

Address by the Hon PJ Keating
The Sydney Consumer Electronics Conference
Sydney Convention Centre, Darling Harbour
Sydney
26 April 2001

Both the Consumer Electronics Show and this conference are important events and I'm honoured to have been invited to deliver this keynote address.

Over the past couple of years I've got to know a number of creative and energetic people associated with Australian consumer electronics companies. Their quality and commitment makes me hopeful about the future of the industry in Australia.

But everyone knows that over the next few years, new levels of skill and commitment will be required from everyone in the industry. It's not going to be an easy ride.

All parts of the industry chain, from product development to manufacturing to retail are changing. Even answering the simple question 'What is consumer electronics?' is becoming harder.

We've come a long way from the years after the Second World War when the rest of the world was astonished by the cornucopia of production coming out of the United States. In those days, consumer electronics meant whitegoods: refrigerators, air conditioners, vacuum cleaners and so on. All the things that symbolised consumer affluence.

Then we got the electronics revolution in Japan as great companies like Sony and Matsushita discovered how to remake the industry by building high quality at low cost and by making consumer technology portable. They gave us mass-produced transistor radios, the Walkman and later the VCR.

Then a combination of a high yen and rising manufacturing costs drove a lot of Japanese manufacturing off shore to the rest of Asia during the 1980s and this helped to fuel the Asian growth miracle. From the mid 1980s Japanese companies built as much manufacturing capacity in continental Asia as exists in France.

Now something new is happening again. Manufacturers and retailers alike are having their businesses redesigned under them by the impact of digital technologies. The key word is convergence.

In its next stages, consumer electronics will continue the process of getting more personal and portable to the extent that it becomes a natural part of our social environment. Some of that cutting edge technology is on show here.

Biometric systems will scan, analyse and verify a fingerprint, face or voice and supersede password technology and remake security systems. Wearable technologies will be built into clothing. Our houses and home appliances will sense our preferences and respond to our needs.

The commercial success of the new devices, however, will depend on the ability of the industry to judge accurately what the needs of consumers really are. Because the history of consumer electronics is littered with the remains of products and approaches that excited the engineers and industrial designers but which the consumers decided they didn't really need.

The question is not what can be done, but what will make the lives of consumers easier. Traditional consumer electronics companies have understood that better than the computer hardware and software companies in the past. But a big test is looming over whether that is still true. Because two sorts of convergence are now underway – a technological convergence and a commercial one.

The lines between computers, telecommunications and consumer electronics are blurring and disappearing. Companies that began life variously with the PC or telecommunications or traditional consumer electronics meet somewhere in the middle. Desktops turned into laptops and PDAs (Personal Digital Assistants) emerged; mobile telephones became a ubiquitous technology and turned into convergent wireless devices.

How do you define a mobile telephone that plays MP3 files? And, if you are a consumer, what sort of company will you decide to buy it from? Corporations like Microsoft, Intel and 3Com, which had their origins in the PC are moving into the consumer field and vice versa. For example, Microsoft's Xbox games machine competes in an area which has previously been the preserve of the consumer electronics companies.

These developments will shake up the industry.

Change is also coming for the retailers. It's clear that the fight the pundits and IT industry analysts were predicting in the distant past – that is, a year or so ago – between e-tailers and internet sales on the one hand, and traditional bricks and mortar sales on the other, isn't the one we will get.

It's going to be something more complicated than that. But I don't think anyone knows quite how consumers will purchase in future – over the web, in traditional ways or from a mixture of both. But I am certain that unless traditional retail learns the lessons, and embraces the savings, of e-commerce, it is going to get left behind.

Consumer electronic devices commoditise very rapidly. If all you have to offer is a shopfront, it's going to be increasingly difficult to build a sustainable business out of commodity products.

Unless the knowledge content of retail is increased it will become much harder to justify the retail mark-up. Retailers will need to become more closely aligned with the manufacturers and to provide high levels of IT support for consumers. The quality of service on the shop floor will become more important and that means better training. The trend to mass customisation – that is, making consumer items individually tailored to the needs of the individual consumer – should help retailers, but only if they are able to take advantage of it.

A large question mark is hanging over the role of Australia and Australian companies in consumer economics. Does this country have a future as anything beyond a useful but small retail market?

Australia is unlikely to become a large manufacturing centre for consumer electronics. Our costs may always put us beyond competitive mass production, we are too far away from the major markets, and our domestic market of 20 million is small in global terms. The days of AWA are gone.

But that doesn't mean we can't build a solid future in the value-added, research, design and development end of the industry.

We have genuinely high quality R and D capabilities in Australia and a fine tradition of pure research in our universities. Our universities and tertiary institutions produce engineers and scientists who are broadly educated rather than narrowly specialist.

We are less good at marrying research with commercial development and at understanding the international commercial environment in which we have to operate. We need to do a better job at teaching engineers how to protect intellectual property and how to commercialise it. And we need to become much better at developing and managing brands. We've been slow at building value out of trade marks.

Australian scientists and engineers tend to see only one way of getting a product to market: holding on tightly to the intellectual property and developing it themselves. They have an understandable fear that selling down that will lead to a loss of control. But in a globalised world the options are more numerous than that. They include licensing, selling over the internet and working with manufacturing partners in Asia or elsewhere. We've got to explore all sorts of new ways of getting our intellectual property to market.

Provided we get these things right, we should be confident of our capacity to continue to play a useful, lucrative role in the consumer electronic industry. It may be a niche role, but if our niche is a global one, we shouldn't be too concerned about that.

But if we are to go close to maintaining our place in a world which is going to be increasingly competitive for high technology, especially as the huge societies of China and India enter the international market, a development that will happen very quickly, we also need to get our general national settings right.

In the 21st century Australia is going to be more alone than ever.

The end of the bipolar certainties of the Cold War and the transforming changes wrought by the information revolution and economic globalisation have made Australia's external environment more competitive than we have ever known. More uncertain than those which faced the pioneers of federation a century ago.

Unlike them we have no patron to look after us.

No imperial preferences to guarantee us markets. No Royal Navy to steam to our rescue in time of trouble. No massive population to give us unearned weight in the international system. No voice to speak up for us in the world unless we do it ourselves.

When it comes down to it, the only things we can rely on are our own ingenuity, dexterity, cleverness, and our goodwill towards others. We need to use them for all we are worth.

The first thing we must do is cement a culture of economic and social openness.

We can't allow ourselves to waste energy on the fool's errand of trying to bring back a mythical golden age by closing ourselves up against the world and propping up protected industries.

It's not only that it can't work, that our primary industries can no longer provide the resources that permit us to pay the cost of high tariffs on manufactured goods. Much more importantly it's a less good outcome for the country. Australia is richer and our people lead better lives because of globalisation. So do our neighbours. Economic openness not only makes us richer, it also improves our long-term security.

As a society we also need to remain open socially. Open to newcomers to this country and open to a changing society.

Historically, there has been an inbuilt tension in Australia between the idea that the job of immigration policy is to keep people out and a recognition that we need to attract good immigrants, who are doing us a service by helping to develop the country.

It is the latter view that has to prevail in the 21st century. Immigration will continue to be a vital ingredient in Australia's national development and while televised pictures of asylum-seekers stuck in camps in the middle of the desert might deter a few queue jumpers from setting out by boat from southern China or the Middle East, such images do us much more damage in sending a message to skilled young people the world over that this is a country which is suspicious of foreigners. The images of riots in desert camps being shown all over the European media are disastrous PR for us.

This is a world in which image and brand matter not just for manufacturers but for countries.

The job of being Prime Minister these days is in important ways about management of the Australian brand. As trade becomes a larger part of our economy, and services and technology manufactures become a larger part of our trade, our national brand matters more.

When people in other countries make decisions about where to go for a holiday or educate their children or source their R and D or buy parts for the next generation of aircraft they are factoring into those decisions a complex range of interests and emotions. Much more complex than the issues of price and security of supply that govern decisions about where to source steaming coal or wheat.

And of course, as we are seeing at present, our national brand affects the price of our currency.

The second thing we need to understand in getting our national settings right is that the most important national development responsibilities of the 21st century don't lie with infrastructure programs like a railway from Darwin to Alice Springs, but with the development of our intellectual capital. That is to say, our people.

At present Australia's investment in education and research is falling. School retention rates have actually declined under this government and our universities are precariously close to the edge in maintaining their international reputation. And that reputation is all that sustains our increasingly valuable education exports. Unless we address these questions, we'll have a long, barren time to regret it.

That's not to say that infrastructure in the traditional sense is unimportant. In particular, so far as the consumer electronics industry is concerned, we need to get broad band access to every house in Australia and to develop an internet which, unlike the present, is robust and reliable in getting information across it.

These developments aren't the responsibility of government alone. Governments these days have to steer the national boat, not row it. But the navigator at the helm does need to know what point he's aiming for.

We've seen what happens when the government doesn't know what it is doing in the fiasco of HDTV.

In the information age, decisions about spectrum are strategic decisions about the future of the economy. But in this case a decision by the government to buy off a couple of media friends has led to a terrible misallocation of spectrum. Seven megahertz has been given away at the expense of the Australian taxpayer. And for what? The capacity to watch the existing free to air drab more expensively in cinema-style quality and to order take-away pizza at the push of a button.

This will tie up a large amount of spectrum we could and should be using for other purposes.

The third thing we've got to get right is our relationship with Asia. Whether we like it or not – and I do - this is the part of the world we find ourselves in.

Since the Asian financial crisis there has been a whisper around that the last Labor government got carried away with Asia. Alexander Downer accuses me of being 'obsessed' with it. But it's not Asia I'm obsessed with, but Australia's future. And like it or not, this region is where our future lies.

Do we have vital national interests in Africa or Latin America? Of course not. We have valuable economic and cultural ties in Europe and North America, and vital security ties with the United States, but there is nothing we can do to affect the outcome of developments in those parts of the world. We are observers there, not players.

The position in North America is similar, with the addition of important security links. But Asia is where all our interests come together and will continue to do so. It will still be the fastest growing area of the world over the next decade; it is still where our principle security and defence interests lie; it is where an increasing number of Australians come from. Our trade is already back to where it was before the financial crisis, and it will only grow because there is a natural complementarity between what we produce and what Asia needs.

We're hearing a lot about whether Australia is destined to be a branch office economy. We're far less likely to end up with a hollowed out capability if Asia is where our business is focussed. There are tremendous opportunities in the region and Australians are well placed to take them up.

Let me end it there. I'm happy to take your questions.