

**DIGBY LORD JONES - ABCC SPEECH (SYDNEY) MONDAY 31 MARCH -  
CA. 30 MINUTES**

**“GLOBAL OPPORTUNITIES”**

Thank you for the kind introduction.

My speech notes say ‘Don’t’ talk about the Cricket. Or about the Rugby..!’

So I won’t talk about either of these serious but potentially embarrassing topics. But I intend to talk about serious topics today, for we live in serious times.

The business climate is nervous, and stock markets everywhere remain easily spooked.

However, whilst those financial entities exposed to the asset boom of the past four years continue to show signs of stress, both Australian and indeed British companies in other sectors seem to be thriving. Chinese demand for Australian coal and minerals remains undiminished, and your GDP growth is strong at 4% in the year to September quarter. Nevertheless, nervousness prevails.

As full employment confirms an economy operating at full capacity, both of our independent central banks are utilising the interest rate mechanism to mute mounting inflationary pressures, and we all hope that the interest rate signal will work quickly before changed expectations begin to creep into wage negotiations and price-setting behaviour.

As far as the UK is concerned, the sub-prime fall-out has been contained, and the UK has handled the stress test of market turbulence quite well so far. The government recently stepped in to support Northern Rock, the fifth largest mortgage bank in the UK, which had become a victim of the crisis in global credit markets, and thereby forestalled any contagion risk to the banking system.

Residual exposures have yet to work their way through, but I am confident that the breadth and depth of UK financial markets will provide a degree of resilience.

Whilst UK and US growth is likely to fall below the trend of recent years, I remain relatively upbeat on the wider economy - the global economy will grow around 4% or something close to that this year, driven by the ‘emerged’ economies of China and India, but as the US credit contraction spreads across the world, the position in financial markets remains very serious.

What is the situation in the UK?

The UK economy is experiencing its longest unbroken expansion on record and the longest unbroken expansion of any G7 economy in post-war history. On these criteria alone, the economies of the UK and Australia have been on very similar tracks. There are no guarantees, of course, but there is clear momentum in both economies which I believe will translate into continued growth. The UK economy has proven resilient to several shocks over the past decade, and its macroeconomic framework and economic fundamentals can be expected to deliver continued economic stability. GDP growth will continue, albeit at a more moderate rate than in previous times.

With regard to China and India, the power shift to the east continues unabated.

The Beijing Olympics – due open on 08 08 08 - the luckiest number in China (!) - will underscore the emergence of China onto the world stage. Already the fastest growing economy, and the biggest capital exporter; the largest holder of foreign currency reserves, and the world's third largest trading entity. Chinese business is beginning to make its presence felt in many markets: the Chinalco move into Rio Tinto marks an upstream move into raw materials; Huawei and ZTE are already global players in telecommunications; and the Bank of China is already amongst the largest in the world.

Unfortunately, the downside of this is that China is also the world's biggest emitter of CO<sub>2</sub>, and by 2010 the world's largest consumer of energy.

China is having a big impact on global prices - initially, disinflationary, as its wave of low priced goods entered global markets. However, its recent impact has been less so, and Chinese demand has helped trigger the boom in global commodity prices; between January 2003 and January 2008, the world price of metals has risen 180%. In addition, the prices of Chinese exports are beginning to rise – in part due to a revaluation of the renminbi, and also due to rising wages. Rising prices will begin to add fuel to global inflationary pressures.

India, since opening to world markets in the early 1990s, is also rapidly becoming a major economic power, but one that has pursued a different development path to China. As an illustration, in 2006, China generated 8% of world export of goods to India's 1%, and 3.3% of world export of commercial services to India's 2.7%. India's strengths lie in commercial services, finance, and sophisticated manufacturing.

Indian growth will remain robust, and the market power of Infosys, Ranbaxy, and Tata are already apparent.

Of course the emergence of India and China are just the most salient manifestations of the globalisation of trade which has served the world so well since the early GATT agreements were struck at the very end of the Second World War.

Globalisation presents challenges, but also opportunities, and the UK has good reason to be confident. We're the top location for investment in Europe, and second only to the US globally. Our economy is solid because of its business friendly environment, skilled labour force, and strength of the R&D base. These are factors that high-growth markets such as India and China cannot easily match. We cannot compete on a purely cost-commodity basis; nor should we try. We're successfully making the transition to a high-skilled, value-added economy

The UK is one of the most open economies in the world. We welcome foreign investment for the jobs, wealth and prosperity it creates. We believe in breaking down trade and investment barriers, a message we are taking to the world.

The current Doha round of trade liberalisation negotiations remains unfortunately embroiled in negotiation, as consensus amongst the 152 countries proves tricky to achieve. Also, despite solid progress reported by Pascal Lamy (Director General WTO), deep concern is being expressed that the policy debate in the US presidential primaries is turning against free trade.

The ringing of alarm bells in key European capitals about the threat of rising protectionism might seem a little odd to Australian veterans of the decades long trench warfare with the EU over farm subsidies! However, we welcome your government's focus on multi-lateralism. We are convinced that increased trade creates jobs and wealth and can be a powerful force for development. It brings access to cheaper goods and can increase prosperity across the world. We are the most successful major economy in Europe, and the most open - not a coincidence.

Talking of business opportunities, I'd like to look forward four years, and to the Olympic and Paralympic Games to be held in London in 2012. We were all proud of our success in winning the right to host the greatest sporting spectacle on earth, but it is clear that we need to do so much more than simply deliver 17 days of sport. After the closing ceremony, we will have failed the Olympic tradition if we have not delivered a positive and lasting economic legacy for our entire country.

The government is doing its bit. It is committed to investing £3 billion on physical infrastructure for the Games, and we want that money to work to the maximum benefit of our economy. Just as your government utilised the Olympics as the trigger to remediate the Homebush area of Sydney, so will the London Games provide the impetus to transform large areas of poor housing and run-down businesses to the North-East of London, adding thousands of jobs and capability to one of the world's greatest cities.

As your own experience with Sydney proved, London 2012 is just an outstanding marketing opportunity for the UK to showcase 'Brand Britain.' It will be a fantastic advert for locating in the UK. Any country that has proven it has the wherewithal to pass the tough scrutiny of the International Olympic Committee will be much more appealing for a global business looking to expand. It is also a huge investment opportunity - as the successes of Lend Lease, architects like Woods Bagot and Bligh Voller Nield, and many smaller Australian enterprises, have already shown!

I'd like to move on to an opportunity that is impossible to underestimate, that of the challenge of catastrophic climate change.

There is now near universal scientific consensus - most recently endorsed through your own Garnaut report - that man-made greenhouse gas emissions are contributing at an accelerating rate to a rapid increase in global warming. The ten warmest years on record have occurred since 1990 and the consequences of this are becoming increasingly apparent to all in the erratic disturbances to weather patterns evident in recent times.

In the developing world, famine, drought, disease and mass migration will hardest hit the poorest and most vulnerable people. The prospect of conflicts over scarcer resources such as water will add further to global economic uncertainty.

In the UK, we can expect more extreme weather conditions such as intense rainfall, widespread flooding and prolonged droughts. In the last five years, we have already seen the Thames Barrier closed 55 times compared with 12 times in the previous five years.

To reduce these impacts, we must limit the concentration of carbon in the atmosphere. Time is not on our side because this means that global emissions will have to peak and start to decline over the next couple of decades. However, the recent UN Conference in Bali marked the most significant agreement of its kind since the signing of the Kyoto protocol more than a decade ago.

For the first time industrialised and developing nations will negotiate on a climate treaty beyond 2012.

No one should be under any illusions that action to reduce greenhouse gas emissions does not present huge challenges for business; there will inevitably be lively debate about targets and the package of measures designed to achieve them, but the debates must conclude with decisive action. I suspect that we all underestimate the willingness of the ordinary man or woman in the street to endorse and support meaningful green initiatives. For example, take the mounting pressure to curb the use of plastic shopping bags. It was also gratifying to see how many buildings turned off their lights on Saturday at 8pm to join in International Earth Hour. I think popular support is growing, and ready to acknowledge leadership.

In the UK, government has sought to lead by making a firm commitment to a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010 - and even this current target may not be sufficient.

Whilst we all anticipate a much enlarged role for wind, tidal, solar and geothermal forms of energy, the truth of the matter is that fossil fuels will continue to dominate our energy mix for decades to come. Global emissions from coal are set to rise by 73% by 2030, with around half of the increase in global emissions driven by growth in China and India. We must translate the talk on carbon capture and storage into action. The technological challenges are considerable, but the CSIRO post-combustion plant being installed at Huanfeng Power Beijing, the work being done at Loy Yang in Victoria, and our own support for post-combustion capture, give us considerable encouragement. And we're leading on the EU initiative for a 'Near Zero Emissions coal-fired power generation project - together with the Chinese government - critical work in a country that builds one to two coal-power plants every week.

The UK government has recognised the need to help promote an industrial response to climate change, and we intend the UK to be at the centre of the response to climate change in terms of technological solutions. UK business has a considerable competence in fields such as fuel cells and tidal energy. Rolls-Royce, for example, has 200 engineers working to a 20-year programme on fuel cells. Large demonstration projects will be completed over the next few years. The largest tidal power site in the world - with electricity generation equivalent to 5% of total UK requirements will be built in the Severn Estuary, enormous offshore windfarms are planned for the East Coast of the UK with equivalent generative power to those of a large nuclear reactor, and significant pilot experiments with innovative surface and subsurface wave power, will be concluded.

Australian enterprise is contributing key IP to several of these projects. Australia has also created world leading initiatives on solar power (perhaps an area where the UK might never excel!), and geothermal power - from which the UK can learn. We can learn from each other.

I reckon the next Bill Gates will be the deliverer of a highly technological solution to some of our climate change challenges; I want him or her to be British. I am proud that the UK is rising to the demanding challenge of climate change.

Let me move on to one major opportunity which faces both our economies - the workforce, and the shortages of both labour and skills.

The UK has a workforce of 28 million people offering a diversity and depth of expertise across all key sectors. One example of this is the unusually large pool of agency and contract work available, providing a flexibility that few economies can boast.

However, the shortage of skilled workers - very apparent here in the booming resource sector of Western Australia, but in fact true of commerce in both our countries, is not merely a manifestation of two very successful economies in parallel showing signs of full capacity.

I believe that skills crisis is the biggest barrier to the UK having a successful 21st century. Of course, increased immigration provides some amelioration for a skills shortage, and the migration of people from the newer member states of the EU to the UK has certainly provided essential skills. People have stopped making jokes about Polish plumbers!

But the truth of the matter is, our aggregate skill level needs to rise. We need to be more productive. Enhanced productivity will fuel growth without adding to inflation. Getting people skilled will be the greatest agent for social inclusion.

UK firms want skilled people. In England alone employers spent around £31.5 billion on training and development in 2006. Much training is done in-house, but quality vocational courses offered by colleges and universities also have a role to play.

More than half of large companies in the UK are involved in helping develop undergraduate, master's or PhD courses, advise on course content or provide additional lectures. While this is good work, there is room for further collaboration between business and higher education institutions. Small firms can find it difficult to identify the right contact or dedicate time and resources to course development.

At the coalface, there are still too many of our employees lacking adequate basic skills. Already more than 150 leading employers from across England, representing more than 1.7 million private and public sector employees have made a Skills Pledge to train their staff in developing a minimum of basic skills, including numeracy and literacy, and work towards relevant, valuable qualifications to at least the equivalent of five GCSEs - roughly approximate to your HSC.

The Skills Pledge goes to the heart and soul of a business or organisation. It represents an undertaking to commit to a culture of staff development, starting with those who have the lowest level of skills and qualifications.

I believe that if we can upskill all of our workforce, that there will be less violence, less terrorism, a greater understanding of climate change, and more involvement in politics. Our fabulous countries will have a great 21st century.

To close, I'd like to address the challenge of terrorism and security.

Let us be clear, there is a serious and sustained threat of terrorist attacks against UK and Australian interests at home and abroad, be they major attacks like London, Madrid or Bali, or attacks on a smaller scale. The terrorists are inventive, adaptable and patient; their planning includes a wide range of methods to attack us. Moreover the international terrorist threat manifests itself in many challenging forms.

What should, or can, business be doing about this?

First, we have got to make businesses, especially smaller businesses, more aware of physical security on a daily basis. We wouldn't dream of leaving our homes in the morning without locking the doors and putting on the alarm. Yet all through the day, businesses have their back doors open, premises are not inspected, there are no security cameras.

Secondly, we need to be aware of the growing challenge of cyber security - of network attack, of identity theft, of operating paralysis.

My counsel is to broaden your thinking about security issues to identify and protect your key assets, including your people. The narrow definition of corporate security including the threats of crime and fraud needs to be widened to include terrorism and the threat of electronic attack. In the same way that health and safety have become part of the business agenda, so should a

broad understanding of security. Security should be an integral part of your planning and internal control; do not allow it to be left to specialists. You need an effective, business security plan that is regularly reviewed and tested at Board level, and ensures the continuity of your business in all eventualities.

The old Chinese saying has it, of course, that in every threat there is also opportunity, and the commercial opportunities for security services and disaster recovery hardware and software, are being well-addressed by energetic enterprises in both our countries.

On a wider social basis, it is important to note that whilst many terrorists are recent migrants from the developing world, the vast majority of migrants are decent people who want to get on with their lives. They want a safe place for their families, they want to work hard and earn money and improve their lives, and they want to take their place alongside people of other religions. Businesses have got to make sure that new migrants don't get targeted as part of the reaction to terrorist attacks.

More generally, if we are going to find a solution to this problem of terrorism, it has got to come from within communities as part of a genuine cultural change. Business has a role to play there too, as an agent of social cohesion. It is for us to reach out and help communities of all different faiths and ethnicities.

A few final words. It would be remiss of me not to say what a pleasure it is to be once again in Australia, and to have had the opportunity to talk to you today. This a country that I always enjoy coming to, and whose freedoms and lifestyle I have long admired.

Our countries share a Special Relationship. A relationship founded on generations of migration, sport, culture, business. But both the UK and Australia are changing. I understand, for example, that 36% of households in large cities like Sydney now speak a language other than English at home, and the UK of old is also dramatically changing. For example, there are an estimated 1.5 million people of South Asian descent living in Britain. The solid and truly special relationship between our two countries needs to be continually redefined and renewed.

Prime Minister Rudd, for example, will be visiting the UK in early April to meet Prime Minister Brown and other senior members of the Cabinet, to hold meetings with the financial and broader business sectors and to hold talks on climate change issues.

An additional way of renewing this relationship is to look at the advantages apparent in our two-way trading relationships. The UK remains one of the world's largest markets, and an unequalled base from which to access the largest market in the world - the EU. The UK has unparalleled strengths in innovative thinking - whether in the creative professions, or in R&D. The money markets of London, Edinburgh, Leeds, have no equal for depth and liquidity. The workforce is flexible, and the legal framework offers IP protection and even-handed justice.

Most of your global flagship companies - Macquarie who have pioneered the structured finance of infrastructure assets, Westfield who have become the world's largest operator of shopping centres through innovative management, QBE who have optimised techniques of risk management and the integration of acquired businesses to become a global leader in general insurance - each of these have found a substantial base in the UK. For Australians expanding offshore, no other market in the world is more familiar than the UK, and the same core familiarity applies to British business seeking to expand into Australia. In neither case, is market success guaranteed, but success will be determined by the worth of the offerings, and not by 'connections' or by insider access.

Familiarity of course, as the old saying has it, can lead to contempt, and it is easy for business to be seduced by the siren song of the newer sexy emerging markets. But business is about managing risk, taking opportunity, and as you say here, 'making a buck.'

The business relationship between Australia and the UK is strong and deep, and well worth a long look by any expansive enterprise. The opportunities for mutual trade, despite the challenging times we now face, were never higher.

So, despite the dark clouds on the western horizon, I remain optimistic about business prospects for Australia and for the UK - guardedly optimistic, because it would be imprudent not to factor the current liquidity crisis into our planning. But the response to the challenge of troubled times will be the marker of the truly great businesses in both our countries. END