



THE HON DR CRAIG EMERSON MP
MINISTER FOR TRADE

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DAVID OLDFIELD:

Now, talking about the trade and the tariffs matter that we've been generally looking at here this morning, it might not be considered, as they say, the sexiest topic around, but it's one of the most important topics that we can discuss as a nation with regards to our future and, of course, even our present: the economy; all that we expect with regards to our prosperity.

In that light, I thought a speech that Prime Minister Gillard gave to a business audience in Perth last night was particularly interesting. Prime Minister Gillard gave the Government's view on the current global trade situation and Australia's position in relation to that, and the fact that she wants Australia to lead the rest of the world in opening up a better trade situation for Third World nations. The Prime Minister said she believed that we and other nations

should accept imports from about 50 developing countries without imposing any tariffs or quotas: what is often referred to as the level playing field; free trade.

But is it level? Is it free trade? Is it indeed reasonable at all, given the circumstances of how difficult it is for our industries to compete with those developing or Third World countries?

There are a number of things to say about this. I thought the best person to talk to was the Government's Trade Minister Craig Emerson - and grateful for his time this morning.

Minister Emerson, thanks for your time.

CRAIG EMERSON:

My pleasure David.

OLDFIELD:

Look, is allowing free trade with countries where they have very, very minimal labour costs - and bearing in mind labour really is the biggest cost component for business in Australia, whether it be small business; whether it be shopkeepers with their staff, shop assistants; or whether it be large industry - is it really in our interests to be doing this?

EMERSON:

I think so. If we wanted to engage in a race to the bottom - that is a low-wage, low-skill economy - I suppose we could do that. But I

wouldn't think that Australia would want to enter that race. And I certainly wouldn't want to win the race to the bottom of cutting people's wages.

So the truth is there are lots of products that are produced around the world. As you say, there are countries with very low wages. We are really a country that should be engaged in a race to the top of high skills and high wages, rather than expect Australians to basically compete on very low wages with some of the poorest countries on earth.

OLDFIELD:

Yeah, that didn't make a whole lot of sense to me, I must say, Minister Emerson. Because I would have thought the issue on competition was that Australia, yes, we shouldn't be reducing our wages. But the difficulty would be for industries to keep existing in the face of imports that are in competition with that which is produced in Australia, when what's produced in Australia is produced by a workforce that is relatively highly paid as opposed to a workforce in somewhere like a Third World nation.

EMERSON:

Yes, and that's my very point. That's my very point: that we shouldn't say we won't have imports of underpants and socks; we'll produce underpants and socks in Australia and offer people \$3 a day, which is basically the wage or thereabouts that people in some of the poorest

countries get for producing underpants or socks. So why should we say that's something that Australia should be really good at, by paying people \$3 a day, and we'll keep out those cheap imports which in fact reduce the cost of living. People in Australia are both workers and consumers and they do enjoy it when the cost of living is lower rather than higher.

And in relation to the broader production of these 48 countries, this has actually been Howard Government policy since 2003. What we're indicating is that we would continue with that policy, because for the least developed countries - the poorest countries on earth - trade is better than aid.

OLDFIELD:

Yes. Now, look, don't take it personally. I acknowledge that it's been successive governments, not just yours, that have been responsible for the changes and indeed the export of our manufacturing industry to Third World countries over a very long period of time. It's not just you guys that are doing it.

Manufacturing was once 27 per cent of GDP. It's now less than 9 per cent. When you say that you're not going to stop cheap imports of socks and underpants from coming into Australia because that benefits the people who are consumers as well as being workers, is there anything you will be stopping?

EMERSON: Well, we are great country that has proved to be very competitive in lots of industries, including in high-end manufacturing industries. My point is that we really shouldn't be involved in a race to the bottom of low wages...

OLDFIELD: But hang on ... but, Minister, we're not involved in a race to the bottom. Nobody is suggesting lowering wages in Australia.

EMERSON: Sure ...

OLDFIELD: Nobody is suggesting lowering wages in Australia.

EMERSON: Alright. Okay. Well, what's the remedy? High tariff barriers? Not allowing cheap socks and underpants into Australia? Is that your policy prescription, David? I'd just be interested in that. Do you think that consumers should have to pay double or triple what they pay now? And even then you're saying Australians shouldn't produce these things, but there should be tariffs so that people will pay double or triple for their underwear and school kids' gear. For what purpose? For what benefit? I don't understand your argument, to be honest with you.

OLDFIELD: Well, it's not so much an argument as a position, and an understanding that for us to compete generally on any relationship,

anywhere with any country in what is called a level playing field, things actually have to be level. And things with Australia and most other nations are not level. We might be able to compete on virtually everything with Japan or America, to a degree - maybe even England. But because of the wage disparity between us and be it Vietnam, Cambodia, be it even China, we can't compete there. And we're not just competing necessarily on socks and underpants. These days we're potentially competing on absolutely everything - even steel production and wood, which is now being brought into Australia.

So I ask you the question again: when you're saying that you're happy that we bring in socks and underpants - and a lot of people would understand that because it's much cheaper to produce those things overseas - where do you draw the line where it gets to a point where Australia doesn't produce anything because everything is cheaper to produce overseas, so no-one in Australia is working in manufacturing?

EMERSON:

Well, everything is not cheaper to produce overseas. Australia is good at producing products at the high end for high wages involving high skills. That's ...

OLDFIELD:

Such as?

EMERSON: ... our advantage. That's our advantage.

OLDFIELD: So if you could just give us a couple of products.

EMERSON: Yeah, sure. We actually produce in Austal and other ship-making facilities, we produce very, very high-quality aluminium ferries. That's one example of a manufacturing operation that is very, very successful. Everyone talks about the Cochlear ...

OLDFIELD: Now, currently the...

EMERSON: ... the Cochlear ...

OLDFIELD: ... aluminium ... the aluminium market is currently collapsing and the aluminium market is under tremendous stress, partly in expectation of the mineral tax that your Government is planning; the mining tax ...

EMERSON: Absolutely rubbish. Absolute rubbish. The mining tax doesn't apply to aluminium, so don't make it up as you go along.

OLDFIELD: Minister Emerson, have you had a look at the aluminium share prices lately on the Australian stock market?

EMERSON: This is due to the mining tax which does not apply to aluminium? I mean, what you're doing, David, is just chanting slogans. I'm happy to have a logical discussion, but ...

OLDFIELD: I'm not chanting slogans. I'm actually looking at the aluminium prices on the market.

EMERSON: And you said whatever happens to the aluminium price is due to the mining tax. Absolute 100 per cent...

OLDFIELD: It's a part of it, and there's an expectation...

EMERSON: Complete crap. Absolute crap.

OLDFIELD: There is an expectation also, Minister Emerson, that that's going to be the case...

EMERSON: Oh, sure...

OLDFIELD: Now, you've nominated that we make...

EMERSON: So where's this expectation? You tell me the evidence where there's an expectation that the mining tax applies to aluminium, when it doesn't.

OLDFIELD: Can you tell me if there isn't that expectation. Why it is that aluminium shares are collapsing on the Australian share market?

EMERSON: World supply and demand affect the price of aluminium, wheat, wool, coal, iron ore. The mining tax doesn't affect the price of wheat; the mining tax doesn't affect the price of wool; ...

OLDFIELD: Didn't say it did.

EMERSON: ... the mining tax doesn't affect the price of aluminium. And you said the mining tax affects the price of aluminium. Absolute rubbish.

OLDFIELD: I said there is an expectation that these things will take place.

EMERSON: Absolute rubbish.

OLDFIELD: And I pointed specifically to the fact that aluminium...

EMERSON: Yes, well, you're wrong.

OLDFIELD: Well, I'm certainly not wrong about aluminium prices...

EMERSON: You said it was due to the mining tax. Absolutely wrong.

OLDFIELD: I'm certainly not wrong, Minister Emerson ...

EMERSON: It is absolutely wrong.

OLDFIELD: ...about aluminium collapsing as a product when it comes to the share market.

EMERSON: You said it was due to the mining tax. I'm telling you that that is absolutely false, and you should not mislead your listeners.

OLDFIELD: There is an expectation that the mining tax is going to affect a whole range of things. Aluminium...

EMERSON: You just made that up.

OLDFIELD: I didn't make up...

EMERSON: The legislation...

OLDFIELD: ... that there's an expectation the mining tax is going to affect a whole lot of things.

EMERSON: The legislation does not affect aluminium, and it doesn't affect wheat and it doesn't affect wool and you should not mislead your...

OLDFIELD: Well, last time I checked - with respect - last time I checked, we weren't mining wheat and wool, so I don't need...

EMERSON: And we don't mine aluminium, either.

OLDFIELD: We've stopped mining bauxite?

EMERSON: No, we mine bauxite. We don't mine aluminium. And aluminium ...

OLDFIELD: What do you think they make aluminium from?

EMERSON: Electricity. The price of aluminium is overwhelmingly determined by the price of electricity, not the price of bauxite.

OLDFIELD: Do you know what they make aluminium from?

EMERSON: Of course. I did a PhD on it, so thanks for the lecture.

OLDFIELD: What, on aluminium or bauxite?

EMERSON: Well, actually on both: mining taxation and mineral processing. I'm very, very happy to have a further discussion with you. But if you think that the main cost component in aluminium is bauxite, again, frankly, David, you don't know what you're talking about.

OLDFIELD: The main cost component in all of these things is actually making it, rather than digging it up out of the ground. We'd understand that, wouldn't we?

EMERSON: And you said earlier that the main cost of everything is labour. That is untrue. That is

untrue in mining, it is untrue in the conversion of bauxite to aluminium.

OLDFIELD: All right. So what's the main cost, then?

EMERSON: So you're going to just have to do a little bit of homework.

OLDFIELD: What's the main cost?

EMERSON: The main cost is electricity. I just told you that.

OLDFIELD: What do you think your carbon tax is going to do to electricity? And then how is that not going to impact the mining industry, whether you've got specific minerals involved in it or not?

EMERSON: I'm telling you this. The price of aluminium is determined on the international market ...

OLDFIELD: And you've just ...

EMERSON: ... just as the price of wheat is.

OLDFIELD: You've just told us, however, that the main cost is electricity. And we all acknowledge, don't we, that as a consequence of the carbon tax, electricity prices are going through the roof already, before it's even implemented.

EMERSON: I see. That's right. So a carbon tax that hasn't been implemented is forcing up the price of electricity? I'll tell you what is forcing up the price of electricity: and that is Mr Abbott's commitment or promise - this one is in blood; previously they were rock-solid, iron-clad promises - that he would rescind the carbon tax. And what that means is that the electricity-generating industry is saying - not just the Government, but the electricity industry - is saying that that uncertainty is forcing up the price of electricity.

But, David, the truth is, the price of aluminium is determined on international markets, just as is the price of wool and the price of wheat and the price of basic primary commodities...

OLDFIELD: Yeah, but Mr Emerson...

EMERSON: [indistinct]...that is not determined...

OLDFIELD: ...when you say that the price is determined...

EMERSON: ...by a mining tax, which does not apply to aluminium.

OLDFIELD: Minister Emerson, when you say that the price is determined by, you know, international circumstances like that, that's the price it's sold for. It's not the price it's made for. And the price it's made for then, in relation to the price it's

sold for, determines the profitability and hence the viability of any industry - be it aluminium, be it wheat, be it wool, even though we're not mining those things.

EMERSON: And what you've said is that the carbon tax is affecting the international price of aluminium. That is untrue.

OLDFIELD: No, I didn't say international price. I specifically said...

EMERSON: That is untrue.

OLDFIELD: ...a number of times the Australian stock market, most specifically, here in Sydney. You can see it each day.

EMERSON: Yes. And you said why is the...

OLDFIELD: Just have a look at the aluminium prices.

EMERSON: You said why is the ... yeah. The aluminium price: you see? The aluminium price obviously is the price of aluminium, David. The price of aluminium is determined on the international market. You should know that; that it is not...

OLDFIELD: The profit in aluminium is determined by the cost of making it. And that is determined by things like, as it will be, your mining tax and

electricity prices, which are going to be impacted by your carbon price. So, I mean, you can't get away from that. You can sort of talk around in circles, and I can understand that.

Coming back to the other thing just briefly, and I...

EMERSON: [Laughs] I'm not talking about it in circles. I'm simply saying...

OLDFIELD: Well, you are. You're...

EMERSON: ...the price of aluminium is determined on the international market.

OLDFIELD: But that's its sale price. That's its sale price.

EMERSON: Do you think ... David...

OLDFIELD: Not its price of manufacture.

EMERSON: David...

OLDFIELD: That's its sale price.

EMERSON: The point you made is that the mining tax is affecting the price of aluminium: completely false!

OLDFIELD: There is that expectation. Are you denying that the carbon tax will affect the price of aluminium?

EMERSON: I am. The price...

OLDFIELD: But you told us that the main price in aluminium, with its ... with the making of aluminium is electricity. Are you denying that the carbon price will affect electricity?

EMERSON: Of course I have said that the carbon price will affect the price of electricity.

OLDFIELD: Then how will it not affect the main component of the cost of creating aluminium?

EMERSON: The price of aluminium is determined on the international market.

OLDFIELD: Minister Emerson, that is its sale price; not its cost of manufacture.

EMERSON: Well, you keep changing. As soon as I say the price of aluminium is determined on the international market, you say, 'but that's its selling price'. Well, what do you think the price is? If you go into a shop and buy an ice-cream, and you say 'how much did that cost', and it cost \$3.20, that is the price. That is the price.

OLDFIELD: Wouldn't you also say that's its cost?

EMERSON: Well, of course it's not its cost.

OLDFIELD: All right. Well, if you're not happy with...

EMERSON: There'll be a profit.

OLDFIELD: If you're not happy with the word "price", let's use the word "cost".

EMERSON: [indistinct]...

OLDFIELD: You keep talking about a sale price determined internationally.

EMERSON: That's right.

OLDFIELD: That doesn't, however, relate to its cost price of manufacture, which is impacted by electricity, in your own words, being the greatest cost in manufacturing aluminium. So if electricity...

EMERSON: Indeed.

OLDFIELD: ...is the greatest cost in manufacturing electricity - sorry, in manufacturing the aluminium - then how is it that your carbon tax, that we know will impact electricity prices, won't then impact the cost of manufacturing aluminium, hence make it less profitable

because of the internationally-based sale price?

EMERSON: And where we started was that you said that the carbon tax affects the international price of aluminium, and I said it does not.

OLDFIELD: I never at any stage said international price. I was talking about...

EMERSON: Well, the price.

OLDFIELD: ...what was happening with the aluminium shares on the stock market.

Look, I just want to ask you this. And I'm sorry. I know you've spent a lot of time with us so far. You have said that one of the things that we do really well - that, essentially, I'm getting the impression you're saying we won't be beaten on - is the aluminium ... the making of aluminium ships. Is there something else that you think is pretty much the province of Australia; that we're not going to be beaten on at some stage down the line by the equal and free trade field, that will be brought about by China and Cambodia and Vietnam? Is there something else that Australians can say, 'this is what we make; we make it at the best price; we'll always be able to sell it, and we'll never be beaten on it'?

EMERSON:

Well, I don't think you can ever say in any country, in any circumstances, that no matter what we do, we will always be the best. No, you can't say that on the football field. But there are high-end manufacturers in Australia. There are tens of thousands of them. We know about ResMed, for example, with sleep apnoea. That is a very clever device, which is working very well, and is sold internationally. It again is high skills, high creativity. That sort of manufacturing operation is very, very successful here in Australia. It will continue to be successful if it continues to make sure that production is efficient. But even the owners of ResMed would say to you nothing is guaranteed in life. And if you stop competing and stop doing your best, then someone will overhaul you.

That is just the way it is, whether it's in sport, whether it's in the economic market, in the marketplace or anything like that. There are no guarantees in life. But Australians are good at producing lots of things. We are a huge exporter. We are a huge exporter, including of manufactured goods. We will continue to be so.

OLDFIELD:

How about the car industry?

EMERSON:

And what we're saying...

OLDFIELD: Given the circumstances of...

EMERSON: Yeah, well, there is a very large [indistinct]...

OLDFIELD: Given the circumstances of Prime Minister Gillard's announcement that we should have no tariffs and no barriers and no quotas and all of these sorts of things, how will the Australian car industry survive in the face of that? When is it that you plan to announce the removal of all protection and assistance to the Australian car industry?

EMERSON: Well, in fact, we have provided and continue to provide automotive assistance to the car industry. But we do...

OLDFIELD: But when are you taking...

EMERSON: Well, can I...

OLDFIELD: ...when are you taking it all off, in line with the Prime Minister's speech.

EMERSON: Could I answer the question, or would you like to make a speech?

OLDFIELD: Well, the question is when are you taking it off?

EMERSON: We're not. You see...

OLDFIELD: Well, how are these Third World countries going to compete if, in line with the Prime Minister's speech last night, they're not going to?

EMERSON: David, do you want an answer to the question or not?

OLDFIELD: Yeah, go ahead.

EMERSON: And can I answer the question? Give me 20 seconds.

OLDFIELD: Yeah, sure. Happy to give you more than that. Go ahead.

EMERSON: Right. Already, car tariffs are at 5 per cent. But for the least developed countries, they would be zero. Except the least developed countries do not produce automobiles for the international market. So what we have announced is that the current policy will continue.

If you think that a government ought to increase tariffs, that's fine, and I understand your argument. But that's not what we're saying. We're saying that we will continue existing policies, and we already do support the automotive industry.

Tony Abbott, of course, has made a commitment to cut support for the automotive industry. But it won't be competition from countries like Somalia that affects the viability of our car manufacturers. We have three car manufacturers; we have a large car component manufacturing industry in this country - again, high skills, high wages and high value. That's the future for Australian manufacturing.

OLDFIELD: Minister Emerson, grateful for your time, as always.

EMERSON: Thank you, David.

OLDFIELD: All the best.