



AUSTRALIA-CANADA ECONOMIC LEADERSHIP FORUM

RAPPORTEUR'S REPORT

FOR THE 2015 AUSTRALIA-CANADA ECONOMIC LEADERSHIP FORUM
July 6-8, VANCOUVER, CANADA

Australia and Canada: Pacific Partners, Global Players

Vancouver was a fitting host for the fourth Australia-Canada Economic Leadership Forum, an event that brings together key government and business figures to promote trade and cooperation between the two countries. Building on momentum from previous meetings in Sydney (2010), Toronto (2012) and Melbourne (2014), the 2015 Forum saw over 150 senior business and government leaders gather in British Columbia, Canada's Asia-Pacific Gateway, to share views on a number of issues impacting both nations.

The 2015 Forum was co-chaired by Heather Ridout from Australia and Norman Steinberg from Canada. Themes of this year's event included Australia and Canada as global partners, means of engaging Asia, energy and natural resources and key factors in Australian and Canadian competitiveness. The Forum provided an opportunity to highlight how remarkably strong the commercial relationship and people-to-people ties have grown since Canada's very first Trade Commissioner, John Short Larke, arrived on the shores of the Sydney Harbour in 1895. While vast geographic distances separate the two countries, it was noted that in many ways they are right next door as the strong friendship is underpinned by a common heritage and shared values. The desire to strengthen these ties was evident in discussions which focused on how both countries can continue to learn from one another and collaborate on issues.

Bilateral Engagement

The presence of high level political leaders throughout the Forum underscore the importance both governments place on the bilateral relationship.

The Honourable Ed Fast, Canada's Minister of International Trade, opened the Forum with an inspiring review of the commercial connections and an aspiration to deepen already significant ties, particularly in the areas of natural resource development; infrastructure; transportation; equipment; agriculture; technology; and knowledge based sectors. He was proud to officially release the Australian Market Access Plan which will be a useful tool for Canadian enterprise interested in identifying business opportunities and partnerships in Australia.

The Honourable Joe Oliver, Minister of Finance for Canada and The Honourable Jamie Briggs, Assistant Minister for Infrastructure and Regional Development for Australia spurred on a spirited discussion surrounding the theme of partnership in the pacific and globally. They highlighted the growing bilateral commercial relationship in trade and investment between both countries and responded to many questions from participants.

The Honourable Julie Bishop, Australia's Minister for Foreign Affairs and The Honourable Rob Nicholson, Canada's Minister of Foreign Affairs, addressed Forum participants in a joint session over dinner and answered wide ranging questions touching on issues from diplomacy to global security. They also highlighted the Glasgow-Burchell Declaration which they signed earlier in the day. The aim of the declaration is to strengthen operational cooperation and enhance the effectiveness of the two countries' overseas diplomatic networks. Areas for potential additional cooperation include conducting, when appropriate, joint exercises at our respective missions and considering co-location when mutually desirable. To oversee this enhanced cooperation and monitor progress, senior officials from both countries will hold an annual dialogue.

Engaging a Dynamic Asia

There was widespread agreement that the time is now to proactively engage Asia, which will inevitably continue to represent an increasing share of world trade and investment. As the Canadian and Australian economies continue to feel the effects of global economic volatility and a drop in commodity prices, it is essential for the countries to work with emerging markets to stimulate growth. Participants emphasised the importance of conducting business by securing robust free trade agreements, forging strong relationships, streamlining regulation, reducing red tape, maintaining strong financial institutions and frameworks, keeping taxes low, increasing productivity and encouraging private enterprise to invest in research and development.

In terms of expertise and proximity to the Asia-Pacific region, commercial partnerships between Australia and Canada were encouraged in order to build on the advantages available in both markets. With rapidly developing economies and a growing middle class, it was noted that Asian countries present enormous potential and therefore highlight the importance for governments to eliminate tariffs and non-tariff barriers that can hinder trade. Australia has shown leadership with free trade agreements in force with Japan, South Korea and the Southeast Asian nations, and a recently signed a trade deal with China. Similarly, Canada has recently brought into force a free trade agreement with South Korea, its first in the region, and has embarked on an ambitious trade expansion plan.

Conversation touched on the Trans Pacific Partnership (TPP), a trade deal currently under negotiation and of significant importance to both economies, which will enforce a more equal playing field among twelve member countries through a comprehensive framework and established trade rules. Statistically, the numbers provided were staggering - a market of nearly 800 million consumers and a GDP of more than \$28 trillion. Participants agreed that the TPP represents an important economic and strategic advantage for Canada, Australia and the wider Asia-Pacific region. Specifically, it will allow businesses great advantages including opportunities in value chains, securing market access gains, and strong rules for trade and investment going forward in the region complete with provisions to support e-commerce and strong investment protections. Despite speculation that talks are stalled over contentious issues such as market access for key commodities, intellectual property rights, labour mobility issues and supply management systems in agricultural sectors, government officials on both sides maintained that negotiations are progressing with the next Ministerial level round to take place at the end of July in Hawaii. While it was unclear when negotiations will be concluded, government leaders were optimistic an agreement could be reached by the end of 2015.

Participants indicated some hesitation and uncertainty around doing business in Asia, with corruption, ethics, and state-owned enterprises named as concerns. Participants agreed and recommended that each country embrace Asian culture and its people to develop critical relationships and forge new links.

Through educational programs, tourism, enterprise, diaspora, and other partnerships, sensitive relationships need to be cultivated over time remembering that Asian cultures deeply value trust and respect which should not be underestimated.

Leaders emphasized the importance of understanding the evolving nature of Asian consumerism and the flow of people and goods, which is a critical part of the region's development. To realise success, it is imperative to delve into specifics and gain a thorough knowledge of Asian laws, histories, business cultures, languages, values, and politics. Participants recommended companies enter the market with a consistent, strong, and long term vision understanding that personal connections and the right relationships are key to wading through challenges and finding solutions. It was advised that critical relationships need to start at the top and companies in Canada and Australia should include individuals of Asian origin or heritage on boards and include them in decision making processes while also relying on the experience of Asian advisors and partners to open doors to vast networks in their home countries.

Global Natural Resources

The session's opening remarks emphasized the importance of global natural resources for both countries whose economies are similarly concentrated on commodities. While resource industries have experienced strains and stresses as prices have dropped, companies have had to ruthlessly cut costs, entering a time where it is important to produce more output with less resources. Industry leaders from both Canada and Australia provided comprehensive reports on where they are seeing challenges and how their organizations are adapting to difficult operating environments. Participants noted that governments and industry need to work together to streamline processes; keep up with changes in global demand and technological advances in order to attract investment.

Despite recent downturns in commodity prices which are expected to remain for some time, resource industry leaders maintained optimism for the future of their organizations and global natural resource industries. Both countries saw unexpected and massive demand for commodities from China, and while this has now dwindled, other markets around the world are emerging and similarly increasing demand for new products. Participants agreed that the expanding middle classes of India, Southeast Asian nations and China would continue to provide opportunities for Australian and Canadian exports. Furthermore, as developing countries industrialize, incomes and living standards will rise, driving more people to urban areas and increasing the demand for commodities such as potash, uranium, metals, energy and fertilizers. Business leaders were confident that demand will eventually overcome short term supply surpluses, and while no one can predict the future of commodity prices, they agreed that to be successful, companies need to be adaptable and act on opportunities quickly with a focus on long term growth.

Key Factors in Australian and Canadian Competitiveness: How We Compare

There is a long list of similarities between Canada and Australia, despite a few glaring differences, namely geography and weather. McKinsey & Company's Managing Partners for Canada and Australia led an energetic session on how the two countries relate via a competitiveness profile prepared for the Forum that analysed a number of different aspects of both nations. Top impediments to doing business in Canada and Australia were identified; in summary, the two countries were assessed to have a similar level of competitiveness.

The following topics were discussed at length as areas where both countries can work together and improve:

- 1) Australia has a much richer endowment from resources and is more effective at developing resources than Canada. While Canada faces challenges, it must work diligently to resolve land disputes and develop clear frameworks to manage relationships between governments, industries, and communities.
- 2) Canada is better connected to global trade flows and therefore, its economy is more diversified as a result of its inherent location advantage. Australia has an inherent resource advantage although given its location, has to commit additional resources to develop commercial relationships around the globe.
- 3) Both countries are facing demographic headwinds and must proactively attract human capital. Productivity is declining which threatens competitiveness. It was advised that both countries work on boosting skilled immigration, attracting and keeping adaptable, creative people, especially in the digital age where constant disruption is the wave of the future.
- 4) Both countries need to fix their tertiary education-to-employment chains. There are gaps in labour markets where entry-level vacancies are driven by skill deficiencies. Employers need to have more influence inside the education world and vice versa so that students are prepared to contribute to the workforce.
- 5) Australia and Canada need to reinvent government services. Governments must start attracting top talent and change the mindset that we can't afford to pay. They can do this by introducing performance indicators and unlock productivity in government services.
- 6) Both countries must encourage digital clusters through venture capital and incentives to keep up with new technology, especially in financial services. Industries are going to be disrupted and it's imperative to attract young technology savvy talent.

Funding Our Future

Participants stressed that a particular challenge for Australia and Canada are fiscal environments in the future. Both countries need to stimulate more economic growth in their domestic economies and in the global economy. This will be difficult as both countries' populations are aging, with implications for health-care costs and labour supply. Participants indicated that retirement savings are inadequate as the population ages and life expectancy increases. One speaker pointed out that the Australian superannuation arrangements which are government-supported and where minimum provisions are compulsory for employees is regarded as one of the best in the world. It is based on three pillars – 1) A safety net of funds provided by the government foundation pension platform; 2) Private savings generated through compulsory contributions to superannuation (Australian employers are required to contribute 9.5% of an eligible employee's ordinary earnings to individual retirement accounts); and 3) Voluntary savings through superannuation and other investments. Canada has also introduced voluntary saving mechanisms such as the Tax Free Savings Account and Registered Retirement Savings Plans.

One way of stimulating private sector activity is private investment in public assets through Private-Public Partnerships. This topic was considered in some depth at The Canada Council for Public-Private Partnerships' 2015 Canada-Australia Infrastructure Symposium, held on the margins of the Economic Leadership Forum. Conversation touched on efficient movement of goods and people, infrastructure for future growth, innovative funding and delivery approaches for projects, divesting assets, communications networks and opportunities in the Asia-Pacific. Speakers focused on methods of financing and regulating partnerships to fund our future. It was noted that Canadian pension funds are actively bidding on Australian infrastructure and Australia is doing the same in Canada. Interest in

infrastructure spending on roads, public transit, desalinization plants, ports, power stations, rail, pipelines and hospitals is increasing while both governments aim to find the right balance between appropriate regulation and private capital investment. This is particularly important for both countries where the majority of populations are located in urban areas spread across vast geographic distances. Destinations such as Vancouver and Melbourne have repeatedly been voted the best places to live globally. It is critical to maintain these standards in order for cities to remain attractive places to visit and reside. In order to continue to draw the best and the brightest from around the world to stimulate local economies and encourage future investment, large infrastructure investments will be required.

Political Panel

Political experts commented on the like-mindedness and strong relationship between the two countries' current Prime Ministers, Tony Abbott and Stephen Harper. Both Conservative leaders share remarkably similar views and collaborate on numerous issues from climate change, combatting terrorism, operating with smaller governments, to sensible economic management. Both countries have successful middle sized economies that are heavily dependent on what happens to international markets and therefore, economic and political priorities are closely aligned.

It was noted that the leaders are often regarded as combative which amounts to somewhat negative characterization from their political critics. Public image is currently especially important for Harper who is running for his fourth term as Prime Minister of Canada with an election looming in October. Australian leaders will be watching Canadian political campaigns with great interest as many key issues are shared especially those related to national and economic security. Given the dramatic downturn of commodity prices, it is predicted that economic uncertainty and fear of recession present a possible desire for change in leadership amongst Canadian voters. Panellists emphasized that campaigns matter and politicians should not take anything for granted, especially in Canada where the top three parties, Harper's Conservatives, a more centrist Liberal Party, and the main opposition left-wing New Democratic Party, are all hovering close together in the polls. Harper does have the advantage of having delivered on much of what he promised in terms of cutting spending and taxes while getting the budget deficit back under control. The Abbott government is adopting a much more subdued approach to spending cuts, but relying more on optimistic assumptions on growth as the future saviour. Abbott has seen greater success at strengthening relationships and securing free trade agreements in Asia, which are opening up opportunities for Australians.

CEO Panel

Industry leaders shared their perspectives on how they see both countries evolving commercially and what governments, companies, policy makers and those invested in developing sustainable and successful economies need to do keep up with global changes. Many Canadian and Australian organizations know each other well, sometimes even having a presence in both markets. Speakers noted that it is convenient that both countries' economies and business frameworks are so similar because Canada and Australia can learn from each other's experiences and share best practices. For example, Australia's gas industry developed quickly in the state of Queensland to export liquefied natural gas (LNG) to Asian markets and experienced challenges along the way, particularly in upstream activities. Now, as British Columbia develops its natural gas industry for export from its west coast, it has the opportunity to leverage lessons learned from the Australian experience – technology, regulation, community engagement, expertise etc., in order to develop its industry more effectively. CEOs urged organizations to take a firm role in project development by proactively including government, industry

associations, regulatory bodies, and communities in dialogue early-on to manage communication, risk, and avoid uninformed debate.

Participants were advised that both countries need to diversify away from the resource sectors and shift their focus towards other sectors of growth. It was noted that some resource companies are proactively taking action, by including information technology and renewable energy to their portfolios, industries that are rising in importance to both economies. It was emphasised that organizations need to be nimble and seize opportunities at the right time. Speakers stressed that organizational priorities must change to keep up with changing global demands and technological disruption. As export-oriented nations, Canada and Australia must forge new links internationally to increase international capacity and create economic activity. One business leader suggested that top global economies need to work together to set the stage and put more emphasis on gender equality, education, immigration, and child care to unlock productivity.

Energy

Speakers remarked that the role of governments is pivotal to support and drive industry, to ensure companies are competitive and accountable while acknowledging key stake holders and global issues in decision making processes. As our world becomes increasingly inter-connected, there are many important issues to consider in business development planning in energy sectors, notably indigenous issues, climate change, sustainable development, environment, cultural heritage, and innovation. Both Australia and Canada are experiencing challenges in these areas, particularly as they develop their LNG industries. As a result, delays in projects and infrastructure can be a deterrent for investors who will eventually look elsewhere for the commodity. Australia has been proactive and leveraged long-standing relationships with Asian nations to secure contracts with customers and has successfully started delivering LNG by ship. It was noted, that in Canada's quest to ship LNG from the shores of British Columbia to Asia, the windows of opportunity may be closing as frustrations rise over red tape and delays in progress.

Announcements

The Honourable Julie Bishop, Australia's Minister for Foreign Affairs met with The Honourable Rob Nicholson, her Canadian counterpart to sign the Glasgow-Burchell Declaration on enhanced diplomatic network cooperation, to improve the effectiveness of our overseas networks, to develop best practices and to identify and generate efficiencies in our respective operations. The Ministers also witnessed the signing of a three-year student mobility agreement between Mitacs Canada and Universities Australia.

Canada's Minister for International Trade, The Honourable Ed Fast released the Australian Market Access Plan, a useful tool for Canadian enterprise interested in identifying business opportunities and partnerships in Australia.

Air Canada announced it will add Brisbane to its expanding international network. New non-stop flights will operate from Vancouver, British Columbia, to Brisbane, Queensland, with both cities being major business hubs and popular vacation destinations. Flights will operate three times weekly beginning June 17, 2016.

The Forum co-chairs announced the next meeting would be held in Australia in 2017.