



THE AUSTRALIA-CANADA ECONOMIC LEADERSHIP FORUM

Renewing the Partnership for the 21st Century

July 23-25, 2012 in Toronto, Canada

Report

The second Australia-Canada Economic Leadership Forum, a summit of some 140 senior private and public sector leaders from both countries, enjoyed a lively and open exchange of views on current trade and investment issues, demonstrating a high level of commonality and urgency in their appreciation of the strategic economic challenges facing both countries, partners and allies who share common historical roots, experiences, and values.

The 2012 Forum, co-chaired by the Honourable Mike Rann and Mr. Thomas d'Aquino, considered a wide variety of pressing economic concerns that both countries need to address: competitiveness and international trade priorities; approaches to the global economic recovery following a devastating economic and financial crisis; responses to immense opportunities and transformational change in the Asia-Pacific region; and leading-edge policies for harnessing technological innovation and change.

The discussion clearly demonstrated that, while there are no two countries more alike than Australia and Canada, the relationship is underdeveloped relative to its potential and should be given greater attention. Given that Australia and Canada are blessed with an abundance of natural resources, leaders agreed that there is significant potential for working together on such issues as global food policy, the supply of minerals and energy in a resource-constrained world, and the regulation of foreign investment.

To catalyze bilateral cooperation, many participants urged Australian and Canadian business, education, cultural, and governmental institutions to forge closer links and build a culture of collaboration. More critically, they agreed that leadership at the top is paramount if the two countries are to realize the benefits of each other's assets and experience in meeting the challenges of the Pacific century, including Canada's privileged relationship with the United States and Australia's growing experience with China.

Attendees agreed that their countries' joint participation in the Trans-Pacific Partnership (TPP) should provide a solid base for strengthening their relationship, but also emphasized that much can and should be done on a bilateral basis to complement the TPP initiative.

Building on recommendations following the 2010 Leadership Forum

Based on two thorough and provocative background papers prepared for the Canadian Council of Chief Executives (CCCE) and the Australian Industry Group (Ai Group),¹ leaders readily endorsed their recommendation that the two countries should move expeditiously to update the policy framework for the bilateral economic relationship and build value together. Specifically, the two organizations recommended that the two governments:

- eliminate tariffs on bilateral trade, including in the agricultural sector, and apply non-restrictive rules of origin to facilitate the use of preferences;
- establish a bilateral framework for consultations and cooperation on bio-security measures to reduce the commercial impact of existing risk-mitigation measures and to provide advance notice of concerns that might lead to new measures;
- enter into a competition policy agreement that suspends the operation of anti-dumping laws in the bilateral relationship;
- develop a formal dialogue between Canada and Australia to facilitate mutual professional accreditation;
- update the bilateral air services agreement with a higher level of ambition;
- enter into a bilateral investment agreement that delivers most-favoured-nation treatment for Canadian and Australian investors;
- conclude negotiations to modernize the bilateral tax treaty;
- negotiate a labour mobility agreement;
- negotiate a government procurement agreement that provides Australia and Canada MFN treatment;
- Canada, commit to fully participate in the APEC Business Travel Card program; and
- Australia, liberalize the terms of its youth working holiday program for Canadians by extending the term to two years and/or waiving the requirement for “specified work” in rural areas as a condition of re-application.²

Where do we go from here: Immediate steps ripe for action

Many participants in the Forum indicated that an even more ambitious approach was both possible and desirable. For example, the two countries should not see themselves as resource-based competitors but as partners pursuing similar interests in realizing the benefits of a rapidly changing global economy. To that end, rather than waiting to negotiate new bilateral arrangements, the two governments could implement many of the recommendations immediately and consolidate them as necessary in subsequent bilateral agreements. Early action would contribute to addressing one of the issues facing both countries: manufacturing sectors that are lagging behind more vigorous resource and service sectors.

In both countries, the transition to more specialized production remains incomplete and would benefit from forward-looking policies that accept that many of the customs, regulatory, and other policy instruments of the past now serve largely as drags on the economy and retard fuller participation in new global integrative trade patterns. Sales by foreign affil-

1 *Canada-Australia Commerce: Enhancing the Relationship*, April 2012, prepared by Dan Ciuriak for the CCCE, and *Australia-Canada Bilateral Trade and Investment: Prospects for Enhancing the Relationship*, January 2012, prepared for the Ai Group by the Institute for International Trade at the University of Adelaide.

2 Joint Statement by the Australian Industry Group and the Canadian Council of Chief Executives, “Enhancing Canada-Australia Commercial Relations,” April 26, 2012.

iates of Canadian and Australian firms, for example, are an important indicator of new global production patterns; while growing, sales still lag far behind those of US, UK, and other firms.

Changing reality and rules of the game: Finding the right policy mix for success

On a wider front, participants considered the challenges posed by the development of new global trade, investment, and production patterns and the need to adapt both business and public policy priorities to this new reality. Forum participants heard that changes in the relative prices of resources, manufacturing, and services have led to slow growth in the mature economies and rapid growth in emerging ones. Fiscal and current account imbalances in the mature economies are more than offset by the emergence of a group of developing countries as major creditor economies, with serious implications for future global economic and geopolitical developments. Declining opportunities across the Atlantic have been more than offset by new opportunities across the Pacific, but with a distinct difference. In place of the Atlantic economy of the past focused on trade and investment among countries at similar stages of development and with a common appreciation of the “rules of the game” governing the divide between private and public interests, Canada and Australia now face a global economy with many more players, many of whom have a different understanding of both the rules and the boundaries of public-private interaction.³

Leaders generally agreed that, with the right policy mix, Australia and Canada are well-positioned to prosper in these new circumstances. Both countries, however, need to finish their transition to more open trade and investment conditions, complemented by the development of more entrepreneurial and aggressive business cultures. Productivity growth and innovation in both economies remain sub-optimal and need to be addressed with some urgency. Some participants suggested that Canadian commercial ties to the US economy will continue to be a problem in the short term but remain an asset in the longer term as the US gradually adapts and addresses its fiscal and current account imbalances, paving the way for a strong recovery. More fundamental structural problems in Europe and Japan point to a much longer period of recovery for these economies.

China and new global and regional economies: Challenges and opportunities

Much of the discussion during the Forum focused on the challenges posed to both countries by the emergence of new global and regional economies — for example, China, India, Indonesia, and Brazil — as formidable competitors, as enticing new export and investment markets, and as partners in global production and value chains. With nearly half of the world’s population and rapidly growing urban middle classes, these countries offer immense trade and investment opportunities. At the same time, they have emerged quickly over the past decade or two, they do not govern their economies on the same basis as the more mature economies of the OECD, and they rely to a much larger extent on state trading and investment as vehicles for economic development and wealth creation.

³ See the analysis and recommendations in *Winning in a Changing World: Canada and Emerging Markets* (Ottawa, iPolitics, 2012), a report prepared by Derek Burney, Thomas d’Aquino, Len J. Edwards, and Fen Osler Hampson.

China's emergence as a major economic power, in particular, poses major challenges to both countries, and their respective experiences in dealing with China point to the potential benefits of productive cooperation. China is hungry for protein, energy, and resources, and Canada and Australia both boast significant supplies of all three. The two countries are thus well placed to use the leverage created by these assets to ensure greater access for their exporters to the Chinese economy and to ensure that China is a mutually beneficial investor in the exploitation of these resources in Canada and Australia. Much thought will be required to work out the best way to exercise that leverage.

After thirty years of unprecedented export-led growth based on low-cost labour and rapid investment in infrastructure, the Chinese leadership is now embarked on a second phase of its economic transformation: creating the incentives for a consumer-based society complete with a robust social safety net, while maintaining its presence in world markets. Chinese leaders recognize that China will need to develop more indigenous technology, accept freer capital markets, and nurture more private enterprise. Again, Canadian and Australian firms and governments are well-positioned to participate in this transformation to the mutual benefit of all three countries.

China is on a path to become the world's largest economy within the next two decades, but will continue to face formidable internal challenges. Together with the United States, it will dominate the global economy for much of the 21st century. The leadership style of these two giants, however, will be markedly different, reflecting their different experiences and priorities. The extent of Chinese engagement in the global economy points to a more benign rivalry than was evident during the era of US-USSR dominance. Given Canada's long-standing and productive relations with the United States and Australia's recent experience in China, the two countries are favourably positioned to act as bridges between these two major players.

While China is clearly the largest and most enticing trade and investment partner in Asia, participants also pointed to the opportunities created by the remarkable growth and opening of India, Indonesia, Vietnam and other southeast Asian countries. Many of these economies will soon reach the level of development achieved by South Korea and as such will create many new opportunities and challenges. Indonesia, for example, has succeeded in sustaining its transition to democracy while steadily growing its economy and consumer base. Australia's growing diplomatic relations with Indonesia attest to its confidence in Indonesia as a trade and economic partner, a step Canada may want to emulate. India has also undergone a cultural change in its attitude to trade and investment but faces formidable economic and political challenges to catch up to its Asian competitors. Its sheer size, however, points to a continuing need to monitor developments and pursue emerging opportunities.

Cooperation no-brainers: Food security, energy, resources, and innovation

Participants discussed four issues that lend themselves particularly well to Canadian and Australian expertise and cooperation: food security, energy and resource development, innovation and skills development, and investment policy. Early progress on removing obstacles to bilateral trade and investment such as remaining tariffs, contingency protection measures, phyto-sanitary measures and professional accreditation, would further enhance the prospect for productive collaboration on all four fronts.

Attendees considered the challenges that the world faces in feeding a potential nine to ten billion people by mid-century, many of them with growing incomes and expectations.

The world's supply of suitable arable land will soon reach its limits, pointing to the urgent need for innovation in crop science, improvements in agricultural productivity, efficiency in the logistics of food distribution, and the reduction of trade barriers. Reducing waste and spoilage, particularly in developing countries, will also be critical to increasing the availability of food on a global basis. Australian and Canadian firms have been leaders and innovators in increasing global food supplies but could benefit from more joint efforts and supportive public policy initiatives.

Participants agreed that the considerable expertise of Canadian and Australian energy and mining companies provides the potential for productive cooperation as model investors, for example, in Africa, and for developing extraction technologies. Both countries are blessed with large energy and resource endowments and will remain leading global exporters. Australian and Canadian-based firms are also major developers of energy and resource endowments around the world. Demand for energy and resources has grown quickly over the last decade and will continue to expand, particularly in Asia. To meet this demand, Australian and Canadian firms will need to address formidable technical, labour, policy, environmental, and infrastructure challenges. Participants agreed that collaborative efforts will prove critical to success.

The influx of state-owned enterprise capital: a thorny issue

One of the thornier issues discussed at the Forum was how the two governments should manage the influx of capital from Chinese-based state-owned enterprises (SOEs). The recent proposal by China National Overseas Oil Corporation (CNOOC) to acquire a controlling interest in Nexen, a Canadian oil major, provided a point of departure for much of the discussion. The growing shift in available capital from mature to emerging economies further animated the discussion, as did the reality that the rules operating in these countries do not offer equivalent treatment to Canadian and Australian investors.

Most participants agreed that an open, non-discriminatory investment climate is critical to both economic growth and greater participation in the global economy and welcomed the more open investment rules now operating in both countries. Nevertheless, many also expressed concerns that SOEs operated on different principles than private firms, enjoyed tax and cost-of-capital advantages, and often proved less profitable and less innovative than private firms. Given these realities, governments need to subject investments from SOEs to enhanced scrutiny. Most participants accepted the difference between greenfield investments and acquisitions and mergers of existing assets, indicating that the latter need much closer scrutiny than the former. Discussion also pointed to the desirability that governments review their competition and tax policies in order to ensure that these instruments of public policy are consistent with their investment objectives.

Taking our joint research and education assets to the next level

Both Canada and Australia boast quality universities and research institutions which, over the years, have developed fruitful joint programs and exchanges. Nevertheless, Forum discussion pointed to the scope for more joint ventures in innovation and education. Canada has much to learn, for example, about attracting foreign students. The rapid evolution of more sophisticated and shorter product cycles and greater global competition will require that both countries maintain leading-edge skills development and innovation policies and practices. Neither Canadian nor Australian firms have a sufficiently robust track record in bringing the fruits of research and development to global markets, but collaborative efforts

should assist in meeting this goal. A number of interesting ideas were advanced during the discussion, ranging from the innovative use of university/private sector interns to a collaborative effort among Canadian and Australian universities and firms to establish a quality technical university in China.

Nourishing the Australia-Canada relationship: The dialogue continues

Participants enthusiastically agreed that this second forum had more than met their expectations in advancing the prospects for a more vigorous Canada-Australia relationship. Building on the 2010 Forum, Leaders had succeeded in moving the bilateral agenda to a new level. Many looked forward to continuing the dialogue in 2013 and on to the next Australia-Canada Forum slated for Australia in approximately 18 months time, with a view to reviewing progress made on the many good ideas discussed in Toronto. Continued discussion among business and government leaders within each country will be critical to continued progress.

The high level of participation by senior government and business leaders from both countries pointed to the momentum created by the Forum and to the potential for early and productive cooperation on the shared objectives of strengthening bilateral commercial ties and accelerating cooperative efforts to address regional and global issues. Attendees emphasized, however, that continued engagement by both senior government and business leaders in pursuing a joint agenda will be essential to reaching early results on these objectives. The many productive new personal relationships that were established in Toronto should add to the momentum created at the initial Leadership Forum.



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SPEAKERS IN ORDER OF APPEARANCE

Monday, 23 July

Royal Ontario Museum

Thomas d'Aquino, Chairman, Chairman, Thomas d'Aquino Capital and Forum Co-Chair

The Honourable Mike Rann, former Premier of South Australia and Forum Co-Chair

David Fleck, President and Chief Executive Officer, Macquarie Capital Markets Canada Ltd.

The Honourable Dalton McGuinty, Premier of Ontario

The Honourable John Baird, P.C., M.P., Foreign Affairs Minister, Canada

The Honourable Kevin Rudd, Member of Parliament, former Prime Minister of Australia and former Minister of Foreign Affairs

Tuesday, 24 July

The Ritz-Carlton Hotel

The Honourable Mike Rann, former Premier of South Australia and Forum Co-Chair

Thomas d'Aquino, Chairman, Thomas d'Aquino Capital and Forum Co-Chair

Bruce Flatt, Senior Managing Partner and Chief Executive Officer, Brookfield Asset Management Inc.

The Honourable Ed Fast, Minister of International Trade and Minister for the Asia-Pacific Gateway, Government of Canada

Thomas d'Aquino, Chairman, Thomas d'Aquino Capital and Forum Co-Chair

The Honourable John Manley, President and Chief Executive Officer, Canadian Council of Chief Executives

Innes Willox, Chief Executive, Australian Industry Group

Diane Francis, Journalist, Author and Editor-at-Large, National Post

David Dodge, Senior Advisor, Bennett Jones LLP and former Governor, Bank of Canada

The Honourable John Engler, President, Business Roundtable

Geoffrey Garrett, Dean, University of Sydney Business School and Chief Executive Officer, United States Studies Centre

Michael Thawley, Senior Vice President, Capital Research and Management Company and Capital Strategy Research Inc.

The Honourable Michael Wilson, Chairman, Barclays Capital Canada Inc.

Calin Rovinescu, President and Chief Executive Officer, Air Canada

The Honourable Greg Selinger, Premier of Manitoba

The Honourable Mike Rann, former Premier of South Australia and Forum Co-Chair

Mayo Schmidt, President and Chief Executive Officer, Viterro Inc.

David Crombie, Commissioner, Australia Centre for International Agricultural Research

Gaëtan Lussier, President, Gaëtan Lussier and Associates

John Denton, Partner and Chief Executive Officer, Corrs Chambers Westgarth and Director, Business Council of Australia

Dominic Barton, Global Managing Director, McKinsey & Company

John McCarthy, Chair, Australia-India Council and former High Commissioner to India

Stephen Poloz, President and Chief Executive Officer, Export Development Canada (EDC)

Yuen Pau Woo, President and Chief Executive Officer, Asia Pacific Foundation of Canada and Advisor, Shanghai WTO Affairs Consultation Centre

Steven Landry, Managing Director, ATCO Australia

Michael Cleland, Nexen Executive in Residence, Canada West Foundation and former President and Chief Executive Officer, Canadian Gas Association

Timothy Cutt, President, Diamonds and Specialty Products, BHP Billiton

Hal Kvisle, former Chief Executive Officer, TransCanada Corporation

Chris Moran, Director, Sustainable Minerals Institute, University of Queensland

The Honourable Mike Rann, former Premier of South Australia and Forum Co-Chair

Her Excellency Louise Hand, Australian High Commissioner to Canada

The Honourable Martin Ferguson, Minister for Resources and Energy, Minister for Tourism, Government of Australia

Michael Small, Canadian High Commissioner to Australia

Wednesday, 25 July **The Ritz-Carlton Hotel**

Heather Ridout, Professional Director and former Chief Executive, Australian Industry Group

Thomas d'Aquino, Chairman, Thomas d'Aquino Capital and Forum Co-Chair

Leonard Edwards, Strategic Advisor, Gowling Lafleur Henderson LLP and former Deputy Minister of Foreign Affairs, Government of Canada

Fen Osler Hampson, Chancellor's Professor, Carleton University and Distinguished Fellow and Director of Global Security at the Centre for International Governance Innovation (CIGI)

Jack Mintz, Director and Palmer Chair, School of Public Policy, University of Calgary

The Honourable Perrin Beatty, President and Chief Executive Officer, Canadian Chamber of Commerce

Paul Davies, Director, C & M International Ltd.

Virginia (Ginny) Flood, Vice-President Canada, Rio Tinto

Tim Harcourt, Author, 'The Airport Economist' and Adjunct Professor, Australian School of Business, University of New South Wales

Michael Barber, Vice-Chancellor, Flinders University

Craig Roy, Deputy Chief Executive, Science, Strategy and People, Commonwealth Scientific and Industrial Research Organisation (CSIRO)

Indira Samarasekera, President, University of Alberta

Muhi Majzoub, Senior Vice President, Engineering, OpenText Corporation

The Honourable Malcolm Turnbull, Shadow Minister for Communications and Broadband, Government of Australia

Janice Gross Stein, Director, Munk School of Global Affairs, University of Toronto

Paul Kelly, Journalist, Author and Editor-at-Large, The Australian