



The Hon. Scott Morrison MP

Treasurer

Russell Matheson MP

Member for Macarthur

TRANSCRIPT

JOINT PRESS CONFERENCE, SYDNEY

FRIDAY 23 OCTOBER 2015

E&OE

Subjects: *Visit to The a2 Milk Company; China Australia Free Trade Agreement; Western Sydney Airport; NAB; the Government's response to the Financial System Inquiry*

GEOFFREY BABIDGE (THE a2 MILK COMPANY): Firstly, on behalf of The a2 Milk Company and in fact our very important milk supplier the Perich Group, we are delighted to welcome obviously the Treasurer, Scott Morrison and local member Russell Matheson to our Smeaton Grange facility today. We are obviously very pleased that the Australia and China Free Trade Agreement is now about to become a reality with obviously what has occurred in Parliament House this week. a2 milk is currently the largest exporter of branded Australian fresh milk into the China market and we are also major exporter of a2 platinum formula, wholemeal powder and hopefully very soon a2 ice cream. As it rolls out the FTA will provide significant growth opportunities for Australian companies such as ourselves, our partners, our milk suppliers and create more employment across associated industries. It is great when a partnership of Government and business can work together to achieve such a positive outcome. So, I say again we are delighted that the Treasurer has been able to join us. I would like to ask Russell Matheson, federal Member for Macarthur to introduce the Treasurer.

RUSSELL MATHESON MP: Thanks very much, Geoff, for opening up your business today for us, the a2 Milk Company. It is great to be here with also Michael Perich from the Leppington Pastoral Company and my good friend Scott Morrison, the Treasurer, who is no stranger to the Macarthur region. He is a great friend to the people of Macarthur. Obviously there are some exciting times ahead of us in relation to the Free Trade Agreement with China. The Chinese people really do have an appetite for premium quality Australian products and they certainly do have a thirst for a2 milk, Geoff. The Treasurer will obviously go into detail in relation to what is happening with that China Free Trade Agreement. So Scott, thanks for coming out here. It is good times, exciting times for small businesses and businesses in the Macarthur region. It is going to create more jobs, it is going to help the dairy industry, it is going to help with the price at the farm gate. So, we are really, really excited about the opportunity that is going to exist in the Macarthur region with this agreement. So, it gives me great pleasure to introduce the Treasurer of Australia, Scott Morrison.

TREASURER: Thank you Russell, thank you. This is why we are here today – milk for jobs. Milk going into China as a result of the tremendous Free Trade Agreement the Government has been able to negotiate and, Geoff, it's tremendously exciting to be here with you and the Perich family and the whole team of 30 employees down here in south western Sydney. This milk is going into China at an increasing rate as the tariff walls come down which we've been able to negotiate and that is just simply going to mean more jobs, not just here in Campbelltown in south western Sydney where Russell has been an absolute champion for jobs for his local community, a champion for local

infrastructure which is supporting those jobs but a champion for things like the Free Trade Agreement which are going to produce those jobs. In addition to that, it means jobs well beyond here. The cows that produce the milk that will be going to China, that go out as far as Forbes and there's jobs in Forbes as a result of what is happening here in south western Sydney. So, it's tremendously exciting.

The opportunity that is being realised here, though, in south western Sydney, has not happened by accident. There's no doubt that it's required, the Free Trade Agreement with China to achieve this result which will see significant growth in this business which has already been a great Australian success story, despite its origins in New Zealand, its success has been born and bred here in Australia. What we have seen as a result of an innovative company like A2 is that they've put the investment into technology, into people, into premises, they've looked forward, they've seen the opportunity and this Free Trade Agreement will enable them to crystallise that going forward. So this really is a partnership with the Perich family dairy farming business, with a2, with the federal Government, with the state Government which has also played an important role in opening up south western Sydney with infrastructure investment and the planning changes that they have been making.

So, this is tremendously exciting, Russell, and when we sit in parliament and we pass these laws and we seek to try and create opportunities for Australia, this is what it's all about. This bottle of milk, 1 litre, going up into China and the technology that sits behind it, the technology that sits behind what I've described inside as smart milk, clever milk, is what is creating the difference, the price premium that they can achieve in China and to separate themselves from all the other producers. They've had to invest in innovation, they've had to invest in technology, they've had to invest in their people and that's what will give them the opportunity. That is why the Government is focused on innovation, that's why the Government is focused on the infrastructure that supports businesses like this and, importantly, the Free Trade Agreements that will create the opportunities.

I want to commend Geoff and your whole team here. We're thrilled about the opportunities that are being opened up for you. We know, as a Government, that these opportunities are only realised when you have the innovative, tough-minded, competitive businesses that are prepared to go out there and have a go and this is what it will produce. So congratulations.

QUESTION: Treasurer, can you explain to us how the FTA changes the playing field for companies like a2?

TREASURER: We've got tariff rates at the moment between 10 to 19 per cent of the various products that are produced. In particular, with the powdered milk product and the liquid milk product, which has been the basis of their current export activities, those tariff walls coming down over the next 10 years will see them be able to rapidly expand their market and the profits they're able to achieve as they go forward which means they can invest because this is the sort of company a2 is, invest back into their productive capacity, invest in new products, invest in new opportunities which can potentially, down the line, see their entire product range opened up. They've already spent four years getting themselves into the China market, they've already looked ahead, they've established a presence in China which means they can capitalise on the opportunity that's here now and that's the sort of vision, that's the sort of commitment that is needed right across our business community to realise the opportunities from these arrangements.

QUESTION: Treasurer, when do you think it will be finalised, this legislation passing?

TREASURER: The Senate wasn't sitting this week, it was an estimates week. It passed the House of Representatives so I would anticipate that this Bill will go into the Senate when we return in a

fortnight's time and it will then move through the Senate. I'm a humble House of Representatives Member so I never seek to lecture the Senate. It is a rarefied atmosphere up there but I know that all the Senators and the agreement which we've been able to lead will get the strong support of the Senate because they know how important it is. It's time to get on with this. It's totally time to get on with this.

QUESTION: Treasurer, if I can ask about NAB's decision to...

TREASURER: I'm happy to come to that, we'll just deal with trade agreement issues or Western Sydney issues and then I am happy to get on to those issues.

QUESTION: Another thing that is important for jobs in Western Sydney is the construction of the second Sydney Airport.

TREASURER: Absolutely.

QUESTION: Is the Government considering a \$10 tax on flights in and out of Sydney Airport to pay for it?

TREASURER: I note the former Treasurer made some comments on this. The Government is involved in, as you'd expect, some in-confidence discussions with the Southern Cross Airport Corporation on these issues and I don't want to prejudice any of those discussions because what the Government is doing is we're going to make sure that we put the best arrangements in place for residents of Western Sydney, for jobs in Western Sydney that does the right thing by taxpayers and that does the right thing by the travelling public. So, we're going to get the best deal for all of these interests and I'm not going to prejudice any discussions or conversations that would diminish that opportunity. So, that was a proposal of the previous Treasurer and he's got every right to go and note that in his farewell speech but the Government is very much focused on these discussions and we're going to make sure we get the best deal for all of the interests I've just mentioned.

QUESTION: There was a suggestion that legislation was already in the process of being drafted. Can you confirm that?

TREASURER: The Government is, as I said, involved in direct discussions with Southern Cross as we're required to do under the original Sale Act for Sydney Airport and that's where things are at right now. So, those sorts of issues, as you discussed, I think are very premature and I couldn't even say that they would necessarily be relevant to how those discussions might end up. We're in the business of doing the right thing by the residents of Western Sydney and I'm going to pay tribute to Russell and his other Western Sydney colleagues who have been closely involved and collaborative in the work we're doing to ensure that this incredibly important project, not just for Western Sydney where it means jobs and where it means opportunities, I mean, this milk is going to fly out of Western Sydney Airport when it's operational and that's a lot closer than getting over to KSA and that's good for businesses in south west Sydney and Western Sydney right across the field here. But in addition to that it is an important piece of national infrastructure and we've already committed \$2.9 billion as a Government to the roads that are also going to support local businesses and opportunities here and the opportunities for Western Sydney residents. So, this is a big project and it's a project that is being made to happen by this Government.

QUESTION: Treasurer, what kind of challenges do you see companies like this having in preparation to the FTA?

TREASURER: I think a2's a case study of how you go about securing the opportunities in China. They have thought about it, they have thought about the products, they have put the investment into the technology and they have put the investment into the people who are up in China already, understanding that market, and ensuring that they can then take advantage of the opportunity the FTA presents. So, there's a lot of leg work you've got to do to take advantage of these free trade agreements. They're not just going to turn up to your door and say, "can I have your milk?" You have to put the work in to make sure this can get to market and, as you can see, this is what this company has done and I think they're a role model for other companies. It is not just the China Free Trade Agreement, not far from here in Western Sydney there's a company producing sake which is going to go into Japan. We're selling sake to Japan under the Japanese Free Trade Agreement. So, the opportunities and the results speak for themselves.

QUESTION: Treasurer, your reaction to the NAB rate hike?

TREASURER: On the same question as before, banks will make their own commercial decisions about how they charge customers in relation to shifts in their cost base. We do want a strong banking system, this week we announced the Government's response to the Financial Systems Inquiry review undertaken by Mr Murray and central to that was ensuring that we have a strong banking system and that's what the banks have already moved on in raising their capital levels. They do receive a handsome return on their equity, our banks, that's a good thing, I haven't got an issue with that. We want our banks to be strong but equally businesses right across the country have changes to their cost base all the time and I'm sure that's the case for you too, Geoff. Geoff will sit with his directors as the different banks will sit with their directors and they'll make decisions about what they're going to charge their customers. So, that is entirely a matter for them to explain to their customers about why they would be doing this. There's no mandatory requirement on behalf of the Government to pass on costs to consumers and different businesses will have different capabilities to do that. At the end of the day customers can choose where they want to bank and where they want to shop and where they want to buy their milk.

QUESTION: Will you take responsibility for it though because of the charges that were imposed?

TREASURER: No, not at all. Having a strong banking system is good for the country. Having a strong small-business sector is good for the country. Having a strong export sector is good for the country and as businesses incur the costs in making that happen, they will make their own commercial decisions about what they charge their own customers and any business has to be able to justify that. For example, this week we, in our response to the Murray Review, said we are getting rid of, banning, profiteering surcharges on credit card transactions. That was not a transparent cost that was being passed on to consumers and we took the view that you will not be allowed to pass on any more than it's costing you to undertake those credit card transactions for your customers. That's a big win for consumers and the onus is always on the business at the end of the day to explain the costs that they're passing on to consumers and that's fair, that's reasonable, I'm making no judgment against the banks in saying that and, as you've seen from the various movements in rates where you've had the three large banks now make decisions on this, all in different ways. They've all moved their mortgage rates differently to each other, some have done things to term deposits, some have done things for home buyer incentives, others haven't, and as a customer you can look at all of those and you can make up your own mind. Some of the smaller banks have actually dropped their interest rates. So, it needs to be an increasingly competitive market and I know the banks will respond to that as they're in the business of doing their business and doing things in the interests of their customers and their shareholders and these things have to be weighed up.

QUESTION: Treasurer, are you concerned that NAB's decision will hurt consumer confidence?

TREASURER: I'm positive and I'm optimistic and when I come here and see what's happening here for jobs in Western Sydney, when I see the infrastructure programmes that are happening here in Western Sydney and the roads that are being built and the innovation that we will be supporting through our innovation statement by strengthening the Budget, by all of these things, we have got a strong plan to grow the economy and to grow jobs. I think Australians can have confidence in that plan. They're seeing that plan laid out. Now, rates have been low for quite a period of time and there will be changes in the international market which will affect the prices of them raising their capital and there will be volatility and there will be all of these things. But Australia's plan will always remain the same under the Turnbull Government and that is to do the things that will grow our economy and grow jobs and this is the best example I've seen of this to date. This milk going to China means growth and jobs for our economy.

Thanks very much.

(ENDS)

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