

Monday 13 August 2007

**EMBARGOED 8 PM - 13 August 2007
CHECK AGAINST DELIVERY**

Address by Trevor Carroll
National President Australian Industry Group
Ai Group National Annual Dinner
Great Hall Parliament House Canberra

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Welcome to the Australian Industry Group's Annual National Dinner. It is a great pleasure to have the Prime Minister with us this evening as our special guest speaker. It is always tense planning an event such as this while not knowing whether or not your guest speaker will make a last minute trip to Government House.

Prime Minister, you have always been generous with the time and consideration you've given to Ai Group and we are very grateful for you being here tonight in this hectic pre-election period. A special welcome also to Ministers, Shadow Ministers, MPs, Senators, members of the diplomatic corps and departmental and agency heads.

As you'll be aware, Ai Group is very active in Canberra and throughout the year we've had a good dialogue with many of you which we have greatly enjoyed and appreciated. Welcome also to the speakers and delegates from today's Ai Group National Forum.

I'd like to particularly mention our international speaker, Tarun Das, an eminent leader of Indian industry. Mr Das is currently the Chief Mentor and was a former long serving Chief Executive of Ai Group's counterpart organisation in India, the Confederation of Indian Industry.

I'd also like to acknowledge two regular supporters of our conference, Australian Super and Deloitte. Ai Group has a close and proud involvement with Australian Super both from our role in the creation of its predecessor funds over 20 years ago and as trustees.

Australian Super with 1.3 million members, over \$28 billion in funds under management and more than 100,000 participating employers has performed impressively since it was formed a year ago by the merger of, STA and ARF.

TODAY'S FORUM

The theme of our Forum today – Business Choices, Australia's Ambitions - was a timely reminder that the world is the biggest business there is and that industry is making decisions in a global context with all the challenges and opportunities this presents.

The Forum was also an important reminder that the best outcomes for Australia are when business strategies and public policy are in alignment. Our speakers made stimulating and thoughtful contributions around this theme and we thank them.

THE PAST YEAR

The past year has been one of formidable challenges for our members which have stretched them in many directions. For our members locked into the resources and construction booms the stretch has been to take maximum advantage of the opportunities.

For companies at the other end of the spectrum, the stretch has been a very different one. It has been to ensure the viability of their businesses in the face of rapid shifts in competitiveness.

Faced with a rising exchange rate, intensifying competition, rising costs and sluggish growth in core markets, these companies have had to undertake extensive restructuring involving a lot of tough choices.

However, there are a number of common threads across the spectrum of our membership which are impacting on their businesses. Foremost amongst these are:

- workplace relations;
- skill shortages and other capacity constraints,
- climate change; and
- the burden of over-regulation including Federal–State overlaps in terms of Occupational Health and Safety.

WORKPLACE RELATIONS

Turning to workplace relations, the common experience over the past year has been the productiveness, harmony and stability in our workplaces.

Whether these workplaces were unionised or non unionised.

Whether they were in manufacturing, services, IT, or construction.

Whether they were in Ballarat or Bundaberg – our members report positive relationships at the workplace level and this is soundly reflected in official data.

For many of our members, such as those in construction, this has come at a time of prosperity – which has its own complexities to manage. For others, particularly those in the manufacturing sector, it has been achieved in the face of some very tough decisions in restructuring their businesses.

The more positive industrial environment is no more evident than in the many hundreds of agreements that have expired since WorkChoices came into effect and the fact that in virtually every case, new agreements have been negotiated in a cooperative fashion with employees.

This is in stark contrast to earlier bargaining rounds in 2000 and 2003. The framework provided by WorkChoices has clearly been fundamental to this profound change in our industrial environment.

In relation to our construction members, the industry has seen a transformation in its industrial culture over the past four years since the building industry reforms were implemented. This transformation process has been challenging for employers and employees alike with both having to make big changes to the way they operate. The new culture is reflected in higher productivity, improved safety and negligible industrial disputation, resulting in projects coming in ahead of time and within budget. The industry's transformation still has some way to go and it would be retrograde indeed if this progress was stopped in its tracks.

Reflecting the improved industrial environment generally, Ai Group research based on a survey of 600 CEOs in the manufacturing, construction and services sectors found that the overwhelming majority – in fact 80-per cent - supported the retention of the current workplace relations framework. At the same time the majority of companies – some two-thirds - were strongly supportive of the introduction of the Fairness Test.

Ai Group supported the introduction of the Test and our experience in the early days is consistent with what we anticipated: That is, that nearly all our members' agreements easily met the new test.

The Australian economy is in a very special place with unemployment below 5 per cent in all states and overall at thirty year lows. The flexibility provided by industrial relations reforms has been fundamental to enabling us to achieve this with all the related benefits it has delivered to the community.

SKILL SHORTAGES

Turning to another common thread - there are few more important issues to our members than skills and education. The Federal Government's *Skills for the Future* package announced in November last year responded to our calls for a renewed focus on lifting the skills of the existing workforce. The package was comprehensive in addressing this and was in our view very fine public policy.

There are too many Australians who don't have the skills and qualifications required by industry and which are necessary for them to take advantage of the emerging opportunities in the Australian economy. A frontier we need to work harder on, which was the subject of an Ai Group / Dusseldorp Skills Forum discussion paper released last week, concerns those many young Australians who aren't entering the workplace with the necessary skills.

The discussion paper, *It's Crunch Time*, revealed that one in five young adults had not completed either Year 12 or its vocational equivalent. It is of real concern that only 67 percent of kids are completing year 12 – in the case of boys in some states it is less than 50 per cent. Each year, as many as 50,000 young people are falling into this category. By leaving school early they are greatly increasing their risk of a life where they are only marginally attached to employment.

It is also disturbing that even though the situation is improving for indigenous kids, their rate of completion for year 12 is still about half that of non-indigenous students.

While governments have been working hard with some success to increase the vocational educational opportunities for young people, too many of them are still falling through the cracks. The discussion paper proposes a number of ideas to consider in addressing this issue and we look forward to having a dialogue with state and federal governments on this most important matter.

Skill shortages are not going to go away. They are going to persist for some years to come.

In relation to the skilled trades alone, over the next ten years we are going to need 240,000 more trades-people than our current training effort will provide¹. Unless we succeed in meeting this challenge, many of Australia's ambitions are going to be thwarted.

This includes major defence projects, big IT projects, port construction, mining developments or going up the value chain in manufacturing. Industry understands it has a responsibility to do some heavy lifting on this issue. And our members plan to increase investment in education and training by between 30 and 50 per cent over the next three years.²

While skilled migration can give some important support we must still emphasize the importance of training our own people.

CLIMATE CHANGE

Moving on to the common thread of climate change:

In a yet to be published survey of our manufacturing members, two findings indicate the positive approach of this industry. Firstly, the research finds that one in two of our members are saving water because they feel they have a community obligation to do so not because of a business or regulatory imperative. And secondly, nearly 80 per cent of companies believe they have an obligation to reduce emissions even if it adds some cost to their business.

We expect that members in other sectors would share this positive attitude. The climate change challenges for business will require parallel efforts. We need to focus on adapting to the climate change that is already occurring and beyond our control; and at the same time reign in our collective global actions which will impact on future climate change.

¹ Centre for the Economics of Education and Training, Monash University.

² World Class Skills for World Class Industries – Ai Group report.

We need a genuinely global response if we are to address climate change effectively while maintaining domestic competitiveness. Ai Group has been particularly encouraged by the announcements over the past couple of months about the development of an Australian emissions trading system.

We need to take on board the lessons from other countries which have already moved down the emissions trading track. We can use these experiences as we robustly design and implement a state-of-the-art approach that can meet environmental objectives while avoiding damage to our international competitiveness.

We should avoid interfering unnecessarily with market forces. This means having as broad a coverage as possible – subject of course to compliance costs. We should seek to have our system linked into others around the world so that we can take maximum advantage of the full range of opportunities for offsets and credits. There needs to be a high level of confidence that the administration of the scheme is transparent, fair and effective.

This applies in particular to the issuing of free allowances. These should not be seen as sectional concessions but rather targeted to the core objective of protecting international competitiveness – both in export markets and in domestic markets subject to import competition. We should embark on a pathway that eases the transition by lowering emissions gradually at first and then moving more rapidly.

Finally, but not the least, we should not be afraid of taking a couple of years to put the right system in place. Very few understand how an emissions trading scheme would operate and impact on their businesses. The extra time will allow for the necessary dialogue with business and the wider community.

With the timeframes involved in climate change it is better to be a year later than forever sorry. The emissions trading scheme, however, is only part of the solution. There are a lot of other dimensions to climate change policy.

For example, Government's also have a role in funding and encouraging research into low emission solutions including the role of renewables, nuclear and clean coal. Australia needs to be an active participant in the climate change debate and be at the world table. Australian industry looks forward to being part of this important debate.

REGULATION AND FEDERAL STATE RELATIONS

The final common thread across our membership I'd like to refer to tonight is regulation and Federal-State relations.

Whether it be in the environment, education and training, energy, occupational health and safety or transport infrastructure, we are beset by a raft of regulation and a confusion of responsibilities across levels of government. Ai Group has been looking for progress in reducing regulatory burdens and improving Federal-State cooperation through COAG and the National Reform Agenda. While there has been some progress it is not delivering to expectations.

The time has come to consider whether we should ramp up action in this area. There needs to be an overhaul of Federal-State relations which should include our intergovernmental financial relations. This area should be the next wave of microeconomic and governance reform in Australia.

PROSPECTS

Looking forward, Australia faces many exciting prospects. We are confident that the establishment by Ai Group of 14 productivity centres across Australia over the next year will contribute to a substantial enhancement of the competitiveness of SMEs. This important initiative was part of a range of measures announced in the Federal Government's Industry Policy Statement and we wish to express our appreciation to the Government in this regard.

A further exciting prospect for Australia will arise from the more than \$100 billion to be spent on defence projects over the next decade.

More than two thirds of this expenditure will flow to Australian companies.

At our Forum today we heard of just two of these projects: the building of the Air Warfare Destroyers and the Amphibious Ships.

Together with the Joint Strike Fighter these projects will create a national hub for R&D, skills, technology transfer and international engagement.

We appreciate the cooperation that Ai Group's Defence Council has with Defence on further improving both capability planning and the contracting environment.

Finally, this year's Sydney APEC gathering is particularly important and is occurring at a time when the future of the Doha Round is hanging in the balance.

Ai Group places enormous importance on the multilateral trade liberalisation agenda embodied in the Round and on our bilateral FTA initiatives as well as APEC.

The traditional trade liberalisation / facilitation agenda of APEC will be strengthened this year to also embrace behind-the-border regulatory reforms and the critical issue of climate change.

We wish the Prime Minister every success hosting APEC this year.

On this positive note, it is my pleasure now to welcome The Prime Minister of Australia, the Honorable John Howard.

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Note: Trevor Carroll, Ai Group National President, is also the Managing Director, Electrolux Home Products Pty Ltd.