

Australia China Business Council (ACBC) China Oration

Wednesday, 24 November 2004

7.00pm

The Australian Club, William Street, Melbourne

Topic: *“Five Steps to Engaging the Dragon”*
- *The challenges for Australian manufacturing in the Chinese century”*

Introduction

Thank you, Warwick.

Good evening, ladies and gentlemen.

It is my great pleasure to deliver the 2004 China Oration tonight!

China is extremely important to my company, BlueScope Steel, and increasingly important to our nation – Australia.

I believe that China’s growth will offer wonderful opportunities for world-competitive Australian manufacturers.

As you may know, China is now contributing some 40 per cent of annual world economic growth.

Like Britain, The United States and Japan in earlier centuries, the world is now seeing China write its own very significant chapter in the economic history books.

There is every reason to believe that the 21st Century may be the ‘Chinese Century’.

Our Company, BlueScope Steel, participates in the steel and building products industries, industries which are feeling the benefit of the surging Chinese economy.

To give you an idea of the scale of China’s impact on the steel industry...

In the year to October 2004, Chinese steel production grew 22 per cent to a record 263 million tonnes (annualised). This is more than USA, Japan and Germany combined.

To place this growth in perspective, in 1994, steel production in China was 93 million tonnes.

So in just ten years, China’s steel production has almost trebled (270 per cent).

And Chinese demand for steel is still growing strongly.

As we would expect, this economic growth is affecting Australia.

In 2003, Australia's exports to China increased by 8.4 per cent to \$9.1 billion, and China is now Australia's third largest export market and trading partner.

Exports to the United States, by comparison, fell 17 per cent to \$9.5 billion.

While Australia largely exports primary products to China, China mainly exports labour intensive manufactured products to Australia.

But there are signs of change.

Between 1999 and 2003, Australia's manufactured exports to China grew from \$658 million to \$1.8 billion – an increase of 165 per cent in just 5 years.

Given China's inexorable rise, I believe it is necessary to stimulate discussion about the implications for Australia.

And in particular, the implications for our manufacturing sector.

So, tonight I would like to put forward some ideas about how our Australian manufacturing sector can successfully engage with China.

I believe there are five steps we must take.

I believe we must:

- 1) Communicate the true worth of Australia's manufacturing sector.
- 2) Raise awareness of the possibilities of engagement with China.
- 3) Ensure a fair, competitive basis for two-way trade between China and Australia.
- 4) Commit to reforms in infrastructure, energy and water.
- 5) Acknowledge that we are all stakeholders in Australian manufacturing's future, and we must behave in a way that secures its future.

To do these things properly, we must be clear that Australian manufacturing is a valuable part of Australian society.

(1.) So the First Step is to communicate the worth of Australia's manufacturing sector.

Let's start by asking, what is the state of Australian manufacturing?

Some of you may be surprised to learn that we are in fairly good shape, although clearly some manufacturers are faring better than others.

There are now plenty of examples of Australian manufacturing companies that have greatly improved their fitness, and in some cases undergone successful surgery, over the past decade.

In 2003, manufactured products comprised 23 per cent of Australia's exports and manufacturing generated about 13 per cent of the country's gross domestic product.

Although manufacturing's share of GDP has fallen in recent years, this is largely because the value of services has grown so much.

As a proportion of GDP, manufacturing still contributes more than double the output of mining, for example.

Manufacturing employs about 12 per cent of the workforce; and provides full-time employment for over 1 million Australians; and it undertakes about 50 per cent of Australia's private sector research and development.

So a competitive Australian manufacturing sector delivers significant broad-based benefits for this country and it's also of great strategic importance.

No high-ranking OECD country is without a significant manufacturing sector.

As many of you know, Australian manufacturing has been under significant pressure to reinvent itself over recent decades.

The manufacturing sector now absolutely accepts that it has no right to demand protection and be assisted to survive – the sector has to earn its way in the global marketplace. And we are held to high standards.

As protection and tariffs have dropped, so manufacturing has become more competitive, and more sophisticated or it has disappeared.

Today, lead times are shorter, order sizes smaller, and delivery performance more critical than ever before.

The old, slow ways of operating would virtually guarantee defeat in the present business climate.

We in the manufacturing sector are competing with the world's best.

To do so, we have had to become more agile and flexible.

Our sales and marketing activities are more clever, and our value propositions are stronger.

For Australian manufacturers to stay in business, and continually improve productivity, we must be internationally cost competitive.

That is the 'ticket to the game'.

At BlueScope Steel, for example, that means remaining at the low end of the international cost curve in all our manufacturing operations.

And ensuring that the product and service packages we provide to our customers deliver real value.

Already, we are seeing many successes in Australian manufacturing.

For instance, since 1998 the value of exports of passenger motor vehicles has more than doubled.

One in three vehicles manufactured in Australia are now exported.

And I am very proud that the overwhelming majority of the steel in these cars is sourced from BlueScope Steel –

That's Australian steel being exported in highly value-added form.

There are many individual companies in Australia – many of them our customers – who are highly competitive in world terms.

Increasingly, we are seeing that successful Australian manufacturing companies are innovative.

To prosper in the new environment, to engage with China, Australian manufacturers must do more than simply keep costs down.

They must go beyond just making commodities.

They need to exploit niches.

Innovation is an area I feel very strongly about.

It's something we are driving hard at BlueScope Steel.

In many cases, innovation means getting out of low value added products into design or technology intensive products, often wrapped with a valued service component.

It means exploiting intellectual capital or proprietary technology.

It means developing specialised capabilities or focusing on niche markets.

And, in local markets, it means exploiting local advantages such as faster delivery times, shorter supply lines and better distribution systems.

A national imperative is that successful manufacturing companies, and the manufacturing sector, are nurtured and encouraged.

By engaging with China, the manufacturing sector can play a key role in boosting the living standards of all Australians, and ensuring our long-term prosperity.

But, in order to engage, manufacturing companies must see that engagement is achievable, and can have great benefits.

Which brings me to the Second Step.

(2.) Raising awareness of the possibilities of engagement with China.

Let me share some insights from our experiences in China.

Last year, less than 5 per cent of BlueScope Steel's global sales were derived from the Chinese market, but we expect this to increase once our current growth projects are complete.

China's economic performance is characterised by rapid urbanisation and industrialisation, with the building and construction industries central to this growth.

In China, BlueScope Steel occupies two niches in the building and construction markets...

These are pre-engineered buildings and premium steel building products.

We have been involved in some significant projects, including the Guangzhou Stadium, the Jin Mao tower in Shanghai, and developments at Beijing airport, amongst the first sights many visitors to China encounter.

Our China businesses are growing.

Soon, they'll extend along the value chain from putting high quality metallic and painted coatings onto steel coil, to designing and erecting complete steel buildings.

From our experience of doing business in China, we are very aware of that market's appetite for leading edge, high quality technology and products, the ease of access to many world-class development zones and very supportive investment conditions – incentives, support and speed of decision-making.

We also know first-hand what a dynamic, youthful, high quality and well-educated workforce pool exists in China.

Just over a year ago, we were evaluating whether to proceed with our new coating and painting line at Suzhou.

I visited Shanghai and met with Mr Xu Da Quan, the then CEO of Baosteel. His company is a potential supplier of steel feedstock to our project.

Bao is one of the world's largest and most impressive steel companies.

I made the comment that, in seeking to build our China business, we at BlueScope Steel were mindful of being a very small fish in a very large pond.

Mr Xu replied, "Ah yes, but you are a very fast little fish".

Subsequently, the project team developing our Suzhou facility adopted the motto "Chao Xiao Yu" and the cartoon logo you can see printed on the small boxes on your tables.

Translated, the words mean "super little fish", and that's how we see ourselves in China.

I think this story helps illustrate the way in which Australian companies can establish effective niches in the Chinese market.

And in the markets in which we compete, we are swimming downstream as fast as we can.

So Australian manufacturers can do business in China, and do it very well.

Of course, if we are to succeed, we must be able to compete fairly.

So, to the Third Step.

(3.) Ensuring a fair, competitive basis for two-way trade between China and Australia.

The United States and China are key players in the new economic order.

We have a well-established alliance with the United States, and we have a timely opportunity to negotiate a free trade agreement with China.

A well-negotiated Australia-China FTA has the potential to operate as a positive force for economic advancement in both countries.

Yet the risks and challenges posed to Australian manufacturing by the inexorable rise of Chinese productive capacity over the years ahead are considerable.

Chinese firms will increasingly strive to compete with Australian enterprises in export and third country markets.

And strive to establish footholds in Australian markets, with ease of entry likely to be further smoothed in the event of an FTA.

Now, the prospect of heightened competition is not a reason for Australia to avoid an FTA with China.

Australian manufacturing has met considerable challenges, and can certainly meet the challenge of China...provided we are able to do business in a fair competitive environment.

If we are to secure the best future for our manufacturing sector, we need a more clear articulation of a national policy position and framework in support of manufacturing.

If Australia is to proceed with an FTA with China, this is critically important.

The threads of effective national policies are already visible.

The Federal Government is contemplating a range of actions in areas of importance: for example, international tax, competition policy, skills-based training and workplace relations.

Much of the public discussion about an Australia-China FTA over recent months has been about China's threshold requirement to be granted 'market economy status' as a pre-condition to FTA negotiations, and about the consequences for Australia's anti-dumping measures.

Australian manufacturers have strongly expressed reservations about the potential for a weakening of existing anti-dumping processes.

The various views on this issue have been well voiced, and I don't intend to wade into them tonight other than to say that these issues are of great importance to our customer base here in this country, and the effectiveness of Australia's anti-dumping regime is a matter of great significance.

A vigorous, fair and transparent Australian anti-dumping system is a key element in achieving the right balance for participants in the challenging global trading environment.

This is not about protection. It's about ensuring products are fairly priced.

The next step concerns the need for better infrastructure for Australian manufacturing.

We must make this a priority.

(4) So, Step Four is a call for government commitment to further reforms in Australia's infrastructure, energy and water.

And the Productivity Commission has also urged action in these areas.

Australia's historical successes in manufacturing were founded on low energy costs, efficient transport infrastructure and ready availability of low cost inputs such as water and raw materials.

But our recent economic success has exposed major capacity constraints in our ports, railways and shipping.

Further government action and greater infrastructure investment is badly needed to alleviate these bottlenecks.

On the interstate rail network, this includes upgrading track to allow greater axle loads, standardising gauges, and relieving rail congestion in the Sydney area.

Here in Victoria, gauge standardisation of the Melbourne-Hastings line would remove the need for BlueScope Steel to gauge transfer some 500,000 tonnes of steel product per year.

On our roads, the introduction of B-Triple trailers on the National Highway System would make a step-change in capacity and efficiency in the transport of non-bulk freight.

Greater integration of road and rail facilities into intermodal hubs, and better connections into seaports are needed.

There's also a need to work towards a competitively neutral freight system, a system which will encourage investment in places where it will generate the greatest economic rewards.

Recent power outages in a number of states have highlighted the need for investment in energy infrastructure.

Further development of the national energy market is needed.

Governments also need to ensure that energy pricing is not discouraging investment.

The recent series of dry years in this country has drawn attention to the way we manage our water resources.

A number of areas stand out as requiring more attention.

For example, Australia currently makes limited use of recycled water.

Systems to re-use household grey water, such as the third pipe system now being installed in some new housing developments, should be encouraged.

And more steps should be taken to encourage re-use of treated effluent for agriculture and industry, as is currently being considered at Werribee, and underway at BlueScope Steel's Port Kembla Steelworks.

In our cities, most stormwater is simply flushed away to the ocean.

There is clearly potential to capture this water and pipe it to irrigate gardens, sports grounds, golf courses and other facilities, and re-use it in manufacturing processes.

Finally, what we need in Australian manufacturing is a greater sense of unity and a greater focus on growing a world-competitive manufacturing base in Australia.

And this leads me to the Fifth and final Step toward successful engagement with China.

(5.) Acknowledging that we are all stakeholders in manufacturing's future.

Which means that everyone involved in Australian manufacturing must behave in a way that secures its future.

Regrettably, Australian manufacturing is handicapped relative to international competition in one key area: the way our manufacturing sector trade union leaders appear to see their roles.

I am not talking about our employees here, who for the most part are terrific.

In part, the industrial issues we face are a function of the regulatory framework for industrial relations that currently operate in this country.

One example: the framework seems to encourage a season of strikes whenever EBAs are up for renewal.

Too often, there seems to be a desire by union leaders and officials in manufacturing to demonstrate their power to 'take the workforce out' and 'take the management on'.

In the "Chinese Century", this is not constructive behaviour.

Over the last three years, BlueScope Steel has been subjected to a range of strike actions.

If they weren't so serious and damaging to our customers, they would be almost comic.

For example...

- A 24-hour strike at Western Port, in Victoria, just prior to Christmas 2002, because Christmas hampers were not offered to all employees at that site.
- At Port Kembla, in March 2002 we suffered a strike that involved the dumping of \$1million worth of molten iron.
- This strike occurred when four employees were two minutes late getting back to the change rooms for their end of shift shower.
- In February last year, a rail operations employee at our Port Kembla plant was dismissed.
- The reason?
- He was observed doing chin-ups on the outside of a moving locomotive.

And the response to this dismissal?

Unions instigated a stop work meeting, in breach of the enterprise agreement.

And the result?

Two and a half thousand tonnes of iron being dumped on the ground at a cost of half a million dollars.

- While at Port Kembla in 2001, unions took persistent industrial action to undermine our Alcohol and Other Drug policy.
- The policy involves alcohol and drug testing only after accidents or near misses.
- It has one aim – to help achieve our goal of a Zero Harm workplace.

And the list goes on, and on, and on.

Throughout this year we have been seeking to negotiate new enterprise bargaining agreements for our downstream Australian operations.

Our EBA offer has been on terms which an objective observer might regard as quite reasonable – including a 13.5% pay increase for a proposed three year agreement, well in excess of the manufacturing industry average.

The benefits we provide to our employees, such as superannuation, lead Australian industry standards.

We share the prosperity and performance of our company with all employees through bonuses and employee share plans.

However, our business has been subjected to repeated strikes and stopworks designed to impede our ability to get product to customers.

At Western Port, here in Victoria, for example, our 'on time' delivery performance at this time last year was a commendable 95 per cent.

Our employees worked diligently to get it to this impressive level.

In the four weeks of October 2004, as a result of industrial action at Western Port, delivery performance fell as low as 73 per cent.

A delivery performance of 73 per cent meant that of the 1,350 orders that the plant had to deliver to customers by the end of a week, approximately 335 orders were late.

In the last four financial years, BlueScope Steel has suffered over 300 strikes and over 460,000 man-hours lost.

This financial year alone, BlueScope Steel has suffered 110 strikes, with over 40,000 man-hours lost.

In all cases, where the terms of an enterprise bargain have been agreed over the past year, this has been either:

1. a result of employees accepting the Company's offer, despite their union's position,
2. or a result of an independent arbitration to settle the dispute on materially the same terms as the Company's initial offers at the beginning of the bargaining period.

Unfortunately, the people who really suffer are our employees.

The pay rises they eventually receive are much delayed, to enable months of union posturing (and they endure days without pay).

The leadership of a trade union brings with it certain rights under the Australian system.

But leadership also carries significant responsibilities:

- recognition that union members' future job security is connected to the success of the enterprise they are working for,
- and, understanding that community welfare depends on an internationally competitive and reliable manufacturing industry.

And in case some of you think I am ‘crying wolf’ with these comments, I say this...

BlueScope Steel operates 75 manufacturing plants in 16 countries across three continents.

In the last four years, we have had strikes in only one country– Australia – and we have had hundreds of them.

It is not surprising that, as Australian domestic demand for manufactured products has continued to grow strongly over the last few years and local manufacturers have moved to meet that demand, the country’s overall exports of manufactures have dropped.

Growth in productive capacity here has not kept pace with local economic growth. Australia’s manufactured exports have suffered as manufacturers have re-directed products to meet local market demand.

As a result, other countries are grabbing a bigger share of the growth in global markets, which is being driven by China.

Industrial action hurts the reputation of Australian manufacturing and its international competitiveness.

It is an unfortunate truth, and not widely stated, that the irresponsible actions of a few union leaders and officials are creating real hesitation about new, large-scale manufacturing investment in this country.

Their behaviour is driving manufacturing investment away from Australia.

Over the course of the past year, BlueScope Steel has made commitments to new capital projects with a planned value of around A\$1 billion.

The majority of our new investments are being made outside Australia, in Asia and in North America.

We have committed to a couple of significant capital projects in Australia, which will amount to well over \$200 million.

But we do so with some apprehension because of our experience of union leaders’ behaviour.

And we observe that there are not many other major new manufacturing investments being made in this country.

As well as driving investment away, this behaviour also risks driving customers away.

Manufacturing industry's customers are increasingly global, with worldwide supply chains.

If Australian manufacturers are not reliable suppliers, then customers will simply shop elsewhere, dual-source from overseas, or relocate their own operations.

Whatever the union leaders' agenda – and it's often difficult to fathom – the end result of their behaviour is to damage Australia's reputation as a reliable supplier and **to** damage Australia's manufacturers.

If unchecked, this behaviour will ultimately lead to a future in which the vast majority of manufacturing activities to meet Australian market demand are located outside Australia – perhaps much of it in China – with products imported back into this country.

I don't think this is a future any of us in this room wish to see.

So to conclude.

I have outlined five areas – Five Steps – that I believe will help Australian manufacturing to prosper in the new Chinese century:

- Communicate the real worth of Australia's manufacturing sector.
- Raise awareness of the possibilities of engagement with China.
- Ensure a fair, competitive basis for two-way trade between Australia and China.
- Commit to domestic reforms in infrastructure, energy and water.
- And acknowledge that we are all stakeholders in Australian manufacturing's future and, together, behave in a way that secures its future.

Australian manufacturing is a far more robust and vibrant sector than many believe.

It is making a broad and valuable contribution to this country.

The sector is entering a critical phase – that will determine its future.

If we can achieve the steps I have outlined, then Australian manufacturing can prosper from (rather than fear) the many opportunities that the rise of China offers.

I believe that China's growth will offer wonderful opportunities for world-competitive Australian manufacturers.

So, as we enter the Chinese Century, we must be aware of the gravity of the decisions that are being taken today.

Let's make sure that when we look back in 5 or 10 years time, we can confidently say we did not shirk the challenges, and we did create a more prosperous future for all Australians.

Thank you.