



STRICTLY EMBARGOED UNTIL 8PM 19 SEPTEMBER 2011

**Address by Lucio Di Bartolomeo
Australian Industry Group National President
Ai Group Annual National Dinner
Great Hall Parliament House Canberra**

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Before inviting the Prime Minister to speak, I would like to take the opportunity to make some comments on behalf of Australian Industry Group members about the important issues we face.

Consistent with our theme, *Making Sense of Good Fortune* – as the Chinese proverb suggests - We live in interesting times.

While the rest of the world deals with revolution, economic despair, and social dysfunction, Australia is doing many things right.

We are experiencing economic growth. We have a strong national balance sheet.

Geographically we are in the right place at the right time and we have a lot of the right things to sell. As well, Australia is building capabilities through an improved focus on skilled migration and through important investments in skills development.

We have bounced back from the tragic floods in Queensland and Victoria.

Yet the times are also complex and there are deep uncertainties. We are an economy of paradoxes: a **boom and gloom** economy.

We have record prices, production and investment in our resources sector.

Against this there is a slowing of activity and an absence of confidence in large parts of the rest of the economy. This is particularly so in the non-mining trade exposed sectors.

As a nation we have reasonably solid income growth and low unemployment. At the same time, we have ongoing consumer caution.

There seems to be a disconnect between what is really happening on the ground and the official view of what was expected to happen. Both sides of politics have indicated they are seriously looking at options to build competitiveness in sectors on the wrong side of an unbalanced economy.

This focus is extremely welcome.

As always, Ai Group will provide practical advice to both the Government and the Opposition as they consider these issues. In the current climate, manufacturers, in particular, face the potentially deadly mix of a strong currency, the historical surge of industrial capacity in the emerging economies, - particularly China - rising energy costs, growing wage pressures and flat-lining productivity. Over year to the end of August, the manufacturing workforce fell by almost 54,000 a drop of around 5.4%.

To some extent, what is true for manufacturing also holds true for housing and commercial construction, the defence industry and large parts of our services sector, including tourism, retail and education. For a range of reasons they are all feeling the chill winds of structural pressure and battling to adjust their business models.

In the end, when responding to these challenges, all roads lead to productivity. Right now we are paying for a lack of emphasis and effort given to lifting productivity over many years.

The Australian economy is at a turning point. Both business and policy makers are sensing this but are struggling with the best way to deal with it. In our view, we need to be in charge of our future. While the market is the most powerful shaping force, we have choices. We should be making them in the most informed way.

If we fail to be proactive there will be unnecessary destruction of capability, and unnecessary loss of investment and wealth with all that this entails. These impacts are being felt in established, mature industries and critically, they are also being felt in newer and, until very recently, high growth manufacturing industries.

These industries are where we have capitalised on Australia's excellent but scarce scientific, engineering, design and problem-solving skills to carve out world class value-adding industries. There are substantial risks that without action, beyond the boom we will have a more vulnerable, volatile and much less diverse economy.

Let us be clear. Our mineral resources are a huge advantage for Australia and their exploitation should be embraced. But we run the risk of putting too many eggs in the one basket. We could end up with an economy reliant on the sale of a handful of commodities to a handful of countries.

It needs to be remembered that we have had 20 years of virtually uninterrupted economic growth, but only around six of them have been driven by the resources boom. The industries now under stress - manufacturing, education and tourism - were the drivers of the so-called miracle economy of the nineties.

These industries are now at the sharp end of the exchange rate shock. As well, there is the prospect of the exchange rate staying high for a protracted period further undermining competitiveness. We need to focus on giving our industrial capability a fair chance to survive these developments.

A fair chance means several things but what it doesn't mean is protection of the manufacturing sector or of any of the other sectors that are on the wrong side of the minerals boom. The tariff wars have been done and dusted.

Rather we should focus on the positive. So what do we need to do? We need to have a sense of where we are going and we need to take action in a number of key areas.

We need to set out a narrative about where we want our economy and society to head and we need to align our national effort to achieving this.

Ai Group talks about Australia aspiring to be the leading knowledge based democracy in Asia.

When we unpack this, it means being a highly educated, diversified economy playing to **all** our strengths: Whether they be our natural, non-renewable resources, or our natural, renewable resources: our people.

The building blocks of the manufacturing industry of the future are:

- An outward focus that looks beyond the domestic market and local opportunities. Business is well and truly on this path as recorded in the Engaging Asia report we and Asialink released in March this year. Of the businesses we surveyed, some 64% reported some degree of engagement with Asia and among manufacturers 80% reported having Asia engagement. While 74 per cent of all respondents reported they intended to strengthen their engagement with Asia this year.
- A workforce that is highly capable, creative, and adaptable, technically skilled and well-versed in Asian business culture and practice; and
- A greater focus on entrepreneurship. This means a greater willingness to experiment and take risks. Whether in businesses big or small, public or private, entrepreneurship needs to be embraced, encouraged and nurtured.

In short, if we are going to adapt our economy to the new realities we need not only to develop our natural resources. We need to keep investing in and developing our skills and capabilities. We need to reinvent existing industries and build new ones. As I indicated, we also need to take action in a number of critical areas. This includes four areas I want to briefly elaborate on tonight:

- tax reform;
- industrial relations;
- building capabilities; and
- regulatory reform.

Tax Reform: Our tax system needs to be re-shaped to support the economy of today and tomorrow. Tax is a crucial lever affecting investment and has a big role to play in helping to re-balance our lopsided economy.

We are realistic about what can be achieved from the upcoming Tax Forum. It would be a lost opportunity if some clear directions didn't emerge from the Tax Forum that can be built on in the period ahead. In short:

There should be a focus on support for transforming investment to underpin competitiveness and innovation in industries under stress;

Companies at the sharp end of the lopsided economy need tax relief;

The company tax rate should be reduced to 25%; and

There should be major simplification of our tax system as advocated by the Henry Review.

Industrial Relations: We need too to revisit aspects of our industrial relations framework. Right now we have at least four major member companies – all household names – experiencing damaging industrial action simply because they are trying to lift their global competitiveness.

We seek judicious amendments to address deficiencies in the Fair Work Act which Ai Group has exposed through challenges to several rulings by Fair Work Australia, including around contracting and transmission of business issues.

Productivity growth, while a function of many things, is built from the enterprise up. Workplace regulation should not stifle this.

Building Capabilities: Building capabilities is about workforce skills. It is also about improving and capitalising on the strengths in our public sector research organisations and it is about management capabilities.

- We need to invest more in training and education and we need to place greater emphasis on the supply of high quality and responsive education services to get a properly skilled workforce for the future.
- We should build on the considerable strengths in our public sector research organisations such as the CSIRO by finding ways to better link with industry directions and opportunities.
- Consistent with our advice to the Government we would strongly recommend a substantial enhancement of the successful Enterprise Connect program. Further we would recommend its expansion to include deeper engagement between businesses and advisers on management training, workforce development, e-business, innovation and collaboration.

Regulatory Reform: We need a much stronger effort to reduce red tape. The results of a soon to be released Ai Group/Deloitte survey on business regulation shows that despite all the efforts on regulatory reform in recent years, the dead weight compliance burden associated with business regulation is rising, not falling.

Seventy per cent of respondents reported their compliance costs rising in the past three years. The report also highlights that business regulation is acting as a major constraint on Australia's productivity with:

- around a third of respondents citing regulation as a barrier to hiring more staff; and
- Almost half reporting regulation to be a barrier to innovation.

We aspire to be a seamless economy. But on such an important and basic issue as the harmonisation of Occupational Health and Safety, we are close to an agreement but it is proving very tough to get over the line. We want this reform to succeed and we are working hard with State Governments to make this happen.

Of course, there are more than these four areas on which Ai Group is very active and you will have heard from us in recent times on issues such as:

- Anti-dumping where the government's approach of late has been well-received by industry but more reform is imperative; and
- The importance of a principled approach to procurement for Government and major private sector projects. Currently local industry increasingly believes it is missing the opportunity to even compete for contracts.

I would like to make a final point in relation to the proposed carbon tax. While we welcome the adjustment measures, we remain concerned about the impacts of this tax on already vulnerable trade-exposed industries.

The carbon price is too high – If it is to proceed, the government should lessen the shock and remove the risk of the local price in the fixed-price period being above the international price. A starting price of, say \$10 moving towards expected international prices would be a better approach.

We also remain concerned that there is no agreed strategy to clean out the over 570 different greenhouse-related policies in Australia.

We also urge the government to bring forward its assistance packages so that trade exposed industry is better able to meet the costs it will present.

As Ai Group's agenda implies – there is no easy answer – no silver bullet to the issues we are confronting. However, we do have choices.

The fundamental challenge for us all is to look beyond the boom, to look over the horizon and firmly decide what sort of economy and nation we want to be.

The question many in industry are increasingly asking themselves or are asked by their overseas parents is: **Why should we invest in Australia?**

There can be a positive answer to this if we get the policy settings right.