

**Address by the Hon Simon Crean MP
Investment and Financial Services Association
Sydney
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As Labor's Shadow Minister for Trade I welcome this opportunity to once again address the Investment and Financial Services Association.

Going right back to my days as a trade union leader I have had a strong interest in the work of your member organisations in managing the savings, and in particular the retirement savings, of ordinary Australians.

I have watched the extraordinary growth of your industry and have been part of a Government, the former Labor Government, whose commitment to securing the financial future of Australian workers resulted in policies that have played a key role in the growth of your industry.

In light of the current debate about the future of the Howard Government's workplace relations laws, it is very interesting to note that the policies that drove the massive growth in your industry were delivered through a centralised and compulsory industrial relations system

It is a very good example indeed of what can be done when government, unions and industry work together to deliver a great piece of social and economic reform that has allowed Australian workers to retire with dignity and certainty, and, at the same time, has produced a national savings pool that is the envy of the world.

The sheer size of your industry is staggering. Around a trillion dollars invested on behalf of more than 10 million Australians.

Yours is a mature industry with a strong track record of sound management within a regulatory structure that gives investors a degree of confidence that their financial future will be secure.

This is an industry well placed and well structured to take its part on the international stage as a key contributor to the nations export effort, especially within our own region.

Lessons from the manufacturing story

I read with interest your organisations paper entitled "The Export Potential of Australian Funds Management Services".

The comparisons you make between your industry and the situation that faced Australian manufacturers looking to expand their businesses overseas during the 1980's and 1990's are interesting.

As you have noted in the discussion paper "...government encouraged Australian Businesses to look to growing export markets, especially in Asia, with a range of relatively modest policy initiatives, eg support for R&D, EMDGs, etc, reinforced by a clear policy message sustained over a decade."

The Government that initiated this encouragement for manufactured exports and established the key support programs was the former Labor Government.

Apart from major reforms to internationalise the Australian economy we used the Accord to lock in low inflation and low interest rates. We also ended the centralised wage fixation system and developed a wage system linked to productivity at the enterprise level. This achieved the largest jump in productivity in our history; an outcome, despite the rhetoric from the Prime Minister, that not only has not been sustained, but has actually been significantly reduced.

As a Government we recognised that the Commonwealth has a clear and important role to play in assisting the manufacturing sector to achieve its potential to take Australian made products onto world markets.

We put the support programs you have mentioned into place and used international forums and structures, and particularly multilateral structures, to drive reforms that produced a more level playing field for Australian manufactures.

On the domestic front we introduced a range of industry policies that facilitated to those new export opportunities.

And those reforms continue to pay a dividend for Australian manufacturers and the Australian economy.

During that 20 year period prior to 200/01, Australian firms had found international markets for pharmaceuticals, precisions instruments, auto parts, fabricated metals, aerospace products, processed foodstuffs and a myriad of other manufactured products.

As John Edwards noted in his recent CEDA article "It is significant too, that the most rapidly growing markets for Australia's elaborately transformed manufactures were the tiger economies of East Asia."

The CEDA report reveals that in 1981 exports were less than one tenth of manufacturing sales, but by 2001 that share had doubled.

Again it is interesting to note that the phenomenal growth in manufacturing exports occurred before the introduction of the Howard Government's Workchoices regime.

Productivity grew and exports boomed under the fair but flexible industrial relations arrangements put in place by the former Labor Government.

The success of Australia's manufactures in exporting Australian product into one of the most competitive marketplaces in the world provides clear evidence of what can be achieved when Government works in close partnership with industry.

This success didn't happen by accident.

It happened because, at the time, we had a government, a Labor Government, that had a vision for Australian industry. It had a comprehensive trade and industry policy.

It was prepared to work with industry to ensure a better future.

When you have a vision, and a comprehensive trade and industry policy, you have a rubric that can be applied within particular industries to allow them breathing space to restructure and to become better placed to operate within the global marketplace.

Labor's steel, car, ship building and dairy plans are good examples of what can be done when you have a forward thinking government.

Unfortunately the Howard Government has never had the same understanding of the critical importance of having a comprehensive trade and industry policy.

In fact one of their first acts when they came to power in 1996 was to begin winding back the very programs that had proved so successful in delivering the growth, and especially export growth, through the 1990s.

They immediately took a carving knife to Labor's 150% tax deductibility for business research and development and have so run down the Export Markets

Development Grants scheme that its real value is now only half of what it was a decade ago.

And what was the result.

An immediate run down in private sector research and development and a collapse in the growth in volume and value of exports over the past six years.

Labor's comprehensive trade and industry policies lead to productivity growth and a surge in exports.

There are lessons to be learnt from the success of Australia's manufacturing sector in taking its products to the world that could be applied in other parts of the economy, particularly for the services sector but also linking services to manufacturing to drive smart manufacturing as a comparative advantage.

Unfortunately the Howard Government has never learnt those lessons.

The importance of the services sector

And the Howard Government has never had an understanding of the importance of the services sector to the Australian economy, much less its potential as an export earner.

The Howard Government has failed to come to terms with the fact that the Australian economy is now very much services based with 73% of total gross income added and it employs 80% of the workforce. Financial Services is now the 3rd largest sector of the economy at 7.2% of GDP. At \$68 billion the sector is worth almost as much as mining, agriculture, fishing and forestry combined.

The large, well developed domestic base of the service industry with its highly skilled workforce provides an excellent platform for the further expansion of the industry into the export market.

Unfortunately there is no evidence that the Howard Government has recognised this fact.

As with other key sectors, the rate of growth in the value of services exports has collapsed in the period since 2001.

The annual average growth rate over the past five years has been 2%, only a quarter of what it averaged in the period prior to 2000/01.

And what has been the Government response to this collapse in export performance?

Absolutely nothing.

How could it be anything but 'absolutely nothing' given that the whole services sector is the 'elephant in the room' that the Government just doesn't see.

The services sector is the biggest generator of jobs in the Australian economy.

Labor understands both its importance domestically and its very real potential as an exporter.

Labor will ensure that the services sector gets its rightful place at the table when important trade decisions are made.

Services are front and centre in our minds as our comprehensive trade and industry policies are developed.

Financial Service exports can also be a success story

Similarly, the Howard Government has never understood the central importance of the financial services sector in the Australian economy and have never really seen the potential of the sector to drive export growth.

For a very long time now I have argued that the services sector, and financial services in particular, ought to be seen and treated by government like other major export sectors of the economy like manufacturing and agriculture.

The national interest demands working partnership between government and your industry aimed at driving the export of Australian financial management services to the world and to our region in particular.

Your discussion paper "Policy Options to increase Australia's export of funds management services" that was released back in May does, I think, provide a sound basis for the future development of national policy aimed at boosting to export of funds management services."

I have been working closely with my colleague, Senator Nick Sherry, Labor's Shadow Minister for Superannuation, Banking and Financial Services, in the development of Labor's response to the challenges set out in your paper.

We recognise that Australia already enjoys a number of advantages in this sector.

At \$1.1 billion, Australia already has one of the largest pools of managed investments of any country in the world. Only the USA with \$12.5 billion, Luxembourg with \$2.6 billion and France with \$2.1 billion have more.

This is already a very competitive world market with countries like Ireland, Hong Kong, India and China all actively looking to grow their managed investment sectors.

But the sheer size of Australia's existing managed investment base, and the experience of running such a large base, are important advantages that will hold us in good stead into the future as the industry looks to further expand into the region.

The domestic benefits of growing our financial services exports should not be underestimated. At \$68 billion, the sector is already the 3rd largest in the Australian economy and represents 7.2% of GDP.

The sector already employs 380,000 Australians with real opportunities for further growth based on exports.

These employees are part of a sophisticated, well developed financial asset service sector with considerable expertise in areas such as funds management, investment, delivering a range of products, investment consulting, platform delivery systems, custodial services, information technology and software, legal and accounting, compliance and risk management, and education and training.

Australia can offer a stable political system, robust governance, a significant second language population, as well as being located in a time zone convenient to others in our region.

Responding to the IFSA Options Paper

When your paper "Policy Options to increase Australia's export of funds management services" was released in May I welcomed it and said that Labor would be carefully considering the option IFSA had put forward.

We have looked carefully at the options your organisation put forward and are currently putting the finishing touches on the detailed policy responses that will form part of the suite of policies that we will take to the forthcoming election.

I am pleased to announce today that, in general terms, Labor supports the thrust of the policy proposals contained in your paper.

In particular Labor agrees that:

- Industry, government and regulators should pro-actively address cross border, behind border and licensing issues, and should also seek opportunities to take a leadership position on harmonisation of regulation relating to market access and market conduct. This is a key challenge and should, as I have argued elsewhere, be an issue to be more aggressively pursued at the upcoming APEC meeting and should form part of the agenda for the mid-term review of the free trade agreement with the United States of America.
- Data collection on the export of financial services needs to be reviewed and improved to provide the timely information that industry needs to make the investment decisions that will grow the financial services sector in both domestic and export markets.
- The contribution and importance of funds management services to the Australian economy should be front and centre in the minds of those negotiating multilateral, regional and bilateral trade agreements.
- That DFAT, Austrade, and especially Axiss Australia, should be better focussed on supporting the development and promotion of outbound trade opportunities in financial services and should be appropriately structured and resourced for the task, strengthening the role of Austrade in services and capital flows. We would be keen to work closely with industry how to focus and structure Austrade to meet the needs of the financial services sector.
- Government, industry and education authorities have a responsibility to ensure that our education systems adequately prepares young Australian to take advantage of employment opportunities in the financial services sector, and especially the export financial services sector, should they choose to do so.
- The financial services sector, the education sector and Government should work together to develop targeted initiatives and to promote

Australia's strong reputation in the provision of financial services education.

Centre of excellence

In addition Labor is currently considering establishing a Centre of Excellence in financial services to facilitate policy coordination and to provide both advice on financial services reforms in areas such as, superannuation policy, governance and regulation, and the education and training requirements of the sector.

The centre would be owned and operated by the sector through peak bodies and would attract support for a Labor Government, particularly during the establishment phase.

I understand the Dutch have recently established such a centre and that there is a similar, smaller scale, centre in Ireland.

If Australia is to remain competitive in the provision of financial services we need to ensure we have world's best practice regulatory and policy structures in place.

A Centre of Excellence would have a key role in ensuring that we remain competitive.

Relieving the tax burden

IFSA has made a number of suggestions for changing the taxation regime that applies to this industry and particularly the export of these services.

A key component of Labor's response has already been announced.

Labor's initiative will see the current 30 per cent withholding tax on distributions from Australian managed funds to non-resident investors, halved to 15 per cent.

This aligns Australia's tax rate with the United States and Hong Kong.

By removing this uncompetitive tax burden, Australia will be in a much better position to compete in the global managed funds industry, which is estimated to top \$US 60 trillion over the next three years.

Labor is serious about supporting your industry in its efforts to grow, especially in overseas markets.

Halving the withholding tax on distributions from Australian managed funds for non-resident is a very practical response to a major concern raised by your industry.

The Howard Government did not see fit to respond to that concern. Labor did.

As my colleague Chris Bowen announced at your conference earlier this year we are committed to the immediate review of division 6C of the Tax Act to remove its complexities and inefficiencies.

Working closely with industry

Labor supports the thrust of the proposals put by IFSA in the discussion paper.

We have a track record of working closely with industries to develop and implement practical policies that have enhanced Australia's export effort.

That is the way we have operated in the past and that is the way we will continue to operate, especially if we are fortunate enough to win government whenever the election is called.

You can be sure that your ideas will not be ignored in the development of policies within my portfolio area and the policy areas covered by of my shadow ministerial colleagues.

The bigger picture

Getting the policy settings right for boosting Australia's financial services exports is only part of the picture, even if it is a very important part.

Australia's overall export performance over the past six years has been woeful compared to our performance over the previous two decades. It has been significantly underperforming and represents a significant wasted opportunity.

According to CEDA the volume of Australia's exports increased by only 9% between 2000 and 2006, compared to an increase of 56% by volume over the previous six years.

In terms of value, manufactured exports also increased by 9% between 2000 and 2006 while they had increased by 60% between 1994 and 2000.

The picture is only slightly better for the services sector. The period 2000 to 2006 saw an increase of 21% in terms of value, considerably less than the growth of nearly 60% we saw between 1994 and 2000.

New ideas, new policies and a new sense of vigour are needed if our export performance is to improve.

And improve it must, lest we, as a nation, slip further and further into debt.

Net foreign liabilities are already at 60% of GDP and rising.

Despite a resources boom and the best terms of trade ever, we have now had 62 consecutive months of trade deficits.

Alarm bells ought to have been ringing all through the ministerial wing at Parliament house for years now.

The bells might have been ringing but a succession of Ministers has not been listening.

For many in the Howard Government trade seems synonymous with trade in agriculture, and possibly minerals.

For some Ministers, if it can't be grown, bred or dug up it doesn't appear to matter.

A broader, more strategic vision is needed.

New ideas and a renewed willingness to work closely with industry sectors, such as your own, are needed to produce the sort of policies that will reduce the trade deficit and address the structural issues that are holding back our export performance.

The Howard Government's record on exports is truly appalling. Export growth over the past five years has failed to match growth achieved during the 13 years of Labor Government. In the past five years:

- Manufactured exports have recorded growth of 0.4% a year compared to 16% under Labor.
- Services exports have grown by 5% a year compared to average growth of 14% a year under Labor.

If Australia had maintained the rate of export growth recorded under Labor, we would have had a trade surplus of \$23 billion in 2006 rather than the deficit of \$12 billion that was actually recorded.

Labor had consistently stronger export growth because we were prepared to invest in the drivers of economic growth – infrastructure, skills and innovation –and because we developed integrated trade and industry policies.

Labor was prepared to drive harder for new markets to be opened through multilateral free trade rather than the mess of bilateral agreements pursued by this government.

Labor's approach to trade negotiations

Labor's priorities in the use of international mechanisms are not the same as those of the current government.

Unlike the current government, Labor holds firm to the belief that multinational trade negotiations should be accorded the highest priority.

Multinational negotiations are a hard slog.

In government during the 1980's and early 1990's Labor demonstrated a strong track record of not shying away from the hard work.

We established, resourced and lead the Cairns group to give Australia a stronger voice at the negotiating table during the Uruguay round.

We were prime movers in the establishment of APEC and worked to ensure that it had a purely economic and trade agenda.

We were able to use APEC to deliver the Bogor Goals of free and open trade and investment for developed countries by 2010 and for developing countries by 2020.

We didn't use APEC to by-pass the Uruguay round; we used APEC to enhance the outcomes of the Uruguay round.

It is through multinational negotiations that large scale progress can be achieved in breaking down the barriers to trade that exist in so many current and potential markets.

That is why we can't afford to give up on the Doha round and why Labor in government would make it our number one trade priority.

Bilateral FTAs

That is not to say that we do not see a role for regional and bilateral negotiations, but they are not the main game.

Such negotiations should be seen as part of the picture but they are not the whole picture...

Just as we were able to use APEC to enhance the outcome of the Uruguay round we would use regional and even bilateral agreements to build on the achievements of multinational negotiations.

Bilateral FTAs can enhance Australia's trading interests but their prime purpose should be to support and enhance multinational and regional efforts.

Every month seems to bring an announcement from the Government of another potential FTA.

A few weeks ago it was Indonesia. This week it is India's turn.

So many FTAs, so little progress.

Even where agreements have been reached, such as the FTAs with Thailand and the United States, there has been little apparent net benefit for Australian industry as yet.

The agreements have been characterised by carve-outs of key products.

We were not able to negotiate MFN status with the United States.

Our trade deficits with trading partners have not improved following the signing of the FTAs, they have gotten worse.

The Government has not demonstrated an ability to negotiate an FTA from a position of strength.

They give every appearance of bumbling their way through the FTA negotiating processes; grateful for every little crumb they are given.

Meanwhile they have taken their eyes off the main game – the Doha round.

Regional Agreements - APEC

And while Doha is, and will remain, the main game for Labor, we do see a role, a subsidiary role, for regional forums such as APEC.

The size and composition of APEC give it a degree of clout in international affairs, particularly in relation to matters relating to economics and trade.

It brings together countries which collectively account for almost 60% of the world's GDP and 50 of world trade.

It was founded on a shared belief in the value of free and open markets.

In recent speeches I have outlined Labor's proposals to strengthen and revitalise APEC.

I will not go into all the detail of Labor's proposals here but they include:

- Expanding APEC to bring in India and a number of other countries,
- Improving APEC's governance and procedures, particularly in relation to how it implements its decisions,
- Expanding its 'Pathfinder Process', under which a small group of members undertakes to progress a particular initiative and others may join in at a later date.
- Developing a clear process to drive initiatives at the technical officials' level.
- Improving continuity between meetings by establishing a troika arrangement in which the host of the current APEC works closely with the chair from the previous year and the chair of the year ahead.
- Improving the mechanisms within the Australian Government for providing business input, particularly from the services sector, in the development of APEC policy initiatives.

Of particular importance to the financial services industry is the role Labor sees for APEC in addressing a range of 'behind-the border' issues including:

- Strengthening of intellectual property rules to protect the rights of businesses to invest or sell their products or services in other markets without fear of 'piracy'.
- Improving transparency of economic policies and regulatory requirements to give businesses certainty and confidence when operating in foreign jurisdictions.
- Promoting best practice in corporate governance, including accounting practices and reporting to build the confidence of equity investors,
- Strengthening legal infrastructure, such as alternative dispute mediation, to ensure commercial disputes are dealt with in an efficient and transparent manner.
- Working towards the harmonisation of standards in areas such as funds management to facilitate the flow of funds and expertise across borders.
- Addressing a range of non-tariff barriers, such as local content requirements.

Progress on some of these matters could probably be enhanced if there was greater coordination across portfolios.

In particular there needs to be better coordination and cooperation between the APEC Finance Ministers' process and the APEC Trade Ministers' process, especially in relation to tackling the 'behind the border' issues.

I cannot leave a discussion of APEC without registering my disappointment that, having raised expectations earlier in the year about an enhanced role for APEC in tackling climate change, the Prime Minister seems to be backing away at around 100 km per hour.

It now seems that little other than rhetoric and platitudes on climate change are likely to emerge from next month's APEC meeting.

Yet another lost opportunity.

Trade facilitation

Rules and regulations, such as those on customs clearances and visas, need to be transparent and predictable.

They should not be open to the sorts of abuse that many exports are only too familiar with. Such abuse can cost Australian businesses dearly and are a disincentive to export.

Harmonising standards, where appropriate, would facilitate trade and investment and lead to a higher degree of integration between economies.

Labor's 'holistic' approach to trade

Labor believes that the current government does not have a coherent, integrated trade policy.

There are a mish mash of structures and a set of cobbled together policies that have failed to address the significant decline in the rate of growth of our trade performance that has occurred over the past six years.

Current policies fail to recognise the critical role of the service sector, and especially the financial services sector, plays in Australia's export performance its very real potential for further development.

Labor will take a whole of government approach to enhancing Australia's export performance.

Initiatives in the trade portfolio will be better coordinated with those in other relevant portfolios including, industry and innovation, agriculture and finance.

Austrade will be overhauled and its mandate will be broadened to improve the service it offers and to make it more responsive to industry needs, including the needs of your industry.

We recognise the critical role that the EMDG scheme has played in the past. The current government has allowed the value of the scheme to run down in real terms. We will look to restoring and strengthening EMDG.

We have already announced that we will be halving the withholding tax on distributions from managed funds to non-residents and we are favourably disposed to a range of other proposals made by your association, the IFSA. These proposals are under active consideration.

At the core of Labor trade policies is our believe that the big gains will come by making multilateralism central to our approach and seeing regional and bilateral agreements as opportunities to build on and enhance the multilateral approach.

I look forward to continuing to work with the Investment and Financial Services Association to develop better trade policies and structures for the nation.