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HD **EMBRACING THE DRAGON**

BY John Durie
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The FTA is done and now it’s up to our companies

Increased access to the Chinese market is clearly welcome but the real benefit of the China free trade agreement should be for Australian consumers who will benefit from cheaper Chinese goods.

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The latest figures show the trade balance clearly in Australia’s favour thanks to big ticket resources, but the breadth of key imports — from telecoms equipment and parts, computers, clothing and furniture — holds the key to this deal for consumers and industry.

Most commentary has praised Trade Minister Andrew Robb’s efforts in opening access to dairy, services and other items, but it is Australian industry and consumers who will reap the windfall of lower prices for Chinese goods.

That can only help the local economy and indeed industry given the Chinese are among the lowest-cost producers in the world. Cheaper input prices makes it easier for Australian industry to compete both locally and on export markets.

Australia may not impose big tariff barriers on Chinese imports but even a 5 per cent discount would be welcome and in the words of Bank of America Merrill Lynch economist Saul Eslake, “most consumers would accept a 5 per cent discount on what they buy”.

Trade is a two-way exercise and free trade agreements work best when there are domestic benefits for both sides. China needs Australian dairy and other produce as its population climbs up the value chain, as shown by the fact that 10 years ago its dairy imports stood at $100 million compared with $6 billion today, in a market dominated by New Zealand.

More competition for Fonterra can only benefit China while also opening the chance that Australian producers can develop bigger markets in China.

The deal itself is a major breakthrough for Australia and is testimony to the strong relationship between both countries.

But let’s not pretend that trade officials signing a deal is an automatic path to riches for Australian industry. Companies have to take the chance on offer — and it’s a highly competitive market.

That needs the right execution, which is something Australian companies have failed at in the past, have been asleep at the wheel or have been content to tread carefully and slowly.

In dairy, Murray Goulburn has expanded its share of the local milk herd from 30 per cent to 37 per cent and is increasingly chasing higher-value exports to China from its existing operations based in Quing Dao, Shanghai and Beijing.

Under relatively new boss Gary Helou the co-op has finally opened its eyes to China, but there is plenty of work to be done.

AMP is a 17-year veteran in China and five years ago signed a memorandum of understanding with China Life, the world's biggest listed life insurer. China Life has $370bn under management against $205bn for AMP. The latter is involved in joint ventures in which it owns 20 per cent and the ventures have raised some $4bn from the local market.

The free trade deal makes life easier for AMP but it's not about to race into business in opposition to China Life.

None of its Chinese funds has produced a profit as yet although clearly AMP boss Craig Meller has high hopes and also understands the value of being a long-term player in China.

IAG is also an Asian veteran and will no doubt look carefully at what the deal means for it, but so far it is content with its 20 per cent stake in Bohai Property, which has gross written premium totalling $376m, of which its share is $75m. It has the right to increase its ownership to 25 per cent of the Tianjin-based insurer that specialises in home and motor insurance.

Banking is on paper a big beneficiary of the trade deal and a major coup is Sydney being chosen as the South Pacific hub for the yuan trading, which means local companies can settle and transact in the Chinese currency in Sydney.

Westpac's China boss, Andy Whitford, said the deal was a significant boost, with Sydney just the eighth hub in the world after Toronto, Hong Kong, London and others. On paper the China deal means that once banks have established the criteria to be awarded full branch licence status they can roll them out across the country.

But while welcoming the deal, Whitford said his strategy was more to build out his capability in Shanghai and Beijing before going on a national tour opening a branch at every post.

The deal is seen as a clear boost to two-way trade between the countries and one in which Australian consumers will be the beneficiaries from lower-cost imports and increased Chinese investment in Australia.

The doors on key farm products have been opened but now it's up to the food processing industry to take advantage of the opportunities. That is something that they have not always succeeded at doing in the past, so time will tell whether this time it works.

Credit to the bank BENDIGO and Adelaide Bank's Mike Hirst has unveiled the model through which he can expand the bank's books by adding credit unions into the mix as quasi-community banks.

The four credit unions added yesterday bring with them $550m in loans and $620m in deposits, which on their own will expand Bendigo by just a couple of per cent. But the key here is that this is the model by which more credit unions could join the Bendigo family.

Credit Suisse's James Ellis, for one, sees the upside by which Hirst can boost his size at relatively low risk by rolling out the model to fill in gaps in the system, particularly in NSW.

The credit unions — AWA, BDCU, Circle and Service One — will continue to run their own shop fronts, but all loans and deposits will be transferred to Bendigo, which will become the approved deposit-taking institution and assume responsibility for compliance, systems and balance sheet management.

Effectively, the credit union manager will have the same power as a community bank manager.

From the credit unions' perspective, they keep their independence, remain member-owned and offer the same service.

This is a deal that should be seen as what it could mean rather than what the actual numbers say this time.

Aconex float plan WHEN investment banks start selling and underwriting "pre-profitability" companies it's either a cause of joy at the maturity of the local investors or time to hit the exits decrying the venture capital industry — depending on what side of the fence you sit.

The Aconex deal was revised back from $230m to $140m, of which 25 per cent owner private equity firmFrancisco Partners will collect $62m, some $50m will stay in the business, the founders will pocket $5m between them and other backers will collect the rest.The company is a proclaimed market leader in collaboration software for the construction industry and the deal will be sold with a market value of $312m, or 3.5 times 2015 revenue, or an enterprise value to earnings before interest, tax, depreciation and amortisation of 37 times. UBS and Macquarie are running the float.

 

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