

**FROM DOWNTURN TO RECOVERY: POLICIES TO  
BUILD A PRODUCTIVE PRIVATE SECTOR**

**ADDRESS TO ACCORD NATIONAL CONFERENCE 09**

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**Melbourne**

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I am delighted to renew acquaintances today with business leaders from the consumer, cosmetic and personal care industry, and the hygiene and specialty products industry.

I congratulate the board and staff of ACCORD, as well as organisers of this conference and the associated Asia Oceania Soap and Detergent Association Conference. As a member of the Confederation of Asia Pacific Chambers of Commerce and Industry and a vice president of the Confederation of Asia Pacific Employers, I welcome

business leaders from our Asian region here, to a country where industry is deeply committed to regional and global trade and innovation.

I thank you all for supporting your industry.

ACCORD is a terrific industry and advocacy organisation. It is a real pleasure to work with your Executive Director Bronwyn Capanna and her team.

Bronwyn was a strong supporter of the recent Strategic Review of ACCI operations, helping to frame new goals and targets for our work.

Your profile is strong within the forums of the Australian Chamber of Commerce and Industry, and in the national arena more generally.

And so it should be. The 92 member companies that come together as ACCORD are some leading household names whose products we use from the moment we wake to the moment we retire to bed. The sector has annual retail sales in Australia of almost \$10 billion and employs more than 12,500 full time equivalent staff. Collectively you operate about 56 manufacturing sites around Australia

and use many contract manufacturers in your supply chain.

As with so many ACCI member organisations, ACCORD's membership mix of local manufacturers and importers, of multinationals and small private Australian businesses makes for an organisation which is agile and representative when developing policy and speaking out.

One of the best aspects of my job is the opportunity each new day to do something to help smooth the way for the private sector to be productive and for business owners, managers and their staff to be rewarded for their entrepreneurship and hard work.

For organisations like ACCI and ACCORD there are some moments of significant achievement, and days of frustration and setback. This is the nature of policy advocacy in a complex world of regulation, multiple tiers of government and competing pressures and voices on our politicians and public servants.

Yet with the support of members like ACCORD I am very motivated by the new energy at ACCI under our Strategic Framework that commenced this year. This Framework

involves not just representing the voice of industry to governments and regulators, but also working with industry to link directly with the community on business issues.

Helping the community understand how and why business decisions are made and the role the private sector has in creating jobs and community wealth will, over time, make it easier for politicians to make decisions that might be right but unpopular in the short term. In turn, a business dialogue with the community makes industry aware of the reasonable expectations on it for proper governance, for sustainability and sensitivity to local environments, and for good corporate citizenship.

Our immediate challenge in Australia, indeed in our region, is to build a productive economy on the other side of this global financial crisis.

While there are many substantial challenges facing manufacturing in Australia, success is not beyond us collectively or individually.

With open markets, a spirit of entrepreneurship and political and financial leadership, the global recovery can be kick-started in Asia.

This needs to be a recovery not just of our economies, but also our labour markets. Fortunately our labour markets have not been hit as deeply by the recession as those in Europe and the United States. In Australia, where the downturn was serious but shallower, we started with sound national finances and almost full employment.

But the employment challenge is still a serious one. Our Asian region has a relatively young population. Jobs will be needed for what the International Labour Organisation estimates to be the 21 million young people coming out of schools over the next decade. Overwhelmingly these will not be government jobs. They will be private jobs, in direct employment, in self-employment, and in contracting.

Technology and a skilled workforce are at the heart of the transition of the Australian manufacturing industry over the past generation. Australia remains a very good place for investment especially in niche manufacturing, in part because of our skilled labour supply, our stable environment and our reliable supply.

Our challenge is to remain internationally competitive – in product, in innovation, in the use of technology, in transport infrastructure, in skills and in market access.

Moving our mindset from being in a ‘downturn’ to building a ‘recovery’ means that entrepreneurship must have at its heart an optimistic beat. The ability to think innovatively and to create goods and services is not an old fashioned idea. It is still happening all around us.

But in a self serve world, where our children are largely supplied with finished products to eat and use rather than the raw materials to make them, then we need to invest more in promoting entrepreneurship and creativity.

ACCI is working with industry in helping to craft approaches to education and training which better reflect this sentiment.

In our homes and families we can set a good example. Just as we can teach our children to play safely or eat healthily, we can choose to promote creativity, including positive reinforcement in the making of things, not the just doing things. Our manufacturing and innovation industries

would be better off if we did, as would our trades training and apprenticeship system.

When it comes to the economy, the events of twelve months ago really challenged our sense of optimism.

In relative terms Australia has fared better than most, in part because of a healthy starting point and because of prompt domestic policy responses. We also applied some of the lessons learned from past recessions, including the Asian downturn of a decade ago.

Our most recent ACCI survey work of business has shown that the optimism is returning, but demand remains patchy.

While we tend to look at data on a whole of economy basis, that can be misleading. We are not one economy, but in truth a combination of hundreds of thousands of individual business units – each with their cost and competitive pressures.

In these early months of recovery, the tendency to look at macro data can give too benign a view of the state of play. It can also lead to premature policy making.

This is why our analysis was, and remains, that lifting interest rates earlier this month was somewhat too early, for an economy still with considerable support by way of government stimulus.

The decision to increase interest rates by even one quarter of a percent imposes costs of about \$250 million on our business sector.

It also puts upward pressure on the dollar, and makes life just that much more difficult for our manufacturers and exporters.

A recovery mindset requires sensitivity in these areas of policy, lest the recovery be set back before it has taken full hold.

Credit remains tight. Given that the small and medium sized business community did not get the full value of interest rates on the way down, we can rightly be critical of the retail banks for the quick way that the rate rise has flowed into business lending.

The *Australian Financial Review* summed it up earlier this week when its page 1 story led with the message “small and medium sized businesses are bearing the brunt of tighter credit, paying relatively higher interest rates and being shut out of obtaining working capital for new ventures despite the improving economic outlook.”

While it is true that the price of funds has risen and our financial institutions have largely held up well, it is also true that there is less competition in the market as the global financial crisis has driven out some lenders.

SMEs are paying around 4.2% above the cash rate; almost double the risk premium above the cash rate paid by mortgage holders.

This is an important issue, because access to capital is the ingredient that will drive private investment – and we cannot have an economic recovery and make inroads into that labour market challenge I mentioned unless private investment takes off.

As problematic as that decision to increase interest rates was, there are some positive aspects that can be drawn from it.

Clearly the Reserve Bank is demonstrating confidence in the Australian economy, and not too subtly telling us to start moving our mindset from 'downturn' to 'recovery'.

Just as on the sporting field, today's mindset can be a powerful driver of tomorrow's performance – in the same way as two decades of economic reform became this year's buffer against the global recession.

So what are the policy settings that should underpin a recovery mindset?

Essentially they are policies for a productive open economy that is chaffing at the bit to take the opportunities of globalisation.

This means investment in infrastructure, creating incentive in our tax system to work and invest, maintaining open markets and the rejection of protectionism, securing access to affordable capital, developing workforce skills and flexibility to match demand, and putting in place an efficient regulatory system.

The stimulus provided by government has generally speaking been effective, albeit aspects do not represent best value for money for the considerable spending.

It also has some inbuilt tapering out; for example, the very beneficial investment allowance concludes at the end of this calendar year.

Managing the recovery thus requires an economic reform agenda by government, consistency in the direction of monetary and fiscal policy, and an injection of investment and entrepreneurship by the private sector.

Microeconomic reform is not easy. Policy choices create winners and losers. Tax reform is one example that will become topical by the end of the year as the government's Henry Review presents its proposals to government.

Past experience tells us that unless the case is first made out for economic reform – whether it is through tax, through labour regulation or through industry policy – then the reform effort stalls.

Our Australian community largely supports economic reform and globalisation, and has gained greatly from it. Yet the community still needs to know why further regulatory or structural change is needed.

Unfortunately we are currently investing most of our time in national policy on climate change and the regulatory impost of an emissions trading system, and too little on communicating these other messages.

In saying this, I don't wish to be suggesting that greenhouse abatement is not important. It is. And there is no reason why we cannot as a nation take sensible measures on that front while also dealing with other reform objectives. We can.

The trouble is that our community is not hearing much about these other reform objectives.

One of our roles at ACCI, with the support of members like ACCORD, is to help our leaders make that happen.

Governments do not create productivity but the laws and regulations they enact and the policies and programmes

they pursue can make a world of difference to the productivity of the wealth generating private sector.

In fact a productivity mindset is the key to sustaining an economic recovery. If Australia can lift our productivity rates then we can really impose ourselves on overseas markets and fund future population growth, as well as an ageing population pay for the jobs that will sustain those tens of millions of young people coming into the labour market, and provide the services and future infrastructure we need.

This brings me to two policy areas where ACCORD has been so active – regulatory reform and innovation policy.

On regulatory reform the Council of Australian Government's regulatory reform goals for recognised regulatory hotspots have been supported by both ACCI and ACCORD. We have had some really good leadership from federal Ministers on this – especially Ministers Craig Emerson and Lindsay Tanner.

Yet the reform process is patchy, stalled in some places, facing resistance in others, and bogged down in detail and debate inside bureaucracies and ministerial councils.

In your industry an area like chemicals and chemical product regulation reform needs to proceed much more effectively.

And agencies and regulators, whether federal and state bureaucracies or external bodies, need to engage meaningfully with ACCORD to make this happen sooner rather than later.

On innovation policy, ACCI has on behalf of ACCORD and our other members just presented an extensive submission to our federal parliamentarians who are currently inquiring into 'Raising the Level of Productivity Growth in the Australian Economy'.

We used this important work of the parliament to push for even more creativity and facilitation in innovation policy.

Technological advancement is a prime source of productivity growth. Improvement in technology enhances productivity by reducing inputs, changing production processes, and improving management systems.

Innovation in business is an important driver of competition and productivity growth. Innovation enables firms to differentiate their products and services from those of low-cost producers in integrated global and deregulated markets.

In the era of globalisation and rapid technological progress, continuous innovation through products and services improvement and development is the only sustainable strategy for firms to thrive and survive in a competitive market.

Though comparisons in this area are not easy, Australia needs to lift its investment in research and development (R&D), both government and business expenditure. In 2005, Australian business expenditure on R&D was 1.04% of GDP – 50 per cent lower than the OECD average of 1.53%.

Australia also ranked the lowest among OECD countries in terms of the percentage of firms that introduce new-to-market product innovations, with only 7% of SMEs and 12% of large firms introducing novel innovations.

On a positive note though, around 41% of Australia's firms are regarded as technologically innovative and non-technological innovation was undertaken by 31% of firms.

Commercialisation is crucial in determining whether R&D efforts lead to successful innovation. It is often the case that innovation fails to go anywhere because effective path to market and the end-user fail to materialise.

Thus, yesterday's \$196 million announcement by the Australian Government establishing Commercialisation Australia from 2010 and the ongoing funding of \$85 million per year is an important commitment of support for commercialisation.

Given the need to lift policy and performance in this area, ACCI is also pursuing the case for enhancement of the R&D tax credit.

The tax concession provides an increased deduction (currently 125%) to be claimed on the volume of R&D expenditure, and this then reduces tax payable. Firms with tax losses are entitled to carry the additional tax deduction forward. There exists a strong correlation between the

availability of the concession and a steady increase in business expenditure on R&D.

It is also evident that the falls in corporate tax rate since 1985 have eroded the effective value of the concession. The recent Cutler Review indicated that the concession would need to be raised to well over 175% to regain its original direct incentive value.

Australia's tax subsidies for R&D are relatively low (both level and growth) compared with other OECD countries.

In the 2009-10 Federal Budget, the government announced a simplified R&D Tax Credit to replace the R&D Tax Concession from 2010-11.

In welcoming this, we believe it important that the definition of eligible R&D expenditure should align with those under the concession system for the sake of business certainty and consistency.

We have also recommended that the real value of the R&D tax credit does not erode over time due to changes in the taxation system.

Other proposals we are advancing are targeting incentive and assistance on commercialisation so that new R&D ideas and products can be diffused and new invention adds value to the economy.

There is also an important role for international collaboration in R&D and innovation. Global connections need to be created and supported if this is to materialise.

Such collaboration is also highly relevant to the challenge of reducing carbon emissions in our region. The Asian way of embracing technology is one of the keys to lowering the carbon emission intensity of the region without compromising growth.

I will be very happy to take questions and comment on these issues, including our domestic emissions trading system debate. Suffice to say that the competitiveness of industry remains our overriding concern, together with the cost impacts on downstream SMEs.

There is no business certainty without competitiveness. Maintaining competitiveness is not incompatible with Australia moving collaboratively in conjunction with other nations towards a global response. Competitiveness and

energy security at home and in our region is however compromised if we move unilaterally, or too far and too fast. That is the risk we face in our current debate, which is being heavily driven by political timetables.

Ladies and gentlemen, thank you for your support of ACCORD and ACCI.

While governments speak of providing an economic stimulus, you and your colleagues in business are the economic stimulus. All of us at ACCI are devoted to the betterment of your trading conditions and communities.

Thank you for your confidence in Australian industry and in building wealth and jobs. I look forward to hearing other speakers, and to a successful conference outcome.