Embargoed to 9am Wednesday 14 October

MANAGING THE RECOVERY

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Address to the Annual General Meeting of the Plastics and Chemicals Industry Association

Melbourne

14 October 2009

PACIA President Ross McCann, Chief Executive Marg Donnan, members of the board and staff, ladies and gentlemen,

I am delighted to be able to join colleagues from the PACIA secretariat and PACIA members here today, in advance of your 2009 annual general meeting.

You have chosen the date of your AGM well – 14th October. For those who do not know, today is also national Ride to Work Day. As a cyclist, and given PACIA's commitment to industry sustainability, holding your AGM on Ride to Work Day sends the right message.

It was indeed pleasant riding along the Yarra this morning, and doing my bit for the environment.

When I tell you I am from ACCI, I assume you know that this is an acronym for the Australian Chamber of Commerce and Industry – because PACIA's web site tells me that the chemicals and plastics industries 'have acronyms to confuse the most avid acronym-buster'.

After seeing that, I was tempted to do something I have never done before, deliver a speech wholly in acronyms.

But my EA (executive assistant) told me to GJ (go jump) with that idea.

ACCI is the peak council of Australian business organisations, and PACIA is a valued member recognised by industry peers as the pre-eminent national body representing Australia's chemicals and plastics industries.

I acknowledge the support your Board and secretariat gives to ACCI, and has done so over many years. This includes support to myself and our staff as we modernise ACCI consistent with our own 3-year Strategic Plan. In particular thanks to Marg Donnan, Peter Gniel, Geoff McAlpine and Kathryn Walton who represent PACIA in ACCI forums. In fact Kathryn, as a longstanding ACCI employee until 2007, epitomises the closeness of the relationship.

In return, ACCI is working to influence national policy on economics, trade, tax, sustainability, employment, skills, workplace relations, health and safety and regulatory reform to help your members do business at home and overseas.

With PACIA and ACCI working together you not only have one of Australia's best functioning industry associations, but also a seat at the table on these industry-wide policy issues that shape your business environment.

I am unashamedly a supporter of Chambers and industry organisations, and I encourage all plastic and chemical industry companies to join PACIA and access industry services and information, and through PACIA be part of the broader ACCI network.

Recessions are bad for most in business, and this has been a severe credit squeeze and global recession. It is not over. In Australia, the impacts have been shallower; in part because of past economic and financial market reform, expansionary domestic policy, an abundance of natural resources and a resilient private sector.

Twelve months ago ACCI advocated a responsible economic stimulus delivered though monetary and fiscal policy, and income tax cuts. To their credit, the government and our central bank responded, promptly and with significant and multiple stimulus packages. We disagreed with the mix of stimulus measures, but not the stimulus. We remain concerned at the targeting of spending which does not provide sufficient value-adding to the economy. And the May federal budget was very light-on in outlining a future debt reduction strategy.

Fortunately we are seeing real signs of recovery, in particular in expectations and confidence levels.

Although the Reserve Bank effectively announced Australia to be in recovery last week (when it was the first central bank in the industrialised world to lift interest rates since the crisis commenced), our assessment is one of cautious optimism – in other words optimism tempered by caution.

Our analysis and survey work shows that demand is strengthening, but not matching the lift in confidence levels. The caution expressed by the Treasury Secretary last week in giving evidence to a Senate committee is well placed. Aside from our geography Australia is not an island, and as a global trading nation we cannot recover unless demand overseas and private investment at home picks up. Ours is still an economy supported by the crutch of government stimulus. That masks our true health. It is only as that stimulus tapers off that we can test our underlying strength.

This is why ACCI believes that the Reserve Bank acted prematurely last week when it began, if we read between the lines, a series of interest rate rises.

Indeed, an economy in the early stages of recovery does not guarantee a resumption of the growth rates we were used to in the preceding decade. There are no guarantees in the brutal world of globalisation. But there are great opportunities.

While recessions are bad for business, there is opportunity to make a purse out of a sow's ear. In your own companies business models have been revised, and those that have done so stand to come out of the recession more efficient.

One of ACCI's challenges is to convince governments and regulators to apply the same principle of reform during tough times, and look to the longer term in shaping economic policy.

If there is one message that industry and the community should take from this downturn it is this – we have performed better than expected because over 25 years we have opened up our economy, have made our labour market more flexible, have put our finances in sound shape and reformed regulatory institutions.

As a nation and as households we have spent this year cashing in the dividend cheque of past economic and fiscal reform.

Thanks goodness we had that cheque.

Nations which were in deep debt when the crisis hit have not fared so well. They did not have a cheque in their back pocket. For them, they have used their credit card to keep people in jobs.

We have also cashed in the cheque from the labour market reform bank. Keeping people in jobs but re-arranging working hours and work patterns around declining production levels has been a feature of this downturn – and a major contrast with past recessions.

It was made possible because many businesses, burnt by past skill shortages, have kept looking to medium term labour requirements. And in some unionised businesses, trade union representatives to their credit agreed to changes in order to secure jobs.

But changing working arrangements has only been possible because there was some flexibility at an enterprise level in the rules and regulations that governed employment.

When labour market reform started in May 1993 our unemployment rate was 10.6%. A million Australians were out of work. By the time the global crisis hit our unemployment rate was 3.8%, less than half a million out of work.

In the same way that we can be thankful that at the start of the crisis we had more than a $30 billion budget surplus in the bank, we also had full employment.

Just imagine where our employment rate would be now if we had started the global recession with a million, rather than half a million, unemployed.

Flexibility in workplace regulation is not the only reason why unemployment has been kept relatively low in this downturn, but it is one of the reasons.

That flexibility comes from three reform efforts – Paul Keating in 1993, John Howard in 1996 and Work Choices in 2005.

None were popular at the time. Remember Paul Keating's Minister Laurie Brereton being widely criticised by the labour movement in 1993. Remember left wing unions and activists smashing their way into parliament house in 1996. Remember the emotive public relations campaign against Work Choices in 2007.

While none of these reform steps are without criticism, it is a good thing that they occurred. Even with its weaknesses, Work Choices operated during a period when over 200,000 new full time jobs were created in Australia, and we hit full employment – something unheard of in my generation of Australians born in the 1960's and since.

The fact that our unemployment rate is holding up under such global pressure must be used to support flexible labour markets with a fair safety net, and enterprise-based workplace regulation rather than industry-wide or centralised bargaining.

It would be a mistake for Australia to allow the popular denigration of Work Choices to prejudice community attitudes against flexible labour markets and economic reform.

So my message is this – economic reform is good, even if it is not popular at the time.

Past reforms are paying dividends today. They have been our safety net when buffeted by the world economy.

We will be reckless as a nation and negligent towards our industry and families if we don't now build that safety net back up.

And it is only by again taking up the cudgels of economic reform that we will rebuild the safety net so it can be used in future years.

Economic reform means keeping our labour market flexible, pursuing open trade, resisting protectionism, investing in skills and infrastructure, paying off debt, lifting productivity, supporting entrepreneurship, lowering the tax burden and reducing the red tape burden – while keeping regulatory oversight where regulation is needed.

These are the building blocks of recovery.

We need a fresh round of micro economic reform as Australia recovers. That economic reform will not just be useful in tough times. If we reform, if (for example) our transport infrastructure is efficient, if we are not blocked from export markets, if we eliminate inefficient labour practices, if we have workforce skills to match demand, if we create incentives to invest through our tax system then we are well placed to take advantage of globalisation during the recovery.

We must not allow the community to think that free enterprise and open markets were the cause of the global recession. They were not. It was bad behaviour on the past of a few in overseas financial institutions and poor governance that was.

Nor must we allow the community to think that government is the source of economic recovery and well-being. This is a real risk – especially since the government stimulus included cash hand-outs. The public need to be wiser than that. There is no free lunch at the behest of government. It all has to be paid for.

Government intervention, as creditable as it has been in supporting the economy over the past year, was unique to an extraordinary event. As we recover the drivers of growth will be the private sector. That's where most Australians will be employed. That is where the jobs of the future exist. Government will and must, over time, return to its role as a regulator and policy maker. A sustained recovery will only exist though private investment. Government's responsibility is to set policy which fosters the private sector.

For the plastics and chemicals industry the stakes are high, and the opportunities great. Your industry turns over approximately $32.5 billion every year, directly employs 85,000 people and represents between 9 and 10 per cent of total Australian manufacturing activity.

Globally, the chemical industry is one of the world's largest. In 2008, its sales exceeded $3 trillion. Chemical products and technologies are used in almost every area of the world economy. As the global economy returns to growth, it increases the demand for the chemical industry's products. This growth will drive product innovation, and the industry will need to create new products every year while striving to improve production processes and use resources more efficiently.

The domestic and global regulatory framework your industry operates in is critical.

It can help, or it can hinder.

Like PACIA, ACCI does not ideologically adopt a deregulation charter, preferring to deal with regulatory reform on its merits.

There is a role for government and sensible regulatory oversight. Our interest in deregulation and in a smaller government footprint on industry is about reducing the quantity of regulation while maintaining, and in many cases improving, its quality.

I have already mentioned the need for workplace regulation to be flexible. The risks that flow from the current reregulation in the 'fair work' system are real if unions or central tribunals exercise new powers irresponsibly.

The COAG regulatory reform process has much to commend itself – especially its objective of a seamless national economic regulatory framework. Important though is the need to not slavishly see national regulation as an end in itself in all cases. In some cases, competitive federalism in regulatory frameworks can be helpful to drive efficiency and cost reductions.

One area though where a national framework is sensible is on health and safety regulation – a key interest of PACIA, ACCI and your sector.

A model OHS framework which irons out unnecessary differences between the jurisdictions needs to be pursued, but not at the expense of regulatory quality. For example, we must not import some of the worst features of the New South Wales OHS laws, which are under challenge before the High Court, into national regulation.

ACCI is also very conscious of the risks to your industry of a premature adoption by Australia of the GHS (Globally Harmonised System for the Labelling of Workplace Chemicals). Together with PACIA, we are taking into national forums such as the Safe Work Australia Council the risk to competitiveness if domestic costs are raised in advance of competitor nations.

For your sector, this is a mini version of an ETS debate.

Perhaps the most vexed regulatory issue for your industry is the very issue that is occupying so much media and parliamentary debate – the Carbon Pollution Reduction Scheme.

I have been greatly impressed by the progressive way that PACIA has represented the sector in this debate.

Like ACCI, you have not put the issue in the too hard basket nor retreated to a spectator role.

Energy efficiency, reduction of environmental pollution and sustainability are components of modern business management, and carry both a cost and benefit to industry, not just a cost.

This does not mean however that industry can or should give its governments or other nations a blank cheque to regulate and tax production as it wishes.

The ETS is clearly a divisive issue in the community, and there will be different views in industry given that industry comprises many local communities of people and regions.

Moving the debate away from the more contentious politics around climate change and reframing it as an issue about using energy efficiently and reducing pollution is much more familiar ground for business, and less divisive.

In fact, an emissions trading system is simply a means to an end – the end being lower global greenhouse emissions.

Recently ACCI met in Washington with representative business organisations from around the industrialised world.

It is clear from that meeting that while most governments and nations are moving to reduce their carbon footprint, there are many different ways being used to bring that about. An ETS – or a cap and trade system as it is sometimes referred to – is only one such option.

In many of our competitor nations it has not found favour and is unlikely to be applied, no matter what happens in Copenhagen in December.

Even in the United States, where the Obama administration is proposing cap and trade legislation, it has a lukewarm response in the Congress. In Europe, even with nuclear base load in some nations, the exclusions and exemptions are almost as extensive as the inclusions.

The fact is that there are multiple ways to reduce environmental pollution and use energy more efficiently. An ETS is only one way. Even if significant global agreements are made to reduce carbon pollution by developed and developing nations at Copenhagen, it is wrong to think that Copenhagen will give the green tick to one model over another, let alone an ETS.

Each country will make decisions on the best methodology in their national interest, even if the global interest means adopting targets.

For Australia, with a globalised trade exposed industry profile, we take real risks if we put all or too many of our eggs in an ETS basket, especially if we move unilaterally in design or timing.

Given that an ETS is not a solution but a means to an end, the goal must be to keep our policy options flexible, including the design of the ETS, and the scope for other responses to do the heavy lifting.

Ultimately the transition to reduce environmental pollution and conserve energy in industry is technology.

Industry may not be familiar with an ETS, but is familiar with the restructuring and efficiency that flows from introducing new technology.

Dealing with the CPRS debate in this context is safer ground for all concerned.

Introducing new technology requires two preconditions. Firstly, the technology must exist and be reliable. Secondly, it must be affordable and the funds available for its purchase.

On both of these grounds we risk getting ahead of ourselves in Australia, notwithstanding the politics surrounding the CPRS debate, and the steps the government took in mid year to reframe its timing, targets and compensation measures.

The CPRS is both carrot and stick, but much more stick than carrot. The stick is potentially very heavy, a transformation of the economy it is said. When boiled down, it is a tax on production.

No government should tax industry to compel change to methods of production unless that government can assure industry that the preconditions for change exist – that is, reliable technology exists to substitute for existing means of production, and that industry is in good enough shape (including access to capital finance) to afford that technology.

A global recession that had its genesis in dysfunctional capital markets and the consequent credit crunch is the worst possible time to be requiring local industry to find the capital to substitute old technology, plant and equipment with new.

Even if the technology exists, if a business cannot access funds to introduce new capital then a tax on production is not equitable. In some cases the technology exists, but in others it does not or is still experimental.

While the CPRS has some in-built flexibility to deal with these matters, the impact on the competitiveness of Australian industry remains an overriding concern.

While ACCI is all for business certainty, there is no certainty for trade exposed industries without competitiveness.

ACCI wants industry to move responsibly to become more efficient in energy usage and reduce environmental pollution. We hold the view though that an ETS should only be introduced as one of a broader suite of measures that frame energy policy. Those measures should also include greater incentives through the tax system for research, development, technology transfer and capital substitution.

In terms of timing ACCI does not believe that Australia should move in advance of substantive comparable carbon reduction costs being imposed on industry in nations with whom we trade.

In the event that the parliament does propose to enact legislation at this stage of the cycle, then amendments should be made to make the scheme economically more responsible and allow more carrot than stick during the transition.

ACCI is also very concerned at the interests of small and medium businesses in this debate. To a large extent their interests have been marginalised, and this is not helpful. PACIA joined with ACCI in mid-year in commissioning one of the few pieces of research on SME impacts from the Carbon Pollution Reduction Scheme. It showed that energy prices for SME's will increase between 23% and 38%, and transportation costs between 4% and 8%. These direct costs would erode firm profitability by 4% on average. Clearly there are serious impacts here on viability and jobs for businesses, for which there is no compensation proposed.

Whereas government proposes to compensate larger businesses and low income households, downstream SMEs sit in the middle and stand to lose with nowhere to go.

In this context we should not be too quick to dismiss other design options of the cap and trade scheme, such as those proposed earlier this year by Frontier Economics. Under the Frontier proposal there is a much smaller impact on electricity prices for SMEs – 1% to 2% per year, rather than 25% up front. While there may be less money available to government for compensation, there may also be less expenditure needed by government by way of compensation if prices do not rise as much.

I would encourage the government to make available the Treasury analysis of the Frontier proposal, so that industry bodies like ACCI and in particular SMEs can better understand whether it is capable of contributing to the policy solution.

Ladies and gentlemen, thank you for your contribution to the Australian economy, and your support for the work of PACIA and ACCI.