

AMERICAN CHAMBER OF COMMERCE IN AUSTRALIA

Address by BHP Billiton Chairman, Jacques Nasser

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Introduction

Thank you and good afternoon everyone.

Let me start by acknowledging the Cadigal people of the Eora nation, the traditional owners of this land.

It is an honour to be here with you during the 50th anniversary of the Chamber in Australia.

Now, as you might expect from the Chairman of a resources company, I will start by pointing out that the close relationship between Australia and the US is, in no small part, due to strong historical ties with the mining industry.

In the nineteenth century, thousands of Americans joined the gold rush and came to Australia. One of those Americans was a young engineer - an orphan who fudged his age with an English company to land a job in the gold fields of Western Australia.

That young man returned to America and became the 31st President of the United States. His name was Herbert Hoover.

Like the California gold rush, the discovery of gold in Victoria rapidly expanded the population and kick started new industries. From 1851 to 1871, Australia's population quadrupled from 430,000 to 1.7 million. In 1852 alone, 370,000 immigrants arrived in Australia.

As it did for San Francisco, gold transformed Melbourne from an outpost to a large city.

The gold rush led to the development of national infrastructure - such as the telegraph, railways, universities and other institutions. Importantly, Australia's first resources boom created our first "centres of excellence", although in a very basic form.

It is important to understand what I mean by "centres of excellence". I don't mean formal institutions, like think tanks, or industry parks funded by government or industry.

What I mean is the coming together of like-minded individuals, businesses and, sometimes, public institutions to serve a growth industry - both drawing strength from it and adding value to it - and in many cases creating adjacent industries.

As new industries developed around the big mining centres public institutions followed. Some were educational facilities intended solely to improve productivity. It is no accident that Australia's third oldest tertiary institution began life as Ballarat's School of Mines, and is now the University of Ballarat.

Combined, all of these factors led to leaps in productivity that allowed the resources industry to develop to where it is today.

Previous growth periods have created the opportunity to strengthen the economy by creating new infrastructure, adjacent industries and sustained improvement in living standards. But the outcomes have been mixed.

Productivity and Competitiveness

What is clear however is that productivity and competitiveness are interchangeable - and they are what will determine the quality of our future.

You know it was six or seven months ago when the Chamber first invited me to speak - and just six or seven months ago the world was a very different place to what it is today. Most observers were relatively optimistic about the world economy and we believed things would get marginally better.

Since that time the economic crisis has deepened in Europe and there are concerns about whether the wealthier countries can shore up the weaker ones.

In the US we have seen political uncertainty and brinkmanship and currency battles coming from countries ranging from Switzerland to Brazil.

I know there is a real fear in Australia that we could get engulfed in all this turmoil.

My own view is that Australians should feel quietly confident about our ability to manage through what is playing out in the northern hemisphere.

Quietly confident - not complacent.

When I began thinking about what I would talk about today the thoughts I had were about how important it is for any country to be globally competitive. The changes in the global economy since that time have only confirmed my view on the critical importance of competitiveness --particularly for Australia.

Companies and countries are increasingly competing on a global basis. Consequently, if you are not globally competitive, over time you will not grow and value will not be created.

International resources customers don't buy our commodities just because they come from Australia. We don't have a monopoly on tier one, low cost resources.

Our customers buy from us because they get the right product at the right price with security of supply - and productivity is crucial to us meeting these expectations.

This equally applies at an individual level. Australian consumers will line up to buy a new iPad without considering where it's manufactured. They want quality at a competitive price – and productivity and innovation are at the heart of Apple's competitiveness.

So what is productivity?

Productivity is what we all get as a community in final goods and services for what we put in through our labour, capital and other factors of production.

I've heard it said that a country's ability to improve its standard of living over time depends on its ability to raise its output per worker. Along with quality, certainty of supply and innovation, productivity is the key driver of success.

So without productivity it is hard to see how Australia can address the challenges of climate change, an ageing population and a high exchange rate – just to name a few issues.

But while we see calls to increase productivity there is less detail on how we might do that.

What I have called centres of excellence provide an approach to leverage Australia's resources strength, drive productivity and therefore underpin living standards.

Let me stress I am not advocating picking winners. Taking a bet on one sector is not the answer. A better long term strategy is to have a balance of manufacturing, resources and services.

This is particularly true as the new global economy thrives through innovation, skills and knowledge that upgrade the industrial base. Silicon Valley is an obvious example of this happening in a particular region, through a cluster developing and then growing.

There is no reason why we can't see examples in Australia.

We have a number of places where clusters of resource companies are both co-operating and competing already. And the outcomes are critical to meet the global demand for resources.

Centres of Excellence

Australia does have a natural competitive advantage in resources – and we should be a global "centre of excellence".

When people around the world think of resources – and smart application of skills, technology and capital – we want them to think of Australia.

In this way - centres of excellence drive productivity.

They form critical masses of linked industries and institutions which, when combined, are highly successful global competitors creating good jobs, innovation and growth.

I have already referred to Silicon Valley as a centre of excellence. Stanford University is based there, Berkeley and Carnegie Mellon have campuses there, as do the major service firms like Jones Day, Pricewaterhouse Coopers and Deloitte – and, of course, venture capitalists, like Kleiner Perkins.

In fact, eight out of ten new jobs in Silicon Valley are created by small business and one in five workers are employed in manufacturing. Interestingly, the population is diverse - with about 30 per cent Hispanic and about 26 per cent Asian.

As you can see from this example, centres of excellence by nature prosper by attracting a varied set of related companies and institutions that often compete against each other - while drawing strength from each other.

They create value for both the region and country - they increase productivity and they stimulate new business opportunities.

Because of the changing nature of international competition, companies are choosing to invest in the most productive regions. An obvious example is back office processing moving to the most productive, though not necessarily, the cheapest countries.

A less obvious example is Caterpillar and NCR relocating the manufacturing of some major product lines to the US from low wage countries.

The most successful regions don't try to be the most competitive at everything but like Silicon Valley, Chennai and even luxury shoes in areas of Italy, they focus on where they have a competitive advantage based on knowledge, skill, innovation – and in some instances, a natural endowment.

Focusing in terms of centres of excellence may give us a vision and plan for the future that helps address the economic uncertainty that people and markets are feeling today.

Economic Factors – Australia and the US

As the Reserve Bank Governor recently noted, the growth of today's resources sector is the biggest in scale since the gold rush of the nineteenth century - but many Australians don't feel that optimism.

Put simply, while many of our macroeconomic indicators look good, some of us as Australians don't feel good.

In other words, even though Australia is not suffering from the chronic economic challenges of Europe and the US, there are Australians who are still unsure of the country's economic future.

But the concerns of Australians are not entirely unfounded.

They are concerned about job security, rising utility costs, housing affordability and interest rates. As a reflection of this anxiety our national savings rate is over 11 per cent, the highest in 15 years and retail sales are tracking at a relatively low 2 to 3 per cent a year.

In comparison, despite the struggling US economy and political gridlock, Americans seem to maintain a more positive view of their position in the world.

So the paradox is that while the top line economic figures show our economy is in good shape relative to the US, we seem more uncertain about our future.

Yet at the same time, we also tend to be complacent, relying on our natural endowments. This complacency could prove to be the real threat to our future prosperity and will ultimately result in lower living standards.

I don't believe the majority of Australians are prepared to accept this - but the trends are not good.

Productivity growth in Australia has declined this decade - and has declined compared to other countries including the US.

Productivity growth peaked in 1998, following the reforms of the previous two decades. Since then labour productivity as compared to that of the US, has declined from 92 to 84 per cent – the lowest since the bad days of the early '70s.

But labour productivity is only part of the story.

Multifactor productivity is a better indicator, measuring how efficiently and effectively both labour and capital combine to generate output. That indicator measures the effectiveness of investment decisions, infrastructure constraints, regulation and government policies.

Measured in this way, Australia's productivity performance has not just tapered off - it has been negative over the past five years.

In the 1980s and '90s, there was a meaningful dialogue about the major issues facing Australia, leading to some of the most important economic and social reforms in Australia's history.

We don't see that dialogue today. We don't, for example, see it taking place around skills formation - an area where Australia has historically lagged against other countries.

It is apparent we are increasingly encountering 'capacity constraints'. This is most evident in skilled labour shortages and infrastructure 'bottlenecks' such as transportation.

Skill shortages can sometimes be eased by increased immigration but that doesn't always provide the answer. So we need to think about what needs to be done to develop skills domestically.

There are roles for all sectors here - private enterprise, governments and organised labour - just as there are roles for all sectors in tackling infrastructure and investment challenges.

Another comparison to the US is appropriate here.

Let's just look at one metric which demonstrates the ability to recover and reinvent. If you look at the top 100 S&P companies, I wonder how many of them are new to the list in the last 10 years. I can tell you - it was 43!

And of course, Americans have built a competitive edge through attracting the best and brightest from around the world to both study and work in the US. As a result, in many industries, the US is a hot house of innovation and that in turn drives productivity.

It is not to say, that Australia doesn't have these qualities - it's just that we don't seem to have that unshakable belief in our place in the world that gives us that edge.

I'm also not suggesting that the US is the perfect model – it isn't, and it should be noted that many of the issues they face today are of a size and complexity that they have not faced before.

We can try to boil the ocean but, to me, what's obvious about Australia is that:

- We clearly have the assets.
- We have a long history as a nation of developing industry sectors efficiently.
- We are resilient and take advantage of opportunity.
- And, importantly - we sit in the midst of a region that is driving a rebalance of global growth and opportunity. The reality is that the development of China and Asia is a once in a hundred year event on a scale never experienced before that is lifting millions of people out of poverty.

Once again yes, we are lucky and yes we are well placed - but unless we are competitive on a global basis we can't get the best outcome for Australia. We are facing and will face increasing competition from countries like Brazil who have high quality, low cost ore being shipped into China. We cannot be complacent.

Natural Resources Sector and Centres of Excellence

I want to emphasise that centres of excellence are not based on picking winners, just as they are not based on subsidies.

So in searching for the foundation of industries that could provide Australia with a centre of excellence, and the ability to lift with it other sectors of the economy, the natural resources sector seems an obvious starting point.

One catch cry we often hear is the need for a big national project like the Snowy Mountains scheme. The Snowy Scheme was an incredible project - in today's terms it cost about \$8 billion.

But, by comparison, BHP Billiton's investment alone in growth in Australia this year will be over \$9 billion - and we are just one of a number of investors in this sector.

For each dollar of revenue produced by resource companies, about 40 cents is spent buying goods and services primarily from within Australia and, of course, Australians share in the success of the industry through their superannuation schemes.

So what does this mean for us?

What's clear is that there is significant potential for the resources sector to foster centres of excellence around Darwin, Perth, Townsville, Brisbane, or Adelaide.

Our resources industry has all the ingredients - large capital investments, demand for skilled people, community development, significant support and allied industries.

But this won't happen by luck or organically. Unlike the US, we are not always blessed by large natural markets, so it usually means we need to be more deliberate than Americans would when pursuing concepts like centres of excellence.

But our wealth of resources is one area where we have a starting point of American scale that we can capitalise on.

All we need is a shared ambition to capitalise on the value co-location brings to the development of skills and investment along with a consensus to avoid creating obstacles to productivity growth. That means employees, employers and governments fostering collaboration, rather than regulation.

This is where a combined focus on multi-factor productivity becomes important - maximising the application of skills and training, taking a long-term view of returns on capital and ensuring that regulations are outcome driven.

Let me give you an example.

There is currently \$78 billion committed to iron ore projects in the Pilbara and it has been forecasted that the industry will require over 60,000 more workers by 2020. To deliver on these projects, the workforce will need specific skills that can't be taught quickly.

This is a perfect example of where industry can work strategically with our state and local governments and universities to help create a centre of excellence.

Centres of excellence don't have to be started from scratch.

The Northern Territory Government sees Darwin as a centre for oil and gas activities including operation, maintenance and workforce development.

Darwin not only services major resource businesses -- it also has major agricultural industries in beef, fruit and seafood - and is both a strong defence force base and a staging centre for the United Nations.

Darwin has good primary and secondary schools and a growing university and infrastructure like the Adelaide-Darwin rail link.

There is no reason the Darwin region shouldn't become a major centre of excellence and a major city with benefits for the whole Australian economy.

What it will take is a strong spirit of cooperation between business, every level of government and institutions.

For instance a real world example is Houston which has grown into America's fourth largest city because of such a spirit of cooperation. Today Houston is the energy capital of the United States and the headquarters to 25 Fortune 500 companies, mainly in energy related businesses.

There is no reason why we cannot replicate models like Houston to create centres of excellence based on our own strengths in resources and energy.

Conclusion

Getting back to a broader view - it is clear that there are strong links between Australia and the US, there is much we share and more we can share in the future.

At BHP Billiton we are confident about the future of both countries. We believe both Australia and the US offer continuing opportunities on a large scale.

We recently announced plans for major acquisitions in the United States running into the billions of dollars and as I mentioned earlier we have similar commitments for investment in Australia.

It is my strong view that our capital projects in Australia are a catalyst for wider economic development, particularly when coupled with what others in the resources sector are doing.

Thanks to its sheer size as an economy, the US offers many examples where centres of excellence have developed around investment in specific sectors. While we lack the scale of the US economy, our major resources provinces are areas that have opportunities to achieve what American centres of excellence have already achieved.

Yet we are sometimes more reluctant than Americans to think naturally about committing to big economic visions. So perhaps we need to become more deliberate in how we pursue our future prosperity.

We have faced up to difficult times in the past with a spirit of bipartisan support. Unfortunately in both the US and Australia that spirit seems to have gone missing.

There is no doubt we all need to work together to strengthen every area of the economy, improving the performance of the weaker sectors without detracting from strongly performing areas.

Like the success of the Australian resources industry, Australia's future will depend on a long term vision, clarity of thought and the ability to get things done. Centres of excellence should be part of our way forward.

Knowing what we Australians are capable of, I am confident that we will have the courage to take on that fundamental challenge.

Thank you.