



CEDA's Top 10 Speeches 2013

A collection of the most influential and interesting speeches from the CEDA platform in 2013

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About this publication

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About CEDA

CEDA – the Committee for Economic Development of Australia – is a national, independent, member-based organisation providing thought leadership and policy perspectives on the economic and social issues affecting Australia.

We achieve this through a rigorous and evidence-based research agenda, and forums and events that deliver lively debate and critical perspectives.

CEDA's expanding membership includes 700 of Australia's leading businesses and organisations, and leaders from a wide cross-section of industries and academia. It allows us to reach major decision makers across the private and public sectors.

CEDA is an independent not-for-profit organisation, founded in 1960 by leading Australian economist Sir Douglas Copland. Our funding comes from membership fees, events and sponsorship.

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Introduction



Welcome to the second annual publication of the Top 10 Speeches from CEDA's thought leadership forums.

CEDA began producing this publication last year as a way of providing our members with a snapshot of the depth and breadth of the critical issues covered on the CEDA platform.

Each year CEDA delivers around 300 forums across every state and territory in Australia and as with last year, selecting the Top 10 has been a difficult task.

CEDA has welcomed a cross-section of some of the most influential people in Australia and from overseas, from business, government and academia during the year.

The speeches included in the publication are not ranked, but are simply in chronological order.

Those that have been selected have been chosen because they touch on key issues on the national agenda during the year, issues that are going to be of increasing importance to Australia or because they provide a fresh perspective on an issue.

Two high-calibre international speakers are also included because they provide important global context about what is happening outside Australia, in this instance in the US economy.

I hope you enjoy reflecting on these speeches.

A handwritten signature in black ink, appearing to be 'S. Martin'.

Professor the Hon. Stephen Martin
Chief Executive
CEDA

> ECONOMIC AND POLITICAL OVERVIEW

> 15 FEBRUARY 2013

> SYDNEY



State of the Nation address

The Hon. Tony Abbott

Prime Minister of Australia

This speech was provided by then Federal Opposition Leader, Tony Abbott at the start of an election year.

It clearly sets out the agenda that the Liberal Party successfully took to the Federal Election in September and was important at the time of delivery for providing clear direction to the business community on the Liberal Party's intent if elected to government.

It also provides an important record in the future to reflect on the new Federal Government's progress in delivering on its promises made prior to taking office.

The CEDA EPO (Economic and Political Overview) is an important forum for the discussion of ideas for the good of our country and it does bring together people who are interested in the future of Australia, in particular people who are interested in our economy.

And as I look out around this room I don't see employers who want to persecute their workers. I don't see taxpayers who are trying to rip off the system. I don't see business leaders who want to spoil the environment. I see people who are trying to build a better Australia and what I want to do is work with you, not against you, towards this great goal.

Now, I asked my distinguished advisers today for some notes to guide my remarks and I was given a single sheet of paper with one word on it: growth.

Economic growth. That is what we need in this country, stronger economic growth. If we do have strong economic growth, profits are up, income is up, employment is up and government revenue is up. In fact, with strong economic growth the Government can simultaneously increase spending, cut taxes and boost the surplus and if you say that's a magic pudding, it is actually what happened for the last five or six years of the Howard Government.

Strong economic growth brings a magic to all aspects of our society and that's why it's so important that government policies should be about fostering stronger economic growth. Without strong economic growth there is never enough to go around and it's almost impossible to give more to one without giving less to another. This is why economic growth is so important.

Now, I know if you just look at the raw headline numbers for economic growth, the last few years don't look too bad. Despite the global financial crisis there was only one quarter of actual negative growth. But if you look behind the numbers the situation is not nearly so good. Gross Domestic Product (GDP) growth per head of population since 2007 has been only one third of the GDP growth per head in the Howard era, and this is why the Howard era now looks like a lost golden age of prosperity.

Over the last five years multifactor productivity in this country has actually declined. It's actually declined by three per cent. We know that the private savings ratio is massively increased. It's at the highest level in two decades because people don't trust the Government to save, that's why they are saving so much themselves. People don't feel rich, that's why they are saving so much themselves. We know that real wealth per head has actually declined over the last five years because of stagnant property prices and because of falling share prices and that's led to so much more restraint in spending which is why so many of our main street retailers and businesses feel under such pressure today.

And the great thing about a growth strategy is that it's also a confidence strategy because that is the missing ingredient in so much of business decision making right now.

The challenge for government, the challenge for the Coalition should we become the government after the election, is to do more and to do better to get economic growth up and the best way to get economic growth up is, of course, to get the fundamentals right. It's always the right time to get the economic fundamentals right and what you've got to do in terms of the economic fundamentals is understand the iron laws of economics and one of those iron laws is that government doesn't create wealth, business creates wealth. Sensible governments never go around attacking wealth creators, they never go around accusing people who have invested millions, created thousands of jobs, of being a danger to democracy as this government, I regret to say, has. Sensible governments understand some of the corollaries of the iron laws of economics such as that you don't speed up the slow lane of our economy by slowing down the fast lane, such as that you do not boost our economic strength by targeting the strongest sectors of our economy and you can never, never, tax your way to prosperity.

Now, I believe that the Coalition I lead understands all of this in the marrow of its bones and that's why I am confident that should there be a change of government later in the year, there will be an instantaneous adrenaline charge in our economy. There will be an instantaneous surge of confidence because an incoming government will understand that simple truth that business is the source of prosperity, business is the source of economic growth and it will want to work with business rather than against business in boosting the prosperity of every Australian.

So the Coalition's strategy to boost economic growth is really quite straight forward and it starts with getting taxes down. There's been a lot of talk about

the Carbon Tax. There's a lot of talk from the Government that the Carbon Tax hasn't really been noticed. Well, everyone notices a new tax and people are particularly conscious of a new tax which doesn't serve any reasonable economic purpose. The problem with the Carbon Tax is that it's damaged our economy without helping our environment and that's why it will go as the first priority of an incoming Coalition government.

Then there's the Mining Tax. Now, the Mining Tax was always a bad idea. This idea that miners don't pay enough tax is just misleading at best and dead wrong at worst. Miners pay the company tax that everyone else pays. Mining staff pay the tax that every employee pays. But miners have always paid royalties, always have and no doubt always will. So the Mining Tax was effectively a third tax on a sector which can easily go somewhere else. This idea that the only place you can mine is Australia, again, just dead wrong. Mining capital can go to many other places and it has started to go to many other places since the Mining Tax was introduced.

And then, of course, there's the way it was introduced and the outcome of its introduction. It has turned out to be a lose/lose tax, a tax which impacts on investment, impacts on employment but in the end raises hardly any revenue at all and we've had the really rather sad spectacle in Parliament this week of minister after minister in denial about this particular tax.

The trouble with a government which is spending unsustainably is that it is always looking for more taxes. There's the Carbon Tax, there's the Mining Tax, and in all candor there are the coming additional taxes on superannuation. They thought they could get away with a carbon tax because that was only going to be paid by the so called big polluters. They thought they could get away with a mining tax because that was only going to be paid by the wicked multinationals. But those taxes aren't raising enough money. That's why they're now coming for the ordinary people of Australia with new taxes on superannuation. Well, under the Coalition the Carbon Tax is gone, the Mining Tax is gone, and there will be no further fiddles with superannuation because people's savings don't belong to the Government. People's savings belong to the people and the Government has to respect that.

So we'll get taxes down and we'll get government spending down. But we will do it honestly, not dishonestly. When the Treasurer said that he was going to deliver a surplus in the current financial year, something that he said on at least 366 separate occasions, I applauded him. Joe Hockey applauded him, Malcolm Turnbull, Julie Bishop, Warren Truss, we all applauded him because a surplus is, as the Treasurer said, the mark of sensible economic

management. We deeply lamented the fact that it wasn't a straight surplus, that it was a fiddle the books surplus but at least the fact that it was going to be a surplus was something that we could applaud, and now that's gone. But unfortunately though the surplus is gone the fiddling continues. Just this week there was an adjustment to the forward estimates for border protection costs. The Government has reduced border protection costs over the forward estimates period by \$2 billion, even though illegal boat arrivals are at an all-time record. That, alas, is the quality of candor that we currently get from our Federal Government.

Now, the Coalition will get spending down. We will do it in ways which we believe are responsible. Some of the ways we will do it will be controversial. For instance, we've announced that the so called school kids bonus will go because this is a cash splash with borrowed money that has nothing necessarily to do with education. We won't go ahead with the 6000 person a year increase in the refugee intake because that would send the wrong signal to the people smugglers and in any event, at the moment the people smugglers are determining that intake. We will trim back the Commonwealth public sector, not because we fail to respect the work of public servants – as a minister for nine years I very much respect the work of public servants – but there's 20,000 more in the Commonwealth public sector than there was five years ago and there hasn't been a commensurate increase in service delivery or efficiency. So, just those changes will save about \$10 billion over the forward estimates period.

If we don't go ahead with the National Broadband Network in its current form, that's about \$50 billion less that the Commonwealth will need to borrow. So, we will get government spending sustainably down and most importantly, ladies and gentlemen, we will get productivity up.

Now, the last thing I want to do is blow my own trumpet but as a minister I think I had a good record when it came to getting productivity up. Some of you would remember the Cole Royal Commission into the commercial construction industry and the subsequent Australian Building and Construction Commission (ABCC). Five billion dollars a year worth of productivity improvements was the result of the work of the ABCC and the ABCC will be fully restored under an incoming Coalition government.

It is important for all sorts of reasons, productivity not the least of them, that we restore the rule of law in all sectors of our society but particularly, in our workplace. Another announcement from the Coalition that you might have noticed this week is that union malefactors would face the same level

of penalties and potential criminal sanctions as corporate malefactors. There ought to be a level playing field for wrongdoing. Wrongdoing is wrongdoing, whether it happens in a company or in a union. So we will make sure that wrongdoers face the same penalty for the same sorts of crime, and we will establish a registered organisations commission to act as a watchdog and policeman for the union movement and for employer organisations in the same way as the Australian Securities and Investments Commission (ASIC) polices corporate organisations.

There will be a one-stop-shop for environmental approvals and this will be part of our campaign, our pledge to reduce your red tape costs, business red tape costs by \$1 billion a year, at least \$1 billion a year over the life of a Coalition Government and we will get the public sector's efficiency up by measures such as working with the states to ensure that public schools and public hospitals are run more by their communities and less by distant bureaucracies.

If we get government spending sustainably down, if we can lower the tax burden, if we increase productivity we can make our economy so much stronger. We can unleash the creativity of Australia's business people. I know that we are capable of more than we are currently achieving. I know because I have seen with my own eyes very successful Australian businesses competing and succeeding in difficult fields.

There is a factory in Burnie in Northern Tasmania which produces 25 per cent of the world's underground mining equipment. There is a workshop in West Gosford which, believe it or not, produces 10 per cent of the world's aerosol springs – not a particularly glamorous product, ladies and gentlemen, but absolutely necessary to a modern economy and 10 per cent of the world's billions of aerosol springs are produced at this little workshop in West Gosford. There's the RM Williams factory in Adelaide which successfully produces high quality footwear and clothing, something which we are supposed not to be able to do anymore in this country. So, given that we can do a lot, even now, under unpropitious circumstances, how much more could we do and do well under better circumstances?

So that's the challenge that the Coalition faces. That's the challenge that I believe we are more than capable of rising to, to put the economic policies in place that will once more give us a dynamic, five pillar economy with a strong service sector and a strong education sector, a resilient and sustainable manufacturing sector as well as the mining and agricultural sectors which have been so important to us over the last few years.

Ladies and gentlemen, I am full of confidence. Yes, these are not great times but great people are more than capable of overcoming difficult circumstances and I think we are a great people. Yes, a great people currently held back by a poor government, but a great people who are just waiting to seize the future that is there for us.

I think there's very little wrong with our country that a change of government wouldn't fix and my colleagues and I are working steadily, diligently, enthusiastically to give a great people the better government that they deserve.

> WOMEN IN LEADERSHIP

> 2 MAY 2013

> BRISBANE



Women in Leadership: A human rights perspective

Professor Gillian Triggs

President, Australian Human Rights Commission

This speech delivers an alternative perspective to the issue of women in leadership by exploring human rights law and its importance for developing gender equity in the workplace.

It criticises both sides of politics for failing to pass and implement the Human Rights and Anti-discrimination Bill and calls for stronger political leadership in the development and implementation of human rights law.

The speech also provides commentary and an important point of view about Australia's treatment of asylum seekers in the context of international law, a debate and policy area which will have an indirect flow on effect for Australia's international relationships and standing in overseas markets.

It is a very great honour for me to have been invited by the Committee to speak to you today. To discuss an area that doesn't directly have anything to do with economic development, but which I think indirectly insures economic development, and that is of course human rights.

It is wonderful to be here with so many friends and colleagues, and to be in this marvellous city of Brisbane. Before I came here I visited the Queensland Anti-Discrimination Commission here in Brisbane and I was very interested to learn, that Queensland has really been the leader in developing domestic human rights law here in Australia. It was really setting the standard for best practice for more than a decade until Tasmania took over, and is now the leading state in terms of developing law. That's one area I do want to talk about.

But before we do, I thought we might reflect just a little on the life of Baroness Thatcher, whose state funeral has just been held in London. We're prompted then to consider the role of women in leadership, in public life in the 21st century.

Margaret Thatcher was well known for her pithy aphorisms. She's renowned for comments such as:

"If you want something said, ask a man, if you want something done, ask a woman."

She polarised responses on political issues, philosophies and economic policies, but never because she was a woman. She was never a victim and she never considered herself to be one. When asked what it was like to be a woman prime minister she famously remarked that she had no idea because she'd never been a man.

Love her or hate her, Margaret Thatcher appeared to be supremely confident and in control with no self-doubts, anxieties or complexities about being one of the most powerful political leaders of the 20th century.

What can we learn from her life and leadership? Some of you will be thinking that perhaps Baroness Thatcher was actually a poor role model, in that a life lived without self-reflection or doubt is not a life worth living. I'd suggest that leadership for its own sake is not the point. Rather we should make the right decisions, legally, morally and ethically, with humane consideration for the effects on others.

Coming up on the plane today was really a rather depressing exercise. Reading the newspapers, item after another demonstrated a point that my colleague, Sex Discrimination Commissioner Elizabeth Broderick, is well aware of. That is that we have made glacial progress in advancing women on boards or in senior management.

The *World Economic Forum Seventh Annual Global Gender Report* puts Australia as having slipped 10 places from 15 in 2006 to 25 in 2012. The reasons for this ranking are due to lack of wage equality and political empowerment. Based on these figures, we seem at least to have plateaued.

I'm not going to spend time on these statistics or figures because I think you know it all extremely well. However, what I would like to do is to explore what all this means in the context of human rights law and how somebody like me, who's been very honoured to be appointed to the position I have, is trying to use that leadership to achieve the outcomes that I think are important.

I have of course looked to some of these innumerable self-help books that are on the market at the moment. There is enormous interest in buying books that tell women how to become leaders. In preparing for this speech, I did a quick Google search on this very issue.

A quick check on the internet just in the last few days show a number of them, one a very important essay by Anne-Marie Slaughter, Dean of Public Administration and Law at Yale, who states that women can't have it all.

But in today's Financial Review (*The Australian Financial Review*) there's Lisa O'Brien saying yes, you can have it all but not all at once. Then we have these books about how remarkable women lead, and one that is very much my favourite, *Nice Girls Don't Get The Corner Office* by Lois Frankel. You might be interested in the fact that I do have the corner office. You can draw your own conclusions.

But a book that has created something of a furore is a book by Sheryl Sandberg called *Lean In, Women, Work and the Will to Lead*. She, for those of you who don't know, is the CEO of Facebook. She's listed as one of the 50 most powerful business women in the world, and her central thesis is that women should be more willing to sit at the table, take risks, and take responsibilities. In short, women should get out more, be engaged and stop complaining.

I actually find these books rather depressing because they don't ever seem to reflect in any way at all my life or my professional career. But I do have one experience that I thought I might very briefly share with you. It does relate to Sandberg's argument that women should grab for leadership roles even

if we're only 60 per cent certain that we have the credentials for that step because, after all that's what men do.

There are a lot of this sort of glib, quick, snappy phrases in books that we can pick up for \$20 in the airport. However, recently I have had an experience that absolutely confirms what she says. Last year I was on the selection committee for the New South Wales Bar Association's proposals for the Chief Justice for the appointment of barristers to take silk.

In an unprecedented year (2012), of the 26 who were ultimately selected by the Chief Justice, 12 were women. In the past only one or two in any one year would ever be given silk.

I found the process absolutely fascinating because the majority of those successful women were selected almost immediately with relative ease. The reason for this was that it was abundantly clear that they were of a sufficient seniority and experience, they were well regarded by their peers and judges and it was clear that they were well and truly ready for the step up to silk. Indeed it's probable that some of those women would have been appointed earlier had they taken the step of applying sooner.

By contrast, and strong contrast, many of the men who applied were disappointing in their application because they were years too early. So I drew the conclusion from this experience that, yes, women are not as willing to put themselves forward as men. Men are willing to take the risk of failing, they're willing to try again and they're willing to change rulings that aren't in their favour.

I do feel very strongly that you've got to step up, you've got to take the chance, you've got to take risks and you've got to make mistakes. And I thought if I may prevail on you just for a few minutes to talk a little bit about my pathway here, then I will move on to what is my primary topic, that is, to talk about the work of the Australian Human Rights Commission. I'll talk a little bit about how I've perceived the last nine months in trying to promote human rights in an election year.

Interestingly, one of the things that Sheryl Sandberg most particularly criticises women for is that, when asked about how they got a leadership position and why they are where they are, women often say:

"Oh, well I've been incredibly lucky."

I've been saying that for the last 40 years and it is actually true. I was a boat person. I came to Australia as a £10 Pommy migrant in 1958 through the Suez Canal. I saw the Suez Canal in those months after the invasion of the

canal, after it was nationalised by Nasser, invaded by France and the United Kingdom.

While I was taken kicking and screaming out of the UK to migrate to Australia that journey through the Suez Canal, through Ceylon as it then was, Fremantle and to Melbourne was an eye opener. It was then that I realised there was a big world out there and that somewhere there was a place for me in it. I found that place when I went to law school in Melbourne. In those days, in the early 60s, you did law. It was straight law, I didn't do a combined degree. So at age 18 I was sitting in lecture theatres and admitted as a barrister and solicitor at 21, I hadn't the slightest idea what I was doing.

In my last year of law I did international law. I wandered into the lectures of a man called Doc Bleiter who was a Polish Jew who'd come to Australia in 1938. He talked about the covenant of the League of Nations. He'd been involved in drafting that covenant at the end of the First World War, the war to end all wars. He took us through the drafting of the covenant, he then talked about how the tanks rolled in from Italy into Abyssinia, or Ethiopia as it now is, and everybody knew in 1936 that the Second World War was coming. He also talked about the failure of the rule of law, about the failure of the covenant. Tears came down his cheeks, and I thought this is the subject for me, international law.

At that time studying international law was only something you did if you were rather frivolous, as I definitely was at that time. I queered my copybook very badly by being Miss University. Nobody of course took me remotely seriously, so it's taken me 44 years to get back up there again.

But I have been lucky, and the subject grew around me, an academic background, a practice with Mallesons Stephen Jaques helping to establish their offices in Singapore and Jakarta, but mainly working in the commercial area in offshore oil and gas.

I had my first opportunity at leadership when I was asked to be the director of the British Institute for International Law. That's when for the first time I had my own budget. I really believe in the importance of the financial ability for women to lead, and one of my favourite pieces of literature is Virginia Woolf's *A Room of One's Own*. You have to have those strengths and capacities, and the role with the British Institute for International Law provided me with experience and opportunities around decision-making, building a budget, building a team around it and starting to achieve your objectives. I was also able to do that as Dean at Sydney Law School and now with the Human Rights Commission.

Let's perhaps talk a little bit about the Commission. I've learnt a lot in the last nine months. What I have come to realise is that we are really in a very odd twilight zone in Australia with regards to human rights law. The reality is that Australia has been a global leader punching well above its weight throughout the world in negotiating the major treaties to which we're party: International covenant on Civil and Political Rights, Economic, Social, Cultural Rights, the Rights of the Child, Torture Convention, Convention on the Elimination of Discrimination against Women, right up to the more recent times with the Rome Statute and the creation of an international criminal court.

The odd thing is that we have not implemented those treaty obligations in our domestic law, with three exceptions: race discrimination, sex discrimination and disability discrimination. These are some of the domestic legislation provisions which provide the underlying base for our work. So at the Commission we have six commissioners. Elizabeth Broderick, I know you are familiar with as the Sex Discrimination Commissioner, disability discrimination is Graeme Innes, age discrimination we have Susan Ryan, the first woman to be appointed to a Labor Cabinet and a marvellous woman to work with, and Mick Gooda from Rockhampton in fact, who is our Aboriginal and Torres Strait Islanders Commissioner. Australia's first National Children's Commissioner Megan Mitchell, was appointed in February 2013. Currently, I am also the Acting Race Discrimination Commissioner.

We have a very major function in complaints handling, and we handle about 17,000 inquiries and complaints a year, 19 per cent of which are sex discrimination, and most of those are in employment. So if you wanted to distil what we do in relation to sex, almost invariably employment discrimination. I think it's a very important function of the Commission because it provides access to justice for people who otherwise would not be using the courts, or if they were to go to court it would completely flood the courts. We do manage to conciliate more than half of the matters that we consider.

As President I consider a broad range of issues in relation to human rights and fundamental freedoms in Australia. I do spend a great deal of my time on issues related to asylum seekers and immigration detention. I also intervene on behalf of the Commission in court cases and engage in public advocacy.

I've particularly enjoyed the opportunity to work at a national level. I thought I had a fairly big role when I was Dean of a law school. However, it has been such a privilege to work at the national level, travelling from an aged care facility two hours up a red dirt road from Katherine, then to Christmas Island or Tasmania. Developing my understanding of the complexity, richness, wealth and good will of much of Australia has been such an interesting part of my job.

I'd like to use my remaining time to discuss what it's like to be a leader in Human Rights law in an election year.

It's been, as you will all know, a fairly hazardous and unpredictable business, and rather disappointing, but with mixed results. Just a few weeks ago we've seen an unprecedented public debate on the Human Rights and Anti-Discrimination Bill which our new Attorney-General Mark Dreyfus has now withdrawn. We've also seen four of the six media regulation bills withdrawn after a ferocious and very public rejection by the media and by commentators. In considering these reform initiatives we've had one of the most robust discussions that I've ever heard in Australia on the rights to freedom of speech and freedom of religion.

Going back to a point I made before about the legal twilight zone that we're in, what this debate has highlighted is that we don't have any Australian domestic law on the right to freedom of speech or right to freedom of religion. These are fundamental rights which depend on our courts, on our community culture and on our politicians' good will to implement. We rely on the courts, community and parliamentarians because we do not have a bill of rights or a legislative charter, in the way that every comparable common law country in the world has.

As the public debate on the Human Rights and Anti-Discrimination Bill continued in the media, the number of asylum seekers arriving in Australia by boat exponentially increased. Since August 13 2012, a critical date as it was when the Government adopted the policy of no advantage, we've had over 15,000 unauthorised boat arrivals with many more arriving each month. Under the Government's mandatory, and arguably arbitrary, detention policy, we now have over 1300 children in detention, closed detention behind wire. We have about 900 in open community detention and 30 or so detained in Manus Island.

The number of arrivals seems relatively trivial compared to the numbers that I saw in Jordan where I was a couple of months ago. In Jordan they were dealing with 300,000 Syrian refugees pouring across their very porous borders. But the numbers nonetheless are very significant for Australia in the current political environment.

From a human rights perspective there are many legal issues raised by government policies in relation to refugees and asylum seekers. It is at least arguable and very probable that to detain people in closed detention who are seeking protection indefinitely is a breach, not only of international human

rights standards, but of the very principles that King John was forced to agree to on the fields of Runnymede for the Magna Carta in 1215. We have now something like between 8000 and 9000 people in closed mandatory detention in Australia as I speak. They have not committed any offence, and they have no capacity to go to the courts to have the necessity for their detention challenged.

Another area that is numerically not so worrying but nonetheless troubling at an individual level is that 55 people have been assessed to be genuine refugees before the new policy started on August 13 2012, but they have been assessed by Australian Security Intelligence Organisation (ASIO) as being a security risk. Now, ASIO may be entirely right, and the evidence that they are a security risk may be watertight, but the difficulty is that nobody can challenge these assessments. You can't go to the courts and say I've been assessed as a security risk but I'm a refugee, please determine or review whether or not the basis on which I am being detained are fair or not. Indeed the 55 people detained mandatorily don't even know the reasons, or haven't until very recently, known even the most broad-brush reasons for their detention.

The difficulty is that no other country will take a refugee with a negative security assessment, so there's no possibility of them being resettled, and of course they have no right of access to the courts. Recently, however, and this is a ray of light, the Australian Government has appointed a federal court judge, Margaret Stone, to conduct an independent review of ASIO's assessment and to give at least ballpark reasons for their detention. But the very sad reality for these people is that many have been in detention for close to four years. A young woman in particular has had children, two children have been born in detention in Villawood, and many of these children have to attend school leaving closed detention to go out into the community during the day and back into closed detention at night.

Of course I haven't yet mentioned the *Convention on the Rights of the Child*. We are very concerned that the offshore processing, insofar as children and families are being taken to what appear to be quite inhumane facilities in Manus Island and Nauru. We are also concerned with the way in which offshore processing is being conducted in that it appears the Government is delegating its responsibilities to the governments of Nauru and Papua New Guinea. The Government must be reminded that it cannot avoid its international human rights obligations by transferring asylum seekers to third countries.

We're also concerned about the release of asylum seekers into the community on bridging visas. Those on bridging visas are prohibited from working, which seems to me to be not only contrary to refugee law but contrary to the very essence of being Australian. The opportunity to work is critical to the way in which we all form a part of the Australian community.

Against that rather dismal background, we have some important advances to human rights law, and one is the decision just a couple of months ago on a bipartisan basis for legislation to recognise Indigenous Australians in the Constitution. That is very unusual legislation and I think we all should be looking at it, but in a very short space of time it would be necessary for the Minister to report on the willingness of Australians to consider constitutional recognition of Indigenous Australians.

As previously mentioned the Attorney-General has also appointed for the first time a Children's Commissioner at the national level. Children's Commissioners have of course existed at the state level, including here in Queensland, but never at the Federal level. We also have something that's really occurred under the radar but I think is a very important mechanism to advance human rights law in Australia. That is the establishment by the Government of a joint parliamentary committee chaired by Harry Jenkins, former Speaker of the House. This committee has the task of scrutinising all bills and existing legislation for compliance with international human rights law. This committee is already proving to be very successful, detailed and conscientious in its work.

I'd like in the last couple of minutes, just to highlight the difficulties, by way of illustration, of trying to play a leadership role in relation to the Human Rights and the Anti-discrimination Bill. Now that Bill, you'll remember, was introduced by Prime Minister Julia Gillard and Attorney-General Nicola Roxon as a consolidation bill and indeed it was. What the Government was doing was pulling together all the bits of legislation, sex, disability, race and age, as well as a few other provisions, and putting them in one coherent piece of legislation. We at the Human Rights Commission strongly supported it because it makes the law clearer, making it easier for employers and so on. You'll remember that our Prime Minister used this language to promote the Bill. But what went wrong?

Well, what went so severely wrong was that this Bill did a lot more than consolidate existing legislation. It was actually a profoundly important piece of reform legislation, because what it did was extend anti-discrimination laws that you already have on the books in Queensland, and they have had in Tasmania as well, on sexual orientation, religion, industrial history, social origin and so on. But the furore was created because suddenly laws that we understood in the context of race, sex and disability are now being applied to a new area of protected attributes. The context in which much of this took place was

in the area of racial vilification, and you'll remember that the Government in the Draft Exposure Bill included the language from the Racial Discrimination Act of insulting and offending, so that if someone insults, offends, intimidates or humiliates somebody on the ground of race in a public place or a public context, that will be something subject to prosecution under the Racial Discrimination Act.

We've lived very well with that law since 1996, but a prominent figure was prosecuted on the basis of it, that was Mr (Andrew) Bolt for what the Judge determined in the Federal Court was inaccurate work that lacked good faith and could not be excused on any of the grounds of excuse. But the hare had been set running, because what the Government did was to take the language of insulting and offending and apply it to all the new attributes, so that if you offended and insulted somebody on the basis of breastfeeding, immigrant status, social origin, industrial history, you could be drawn within the terms of the new legislation.

So we had the media doing what is absolutely fatal in Australia, they reduced the Bill to ridicule. They made fun of it. They had cartoons of Nicola Roxon dressed as a nanny, stuffing the dummy in the baby's mouth. We were seeing ourselves as a nanny state, that in Australia we're not robust enough to take insults. We all rib each other for one reason or another. This attention on the words offend and insult meant that the Bill was pretty much dead.

But it was also killed by the second point that was picked up so strongly in the media, and that is that there was a shifting of the burden of proof. Rather than having all the obligations to prove the offences in the Human Rights and Anti-discrimination Bill lying with the complainant, a certain element of the offence of motive was to be moved typically of course to the employer.

And here we had the media, and others saying that this was a reversal of the burden of proof and that it was going to destroy democracy as we know it. Now, the fact that the courts have always applied the Racial Discrimination Act in the most egregious of cases, only at the highest threshold, was not relevant in the public arena, and what happened was ultimately that the derision of the Bill was so powerful, even if misconceived, that very important reform legislation simply failed.

What lessons can be learnt from it? Well, first that you should never describe to the Australian public, legislation as being one thing when it's actually that and something else. Australians are so quick to pick up any humbug or any obfuscation of the truth. The other is that when you're reforming, particularly in a volatile political environment, you needn't go for overreach. It's not sensible. You need to have flexibility and to withdraw.

The process highlighted the importance of leadership. If you haven't got strong leadership to support a bill on a bipartisan level, it will fail. The context in which we have seen bipartisan leadership has been in the context of the Aboriginal and Torres Strait Islanders Recognition Act, where both the Prime Minister spoke of a deed of reconciliation and Mr (Tony) Abbott, then Leader of the Opposition, spoke specifically of the treaty of Waitangi as a means of making two people one nation. That legislation has gone through and may very well be successful.

One aspect of the process that proved quite a surprise to us at the Commission was that the one area we thought would create the greatest public dispute barely raised a whimper, that is the issue of sexual orientation as a protected attribute. People accepted it. It was a fascinating process. From here, we don't know what's going to happen except the good news, perhaps particularly for today's group, is that the present Attorney-General is determined to get the sexual orientation provisions into the Sex Discrimination Act as it currently exists. So there will be something of benefit to come out of this process.

Perhaps I could conclude by saying leadership, I believe, is enormously important and each of us should exercise it in the ways that we can, but it's not about personal ambition. If that's what it is, it's a sterile concept and it's totally empty of substance. We need to be strong in ourselves to know what it is we want to seek and to achieve, and I think with time we can almost always achieve it.

Reaching back a little to the Sandberg thesis, yes, women need to lean in but they also need to lean back and across to the groups that people like us have left behind; the women on the canteen floors, serving in the hospitals, in public transport where they're poorly paid, poorly represented, almost inevitably have low superannuation opportunities, often not good career opportunities at all, managing families and doing so on relatively low wages.

I think one of the greatest responsibilities we have as well educated, professional women is to ensure that these women are drawn into our community, and that is where economic development will come when we work across these boundaries to bring women in and to ensure that they have the rights that they should have, as a matter of law and as a matter of ethics as well.

> WA AGRICULTURE: FROM MINING
BOOM TO DINING BOOM

> 29 MAY 2013

> PERTH



Global food security and the role of WA in meeting it

Julian Cribb

Founder, Julian Cribb & Associates



This speech provides a confronting examination of the magnitude and speed of the changes that will need to occur in food production both globally and nationally to meet future food demand.

Meeting the world's growing food demands, particularly in our own region with the growing middle class in Asia, opens up significant opportunities for Australia and this speech examines how we could potentially capitalise on this market.

It also discusses how agricultural output and food production can become Australia's top performing industries and act to help diversify the economy as the mining and resources sector slows down.

Ladies and gentlemen, it's a great pleasure to be back in the golden west which is where I cut my teeth as an agricultural journalist, who knows how many years ago. When I was here I was very much inspired by the innovation and the never-say-die attitude of Australian farmers and I've carried that with me for the rest of my life so you are somewhat to blame for what is about to follow.

Since 2008 there have been three world food crises and the United Nations has warned a fourth is possible this year depending on the northern harvest, yet tonight 216,000 more people will sit down to dinner than dined last night. While birth rates are slowing the human population continues to expand as fewer children die and more people live longer lives. On present trends we will reach 10, maybe 11 billion human beings by the 2060s.

At the same time the demand for protein from nations like China, India and Brazil is soaring. Within half a century these factors will double global food demand. We will require 600 quadrillion calories every single day to feed all of those people. So the central issue in the human destiny this century is whether or not we can achieve and sustain such a mighty harvest.

Worldwide our food systems face critical constraints. There are time bombs ticking in each of the major resources needed to secure our food supply, in water, land, nutrients, energy, technology, skills, fish, finance and climate stability. These have far reaching geopolitical and geostrategic consequences affecting all nations and all people. Food has become a wicked problem requiring complex solution at the global level and by the whole human species.

I will explain why.

Today each one of us uses 1240 tonnes of water every year. In a lifetime each of us will use enough water to float the USS Enterprise which is a rather large aircraft carrier. Worldwide 4500 cubic kilometres of groundwater are being extracted every year, most of it unsustainably. So massive is the level of water mining it is actually adding 13 per cent to sea level rise.

Regions at risk include Northern China which feeds 400 million people, the Indo-Gangetic region which feeds 1.3 billion, the Midwestern United States, all of which are expected to exhaust their resources within 15 to 20 years, at present rates of consumption. North Africa, the Middle East, Sub-Saharan Africa and Central Asia feeding another 300 to 400 million people also face critical water scarcity.

All of the world's grain bowls have sustained major climate hits in recent years and people are slowly starting to realise that the global harvest is now on a knife-edge. Here in WA we have a fresh reminder of that reality.

In the tropics storms and floods imperil food security in South and South East Asia but also in Africa, Central America and the Pacific and especially in the world's great river deltas. Snowpack on high mountains has shrunk along with inflows to lakes, rivers and aquifers in dry land. Look at Lake Chad, ladies and gentlemen, 90 per cent gone in less than 30 years.

Water is the largest of the food time bombs and it is primed to explode within 15 to 20 years. You can see this in the rising tensions between farmers and other water users, notably the gas and resources sector which is mining groundwater that may be needed for future food and drinking. The energy sector will more than double its use of water by 2035. By 2050 the cities will be home to eight billion human beings. Their demand for water will double also to around 2400 cubic kilometres a year.

To feed this insatiable demand for water, cities and energy companies may have to take up to half of the farmer's water. So this means we will be asking the world's irrigation farmers especially to double food production on half the water and believe you me that is not a trivial technological challenge.

Land loss and soil degradation are a physical threat to the human future. We've been talking about it for half a century but we have not done much about it. Human activity causes a loss of between 75 and 100 billion tonnes of topsoil every year. Put bluntly every meal that you enjoy costs 10 kilos of topsoil. That's a bucket of soil for every sandwich you eat basically.

A Food and Agriculture Organization of the United Nations (FAO) satellite study found that we've been losing about one per cent of the world's farming areas every year since 1990 so if we go on losing one per cent every year for the next 50 years you can imagine what is going to be left on which to double food production. Soil is finite. Its formation takes thousands even millions of years. If the present rate of loss continues scientists are already warning the world could exhaust its arable topsoil within 50 to 70 years.

At the same time FAO statistics indicate that the global farm area is actually contracting. Now prices for agricultural produce are quite high and normally you would expect that farmers would expand agriculture when they're getting a price signal to do so but it's not happening. So we are facing a second inconvenient truth that every extra tonne of food we try to raise raises the risk of progressive breakdown in productive capacity, to use the FAO's own words.

The scarcity of farmland is evident in a worldwide land grab that is going on right now principally led by Arab, Chinese and American investors. Since 2001 an area the size of Western Europe has been taken over from poor farmers primarily in Africa but in most other countries as well.

Think about cities for a moment. By 2050 the world will have gigantic collocations like Guangzhou, Shenzhen and Hong Kong which will hold as many as 120 million inhabitants, Manila and Jakarta who each have populations of between 40 and 50 million. The world's cities will together occupy an area of land the size of China. They will consume a third of the world's fresh water and 80 per cent of its nutrients.

Now the thing to think about with the modern city is it produces next to none of its own food. It is fed by a river of trucks that flows every night to restock the shops and supermarkets. Feeding a city of 20 million requires the physical delivery of about 6000 tonnes of food every day. Here in Australia it takes 80,000 truck movements per week to put our food in the shops. Now what is going to happen if due to an oil crisis, a war or a natural disaster that transport river fails? Well we know the answer to that because in 2011 floods cut off the Sunshine Coast in Queensland and the supermarkets were cleaned out in 48 hours.

The modern city and society cannot survive more than a few days without oil and without food so each one of the world's megacities represents in its own way a ticking time bomb. Any megacity failure has obvious consequences for regional stability and peace and the most likely failures are in our region.

Now modern agriculture and food production use about 30 per cent of the world's energy. Every day each consumer devours about 4.1 litres of diesel fuel in the form of food. That's 66 barrels per person per year. Now the International Energy Agency (IEA) says global peak oil was in 2006 but you can argue until the cows come home about that.

The big issue is that 61 million new cars hit the world's roads last year. Car production is increasing by seven per cent per annum however global oil production from all sources, conventional and unconventional, is expanding at only 0.7 per cent. So cars are growing 10 times faster than oil and this increases the probability of a major oil shock with consequences for food security. Now I mention this especially because Australia imports 85 per cent of its transport fuels. Now if those get cut off we're in some difficulty. I'll come back to that and what the solution is.

Ladies and gentlemen, ours is the first generation in the whole of human history to throw away half our food. The picture shows what the average affluent family chucks in the garbage every month. It is neither moral nor economic nor sustainable. The world's food security depends on a supply of cheap, mined fertilisers and these too are finite and they will become scarce and costly towards the mid century. There are no substitutes for these things, nitrogen and phosphorous, in agriculture so the risk of a nutrient shock is high.

The world and Australia urgently need to rethink the nutrient cycle. At the moment we are just throwing the nutrients in landfill. We are putting them in a sewer pipe and sending them to the bottom of the Pacific Ocean or the Indian Ocean. We are squandering them, ladies and gentlemen. You know, they are too precious. They are a thing that keeps us alive and we have to figure out ways to reinject them back into the food system and this represents unprecedented industrial opportunity.

By 2060 world demand for protein is forecast to be 570 million tonnes and that includes 100 million tonnes of fish which is not going to come from the ocean because the catch has peaked and has been going down for 10 years. So another urgent task is producing 3 billion tonnes of animal feed to raise all these livestock and fish and poultry.

Now if we fed them on grain we would have to discover three new North Americas to generate that amount of grain. The short answer is that this feed can't come from grain production because we're going to need that for ourselves. It must be found elsewhere and that too is probably the greatest industrial opportunity that Australia and WA in particular have ever had.

One of the reasons for the current global food crisis is that the world, including I'm afraid WA, have cut support for agricultural and food science over three decades. This explains why crop yields are not keeping up with growth in food demand. It means that our farmers are driving into a big technology pothole. Now today the world invests a total of about \$50 billion in agricultural and food science which sounds like a lot of money but we also invest \$1750 billion in new weapons. So human beings actually spend 35 times more on better ways to kill one another than we do on better ways to feed one another. The time is fast approaching when all nations will need to see food research ahead of defence spending, Australia first.

The policy and climate in which agriculture was born is changing probably for all time. As the World Bank and PricewaterhouseCoopers have warned two degrees of warming is probably now unavoidable and four to five degrees is quite likely. Now beyond two degrees doesn't sound much but beyond two degrees grain production especially is at risk. At two degrees for example India could risk losing half its harvest leaving 700 million people hungry, Africa risks losing a third of its arable land. China faces famines like the historical ones.

Scientists estimate that every degree of global warming reduces food output by about 10 per cent so given this we're going to actually have to increase food production 50 per cent just to stay level with where we are today and then double that.

Climate change also exacerbates land degradation and water scarcity so put simply what this means is we have to completely reinvent new ways to produce food for the era of changing climate. These new food systems offer vast opportunity to Western Australia.

And just again to put it in the big global context, wars today are often driven, 60 per cent of the wars in the last 30 years, were driven by scarcities of food, land and water. When you scrape away all the religion, the ethnicity, the culture, the political squabbles and things like that and you look at modern conflicts deep down at the bottom you find people are fighting over a well, over grazing rights, over land to feed their children.

In 2011 governments in Egypt and Tunisia fell out because of riots that began as food protests and this map which was prepared by the British Ministry of Defence shows you that the conflicts in the world have mainly been in regions that are food, land and water insecure. Look at the other places on the map, ladies and gentlemen. How many wars have there been in Australia, in Northern Europe, in North America? Well fed societies do not have wars at anything like the same rate that societies living close to the margin have. This means that food security is intimately linked with global security. You want peace, you supply food.

Now I've discussed the main issues in global food security. Summed up this is the challenge that we face. It appears daunting yet it also harbours magnificent opportunities especially for the West. This is the challenge of our age and West Australians are the people I believe to lead it.

First we need to reinvent how we produce food. We need a new agriculture based on ecosystem thinking which produces more food using less soil, water, energy and chemicals and resilience to climate shocks. We need massive reinvestment in knowledge to create that agriculture. Our agricultural science effort must be placed on a war footing.

Then the human diet must change. A hot world of 10 billion people is not going to eat the same kinds of food as a cool world of 2.5 billion people when I grew up. Our future diet is going to be far more diverse, interesting, tasty and healthy. It will kill less consumers. It will contain many vegetables as well as completely novel foods. Much of this future world diet will come actually not from farms but from cities, from intensive systems within cities and cities like Perth will be completely redesigned to recycle their water, their nutrients, their carbon, their energy back into food.

The future farm will blend the best ideas from modern intensive agriculture with organic systems under the aegis of science and evidence. It will operate

at large scales and smallholder scales. It will weave together soil biology, crop science, nutrient cycling, soil, water, energy and carbon conservation with new thinking about sustainability on permaculture reliance and robotics. It will embody new ideas in landscape thinking.

For the hot, dry areas there will be entirely new paradigms like solar farms using saltwater. This is highly suitable for the centre and the northwest of Western Australia as well as for the desert regions of the world.

To avert the risk of urban famines and lower food miles huge new food industries will arrive in our cities. Now giant vertical farms and forests are already being built. They are going up now in far-sighted cities in Sweden, the Netherlands, Italy, Canada, Singapore, the United States. These will use hydroponics, aquaponics and similar intensive approaches as well as smallholder agriculture to revolutionise urban food production. They will recycle urban organic waste and water into food. Furthermore and very importantly, they will be climate proof. This is a colossal opportunity for WA farmers and investors to help pioneer these new systems of food production.

Algae farming represents, in my estimate, a \$55 billion opportunity for Australia and especially for WA. Now that's worth almost as much as iron ore. Current algae oil yields are of the order of 100 tonnes to the hectare which far outweighs any oil that you can get from a terrestrial crop. Algae produce very large amounts of oil. Indeed our fossil oil actually consists of dead algae that have been cooked in the earth's crust so why don't we grow it fresh instead?

Using free sunlight and saltwater we can produce 100 per cent of Australia's transport fuel needs, that's every litre for every car, bus, bike, train, aeroplane and ship, from an area no larger than a single WA sheep station. This will save us \$40 billion a year which we are currently paying overseas for our fuel and it will reduce or eliminate our dependency on foreign oil. It will proof us against future oil shocks.

Now the reason that this is such a promising industry for Australia is that, as Mark Oliphant once pointed out, we enjoy more sunlight per square metre than practically any country on earth and this makes us the Saudi Arabia of the 21st century, the world's largest fresh oil province.

Besides oil algae can also be used to make plastics, textiles, industrial chemicals, fertilisers, stock feed and human food, potentially replacing another 15 billion in imports, creating around 50,000 new jobs and establishing major export industries.

Many serious players around the world are already investing in research into algal biofuels. There are at least eight companies and eight universities

conducting research in Australia including Murdoch University (with) a couple of algae farms up at Karratha. One of the greatest opportunities arising from algae farming is aquaculture because when you grow algae you squeeze them to get the oil out, what you're left with, the other half is stock feed, perfect for feeding fish because algae are what fish eat naturally, better than grain.

Currently Australia is importing 80 per cent of its fish and we're paying \$1.5 billion to do so. Aquaculture is the world's fastest growing food industry. As ocean fish catches dwindle it will expand fourfold to become the world's largest livestock sector. In Australia aquaculture could easily be a \$5 billion sector by 2040 exceeding all our other livestock industries combined. This is because fish turn plant matter into meat more efficiently than land animals. The greatest resources of land and water and sunlight to do this are in Western Australia.

With climate change hammering the world's food bowls the necessary animal feed for this cannot come from grain. The feed produced by algae farming will be the springboard that enables this bright new industry to take off.

If we're reinventing our cities to recycle all those nutrients and water, things like that, we can use them also to feed biocultures. Now these are things that are based upon medical science, the science that grew skin grafts and things like that but blown up to industrial scale, cultures of vegetable, microbial, fungal and even animal cells directly.

This form of advanced food production is probably inevitable given the economic pressures that are being applied to farming so I do see a lot of food production, low cost food production coming from this source in future as well as to sustain those megacities. That's the point. This type of food can banish the fear of famine in any of the megacities. It will slash food miles. You know, you will grow your food right where you eat or consume it.

Synthetic meat will be on our plates shortly. I know you may not like that idea but the University of Maastricht has created the world's first synthetic sausage grown from animal stem cells in vitro. It's real meat, ladies and gentlemen. Look do you really know what's in a pie when you eat it? Do you really know what's in your crab stick or your chicken nuggets?

There is a market for low cost protein which as I say, you're not going to be aware of what you're eating. There is still a market for beautiful fillet steak and those people will need to pay farmers more money so that they can grow it and look after the environment that produces it. So this will drive agriculture upmarket, this development of these low cost foods and this is a huge opportunity. I think WA needs to be in on this one big time. We've got the skills.

We've got the biotech skills. We've got the resources.

Now today one Australian in two and indeed one consumer in two in the affluent world dies by their own hand, that is, the hand holding the fork. As a result of diet related diseases awareness of the massive health costs of our current diet by government and consumers is driving a worldwide quest for healthier, more sustainable food.

The earth has more than 25,000 edible plants of which only a couple of hundred go into any market anywhere in the world and you'll only find a couple of hundred different plants on sale there. So we have not yet begun to explore our own planet in terms of its culinary or its agricultural potential. We are really still starting out. Australia has 6100 edible plants and how many do we actually eat? We haven't begun exploring Australia yet.

The dining boom is yet to come and when it does it will be far, far bigger than the mining boom. Sorry miners. We are on the brink of the next great food adventure and one abundant with opportunity for novel diets, jobs and industries. Again, a perfect fit for the talents and resources of this state.

Ladies and gentlemen, the challenge of meeting the world's future food need is great yet the opportunities are greater still and means exist to mitigate the risks. Here in Perth today the adventure begins. We are already developing new science-based eco farming. We can create novel food and energy production systems. We can design healthier, more sustainable diets. We can build cities that do not waste and which grow more of their own food. We can raise a generation of children who respect and value food and are happy to pay our farmers enough to steward the earth that feeds us. This is a more than inspiring challenge. It is one on which depends the future prosperity, security, stability, peace and happiness of our civilisation.

> WOMEN IN LEADERSHIP

> 13 JUNE 2013

> ADELAIDE



Australia: Ideas for a big future

Pip Marlow

Managing Director, Microsoft Australia

With the future of some of Australia's iconic industries in jeopardy, now is the time for Australia to decide its industries of the future. This speech provides an inspirational perspective on how Australia needs to change its mindset to make that happen.

Pip Marlow uses historical examples to illustrate Australia's past strengths and abilities but also international examples of innovation to demonstrate Australia's need to foster talent and develop new industries.

This speech provides a great starting point for the conversation Australia needs to have now around driving innovation and fostering talent to remain prosperous in a globally competitive environment.

Today, I want to talk about *Ideas for a big future*. What that means for you, what that means for your children and what that really means for Australia.

For me, when I think about the future, I quite often like to start by thinking about the past. Where we came from, what got us here.

So what I want you to do now is cast your mind back to the 1956 Olympic Games.

Dawn Fraser is preparing to swim one of the greatest races of her life in front of a home crowd. The starter's gun fires. Just over a minute later, she had won gold and set a new world record in the 100 metre women's freestyle.

Fast forward 56 years to London 2012. Ranomi Kromowidjojo from the Netherlands wins in a time of just over 53 seconds. The difference between first and last place was just one second.

Dawn's feat was amazing and her legacy remains inspirational for all Australians. But it's clear the competition has changed. The field is much tighter and the competitors are different too. What was a gold medal performance 56 years ago, is no longer a gold medal performance today.

There are parallels in this story for Australia. Australia has done remarkably well over the last 50 years. Today, we're one of the wealthiest nations in the world and by many measures, the best to live in. We've achieved a gold medal performance. But if we apply the lessons from the pool, it's clear that the competition is changing for Australia as well.

What got us there 50 years ago, wouldn't have gotten us where we are today and I predict it will not get us where we need to be in 50 years' time.

What has happened in swimming and Australia, I can relate to Microsoft.

I joined Microsoft in 1995, the launch of Windows 1995, a pretty incredible year for Microsoft. It was a real transformation of our organisation.

Almost 18 years later, or 30 years later as a company, the competition has changed. What got us to this place as an organisation will not be the thing that takes us forward as an organisation for another 30 years. And that applies to Australia as well.

Post the Global Financial Crisis when other countries have been struggling, Spain for example, has had youth unemployment of 50 per cent and national unemployment of 25 per cent, we sit at 5.6 per cent unemployment.

We have fared extremely well in the world economy, but I do fear that is changing and that's what I want to talk about today.

I'm not going to tell you I've got all the answers, but I think we need to be prepared.

As a country I think we need to be talking about the points of transformation and change and what will make Australia a great place for the next 50 years.

Over the last 50 years Australia has prospered but we've prospered in a world where growth largely came out of the US and Europe.

However, the centre of gravity is moving with the growth of countries such as China, India and Indonesia.

As these global changes occur, it is important that here in Australia we are also thinking about change.

I tend to simplify things down when I talk about change and I say in general I think change happens in two ways.

Change can be organic, it can happen slowly and overtime, bit by bit without a clear anchor pulling in a particular direction, or it can happen with great clarity of purpose and belief.

When it comes from purpose and belief, it happens for one of two reasons:

It can come because there is a burning platform, because things aren't going well, for example the economy or a company's performance is lagging.

Alternatively, it can come from a place where you have a belief, a passionate belief about a better place and a better outcome.

I'd like to give you an incredible story as an example of a burning platform. How many of you are familiar with Nokia?

I bet that over half of this room has had a Nokia phone at some point in your life. Nokia used to be the number one supplier of phones in the world. It still has an incredible brand, and if you go to Finland they are a national treasure.

However, over the last five to six years Nokia sales have dropped. In fact they're now outsold by Apple, HTC and Samsung globally and recently they were outsold in their own country. So they got a new CEO, a gentleman by the name of Stephen Elop, and Stephen Elop is the first non-Finnish CEO of Nokia.

After being in the role for a little while, he wrote a memo, it was aptly named: *The Burning Platform*. He said to the people of Nokia:

"I believe we're in a tough situation. Nokia and the people that make up Nokia, I want you to think about it, about being on a burning oil platform in the middle of the Atlantic. That's where our company is right now it is so tough and things are looking dire.

"We've got two choices to make; our first choice is staying on the platform, and what do you think is the outcome is if you're on the burning oil platform in the middle of the Atlantic? It's not a good outlook?"

"Or we can do something. The only other option is we can jump into the freezing cold Atlantic and swim for a better place. It's the only option we have, and I'm not saying it is going to be easy, and I'm not going to say there's not going to be some pain and some challenges on the way. But it is the only way we have a hope of saving this company."

You can find that memo online, it's been published. So he put that out there and he is now absolutely transforming Nokia.

He was in town a little while ago and said to me that for the first time he had to call the analysts and tell them he wasn't going to meet expectations. For the first time it wasn't that he was going to miss them, it was that he was going to exceed them.

A couple of years into a massive transformation – a lot of pain – but the signs are that the transformation and change are paying off.

So when I think about change and transformation and look at Australia, where's the burning platform?

That's the challenge here because things have been good in Australia, but we need to start planning now what needs to be done to transform our economy to make us competitive in 50 years' time.

Fifty years ago the internet didn't exist and people weren't using it to do e-commerce and access goods and services from all over the world.

So can you imagine in another 50 years? The technology, the marketplaces that will be in place.

Today we talk about the rise of China and India, imagine in 50 years – what will Africa bring as that market comes online, as that middle class grows? And it is important to not just think of them as a competitor but as an opportunity for us to service.

That's why I think we need a plan for what Australia will look like in the next 50 years.

We've been blessed, certainly things aren't in dire straits. We have been blessed with a mining sector that has helped us through some challenging global economic times.

However, there are a couple of other nations I think we can learn some great lessons from.

Let's go half way around the world to Israel, a country that has been marred by war and is surrounded in desert – a challenging scenario. What Israel has done is spend time building a culture of innovation.

The amount of innovation that comes out of Israel is amazing. Innovation that is spurred by their own burning platform of not having fresh water. Israel is now the world leader in desalination technology. They had to solve the problem for themselves and they did. But now they export that technology and it is one of their leading exports.

Let's go a little closer to home. Singapore. For us at Microsoft we have a regional hub in Singapore. But if you cast your eyes back 50 years ago, Singapore was one of the poorer nations, they were not what they are today.

They had a burning platform and there are no natural resources to rely on, it is an island state. There's no room to mine or grow agriculture, their number one asset had to be their people.

What Singapore has done since then is create a vision to be the business hub of Asia and they've done an incredible job.

They now have one of the highest GDP (Gross Domestic Product) per capita in the world and they're one of only three countries that have a Triple A rating from all the major banks, the other two are Canada and Australia.

There is no silver bullet. In the beginning, in each of those places, it wasn't a short term plan. It's taken Singapore 50 years and it's taken Israel years to create a different type of natural economic resource boom.

What has been important is that at the centre of both of those booms were their people. That's what I think has made a huge difference for those economies, and I think it can certainly make a difference for our economy.

So I think we need a plan and not just an architectural plan, but a plan where we have a vision for what we need to be, because we can't wait, our competitors are moving. Our competitors are moving around innovation, around delivering services and around competing in the global economy.

It's time we reimagined what Australian made could look like.

The Australian made symbol is often tied to a rear view mirror of what Australian made means. It's often tied to a physical product. While we've had some great products developed out of this country, we have an exciting opportunity to re-think what Australian made means.

We live in an economy where 85 per cent of our GDP comes from services, not from manufacturing and mining, yet so much of our conversation is around the other 15 per cent.

Education is our fourth largest export. Every year we export \$14.9 billion worth of education. How much do you think we export in gold? \$16 billion.

Education exports in this country are worth almost as much as all the gold we mine every year.

Imagine, if in 50 years' time, education was our number one export. Maybe a \$60 billion industry and if Australia was known as a place where if you wanted to get an education, this is the best place in world to go.

Imagine if that was our future, and I'm not saying that it has to be education, but we need to think about the things we can be passionate about and where we can differentiate ourselves.

That's not to say that there won't be any manufacturing. I think there are incredible examples of innovation in manufacturing.

At the moment we spend hundreds of millions of dollars a year in protecting the car manufacturing industry but we've got an incredible situation where we've got a shortage of skills in other areas.

If we took hundreds of billions of dollars and said let's invest this in skills for those people, let's ensure these people have incredible skills to support the vision for Australia as a service and knowledge economy, imagine what we could achieve.

We don't have a shortage of people, we have a shortage of people doing the things that can really differentiate the future for Australia.

Sometimes we have got to walk away from the things that we've created, to create the next generation of what we might look within a company and I think that certainly applies as a country as well.

When you start to look at what Australian made could mean in the future, I think there are three things we need to be looking at:

1. How do we go from thinking about being a mining industry to a mind industry?
2. How do we think about education? and
3. How do we think about innovation as part of that?

The first thing I want to talk about is how do we move from the mining boom to the mind boom?

I have already talked a little about education, but I also think there are many different ways we can be thinking about how we create innovation here.

How we take ideas and incredible innovations and make them global. I talked about what Israel did before, but there are also many great Aussie inventions, think about the Cochlear implant, spray on skin, the work of Fiona Wood in Perth that is now global. Think about the black box flight recorder, the refrigerator.

We've been a nation that has got some great foundations around innovation, solving problems and exporting that technology.

How can we make sure more of that happens out of Australia and people have a culture and a workplace and a government and an ecosystem around them that embraces that type of innovation and that type of appreciation of intellectual property and ideas that come from that – not just an appreciation of physical goods?

More and more we need to think about how we deliver services, not just to people in your neighbourhood, but to anywhere in Australia or the world.

I think in order to do that we've got to move back, we've got to look at what's happening with our kids.

So I have Sophie and Lucy. My girls are in year seven and year four. My daughter in year seven just got a PC at school this year but she's still doing a lot with pen and paper and my daughter, Lucy, who's nine, 100 per cent pen and paper.

When I go into the school, the school room actually looks a lot like the school room was when I went there. A fairly traditional setting, the teacher up the front and when they do a lesson plan, it's one lesson plan and then they give that to the child. But actually my two daughters are like chalk and cheese, they learn very differently, they have different strengths.

We need to start thinking about how we can change that and the education sector to ensure they are leveraging and using technology to give every child the best education.

A big part of it is we need to think about how we're making sure we are teaching 21st century skills to be successful in the 21st century.

I've met some of the most incredible teachers who are so passionate about changing the classroom and they are already making progress on that path. But when someone comes to have an interview with Microsoft, I don't ask how is your reading and writing, I don't ask how did you do on your NAPLAN. I ask how do you work in a team because that is essential for business outcomes. I ask how do you deal with problem solving because I've got problems that need solving. I ask how do you work creatively, because I know they are skills needed in business.

Those are the type of 21st century skills we've got to be breeding in our school system.

I think the next thing we've got to be able to do to have our place in the future is embrace technology. I read an article about a year and a half ago, and the premise of it was if Bill Gates was born in Australia would Microsoft exist?

Written by an Australian, it talks about the barriers in Australia for innovation and for companies to really innovate and flourish. The outcome of the article was no it wouldn't.

But I want to believe that the next Bill Gates, the next Jamie Oliver, the next Fred Hollows, or Richard Branson, he or she could be in our schools. If we embrace technology and innovation, so much more can happen for us.

I don't want to get into a conversation about if you're for or against the NBN but we are putting that infrastructure in. It will be a digital highway, it will allow us to do a number of different things for each other, for our citizens, and in the world economy.

Think about a child in remote South Australia or Northern Territory who wants to study chemistry and maybe there's no chemistry teacher at that school. Suddenly with that type of infrastructure, the learning that student can access, it's game changing.

If we think about the NBN and the global economy, it will change the way we do business and live in this country. So I think there's incredible opportunity for us to be thinking about how we embrace that innovation.

However, I think the danger for us right now is maybe we're not standing on a platform in the North Atlantic with flames all around us. Maybe that's not what we can see and feel right now, but I think what I see and feel, both at Microsoft and as the world is changing and in the marketplace around us, is a competitive landscape that is shifting very swiftly.

We need to be thinking about what that means for Australia, because if we don't have a plan for the future I'm pretty sure that what got us here, will not get us there.

> 2013 STATE OF THE NATION:
AUSTRALIA ADJUSTING

> 24 JUNE 2013

> CANBERRA



Australia Adjusting

The Hon. Julia Gillard

27th Prime Minister of Australia

This speech is significant not just for the content but because it will be noted in history as one of Julia Gillard's final speeches as Prime Minister.

The speech was delivered in Canberra just 48 hours before she relinquished the position in a leadership spill to Kevin Rudd ahead of the 2013 Federal Election.

In the speech she reflected on the national economic debate and discussion in Australia and criticised the effect and sentiment of pessimistic economic media commentary when the National Accounts predicted a positive forecast.

Welcome to Parliament House and thank you for coming here to build on CEDA's stewardship of detailed and serious discussion about the state of the Australian economy and its future.

Your presence here this week is not only very important, it is very timely, so I'm very pleased to be the one who joins you first up today.

Three weeks ago the National Accounts for the March quarter of this year were released.

They were solid, they showed our economy is growing and stable and strong, they were good news.

The National Accounts reflected the economy's underlying stability and strength and our status as a leading nation. Yes, in a mixed world environment and yes, with some complex transitions underway.

Solid growth at 2.5 per cent for the year.

Household savings at over 10 per cent.

New business investment still around 50 year highs as a share of Gross Domestic Product (GDP), at 17.5 per cent.

Productivity growth now above trend at two per cent.

Net exports making their strongest contribution to growth in four years.

If I can speak candidly, the subsequent discussion has been marked by some strikingly misguided commentary. I'm not talking here about criticism of the Government's economic policies – not at all – I'm referring to glaring misstatements about the economy itself.

If irrational exuberance has an opposite it's probably unreasonable pessimism and we've witnessed that in some quarters these past three weeks.

I want to address that in some detail this morning but first I want to be clear on why I think it's worth doing.

Simply put your presence here at Parliament House this week presents you with a special opportunity to bring to the national economic debate the correction we have to have.

You can bring to the national public discussion an understanding of the facts, an interrogation of the policy demands that the facts impose upon us, an understanding that the benefits of long term reform are felt precisely over that the long term, and crucially you can present a well-founded confidence in the Australian economy.

I know you will have rigorous and vigorous policy debate and I absolutely welcome critical discussion of the Government's policy approach.

But I want you to hear opinion based on facts.

So that's what I'm asking you to do while you are here – get all the facts on the table, discuss the real policy challenges, and then challenge the negative economic sentiment that is around in some quarters.

Where have the pessimists got it wrong?

Well first, some reporting has neglected important specific facts about the quarterly figures.

Two particular features would have given Australians some interesting insights on where the economy is headed.

New dwelling investment over the year rose by 10.2 per cent, the strongest annual growth in 10 years, further evidence that the non-resource sectors of the economy are picking up.

Non-rural commodity export volumes were up 13.2 per cent over the year.

This ramp up largely drove the rise in export volumes, and it is a sign that the production phase of the mining boom we have spoken about for some time now is starting to come through.

These are important signs telling us about the transitions we planned for in the Budget and telling us that those transitions are now underway, yet they went barely remarked upon.

Second, the most irresponsible pessimists have tossed around the ‘r’ word.

Something not so much sinister as silly, a claim I’m frankly somewhat reluctant to repeat, even in order to contradict it, lest I give it weight.

But consider this; for the third time in just five years, one leading firm of economists predicted a 20 per cent chance that the Australian economy will actually shrink for two quarters in a row, and then quoted a 25 per cent chance that growth would halt completely.

Now as Jessica Irvine has pointed out in a column for News Limited publications, even these sensationally pessimistic statements were still forecasting the most likely outcome is growth.

Or to put it another way, even these outlying forecasts are themselves statements that the glass is actually three quarters or four fifths full.

Yet the effect on confidence can only be negative and on all the facts, is clearly not justified.

One national daily reported on its front page that our economy had shrunk if you excluded net exports.

You might as well say Shakespeare hardly earned a penny in his life, except from the theatre.

And the assault on confidence in Western Australia was particularly sharp.

This arose from the National Accounts reporting that final state demand their fell by 3.9 per cent in the March quarter.

Bear in mind, state demand excludes not only net exports but interstate trade.

You might as well say the economy is shrinking in your house when you exclude the money you earn at your office.

The Secretary of Treasury, Dr Parkinson, and his deputy Dr Gruen responded to this unambiguously in Senate hearings 10 days ago.

As Dr Gruen put it:

“The idea that in the face of the largest investment boom we have ever seen, you ignore exports and focus on the piece of the economy that is demand by Western Australia ... belongs in the comic books.”

As Prime Minister, I am concerned that left unchecked, this kind of distorted coverage could continue to spread.

Australians woke last Wednesday morning to widespread news reports that markets expected the labour force figures for that day to show 10,000 jobs lost in May.

By lunchtime the Australia Bureau of Statistics figures showed a small increase in jobs.

I don't know if the Australian Communications and Media Authority would welcome a request for 11,100 corrections to be put to air but if anyone here wants to make that submission feel free to cite me in support.

We all acknowledge that forecasting is difficult – at any time.

But the continued pessimism is not being matched by the continued performance of our key economic indicators and low expectations can themselves become an economic problem.

Now, as I have said, many serious commentators have taken issue with the unreasonable pessimists.

Many of you here share their frustration.

Michael Pascoe in his Fairfax column was the most scathing but also I thought the most amusing, reporting on what he called “squawking”.

This led, in his words, to squawk like:

“The national accounts suggest the economy would have contracted without a one percentage point boost from falling imports and rising exports...”

Michael went on to say:

“It would have contracted if a meteor took out Melbourne and would have expanded if kangaroos started defecating gold.”

Yes he is pretty good, isn't he.

Now you came this morning for a discussion about the economic development of Australia, not an episode of *Media Watch*.

So it's important that we be very clear about why it matters to get the public discussion right.

Dr Parkinson's summary overall, in that same Senate hearing?

He said trashing confidence for whatever reason is not in the national interest.

This is the first fundamental point. Confidence matters.

Not hope or optimism, but a well-founded positive sentiment based on the facts, recognising that our economy is growing and stable and strong.

In November 2008, in the wake of the collapse of Lehman Brothers, Reserve Bank Governor Glenn Stevens, warned about the need to go about business with a quiet confidence in our prospects.

His words:

"Given the underlying strengths of the economy, about the biggest mistake we could make would be to talk ourselves into unnecessary economic weakness."

That's still true.

Any irrational threat to economic confidence is a threat to jobs and growth.

The second reason to get the discussion right is that as economic decision makers, we must be able to separate the signal from the noise.

We need to pick the real transitions as they are coming.

Growth in Asia, enduring for decades to come.

The peak of the mining investment boom.

The digital disruption and the clean energy future.

The pick up in broader sources of growth beyond resources.

Critical for the economy right now – new sources of growth, sustaining economic diversity with a strong dollar.

Perhaps there's no better example of the failure to separate signal from noise than the pessimists who say that the dollar rising is bad news and then say the dollar falling is bad news.

Last week a retail industry leader who's spent years advocating for direct relief from the strong dollar and low-price imports did widespread media complaining that the falling dollar was bad for consumer confidence.

Now this actually happened.

I am sure the recent movements in the dollar will not go unremarked here, so I will say just a few things on that front.

The Australian dollar has been at historically high levels for some time now and as you all know this has moderated in recent weeks.

Our high dollar reflects our strong fundamentals – solid growth, low unemployment, low debt, a triple A credit rating including from all three major credit rating agencies. But also the challenges that many other developed economies have faced in the aftermath of the Global Financial Crisis, the worst economic conditions in over 80 years.

More simply, the high value of the Australian dollar has been a combination of our strength and global weakness.

Our strength remains, and the good news is that the signs from the US are becoming more positive for their growth.

Improvements in the US economy should be welcome, these support the global recovery and growth and we want to see the US strengthening as the world's largest economy strengthens and it provides significant opportunities for Australian exporters.

While the high dollar has provided benefits for consumers, it has meant significant challenges for some of our exporters.

As the Treasurer has said, a sustained depreciation of the Australian dollar in those circumstances would be a very good thing, to stimulate further growth in the non-mining sector – while the firms that have adjusted to the historically high dollar stand to benefit from its fall.

As a Government we recognise we need to be ready to seize the opportunities that the future will bring.

We need to make the right investments and deliver the right reforms.

Your theme this week of *Australia Adjusting* neatly captures the elements of agency and change that are in play.

Your agenda demonstrates that CEDA, at least, is able to identify the real economic signals and to work up the agenda points for a serious discussion about what is to be done.

Productivity and structural reform: where Labor's five pillars of skills and education, infrastructure, innovation, tax and regulatory reform are so vital, and form a discussion which connects to so many other key areas.

1. Education; as you put it, ensuring Australia's future prosperity, nothing matters more and this week is vital for this reform.
2. Energy policy; a historic challenge to decouple economic growth from emissions growth.
3. International competitiveness; where the dollar's recent easing hasn't eased the demand that we plan for jobs and growth and to do so through sustained economic diversity.
4. Innovation; where the jobs of the future depend so heavily on the ideas and the infrastructure of the future.
5. Health reform and funding models; the structural reforms already made to Commonwealth-State relations and the structural savings we've delivered in Commonwealth spending, all of these have begun a process which must continue in order to sustain public finances.

The big one, the Asian Century, a century of growth and change, of Asian middle class demand for high value Australian services and goods.

Education and tourism, agriculture and advanced manufacturing, financial services, health services, digital media.

All of these things will be in demand.

These are the real issues, the big picture, the things that matter. You are absolutely right to be discussing them here this week.

2013 is a big year for our nation.

Economic choices and political choices are before us all.

Choices with consequences, choices with purpose, choices which should be informed by the facts.

The facts are these.

Labor, returning the Budget to balance faster than most of the developed world. Our net debt is one third Canada's, one fifth Germany's and one eighth the size of the United States.

Equivalent to a person with a \$100,000 income each year having a \$12,000 mortgage.

Our nation's best ever credit rating. Interest rates are low. Inflation is contained. The average tax to GDP ratio under Labor, well below the previous Coalition government.

Since Labor came to power, the Australian economy has grown by 14 per cent.

And the bottom line of all bottom lines, under Labor, our nation has created more than 950,000 jobs.

You have a big program before you and I'm looking forward to our conversation because there is so much to discuss.

Thank you very much.

> INTERNATIONAL BRIEFING

> 15 JULY 2013

> SYDNEY



The changing landscape of securities and derivatives regulation

Mary Schapiro

Managing Director and Chairman (Governance and Markets),
Promontory Financial Group and Former Chairman,
US Securities and Exchange Commission

While policy debate and discussions in Australia are often focussed internally, Australia is part of a global economy and external factors can have a significant impact on our own economy, which is why each year CEDA brings international perspectives to the CEDA platform.

Mary Schapiro delivered her only public address in Australia for CEDA and examined the changes to US financial regulation following the Global Financial Crisis, specifically the Dodd-Frank Act which is designed to make banking institutions more accountable.

This speech explains the over-the-counter derivatives and business conduct components of the Dodd-Frank Act which will have a significant impact on Australian banks and superannuation funds which have investments and business interests in the US.

Thank you for the opportunity to be with you today. It has been many years since my last visit to Sydney and I am thrilled to be back.

I am looking forward to your questions but thought that I would set the stage by sharing my perspective on the state of our efforts in the United States to rebuild our financial system since the worst of the financial crisis. Until the end of last year, I had a unique position, as Chairman of the US Securities and Exchange Commission, and as a member of the US Financial Stability Oversight Council and the International Financial Stability Board, to help architect and shepherd through, our national response to the crisis – a crisis that devastated our economy, brought down storied financial institutions, and cost eight million Americans their jobs and millions their homes.

After a quick tour of that landscape I would like to spend a few minutes on what I see as the risk regulators should be most focused on going forward.

First, a quick detour to tell you a bit about the SEC, the agency I led from early 2009 until December (2012). The SEC broadly has responsibility for everything from public company reporting and accounting standards to the regulation of 25,000 entities including mutual funds, investment advisors, brokerage firms, credit rating agencies and hedge funds, to the oversight of dozens of exchanges and trading venues for equities, bonds, municipal securities and securities based swaps and a variety of self-regulatory organisations.

It is an agency charged with writing the rules, examining for compliance with the rules and enforcing the rules with a broad array of remedies and sanctions. It is an agency of nearly 4000 staff with a budget of \$1.3 billion, funded wholly by fees assessed on trading and corporate transactions.

The SEC was in fact created in 1934 following what still can claim to be the worst financial crisis in US history. Despite these origins, the recent crisis demonstrated that the SEC had much work to do to regulate the financial industry more effectively in the areas of risk management, financial responsibility, business conduct, governance, compliance and investor protection.

In January of 2009, my team and I set out on a path to restructure the agency, reorient it toward an investor-focused mission, introduce much-needed technology and ramp-up examination and enforcement. After four years, I can say that while there is still much to do and in fact, evolving the regulatory system is a job that will never be done, the agency is far more expert, agile and aggressive than in the recent past.



From the 2009 G20 consensus when leaders pledged to:

“Sustain their strong policy response until a durable recovery is secured and to ensure that the regulatory system for banks and other financial firms reins in the excesses that led to the crisis.”

Countries have been working to implement a wide range of policies and regulatory programs.

The specific commitments made in London and Pittsburgh in 2009 to build high quality capital and mitigate pro-cyclicality, reform compensation practices, improve OTC (over-the-counter) derivatives markets, address cross-border resolutions and systemically important financial institutions and the subsequent G20 commitments, informed the US legislative response.

The culmination of the US legislative process was, of course, the 2000 plus page Dodd-Frank Financial Reform and Consumer Protection Act, an effort to address what the crisis revealed to be serious weaknesses in the US financial regulatory system including gaps, the failure to enforce existing standards and the failure to adapt the existing regulatory framework to new products, participants and strategies, and provide effective regulation over traditionally siloed markets that had grown interconnected through globalisation, deregulation and technological advances.

Fixing those weaknesses became a fundamental goal of regulatory reform in the US, and indeed, around the world.

The Dodd-Frank Act assigned 400 rulemakings to nearly a dozen agencies, covering everything from OTC derivatives to credit rating agencies, executive compensation, specialised disclosure, consumer protection, resolution and recovery, regulation of hedge funds, capital and the creation of the systemic risk oversight body, the Financial Stability Oversight Council, and more. And, of course, important work in response to the financial crisis has been undertaken outside the scope of Dodd-Frank, such as money market fund reform and corporate governance improvements.

So where do we stand today?

Significant progress has been made in a number of critical areas.

Capital

I don't think anyone would argue that capital is an essential component of any response to 'too-big-to-fail' and systemic risk. Just two weeks ago, the US Federal Reserve Board adopted strong new capital rules implementing the Basel III requirements.

As Fed Governor Dan Tarullo said at the time:

"Adoption of the capital rules (before us today) will be a milestone in our post-crisis efforts to make the financial system safer. While strong capital requirements alone cannot ensure the safety and soundness of our financial system, they are central to good financial regulation, precisely because they are available to absorb all kinds of losses, no matter how unanticipated. Along with the stress testing and capital review measures we have already implemented, and the additional rules for large institutions that are on the way, these new rules will be an essential component of a set of mutually reinforcing capital requirements."

While it is clear that the quality and quantity of bank capital has improved markedly and the Fed hopes by its actions to spur other countries to fully implement Basel III, they have also made it clear that further strengthening is on the near term horizon. In that regard, last week, the US banking regulators proposed a supplementary leverage ratio which would require the eight largest US banking organisations, already identified as being of global systemic importance, to meet a five per cent threshold (up from the three per cent international standard) and a six per cent ratio for their insured bank subsidiaries.

They are also exploring additional measures that would directly address risks related to short-term wholesale funding, including a requirement that large firms substantially dependent on such funding hold additional capital.

Further work can be expected from the Basel Committee on simplification of the rules and potentially on more disclosure or standardisation for risk weighted assets in light of recent reports showing significant differences in how banks assess their risks.

SIFI designation

One of the most visible changes of Dodd-Frank is the creation of the Financial Stability Oversight Council, an entity created to bring together the expertise of our many financial regulators to identify risk to the financial stability of the US that could arise from the distress of a large interconnected bank or non-bank financial company, to promote market discipline by eliminating expectations on the part of shareholders, creditors or counterparties that the government will shield them from losses, and to respond to emerging threats to the stability of the US financial system.

An important function of FSOC is to designate Systemically Important Financial Institutions or SIFIs which will be subject to consolidated supervision by the Fed and enhanced prudential standards. Two non-bank financial companies have been designated; American International Group and GE Capital Corporation and one, Prudential Insurance, has appealed its designation.

In reaching designation decisions the Council weighs a wide range of factors that include the extent of leverage, and off-balance sheet exposures, the nature, scope, size, scale, concentration and interconnectedness of the company, the importance of the company as a source of credit for households, businesses and local governments as well as for low income or underserved communities, the extent to which assets are managed rather than owned, the degree to which the institution is already regulated, the amount and nature of financial assets of the company and the types of liabilities including reliance on short term funding.

Hedge funds and systemic risk reporting

For the first time, the Dodd-Frank Act and the SEC's implementing rules brought hedge funds and other private funds under the regulatory umbrella, requiring registration and systemic risk reporting.

This data collection initiative follows from the lessons learned during the financial crisis about the importance of monitoring and reducing the possibility that a sudden shock or failure of a financial institution will cascade through the entire financial system.

The Dodd-Frank Act sought to address this issue, in part, by requiring the SEC to collect information from private fund advisers, to inform the FSOC in its assessment of systemic risk. This data gives the SEC and the FSOC new insight into private fund activities and greatly enhances the FSOC's risk-monitoring mission.

Credit rating agencies

The legislative response to the failures by CRAs (credit rating agencies) to properly assess risk was focused on reducing investor and regulatory reliance on credit ratings and fostering accountability, transparency and competition in the ratings process.

You may recall that leading up to the crisis, as late as January 2008, 64,000 asset-backed securities were rated triple A. Unfortunately, as a Senate Investigations Subcommittee stated:

“Analysts have found that over 90 per cent of the triple A ratings given to subprime (residential mortgage-backed securities) originated in 2006 and 2007, were later downgraded by the credit rating agencies to junk status.”

As a result, there is now in place an extensive – and growing – regulatory framework that prohibits certain conflicts of interest by raters and requires disclosure of others, improves the governance of CRAs with the requirement for 50 per cent independent directors on the Board, requires the disclosure of the history of ratings actions, encourages competition through unsolicited ratings, improves documentation, removes references to ratings in many rules and imposes an annual examination of each rating agency and a public report of the results.

The SEC, under pressure from Congress, continues to examine whether more fundamental changes to the predominant issuer-pays business model would be appropriate in order to eliminate the conflict that arises from the issuer selecting the agency that will rate its structured products.

Consumer protection

Congress established an entirely new agency to look out for consumer interests when dealing with retail credit products, the Consumer Financial Protection Bureau. Among other things, the CFPB:

- Write rules, supervises companies, and enforces federal consumer financial protection laws;
- Restricts unfair, deceptive, or abusive acts or practices;
- Takes consumer complaints;
- Promotes financial education;
- Researches consumer behaviour;



- Monitors financial markets for new risks to consumers; and
- Enforces laws that outlaw discrimination and other unfair treatment in consumer finance.

The CFPB has tackled worrisome practices in the credit card industry, payday advance products, debt collection, student loans, auto financing, international money transfers and mortgages and foreclosure practices.

OTC derivatives

The Dodd-Frank Act addresses challenges in the OTC derivatives market by bringing OTC derivatives into the daylight. Working with the SEC, the CFTC has adopted nearly all of the rules needed to fill out an entirely new regulatory regime – one that strengthens the stability of our financial system by:

- Improving transparency and facilitating the centralised clearing of swaps, helping, among other things, to reduce counterparty risk.
- Enhancing investor protection through increased disclosure; and
- Mitigating conflicts of interest of dealers and other major participants involved in swaps.

By promoting transparency, efficiency, and stability, this framework is intended to foster a more nimble and competitive market and enhance regulatory oversight and monitoring by facilitating improved access to comprehensive data on the security-based swap market.

This is, by necessity, a small subset of the efforts of US regulators to reform the financial system. Notable progress has also been made with respect to resolution of systemically important financial institution, improvements to the asset backed securities markets, and reform of the housing markets.

Nonetheless, for all of the important progress that has been made much remains undone and one could fairly ask why it is that three years after the Dodd-Frank Act was passed, we still have so far to go.

In this, the United States is not alone. But when you step back and look at regulatory reform efforts around the world, there are several things that I think have impacted the pace of the US regulatory reform efforts.

Two of the most critical are that the Dodd-Frank legislation became law well ahead of most countries' laws and directives and this has made coordination with other jurisdictions difficult and in some cases has delayed the effectiveness of US rules.

It is clear that when Congress passed this bill and the President signed it into law, there was little appreciation of the critical need to coordinate national rules governing a global marketplace and the extraordinary effort and time this would take.

The second is that, when it comes to the broad scope of regulatory reform efforts internationally, the US frankly does not speak with a single voice.

A dozen agencies have mandates to write rules under Dodd-Frank. And, a number must be written and approved jointly by multiple regulators, as in: Joint SEC/CFTC rules that are foundational to OTC derivatives regulation – the definitions of swap, security based swap, dealers and Major Swap participants; or, as in the Volcker Rules, which must be written jointly by the bank regulators, done in consultation with the SEC and CFTC and coordinated by the Treasury Department; or, the executive compensation rules which must be done jointly by the SEC and the bank regulators.

This process, with its requirement for multi-member bodies to vote on each proposal and each adoption, adds significant complexity to the rule writing and implementation process. And this in turn, has implications for the substance of the rules, the speed with which the agencies move and the approach to the extra-territorial application of the rules

The sheer scope, complexity and volume of rules that need to be written has allowed industry extensive opportunity to communicate their views to regulators and legislators. And, while this input has been helpful, it too has contributed to the delay in finalising reform.

The obvious danger of not finishing is that some of the financial system's vulnerabilities continue to go unaddressed and we continue to be at-risk. With the passage of time, memories fade and the sense of urgency and outrage that can be necessary to complete complex rulemakings wanes.

On the other hand, delay has also led many to wonder whether even stronger measures are needed, especially with regard to too-big-to-fail and systemic risk and whether we should be exploring other options including structural limitations on banks.



But in addition to taking a long time to implement, our fragmented regulatory structure means that different agencies may take different approaches to similar institutions or products. This might best be exemplified by the CFTC and the SEC.

While good public policy argues for a single markets regulator in the US, the reality is that we have two – the CFTC and the SEC – and they share responsibility for derivatives regulation. The very heated debate about how the US derivatives rules will apply outside the US is a result of this fragmented approach.

While the SEC has proposed all and finalised some of the derivatives rules, as I mentioned, the CFTC has essentially finished and for the first time, the system is in place to provide desperately needed pre and post-trade transparency, central clearing, financial responsibility, business conduct standards and regulatory oversight. The two agencies have some differences in their rules and I expect that those will be minimised over time as the SEC finalises more of its rules.

The major area of non-conformance has been in how each agency would apply its rules to cross-border transactions. And this is, as you know, a great concern of global banks and regulators around the world.

Resolution of the application of CFTC rules in the cross-border context is the last major hurdle to having a regulated and transparent derivatives market. After months of difficult discussions, the CFTC and the EU reached agreement just last week on a common path forward on cross-border derivatives that should prevent conflicts of law, inconsistencies and legal uncertainty.

I have no doubt that the global financial system will be stronger as a result. With the regulatory framework in place, it will fall to the banks in the first instance and then to government examiners, analysts, and enforcement staff to ensure compliance and faithful adherence by market participants to the new requirements.

What's next?

Even as the Dodd-Frank implementation continues, there are other risks that are squarely in the regulators' sights. These will not come as a surprise to any of you but they bear mentioning as we all have shared responsibility for the integrity of our financial system.

The major risks confronting the US economy are detailed annually by the Financial Stability Oversight Council. The FSOC has identified six areas of vulnerabilities that could, if coupled with adverse shocks due to excessive leverage, maturity transformation, credit risk taking, or complexity, trigger a financial crisis and threaten many institutions with insolvency.

The vulnerabilities include:

1. **Fire sale and run risk** in the tri-party repo market, with particular concern for the run vulnerabilities associated with the more than \$500 billion of repo holdings of money market funds and the increasing share of broker-dealer repo they fund. Let me come back to this one in a moment.
2. **Operational risks** including market infrastructure and business continuity given the extraordinary reliance on technology. Systems issues in recent years – the Flash Crash of May 2010, failing systems in connection with IPOs like Facebook, or trading, which nearly brought down Knight Capital, the largest equity market maker, and even the business interruption caused by a major storm hitting the US east coast, have highlighted concerns for both the integrity of the markets and investor confidence in our equity market structure.

Issues around algorithmic trading and dark pools beg to be addressed and I hope that we in the US will follow the lead of what our colleagues here in Australia and in Canada have done.

Perhaps the biggest operational risk however, is the cyber-security threat.

3. **Reliance on benchmark interest rates.** From consumer and commercial loans to futures and derivatives, benchmark rates like LIBOR and EURIBOR are ubiquitous. FSOC reports that approximately \$350 trillion notional amount of swaps and \$10 trillion notional amount of loans are indexed to LIBOR alone. LIBOR is a reference rate for 70 per cent of the US futures market, a majority of the swaps market and nearly half of US adjustable rate mortgages.

The lack of observable transactions, weaknesses in rate governance and manipulative activity have made it clear that continued reliance on these benchmarks as currently constructed presents an unacceptable level of risk. I think there is wide agreement on this point but diversity of views – from individual regulators, IOSCO (International Organisation of Securities Commission), BIS (Bank of International Settlements) and others on how to transition to a better system without destabilising markets.



4. **Sudden spikes in fixed income yields:** The strong reaction of markets in the past two weeks to Fed Chairman Bernanke's muted comments about the possibility of tapering exemplify the risk associated with a spike in interest rates.

However, on the other hand, continued low interest rates drive institutions and investors to reach for yield with longer term or riskier assets or more leverage. FSOC has noted that this build-up of risk in the financial system warrants the attention of regulators.

5. **Foreign economic and financial developments:** In the view of FSOC, despite the improvements over the past year in the stability of the Euro Zone and the global economy, developments in China, particularly their implementation of structural reforms, warrant special attention.

6. **The perception of a public sector guarantee which can incentivise excessive risk taking.** In many ways this is the heart of the debate that is still ongoing in the US, despite the Dodd-Frank provisions constraining government support in a time of crisis and enhancements to prudential regulatory standards for the largest banks and non-bank financial companies and the FDIC's new resolution authority.

The question of course is whether the marketplace perceives that financial institutions are too big, too complex or too interconnected to fail, so that government support will, at the end of the day, be provided. As FSOC notes, such support diminishes market discipline by allowing institutions to take on more leverage at lower cost.

I would add a seventh risk that has recently begun to garner the attention of regulators, that is the concentration of risk in clearing houses. Having been largely successful in forcing derivatives transactions into clearing houses to reduce counterparty risk and provide greater transparency, cautions are being sounded about whether the clearing houses themselves are sufficiently capitalised and rigorous in their risk management. This is an area that will absolutely require regulators' attention.

Finally, let me return briefly to the issue of run risk, an ongoing concern for me in the context of the \$3 trillion money market fund industry.

You may recall that in the fall of 2008, the Reserve Primary Fund – a money market fund – broke the buck after it suffered losses that its sponsor could not absorb. It was a \$62 billion fund that held \$785 million of Lehman paper on the day that Lehman declared bankruptcy. Shareholders immediately requested redemptions – \$40 billion worth in two days. The Fund announced that it would re-price its shares below \$1 or ‘break the buck’.

Almost immediately, the run on Prime Reserve Fund spread, first to the Reserve’s family of money market funds and then on to other money market funds. Investors withdrew 14 per cent or approximately \$300 billion from prime money market funds during the week of September 15. Funds met those redemption demands by selling portfolio securities into markets that were already under stress, depressing the securities’ values and thus affecting the ability of funds holding the same securities to maintain their \$1 price, even if they were not experiencing heavy redemptions.

Money Market Funds began to hoard cash in order to meet redemptions and stopped rolling over existing positions in commercial paper (CP) and other debt issued by financial institutions and companies. In the final two weeks of September, Money Funds reduced their holdings of CP by more than \$200 billion or 29 per cent.

Because they are such substantial participants in the short term markets – in 2008 they held about 40 per cent of outstanding CP – their retreat caused those markets to freeze, shutting many companies and municipalities out of the short term markets. The few companies that could access the markets paid higher rates or were forced to accept extremely short term loans, or both. And remember that all of this was happening against the backdrop of a broader financial crisis.

Despite many funds being bailed out by their sponsors during September, the run was only stopped by the unprecedented intervention of the Federal Government. The Treasury Department temporarily guaranteed the \$1 share price of more three trillion Money Market Fund shares (MMFS) and the Board of Governors of the Fed created facilities to support the short term markets. These were essential – and frankly, brave – actions that nonetheless put taxpayers directly at risk for loss from investment product.



While some important reforms of this market were instituted in 2010, more needs to be done in the form of either explicit capital for MMFs or a move to float all MMFs share value to reflect the true value of the underlying assets – not a hypothetical \$1.

I know this has been a bit of a whirlwind tour of the current state of US regulation of financial markets and as I said, I am looking forward to your questions. I will close by saying that I was honored to play a role in developing my country's response to the crisis and I am confident that the regulators will finish the job and get the regimes in place that will bolster our financial system. And, assuming they are adequately funded, I expect they will maintain their sharp focus on financial institutions.

> MISSED OPPORTUNITIES
OF OUR ASIAN ENGAGEMENT

> 6 SEPTEMBER 2013

> MELBOURNE



Missed opportunities of our Asian engagement

David Gonski AC

Chairman, The Future Fund and Chancellor,
University of New South Wales

David Gonski delivered this speech after the release of the Federal Government's *Australia in the Asian Century White Paper* and it provides a reflection of Australia's relationship with Asia that is both critical and constructive.

It highlights the importance of developing and changing the way Australia interacts with consumers in Asia and the need to strengthen cultural ties with the region as a way of increasing business opportunities.

In this speech, he reflects on the failings of individuals and businesses to create long standing personal and professional relationships, a topic which in the coming year will be ever critical given the current diplomatic strain of Australia's relationship with key Asian countries.

I should start by the way, just to reassure you, by saying my experience in Asia does go further than just travelling on Singapore Airlines or using Optus as my chosen telecommunications network. Good or bad I've had to sit on both boards and you learn a lot when you sit on the boards of those companies.

The topic though that we're here to discuss; *Missed opportunities of our Asian engagement*, caused me to think a little bit and I wonder if we should be spending a lot of time talking about that in particular because dwelling on losses from the past is only useful if it assists us on the goals for the future.

I am well aware I have some excellent panel members who are taking down notes and trying to demolish what I've said even before I've said it. Basically I want to focus on what we could do better and what we need to do now in order to foster engagement with Asia.

I commence by saying that I know many of you, just looking at the guest list here, are involved in business in Asia and that there are many organisations in Australia who have taken up and continue to take up and explore very good opportunities in Asia.

I'm proud to chair two of those, one is the Future Fund and the other is Coca-Cola Amatil.

Coca-Cola Amatil, as many of you would know, we don't just make the black stuff in Australia but we make it also in Indonesia and we are spending an awful lot of money there, making sure that we are a very important part of the Indonesian economy.

The two principle reasons in my opinion about why Australian business has to engage with Asia came very much to the fore when I became the Chairman of the Future Fund.

Most of you will know that the Future Fund has \$88 billion to invest. When you look at what has to be done, we have to produce the result based on Australian inflation and based on Australian dollars. But we simply can't invest domestically solely for two reasons.

Reason one is the domestic market is not big enough for us. And reason two is we know that in order to keep our risk the way we want it to be, diversity is important and we have to diversify far broader than just the Australian market.

There is another reason that we are now investing heavily into Asia and it is the obvious one if you like, that the growth prospects in many of the developed parts of the world are now necessarily limited.



One might even say that some parts of the old world are if not exhausted certainly less vibrant than their youth and I'm not referring Geoff (Allen, CEDA Chairman), to you and me who've been around a long time.

This is not surprising when one looks at the demography of so many of the developed nations. Ageing populations, burgeoning health and pension requirements and so on will all be familiar to you. Yet in general the emerging nations and Asian in particular have younger populations; populations who've not achieved many of the items that we take for granted including telecommunications which was mentioned earlier. And they're beginning not only to ask for them but be able to pay for such items.

What I can't get over is having been in business for 37 years, I've seen all sorts of opportunities sadly pass me by and when I look at Asia I see those same opportunities arising. How lucky can we be to have a second opportunity to do them.

Now I know I'm not here to convince you that there is importance in dealing with Asia which of course is at our doorstep but what I want to do is reflect on some missed opportunities and to see if we can better position ourselves so that our relationship with Asia is in fact enhanced.

It is my view and many of you may disagree with me and indeed the panel may say so later but I fervently believe this: too often in Australia we are too obsessed with getting the best price for our products when we deal with Asia, and we neglect the opportunity to fully embrace our clients in Asia. I would say that we've tended towards a customer supplier contract rather than a mutually beneficial partnership. And interestingly each of us involved in business in Australia knows that that's fundamentally wrong.

If you look at the way we do business here, we embrace our customers, we try to keep a step ahead of them, we try and ensure that they believe that our brand is such that they should stay with us even if at times we are a little bit more expensive and even if at times there is a hiccup in supply.

While I don't want to make generalisations it's my perception that the missed opportunity with Asia is that as we stand today we haven't done all we can to embrace them and indeed a lot of what we do to embrace our customers here.

I am absolutely amazed that other than our chairperson, most of us can't speak Asian languages. As a chairman of a school for many years, I was quite amazed that they taught exactly the same languages that I was taught 329 years ago when I went to the school. I have absolutely no doubt that Europe is an important thing and the history and talents and stories of Europe must

be savoured. But to neglect what is going on in the cultures and so on in Asia within our education system I think is not only marked but quite wrong.

The White Paper, *Australia in the Asian Century*, in my view, is a welcome move to address this. For those of you who have read it, you will know that it encourages a greater focus on building our capabilities to engage Asia effectively and to remove the barriers that exist between us and them as our neighbours.

I should also add that the concept of a reverse Colombo plan advanced by the Liberal Party recently is also a welcome step. As a chancellor of a university who participated in the original Colombo Plan I know of the many rich and rewarding relationships we've had with our Asian neighbours as a result of them being educated at universities in Australia. Sending bright people and young people to university to study in Asia cannot but build good relationships between our countries and if you are looking for a missed opportunity, why has it taken us so long?

I want to put to you that the biggest missed opportunity is that we don't have closer relations with the people themselves. I believe building these relationships is essential for long term business engagement. And if you don't believe me then have a look at the strength of the potential ability to deliver commodities from parts of Africa and then you realise that over time there will be credible alternatives in Asia for the provision of commodities that we want to give to them.

The best way to secure our position in my opinion is to build relationships just as we would with our customers in Australia. I should also add that broadening relationships with Asia in my opinion will enrich us personally and in not doing this we've actually missed opportunities to date.

I don't believe that we understand or for most of us have sought to understand the diverse cultures, norms and histories that make up Asia. So often in my business career I have found that business people assume that doing business in China is the same as doing business in Indonesia and is the same as doing business in the Philippines and so on. Each is different just as we are different.

There is enormous danger for a business organisation to make that assumption and indeed it is an assumption in my opinion that is unwarranted.

I also believe that Asia has amazing things to teach us in our own business lives and let me give you just two examples. There are hundreds of examples and maybe some of you will explore them later on.



For most Asian countries, and I have developed this by being involved with Singapore Airlines and Singtel, they believe in long term planning and thinking. Being involved with Singaporeans has definitely taught me that they don't just look to the next 12 months they are planning much longer term. All of us know that China's been doing that for years. This is an incredible benefit and one which in my opinion we should follow and follow urgently.

Our thirst for short termism will in the end potentially see us not succeeding in the way I believe we can. Here is a clear lesson we can learn from our neighbours in Asia and to do so in my opinion would be a missed opportunity.

A second example and this I feel very strongly about particularly as I get older is the reverence I feel when I go to Asia for the older. The fact is that there you deal not just with the young and brilliant but also with the older with experience and wisdom. I think we can learn a lot from that I think we tend to pension off people far too early and I think it is a missed opportunity in our own community that we can easily take from our Asian engagement.

The depth of Asian markets must be looked at in my opinion in a wider manner. Too many see them as just a market for our resources. The growth of the higher education market which I've been involved in during the last eight years as a chancellor of a university has taught me that persistence and consistency of approach over many years in markets in Asia can absolutely pay off.

I should add that just selling a product is a very limited future. A product with additional services over time seems to me a better engagement. My perception is that we often do that at home but we are reticent to do that with Asian buyers.

Now I'm pretty sure some of the cynics in the room would have thought, I know what that guy is going to do, he is going to talk about that transaction that he once tried to pull off.

This was a transaction involving trying to merge the Singapore Stock Exchange with the Australian Stock Exchange, a transaction which at that time I was the chairman of. I want to first disappoint you that I am a person who accepts the umpire's decision and I have moved on. But it is worth mentioning for my proposition that it is not so much what we've missed but what we are in danger of missing.

I am concerned that in seeking to propound that vexed transaction I did find in lots of pockets around Australia a feeling of xenophobia. Many worried and told me about jobs now, forgetting that the transaction could protect jobs in

the future. There were statements in the press at the time that merging two stock exchanges would be the end of a financial hub in Australia.

What in my opinion this sort of commentary failed to understand is that we in Australia have to realise that our growth and indeed our future strength can come from partnerships with Asia. These partnerships need not mean that we will lose our ability to be a financial hub or indeed to have importance. They must be looked at with open eyes and an understanding that often if we don't take a step to embrace others we actually will see our hub diminished without any interest in what then happens.

We shouldn't fear relationships but instead understand our strengths and establish partnerships in a way that protects our position whilst at the same time challenging us to move to the next horizon through the strengths we bring to the partnership.

Recently I have heard a number of excuses why one should be wary of doing business in Asia and indeed Asian engagement generally and I believe this is making people miss opportunities. And I thought I'd just mention too, perhaps to get people talking.

First I am amazed at the number of articles in newspapers and other journals recently indicating that the economies of emerging nations are currently under threat and implying as a couple did last week that bad times are coming for the whole of Asia in that regard. I've already heard a couple of business people say that they are now very weary of looking at Asia and are looking a little bit more seriously before they make any sort of leap into it.

These articles primarily were based upon the developing position of India. As I mentioned earlier, Asia is a diverse set of countries. I am not prepared nor indeed qualified, although there's a couple of people here who might be, to make forecasts on the economies of these countries. But what I do know is that to judge the emerging markets of Asia as having difficulties as a whole based on the potential woes of one country, in this case the base of the article, India, I believe is both premature and does not understand the variety and differences of the economies one's talking about within Asia and their effect on us and how they deal with us.

The second that I have heard regularly is people in business talking about how they can't do business in Asia because there is corruption. I cannot make the statement that there is not corruption in some of the countries in Asia. But what I can say however is that to dismiss an entire market because one believes that such corruption may exist is I think too defeatist.

The important thing is obviously to stand by one's principles. That is one should not engage in any corruption whatsoever. But an important thing to realise is that if one has a good product or a good service, if one can develop a uniqueness about it and if you can offer something that they truly need, you must surely be able to rise above corruption and then be as they say successful. I should also add that on a macro basis coming to Asian countries, not being prepared to be involved in corruption must also assist those countries that suffer it to ultimately be able to reduce it.

I believe that we have been slow to seek, to form long and enduring relationships with our Asian neighbours based upon an understanding of their cultures and indeed an enjoyment and acceptance of them. I know that some have done this but more need to follow.

My point is that I don't think it's too late. And I believe that we need however to move quickly and a failure to do so will result in my opinion not only in a missed opportunity but in a missed opportunity that our children and their children will rightly criticise us for.

- > AUSTRALIA ADJUSTING:
OPTIMISING NATIONAL PROSPERITY
- > 6 NOVEMBER 2013
- > BRISBANE



The future of manufacturing in Australia: Innovation and productivity

Professor Göran Roos

Chair, Advanced Manufacturing Council, SA Department of Manufacturing,
Innovation, Trade, Resources and Energy

Göran Roos delivered this speech about innovation and productivity at the launch of CEDA's major research publication for 2013, *Australia Adjusting: Optimising national prosperity*.

It provides global context about why Australia is lagging behind other smaller countries such as Switzerland with regards to innovation and productivity within manufacturing.

This speech also examines the high cost of doing business in Australia which is especially poignant in the current economic climate and at a time when Australia must create, identify and attract new investment and business in the context of a global economy.

I'll try not to repeat too much of what I wrote in the document (CEDA's *Australia Adjusting: Optimising national prosperity*), instead I'll touch on a few key issues and one of them is of course the issue of innovation which is always important, but it is more important in Australia now than it has been before.

The reason for that is in a low cost economy at a firm level, the basis of success is imitation and productivity increase. Now we don't call it imitation, we tend to call it benchmarking and best practice but it is imitation. Productivity is generally interpreted as cost reduction and work effectivisation. So if you run a company in Vietnam that's what you want to do and you will do very well and you will compete on cost.

If you work in a high cost economy you can never compete on cost, it's just not doable. So you have to then focus on innovation and productivity defined as doing smarter things in smarter ways and that's a different thing. Both of them are about productivity but it's different ways of dealing with productivity.

Australia has gone from being a relatively low cost environment to a high cost environment over quite a relatively short time, 2008 to about now, and we will be a high cost environment for the foreseeable future.

This of course poses problems for the industrial structure of Australia because those firms that were set up in a low cost environment and who were originally built on the assumption that low cost environments would work forever, they will not survive.

That is a painful thing because a lot of those firms are labour intensive and they are large. That means that they pose an interesting challenge for politicians. So we have two types of those firms. One is illustrated by an aluminium smelter where you can now take the bauxite ore and ship it to Reykjavik, convert it to aluminium, ship it back and offload it at a fraction of the operating costs of that smelter. Of course they can't compete, it's impossible.

The other group are those firms that did set themselves up to operate in a high cost environment or low cost environment but they then used the depreciations as dividend rather than reinvesting in productive capital. There are a couple of smelters around you can use as an example of that, and this of course poses a moral hazard problem for government.

So the first message is, innovation has become even more important and when I say the word innovation I want you to broaden your mind beyond technology. Technology is there and it is important but it's more than technology.

What we need now is firms with the ability to innovate and firms with the ability to do smarter things in smarter ways and we do have some of them. The Chief Scientist estimates that they make up about four per cent of manufacturing firms in Australia. It's only four per cent, that's a very important statement, 96 per cent are not there.

Now that of course means that it's interesting to see if any countries who are in a high operating cost domain have done well and the answer is yes. I have a favourite example which is Switzerland, I don't know if anybody goes to Switzerland for a cheap holiday, it's not a low cost country but Switzerland has higher manufactured goods exports than India has and it has a larger trade surplus with China than Australia. This is from a country with eight million people and a very high cost environment, and it's not primarily chocolate.

So if you look at the Australian environment, what is the success recipe that we see among firms that do well here. Well it is low volume, high variability, high value adding, medium to high complexity production and don't limit yourselves, the word production makes you think physical but it can equally be digital production here, so broaden your thinking in that area.

They are also focusing on effectiveness and efficiency in that order. So effectiveness is more important than efficiency but doesn't mean you drop efficiency. And that of course means innovation and it means that you have to have a high capacity to innovate. Innovation is everything from the ideation to actually getting the resulting offering out, getting paid and showing a profit, it's the whole chain, it's not just the ideation issue.

It also means that you need to do this both repeatedly and faster than everybody else. To quote one Swiss CEO who I like a lot, he has two good quotes.

One thing he says is:

"Every morning I wake up and ask myself, am I today in my factory going to produce anything that anybody else in the world can produce. If the answer is yes, I'm producing the wrong thing."

That's number one. You can tell how much he spends on innovation. Now, number two he says:

"There's only one company in this world that's allowed to steal market share and that is I. So I cannibalise my products before anybody else does."

That is a completely different thinking to saying I've got to get the most out of what I have and I'm going to run it as long as it goes. So it's a different mindset that is critical in this domain. Now of course this requires a high managerial capacity and I'll come back to some of the challenges for Australia there.

The world is a very complex global environment. So what we have today is global value chains, completely disintermediated or fragmented if you want a more understandable word, with multiple operations, shifting things here and there, which is good for GST I presume. So the primary driver of that is efficiency is you're looking to reduce costs.

The average salary of a high skilled blue collar worker in Thailand can be as low as 2.5 per cent of the same cost in Australia, you get 40 guys for one, same capability level. Of course you should locate there if you have labour intensive activities, there's no argument about that. So efficiency drives this disintermediation but on the other hand, the need to be close to lead customers, the need to be close to knowledge providers, the need to be close to others in your domain, the clustering effect and the economics of agglomeration, drives concentration.

So we have two forces that are balancing and as technology and other drivers change, the balance will shift. This is the scenario in which firms operate and this means that you have to be incredibly good at innovating very fast to offset the commoditisation of knowledge and the migration to low cost locations to stay alive in such an environment.

As a consequence you see a number of responses. The first one is servitisation and we saw previously from Phil (Ruthven) and others, the importance of service in the economy. I want to give you a number from the Germanic world, that goes from the North Pole down to Switzerland roughly, including Scandinavia, Germany, Switzerland and Austria. Seventy-seven per cent of all services exported relate to products produced by companies. That's very important because that means services are primarily linked to products and it's the integration between those two that generates the opportunity.

The other thing is of course this whole vertical specialisation, you really need to be on top of outsourcing, offshoring and leveraging innovation in your equipment suppliers. We need the latest offerings from Microsoft, Google and others in order to help productivity, we need the latest innovation from equipment manufacturers. If you go to China, China may be the factory of the world but that factory is built by Switzerland, Germany and Sweden. If you go inside those businesses, it is Swiss machinery, German machinery, Swedish equipment, Swedish specialised raw material.

So the key issue is to do things that nobody else can do and of course that means that you need to spend a lot on R&D (research and development), a lot on design, and a lot on understanding your consumers if you are in that area.

That means you need to invest in intangibles, intellectual capital and the latest and most modern physical equipment, both hard things and soft things including brand and business models. If you compare, Australia relatively speaking, spends much more on hard things than Germany does, much more on hard things than Sweden does but the reverse is true for the softer things. The softer things are in a sense the basis of competitiveness and without those you can't really innovate.

Now capable management: below is a list of Australia's position in key management capability domains expressed in quartiles. Fourth is the worst quartile and you can see Australia is:

- Third for business competitive index;
- Fourth for capacity for innovation;
- Third for sophistication of company operations and strategy;
- Third for production process sophistication;
- Second for willingness to delegate authority;
- Fourth for instilling a talent mindset;
- Second for rewarding top performance;
- Third for addressing poor performance;
- Third for promoting high performance;
- Third for attracting high performance; and
- Second for retaining high performers.

That's not a good scorecard. It means managerial capabilities in Australian firms on average are second rate. This is one of the really important issues because you can't ask people to do things unless they have the capability to do so.

So what are the policy recommendations that come out of this, actually in my opinion there are a couple of things that come out. The first one is consistency, stability and certainty in the policy environment – the long term view.

I come from a different background but I just couldn't believe the fact that you introduced the Carbon Tax overnight, I have no problem with the tax, what I have a problem with is the period of adaptation that you have people do. Provide certainty, make sure people have time to adapt, that is the issue. You need to have globally competitive, fairly enforced policy. We've already talked about that but the issue is then you need to understand the games to be played on the non-trade barrier market because there is a market for that too in this area. It's amazing what you can do with tax audits to change people's behaviours in places like Thailand. There are issues how you play that game too, don't be naïve but drive towards the free trade outcome.

You need to be able to engage in dialogue and collaboration, you listen to people, that doesn't mean you do what they tell you. I think that's important, that requires clarity, the guts that was mentioned before, as politicians, to stand up to do what is the right thing to do even if it's not popular.

Institutional legitimacy, credibility and market confidence (are important), and you can measure that in things like sovereign risk. Australia's sovereign risk has gone up over the last 12 months or so because of the unpredictability of some of these things. Harmony and alignment across scales that's my code word for the federal system and it needs to be reviewed in this area and then of course financial prudence and balancing cost against benefit. We've heard about what that requires in the automotive industry and other areas – you need to know why you spend money and what you get for it in return and make sure you get it.

Finally I have a few issues which I'm not going to cover all of, but there are a couple I'd like to emphasise – lowering the corporate tax rate, it's really important, that's critical to making sure you are globally competitive.

You also need to change attitude and one of my final comments I think is the issue around behavioural patterns. I'll give you an example and it's going to be my concluding example as a thought piece. When I go out to companies

in Germany and Switzerland, wherever it may be and they have a problem and I ask them whose problem is it, they will say it's my problem, I need to sort this out. If I go out to an Australian company and ask them if they've got a problem, whose problem is it, they will say it's the government's problem, government has got to help me.

You have bred a handout culture, where companies do this and then they expect to get money and it's also that you're paying for activity not for outcome. You have a real problem in that domain, you need to change that. You also need to get an industry that adds a lot of value and that requires innovation in the domain where you have a sweet spot which is high variability, medium to high complexity, low volume and high value adding. Then get the skills in management and the skills in the people to have the ability to get the money you need to pay for the things that you want.

- > WOMEN IN LEADERSHIP:
INFLUENCE AND ACTION
- > 7 NOVEMBER 2013
- > BRISBANE



Transforming the Australian Army: A case for gender equity

Lieutenant General David Morrison AO

Chief of Army, Australian Army

This speech given at a Women in Leadership event in Brisbane provides a candid account of David Morrison's recent journey to change the culture of a staunchly male dominated organisation.

While there has been much talk about gender equity in the workplace the voices we often hear are from those who are fully cognisant of the issues or have experienced inequity firsthand.

This speech is unique because it shows the journey from denial of the issue, to recognition and actions taken to drive cultural and institutional change.

Acknowledgement of gender inequity in Australian workplaces has significantly improved but there are still some who do not recognise the need for change. David's journey provides insight on how opinions can be changed.

It's a great pleasure to be able to join you today at lunch to talk about a subject that I think is of great relevance to Australia, certainly to this group who are interested in women and leadership. So thanks very much to CEDA for the opportunity to tell you a little bit about what your army is doing, and why it is doing it.

I have been your Army Chief for almost two and a half years, and during the course of that time I have become increasingly involved, certainly out of a deep personal commitment, but also in response to certain circumstances that have happened in our Army and our Defence Force, in the issues around diversity and inclusivity.

Now, before I say anything further, I would like to offer three caveats. And while this is not practiced public speaking to do this at the beginning of an address, I really do feel the need to do so. The first caveat is institutional, the second is academic, and the third is personal.

Institutionally, the Australian Army exists under our constitution for one reason primarily, and that is to fight and win the nation's wars. If you would like to give it a business connotation, our output is either the implied threat of, or the delivery of, violence. And I make that point up front because much of what I will talk about is addressing cultural issues within the institution that is the Australian Army. But I certainly don't lose sight of the fact that I am held to account, not just by the Government of Australia, but also by you, the citizens of Australia, to deliver an Army capable of securing the future prosperity of this country, and a protection of either its land mass or its interests.

The second caveat is academic. I have now had the opportunity over the course of the last couple of years to speak at functions such as this about culture and the challenges to changing culture. But I have no background in it. I have no training as a sociologist or as a psychologist. My background is an arts degree, and that's about as much as I can tick off. So what I speak about today is deeply personal, but of course expressed within the guise of a leader of a 112 year old institution, the Australian Army.

And so to that third caveat. I am 57 years old, I am white, I have an Anglo Saxon heritage, I am male, and I have never, not once, been discriminated against on the basis of my race, my sex, my sexual orientation, my religion. And while I suspect that there is a time coming soon where I may be discriminated against on the basis of my age, I do not speak with personal authority in this area. And yet I am very aware that I am speaking to an audience largely of women who in many respects will have felt at least part or perhaps much more dramatically, part of our society's imbalance in terms of diversity, gender diversity, and felt the weight of that. So having offered those three caveats, could I now just tell you a little bit about your Army, because if you're 112 years old and you're one of Australia's trusted institutions, and many surveys point to the Army as one of the top three or top five most trusted institutions in this country at the moment, it is for me disheartening that many of my fellow citizens don't know very much about it, and I think that says a great deal about our democracy, and about our place in the world.

So we are 112 years old. And down at the War Memorial along the Roll of Honour, which runs on either side of the wall up to the Hall of Remembrance, are the names of our fellow citizens, who, since the Sudan War, before the Boer War, have gone overseas to protect Australia and its interest and not returned. There are 102,000 of them. They are primarily from the Army. And while they are not exclusively male, they are overwhelmingly male. Because the business of the Army during the 112 years that we have existed has been seen as a predominantly male preserve.

Now, that's not to say of course that there haven't been women as part of our organisation since its inception on the 1st of March 1901. And we now of course in 2013 have many women in our organisation. But they are underrepresented. When I became the Chief of Army in June of 2011, I was aware and concerned, but not energised, about the fact that we indeed had less than 10 per cent of our 50,000 person workforce who were women.

Indeed when I came into the job as the Chief of Army, I was concerned about three things primarily. The first was the support to our men and women on operations. And when I began my time as your Chief we were on operations in Timor and the Solomon Islands as well as Afghanistan, and that has remained and will continue to remain my number one priority, because that's what you expect from me.

My second priority, and you can be relieved that I will not talk about this in any detail, was about the force structure of the Army, most particularly in the third decade of this century, doing my bit to ensure that we would be a robust and relevant fighting force ready for Australia's security needs in 2030.

And my third concern was set in a rather grey mist for me, but was nonetheless absolutely committed to it, around the idea of workforce, but I have to say ladies and gentlemen that my overwhelming concern in June of 2011 was the care of our wounded, our ill, and those who had been injured as a result of their military service. That does still remain an absolute priority for me. But I hadn't given a great deal of thought, not conscious thought, not laid out thought, not thought that you gained through interaction with men and women who you trust, about culture.

You see, I had accepted from the time that I had joined the Army in 1979 and embarked on my Army career here in Brisbane in 1980, that our culture was something that was almost sacrosanct. That it had sustained us on all of those wars that are remembered at the War Memorial, and of course remembered most poignantly with those names that run along the Hall of Memory. And yet as I came into the job, I was only too well aware that the Army and the ADF (Australian Defence Force) had undergone a series of reviews, 13 over the last 15 years and that if they were to have a commonality given to them, it could be found in the recommendations that went to the heart of the culture of the organisation. Indeed, some five months before I became your Chief of Army, we had had an incident at the Australian Defence Force Academy, which I am sure everyone in this room is familiar with, and if you aren't please put up your hand and I will describe it, but what has become known as the Skype Affair, is still receiving considerable press today.

Now, as a man, as a soldier, as a general, and as a leader in waiting, I was of the view at the time that the actions of the men who have since been found guilty in a Magistrates Court in the ACT around that Skype affair, were abhorrent and reprehensible, but was not indicative of the culture of the ADF, let alone the Army, although they were army cadets. And there are many still in our community, our society, who would agree with the following view that I'm about to express. I will correct it in just a moment.

How can the actions of a group of men who had been a part of the ADF for less than 10 weeks be reflective of the culture of the ADF or the Army? Surely it's much more reflective of who they are, or their education, or their upbringing. Now, in June of 2011 I was of that view, but I am not of that view now.

Indeed, I had changed my view within a few months of becoming the Chief of Army. What had fuelled that change in my thinking was my interaction, first and foremost, with the Sex Discrimination Commissioner of Australia, Ms Elizabeth (Liz) Broderick. She had been commissioned to undertake a review of treatment of women at the Australian Defence Force Academy, and then subsequently the treatment of women in the ADF, and she came to see the new Chief within a month of me taking over.

Now, I don't know if any of you in the audience know Liz Broderick, but I'm here to attest that she is a force of nature, and I can also say with confidence that I do have a reputation within the service, within the ADF of never leaving people wondering. And so it was a robust initial meeting. Robust but deeply positive, for her I would like to think, but certainly for me. Because Liz asked a series of questions for which I had only in my own mind weak or ill formed answers. And one of the questions that she asked which sat me bolt upright, was:

"Well look, David, if this is not a cultural issue, if 15, or 13 reviews in 15 years don't act as an important signpost, answer me this. Why, for all of the money that has been spent, for all of the words that have been written on a page or put on a recruitment campaign, do you only have less than 10 per cent of your workforce as women?"

And she left me with a pile of what I thought at the time was feminist literature.

Now, ladies, I am here to tell you that I have read more feminist literature than I thought I would in five lifetimes since that meeting. But it has not been for naught. The documents sat on the corner of my desk. Chiefs of armies seldom have to worry where their next meal is coming from, or where their next brief is coming from. But I travel a lot and I tend to place documentation in my briefcase and read it on the plane. And in a flight to Brisbane, as it turned out, in 2011 I pulled out the literature that Liz had given me, and it immediately struck a chord. I didn't know how the dots joined in my mind at the time, I'll tell you about that in a moment, but this issue around why women weren't joining our Army, while at the same time we were trying to grow to be a robust, relevant force in the third decade of this century, really struck me as a challenge for me, not for the amorphous mass known as either the Australian Army or the ADF.

So I had another meeting with Liz very soon after. And she said:

"You know, what has been done by other organisations is that the leader has stood forward and named a target."

And I thought about that. We were at 9.8 per cent of a 50,000 person workforce.

And I said:

“Look, Liz, I’ve read the literature, and I’ve heard what you’ve got to say, I think you’re right. Let me talk to my HR (human resources) people about what I can do, naming a target that is relevant to me, in my time as Chief.”

And I should point out I’m a statutory appointment, I finish at midnight on the 3rd of July 2014.

So, the HR team, which is fantastic, I can tell you wonderfully talented men and women came back after a few weeks of study and said:

“General, what we think you should do is you should say we’re at 9.8 per cent and we can get by the 3rd of July 2014 to 11 per cent.”

And I sort of blinked a couple of times, and said:

“One per cent?”

Now, I should point out, when we’re talking about a 50,000 person workforce, one per cent is quite a large number, and I was talking about regulars more than our reserve forces, so that was 30,000, so it was an extra 300 women recruited and retained in our Army. But in true leader’s fashion, I completely disregarded the advice given to me by my HR team. I can only encourage you do the same. I doubled it. And had, I’ve got to say, a rather wicked feeling of pleasure as some of the blood drained from their faces, because this was 600 women now. Now, we only have seven battalions in your Army, and that is about 600 soldiers in each of them, maybe a bit more.

But what I have found of course is that when the leader names a target, and then makes it public, the staff do get a focus. And over the course of the last two years particularly, we have seen a steady increase in the number of women who have both said I’m interested in the Army, or who have actually joined, despite of course, certain setbacks that I will speak about in just a moment. So naming a target was really important. And I don’t believe in quotas, although I am persuaded by strong, influential women like Catherine Fox or Avril Henry that quotas do have utility. But I don’t think they’re right for my organisation at this moment, although if you really want to give impetus to this, then it might have to be considered in the future.



Now, I then felt really good about doing this. I'd read some feminist literature, I had realised that there were systemic issues of a sort in the organisation that were actually dragging us back and not allowing us to grow the number of women as part of the total workforce, and I did what any male would do. I got together with my male mates, and I said have I got the plan. And, ladies, it made perfect sense to a 57 year old, Anglo Saxon, white guy who'd never been discriminated against on any of those reasons in his life.

The reaction from the women of the Army was interesting. I would say that there was unanimous support for a leader doing something quite overt in this area. But there were two areas that concerned them, and both of them were absolutely insightful for me. Firstly I'd got the policy bit wrong, I had not run it through, men and women, or women and men, up and down the hierarchical organisation that is the Australian Army. And secondly there were a group of women, and I say this with great respect, who had soldiered through 20 or in some cases 30 years of their career in an institution that was not just male dominated but heavily male oriented, and who said:

"Well, in changing the way we're going to do business, will you not in some intangible way demean or diminish the achievements of me?"

I think that is something that I completely misunderstood. But I understand it now.

And as a consequence, and I'll talk about some of the policies that we've enacted in a moment, they have been run very much by a group of trusted women, one of whom is in the audience today sitting at my table, Major General Simone Wilkie, who before her promotion was my Chief of Staff, and before being my Chief of Staff was our senior officer in Afghanistan, but also women of different levels of experience in our Army.

So those who had entered only a year or two before, those who were coming to years where they wanted to consider some of the options that we weren't providing them with in terms of family or flexible workplace arrangements, as well as the more senior women. And, interestingly enough, while I established that women's forum, very quickly after I realised my mistake, I changed it again because one of the real messages in all of this is that gender diversity works, and I've got to tell you that when I added men to this organisation that I'd formed, this forum, the results were spectacular. Not because of the men, not because of the women, but because of the interaction between the two sexes. And it is illustrative of the journey that your Army is on now.

So, there was a whole lot of really good work done around policy. We changed and have continued to change the messages. That we now attract young Australian women to at least consider the idea of military service, even if they dismiss it out of hand after a moment's thought, at least there are some that say well, yes, okay, it could be an option. And that work then went on.

Now, I would like to describe three meetings that I had and a revelation that I had as a result of those three meetings, and then I am going to conclude and allow every opportunity for questions about specific areas that you may wish to address. The work was underway, I had changed my mind, I saw it as imperative to increase the opportunities for 50 per cent of Australia's population to at least, if they wished to, join the Army. The government at the same time had opened up all areas of defence to both sexes, so if you wanted to join the infantry, which had always been a male preserve, and you were a woman, if you could meet the physical standards that were required, there was nothing to stop you, other than the culture of the organisation of course.

And as I was starting to feel pretty good about myself as 57 year old, Anglo Saxon males do quite a bit, I met a woman at a dinner that I ran. She was a very successful woman in her particular corporate area, and I won't give her name and I won't give the organisation that she works for. But I said during the course of the dinner:

"Do you have children?"

And she said:

"Yes, I have three."

And I said:

"Oh, gosh, how did your organisation manage or treat you as you took three periods of extended maternity leave?"

And she said:

"Every time I came back from maternity leave, they promoted me."

And I thought why are we not doing that? What does that say about the organisation? What loyalty to the organisation does that engender? What does it say about how we care for men and women? Because we certainly don't do that. In a hierarchical organisation like the Army, you only get to be the Chief of Army at the moment if you're male, and you've done a series of

jobs, most of which can only be done at the moment by men, and if you take time out, which I never did, despite the personal costs of that, you are put into limbo. And when you are inserted back into the organisation, you almost start again. That really got me thinking.

The second meeting, that was at the behest of Liz Broderick too. She rang me in early 2012 and said:

“David, would you come and talk to three women, two of them still serving, one who has left the military, the Army, who have come forward to tell me their stories as part of my review into treatment of women in the ADF?”

Now, I have been in the Army for three and a half decades, and I've dealt with many significant personnel issues. Not personal issues, yes, I've dealt with some of them too, but personnel issues. But I have to tell you that I went to Sydney with some trepidation. It wasn't that I was not prepared to listen, of course I was, I credit myself with a degree of empathy, and certainly sympathy but I didn't know what I would find.

Over the course of six hours in three sequential meetings with three different women and their partners or people that they had brought to support them, they uncovered for me everything that is wrong with the Army. I've described it publicly on a number of occasions now as the most distressing day of my military career, and without giving any undue emphasis to my career, I had many distressing days. They told me about how they had been stripped of their dignity and their self-respect by their peers or their superiors. One woman, so distraught at the way we had accommodated her attacker had left our Army, left our Defence Force.

Now, I'm a pretty hard sort of guy when I need to be. But I don't think in a professional sense I have been so profoundly moved. And I left that series of meetings at a low that I have seldom experienced, because with the great support of men and women around me, like my Chief of Staff, or like any number of men and women who now had bought into this idea of trying to make opportunities for women work better in our Army, I had heard from women who had said:

“This is a thin veneer, if you only tackle the targeted number, or even the policy. Because out there, there are problems that go to the heart of the 112 year old institution that you, General, are proud to wear the uniform of.”

And I am proud to wear the uniform of it, no one is prouder. And yet we've let them down. And we've let them down because the Army had distorted the stories that fuel our culture.

I had the opportunity, this year, to speak at the United Nations. It's not something that I ever envisaged myself doing, and I'm grateful again to Liz Broderick for giving me the opportunity. It was to the UN Women's Forum, and I spoke about the dangers of the ANZAC mythology. It's parlous ground for a Chief of Army to stand on, ladies and gentlemen. We as a nation, certainly me as an Army leader are buoyed by the idea of sacrifice, and those who have served before us. Indeed, as the Chief of Army I live in three time zones. I am the custodian of our history and our traditions, I look after our contemporary operations, and as I explained earlier I look to our future. And yet there is no doubt that there is a distorted view about ANZAC, and about how men, straight off the farm, rough hewn country lads, not an ounce of discipline in them, but ready to deal it up to the best and the worst, who fight best with a hangover, who never salute officers, particularly the Poms, they are the archetypal soldier. And if you don't meet the criteria that is absolutely intrinsic to that myth, you're not white, you're not Anglo Saxon, you're not male, you start with question marks all over you.

And there were a group of men, and have been a group of men throughout our history that have used that mythology as a tool of exclusion, not inclusion. Now, it was alright for me, I met all the criteria. And I was pretty okay at my job. But there were plenty of people with just as much talent as me, just as much potential as me, probably a lot more, who had never had the opportunities that I'd been given, not because of any other reason than their sex, their sexual persuasion, their ethnicity, or their religious beliefs.

The third meeting that I had was in Afghanistan, and it was with a group of Australian men. Now, they were a group of infantry soldiers, about 30 in number, and I can guarantee you, irrespective of your background, irrespective of your sex, you would be proud of them. They were a fantastic representation, not of our Army or our Defence Force, but of our nation. They had been out in harm's way, the top of the Chora Valley, in 45 plus degree heat, for about four months. They had had members of their group badly hurt, and yet they had held or kept the faith.

I arrived at their small fort operating base. They were well aware that the government had opened up all areas of the Army to women, and they were not going to lose the opportunity of taking issue with a travelling general. They said, adding 'sir' as what I thought then was something of an afterthought:

"Now listen. How can you tell me that a woman could improve what we are doing? Can't you remember, sir, what it was like when you were in the infantry?"

Implying that I had now gone long beyond that and had sunk into the realms of leathered comfort as the Chief of the Army. And I said to them:

"Fellas, why are you here? What is your role in Afghanistan? Surely you are here to protect the population, I mean, that is why your nation has committed you. How many Afghan women have you spoken to?"

Now, the answer was zero.

And I won't say that the lights came on for them, but as I was flying back to Tarin Kot, the major base that we have in Afghanistan, the lights came on for me. I'd been dealing with cultural issues, depressed as I was after the meeting with those very courageous women who had been prepared to tell me their story, and I was worried about our future capability, and the numbers and the target sort of sat around that. And I can assure you that as we were flying into Tarin Kot, dots got joined. More women certainly improve our culture. But more women also improve our capability. And all that feminist literature that I had read, which had talked about a better diverse workforce being a more productive workforce, started to ring not just true, but very real.

And so the messaging changed. My messaging, the messaging of my command team, and it wasn't then about the altruism that is still part of what we are trying to do in the Australian Army, that everyone should be given a fair go, irrespective of their gender. It was almost now exclusively about capability. And for me, it has been a little bit like Saul on the road to Damascus. I get paid to deliver capability. You expect it of me and your Army. We will be more capable if there are more women who join our Army, who are given the opportunity to recognise all of their talent as part of our Army.

An influential American woman, Beth Brooke is her name, she's a very senior leader in Ernst & Young, said to me at a lunch that I was lucky enough to share with her:

"In my view, dealing with these issues throughout the course of my life, men are promoted on potential, women are promoted on performance."

And yet how do you have a capable organisation if there is a very uneven playing field? So I'm not going to talk about my response or the Army's response to the group that call themselves the Jedi Council. I am more than happy to take any questions that you've got about that. What I would like to conclude with is what I think will be, hopefully, because my time as the Chief is coming to an end, what I hope is the most significant legacy. We are on the path to I think exceeding 12 per cent of our workforce as women by the time I finish as the Chief.

But the legacy I'd like to think we leave, that I leave, is that I have at least been part of a team that has readjusted how we recognise merit. You see, if you judge merit in a hierarchical organisation about how you perform in job A, to then do job B, to then do job C, to then do job D, and you make no accommodation at all for men and particularly women who may want to not be present to do job B because they've got other things to do in their life, and you recognise none of the life skills that they may accrue in doing what they do when they come back into the organisation, but rather put them back at the start, then you are abrogating your responsibility as a leader who is focused on delivering a more capable workforce.

And guess what? The same applies to almost any organisation in the corporate, public and private sectors of this country. The Army is not the only hierarchical organisation that does this, or used to do it. We have realigned our judgment of merit. We have recognised that you cannot have a traditional approach here. Our society in the 21st century not just demands something different, it says if you as an organisation can't attune yourself to those changes, then you will lose the best and brightest to Thiess, or to Griffith University, or to Rio Tinto, or to the public service. And then, General, whatever your aspirations are in terms of a robust and relevant Army in the third decade of this century, they will come to naught because you will have failed to use the talent that's sitting in the 50 per cent of the population that you're doing not enough to harness at the moment. And society in fact will have moved on. And yet if your Army that defends you, that secures our prosperity, isn't a reflection of the society that we all live in, then is it the Army that the nation wants? And of course the answer to that is no.

So, I will conclude. I would just like to acknowledge a couple of things. As a leader, you are bound to step forward and lead and I am and I have been prepared for that throughout my professional life. But anyone who believes that as a leader you set much more than the tone and the broad parameters within which an organisation develops is losing a grasp on reality, and is in fact engendering a level of hubris that will bring you down individually, and certainly

perhaps the organisation that you do lead. The work that is being done now in your Army to change our culture, to give women proper recognition and the ability to recognise their potential is the work of hundreds of men and women. And I am deeply proud to be, for a brief time, their professional head. I am now certain that the major indicator of success that I set myself almost two and a half years ago will be realised. And that is that when I leave, whoever takes over from me, will find that the momentum for change is unstoppable.

> INTERNATIONAL LECTERN ADDRESS

> 12 NOVEMBER 2013

> MELBOURNE



The US approach to monetary policy and economic growth

Richard W Fisher

President and CEO, Federal Reserve Bank of Dallas

Another international speaker on the CEDA platform during the year was Richard W Fisher who is known for his candid and forthright comments and he didn't disappoint.

In this speech, he provides insight into his role as President/CEO of the Federal Reserve Bank of Dallas, Texas, which has a similar size economy to Australia.

He draws ties between the Texan and Australian economy while providing an overview of the influence the Federal Reserve has on the US banking system.

He also discussed the changing sources of capital investment occurring in Australia and his concerns about the housing market both globally and in Australia.

I'm thrilled to be back in Melbourne. I've just done a little walkabout around Australia. I started in Sydney and a meeting with (RBA) Governor (Glenn) Stevens there, and gave speeches and had meetings with some business leaders. I then ran up to Maryborough – I'll explain that in a second – and then from there to Perth for meetings with the Premier, and several business leaders. And, now here, and then tomorrow to Tasmania.

I provided Governor Stevens with a brief on our last Federal Open Market Committee meeting, and I actually did the same thing with (WA Premier) Colin Barnett, who asked very good, pointed questions (he would make a good Texan; he's got that sort of Western manner to him).

I thought I might do some of that for you this afternoon, put things in perspective so that we're all on the same plane, and then I'd be happy to avoid answering any questions you have afterwards.

What (CEDA Chief Executive) Stephen (Martin) did not mention in his kind introduction is I'm half Aussie. My father, Leslie Fisher, was a Queenslander and has an interesting story which ties me to Australia in a way that's almost unimaginable. In 1910 at the age of five years and two months he was arrested for begging on the streets of Maryborough and was sentenced to seven years imprisonment at what was then known as the Westbrook Reformatory.

If you read Toowoomba's daily newspaper *The Chronicle* last May you would have noted an article on Westbrook. It was described as:

"The most feared reformatory in all of Australia, the guards there meted out vicious beatings."

But thankfully my father's sentence was commuted after one month, and the letter from the police magistrate that commuted him said:

"This little boy is of tender years and not a fit subject for prison."

He was released to an orphanage and then he was shuttled around some rather brutal foster homes, before making his way back to the streets, and a remarkable career that took him from Toowoomba to Brisbane to South Africa to Mexico to China where I was conceived – I was made in China – and then to the United States and ultimately to the great republic of Texas.

My father lived to be a little more than 90. He was a tough old bird and Aussie to the bone. For most of his life he smoked 72 cigarettes a day, he drank a great deal of Scotch, and one night he admitted this to some friends, leading one friend of ours to ask:

"Well, hold on, my father was a smoker, he drank Scotch like you did, he only lived to be 60, what gives?"

And my father said:

"Well he just didn't do it long enough."

I went up to Maryborough and over to Toowoomba. The Westbrook Prison is no more; indeed, the property on which it stood was sold in May of this year. But the courthouse in Maryborough, and the very courtroom where my father was sentenced, is still there. And thanks to a kind judge named Fleur Kingham, I stood at the very same room where my father was sentenced to prison.

So I was reminded where I had come from. I came from here, and I thank my lucky stars that I am the son of a gutsy Australian who became a Texan. Who managed in one generation to take our family from homeless to Harvard, from begging for food to riches, from being a ward of the state to becoming a principal, as mentioned by Stephen (Martin), in the policymaking body of the most important central bank of the most important economy in the world, the Federal Reserve Bank of the United States.

So if I say that I'm thrilled to be here, I genuinely am. I know speakers say that as a throw away line. I mean it. I thank you for having me, the son of a humble Queenslander, speaking before such a distinguished audience here in Melbourne.

Australia was in the grips of a great economic contraction when my father was picked off the streets of Maryborough. The economic depression here which started in 1890 was worse than what we suffered through in the 1930s in the United States, and then it was extended by what was called the Panic of 1907, the 'Rich Man's Panic' in the United States, which struck in May of that year.

It began with the failure of the Knickerbocker Trust Company, which was the third largest financial institution in New York and in the United States at the time, and rippled through many other banks of deposit around the world, reaching quite notable financial institutions in what was then a very globalised economy. Banks failed in Egypt, and Japan, and Hamburg, and Chile and here Down Under.

At the beginning of 1907 a man named Jacob Schiff who was from Kuhn, Loeb and Company gave a rather remarkable and insightful speech before the New York City Chamber of Commerce. He warned, and I quote:

“Unless we have a central bank with adequate control of credit resources, the United States will undergo the most severe and far-reaching money panic in history.”

End of quote.

His remarks were accurate and prescient. At the time, we did not have a central bank in the United States; in fact, we had not had one for seven decades. The United States had two central banks before 1907. The First Bank of the United States lasted 20 years, before its charter expired in 1811, and was not renewed by Congress. And then the Second Bank of the United States lasted another 20 years; then it was closed by President Andrew Jackson, who campaigned against it and shut it down as soon as he was elected in 1836.

In 1907 the American financial system was for all practical purposes under the control of a small, select group of financiers. Foremost amongst them was JP Morgan. Mr Morgan was easily capable, with his genius, of manoeuvring the ups and downs of an economy and a financial system without a central bank, and he became ever richer and ever more powerful. The majority of American businesses and bankers, however, could not manoeuvre their way through and were waylaid by the panic and by recession on a recurring basis. For all practical purposes at the beginning of the 20th century, JP Morgan was the closest thing to the lender of last resort, which is what the central bank is. But he was a profiteer, and thus he was a very poor substitute for the central bank that Jacob Schiff so rightly said we needed.

The panic of 1907 led to the creation by Congress of the National Monetary Commission under the leadership of a senator from Rhode Island, a man named Nelson Aldrich. The Commission and Aldrich laid the groundwork for President Wilson to then go to the Congress to create the Federal Reserve System in 1913 and get it up and running by establishing a system of 12 federal reserve banks, one of which was the Federal Reserve Bank of Dallas, across the country and put them in place in 1914.

I want you to understand this because the Federal Reserve, our central bank, is unique. It is uniquely American in structure; it's disaggregated, with the working business of the central bank distributed across our country through the 12 Federal Reserve banks. For example the Federal Reserve Bank of

Dallas, which I have the privilege of being the CEO and President of, has its branches in Houston, San Antonio and El Paso, where it conducts our central bank's business, and represents the perspective of 27 million people and about one trillion and five hundred billion dollars in output that comes 96 per cent from Texas with the remainder coming from northern Louisiana and southern New Mexico.

So the Federal Reserve Bank of Dallas' district is roughly the equivalent of the population and output of Australia. The President of the United States appoints and the US Senate confirms the Governors of the Federal Reserve System. There is a Chairman, you know Ben Bernanke has been the Chairman, succeeding Alan Greenspan, and if all goes right, if her hearings on the 14th are good and they vote for her and they take the holds off her that have been placed on by certain senators, then Janet Yellen will become Ben Bernanke's successor as Chairperson of the Federal Reserve System.

There are six other governors all appointed by the President and confirmed by the Senate, as I was when I was an Ambassador and the Deputy Trade Representative (Minister) of the United States. The presidents of the 12 Federal Reserve banks like me, however, are not. We are not Federal employees, we are independents. We work under the supervision of the seven Governors of the Federal Reserve Board, but we serve at the pleasure of, and answer to, our own boards of directors consisting of nine citizens that are elected by the banks that are our shareholders.

My Chairman is a man named Herb Kelleher who founded Southwest Airlines, which is now the second largest airline in the world. He's also, by the way, the largest single consumer of Wild Turkey bourbon in America, so I have the funniest, most entertaining Chairman of anybody imaginable.

We represent the heartland of the country, 'Main Street' as we say in the United States, and unlike the Federal Reserve Governors, we the bank Presidents, do not have to suffer in having to live in the politically charged atmosphere of Washington DC. We operate bankers' banks; we don't spend our time manoeuvring around the lobbyists and the rent seekers that leech off the political centre of our country and have been leeching to the point of rendering Congress ineffective.

To make monetary policy, all 19 of these principals – the seven governors and the 12 Federal Reserve Bank presidents – convene roughly every six weeks, except for during the crisis when we talked almost daily, as the Federal Open Market Committee, under the leadership of the Chairman of the Federal Reserve, Ben Bernanke.

Our mandate is given to us by the Congress of the United States. And as we celebrate our 100th anniversary we hope and pray that mandate will be preserved, or at least not much tampered. Our mandate is what's called the dual mandate, it makes us unique amongst central banks in the world because not only do we have to preserve price and financial stability while conducting monetary policy, we have to conduct policy so as to engender full employment.

Think of the Federal Reserve this way; President Wilson and the Congress of the United States formed a central bank to mitigate the risks of Americans suffering through the desperate economic times that my father experienced as a child. And, like my dad, the Fed made many mistakes, we have far from a spotless record. Our role in the Great Depression in the 1930s, the great inflation of the 1970s, and the run-up to the financial panic and the ensuing deep recession of 2007 to 2009 come to mind. But over the course of our 100 year history I would argue that the Fed has been successful in anchoring American prosperity. So that's a little bit of history. What about now? How about the job we're doing presently?

Well as you might imagine, given my roots as a half Aussie and a full blown Texan, and given that, as I mentioned, the 12 Federal Reserve banks are not beholden to the President of the United States, or the Senate, or the Congress of the United States and fear no political retribution, I pull no punches when I discuss the US economy or our monetary policy. I do want to remind you, however, the views I express today are only mine, and those of the Federal Reserve Bank of Dallas. They are mine and mine alone.

Just to get to the bottom line, I say that the economy of the United States is hogtied by a government that is feckless, sadly inefficient, sadly ineffective, and, in fact, counterproductive. We have a Congress who by law has control of the purse strings but has not been able to agree on a budget in over five years, that has historically under both Republican and Democrat Presidents spent money and committed itself to fund long-term programs without devising the revenue streams to cover current costs or fund future liabilities. We have a government that's far more effective in forming committees to discuss what they might do – and if you follow the news you'll know that the President and the Congress just agreed to their ninth such commission in three years – than they are in getting anything done to provide businesses and employers and workers or citizens of the United States with the certainty that they need, and anybody needs, to proceed confidently to plan their futures.

Under these circumstances it's no small wonder that American businesses are not expanding and growing jobs as fast as we wanted them to, from our perspective at the Federal Reserve. It's no small wonder that our economy's growing at what we consider to be a substandard pace compared to previous recoveries. And it's no small wonder that folks in Western Australia, which I learnt while I was out in Perth, for example, are developing very large investments in gas and exploration but then are disappointed when the EXIM (Export-Import) Bank of the United States pulls out at the last minute because they had to pull all their employees back to Washington and a deal fails, and Chinese money replaces that US money and ownership claims that would have gone into the project.

It's no small wonder that the most expansive monetary policy ever that we have engineered at the Federal Open Market Committee has been hampered from accomplishing what it set out to do. In short, while the Fed has been moving at the speed of a boomer, a big male kangaroo in full run and full heat, the Federal Government of the United States has at best exhibited the adaptive alacrity of a koala and is nowhere near as cute.

I'm going to illustrate this point with some very simple math (this will be the only math I'll use this evening; central bankers are given to using equations in conversations and they are guaranteed to put you to sleep). If you just take the most elementary formula for calculating gross domestic product, private expenditures on goods and services increased at a 3.2 per cent rate annualised over the expansion to date, whereas our gross domestic product has increased at a rate of 2.2 per cent.

One could say that GDP, gross domestic product, would have risen at 3.2 per cent had government expenditure increased at the same rate as private expenditure, or more modestly if government spending had at least held its level instead of contracting, then our GDP would have grown at a rate of 2.6 per cent, much more attractive than what we've been able to achieve.

Now I want to make it clear that, I am not a proponent of ever increasing government spending, and like most Aussies, I'm averse to government debt. I know that it's bothersome to you, that your debt as a percentage of GDP is up to 30 per cent from the 18 per cent level before the downturn. I know your speaker (CEDA annual dinner keynote, Maurice Newman) was controversial last night, and whatever he said, take that and consider that the debt to GDP ratio is over 100 per cent in the United States, if you account for it properly.

Thus, Stephen (Martin) said, for many years I've been an outspoken critic of our Federal Government's fiscal misfeasance. I mention this simply to illustrate a point. Unlike your government who can afford to ramp-up spending during a downturn – which they did, by borrowing and spending throughout the recent Great Recession and did again in the first half of 2013 to offset some of the falloff from the mining sector – we have no such capacity in the United States. Our government has played a countercyclical, counterproductive role affecting economic growth. The inability of our Federal Government, of our President working with the upper and the lower houses of our Congress to get their act together, has countered the pro-cyclical expansive, accommodative policy of the Federal Reserve.

Those really are the concerns that I have that are greatest. I keep worrying about how much we at the Federal Reserve are buying in securities in order to goose up the economy and employment, and whether it actually has its effect that was intended. It is an important question as we are buying \$85 billion a month in US treasuries and mortgage-backed securities and have expanded our balance sheet to nearly \$4 trillion from approximately \$900 billion before the crisis.

Our first initiative which I voted for and supported, was to begin to buy mortgage-backed securities. The reason for that was because we had a housing market that was in deep decline and it was a way for us to support and turn that market.

The risk is that we got involved in a specific asset decision, and I do believe personally we've carried that on far too far. We are just this close to now buying 100 per cent of the gross issuance of all mortgage-backed securities.

Now one thing we learnt in Texas from the Hunt family's activity in the silver market, is that it is easier when you're on the buy side than when you are on the sell side. It's a lot different, even in a liquid market like the market for Treasuries and MBS. So I would argue that the current monetary accommodation program driven by large-scale asset purchases becomes riskier by the day. There's a tipping point where monetary accommodation comes to be viewed not as the pleasant stimulus that levitates bond and stock and housing markets all over the world, including here in Australia, and the so-called felicitous wealth effect instead becomes an agent of financial recklessness.

None of us really know where that tipping point is, but I argue, at the FOMC table and in public, that with each dollar of Treasury and mortgage-backed securities that we purchase we are inching closer and closer to that tipping point. None of us will see it before it happens, no quant jock, no economic modeller and no political leader, will see it before it occurs.

So for the remainder of Ben Bernanke's leadership, which will end in January with his last press conference then, and from the very first moment of his successor's, which I expect to be Janet Yellen, the FOMC, our open-market committee, the 19 of us that make policy, will have to astutely manoeuvre to avoid crossing a line that, again, none of us, no Nobel laureates, nobody, can see before we get to it.

This much I know: as long as inflationary expectations are held at bay, we can fully open the monetary throttle to deliver on the mandate that Congress gave us to achieve full employment, but it's all for naught as long as the fiscal authorities of the United States are slamming on the brakes and leaving everyone in the dark as to how they're going to cure the fiscal mess that they have wrought. And this fact – that the Federal Reserve is being looked upon to carry the American and global economy on its shoulders – puts us at great risk.

With that, I bid you a pleasant evening! Now, shall we see how artful I might be in dodging your questions?

Acknowledgements

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