

2003 AGM - Information forum part 4

Transcript of 2003 AWI Annual General Meeting

Information forum - Mr Bob Quirk - Trade Development

Kevin Bell:

Our final speaker before morning tea is Bob Quirk. Bob is the manager of Trade Development. It is a fact that wool, marvellous fibre that it is, has to be processed. It also has to be traded between countries, and it has been identified that there are real impediments to trade. We, as Australian woolgrowers, need to work to minimise any impediments to the trade and commercial trading of wool. Bob Quirk will let us know what AWI is doing and is focusing on in this area. Thank you, Bob.

Bob Quirk:

Thank you, Chairman. Good morning, ladies and gentlemen. The investment that AWI makes in trade policy and market access work will never return one dollar directly to the company, so why do we consider these issues to be of importance? In answering this question I want to look at three related factors. The first of which is that trade barriers add unnecessary costs to the global wool textile pipeline. These costs are ultimately reflected in prices paid for your wool. In this presentation I am going to use one of the more common forms of trade barriers, known as import tariffs, to illustrate this.

Secondly, however, we need to recognise that only governments can remove trade barriers through formal trade negotiation processes. I will illustrate how we go about our working relationship with government and also with other industry stakeholders, plus I will make some comments about what is happening in the world of trade negotiations at the present time. But if we are to be taken seriously by our government and the official negotiators, we need to be able to show to them that we have a good up-to-date knowledge and understanding of what is happening in our key processing and consumer markets.

So let me now just set the scene. Each year, approximately 98% of our clip is exported to more than 50 countries. Last season this generated export earnings of something like \$3.3 billion. You can see also that our top five export destinations accounted for 72% of that total export pie. Also, you cannot help but notice the dominant position that China occupies in that export process. But exporting wool from Australia is just the first step along the global wool textile pipeline. This can be described as a complex international sequence of activities and processes, in which wool passes through from the sheep's back to becoming a product on the retailer's shelf.

Now, I want to focus on the international aspect and use an illustration that will bring the trade barriers into focus. Let us just imagine that your clip is made into tops in Australia. Those tops are then sent to Italy where they are converted into yarn. That yarn then goes to China and is made into a final product. It then heads off to the United

States for retail sale. What we find is that those tops going into Italy have a 2% import tariff. The Italian yarn into China has an 11% tariff. Depending upon the nature of the final finished product, it has a 14% plus import tariff into the States. At each stage a higher tariff is being applied to a higher valued product.

Incidentally, I am focusing on import tariffs, because the other half of what is traditionally considered to be the main form of trade barriers - known as textile quotas - are all due to be eliminated come 2005, under an instrument known as the WTO Agreement on Textiles and Clothing.

I just want to focus on a couple of particular aspects of how import tariffs are affecting us, by looking at these particular countries. Hopefully you can see in the blue shaded area that tariffs on greasy woollen tops are disappearing, and are certainly relatively low compared to what you see on yarn fabric and finished items. But nevertheless, those import tariffs into China last year would have accounted for something like \$17.5 million of additional unnecessary pipeline cost.

You can see in the yellow section that we are still looking at high double-digit tariffs on finished products going into some of the biggest consumer markets in the world. But equally, in the green section, you will see that we are not without criticism in Australia. Admittedly legislation in this is in place, which will see, for example, the import tariff on men's suits come down to 17% in 2005. Also, the government is shortly due to announce its policy in response to a study undertaken by the Productivity Commission earlier this year. That should set the government's policy on import tariffs for the ten years through to 2005. But the important point to make is that it considerably weakens our strength and negotiating ability when we are, through the WTO process, expecting other countries to reduce or remove their import tariffs, when we are still maintaining relatively high levels in our own backyard.

But it is not all bad news. In March of this year, the Indian government reduced its import tariffs on greasy and scoured wool from 15% to 5%, which based on our exports to India last season will take \$18 million per annum out of the pipeline costs to India. This, of course, was only the result of many years of negotiation, but AWI can take part of the credit. It was a report that we commissioned in 2002, which provided fresh information and arguments - that Trade Minister Mark Vaile used in the set of negotiations in India in February - that we were advised, helped considerably in finally bringing out this outcome.

I also need to go back to what I said at the outset, that there is no direct return to AWI from this type of outcome. Nevertheless, we need more successes of this kind if wool is to be internationally competitive with other fibres.

I just want to turn to the second of the three factors I said at the outset; that is how we go about our work with government and with other industry stakeholders. Just to repeat, it is only governments that can make changes in trade policy through the formal negotiation process. What is known as the multilateral level - otherwise simply known as the World Trade Organisation - or at lower levels, just at regional or bilateral, one-on-one between two

countries. What this does mean is that it is up to the wool industry to develop the arguments, backed by credible research and data that will convince our government negotiators that we have issues of sufficient importance and concern, that they will allocate the appropriate time and effort to address them in the trade negotiation processes. In simple terms; we must make the bullets and then get the government to fire them.

As you can imagine, a key element in this process is having good - if not excellent - working relationships with key officials, particularly in the Department of Foreign Affairs and Trade. I am confident in saying that we have got a good working relationship with those people. Similarly, however, it is equally important that we have got a good working relationship with other industry stakeholders. AWI has taken the lead role in this area since its formation in 2001. We look to get as much advice and guidance as we can from all sectors of industry to help us shape the ideas and determine the areas where we do need to undertake research and analysis, and to come up with reports and submissions that can be used in our subsequent liaison and work with government officials. We have recently formed a trade advisory committee to help streamline this work. Max Watts is a member of that committee. With their help and guidance we are looking to develop a more structured strategy that will apply for this whole trade policy portfolio. We are also going to start drawing up a separate one with respect to China.

So to talk briefly about what is just happening at the formal trade negotiation table. Perhaps I should first start by asking who in the audience knows where Doha is. The point of bringing that to your attention is that at the WTO level the main game at the present time is known as the Doha round of negotiations. The other point that I want to make is that this multilateral process is the only forum in which Australia can press to have tariffs on tops, yarns, fabric, finished items - which are known in WTO-speak as industrial tariffs - where we can seek to have them reduced or removed. This is particularly important in circumstances where effectively we're an interested third party. In other words, we are concerned to have the Italian import tariff on tops reduced or removed, similarly with the import tariff that China applies on the Italian yarn coming in, made from Australian wool. Of course the same situations goes where you have finished garments going into China from the United States, made from Australian wool. The only forum which we can, through our government negotiators, seek to have an impact or an effect there is at the WTO level.

I have mentioned that the other traditional half of that area, textile quotas, are due to be eliminated come 2005. But we have to be equally vigilant with what is becoming known as an emerging group of non-tariff barriers. These can take the form of environmental or animal welfare legislation, what are called rules of origin, anti-dumping legislation, labour laws and, of course, quarantine. I think all of you would be aware that we in Australia are under pressure from some of our trading partners, who are in fact taking us to Court in the WTO context, claiming that we use our quarantine protocols as a form of non-tariff barrier, restricting their ability to import their products into our market.

At the next level, the outcomes of regional and bilateral negotiations usually get expressed in what are known as free trade agreements. It is already considered that free trade agreements account for 50% of the total global trading of goods and services at the present time. I think all of you would be aware that there was a very important WTO conference held in Cancun in Mexico in September, which didn't get anywhere. No outcome, no progress towards achieving the intended goals of this latest WTO round, due to be completed by the end of next year.

What this does mean is that there is now a real expectation that the number of free trade agreements will increasingly explode. For example, the USA is reported to be in negotiations with no less than 37 countries to develop some new forms of regional or free trade agreements. In Australia, our best-known form of such a free trade agreement was the closer economic relations arrangement with New Zealand. I think we put another big dint in that last Saturday night with the rugby result. However, in June of this year we negotiated a free trade agreement with Singapore. A further one is expected to be finalised with Thailand early next year and, of course, you all will have read quite a bit about the negotiations currently taking place for a free trade agreement with the USA.

Despite the fact that Australia itself is going to be increasingly involved in a number of free trade agreement negotiations, we have to be equally vigilant that we are aware of what is going on in virtually every other free trade negotiation or discussion taking place. We just need to make sure that we have got a good handle of how the outcomes of any regional bilateral arrangements, anywhere around the world, might impact upon the way in which your wool flows to, through and from a whole variety of countries in getting through to the final consumer.

The third area that I wanted to touch on was our work in keeping in touch with the market. Obviously the place to start is China. Some fundamental facts: 40% of our annual exports; \$1.3 billion last season; now the largest consumer market for wool products; a big, if not the biggest, exporter of finished textile products to other markets, plus there is plenty of potential growth, particularly in their own domestic market. So it will not come as any surprise that AWI opened its first international office in Beijing earlier this year. This move enables us to have day-to-day, face-to-face contact with the key players in the Chinese wool textile industry, and with the decision makers in the relevant government ministries up there. Equally, it enables us to pass on more readily information to the Chinese wool textile industry about what is happening out here - the sort of things that both Paul and Nathan have run through with you earlier this morning - and also what is happening generally in the industry.

One interesting initiative that we have already got up and running in China is that we have introduced a Mandarin website linked to our local one here in Australia. It is a step that has already been well-received and appreciated by the wool textile industry in China, who are very clear in telling us that they think they have been neglected by the Australian industry in recent years, during the time that we have been going through our latest re-organisational arrangements.

China joined the WTO in late 2001 and under its current import arrangements they are controlled by a thing known as a global tariff rate quota system. To give credit to the Chinese, as part of their WTO membership accession arrangements they have already made some considerable progress in increasing the transparency and the equity with which they go about the allocation of quota to companies, that then enables those companies to import wool. However, there is still quite a bit of work to be done in that area to get to the point where China finally fulfils all of its WTO commitments in this area. Certainly it is a key part of the work of Jeff Zhu, our chief representative in China, to keep the pressure on through the local industry - particularly with the Chinese ministry responsible for this area - to ensure that they do not find some reason to defer or delay getting to the point where we feel comfortable that our wool imports going into China are not unnecessarily hampered by restrictive regulations or administrative procedures.

You might also have read recently that as a consequence of the recent visit to Australia by the Chinese President Hu Jintao, that Australia signed a trade and economic framework agreement. What this basically means is that it is expected to ultimately lead to a free trade agreement with China. Realistically, that is possibly ten years down the track. But in the meantime, this trade and economic framework agreement does give us a new government-to-government umbrella, under which we can now look to engage in industry and government communications with our Chinese counterparts. We have already had a meeting with Foreign Affairs and Trade to see how as early as possible in 2004 we can take some work forward under that umbrella. That certainly makes it a lot easier for our Chinese counterpart to engage us in discussions of a technical and commercial nature.

China, of course, is not the only market. So as part of the process of trying to understand what is happening elsewhere around the world, in 2003 we commissioned four studies that looked at the current situation. One look at the outlook in Japan which, despite a 40% decrease in wool consumption since the mid-1990s, is still nevertheless a large consumer for your wool. We did a similar study with respect to India and also two in Russia. One of those in Russia focused on the processing angle, the other looked more at what was happening from a consumer perspective. The good news is that there are increasing levels of disposable income in Russia. I guess the bad news is I think it is still going to be quite a number of years before the Russian industry does get to the point that we can expect to see anything like a return to a good flow of our wool into their mills and through into their domestic market.

In this current year, we are intending to do a comprehensive five-year outlook with respect to China. There is no alternative but for us to have the best information that we can possibly generate so far as China is concerned. We are also going to do a review of the outlook for the Korean industry; it has been one of our major export destinations for quite a number of years. We are also going to look at what is happening in Europe, especially in the context of the enlargement of the European Union, which is scheduled to commence in May of next year. The European Union will see ten new member countries coming on stream, and we are interested to know how those changes will affect both the processing and the consumption of wool in Europe.

So, in terms of the future it will not surprise you when I say it is really going to be more of the same. We are going to continue our efforts to reduce and remove global trade barriers through the processes that I have outlined. We are going to further strengthen our working relationship with government and industry on trade related matters. Thirdly, we are going to expand and update our understanding of key processing and consumer markets.

In conclusion, ladies and gentlemen, I hope I have been able to give you some better understanding of why in AWI we see this area as being particularly important for your long-term profitability and sustainability. Thank you.

Kevin Bell:

We have got time for a question or two before morning tea, so has anyone got any issues they would like to bring up that Bob might be able to help them with? Thank you, I think we've got a question over here.

Question from the floor:

Max King, Victorian woolgrower. Congratulations on your success in efforts in lowering tariffs into India. I see that India has great potential as a market for our wool; its population is nearly as great as China and Indian businessmen have a greater love of woollen suits than even the English. What are we doing in relation to developing that market?

Bob Quirk:

Well, I think there are two aspects with respect to India. I think your particular question was, "What are we doing to develop the domestic market in India?" The second aspect that I think is worth noting is that the Indians themselves are increasingly keen to see why they cannot export into the big consumer markets, particularly in Europe.

In terms of what we are doing with respect to the Indian domestic market, I think it has been a real concern and frustration for a long while now as to why domestic consumption in India has remained as flat and as static as it has. We think we have got some good information there now. We have got a good understanding of the demographics, the driving requirements for Indian consumers. I guess it just comes back to some very unoriginal aspects, in that we need to ensure that we have got wool going into products that those consumers need. I think with that particular market you are going to be looking at primarily wool blends, rather than pure wool garments.

I guess I am trying to avoid the words 'promotion' or 'marketing' at this point, but I cannot avoid the fact that not just in India but globally we in AWI have to be thinking and looking more seriously - within the charter and the rules under which AWI operates - to see what we can do to help to generate improved consumer demand for products. I have not got a more original answer than that. I think you will find that it is an area where just recently in AWI we have decided to try and develop a full programme to try and address that area. Obviously it can only be done in the context of the rules under which AWI is allowed to operate.

Kevin Bell:

Question number two here.

Question from the floor:

Thank you. Bob, are you totally comfortable with the term 'free trade'? I often wonder whether we would be better trying to sell the concept of freer trade or trade liberalisation, because we immediately seem to antagonise the Dick Smiths of the world or the Pauline Hansons, who want to save everything in Australia, whether it is chocolate biscuits or whatever. There is possibly no such thing as totally free trade. They are all wheeling and dealing, aren't they? Deals are done.

I seem to remember us getting some liberalisation into Mexico ten years - I think it was on sheep meats as well as wool - which in turn got some product into the US. Now, it was a three-way deal, a bit like an AFL draft. Everybody seemed to be a winner, but there was no way it was free trade; it was trade liberalisation. Are you comfortable with the term 'free trade', which I believe is pretty hard to sell to the electorate?

Bob Quirk:

No, it's a good point and thanks for drawing it out. I guess in thinking about this presentation I just used the words 'free trade' because they are the words that are bandied around. I was also thinking you were going to throw in the words 'fair trade' because that often gets a run as well, as to should we be focusing more on what is fair rather than free. I guess, yes, you are right.

I mentioned at one stage that where we seem to make some progress, whether it be with a tariff or quota, the next thing you turn around and you see that there is some other form of non-tariff barrier starting to emerge. So, I think your fundamental point - whether you call it free trade, fair trade or trade liberalisation - is that this is almost a never-ending, ongoing game. I don't use the word 'game' disrespectfully, but it is an area that we have to be involved in.

If you sit back and just assume that somebody else will look after your interests, it is certainly never going to happen. So within the resources that we have got available, but particularly looking at the fact that we have this global textile pipeline, which sees your wool go into, through and out of so many other countries, we just have to be vigilant. We have to do the best we can with the resources we have, to try and ensure that nothing happens that really causes a greater disadvantage to occur to what is already in place in trying to move wool, semi-processed wool, finished products around the world.

I take your point. It is liberalisation or fairer trade. I cannot envisage we will ever get to the point where everyone is going to sit back and say, "That's it, we've now got a global free trade environment".

Kevin Bell:

Thanks, Bob. I think we have a question over here.

Question from the floor:

Barry Court. I probably speak as a member of the National Farmers Federation Trade Committee. We are right into the American free trade agreement at the moment.

The indications you give are that the duties get very large once you go via the other countries. The negotiations I don't hear mentioned all that much, but certainly other farm products are working on a lot. A direct line to the USA means greasy wools gets in duty free, I gather, from your graph there. 26% of it goes via China. It is Australian wool going into America; in the agreement can we try and make sure that the tariffs are lifted and that we are smart enough to keep the Australian label on it, despite the fact that it is going via China?

Bob Quirk:

Unfortunately, Barry, the short answer is no. I guess it was the point I was trying to make that in a bilateral agreement like the US free trade, it is only product that is being exported directly from Australia to the US that comes under consideration. What we are aware of - and what we are more interested in but can only pursue through the WTO process - is the import tariff that the US applies on finished products coming in from China or elsewhere made from Australian wool. It would be nice if we could, but in any free trade agreement, particularly at the bilateral level, it can only work on product that is going from A to B, or B to A, the two countries concerned.

But you are right, within the NFF working group that has been looking at the US free trade agreement, quite clearly wool is not a big ticket item in relations to the concerns that sugar, dairy, beef, peanuts, have in trying to get better access into the US market.

Many of you would be aware that the early stage processing market in the United States where our greasy scoured wool or tops might go into has just about been decimated. Whilst we still had something like \$35 million of greasy wool went into the States directly last season, certainly relative to the other agricultural export commodities looking to get better access to the States we are not a big player.

But we have certainly been fully participating in that NFF working group. As recently as Tuesday we were talking as well with the Department of Foreign Affairs and Trade on what the important features are that we would like to see them have in regard to the ongoing free trade discussions.

Question from the floor:

In that case, there would be massive benefits if you can get American manufacturing early stage processing. That 26% or 30% tariff on a very high priced item would be completely removed. Any moves made along those lines?

Bob Quirk:

Not that I am aware of. When I said that the US textile manufacturing area has been decimated, that is a fact. I guess given the current way in which the global trade wheels are turning, I guess I would be most surprised to see any significant reinvestment occurring in early stage processing activities in the States.

Kevin Bell:

Thanks, Bob. That is all we have got time for. We are doing pretty well for time, but we are just a little bit behind.

As you can see from your programs, we have got 15 minutes for a very enjoyable morning tea out there. It is right outside the doors. There are plenty of stations, so grab a cuppa and have a break and we will try and be back here in 15 minutes to hear three more very interesting speakers. Thank you very much.