

Australia-Canada Economic Leadership Forum

Rapporteurs' Report

The fifth Australia-Canada Economic Leadership Forum, held February 20-22, 2017, in the stunning city of Sydney, where the inaugural Forum took place in 2010, brought together about 150 business, political and academic leaders to promote deeper economic ties and reinforce the already profound attachment between the two countries. As at previous Forums, the presentations were stimulating, the discussions lively, and the private interaction among delegates demonstrated again how much Australians and Canadians have in common and what they can learn from each other.

The Forum's discussions occurred during a time of considerable international political and economic uncertainty, even turmoil. Since the last Forum, Donald Trump became president of the United States; Britain voted in a referendum to leave the Europe Union; mass migrations of people from the Middle East and North Africa washed across parts of Europe; terrorist attacks pockmarked certain parts of the globe; China made territorial claims in the South China Sea and backed those claims with infrastructure projects on disputed islands; Russia intervened in the Syrian civil war, annexed Crimea and with a mixture of covert and overt actions destabilized eastern Ukraine. In addition, international oil prices went on a wild ride from over \$100-a-barrel to less than \$40-a-barrel. International climate change negotiations produced an agreement to reduce emissions in an attempt to halt the rise in global temperatures to 2 degrees Celsius, thereby challenging Australia and Canada, two fossil-fuel producing countries, to do more to reduce their own carbon and methane emissions.

Political populism, blending anti-elitist, anti-globalization and anti-immigrant messages, made unmistakable gains in the United States, Britain, Germany, some eastern European countries, and even in Australia with the resurgence, albeit regionally concentrated, of the One Nation party. For two countries, such as Australia and Canada, committed to open markets, free trade and the rule of law, these political developments with their economic overtones were worrisome. Many participants at the Forum alluded to them and expressed concerns about their impact on the trading

and investment regimes under which both Australia and Canada prosper and to which they remain committed.

Of particular concern, or at least wonder, was the orientation of Donald Trump's administration, given the close political ties, military alliances and economic links between the United States and Australia and Canada. Can these two countries count on continuity and understanding in Washington, or should they expect the unexpected; and if so, what kind of unexpected? This was a particularly sensitive matter for the Australians, whose prime minister had reportedly experienced a difficult initial telephone conversation with the U.S. president, a conversation that sent Australia's foreign minister, Julie Bishop, who had been expected to address the Forum, to Washington for talks.

When the Forum met in Vancouver in 2015, Tony Abbott was prime minister of Australia and Stephen Harper was prime minister of Canada. By 2017, Mr. Abbott had been replaced by Malcolm Turnbull, and Justin Trudeau had become prime minister of Canada. Australia's government remained led by the Liberal-National coalition, a centre-right alignment, whereas the Trudeau government has a centre-left orientation, in contrast to the Conservative government it replaced. Nonetheless, the changes in national leadership in no way weakened the profoundly strong ties between Australia and Canada that the Forum's work exemplifies.

The Forum's utility and success was underscored not only by the large attendance but by robust corporate support, led by presenting sponsor PwC; platinum sponsor Norton Rose Fulbright; gold sponsors ATCO, Qantas, Saputo and RBC Capital Markets; silver sponsors Macquarie, SNC-Lavalin, AIMIA, Virgin Australia, Rio Tinto, Dentons, the CPP Investment Board, Woodside, OMERS Worldwide, OpenText, Air Canada, and the governments of Australia, Canada and New South Wales; and bronze sponsors Bakers Delight, ASX, WorleyParsons, CAE, Bombardier, AustralianSuper, Medisys, the Caisse de dépôt et placement du Québec, and Competitive Foods Australia. The Co-Chairs of the Forum were Jennifer Westacott, Chief Executive of the Business Council of Australia, and Norman Steinberg, Canadian Chairman of the law firm Norton Rose Fulbright.

High Level Engagement

The importance of Australia-Canada relations, and the Forum's work, was underscored by the opening remarks from Prime Minister Turnbull. He congratulated Canada on celebrating its 150th anniversary in 2017 and recalled his own participation in the Forum's meeting in Toronto in 2012. He called Australia and Canada "cousins," with a long history of working together for common purposes in war and peace. Today, he remarked, the two countries combine efforts in defence, intelligence, security, innovation and knowledge-exchanges, trade and development. Thousands of Canadian students study in Australia's universities, and more than 15,000 young people work in each other's country under the student work visa program. Both countries, unlike too many others, demonstrate tolerance internally, witness to which is Sydney itself where an estimated one-third of the population was not born in Australia.

He remarked that Australia and Canada "stand together" to defend open trade. Therefore, Australia was "disappointed" that the Trump administration had decided to withdraw from the Trans-Pacific Partnership. Nonetheless, he said, Australia would continue to talk to the other countries in TPP, or what remains of it, to see how (or if) to proceed without the United States. Whatever happens, however, Australia and Canada will continue to defend "open markets" because "this is the road to prosperity. Protectionism is a big shovel to dig us deeper into a hole. We know trade means jobs. We believe that Australians are so smart, competitive and good that we want to have the most open fields to run onto." Put simply, he asserted, "trade means jobs." And the more markets Australia can open up, it will.

Canada's newly-minted minister for international trade, Francois-Philippe Champagne, in office for only five weeks following a cabinet shuffle, reinforced Mr. Turnbull's message in his own address. Australia and Canada – "beacons of normalcy," he called them - must continue to "carry the message" of the benefits from rules-based international trade, the rule of law and open and free trade. Between the two countries, there is about \$4-billion in trade and \$40-billion in two-way investment. But, he cautioned, there are many skeptics in democratic countries about the merits of globalization and free-trade, and their concerns must be

confronted. The best way to do so is to promote “progressive trade.” This means that agreements must pay more attention to women's rights and the environment and preparations for negotiations must be transparent so that people will know what is being negotiated and why. Governments that negotiate these agreements must then push companies to work more responsibly. Trade means growth, and growth means jobs, but countries that believe in this analysis must work harder to make trade “for the people” – for consumers, exporters and citizens. Governments have to earn the people’s trust and agreement that open trade will benefit the country.

Minister Champagne pointed to the recently-concluded Canada-European Union Free Trade and Investment (CETA) agreement, now being ratified by both sides, as an example of a modern “progressive” agreement that includes environmental protections and dispute-resolution procedures that are fair and transparent. Combined with the North American Free Trade Agreement, CETA will give Canada open trade access to 1.1-billion people. But Canada is also mindful of the growing importance of Asia. To that end, the government has put in place a special unit dealing with ASEAN countries, and will be exploring the possibility of a free-trade agreement with China.

It was later pointed out in the discussion that President Trump had declared he wishes to re-negotiate NAFTA but has thus far not indicated what the United States will want from those talks. Early indications are that the Trump administration has few objections to the agreement as it relates to Canada, but rather a lot to Mexico. Canada-U.S. trade is roughly in balance; Mexico enjoys a sizeable trade surplus with the U.S. which seems to gall the Trump administration.

Many important positions in the U.S. administration remain unfilled, which contributes to policy uncertainty. As for the future, if any, of the TPP, participants noted that there too, uncertainty prevailed. It was suggested that perhaps Australia, Canada and New Zealand could jointly think about a way forward assuming TPP failure. Certainly, Japan’s view will be critical, since it had joined the TPP principally because of the U.S market. What positioning, post-TPP, will China adopt? And having expressed an interest in a bilateral free-trade and investment deal with China, will the Trudeau government follow Australia’s example and negotiate one; or, will it, like the

Harper government, hesitate in the face of domestic political doubts about such a deal with a country whose politics are not popular in Canada and whose state-owned enterprises arouse suspicion.

Agri-Business

Australia and Canada are both agricultural exporters for many products. Because the two countries produce some of the same products such as beef and grains, they compete, but in an area, such as wine Canada has become Australia's fourth-largest market. There are significant investments in agriculture both ways. Saputo of Montréal, for example, has purchased Warrnambool Cheese and Butter and Everyday Cheese in Australia; an Australian company has bought into Jack Astor's and Lone Star restaurants in Canada.

Saputo's Australian investment was part of an internationalization strategy. Limited by access to dairy products because of Canada's supply-management system, the company had to expand elsewhere to gain access to dairy supply. Australia has excellent dairy producers, favorable regulations, a strong brand for Australian milk, efficient plants, and therefore an excellent platform to build exports.

Australia and Canada, as food producers and exporters, face large opportunities for expansion world-wide because the world's population growth and its increasing standard of living will mean a rising demand for food. More arable land is in short supply, which means on existing land it will be necessary to increase food production by about 70 per cent – or an annual increase of about 1.5-per cent annually until 2050.

This challenge will provide opportunities for agricultural biotechnology, plant genetics and other means of enhancing yield. Countries with sophistication in these areas will benefit from these opportunities. Biotechnology is sometimes viewed with skepticism, even hostility, in parts of the world, but it has been hugely important in increasing yields, reducing chemical use, improving soil quality and reducing insecticide use.

One challenge for both countries will be to move beyond primary production of raw materials (such as seeds) into processed agricultural

goods, even very advanced processed goods. Australia has been particularly good at moving up the value chain from primary production to processing to marketing and packaging. Australia's branding for some products has been excellent, and

Canada could learn from some of Australia's successes. Even so, high labor costs often dictate shipping goods in raw state to be processed overseas. Canada's Food Inspection Agency is also a model, in that it makes decisions on the basis of science not politics.

Together, Australia and Canada in agriculture have excellent research and development capabilities. They are friendly competitors and collaborators. They can learn from each other's successes in overseas markets, and can jointly contribute to the challenge of global food security.

Political Panel

When the Forum last met, two right-of-centre governments ruled in Canberra and Ottawa. Tony Abbott and Stephen Harper were self-described soul-mates. Their political parties had extensive links. Both led majority governments.

Today, Justin Trudeau enjoys a solid parliamentary majority, whereas Malcolm Turnbull has only a one-seat majority in the lower house and is frustrated continuously by the elected Senate where he does not have a majority. This problem – somewhat inherent in the Australian system – is causing much commentary about the “governability” of Australia in which the elected Senate, whose balance of power is determined by small factions and independents can frustrate decisions taken by the government. The word “deadlock” is now being used with increasing frequency to describe Australian politics.

Mr. Turnbull's position is made more difficult by leading a party with a contingent much more conservative than himself, which means he has had difficulty articulating views that are seen as his own rather than being shaded by the political exigencies of keeping his party together. The party is divided between its conservative and liberal wings, of which Mr. Turnbull would be a member, but he must bow to the conservative wing on issues such as carbon pricing that he once espoused but now rejects. Spending

cuts to deal with Australia's large budgetary deficit (around \$40-billion) are being blocked in the Senate; tax increases are not in the cards, and Mr. Turnbull will not raise the Goods and Services Tax to pay for tax reductions elsewhere. The result is that the deficit remains unattended, political debate is increasingly fragmented, and more polarization characterizes Australian politics. Indeed, the Labor Party, having changed its rules for selecting leader to give the rank-and-file a more important role, has moved further left, with its leadership disproportionately drawn from the ranks of the trade unions.

Fragmentation is being accentuated by the return to some prominence of the One Nation party whose support is rising, especially in Queensland and Western Australia. With seats in the Senate and more ready access to the media, One Nation's anti-immigrant message, its skepticism about free-trade and its attacks on elitist institutions are resonating, if polls can be believed, with 10 per cent of the overall electorate.

What to make of the Trump administration? That is a central preoccupation for the governments of Australia and Canada. Without strong and purposeful American leadership, the world is a more precarious place. Obviously, Canada, with 75 per cent of its trade being done with the United States is exposed to changes in U.S. policies and attitudes, but Australia too might find itself in an uncomfortable place, especially if, as is likely, the Trump administration takes a much harder line with China on trade and security.

The Trudeau government, its popularity still intact after almost 18 months in office, made constructive dealings with the Trump administration a very high priority, despite obvious policy and philosophical difference. A whole-of-government approach was undertaken to dealing with the president and his team, with ministerial visits to Washington, re-arrangement of the cabinet secretariat and foreign affairs, a new foreign affairs minister, advice sought and given from experts outside the government, including former prime minister Brian Mulroney, and finally a visit to Washington by prime minister Trudeau. The meeting was deemed to have gone smoothly, in that the president stuck to his script (not an everyday occurrence), all the right things were said, and the prime minister

returned home having avoided controversy. But how to deal with the Trump administration will be an abiding preoccupation of the Trudeau government, as it tries to find the balance between protecting the vital U.S.-Canada relationship against a backdrop of a Canadian electorate eighty per cent of which would have preferred Hillary Clinton.

In the discussion of politics, it was noted that Australia and Canada are domestically moving somewhat in different directions, because Australian politics is fragmenting whereas Canada's is not. To the extent that they can, both countries, while protecting their own interests, should continue to try to persuade the United States of the importance of free trade and international, multilateral engagement.

CEO Roundtable

Chief executives who participated in a Forum panel said they were grappling with understanding massive global changes, many of them political such as the arrival of Trump, Brexit and growth of anti-globalization sentiments. Some interesting differences emerged however between Australian and Canadian chief executives from a PwC survey in 2017. Canadian executives are somewhat less concerned about cyber threats, third party entrance to markets and infrastructure than their Australian counterparts, but are more concerned over protectionism. Sixty-three per cent of Australian CEOs are concerned about the lack of trust in business compared to 46 per cent in Canada. A majority of CEOs in both countries were confident about growth, despite unsettling international developments.

All the executives were committed to free trade, saying it was the lifeblood for their companies. Some of them echoed the themes of Minister Champagne earlier: that "inclusive growth" rather than winners-and-losers growth could help dampen protectionist sentiments. More women in business, and more minorities, will help create a better image for business, and will help them relate better to their communities and customer needs. This objective was especially hard for natural resource firms and engineering companies, since women graduating in engineering are a minority of total graduates. Executives stressed that working with Indigenous peoples would also become more important, as they strive for improved living standards and companies in turn strive to achieve more

acceptance for their activities, especially in remote areas where resources can be developed and where Indigenous peoples live. Executives observed that companies are sometimes still finding difficulty in recruiting enough skilled labor in some sectors.

One challenge, identified by several participants, was the delayed impact of the commodities boom that ignited labor cost increases in both countries – for example, oil in Canada and mining in Australia - that could not easily be sustained when the boom evaporated. And regulations imposed by government continue in some instances to constrain growth. Every company operating internationally, especially in the Pacific, must be cognizant and arrange business plans to take account of the Chinese market that continues to grow, perhaps not as rapidly as in the past but still faster than any other large market, including in the number of Chinese taking overseas trips for tourism, a development that offers considerable opportunities for both Australia and Canada.

Technology and Innovation

“How do you drive innovation, in a company or a government, and derive benefits from it?” This comment, by one of the Forum members, encapsulated much of the discussion around technology and innovation – how to foster it and capitalize on it in medium-sized countries such as Australia and Canada.

Both countries have talent and attract more with immigration. They have fine universities and technical colleges. One participant noted that in the world of clinical trials, “Australia is one of the best places in the world to do clinical trials.” Their workforces, by world standards, are well-trained, even if a gap sometimes exists between what the market needs and what these institutions are teaching. Major Australian and Canadian cities, by international comparative standards, are vibrant, diverse and culturally interesting – important attributes, since people in knowledge industries cluster in cities. Attracting them from overseas to Australian and Canadian cities on the basis of lifestyle and safety should be easy.

Participants agreed that these were assets, but they also agreed on challenges neither country was fully overcoming, perhaps the most

commented- upon being the difficulty of taking innovative ideas to market; that is, commercializing them. The OECD ranking for innovation, a participant noted, is 14th for Canada, 16th for Australia. “We have great scientists. We have great people. But we fall apart on collaboration and commercialization. What holds us back?” a participant observed.

To which another participant replied, “We lack density of capital, ideas, people, and we have floppy geographies. We don’t have capacity of scale. The breakthrough capacity of companies is limited.” It is not easy, therefore, to connect ideas to market. And even if a company does attract superior people, how do they retain them when the search for talent is worldwide, and poaching can be endemic? What was noted encouragingly was the proliferation in Australian and Canadian cities, and on university campuses, of entrepreneurship among many young people. And the corporate sector is increasingly paying attention to what they are producing, partly as a defensive measure since ideas percolating from these start-ups might be disruptive to established ways of doing business.

In Melbourne, it was explained that an innovation district is being created financed largely by the Chinese who want to do innovation outside their own country by tapping into external expertise. The Chinese will do this elsewhere. Innovation hubs have also been created in Stockholm, New York, Toronto (MARS) and in other cities. Can they be connected to each other, to create “virtual hubs?” These are new initiatives, differing among themselves, as countries and cities search for the best model, there being no agreed-upon definition of the “best.” Even if new technologies are developed, can they be applied to real life, and can they keep up with the changing nature of work? For business, one participant explained, being near talent and partnerships is critical, because from them arise ideas, and from ideas “we are always thinking of everything we can do to induce the next generation to get our moon shot.”

Outlook for the Australian Economy

Philip Lowe, Governor of the Reserve Bank of Australia, addressed the conference, noting the close relationship and frequent contacts between his institution and the Bank of Canada. Indeed, on the weekend before he spoke, Mr. Lowe said he had communicated with his opposite

number in Ottawa. Both countries, he noted, were medium-sized countries, rich in natural resources, with floating exchange rates, attractive for foreign investment and immigration, but with the problem in certain urban markets of large increases in housing prices.

Both countries demonstrate that open and free trade brings growth and leads to more economic resiliency, although we must understand that benefits can fall unevenly. Openness does not necessarily deal with distribution.

The outlook for the Australian economy: about 3 per cent growth in the next few years, with no change in the unemployment rate. Wage growth is likely to be limited, with headline inflation to be a little above 2 per cent. To a greater degree than Canada, shifting commodity prices lifted the national economy when iron ore and oil prices rose, although the prices for iron and coal increased faster than the price of oil. In the early part of the decade, mining investment as a share of GDP jumped to 9 percent from 3 per cent. The mining boom pushed up the exchange rate (as the oil price rise did in Canada), hurting some sectors. Then came a slump in mining prices, but the headwind of declining mining investment is likely blowing itself out. More recently, commodity prices have risen somewhat, but nothing like during the boom. Non-mining business is falling in Queensland and Western Australia, but increasing in New South Wales and Victoria.

The economy also features strong housing prices and a buildup of household debt. Some of the housing price rise can be attributed to population growth: 1.7 per cent per annum in Australia over the last decade, 1.3 per cent in Canada. Investment also came into coastal cities from offshore investors. Influenced by low interest rates and resilient economies, people found it an attractive time to buy houses. Household debt in Australia is at all time high, with a debt-to-income ratio of about 160 per cent, which is about the Canadian rate. High debt and stagnant income depress consumption, so the household savings rate is declining. Under these circumstances, many workers in Western countries feel themselves a bit shell-shocked because of international competition. Global competition and technology make workers reticent to push for higher wages, but higher wages would help the household debt situation.

He said governments should not be afraid of borrowing to finance properly managed infrastructure projects, but financing current expenditures is problematic. (Australia's deficit is about \$40-billion; Canada's about \$25-billion.) Monetary policy can only do so much, especially if political and business leaders are taking decisions that lower growth.

Institutions of Higher Learning

A lively discussion swirled, as it has at other Forum meetings, around the role of universities and whether and how they could be engines of economic growth for countries such as Australia and Canada. The answer from participants at the Forum was, yes, absolutely universities can and should foster collaborative relationships with the private sector.

The ways this can be accomplished are many, and some were discussed at length. Co-op programs, for example, place undergraduate students for a period of time at private-sector companies where they attain hands-on experience. Consortiums of companies and universities can be created in a given sector. There is no one model that fits all for this kind of collaboration, in part because time to market varies greatly. In aerospace, the runway is long; in brain research, perhaps even longer; but in information technology, the pace of discovery and application can be very fast indeed. Clusters of expertise, organized geographically or around a particular discipline, can be encouraged by government and supported by universities and the private sector. As one participant argued, we need BUGS – Business, Universities, Governments all creating Systems of learning, creating and applying knowledge in different fields, health-care being a fine example. What would be required for effective BUGS, he asked? Four factors: a real determination by all partners to work together (China and Israel are good examples), expertise in fundamental research, an ethos that says discovery is not enough because discoveries have to become applied and driven to application, and outside funding to help drive discoveries to application.

Partnering with business can be good business for the universities. In one case mentioned by participants, an invention that goes to market will produce a one-third split of revenues for the inventor, the school or faculty

in which the inventor works and one-third for the university. In some cases, referred to in the discussion, universities made tens of millions of dollars; in one specific case, a large company is moving 35 research staff permanently to a university. Instead of being considered a charitable donation, private sector contributions to university research and application can be eventually about a return on investment. It was argued by one participant that return on university research when linked to business is better than 15 per cent. Universities confront the reality that government transfers are not keeping up with demand or operating costs, so private sector links are more important than ever.

Universities are finding that an increasing number of students are extremely entrepreneurial, wanting to run idea labs and develop their own ideas rather than repeat those of others. As one participant observed, students “want to employ themselves not be employed.” But top-flight universities in middle-sized countries such as Australia and Canada do face the challenge that some of their best graduates depart for greener pastures – the United States, for example—where they can earn more money and work for cutting edge international companies. The large number of Canadians working in Silicon Valley offers but one example of migration away from the place of being educated.

Asian Investment Opportunities

There is no Asia, except loosely defined on a map. Countries, cultures, economies, political systems, religions are all different, and tensions sometimes run between countries. This was among the salutary warnings delivered by participants with considerable experience in the region(s) of Asia. In assessing risks, what applies in one Asian country might not apply in another, said one participant whose company had done, and is doing, work in many Asian countries. Said another participant, “sometimes shareholders are wary (of Asian investments) because Australian companies have invested and lost a lot of money because they haven’t taken time to understand markets.” Asian markets are often “relationship markets” whereby extensive face-to-face contacts and the building of trust takes time. Patience is therefore often an entry point to considering investments in Asia. Regulations vary hugely, as between for example, Singapore, considered in one survey to the easiest place in the

world to do business, and Malaysia, ranked 177th. There is also a degree of political uncertainty in the region with the emergence for the first time since World War Two of what one participant called “assertive geopolitics” involving rising defence budgets and maritime boundary disputes, to say nothing of the unknown intentions of the United States in the region under President Donald Trump who used extremely harsh language during the election campaign about China.

But panelists agreed that Asia, however defined, was too large and growing too fast to ignore, whatever the challenges of investing. The region has been providing two-thirds of the world’s economic growth. In 15 years, it is estimated that Asia will have four of the five largest economies in the world: China, India, Japan and Indonesia. It will have 21 of the world’s 37 megacities. So fast will be the growth of population and GDP that Australia will struggle to remain in the G20 group of leading economic nations. Indonesia, Australia’s neighbor will soon be a 1-trillion economy, and Australia has largely missed taking part in that growth.

Panelists discussed what sorts of investments are prized in Asia. The answer was that there are huge opportunities everywhere, especially in infrastructure such as transportation and energy. There was a consensus that “brown field” type projects were more available for investment than “green field” ones. Public pension funds, of which both Australia and Canada have developed, are interested in investing in the region, witness to which is the opening by Australia Super of an office in Beijing and the Canada Pension Plan Investment Board’s opening of an office in Mumbai. These funds, if they wish, can take a long-time frame for investment returns compared to private equity funds that need a turnaround within, say, a decade.

Next Meeting

It was announced by the Co-Chairs that the next meeting of the Forum will be held in Montréal in the Canadian summer of 2018.