufacturing that are able to rise to the challenge and succeed in export markets. Companies that are succeeding are making decisions based on longer term plans built upon strong relationships with clients, customers and business partners.

Numerous companies beyond the mining sector do understand that exporting is commercially rewarding as exporters, on average, earn high profits, are more productive and grow faster than non-exporters. Thus incomes, jobs and productivity in the economy improve. But success is almost never the result of short term considerations such as prevailing exchange rates which are neither constant nor fixed. It is important to learn the lessons of these successes in order to inform policy because policy in recent years has done little to contribute to it. We note that elements of manufacturing performance are also the subject of separate review of the automotive and textile clothing and footwear industries commissioned by the Rudd Government.¹

Despite the surge in global demand, much of it in our own region, and terms of trade expected to increase by 20 per cent this year², Australia's exports performance to date has underachieved. However this does not reflect current export opportunities for Australia's producers of goods and services.

In fact declining manufacturing fortunes cannot be laid entirely as some would have it at the door of declining competitiveness in recent years in the wake of the stronger terms of trade and appreciating exchange rate. Demand has been strong and prices high, but volumes have not been keeping pace.

This submission - including the attached appendix - argues that these circumstances have a lot to do with domestic policy failure and could have been ameliorated rather than making accepting such as the inevitable outcome of factors beyond our control. Drought, an appreciating exchange rate in the wake of stronger terms of trade and the rise of China. Past policy failure – at both industry and macroeconomic levels – has resulted in competitive pressures bearing down on our exporters in recent years when what was required was facilitative policies. Trade deficits with countries that we have recently signed bilateral free trade agreements adds to this picture.

Our export performance reflects Australia's underinvestment for a sustained period in both hard (physical) and soft (social) infrastructure from our rail and port facilities to our education and training resources and our support for and encouragement of innovation. And to a large degree our export performance mirrors our historically weak productivity growth, which also underlines the vital importance of education and infrastructure in addition to business regulation. The consequence of this underinvestment has been export bottlenecks, capacity constraints, skills shortages and inflation limiting investment, productivity and growth.

The nation must urgently deal with the consequences of climate change in a manner which not only protects the most vulnerable, including workers in traditional exporting sectors, but which also seizes the opportunities to supply innovative solutions and services to the rest of the world. Further delay in this area will only exacerbate the impact of past policy inaction and have major consequences in terms of additional adjustment costs and lost opportunities.

This submission assesses sectoral trends and discusses a number of important related cross cutting themes which future policy must take into account. These include management practices, investment in skills and infrastructure as well as a new approach to export and investment promotion that is more appropriate for the circumstances we will face in the second decade of the 21st century.

The submission also emphasizes the need to include comprehensive and transparent economic and social audits by sector in any Free Trade Agreements (FTAs), Australia is considering. These FTA's must also include a labour clause benchmarked against US provisions providing for respect of core labour standards and access to dispute mechanisms

The material we are providing the Export Review Panel also emphasises that we can achieve better export outcomes if we are successful in meeting the challenges and opportunities posed by climate change. There are also significant challenges and opportunities that need to be addressed in realizing the export potential of regional Australia.

The submission therefore outlines a number of key drivers of export performance the ACTU considers are vital for the review to consider in developing policy recommendations to government.

The ACTU understands the vital importance of trade to the Australian economy and that there is a role for a proactive trade policy which recognizes a range of important factors such as:

- Future trends in different sectors of the economy and the commonality of policy responses aimed at fostering a greater export orientation rather than inward domestic market focus;
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- Investing in skills, infrastructure and innovation and building firms' management systems and organisational capabilities, and moving up the value to chain to where we have more sustainable competitive advantages;
- A renewed focus on regional development in Australia which will assist in repositioning our exports;
- Economic adjustment from adapting to climate change and the introduction of a carbon trading market which raises challenging issues for our traditional export industries and which will also bring export opportunities drawing from Australia's innovative solutions and scientific know-how;
- Eliminating the duplication among Australian governments in the provision of export support services in order to secure the biggest gains from governments' encouragement and support;
- Negotiations on free trade agreements and progress with concluding agreements which are fair and just in protecting workers rights, and benefitting industry through improved market access, reduction in non-tariff barriers, and opportunities for economic, social and cultural engagement that are of benefit to all party's.
- Understanding China's impressive growth not as a zero-sum threat to Australian industry but as an opportunity, particularly for our exporters.

Investment in infrastructure, education and training as well as scouting the world for future opportunities and improving market access are some of the essential ingredients to assist our exporters.

The ACTU welcomes the return to the consideration of trade policies initiated by the Rudd Labor Government which will facilitate, encourage and support an improved export performance by Australian industry. Policy recommendations flowing from the review's analysis of trends and future prospects will be a vital step in this direction aimed at ensuring that exports once again make a positive contribution to economic growth and the living standards of all Australians.

Accordingly, this submission contains the ACTU's analysis of what is required to sustain stronger export growth in the second decade of the 21st century. From that analysis we make the following seven recommendations to the Export Review Panel.

1. Policy recommendations for agriculture and regional Australia to lift productivity and support exports

We require facilitative government policies which will encourage closer farmer-union cooperation and collaboration aimed at:

- Professionalizing the farm labour force, in particular the skills of employers, managers and operators;
- Developing community based skills initiatives in rural regions;
- Extend the availability of training support to all farm employees.

The increasing role of new technology and 'new management' techniques in farming as well as the increasing size and complexity of farm businesses will require a higher capability in the workforce at all occupational levels, including in people management and personal management skills.

A fresh approach to regional Australia is required that aims to build regional economies to attract and keep people, grow industries, develop skills and build infrastructure, including policies which:

- Aim to encourage renewal in our regions by attracting investment - including from our superannuation funds - to our regions rather than see investment turn away from them.

The ACTU supports the establishment of a national regional infrastructure development fund to promote networks of regional and rural industries, growth zones and the provision of infrastructure services, and sustainable energy and water solutions to promote productivity, economic growth and export opportunities.

2. Policy recommendations to promote services exports

The ACTU recommends that a National Services Exports Strategy be developed, drawing upon the work of State Governments that have initiated work on State-level strategies. The Strategy should be focused on increasing domestic export capabilities and opportunities for alliances, where appropriate, with service sector firms in other countries, rather than the pursuit of unrealistic trade liberalisation objectives.

A National Services Stocktake, as proposed by the Australian Services Roundtable, should be undertaken by the Commonwealth as part of the development of a National Strategy, albeit with the proposed partnership extended beyond the ASR to include State and Territory Governments and other national service sector organisations.

The Commonwealth should review the outcome of FTAs (particularly the Agreement with Singapore) concluded to date, in light of the increase in the deficit on trade in services with the relevant countries.

Finally the Commonwealth should not be promoting FTAs on the basis of unrealistic projected gains that are modeled on the basis of a complete and comprehensive liberalisation of trade and investment. which has not and will not occur.

3. Policy Recommendation for an Export Market Development Grant Scheme (EMDG) for the Second Decade of the 21st Century

The ACTU supports the continuation of the Export Market Development Grant Scheme (EMDG) as the principle grants programme to support Australian exporters over the decade till 2020.

EMDG reimburses exporters for up to 50% of eligible expenditure incurred in exporting such as marketing visits or trade fairs. The taxable cash grants go to more than 3,500 exporters each year and represent a programme outlay to Government of around \$150 million per annum. Nearly 80% of exporters supported by EMDG are SMEs with annual revenue of less than \$5 million. The scheme supports exporters in a wide range of industries.

The ACTU supports an EMDG scheme capped at \$200 million per annum for the next five years with the scheme reviewed, and, if warranted, the cap lifted at that time and the scheme extended for a further 5 years

The current scheme was cut from \$300 million per annum with no cap in the late 1990's, to \$150 per annum and a cap today.

Labor went to the election with a commitment to fund an extra year of the EMDG scheme at an additional \$50million.per annum The ACTU approach is consistent with Labor's commitment and extends it for a further 4 years.

Finally the Export Panel in making its recommendation should note that EMDG has now been reviewed 18 times in the last 34 years. A strong statement is required from the Panel to only review the scheme once every five years.

This issue is discussed in Appendix One

4. Policy Recommendation for The Global Opportunities Programme

In 2007 the Howard Government announced it would provide funding of \$254 million over 10 years (commencing in 2007-08) for the Global Opportunities Programme (GOP). Following the November 2007 election there were some difficulties in funding arrangements for certain programmes, as well as allocation of staff supporting those programmes. Since that time and through the 2008-09 budget GOP has been cut back significantly.

GOP is focused on facilitating access for teams/groups of exporters to global supply chains and to major international projects

- **The Panel should get a proper Departmental briefing on the approach, costs and benefits of the Joint Strike Fighter initiative and the Team Australia Automotive initiative to gain an understanding of how GOP can operate going forward.**
 - **GOP has the great advantage of allowing Australia's trade and industry development policy makers to target key sectors or international business opportunities.**
 - **GOP can/should encourage a diverse range of projects being presented for potential selection from the States, groups of firms, Austrade, industry associations and ICN.**
 - **GOP should be managed by a small compact team with an R&D, as well as operational budget helping prioritise the best opportunities. The R&D component can also help policy makers assess what is working/not working in various projects and in preparing case studies that can become public and**
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help disseminate the lessons of both success and failure thus contributing to a stronger export culture.

The Export Panel should recommend the continuation of the GO programme.

This issue is discussed in Appendix One

5. Policy Recommendation for Repositioning the Australian Trade Commission for the Second Decade of the 21st Century

The ACTU supports a comprehensive review of Austrade similar to the 1990 review. While EMDG has been reviewed 18 times in 34 years Austrade has only had one comprehensive review since its establishment in the mid 1980's. The time has come for a high level strategic review which is all the more necessary given the investment promotion function is to be returned to Austrade following the demise of Invest Australia.

6. Policy Recommendation for A New Investment Promotion Strategy for Australia in the Second Decade of the 21st Century

The ACTU makes the following recommendation

- A new and more successful approach to attracting Foreign Direct Investment through Austrade requires the independent strategic review and restructuring of Austrade discussed in the previous recommendation to occur in 2009. This is the only way full value will be gained from putting the investment promotion function back in Austrade.
 - For new economy FDI (medical devices, nanotechnology, smart capital goods, ITC, etc) the Government should trial a new approach with a pilot programme. In this approach consultants with a global network such as the BCG, McKinsey, a merchant bank or a global accountancy/consulting firm
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should be contracted on a retainer basis (and with success fee arrangements) to target and attract such key value added investments. A competitive tender to perform this task should be let and the best value for money provider selected. After three years, policy makers will be in good position to see how the “outsourcing” approach to FDI works relative to the traditional investment promotion approach utilised through Austrade.

- The investment promotion strategy must also focus on the major producers of high value added goods and services who are already located here and facilitate new investment from them. This would be assisted by the secondment from the private sector of a handful of investment specialists and the services of a large global accountancy firm to help develop the appropriate information and relationship management systems for those policy makers who interface with these firms about their future investments. Confidentiality, professionalism and strategic judgement are imperative in setting such a system up. It may require a separate intelligence unit removed from the normal chain of command one might find in a trade or industry department.
- In its submission to the innovation review the ACTU recommended that a 20% to 25% technology development allowance be established and that R&D incentives be improved for those firms whose R&D is more than 2% of sales. These incentives should be central to the new investment promotion plan and both FDI and domestic investment from firms that qualify and produce high value goods and services should be eligible.

These issues are discussed in Appendix One

7. Policy Recommendations for negotiating Free Trade Agreements

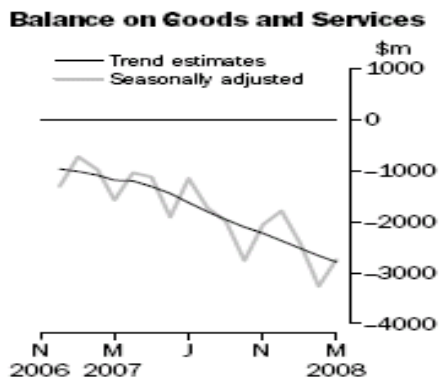
It is vital that all free trade agreements demonstrate a commitment to the fundamental rights of workers and to core labour standards consistent with

universal principles.³ The ACTU believes that references to core labour standards should be included in every bilateral trade, development and co-operation agreement in several locations: in the preamble, in an operative article at the start of the agreement, and in a section on core labour standards in the body of the agreement. This will help to ensure that it is clear that core labour standards are a fundamental and integrated part of the agreements. There should also be an item on monitoring. In the case of enforceable agreements, alleged breaches of the core labour standards should be referred to the dispute resolution panel, which shall exercise the normal powers assigned to the panel but, for this purpose, should be chaired by a nominee of the ILO.

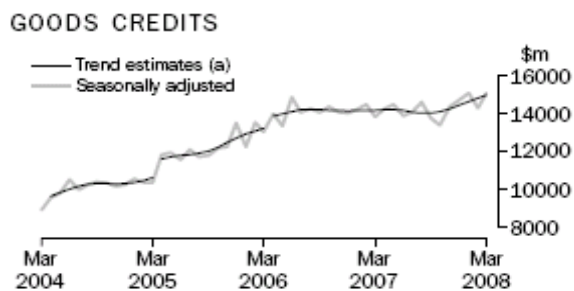
Given the complexity and other costs to exporters of a proliferation of agreements outside the WTO, there should be a moratorium on initiating negotiations for new bilateral and regional free trade agreements pending the conclusion of the Doha round or its effective collapse. The Commonwealth should adopt the positive list structure as its preferred approach to the structure of services commitments in future FTAs and responsibility for approving FTAs should be vested in Parliament.

1. Current trends in exports - overview

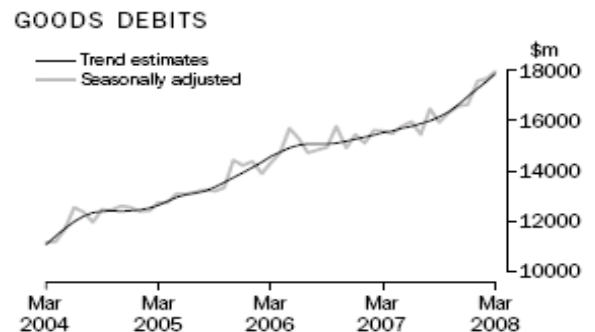
The trend estimate of the balance on goods and services was a deficit of \$2.79 billion in March 2008, an increase of 5 per cent on the revised deficit in February 2008. The deterioration over recent years in the overall export performance is continuing:⁴ The trade and current account deficits are expected to widen further in 2007-08.⁵



Source: ABS Cat. No. 5368.0 - International Trade in Goods and Services, Australia, Mar 2008

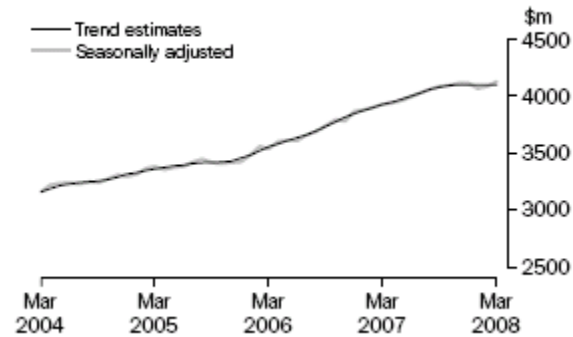


(a) Trend breaks of \$430m to April 2004, \$819m to April 2005 and \$500m to April 2006 have been applied.

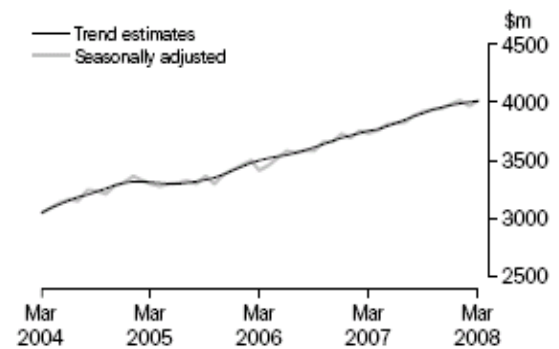


Total services exports at \$48 billion in 2007 was more or less in balance with services imports (\$46 billion). However, the trade deficit in elaborately transformed manufactures (ETMs) of around \$100 billion in 2007 more than offset the positive contribution to the overall balance of trade flowing from a surplus of around \$70 billion in the primary products sector (on exports of around \$100 billion).⁶

SERVICES CREDITS



SERVICES DEBITS



2. Sectoral Trends

2.1 Agriculture: Outlook brightens

Rural commodity prices have picked up significantly over the past year.⁷ Following the recent rainfalls, the outlook for the rural sector in the year ahead has improved substantially.

Early indications are that the weakness in processed and unprocessed food exports experienced in 2007 as a consequence of lower world prices and the drought is quickly reversing in the first months of 2008. This is consistent with a stronger contribution to total exports from agriculture in 2008.

Rabobank's Australian Agriculture in Focus report notes that subject to rains, grain and crop farmers had the brightest outlook for 2008.⁸ The report notes that it is extremely likely that (grain and oilseed) farmers, should they have a crop to sell, will achieve prices well above long-term historical averages.

The most recent results of ABARE's farm survey indicate that over 2007-08, farmers will be looking forward to recovery from the worst of the drought in 2006-07 with farm financial performance projected to strengthen markedly. The wool industry will lead the way in the farm resurgence, with incomes set to treble to their highest levels in 20 years, - to more than \$93,000 per farm. Better weather and pastures will mean higher quality wool at a time when wool prices are strong.

The survey also signals recovery for beef, dairy and grain farmers. Across the sector, farm cash income is tipped to almost double in 2007-08 to an average \$78,200 per farm. As a consequence of increased grain and livestock production, combined with favourable commodity prices cash incomes on broadacre farms are projected to nearly double in 2007-08. Higher milk prices will see cash receipts increasing for dairy farmers by 26 per cent. Herds are smaller and less milk is being produced because of the drought, but the milk is worth more.

Beef farmers - who lost money last year- will make almost \$30,000 in average profit in 2007-08. Grain grower incomes are set to increase by 31 per cent as improved weather boosts production, especially wheat.

Adding to the cyclical and seasonal improvements, farm commentators are noting a structural uplift in pricing is emerging for agricultural commodities. This is the result of higher food demand driven by global population growth and increasing global wealth, the emergence of new demand from the energy sector for biofuels and a limited ability to grow supply rapidly enough to match demand growth.⁹ There is a growing consensus that we are in the midst of a soft commodities boom based on a fundamental shift in demand that would underpin commodity prices for at least the medium term, if not the long term.¹⁰

The National Farmers' Federation-Westpac Commodity Index indicates that agricultural commodities rose 21.8 per cent in Australian dollar terms in the past year. The National Australia Bank has forecast farm GDP would rise \$2 billion to about \$7 billion, and add about half a percent to overall GDP in 2008-09. Farm production could rise almost 30 per cent while farm income is forecast to rise 43 per cent.¹¹

In its March quarter Australian Commodities outlook¹², ABARE note that if seasonal conditions are average, the value of farm exports is forecast to be \$31 billion in 2008-09, an 18 per cent increase on the previous year.¹³

Export earnings are forecast to increase for grains and oilseeds, cotton, sugar, wine, beef and veal, lamb and most dairy products. If grain growing areas receive a good autumn seasonal break there is a very good chance of a bumper winter grains crop in 2008-09, the report says.

Some sheep flock and cattle herd rebuilding is also expected to take place, if there are reasonable conditions.

Under the assumption of average seasonal conditions, export earnings for farm commodities are forecast to be around \$31.4 billion in 2008-09 a rise of 18 per cent from a forecast \$26.7 billion in 2007-08. For many agricultural commodities including most grains and oilseeds, cotton, sugar, wine, beef, veal, lamb and most dairy products, export earnings are forecast to increase in 2008-09.

The report indicates that the medium-term outlook for Australia's agriculture sector is strong in historical terms as a result of high global commodity prices and continued high levels of farm equity. Over the medium term the value of farm exports is projected to rise in real terms – to around \$35.7 billion in 2012-13 (up by 34 per cent on 2007-08). Reversal in prospects for agriculture means that primary industries exports are likely to surge over the next year.

2.2 Minerals and energy

Export earnings from Australia's mineral resources sector are forecast to be around \$153.4 billion in 2008-09 compared with a forecast \$115.1 billion in 2007-08. For energy commodities, export earnings are forecast to increase by 54 per cent to \$66.8 billion in 2008-09 driven largely by higher export volumes and forecast strong prices for oil and coal.¹⁴

For metals and other minerals export earnings are forecast to rise by 21 per cent to \$86.7 billion in 2008-09. A forecast increase in export volumes and prices for iron ore is expected to account for the majority of this increase.

Over the medium term, export earnings in real terms from the mineral resources sector are projected to increase to a peak of \$149.9 billion in 2009-10 before falling gradually. By 2012-13 mineral resources exports are projected to be worth \$135.5 billion, 18 per cent higher than the value forecast in 2007-08.

For metals and other minerals, export earnings in 2012-13 are projected to be around \$75.8 billion while export earnings for energy resources are projected to be worth \$59.6 billion.

2.3 Manufacturing

The following table illustrates the pronounced slowing of both elaborately transformed manufactures (ETM) and simply transformed manufactures (STM) export growth in the six years through 2006-07; and for ETMs the slow down is evident since the mid 1990s.

Percentage Increase in Australian Produce Exports		
	ETMs	STMs
2000-01 to 2006-07	14%	25%
1994-95 to 2000-01	64%	73%
1988-89 to 1994-95	145%	39%
1982-83 to 1988-89	193%	196%
Source: DFAT: <i>Exports of Primary and Manufactured Products</i> (rounded to nearest per cent)		

Of greatest concern is the on-going weakness in ETM exports which, although recording twice the value of exports of simply transformed manufactures (STMs) at \$30 billion in 2007 is in significant trade imbalance with imports of ETMs (\$130 billion).¹⁵ The available data also suggests that the slow down in ETM export growth has been broadly based.

Within the ETM export groups the slow down has been most pronounced for engineering products (which account for close to 50 per cent of ETM exports) and other manufactures. These two groups tend to be more R&D intensive. The slow down since the mid 1990s in the growth in exports of those ETMs classified as Mineral Manufactures and Metals or Chemicals and other semi-manufactures has to some extent been cushioned by rising commodity prices.

Percentage Increases in Exports from the four broad ETM product groups: Australian Produce Exports (current prices)			
	1988-89 to 1994-95	1994-95 to 2000-01	2000-01 to 2006-07
1. Engineering Products	202%	66%	6%
2. Mineral Manufactures & Metals	133%	44%	36%
3. Chemicals & other semi- manufactures	167%	96%	32%
4. Total other manufactures	125%	50%	-1%
Source: DFAT: <i>Exports of Primary and Manufactured Products</i> (rounded to nearest per cent)			

The 8% to 9% annual increase in ETM exports (current prices) in financial year 2006-07 and calendar year 2007, do not herald a broadly based recovery. Far from it. In 2006-07 only 33 of the 82 ETM sub groups had increases in exports of more than 4.5%.

The increases were mainly driven by those groups that benefit from their commodity like characteristics. The annual increase in exports for the engineering group in aggregate in 2006-07 was only 0.3%.

In addition to the above there is some evidence that the three FTA's Australia has negotiated since 2002 (Singapore, Thailand and USA) have provided little in the way of additional benefits for Australian ETM exporters to these markets compared to the benefits for ETM importers into Australia from these countries. These outcomes are highlighted on the page opposite with reference to trade in automotive products between Australia and Thailand. While some of the surge in Thai auto imports is a result of importers resourcing from Thailand rather than Japan, this is little comfort to the Australian workers who make the Ford Territory.

Free Trade Agreements

(The following comment is an agreed position by the AMWU, NUW, AWU and FVIU in their submission to the Bracks panel's review of the automotive industry)

The impact of the FTAs must be examined. Since the commencement of the FTAs with Singapore, Thailand and the United States we have seen a serious deterioration in our trade balance with these nations. Our trade deficit (to October 2007) with the United States has increased by \$3.6 billion or 32%, with Thailand by \$2.8 billion or 177% and our trade surplus with Singapore has become a trade deficit with the turnaround equating to \$7.1 billion or 1,027%.

The National Institute of Economic and Industry Research (NIEIR) has undertaken a significant analysis of the impact of Free Trade Agreements on Australian industry. The full findings are found in the AMWU submission to the Mortimer Trade Review. The most pertinent point for this inquiry is the impact of the Thailand FTA in only its first 30 months of operation (to June 2007). NIEIR have found that the net gains to the Australian automotive sector, with the trade diversion effect included, of the Thai FTA are **minus** \$1.35 billion. That is, as a result of the first year and a half of operations of the Thai FTA, the Australian auto industry has been negatively impacted to the tune of one thousand, three hundred and fifty two million dollars.

The principal cause of this effect is the failure of the previous Federal Government to negotiate the removal of the non-tariff barriers Australian companies face when trying to export to Thailand. These non-tariff barriers can not be adequately included in the type of economic modelling used to justify FTAs. The impact of these barriers has been recognised by the President of Ford Australia, Bill Osborne, who stated that:

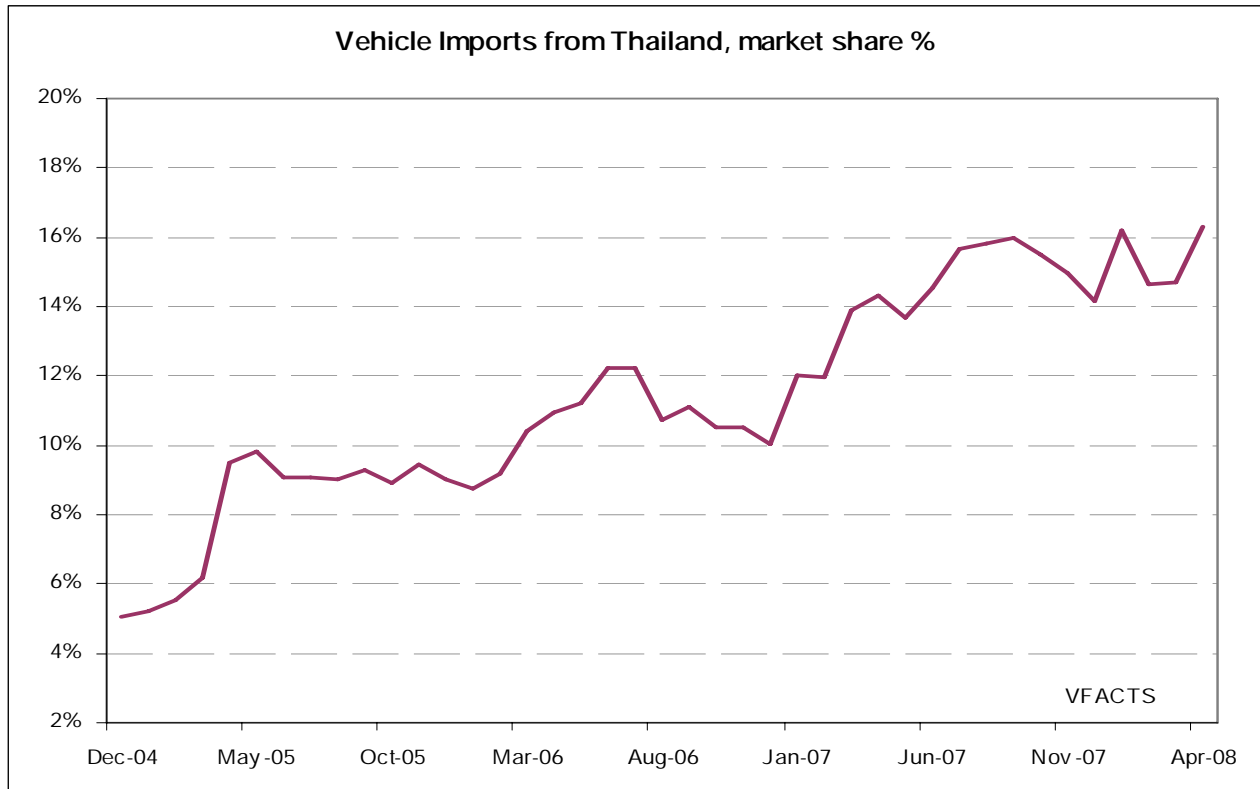
"... the Thai Government had violated the spirit of the agreement by increasing taxes on the type of cars Australia produces soon after the (FTA) deal was signed."^[1]

After the FTA was signed, Ford Australia had moved to export the Territory SUV to Thailand. Unfortunately, only 30 cars were exported before the plan was abandoned due to a change in the Thai tax structure. The tax change meant that the excise payable on the Territory changed from the standard 25% to 50% due to its engine size.^[2]

The impact of these barriers have been recognised by Senator Carr, Minister for Industry, Innovation and Science, who stated that he was concerned about the operation of the FTA and noted that:

"Passenger vehicles imported from Thailand since the agreement was signed...have increased by 356 per cent, whereas we have no recognisable exports to Thailand."^[3] **The chart below graphically illustrates the exponential increase in passenger vehicle imports from Thailand.**

These are the real life effects that economic modellers can not predict and the panel should consider this carefully when examining the trading environment for the Australian automotive industry. The Unions remain opposed to FTAs that fail to deliver any benefits to Australian workers and we urge Government to remember these lessons before embarking on FTAs with China, Korea and Japan to name only three.



2.4 Services

The DFAT document for the Review of Export Policies and Programs notes that services exports in the period 2001-2007 grew at about half of their long term average and that Australia's share of global services markets has fallen from 1.41% in 1996 to 1.17% in 2006.¹⁶ On the other hand, since 1999 trade in services has generated a consistent surplus. Moreover, DFAT's paper on Trade in services statistics - the Australian experience states that in 2006-07 exports of services accounted for 21% of total Australian exports. According to the same paper, in 2006 Australia's ratio of services trade to total trade was close to the OECD average of 21.1 %¹⁷

A key issue in the context of Australia's persistent trade deficit is that of expanding the positive contribution of the services sector to Australia's trade outcome, and to do so in the absence of major liberalisation of trade in services under new free trade agreements, or of service trade surpluses with countries with which we already have free trade agreements.

In terms of key regions in 2006 -07 Australia exported \$8.6 billion to its largest services trading partner, the European Union, and imported \$9.6 billion.¹⁸ There has been a deficit in services trade with the EU since 98-99. The same applies to services trade with ASEAN since 2003-04. The persistent deficit story in trade in services continues in the case of the North American continent, reflecting the size of the US economy and the strength its services sector; the 2006-2007 regional trade deficit being A \$2192 m.¹⁹

On the other hand, services trade with East Asia, including ASEAN, has been in surplus since at least 2001. But the surplus narrowed considerably over the period 2004-06, from \$2802 million in 2003 to \$694m in 2004, \$700m in 2005, and \$1003m in 2006.²⁰ Services trade with Oceania was also in surplus.

The previous government focused on bilateral free trade agreements as part of the solution to Australia's trade problem. CER with New Zealand is sometimes described as our oldest bilateral FTA but this is misleading for the purposes of a comparison with other FTAs as the former extends to economic and labour market integration and associated significant regulatory, product and professional standards harmonisation or mutual recognition.

The FTAs with Thailand and the US came into operation on 1 January 2005. Both had a surplus in services trade with Australia in 2003-04 and 2004-05. The surplus was \$110 m for 2003-04 and \$153m for 2004-05 in the case of Thailand, and \$1628m and \$1675m in the case of the US. The 2006-07 result for Thailand was a surplus of \$751m. For the US, it was \$2326m that financial year.²¹

It may be argued that the period since the operative dates of these FTAs is too short for making even preliminary conclusions. Further, the agreement with Thailand does not have the negative list structure for services sought by DFAT and the Howard Government, and contains quite limited services commitments.

However the FTA with Singapore came into effect on 28 July 2003 and therefore has been in operation for almost five years. The Agreement includes the Australian Government's preferred negative list structure for services liberalisation which requires liberalisation unless an exemption or limited exemption is specified in the Agreement for a particular service sector or measure restricting services trade.

The DFAT summary of gains under the Singapore Agreement for Australia's services providers highlights outcomes for financial, legal, education, environmental and professional services, and for conditions governing movement of people for business purposes. In 2002-03 total services trade between Australia and Singapore was \$4623m and Australia's deficit from this trade was \$191m. By 2006-07 total services trade between the two countries was \$7246m and the deficit was \$1336m.²² In short the value of two-trade increased by 56.7% but there was a sevenfold increase in the deficit.

The ACTU acknowledges that there will be different views as to the explanation for this. For example, it could be argued that, like other FTAs, the agreement with Singapore failed to deliver comprehensive liberalisation of trade in services. But from the standpoint of considering the prospects for expanding the positive contribution of Australia's services trade to the balance of trade, it is important to have regard to trade liberalisation agreements at the multilateral, regional and bilateral level as they exist, and are likely to continue to be negotiated, in the real world.

The adoption of such a perspective should also lead to an end to the modelling of prospective FTAs on the basis of comprehensive liberalisation of all sectors, and the consequent announcement and media of publicity of millions of dollars worth of gains to the Australian economy that do not, and were never going to, eventuate.

National governments in Australia and overseas will continue to protect particular service sectors, sub-sectors and firms for a variety of reasons. There are public policy considerations that apply to public goods services, such as health and education. The more pragmatic advocates of service liberalisation are sometimes willing to acknowledge this with respect to the refusal of governments to make comprehensive national treatment commitments in respect of commercial presence for certain services, and press instead for comprehensive commitments for market access. But a national government that has recently funded a new public tertiary institution in a particular area where demand is still uncertain or growing slowly may not want to give market access commitments that could lead to an Australian offshore campus being established in the same area.

The motives for maintaining current levels of protection, or simply the right to do so, do vary. Developing country governments, for example, may do so because they want to:

- boost the brand recognition of local firms by consumers,
- ensure the viability of small businesses,
- develop an export capability in existing locally owned firms,
- withhold liberalisation commitments until temporary mobility of labour is politically obtainable from OECD countries,
- avoid the reproduction in other sectors of the degree of vertical and horizontal integration achieved by foreign owned hospitality and tourism companies,
- foster new locally owned service industries and firms
- preserve a governance model that includes crony capitalist relations.

The key point is that, in developing strategies to expand services exports, more attention needs to be paid to models of significant export achievement in the absence of liberalisation commitments, and to domestic Australian constraints and services industry policy.

The export of education services is rightly hailed as a major success story. It did not occur due to commitments in FTAs to liberalise trade in such services.

The large number of overseas students studying in Australia tends to overshadow the success of Australian institutions in boosting export income by delivering education services abroad. The main way of delivering services offshore involved winning arrangements with existing local private colleges that increased both the range of programs offered and the capacity and standing of the private institutions.

Overseas governments with their own aspirations to widen and deepen the provision of tertiary education in their territory, and perhaps also to develop a local export capability, have been favourably disposed to these arrangements. Travel of Australian academics to deliver abroad also paved the way toward broadening the business model to include offshore campuses. These were established notwithstanding the absence of market access commitments to allow the institutions to enter, let alone permit full or majority Australian ownership. In the case of Malaysia the first offshore Australian campus, Monash Malaysia, was established on the basis of a 26% limit on foreign equity, which was removed many years later.

The Monash venture in Selangor inspired others to follow in Sarawak. The provincial government of Sarawak has been a partner, directly and indirectly through instrumentalities, in the Swinburne and Curtin university campuses in Kuching and Miri respectively.

The scale of the export of Australian tertiary education may not be reproducible in other service sectors. However, the key features of gaining export income while enhancing domestic capabilities in other countries, and working with local partners and governments - which also characterise the strategies of export oriented firms in other sectors - will remain relevant in a world where comprehensive services liberalisation commitments are the exception rather than the rule.

3. Defining the challenges and future approaches

How does the nation make up for the trade imbalance in manufactures, in particular in ETMs? And how do we as a nation maximize the export performance of both our primary industries and the services sector in addition to lifting the contribution of the manufacturing sector to Australia's total trade performance?

Whether we are considering the future of commodities, manufacturing or services, innovation drives the creation of new businesses and sectors and revitalises existing industries. This is also subject of a separate inquiry by the Rudd Government, and a separate submission by the ACTU.²³

Every sector of the economy shares a number of common factors which drive export performance. It is important that policy recognizes this shared commonality to avoid directing specific policy recommendations at a particular sector or specific group of industries when a more comprehensive policy approach, encompassing all sectors of the economy, will generate more holistic outcomes in terms of an improved trade performance overall.

The ACTU has consistently emphasised the themes of investing in skills, infrastructure and innovation and building firms' management systems and organisational capabilities, and moving up the value to chain to where we have more sustainable competitive advantages. In this way, recommendations concerning our export strategies and programs work just as well for agribusiness, services and other sectors as they do for manufacturing.

Exchange rates while important are just one of the factors exporters are learning to adjust to. Since the Australian economy became more internationalised, the majority of our exporters see a moving exchange rate as a fact of life of operating in the global economy, and make their decisions based on long-term plans and building strong relationships with clients, customers and business partners. They can therefore absorb external shocks in exchange rates and commodity prices as they are in it for the long

haul.²⁴ Many exporters also undertake "hedging" in their contracts to militate against future changes in the exchange rate.

Secondly, other economic factors are important. Of course, strong commodity prices matter, as does overall growth in the world economy. Long-term growth in export volumes are mainly determined by global economic demand, so a continuation of above average trend growth in the world economy - particularly in the Asia-Pacific region - will be a more important factor affecting exporters than an appreciating exchange rate.

However, concerns about the potential for hollowing out of Australia's manufacturing base needs to be measured against trends in China's own export marketing. China largely re-exports manufacturing inputs from the rest of Asia. As Austrade has indicated, the amount of Chinese value-added in a lot of China's exports is quite small, since there is a high imported component from its Asian neighbours.²⁵

Australia is well positioned to take advantage of this growth in intra-Asian trade driven by China. The whole region benefits from the increase in trade intensity. The challenge for Australia is to see reductions in trade barriers to improve market access for goods, services and investment in the region, including with ASEAN partners and China.²⁶

Australia has leverage because of our power of proximity. Australia has exactly the kind of products and services that China and the region needs to fuel its industrial expansion. Iron ore, wool, crude petroleum, coal and liquefied natural gas are important components of Australia's \$12 billion export account with China.

4. Cross cutting themes

4.1 A Policy Agenda to help restore Manufacturing Export Growth

The ACTU will continue to press the case that a significant contributing factor to the slowdown in manufacturing export growth has been policy induced. The “gutting “of the R&D tax concession, the capping of EMDG, the failure to review and restructure Austrade post 2000, the changes to investment incentives in the pharmaceuticals industry, the abolition of the DIFF and ITES program, the abject failure of Australia’s investment promotion program and an industrial relations agenda that entrenched a high-stress, low-trust workplace culture that was the antithesis of what was needed to boost productivity.

These changes occurred in the midst of Australia’s tariff reduction program. Trade and industry development programs and a co-operative industrial relations system were key initiatives to help Australian industry get free trade ready during the tariff phase down. Dismantling these arrangements when combined with the other factors we have noted played a significant part in the slump in manufacturing export growth.

To compete Howard supported goals of lower wages and lower skills when what was required was to lift productivity and living standards through skills, innovation and ingenuity. **The ACTU welcomes 2008-09 Budget commitments which start to address these imbalances.**²⁷

The ACTU would emphasise that there is considerable overlap and synergies between policies that will encourage export growth (that are the focus of this Export Review Panel) and policies that will encourage innovation (that are being reviewed in the current inquiry into the national innovation system). Many of the recommendations we made to that inquiry are relevant to increasing exports (particularly more incentive for R&D including a Leading Technology Development Allowance making Enterprise Connect

work and a range of other initiatives) Such recommendations can help Australian business deal with the new competitive pressures it is experiencing.

- 1) For advanced industrial economies such as Australia, “moving up the value chain” is fundamentally important to the future prospects of a wide range of manufacturing and service related industries exposed to global competitive pressures.
- 2) The nations and firms who are successful in moving up the value chain will be those that make the appropriate investments in infrastructure, skills and innovation. These investments will help position nations and firms higher up the value chain in activities where they have more sustainable competitive advantages.
- 3) To realise the full potential of these investments there needs to be a greater focus on how trade and industry development policy encourages improvements in the management systems and organisational capabilities of firms.

In giving priority to these three statements the ACTU would make the same point to the Export Review Panel that we have made to other inquiries

“The ACTU would suggest to this inquiry that the upgrading of firms’ organisational capabilities and management systems is the key to equipping firms with the capacity to move those activities with sustainable competitive advantages up the value chain.

Simply put, we need a much deeper and broader recognition that the success or failure of Australian manufacturing depends on companies building the management systems and organisational capabilities required to succeed in the global economy. There is no substitute for this .Australia needs a lot more successful manufacturing companies where:

- 1) *The CEO and senior management team are committed to winning more international business opportunities and have a long-term plan to achieve this.*
-

- 2) *They invest in new equipment and technology as well as their R&D and product development capability.*
- 3) *They foster innovation, build their export markets, develop their people and promote their brands.*

At the end of the day building better manufacturing businesses is the key to Australia moving beyond “business as usual” and repositioning its manufacturing industry in the global economy.”

We refer the Review Panel to our recommendations to the innovation inquiry. In addition we support the following initiatives to help boost manufacturing export growth which are just as applicable to all export sectors

5. Encouraging better management practices in agriculture lifting productivity and exports

Opportunities and challenges face the farm sector. It is worthy to note ABARE’s critical view of the effectiveness of current drought policy in limiting farmers’ ability to make changes that increase production and efficiency. ABARE’s conclusion is that business support measures such as interest rate subsidies can distort the decisions that “farmers might otherwise make to pursue productivity gains, encouraging the accumulation of excessive levels of debt or delaying adjustment decisions.”²⁸

Better farm management practice was also a key recommendation of the Australian Farm Institute in its 2005 Demography study.²⁹ In particular, the Australian Farm Institute identified the opportunities to access skills and a sustainable workforce by, among other factors, promoting a viable career path for agricultural workers and strategies for enhanced output and productivity based on investment in education and training and new technology.

But as noted by the Institute only farmers can break the cycle of low pay for labour inputs allied to marginal productivity.³⁰ This will entail a paradigm shift in the farmer organisations' industrial relations posture to one that is more collaborative. The Institute argues the time is opportune for the development of a new farmer-union compact to bring the farm labour force into the 21st century. Ultimately, if farmers do not act proactively, market forces will prevail and force up cost structures without gaining increases in productivity.

The heavy reliance of farmers on the award system could be addressed by industry level organisations entering into collective agreements with workers which were more flexible including allowing for the awarding of work based training skills recognised across different agricultural industries and which give workers a career structure in agriculture.

The farm labour force is only as good as the quality of its new entrants and the skill development of its existing workforce. The increasing role of new technology and 'new management' techniques in farming as well as the increasing size and complexity of farm businesses will require a higher capability in the workforce at all occupational levels, including in people management and personal management skills. Fundamental to this is the opportunity for continuous learning and in turn literacy and numeracy skills.

The Australian Farm Institute calls for a collaborative approach to the productivity challenge. The Institute proposes a farmer-union compact to bring the farm labour force into the 21st century.³¹ The Institute recommends that farm organisations and the union movement initiate a program to among other initiatives, to:

- a) Professionalise the farm labour force which encompasses strategies to improve the skills of employers, managers and operators under a Certified Australian Farm Employer Scheme. Increasing capabilities at all levels will be required to deal with the increasing size and complexities of farm businesses. And the cyclical and seasonal nature of farming requires that its labour force is flexible and adaptable to a wide range of rural occupations;
-

- b) Develop and implement community-based skills initiatives in rural regions; and
- c) Extend the eligibility for training support to all farm employees under various programs, eg, the eligibility for Farmbis³² support and the available courses to encompass the needs of permanent, contract and short-term casual employees irrespective of the extent of their responsibility for farm management.

"The ACTU would be concerned to ensure that funding cuts to FarmBis, FarmHelp and food innovation grants announced in the 2008-09 Budget do not threaten achieving better outcomes in the farm sector. It will therefore be important to ensure that other programs announced in the Budget including in water, climate change and skills are integrated with and maximize outcomes for the farm sector."

5.1 Investing in our regions, building for recovery and exports

Apart from mining, farming is the biggest industry in regional Australia. It employs over 355,000 people (3.8 per cent of the workforce), produces \$27 billion gross domestic product and ranks second in value of exports. The farm dependant economy of processing, manufacturing and distribution represents 12 per cent of GDP and 17 per cent of employment (2.8 million people).

Policies should aim to encourage renewal in our regions by attracting investment - including from our superannuation funds – to our regions rather than see investment turn away from them. The financial attractions of the mining boom will be on-going. It is critical at this time that the farm sector remains competitive in order to attract and retain skilled workers who are vital to increased productivity and growth.

A new policy approach is needed to create the right economic climate in regional Australia to attract and keep people, grow industries, develop skills and build infrastructure.

Successful models have been developed by Victoria and replicated in WA and SA to boost investment in regional infrastructure through the creation of a Regional Infrastructure Development Fund (RIDF). Adopting a similar approach at the national level would contribute significantly to the development of regional infrastructure across Australia and to a better future for regional cities, communities and industries.

The fund should focus on infrastructure projects in the critical areas of boosting skills development, ensuring reliable power supplies, promoting clean energy, building freight networks, water infrastructure, regional airports and industry specialisation.

Skills: Investment in skills is needed to address skill shortages and train people in new emerging industries, such as water technologies, environmental management and horticultural farm management.

Reliable power: Improving the operation and capacity of the electricity distribution network will ensure greater reliability and quality of electric power to regional businesses. This will benefit a host of industries, including dairying, food processing and manufacturing.

Clean energy: Investment in new energy projects will contribute to a reduction in greenhouse emissions, including renewable energy infrastructure and clean coal technology and infrastructure. A Regional Growth Centres Fund could provide support for small scale renewable energy power systems to replace fossil fuel based systems, as well as investing in infrastructure/technology to improve energy efficiency.

Modern freight networks: The freight task in Australia is set to double over the next 20 years. Our regional freight networks need modernising. This will help shift a substantial proportion of freight from road to rail – bring environmental and congestion benefits.

Funding is needed to support priority projects including state-of-the-art intermodal freight terminals/interchanges; improved connections between local freight networks; infrastructure to support strategic freight centres; and high-tech systems to support global supply chains.

Water: More investment needs to be made in innovative, smaller scale water projects in regional cities and towns, including infrastructure to support water recycling, rainwater collection and stormwater management infrastructure. This will enable more reclaimed water to be used at the farm, municipal and business level.

Airports: Regional airports play a vital in supporting freight activity, tourism and commerce in regional centres. Many airports need new investment to maintain to expand facilities for customers.

Regional specialisation: More investment in needed to support industries that locate regional centres, including communications infrastructure; testing and demonstration centres and shared storage/distribution/training facilities.

The 2008-09 Budget provided funding for a range of programs which will benefits regional Australia.³³ Coordination among the states will be key to ensuring that this is as effective as possible.

5.2 Promotion of services exports and exports more broadly

Many State governments are active in encouraging exports by services firms. For example, the South Australian Department of Trade and Economic Development has created a Steering Group to develop a services export strategy for that State. The ACTU welcomes this initiative but believes that there is also a national responsibility in this area. The 2007 ALP National Platform refers to the development and implementation of industry policy measures to assist the different industries in the services sector to, among other things, build export markets.³⁴ While this could be done by way of separate

industry policy initiatives, a National Services Export Strategy would provide a more integrated approach.

The recent establishment of the COAG Ministerial Council on Trade to coordinate trade-related activities and reforms provides a framework to facilitate such an initiative. It should also be used to canvass the future of separate State trade promotion offices overseas, which, in the ACTU's view, are inconsistent with a coordinated national approach to trade promotion.

The present Review has a broader focus than services, and while it is likely to make an important contribution towards increasing services exports, a further useful step in the development of a National Strategy for Services Exports may be the proposal of the Australian Services Roundtable (ASR) for a Services Stocktake.³⁵ However the focus should be on identifying export opportunities and strategies as much as on factors affecting competitiveness, and the proposed partnership to undertake the stocktake should be broader than the Commonwealth and the ASR, and include Austrade, State and Territory Governments, and other major national service sector business organisations.

The ACTU also sees merit in the ASR's proposal for a national programme to fund independent research into the services sector, and views this as a worthwhile ongoing initiative rather than one limited to enabling the development of a National Services Exports Strategy.

The South Australian Steering Group reached a preliminary conclusion that in that State there were specialised niche services capabilities including in environmental services, waste disposal, water resources, R&D, and mining technology services. A Services Stocktake could assist in identifying niche and other capabilities nationally.³⁶

The ACTU would suggest that logistics, agricultural-related services, and funds management are likely to be on any list that results from a Stocktake. However, attention also needs to be given in the strategy to services where Australian exports are continuing to decline and are infrequently mentioned as export growth opportunities.

Freight services are one such area. The increase in the deficit in this area over the last ten years is partly due to neglect of the Australian shipping industry, but also to the small proportion of imports and exports carried by Australian aircraft.

Given that most Australian services firms are small and medium enterprises and only around 3% of the total number of service firms are exporting, the ACTU would recommend that clustering arrangements are an essential part of any National Services Exports Strategy. The strategy should address the issue of access to, and cost of, capital constraints.

5.3 Climate change and exports

On its current path, and in the absence of remedial action, development built upon fossil fuel dependency will tip the global environment beyond a point of no return as a result of growing emissions of CO₂, methane and other greenhouse gas (GHG) pollutants. Future energy infrastructure investments expected to exceed \$US20 trillion between 2005 - 2030 will have long-term impacts on GHG emissions. But the twin goals of stabilising the planet and building a more prosperous global economy, while challenging, are not mutually exclusive. The United Nation's Intergovernmental Panel of Climate Change (IPCC) concludes that:

*“Stabilisation levels can be achieved by deployment of a portfolio of technologies that are either currently available or expected to be commercialised in coming decades, assuming appropriate and effective incentives are in place for their development, acquisition, deployment and diffusion”.*³⁷

While there is no magic bullet available, the ACTU rejects the economic deficit argument. We are committed to promoting industry policy and investment in clean, green and sustainable economic opportunities. The battle must be waged on all fronts, and the time to do it is now.³⁸

The very process of identifying the risks and the challenges ahead can assist industry to develop solutions to future problems. New products and services will be needed to help global communities live sustainably.

Energy and other resource efficiency activities provide winning opportunities for industry, the economy and the environment: it reduces energy and other resource use and costs; reduces greenhouse gas emissions; boosts productivity; and presents opportunities for new technology and services providers.

Opportunities will emerge in a wide range of industry sectors. Potential winners from climate change include: the alternative energy sector, mechanical and electrical engineering, sustainable property, recycling, innovative financial services, chemical agriculture and some healthcare companies. Worth \$548 billion in 2004, the global market for environmental goods and services is conservatively predicted to grow to \$688 billion by 2010 and almost \$800 billion by 2015 – a growth rate of 45 per cent in little over a decade.³⁹

In Australia the new national renewable energy target of 20 per cent by 2020 also creates a significant opportunity for the renewable energy sector and associated manufacturing and services industries to develop domestic capacity in these emerging markets. This will give a boost to the national tradeable renewable energy certificate system to encourage additional renewable energy in electricity supplies.⁴⁰

Purchasing high quality carbon offsets from projects such as wind farms also helps support the transition to a sustainable energy economy by providing an additional source of revenue to developers of renewable energy.

Domestic production can provide a platform to tackle the rapidly growing opportunities in international markets. For example, Victorian businesses are already creating opportunities for sustainable building and urban design in China through the Australian Urban Systems Cluster. And under the Energy Technology Innovation Strategy (ETIS), the Victorian Government has committed over \$187 million in funding for new and cutting edge low emissions energy technology initiatives.⁴¹

And progress is being made in the US which, like Australia has until recently been lagging behind Kyoto partners. A partnership is being forged between the United Steelworkers Union with Alliance for Climate Protection, the nonprofit organization founded by Vice President Al Gore. Leo W. Gerard, International President of the United Steelworkers is quoted as saying:

“Developing, manufacturing, installing and maintaining new technologies to fuel our homes and businesses will create a whole new industry that will translate into millions of new jobs.”⁴²

The Alliance notes that renewable energy strategies can get the US economy moving again and create a new generation of domestic manufacturing jobs while solving global warming.

We also need to build a blue collar constituency for global warming solutions, highlighting the opportunities for high-paying domestic jobs in renewable energy, clean technology, and “green” manufacturing while also explaining the environmental and economic risks associated with accelerating climate change.

And it is a fact that Industries employing thousands of Australians including our extractive and energy intensive industries in particular, our coal and oil and gas, iron and steel, alumina and aluminium, glass, cement and chemicals industries, underpin the commodities boom, manufacturing exports and local production.

It is vital that addressing climate change accounts for the impacts of mitigation on these industries in order to avoid a loss of jobs, national income and living standards. That is why coupled with the introduction of a future Emissions Trading System (ETS), the government has in place transition plans for these industries that aims to reduce the impact of higher emission charges at the same time as ensuring progress in meeting emission reduction targets.

The ACTU believes in a just transition for workers. To some extent, workers are seen as also having 'stranded assets' in the same way that businesses may have sunk investments in plant and production methods. But workers have made investments in certain occupations (e.g. coal mining) and are also relatively disadvantaged by climate change policies when there is leakage. Workers' interests largely coincide with those major employers in steel, cement, and other heavy industry to the extent they are lobbying for the most favourable allocation of credits, longer phase-down etc. But a stage could be reached where there is a need for more explicit protection for workers rather than shareholders.⁴³

A future carbon trading framework therefore must account for the adjustment costs of both industries and workers. Workers can have a major role in reducing harmful emissions, promoting energy conservation and suggesting work organisation and other improvements.

In terms of reducing GHG emissions, it makes no sense to simply shift production and jobs overseas to countries with poor environmental standards. Australia must demonstrate leadership in developing a workable ETS that can act as an exemplar for other economies, including those in our region. A number of common features emerge which may serve as markers for a comprehensive ETS:

- a) The number of emission permits issued by the Government or the issuing authority must ensure that the permits command value at auction consistent with the target and that the ETS is universal and comprehensive;
-

- b) The participation by the intensive export industries should be encouraged through a tailored structural adjustment and response strategy which includes elements such as accelerated depreciation packages developed around each major facility where given the long life of the assets the compensation is tied to new environmentally friendly plant and equipment investments with generous accelerated depreciation;
- c) Compensation arrangements for exporters need to be introduced to avoid carbon leakage and putting domestic green production at a competitive disadvantage. Restructuring and mitigation efforts need to be supported rather than undercut by brown imports; and
- d) Many of our industries are also currently at best practice and we are seeking to encourage that in non ETS markets by reducing incentives for leakage. Concerted international action is therefore vital in order to limit trade diversion. Participation of developing countries in post-Kyoto targets is also a must and the ACTU urges the government to redouble its efforts in this regard.

The ACTU understands that compensation issues are currently under active consideration by the Garnaut review team and looks forward to the opportunity of engaging in further consultations on these issues.

The ACTU would also like to see the Government in a more pro-active way promote the value of Australia's traditional industries employing best practice production methods in contributing to better global greenhouse outcomes. In relative terms, Australia's aluminum or manganese plants are less greenhouse intensive. And if a longer term, product cycle approach is adopted; these industries in reality generate potentially huge greenhouse benefits and better greenhouse outcomes in areas such as light weight, fuel efficient vehicles.

These issues form part of a range of coordinated trade union actions at different levels, sectors and regions around the world. In the coming months, trade union training and education activities on climate change will be undertaken by the Sustainlabour Foundation in Asia, Latin America and Africa with the support of the International Trade Union Confederation (ITUC) and its regional organisations under the framework of a Labour and Environment cooperation project with the United Nations Environmental Programme (UNEP).

UNDP's "*Green Jobs Initiative*" aims to assess, analyse and promote the creation of decent jobs as a consequence of needed environmental policies.⁴⁴ (see http://www.unep.org/labour_environment/features/greenjobs.asp). An initial report on Green Jobs is being produced by the World Watch Institute (WWI) later in 2008.

The 2008-09 Federal Budget includes \$2.3 billion worth of measures aimed at tackling climate change over the next five years. Much of this is targeted at the energy sector, including \$500 million for 'clean coal' generation projects, \$150 million for an energy innovation fund and a solar institute and \$240 million for a 'clean business' program. This represents a good start.

5.4 A final note on Australia's approach to bilateral and multilateral trade negotiations

General Remarks on the Approach to Trade Negotiations

The ACTU welcomes the priority accorded by the new government to multilateral negotiations relative to regional and bilateral negotiations. The latter result in increased complexity for exporting businesses because of differences among such agreements in rules of origin, national treatment commitments, and market access opportunities. The proliferation of negotiations outside the WTO framework also skews the priorities of DFAT and its internal resource allocation.

Moreover, where the negotiations are between an OECD country on the one hand and a developing country on the other, there is likely to be a significant imbalance of power, technical capacity, and negotiating resources between the parties. A moratorium on the initiation of new regional and bilateral negotiations involving Australia (including PACER), pending the conclusion or collapse of the Doha round, would be an appropriate expression of the change in government priorities.

For similar reasons, the ACTU believes that trade-enhancing greater harmonisation of regulatory, technical and professional standards and requirements are best pursued multilaterally. However, the WTO may not be the most appropriate framework for this to occur, as inherently the trade gains and losses perspective will colour the process. Greater harmonisation is more likely to be considered on the merits where pursued through other international regulatory, standard-setting and professional organisations.

The ALP's platform states that bilateral trade initiatives must not impact on the government's capacity to provide public services such as health, education, water, waste water, electricity supply or post⁴⁵. While clearly intended as a domestic political obligation, this statement should also inform the negotiating demands made by Australia of other countries, particularly developing countries.

It could be argued that this is only a matter for other countries' governments in formulating responses to Australia's trade liberalisation proposals. However, Australia has a broader political relationship with developing countries, particularly those in the East Asia and South Pacific regions and other countries receiving aid and development assistance from the Commonwealth Government. An integrated approach to trade and development policy would consider the development impact before finalisation of trade liberalisation proposals.

Such an approach should not be confined to services. Australia is a staunch supporter of agricultural trade liberalisation but there is a big difference between industrialised countries that can better handle the human adjustment costs of withdrawing protection from their farming sector and developing countries with high unemployment, numerous

small, poor farmers or impoverished rural labourers, and rudimentary or no welfare systems.

These considerations should also inform negotiations with developing countries on industrial goods. The difference between types of countries is acknowledged to some degree by the principle of special and differential treatment that is recognised by trade liberalisation negotiators and institutions. Nevertheless, the human adjustment costs may simply be delayed by longer timelines for phasing-out protection, and the requisite support mechanisms are still unlikely to be in place. The ACTU therefore support the call by the unions, farmer organisations, and governments of developing countries for retention of the 'policy space' necessary to use the range of industry and rural development mechanisms and policies that industrialised countries historically employed to raise their level of economic and social development.

The ALP platform states that prior to commencing negotiations for a bilateral or regional FTA both Houses of Parliament will receive a document setting out the government's priorities and objectives, and independent assessments of both the costs and benefits of any proposals that may be negotiated and the economic, regional, social, cultural, regulatory and environmental impacts which are expected to arise⁴⁶. It further commits Labor to ensure that all major multilateral and bilateral trade agreements that Australia enters into are assessed to ensure that they are consistent with the principles of sustainable development and environmental protection.⁴⁷

The ACTU welcomes these commitments to transparency and parliamentary consideration of trade negotiation issues at the beginning and end of a negotiation process. Consistent with remarks elsewhere in this submission, the assessment documents submitted before negotiations commence should avoid modelling on the basis of unachievable comprehensive trade liberalisation.

Nevertheless the ACTU recommends that, as the obligations of free trade agreements bind future governments in a significant range of policy areas, Parliament should have the responsibility of deciding whether or not to approve such agreements.

The extent of the binding of future governments should be minimised in respect of services by adoption of the positive list approach to the structure of services agreements or chapters of agreements. The negative list approach that was preferred by the previous government has the major disadvantage that all future services that did not exist at the time the agreement was concluded are automatically subject to the liberalisation obligations of the agreement.

Similarly, the ACTU welcomes the platform commitment to reconstitute government consultative mechanisms to ensure that are representative of business, unions, environmental and community interests⁴⁸. This should attract bipartisan support in light of the representative character of the WTO Ministerial Advisory Committee established by former Trade Minister Mark Vaile.

APPENDIX 1

The Slow-Down in Manufacturing Export Growth

The Slow-Down in Manufacturing Export Growth

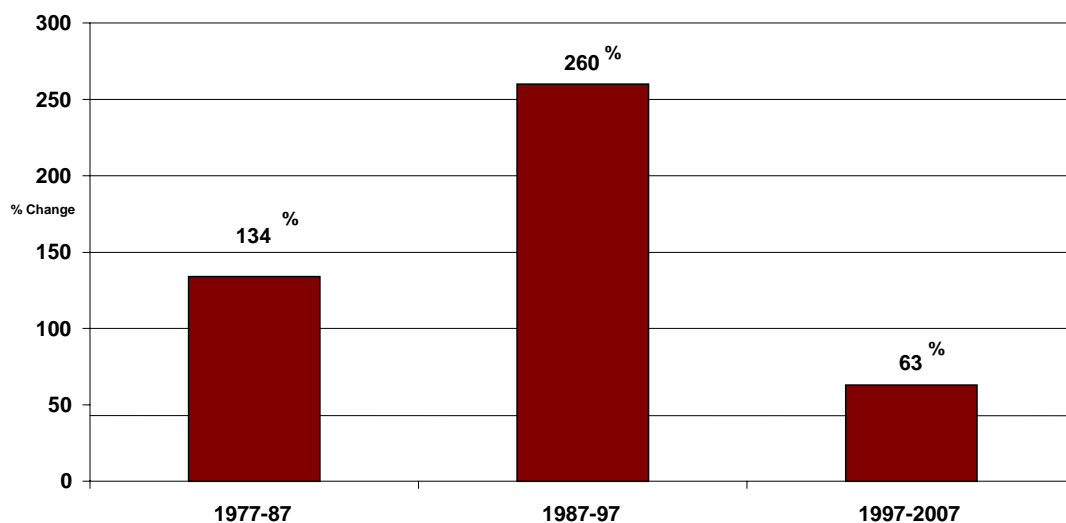
In 1993-94 DFAT's statistical publication *Exports of Primary and Manufactured Products* had a feature article entitled "**Manufacturing Exporters – Leading the Way**". As that article emphasised in part:

"The very strong growth in manufactured exports over the last decade – around 16% per annum, has been a major feature of the structural changes occurring in the Australian economy."

Unfortunately that good news story came unstuck during the past decade, particularly in the period post the 2000 Sydney Olympics.

As a result, it has been evident for sometime now that Australia has been experiencing a significant slowing in the growth rate of manufactured exports.

Real Manufacturing Export Growth Over The Last Three Decades



Source: RBA Statistics

Another way of viewing the slow down in manufacturing exports (using DFAT definitions of manufacturing and current rather than constant prices or values rather than volumes) is highlighted in the table below. This shows aggregate export growth over six year periods for elaborately transformed manufactures (ETMs) and simply transformed manufactures (STMs).

While the patterns are somewhat different, there is a pronounced slowing of both ETM and STM export growth in the six years through 2006-07; and for ETMs the slow down is evident since the mid 1990s.

Percentage Increase in Australian Produce Exports		
	ETMs	STMs
2000-01 to 2006-07	14%	25%
1994-95 to 2000-01	64%	73%
1988-89 to 1994-95	145%	39%
1982-83 to 1988-89	193%	196%
Source: DFAT: <i>Exports of Primary and Manufactured Products</i> (rounded to nearest per cent)		

The available data also suggests that the slow down in ETM export growth has been broadly based.

Within the ETM export groups the slow down has been most pronounced for engineering products (which account for close to 50% of ETM exports) and other manufactures. These two groups tend to be more R&D intensive. The slow down since the mid 1990s in the growth in exports of those ETMs classified as Mineral Manufactures and Metals or Chemicals and other semi-manufactures has to some extent been cushioned by rising commodity prices.

Percentage Increases in Exports from the four broad ETM product groups: Australian Produce Exports (current prices)			
	1988-89 to 1994-95	1994-95 to 2000-01	2000-01 to 2006-07
1. Engineering Products	202%	66%	6%
2. Mineral Manufactures & Metals	133%	44%	36%
3. Chemicals & other semi-manufactures	167%	96%	32%
4. Total other manufactures	125%	50%	-1%
Source: DFAT: <i>Exports of Primary and Manufactured Products</i> (rounded to nearest per cent)			

In geographical terms the significant slowing of manufactures export growth is highlighted in the table below. Nearly 75% of Australia's STM exports go to East Asia and STM export growth to this region has remained strong (in value terms) for each of the last two decades. The real "collapse" of manufactures export growth has been ETM exports to East Asia. The slow down of both ETM and STM exports to the rest of the world (excluding East Asia) in the decade to 2006-07 (compared to the previous decade) has been similar.

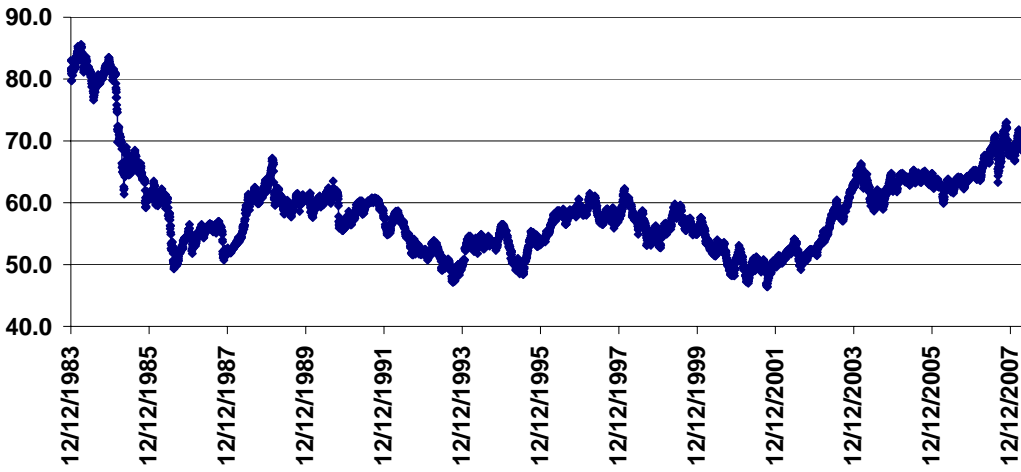
Percentage Increase in Manufacture Exports: Australian Produce (current prices)				
	ETMs		STMs	
	East Asia	Rest of World	East Asia	Rest of World
1986-87 to 1996-97	126%	152%	151%	149%
1996-97 to 2006-07	7.9%	75%	141%	66%

Source: DFAT: *Exports of Primary and Manufactured Products*. There is some change in DFAT's East Asia definition over the period but it has little impact on the data shown. Today DFAT defines East Asia as ASEAN, East Timor, China, Japan, the two Koreas, Hong Kong, Macau, Taiwan and Mongolia.

Explaining the Slow Down in Manufacturing Export Growth

There are a number of factors associated with the slump in manufacturing exports in general and ETM exports in particular. As suggested in the two graphs below, changes in the value of the Australian dollar (both in nominal and real terms) have been significant over the past several decades

**Daily Movements in Australia's Trade Weighted Index:
December 1983 to May 2008**



Source: RBA Statistics

**Australia's Real Trade Weighted Exchange Rate
March Qt.1974 to December Qt 2007 (Index 1995=100)**



Source: RBA Statistics

There is broad agreement that the floating of the Australian dollar in the early 1980's and its subsequent devaluation made an important contribution to the strong export growth in manufactures in the decade to the mid 1990's

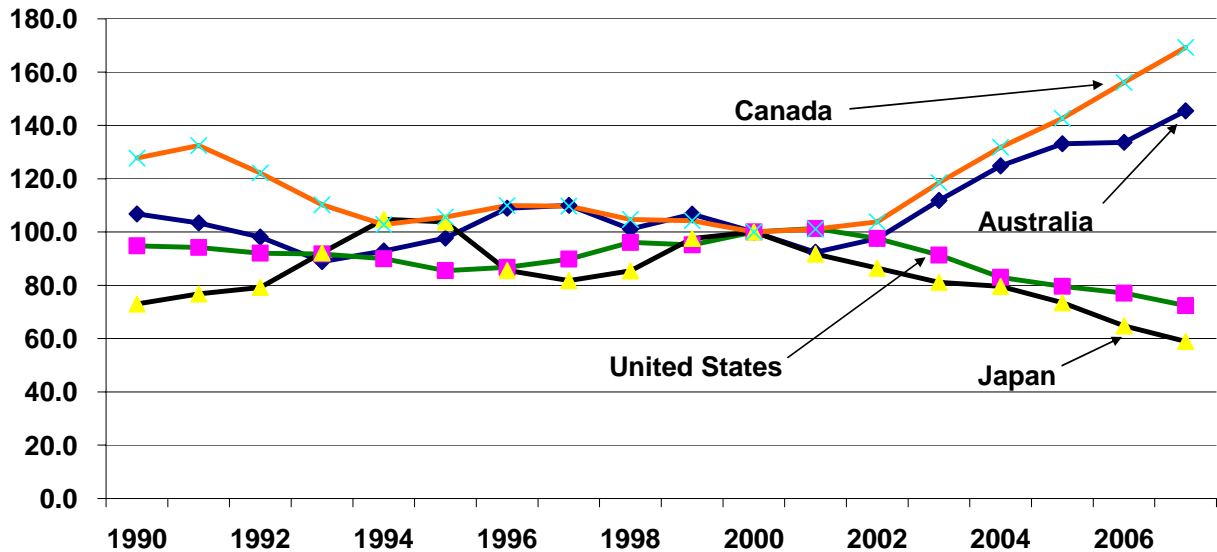
Similarly the appreciation of the dollar, particularly since 2001 has contributed to the slowing in manufactures export growth. It is interesting to note that the index for the real trade weighted exchange rate in December Quarter 2007 was the same as it was in March Quarter 1982. This highlights the impact on competitiveness that the recent exchange rate appreciation has had on Australian manufacturing.

The impact of the rising exchange rate on the competitiveness of Australian manufacturing is also captured in OECD estimates of relative unit labour costs measured in US dollars. Over the 2000-2007 period, the OECD estimates that 26 of the 29 OECD countries where data was available improved their competitive position in comparison to Australian manufacturing (relative to the common year 2000 benchmark).

The consequences of this are highlighted in the graph below which shows the deterioration of the competitive position of manufacturing in nations such as Canada and Australia whose currencies have been driven up by commodity prices and other factors in the current decade.

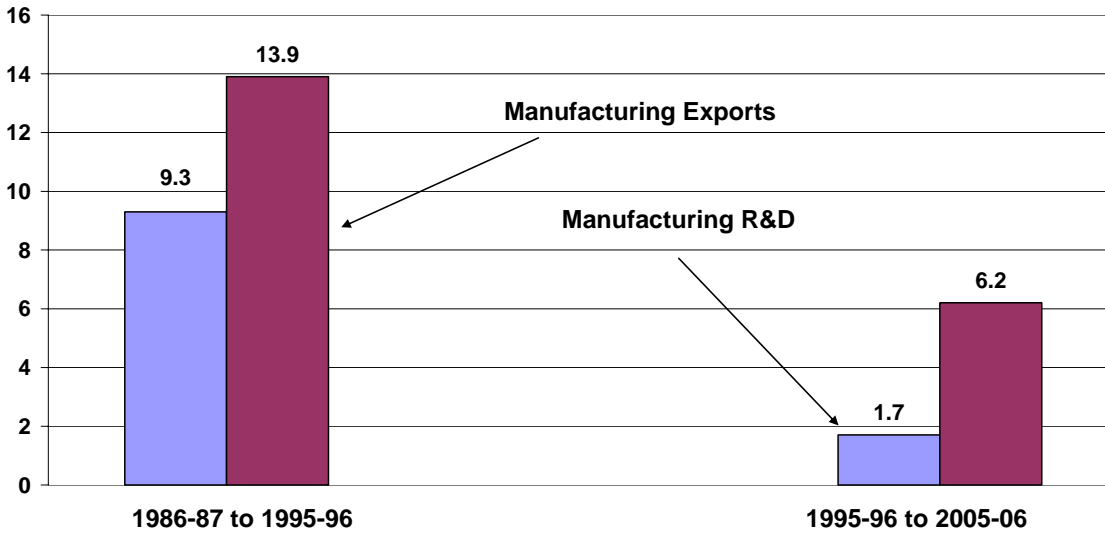
In addition the slump in productivity growth on an economy wide basis (as well as in manufacturing in relative terms) when combined with the impact of a tight labour market in Australia, has reinforced the loss of competitiveness that has occurred since 2000. This is captured in the OECD estimates as well as the exchange rate effect. There is no doubt that this has had an impact on the slow down in manufactures export growth.

Competitiveness Index Relative Unit Labour Costs in \$US Index 2000=100



However competitiveness has always been about a lot more than just short term factors such as exchange rate movements. As highlighted in many studies, a key factor in the surge in manufactured exports in the decade to the mid 1990's was the then Labor Governments proactive and interventionist approach to trade and industry development policy. Much of this was "gutted" by the incoming Coalition Government, particularly in its cuts to the R&D tax concession, the capping of EMDG, as well as cuts to a wide range of trade and industry development programs. As indicated in the graph below, the slow down in manufacturing export growth coincided with the "collapse" in the growth rate of manufacturing R&D.

Average Annual Growth in Manufacturing Exports and Manufacturing Investment in R&D: Constant Prices

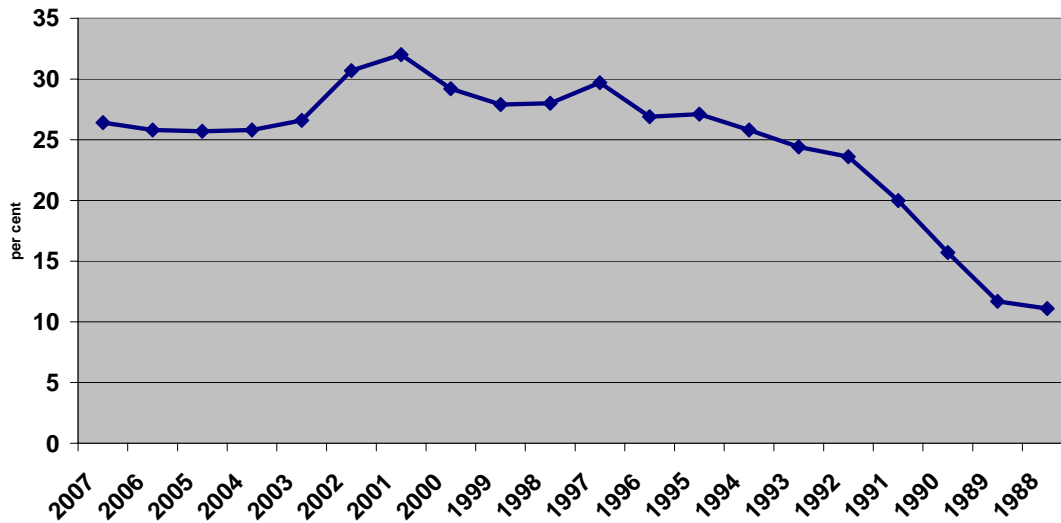


Source: Export Data RBA, R&D data ABS Business R&D Stats

The work of Peter Sheehan and his colleagues on ETM exports demonstrated a very strong correlation between R&D investment and ETM export growth, so the significant slow down in ETM export growth is not surprising⁴⁹.

In the limited time available we do not propose to examine this issue in the detail it deserves. Suffice to say there are a number of variables that contributed to the export slowdown including for example very strong domestic demand in the last 4 years which has seen some switching of capacity to domestic orders at the expense of exports. In industries such as machinery and equipment this and the other issues discussed led to a flattening out then decline in the export sales ratio (post 2000) after the significant increases in the export/sales ratio over the decade to 1997. This is highlighted in the graph below.

**Australia's Machinery and Equipment Industry:
Exports as % of Sales (current prices)**



Nevertheless the ACTU has and will continue to press the case that a significant contributing factor to the slowdown in manufacturing export growth was policy induced. The “gutting “of the R&D tax concession, the capping of EMDG, the failure to review and restructure Austrade post 2000, the changes to investment incentives in the pharmaceuticals industry, the abolition of the DIFF and ITES program, the abject failure of Australia’s investment promotion program and an industrial relations agenda that (amongst other things) entrenched a high stress low trust workplace culture that was the antithesis of what was needed to boost productivity.

These changes occurred in the midst of Australia’s tariff reduction program. Trade and industry development programs and a co-operative industrial relations system were key initiatives to help Australian industry get free trade ready during the tariff phase down. Dismantling these arrangements when combined with the other factors we have noted played a significant part in the slump in manufacturing export growth.

While one can debate causal relationships and the importance of various factors the real issue before this Review Panel is where to from here? What is required in the second decade of the 21st century to encourage and facilitate strong growth in Australia's manufactured exports? It is to this issue that we now turn our attention



A Policy Agenda to Help Restore Manufacturing Export Growth

The ACTU would emphasise that there is considerable overlap and synergies between policies that will encourage export growth (that are the focus of this Export Review Panel) and policies that will encourage innovation (that are being reviewed in the current inquiry into the national innovation system). It is our submission that many of the recommendations we made to that inquiry are relevant to increasing exports (particularly more incentive for R&D including a Leading Technology Development Allowance making Enterprise Connect work and a range of other initiatives) Such recommendations can help Australian business deal with the new competitive pressures it is experiencing.

The ACTU also draws the attention of the Panel to the recommendations of the National Manufacturing Forum whose report was endorsed by representatives of State and Territory Governments, employer associations and the trade union movement.

As the ACTU acknowledged in its submission to the innovation inquiry Australia is not alone in experiencing these new competitive pressures: As the Senior Assistant Deputy Minister of Industry Canada put it recently:

“Structural change in Canada has not kept pace with the US, which is more heavily represented by high growth, leading edge manufacturing and services. We can no longer compete against low cost countries like China, Mexico and India in standard technology goods and services.

In effect, we are being squeezed into an increasingly narrow middle ground with countries like China out-producing us at the lower end and the US outpacing us in leading-edge technology. Our standard of living depends on our ability to move up-market in all major sectors on the basis of innovation.”⁵⁰

The central theme of the material the ACTU included (as attachments) in its preliminary submission to the Review of the National Innovation System can be summarized in these terms.

1. For advanced industrial economies such as Australia, “moving up the value chain” is fundamentally important to the future prospects of a wide range of manufacturing and service related industries exposed to global competitive pressures.
2. The nations and firms who are successful in moving up the value chain will be those that make the appropriate investments in infrastructure, skills and innovation. These investments will help position nations and firms higher up the value chain in activities where they have more sustainable competitive advantages.
3. To realise the full potential of these investments there needs to be a greater focus on how trade and industry development policy encourages improvements in the management systems and organisational capabilities of firms.

In giving priority to these three statements the ACTU would make the same point to the Export Review Panel that we have made to other inquiries

“The ACTU would suggest to this inquiry that the upgrading of firm’s organisational capabilities and management systems is the key to equipping firms with the capacity to move those activities with sustainable competitive advantages up the value chain.

Simply put, we need a much deeper and broader recognition that the success or failure of Australian manufacturing depends on companies building the management systems and organisational capabilities required to succeed in the global economy. There is no substitute for this .Australia needs a lot more successful manufacturing companies where:

- 1) *“The CEO and senior management team are committed to winning more international business opportunities and have a long-term plan to achieve this.*
- 2) *They invest in new equipment and technology as well as their R&D and product development capability.*
- 3) *They foster innovation, build their export markets, develop their people and promote their brands.*

At the end of the day building better manufacturing businesses is the key to Australia moving beyond “business as usual” and repositioning its manufacturing industry in the global economy.”

We refer the Review Panel to our recommendations to the innovation inquiry and the National Manufacturing Forum. In addition we support the following specific initiatives to help boost export growth in manufacturing

The Global Opportunities Programme

In 2007 the Howard Government announced it would provide funding of \$254 million over 10 years (commencing in 2007-08) for the Global Opportunities Programme (GOP). Following the November 2007 election there were some difficulties in funding arrangements for certain programmes, as well as allocation of staff supporting those programmes. These circumstances and the uncertainty of the May 13, 2008 budget outcomes, make it unclear what the future of GOP will be. We assume the review panel for Export Policies and Programmes will be briefed on this situation post budget.

For our purposes the important point is that the ACTU sees GOP as a valuable policy tool for helping Australian based manufacturing and service firms access global supply chains.

As emphasised in the brief programme description below, GOP is focussed on facilitating access for teams/groups of exporters to global supply chains and to major international projects.

“The Global Opportunities (GO) Program assists Australian industry to link into global supply chains and bid for work on major international projects. It also encourages multinational enterprises to make further investment in Australia.

- *The GO Program targets global opportunities for which there is competitive Australian industry capability and capacity in the manufacturing and services sectors and a role for the Government in improving access to opportunities and in developing a team approach by Australian industry, including small and medium enterprises, to pursuing global opportunities.*
- *The GO Program is designed to underpin long-term, coordinated and strategic approaches by industry capability teams to pursue global opportunities with the support of the Australian Government.*
- *Global opportunities targeted under the Program will be substantial, representing total commercial value in excess of A\$500 million over a foreseeable period.*
- *The program also involves encouraging multinational enterprises already in Australia to make further investments, as well as partnering with Australian small and medium sized enterprises and research institutions.”*

Source: www.innovation.gov.au/programsandservices/Globalopportunities

The focus of the programme:

- Is not on individual exporters but on building a team of exporters to help win international business opportunities.
- Is not on an individual time specific one off event, but on a strategic opportunity that may take several years of activity to realise.
- Is not on supporting the costs incurred by individual exporters (such as the cost of travel in exporting) but on a collective strategic package of initiatives that benefit the team (such as inward/outward trade missions, overseas consultants focussed on team wins from the targeted strategic opportunity, etc).

The Panel should get a proper Departmental briefing on the approach, costs and benefits of the Joint Strike Fighter initiative and the Team Australia Automotive initiative to gain an understanding of how GOP can operate going forward.

We think GOP should have a significant presence in Australia's trade and industry development strategy going forward. We think the following factors should be taken into account in reaching this conclusion and in the Panel recommending how GOP should operate.

- The scheme is a very efficient way for groups of firms to share information such as market intelligence; much higher costs and duplication would occur if actioned by individual exporters alone.
 - If the programme is pursued as it was intended then significant benefits will come from building team capabilities for export. There will be important spill over benefits from the learning experience involved:
 - a) some of these benefits will accrue to other firms who work with team members in other supply chains on other projects;
-

- b) some of these benefits will accrue to policy makers administering the GOP programme as success /failure in each project will inform the way subsequent projects are selected and progressed.
- GOP has the great advantage of allowing Australia's trade and industry development policy makers to target key sectors or international business opportunities.
 - GOP can/should encourage a diverse range of projects being presented for potential selection from the States, groups of firms, Austrade, industry associations and ICN.
 - GOP should be managed by a small compact team with an R&D, as well as operational budget helping prioritise the best opportunities. The R&D component can also help policy makers assess what is working/not working in various projects and in preparing case studies that can become public and help disseminate the lessons of both success and failure thus contributing to a stronger export culture.

As recommended more than a decade ago in the Mortimer Review *Going For Growth*, programmes such as GOP should be reviewed after five years.

Repositioning the Australian Trade Commission for the Second Decade of the 21st Century

In its submission to the National Manufacturing Forum the ACTU made the following points and raised the following questions about Austrade:

“After 20 years of operation the Australian Trade Commission (Austrade), continues to receive bipartisan support from both sides of politics as Australia's principle vehicle for export promotion. This is a very good thing and needs to be maintained.

However, there are a number of issues that need to be addressed to enhance the Commission's capacity to facilitate a much larger export effort in the future. How can it

be that between 2001 and 2005 Austrade's KPIs have showed outstanding success when the country is enduring its worst and most prolonged export crisis in 60 years and manufacturing exports have collapsed?

Is it the case that when tasked with doubling the number of exporters over five years the volume KPI indicators that are operationalised across the Commission's network led Austraders to assist those exports that would have happened in the short-term anyway at the expense of ETM and other exports which take more time and are more costly to export to a multiplicity of end users?

Is the nation getting a satisfactory return from the more than 50 trade start offices in the Commission's network? Is it the case the bidding for additional resources as part of the DFAT portfolio bid crowds out necessary export promotion resources in favour of "diplomacy and national security resources"?

Are there still demarcation disputes between Austrade and the Industry Department at the Federal and State level and if so how can they be overcome?

Is it the best use of funds to put precious additional export promotion resources into the United States just because of the FTA? It is great that Austrade has more than 100 people in China and is building up its network in India. But what resources are necessary and how are they best deployed in these countries and other regions to really make a difference to ETM and related service exports in the decade ahead?

These and other issues need to be addressed to enhance Australia's export performance over the next decade."

[Source: ACTU submission to the National Manufacturing Forum, July 2006, p.64]

The ACTU also recommended that a high level strategic review of Austrade similar to the 1990 McKinsey Review be undertaken.

"The review should consider:

- *How efficiently and effectively Austrade's resources are deployed overseas.*
- *Whether the replacement of the Austrade Board by an advisory group and advisory panels of exporters is impacting (positively or negatively) access to the Commission's overseas network and with what consequences.*
- *How the Commission's domestic network could work more effectively with their State Government counterparts in export promotion.*
- *The return on investment from the more than 50 trade start offices across Australia and how these should operate going forward.*
- *The strengths and weaknesses of Austrade's efforts, in partnership with others, to double the number of Australian-based firms exporting.*
- *How and where to best deploy additional resources to help facilitate manufacturing and service exports and the appropriate KPIs to measure progress going forward."*

[Source: ACTU submission to the National Manufacturing Forum, July 2006, p.63]

In making this recommendation, the ACTU would qualify the comments above in the following terms.

- a) EMDG has been reviewed eighteen times in thirty four years. Austrade has effectively undergone only one comprehensive review in the last two decades.
 - b) The Austrade Board, senior management and the Minister discussed/debated the possibility of such a review in the 1999-2001 period. Simply put, the political will was not there to do what needed to be done.
 - c) In any organisation, getting the right balance between what management does in operational terms and what the board does in strategic/governance terms is
-

fundamental to the organisations success. The proposed review *is not* a call for stronger intervention by a board/advisory committee into the operational affairs of Austrade. But such a review will result in fundamental changes in strategic direction and resource allocation given the change in the domestic and global environment, as well as the priorities of the new Labor Government.

- d) The pricing/revenue raising approach of Austrade must be central to the review. One reason the ACTU has not called for a larger EMDG programme (than \$200 million per annum) is that we expect the review of Austrade is likely to result in a significant reduction in the the revenue derived from product pricing and cost recovery.activities. Those who have been associated with Austrade for many years know what trade offs are involved in raising revenue and the KPI's for this that drive management (both on and off shore) and the impact this has on diverting managements attention from export priorities that don't generate sufficient revenue. Everyone accepts the need for a price that helps balance supply and demand for Austrade services. However with a new Government, new export priorities and the challenges of a new decade it is time to review the pricing/cost recovery regime and to do so in reference to what state governments are doing so there is some consistency in the overall approach to the cost of servicing the nations exporters.
- e) Given the demise of Invest Australia and the decision to put the investment promotion function back into Austrade the review will provide a good opportunity to "get it right" from the start.

The ACTU urges the Export Review Panel to recommend the proposed review of Austrade. It should be chaired by a leading businessperson with strong connections and knowledge of the organisation and its history and supported by several other private sector persons chosen by the chair of the review and the Minister. That review team should be supported by a leading consultant group as in 1990. The review will take about 6 months and should involve Austrade's current CEO and, importantly, those in the organisation who will be the next group of leaders in the executive group.

After eleven and a half years of National Party rule in the Trade portfolio the new Labor Minister assisted by this Export Review, its recommendations and the proposed review of Austrade will be well placed to provide leadership to a revitalised export effort in the second decade of the 21st century.



A New Investment Promotion Strategy for Australia in the Second Decade of the 21st Century

As the unions in the automotive industry pointed out in their submission to the Bracks Auto Panel:

“It is investment in plant and equipment, R&D, design/engineering capability, new emission reduction technologies and skills formation broadly defined that is the lifeblood of this industry. We are one of the few countries in the world that attracts such investment at all stages of the industry value added chain, from the front end design, engineering and testing through to component manufacture and final assembly. It is this investment that will determine the future of Australia’s auto and component industry, its international competitiveness, its integration into the global industry and its capacity to provide substantial benefits to the Australian economy”

That statement goes to the very core of the issues about the importance of Australia attracting investment in its tradeable goods and service industries. The nation needs an investment promotion strategy that focuses on **BOTH** attracting new foreign direct investment (FDI) as well as facilitating the next round of new investments by the major players in our export and import competing industries.

Therefore our first recommendation to the export review panel is to ensure that your recommendation focuses on both dimensions of the investment promotion challenge.

In addressing the FDI issue first, we would note the global changes that are occurring. This is best represented by the changes Ireland has had to make to its investment promotion program.

In Ireland, recognition of the need to move up the value added chain has transformed that country's approach to attracting foreign direct investment. As the nations investment promotion agency IDA put it in its 2004 annual report:

“In 2000, IDA Ireland recognised that the dynamics of Ireland as a location for foreign direct investment were destined to change substantially. Two factors were critical in this regard:

- ***Continued liberalisation of the world economy and globalisation of business were changing the nature of competition and choice of locations for FDI.***
- ***Ireland's own success would lead to further changes in business conditions, which would require step changes in our attractiveness for more advanced developments.***

As a result, the types of investment for which Ireland could compete would substantially change and many earlier investments, which came to Ireland in different times, would be subject to considerable threat.

In this context, IDA Ireland set a new course aimed at contributing to the continued transformation of Ireland to a world-leading, knowledge-based economy at the forefront of technology and business innovation. We formulated a strategy comprising three key elements:

- ***A focus on winning new investments where the activities were at the quality end of the business value chain.***
 - ***The growth and development of our existing clients through the addition of new functions and activities in Ireland, which raised the value-add of the Irish operation and increased its strategic relevance to the parent.***
-

- ***Actively working to develop the business environment and infrastructure, both educational and physical throughout Ireland needed to support knowledge intensive businesses. Regional development is a special priority in this regard.***⁵¹

Ireland's R&D policy has also changed. There was a time in the advanced economies when policy focused on the level and type of R&D incentives and how these were correlated to incremental increases in a firm's R&D. This is still important, but the focus is changing. For example in Ireland, eligibility for R&D incentives (which can equate to a subsidy equivalent of more than 30%) increasingly focuses on how the incentives lead to an upgrade in a firm's management and organisation capabilities so that the company's innovation system is substantially enhanced

How does Australia compare in its approach to what Ireland and other nations are doing?

The main message the ACTU conveyed in both our submission to the National Manufacturing Forum in July 2006 and in our discussions with the Export Review Panel in April 2008 can be summarised in the following terms:

“For a long time now Australia’s investment promotion initiatives have seriously underperformed in attracting foreign direct investment (FDI) into high value added manufacturing, services and agrifood business. Branding and general promotion activities are no substitute for a more strategic approach. Every advanced OECD nation will do similar things to improve the competitiveness of their economies, including encouraging the appropriate investments in infrastructure, skills and innovation. However, at the end of the day while that is “the main game” in attracting FDI there is another important dimension to attracting investment. And for the past three decades Australia has not done well in pursuing this other dimension of promoting FDI. The current situation where the remnants of “Invest

Australia” are being transitioned into Austrade is just the latest saga in the legacy of Australia’s inability to put in place a strategic investment promotion program.”

During the preparation of our submission to the National Manufacturing Forum the ACTU discussed the investment promotion issue with a number of experts. Their comments appear in the Figure 2 below.

Figure 2

Australia’s FDI Efforts

“Australia ranks in the bottom quartile of OECD countries in attracting new FDI. Your investment incentives are dispensed mainly to mining projects, not value added manufacturing. Sure, your Victorian, South Australian and Federal Governments will almost always do what’s necessary for long-term investments by your major auto companies. And so you should. But what else are you doing?”

“Take a look at industrial estates in Ireland and Australia. Both countries have many of the big name technology companies located there. But in Ireland these firms have located some high value manufacturing, software facilities and their R&D/engineering centres. In Australia they’ve located the administration functions of regional headquarters including marketing and sales!! And the regional headquarters FDI campaign is held up as the best Australia has done!”

“You spend 90% of your time on branding “Australia Inc” and general promotion and 10% on working strategically on FDI targets and developing and implementing an appropriate engagement strategy. It should be the other way round. Where’s your operational plan for getting your expats from Boston, Austin and California with lots of venture capital experience to relocate, and set up VC funds here (possibly in joint venture with locals) linked into your universities and your innovation exchange?”

Where’s your target list and plan for getting half a dozen instrument laboratories with prototype manufacturing capability set up on your uni campuses or along side your research institutes? Have you got public servants or private sector high powered consultants and merchant bankers targeting small scale high value new economy FDI and working up and following through on the engagement strategy?”

“In a Federal system you will never get the best bang for buck unless your Federal and State investment promotion agencies have a game plan for working together”

Source: ACTU submission to National Manufacturing Forum, July 2006, page 80

The real question is what needs to be done to build a new and more effective investment promotion program. It is our submission to the Export Review Panel that the following approach is required:

1. A new and more successful approach to attracting FDI through Austrade requires the independent strategic review and restructuring of Austrade discussed in the previous recommendation to occur in 2009. This is the only way full value will be gained from putting the investment promotion function back in Austrade.
2. For new economy FDI (medical devices, nanotechnology, smart capital goods, ITC, etc) the Government should trial a new approach with a pilot programme. In this approach consultants with a global network such as the BCG, McKinsey, a merchant bank or a global accountancy/consulting firm should be contracted on a retainer basis (and with success fee arrangements) to target and attract such key value added investments. A competitive tender to perform this task should be let and the best value for money provider selected. After three years, policy makers will be in good position to see how the “outsourcing” approach to FDI works relative to the traditional investment promotion approach utilised through Austrade.
3. The ACTU supports the 2004 recommendation of NIEIR/AMWU that in a new strategy for investment promotion:

“More emphasise should be given to attracting large global companies to establish R&D/engineering/product development centres in Australia with the accompanying manufacturing prototype capability. As many countries are discovering, it will not always be possible to move from this to full scale manufacturing. However, Australia needs more of these global facilities and they should be targeted.”

Source: NIEIR/AMWU, *The Future of Australian Manufacturing*, July 2004

This emphasis on R&D/engineering/product development centres as targets for investment promotion makes sense if Australia is to aim to move up the value chain to activities with more sustainable competitive advantages. In many cases it will be these value added knowledge intensive services rather than manufacturing that Australia wins.

This is also where the Export Review Panel needs to consider what basic long term incentives are appropriate in the investment promotion program. The ACTU has had a consistent position on this matter since December 2005. We support a leading technology development allowance (LTDA) of 20 to 25% and additional incentive to those firms whose R&D is more than 2% of sales.

We think the LTDA should have a restrictive rather than broad definition...it really should be for leading edge knowledge intensive activities. We also think it should be capped in two respects. First only the first \$50 million of any qualifying investment should be eligible for the LTDA deduction and secondly revenue foregone as a result of the LTDA should be capped. This will ensure that several large projects don't crowd out many other worthy projects from SME's.

Investments over a certain threshold (say somewhere between \$1 million and \$5 million) that meet the criteria (including that they are unlikely to occur without the incentive) should be eligible and the approval mechanism should be final with no appeals if that is possible.

As recommended in the Mortimer review a decade ago, the scheme should be reviewed in 5 years time. If properly established such a scheme can really make a difference to helping attract the value added knowledge intensive activities Australia is likely to have a competitive advantage in sustaining higher up the value chain. The management systems and organisational capabilities of firms who are the recipients of such support are likely to be leading edge, and as demanding customers we would expect there to be important spill over benefits to the local supply chains that are established around such investments with ripple effects spreading throughout the Australian economy over time.

That concludes our summary of a new approach to FDI. We turn briefly now to the second arm of investment promotion which deals with promoting investment from leading firms already set up here in Australia.

4. Suppose a strategy session was held in Canberra tomorrow amongst Australia's leading trade, industry and economic policy makers and the question was posed:

“What are the investment plans over the next five years of the 100 largest firms based here in Australia who produce high value added knowledge intensive goods and services. Who is responsible for liaising with these firms to ensure that there are no impediments to their investments. How much of the investment from these 100 firms is on hold, pending or under review and what is being done to remove any impediments from the investment being realised or providing advocacy effort behind the scenes to secure head office approval if that is a factor in securing the investment.?”

This question goes to the heart of what we do as a nation to promote investment from firms already established here. This is the second arm of an efficient and effective investment promotion strategy.

The ACTU suspects that there are large gaps in our knowledge about such investments and large gaps in our capability to respond proactively and appropriately to securing such investment. In filling these gaps we would urge the Export Review Panel to think strategically about what is required. Amongst other things this might involve:

- a) The secondment from the private sector of a handful of investment specialists and the services of a large global accountancy firm to help develop the appropriate information system and relationship managers who interface with firms about their future investments. Confidentiality, professionalism and strategic judgement is imperative in setting such a system up. It may require a separate intelligence unit
-

removed from the normal chain of command one might find in a trade or industry department. But it should be integrated within the Industry and Innovation Department and not operate or be seen to operate as an enclave.

- b) Over time it will be clear some of the impediments to realizing such investments will relate to issues such as skills and infrastructure and a process for facilitating the resolution of such issues should be developed.
- c) Over time it will be clear that some of the impediments to realizing such investments require high level advocacy to the parent company's headquarters offshore. A systematic and comprehensive approach to championing such investment should be institutionalised (as was done for example under the previous Labor Government in its Regional Headquarters Investment Promotion initiative).

No doubt the Export Review Panel will be aware of other issues. We can't emphasise enough the importance of this second arm of Australia's investment promotion program.

In the early 1990's Australia's investment promotion efforts had sunk to such a low level that the trade and industry departments (and Austrade and its board), incapable of doing investment promotion successfully transferred the function to Treasury who effectively abolished it on the grounds that "investment promotes itself". The ACTU reiterates the message conveyed at the beginning of this recommendation from the vehicle industry unions that **investment is the lifeblood and future of industry development in this country.**

No one is denying that the main game in attracting investment is sound macro economic fundamentals, and removing the "reform fatigue" syndrome from an appropriate micro economic reform agenda. The ACTU also acknowledges that getting it right on the planning and provision of infrastructure and a skilled workforce are at the top of the list of key success factors in winning investment that is contested in the global market place.

However the story does not end there. Many of us on the union side have spent the last decade or two on industry fund investment committees making multi million dollar investments into large infrastructure, property and private equity investments in Australia (such as Pacific Hydro) and offshore. We also have the experience from union involvement for a decade and a half on the board of Australia's main export and investment promotion agency; and many union officials have been involved for decades in negotiating industrial relations arrangements with firms making large investments in both brownfield and greenfield sites.

The point we are making is that after you get the fundamentals right a strategic approach to investment promotion matters a lot. We know this from practical hands on experience. So do most of the advanced OECD economies and leading emerging economies who are focused on investment promotion

We need a much better FDI investment promotion program as well as a domestic investment promotion program targeted at those firms whose investments will really make a difference to the future of industry development in this country. It is our submission that the Export Review Panel take this on board and recommend to Government an appropriate commercial and strategic investment promotion program

An Export Market Development Grant Scheme (EMDG) for the Second Decade of the 21st Century

The ACTU supports the continuation of the Export Market Development Grant Scheme (EMDG) as the principle grants programme to support Australian exporters over the decade till 2020.

EMDG reimburses exporters for up to 50% of eligible expenditure incurred in exporting such as marketing visits or trade fairs. The taxable cash grants goes to more than 3,500 exporters each year and represents a programme outlay to Government of around \$150

million per annum. Nearly 80% of exporters supported by EMDG are SMEs with annual revenue of less than \$5 million.

The ACTU support for EMDG is consistent with the agreed recommendation in the National Manufacturing Forum (NMF) report endorsed by representatives from State and Territory Governments, Industry Associations (particularly AI Group) and unions (including AMWU, AWU and the ACTU). That recommendation stated:

“The Commonwealth is urged to:

- *Provide greater funding for the Export Market Development Grant (EMDG) scheme, expand the eligibility criteria and create easier access to it, including less onerous documentation (but with appropriate controls).*

The State and Territory governments work with the Commonwealth to:

- *Encourage and facilitate experienced exporters to mentor and leverage new exporters (particularly SMEs); and*
- *Better align State and Territory export initiatives with the support programs at the Commonwealth level (including, but not limited to, the EMDG scheme).”*

Source: National Manufacturing Forum *Strategic Actions to Boost Australian Manufacturing*, July 2006.

It is the ACTU submission that the NMF recommendation is appropriate and supportive of all exporters eligible for EMDG and not just manufacturers.

The ACTU notes that the real changes in EMDG came in the first Coalition budget in 1996-97. As a result of the cuts made and the capping arrangements put in place EMDG went from a scheme that would have provided \$250 million to more than \$300 million per annum to exporters in the second half of the 1990s to one providing \$150 million per annum then and since.⁵²

This was clearly indicated in the comprehensive review of EMDG in 2000 by the then Austrade Board. As the Board indicated in its report:

“The lower level of funding that accompanied the 1996 changes means that there has been a reduction in expenditure on export promotion by grant recipients and in additional exports generated compared to what would have occurred without the changes ...

The cap on funding set at \$150 million per year may result in the diminution of the value of grants for more than 1,000 recipients each year over the period to 2005-06.”⁵³

The Austrade Board’s 2000 report was also very clear in the message it sent to Government;

“The Scheme has been reviewed at least fifteen times in the last twenty-six years with this review making sixteen. Business clearly stated that certainty was a key factor that contributed to effectiveness and that business should be able to plan export activities on a reasonable expectation that some reimbursement of costs will occur. The less certainly exporters have the less the grant will act as an incentive.”⁵⁴

That is why in outlining its three major priorities for the EMDG scheme the Austrade Board report stated:

“First and foremost, to provide greater certainty in these arrangements for Australian exporters, and in particular, SMEs who are still under-represented in

export activities. This is best achieved by extending the Scheme for a minimum of five years.”⁵⁵

Not surprisingly, the problems that the cuts had on exporters and the problem of keeping outlays within the cap led to yet another round of changes in 2003. The maximum grant value was cut, the eligibility of firms was cut back, the maximum number of grants was cut and the provision for additional grants to enter new markets was cut.

The ACTU emphasises this point to the Export Review Panel because for too long now EMDG has been chopped and changed and reviewed again and again. As the ACTU has argued in previous submissions:

“The most enduring benefits from incentives that work comes from those firms that develop their people and business systems to a higher level of capability so that the additional activity they generate is based on more sustainable long term competitive advantages. But to achieve this requires amongst other things – policy continuity. Too much chopping and changing has occurred to key industry incentives. This is diminishing the rate of return to the community from each dollar of industry assistance provided because the uncertainty for firms causes them to apply a discount to the value of the incentive on the grounds that government will simply change the rules of the game.”

By definition this will also diminish spill over benefits and other positive outcomes from the scheme.

EMDG was reviewed again in 2005 and again is under review in 2008, making 18 reviews in 34 years.

The ACTU is well aware of the evidence from previous reviews of EMDG that are before the Panel. The conclusions of the 2000 review were set out by the Chairman of the Austrade Board, A. Jackson, in his letter to Minister Vaile in these terms:

“In preparing this report, the Board considered the views of Australian business, a Steering Committee (that included public and private sector members), and other interested members of the Australian community. In all, 245 public submissions were received and econometric and economic analyses were undertaken. An extensive survey of Export Market Development Grants Scheme users and non-users also helped to shape our recommendations and findings...

After considering the input, the Board has concluded that the key objective set for the Scheme by the Export Market Development Grants Act 1997 “to bring benefits to Australia by encouraging the creation, development and expansion of foreign markets for Australian goods, services, intellectual property and know-how” is being achieved by:

- *assisting with the development of an export culture;*
- *creating new exporters;*
- *assisting with the diversification of exporters into new markets;*
- *assisting with the generation of additional exports and jobs within Australia;*
and
- *creating greater innovation within Australian business.”⁵⁶*

That 2000 Review and the econometric work of Professor R. Bewley and the economic analysis of Price Waterhouse Coopers found much larger gains from EMDG than the more theoretical modelling review of EMDG carried out in 2005 by CIE.

The ACTU has not attempted to review this debate. However, we would make the following points:

1. The CIE Report does not provide a systematic critique of the Bewley/Price Waterhouse Coopers analysis of EMDG. It is suggested that the 2000 EMDG report did not have a valid control group and didn't assess whether benefits exceed costs (CIE 2005, p.14).
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However, the CIE ignores what the 2000 Review demonstrated about EMDG, best practice and the fact that it made an important contribution to enhancing the management systems and organisational capability of exporters. The 2000 EMDG sample of firms was certainly statistically valid enough to demonstrate that fact.

2. The CIE Report claims as a major part of its review of EMDG that the spill over benefits are low (relative to R&D spill overs) so that *“for \$1.00 private benefit from exports we should expect between \$0.10 and \$0.30 of spill over.”*

However, when the reader examines the evidence (pages 16-17) it is clear that like the CIE assessment of the gains the US-Australia FTA would give Australian exporters in the US procurement market, there is no empirical proof at all. It is simply assumed.

The attempt to assess the size of spill over from the survey sample (pages 56-59) is equally inconclusive and certainly, in our assessment, provides no evidence that the spill overs are “at the lower end of the plausible range.”

This is not to suggest that work on spill overs from export and the impact of programmes like EMDG is not important. The CIE Report should have led to more empirical research being undertaken on the spill over effects. This has not occurred, and outside of R&D the jury is still out in the absence of a more robust body of empirical research.

3. In writing up the 2005 EMDG Review Austrade noted:

“The CIE model and analysis indicate that the impact of the EMDG Scheme is greatest in the presence of finance constraints and smaller firm size. This suggests that the scheme plays a key policy role in funding additional export promotion, particularly for smaller sized firms of \$15 million annual income and less which form over 90% of EMDG Scheme recipients.”⁵⁷

The ACTU would suggest that in an environment of increasing interest rates and exchange rate appreciation the finance constraint on SMEs is greater rather than less compared to when the CIE undertook its work.

4. Finally, both the CIE and the Productivity Commission are somewhat dismissive about the impact of EMDG on developing an export culture even though the survey work undertaken amongst firms suggests that it does. The ACTU thinks that EMDG has and will continue to promote an export culture as long as it isn't chopped and changed and reviewed over and over again.

In conclusion the ACTU supports a strategic review and restructuring of Austrade, an expanded Global Opportunities Program, an EMDG scheme of at least \$200 million per annum for the next 5 years (with the size of the cap reviewed and lifted for the following 5 years,) and a new investment promotion program for the second decade of the 21st century focused on both FDI and the largest domestic based investors of high value added goods and services.

When combined with the additional incentives for innovation (the Technology Development Allowance and more incentive for firms with more than 2% of sales in R&D) as well as the recommendations of the National Manufacturing Forum (particularly the manufacturing advisory service and Enterprise Connect aimed at lifting firm level productivity) it is our assessment that momentum can be restored to the growth of manufacturing exports.

Endnotes

¹ Review of the Australian Automotive Industry, to be conducted by Steve Bracks supported by an expert panel

² Reserve Bank of Australia, Statement on Monetary Policy, 9 May 2008

³ Future bilateral agreements should commit the parties to respect the fundamental rights of workers, defined by the fundamental human rights Conventions of the International Labour Organisation (ILO) and which are identified in the ILO Declaration on Fundamental Principles and Rights at Work (1998) which cover freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

Parties to these agreements should also include a commitment to respect democratic principles and fundamental human rights as laid down in the Universal Declaration on Human Rights and the fundamental human rights conventions identified in the ILO Declaration on Fundamental Principles and Rights at Work, as well as for the principles of the rule of law. These should underpin the internal and international policies of the parties and constitute an essential element of these agreements. The Parties should also reaffirm their attachment to the principles of good governance.

⁴ ABS Cat No. 5368.0 - International Trade in Goods and Services, Australia, Mar 2008, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5368.0Mar%202008?OpenDocument>

⁵ 2007-08 Budget Statement No 3: Economic Outlook

⁶ DFAT, Summary of Australia's Trade, 18 April 2008

⁷ ABARE Australian Farm Survey Results, 2005-06 to 2007-08

⁸ Australian Agriculture in Focus report. Rabobank nominates cereal, dairy, wool and sugar as some of the key agricultural segments well placed to capitalise on an improvement in fortunes. The report is also upbeat about the prospects for the dairy industry this year, largely thanks to a boom in global demand for dairy products. It attributes the surging global demand to increasing urbanisation and westernisation in developing countries, and heavy promotion of dairy produce.

⁹ Australia's 2008 Farm Outlook Optimistic – Rabobank. Ray Brindal, Dow Jones Newswires <http://www.lloyds.com/CmsPhoenix/DowJonesArticle.aspx?id=381050>

¹⁰ Farmers to reap record grain prices, Asa Wahlquist, Rural writer | *February 20, 2008, The Australian*

¹¹ As above

¹² ABARE, Australian Commodities, March quarter 2008 http://www.abareconomics.com/publications_html/ac/ac_08/ac_march08.pdf

¹³ Commodity earnings to hit record levels. The Age, 4 March 2008

¹⁴ ABARE, Australian Commodities, March quarter 2008

¹⁵ As above

¹⁶ Department of Foreign Affairs and Trade, Review of Export Policies and Programs, Key Issues paper, p3.

¹⁷ DFAT, Trade in Services Statistics - the Australian Experience, extract form presentation to the 2007 China Trade in Services Congress and Second International Seminar on Trade in Services, 27 November 2007, p24 of presentation

¹⁸ DFAT, Trade in Services Australia, 2006-7 p8

¹⁹ As above, p36. Deficit calculated from figures reported in Table 8 for Canada, US and Mexico

²⁰ DFAT, Australia's Trade with East Asia, 2006. Figures calculated from Table 1, p 10.

²¹ Trade in Services Australia, 2006-7. Table 16.15, p 58 and Table 16.7, p 60

²² As Above, Table 16.13, p 56

²³ National Innovation System Review to be conducted by an expert panel chaired by Dr Terry Cutler

²⁴ According to research by Austrade and DHL, while most exporters regularly monitor the exchange rate, only 20 per cent believe that it will affect their decision to further invest or expand their overseas operations., See, Global demand, not exchange rate, drives exports, **Tim Harcourt, Australian Financial Review, 06/09/2007**

²⁵ Tim Harcourt, Debunking some Chinese myths, Australian Financial Review, 1/08/2005

²⁶ Free Trade Agreement (FTA) negotiations with both ASEAN and China must result in meaningful improvements in access for Australian exports and investors before agreeing to their conclusion. For example, although the Government is aiming to conclude the FTA between ASEAN and the Australia-New Zealand Closer Economic Agreement by August 2008, lifting of ASEAN trade barriers on Australian (and New Zealand) manufacturing and agriculture products as well as services must be agreed before any future agreement can be reached. AFP 4 May 2008, **ASEAN committed to free trade pact with Australia, NZ: minister**

27 Innovation

- \$251 over five years to establish Enterprise Connect Innovation Centres to connect businesses with new ideas and technology.
- \$326 million over four years to fund four year Future Fellowships and \$209 million over four years to double the number of Australian Postgraduate Awards.;
- \$500mn for the Green Car Innovation fund to encourage the development and manufacture of low-emission vehicles in Australia.

Education

- \$2.5bn over 10 years for the Trade Training Centres in Schools Program.
- \$1.9bn over five years to deliver up to 630,000 additional training places.
- \$1.2bn over five years for the Digital Education Revolution to deliver computers and communications technologies to all Year 9-12 students.
- \$577mn to improve literacy and numeracy outcomes for students.
- HECS initiatives for maths and science students at a cost of \$626mn, and \$500mn by 30 June 2008 to upgrade university facilities.
- The establishment of an Education Investment Fund (which will absorb the previous government's Higher Education Endowment Fund), which will receive an initial endowment of \$5bn funded in addition to the \$6bn already in the HEEF.

Infrastructure

- Establishment of the Building Australia Fund, with an initial allocation of \$20bn, funded largely from the 2007-08 and 2008-09 Budget surpluses.

²⁸ ABARE, Australian Commodities, March quarter 2008

http://www.abareconomics.com/publications_html/ac/ac_08/ac_march08.pdf, p28

29 Australian Farm Sector Demography, August 2005, at www.farminstitute.org.au/publications

³⁰ As above

³¹ As above

³² The AAA FarmBis program provides financial assistance to primary producers and rural land managers to undertake business and natural resource management training and education activities.
<http://www.farmbis.gov.au/>

33 For agricultural and regional businesses, the main spending initiatives from this Budget are those relating to the \$12.9bn national water plan, although some of this money is to be allocated to urban water projects as well. Separate to this, the 'Farming Future' program, includes \$60mn to help farmers respond to climate change and \$55mn for hardship assistance due to climate change.

³⁴ National ALP Platform and Constitution 2007, Chapter 5, paragraph 117

³⁵ Australian Services Roundtable, An Invitation to the Rudd Government to Partner in a Services Stocktake of Business Perspectives on the Competitiveness of, and Outlook for Australia's Services Exports., 6 December 2007.

³⁶ Draft, The South Australian Export of Services Strategy, Steering Group for Services Exports, July 2007, p 6

³⁷ http://www.ipcc.ch/pdf/assessment-report/ar4/syr/ar4_syr_spm.pdf

³⁸ Principles and Policy on Global Warming
ACTU Position Paper
March 2008

³⁹ A Climate of Opportunity Summit Paper, Victorian Climate Change Summit,
<http://www.climatechange.vic.gov.au/summit/Resources/SummitPaper.pdf>

⁴⁰ <http://www.orer.gov.au/publications/pubs/rec-system0506.pdf>

⁴¹ A Climate of Opportunity Summit Paper, Victorian Climate Change Summit

⁴² **The U.S. United Steelworkers union joins Alliance:**

March 31, 2008

⁴³ New Zealand Council of Trade Unions, 2008

⁴⁴ The Green Jobs Initiative supports a concerted effort by governments, employers and trade unions to promote environmentally sustainable jobs and development in a climate-challenged world

⁴⁵ ALP National Platform and Constitution 2007, Chapter Three, paragraph 17

⁴⁶ As Above, paragraph 26, point 1

⁴⁷ As above, paragraph 22

⁴⁸ As above, paragraph 25, point 3

⁴⁹ p.j. Sheehan et al: *Australia and the knowledge Economy Centre for Strategic Economic Studies*, 1995, Chpt. 8, 189-207pp.

⁵⁰ **A. Sulzenko: Senior Deputy Minister, Policy Sector: *Industry Canada*, January 2004,**
www.queensu.ca/sps/thepolicyforum/speakersseries , accessed Tuesday 2 August 2005.

⁵¹ **Source: IDA: *Annual Report*, 2004 p.3**

⁵² See Budge Paper No. 1, 1995-96, pp. 3-136 and Budget Paper No. 1, 1996-97, pp. 3-150 and 3-153

⁵³ Austrade Board, *Review of EMDG*, June 2000, pp. 15-16

⁵⁴ Ibid, p.16

⁵⁵ Ibid, pg.17

⁵⁶ Ibid: covering letter

⁵⁷ Austrade 2005 Review, p.14
