

**Address by Don Matthews
National President
Australian Industry Group National Annual Dinner
Great Hall Parliament House Canberra
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Good evening and welcome to the Australian Industry Group's Annual National Dinner, I'm Don Matthews, Ai Group National President.

I would like to acknowledge the traditional owners of the land on which we meet - the Ngunnawal people.

It is my pleasure tonight to welcome back our special guest, the Prime Minister of Australia, the Honorable Kevin Rudd.

Welcome also to the Deputy Prime Minister, the Treasurer, other Ministers and members of the Government who are with us this evening.

Welcome to the Deputy Leader of the Opposition and her Shadow Cabinet colleagues. We heard earlier today from the Opposition Leader, the Honorable Malcolm Turnbull. I would also like to welcome other members of parliament, the judiciary, members of the diplomatic corps, departmental and agency heads, chiefs from our Defence Forces, fellow industry association heads, leaders of the union movement and media representatives.

A warm welcome to our many Ai Group members here today for our *Annual National Forum, Negotiating the Downturn: Emerging Stronger*. Thanks also to the keynote speakers from today's forum – your contribution was much appreciated.

I would also like to single out members of the newly created Ai Group South Australia Branch which was formed following our merger last month with our long term affiliate the Engineering Employers Association South Australia – between us we have represented industry for over 200 years.

As well, I want to welcome the board of the Australian Constructors Association, who met here today.

A special acknowledgement to the Australian of the Year, Mick Dodson. We've been delighted to work with Mick over the years on the Indigenous Governance Awards and we are very pleased that he can be with us tonight.

Thank you to the sponsors of our conference once again: our Principal Sponsor, AustralianSuper – and Deloitte. Ai Group is a joint shareholder of AustralianSuper with the ACTU and we are very proud of our close involvement with the fund. It is an industry fund which has delivered a strong, long-term, investment performance.

Before introducing the Prime Minister, I would like to make a few comments on the major Issues on our agenda and some of the big ideas from today's Forum.

The Economic Setting

When we last met a year ago, very few of us, if any, believed we were on the cusp of what has become known as “The Great Recession”.

Today, Ai Group’s own economic surveys of activity in the key areas of manufacturing, construction and services are consistent with tough, volatile but gradually improving economic conditions.

However, it is becoming clearer that any rebound will be weaker and slower than previous upswings; it will also be variable and uneven across sectors and accompanied by a weak labour market.

This was confirmed in our just released survey, *Looking Towards the Upturn*, which found that while over half of the companies surveyed believe an upturn will be underway by the first quarter of next year, the upturn will be shallow and mixed.

So while it is positive to see some lift in confidence huge uncertainties remain and it is clear we are still in for a long, hard slog.

Nevertheless, our thoughts are turning towards recovery.

The fact that the in-vogue “R” word is not “recession” but “recovery” owes much to the early and active intervention of the Government, and governments around the world, in sync with aggressive and adroit monetary policy.

In Australia, business has sought to negotiate the downturn with a clear eye to the future. In particular, working with their employees, businesses are adopting a range of measures to keep job losses to a minimum.

This outcome is testimony to the advantages of flexible workplace relations and a strong argument against reducing this flexibility.

Moving forward, the challenges will include:

- consolidating and building on early signs of recovery;
- and boosting Australia’s productivity performance;
- while still addressing key policy areas such as workplace relations and climate change.

Before introducing the Prime Minister, I would like to make a few comments on each of these.

Recovery

Managing the recovery has its own set of challenges.

For business, the mindset shifts from survival and cost cutting towards a broader focus on strategies for business and market growth.

For Government, fiscal policy shifts from stimulus to restraint.

For the community, the mood shifts from caution and uncertainty to a focus on growth and prosperity.

Looking forward, the challenge of unwinding the stimulus measures is a global issue and not just a national one.

Although our economic circumstances are more encouraging than like economies, it is important we get the timing of our exit strategy right.

It is business that will power the recovery. We should be careful not to undermine this either by a too hasty withdrawal of stimulus or, equally, by moving too early to put up interest rates.

Another dimension of this unwinding is the paying down of the stimulus debt. Clearly this will have to be managed carefully through tight fiscal discipline in the years ahead.

However, dealing with debt should not prevent us from setting ourselves up for a new phase of prosperity.

Ai Group has a long-standing view that prudent public borrowing when used to fund productivity-enhancing infrastructure, is sound policy.

If we are going to make the big nation-building investments for the future, it is important that we have a mature debate about this issue.

Productivity

That debate is part of the broader need to boost our underlying productivity growth which has languished in recent times.

Over the past five years productivity growth has been less than one third of the levels attained in the late 1990s. If we could return to those levels, after a decade our GDP would be 20% higher.

Lifting this productivity performance would mean increasing our capacity to meet the growing challenges we face, including from demographic and environmental pressures.

There are many opportunities to boost productivity, three of which I will mention here.

Infrastructure

One area that has enormous productivity-boosting potential and which has clearly been taken on board by the government is the need to invest more in infrastructure and take a national approach.

While we need more infrastructure, importantly we also need to be smarter about our infrastructure investment.

- This implies the application of ICT technology to our infrastructure investments.
- Importantly, it also includes complementing investments with reform of regulatory and pricing practices across jurisdictions.

There are many areas where we need to focus our infrastructure efforts. These include:

- A national smart energy grid that links-in renewable energy;
- A new approach to tackling urban congestion; (Just look at Brisbane – where already-high congestion costs are set to rise by 150% by 2020);
- Improving our waterways;
- And, of course, broadband, which has enormous potential to lift our productivity.

If we have a big vision for Australia's infrastructure it will have to involve a big role for the private sector.

The global financial crisis has clearly impacted on the models for Public Private Partnerships. While it is encouraging to see new financial models appearing, clearly these require further development.

As well, the costs of bidding remain a major concern for industry especially when they are an order of magnitude higher in Australia than in other countries.

Being smarter about our infrastructure means we have to be smarter about this as well.

Building Capability

A further way we can boost productivity is by building our capabilities.

This includes education and training as well as the development of the capabilities of our businesses.

Our future is our people. There is increasing recognition in the business community of the importance of giving attention across the entire range of education and training, from early childhood right through to our pure research capabilities.

Governments, businesses and of course individuals clearly have critical roles to play in lifting skill levels.

Interestingly Ai Group research is showing that training budgets are holding up much more than might have been expected. Around two-thirds of companies plan to retrain their existing workforce to meet their skill needs over the next year.

We do, however, have a particular concern that apprentice training is under pressure with companies expecting to reduce apprentice numbers this year by 15% and up to 30% in some sectors.

In addition to improving the capabilities of our workforce, improving business capabilities is also critical.

Again, both business and Government have important roles to play in this, for example, in lifting our innovation performance, boosting our export capabilities and further developing private sector defence capabilities.

In relation to innovation, I note the efforts of the Government in re-emphasising the importance of public sector research.

To an extent, this has been complemented by changes announced in the Budget to R&D tax concessions and the new Commonwealth Commercialisation Institute. These changes will go some of the way to addressing the big gap created by the sudden removal of Commercial Ready in 2008.

Business is looking forward to working with the Government on implementing these changes and in further exploring ways to develop our innovation capabilities.

Regulatory Burden

To boosting infrastructure and capabilities I add a third area, that of reducing the burden of regulation.

In this regard:

- We welcome the Review of Australia's Future Tax System and we're pleased to be contributing to its ambitious agenda;
- Also, we acknowledge the commendable progress to national harmonisation of Occupational Health and Safety laws.

It is fair to say that for business the burden of regulation is a leading area of concern.

In a recent survey we conducted of businesses in a range of sectors, 7 in every 10 respondents reported an increase in the costs of compliance over the previous three years.

Just over ONE percent of respondents reported a decrease in compliance costs.

It is clearly a major problem. We appreciate the various efforts that are underway – for example the reviews, working parties and COAG processes.

However, these processes need to be complemented with measures that clearly demonstrate when we are clocking real results.

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Two other issues loom large. One is workplace relations. The other is climate change.

Workplace Relations

The Fair Work workplace relations system is now in operation and we hope that the laws will prove to be fair and workable.

It is also important that the laws make a positive contribution to productivity and flexibility.

The new laws are far from settled and it is becoming clear that there will be a number of important test cases in the months ahead. It is also critical that Parliament remains open to amendments.

We will be watching developments very closely.

There are already a number of issues emerging, together with a number of ongoing concerns which have yet to be allayed.

For example, we are concerned at the use by unions of good faith bargaining orders to prevent or delay ballots on agreements supported by the majority of employees but not by them.

We also have concerns about whether compulsory arbitration will creep back into the bargaining system and whether the Transfer of Business laws are workable.

Now that the new laws have passed, a big task is underway to educate employers. This is particularly pressing because many hundreds of enterprise agreements are currently being renegotiated.

Already this month, nearly two and a half thousand companies have registered to attend our seminars on the new laws and we have had capacity audiences in venues around the country.

Another area of intense activity is award modernisation. Ai Group's leading role in this process has been essential to protect the interests of our members and industry more generally. It will also deliver an important and enduring community benefit.

As well, the Government's building and construction industry legislation is currently before Parliament and we have real concerns with a number of provisions. This includes the proposal to allow unions to apply for the compulsory examination powers of the building industry watchdog to be "switched off" during a project. This is inconsistent with the Wilcox Review and we believe it should be removed from the Legislation.

Climate Policy

Finally, to climate change. Ai Group has worked hard with the Government and the Opposition to secure progress in a way that meets the community's objectives, while not imposing counterproductive and damaging costs on business and while minimising job losses.

Ai Group remains of the view that an agreement can and should be forged that addresses outstanding concerns.

If these issues are addressed we believe the CPRS legislation can be passed before the end of the year in a form that gives business the certainty required for effective planning and investment.

We are seeking changes to the Legislation which include:

- A strengthening of measures for trade exposed activities that do not receive support under the provisions for emissions intensive trade exposed activities. This includes the prompt implementation of the Climate Change Action Fund;
- Improvement of the measures targeted at the emissions intensive end of the trade exposed spectrum, including the coal industry;

- A reinforcement of measures for the electricity generation sector to ensure a continuity of electricity supply in the transitional years; and
- A strong and effective assault on the regulatory overburden in the areas of emissions reduction and energy use.

In this latter regard, the Productivity Commission has identified no fewer than 244 existing and prospective measures relating to emissions reduction administered by 56 different agencies across the Federation.

We look forward to working with the Government, the Opposition and other parties to develop good policy.

From Ai Group's perspective, we have negotiated and will continue to negotiate in good faith.

There, are nevertheless times when we think this has become the one and only area for which we wouldn't oppose compulsory arbitration!

Conclusion

Prime Minister, ladies and gentlemen.

In conclusion, our responses to this recession have been shaped in many ways by the lessons of past downturns.

Business and government have clearly learnt those lessons and have responded quickly, resourcefully, responsibly and, with an eye to the future.

As I have outlined, business is now putting in place strategies for growth and strategies to deal with the complex agendas which will shape performance and opportunity.

At the same time, there is a critical role for Government in facilitating a strong recovery, in lifting our productivity performance and in delivering good public policy outcomes.

Ladies and Gentlemen – please join me in welcoming the Prime Minister of Australia, The Honourable Kevin Rudd.