

Australia and the Asian-Pacific century

Tuesday, April 27, 2010; 6:30 – 7:45 AM

Moderator

Joel Kurtzman

Senior Fellow and Executive Director of SAVE,
Milken Institute

Speakers:

Grame Barty

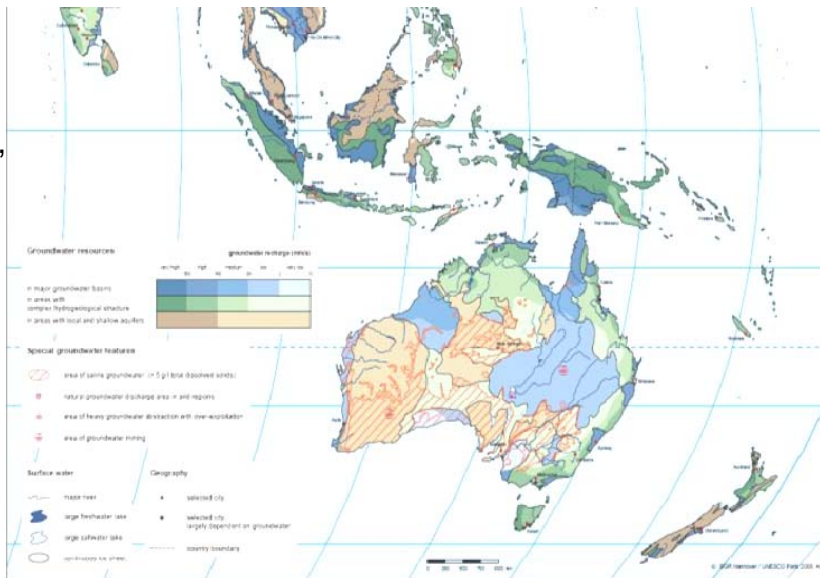
Regional Director for the Americas, Australian
Trade Commission

Jim Berson

Mining Executive and President,
Colowyo Coal Company, Rio Tinto

Tim Shanahan

Director, Energy & Materials Initiative,
The University of Western Australia



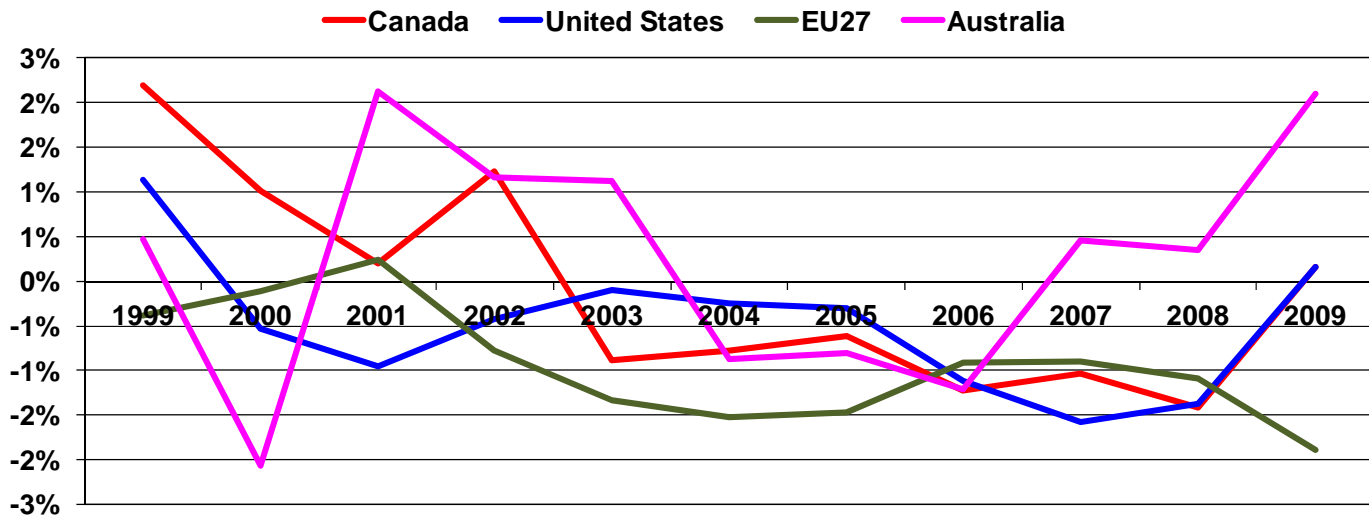
Historic GDP growth



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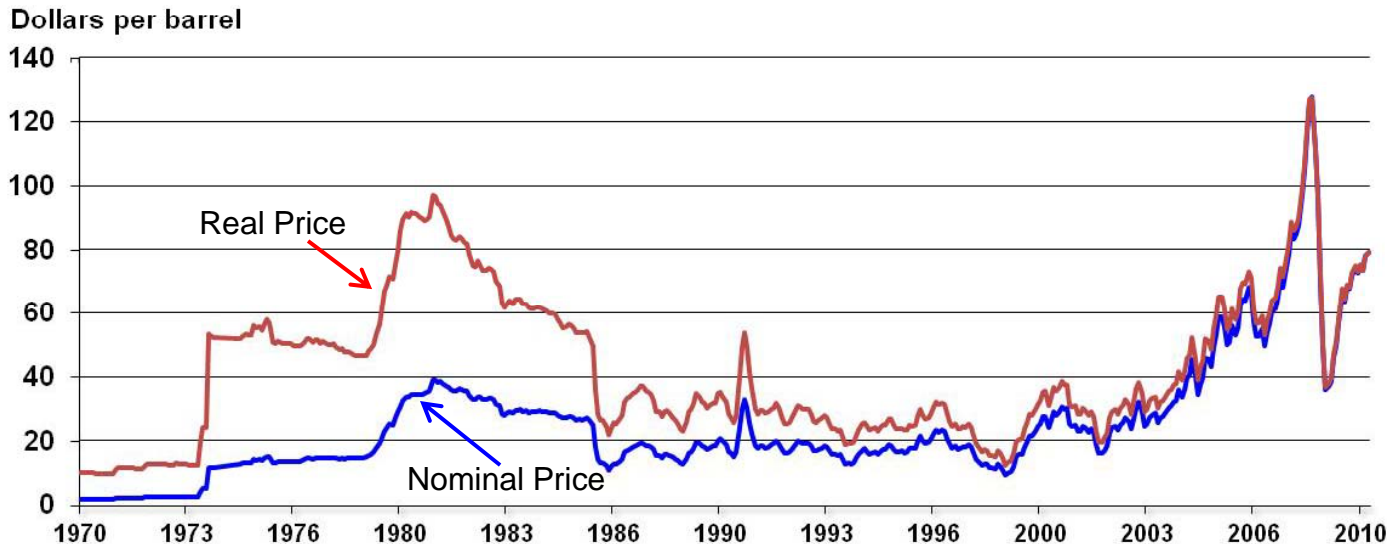
Australia compared to OECD

Growth rates of GDP shares



Historical oil prices, 40 years

Nominal and inflation adjusted prices



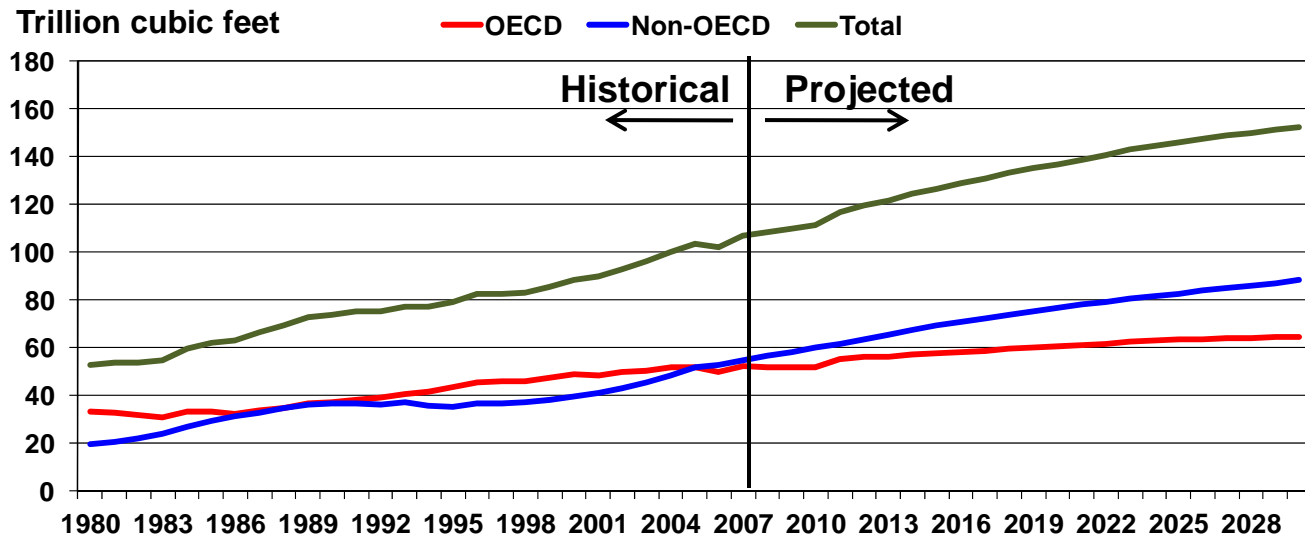
2008 and 2009 world ethanol production estimates

Country	Millions of Gallons	
	2008	2009
USA	9,000	10,600
Brazil	6,472	6,578
European Union	734	1040
China	502	542
Canada	238	291
Other	128	247
Colombia	79	83
India	66	92
Australia	26	57
Total	17,245	19,530

World consumption of natural gas

Non-OECD countries will lead consumption

Historical and projected natural gas consumption from 1980 to 2030



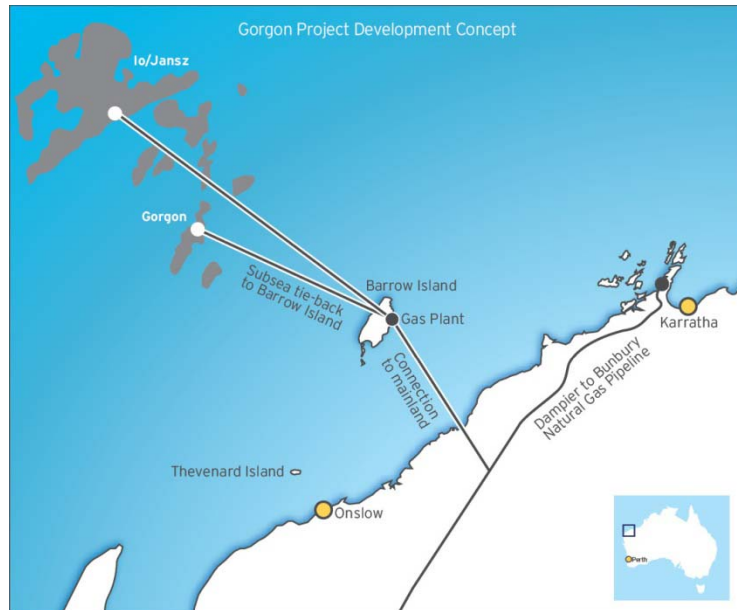
Australia's natural gas development

Chevron's Gorgon project development concept

15 million metric ton per year LNG plant

130-200 km off shore

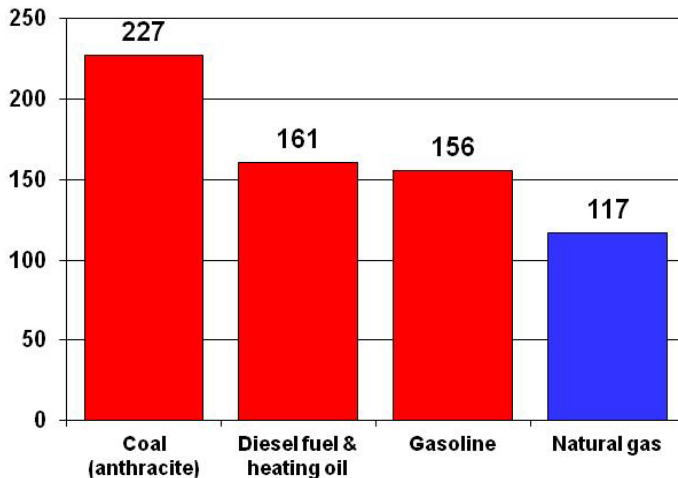
Features underground injection and storage of carbon dioxide



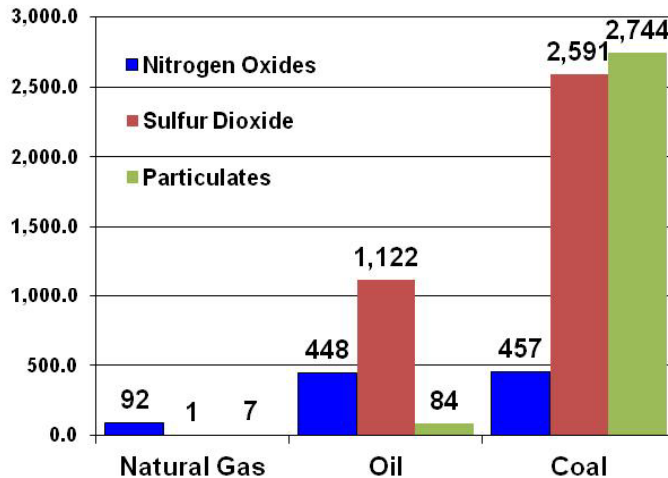
Natural Gas

Cleanest of the major fossil fuels

Pounds of CO₂ per million Btu



Pounds per billion Btu



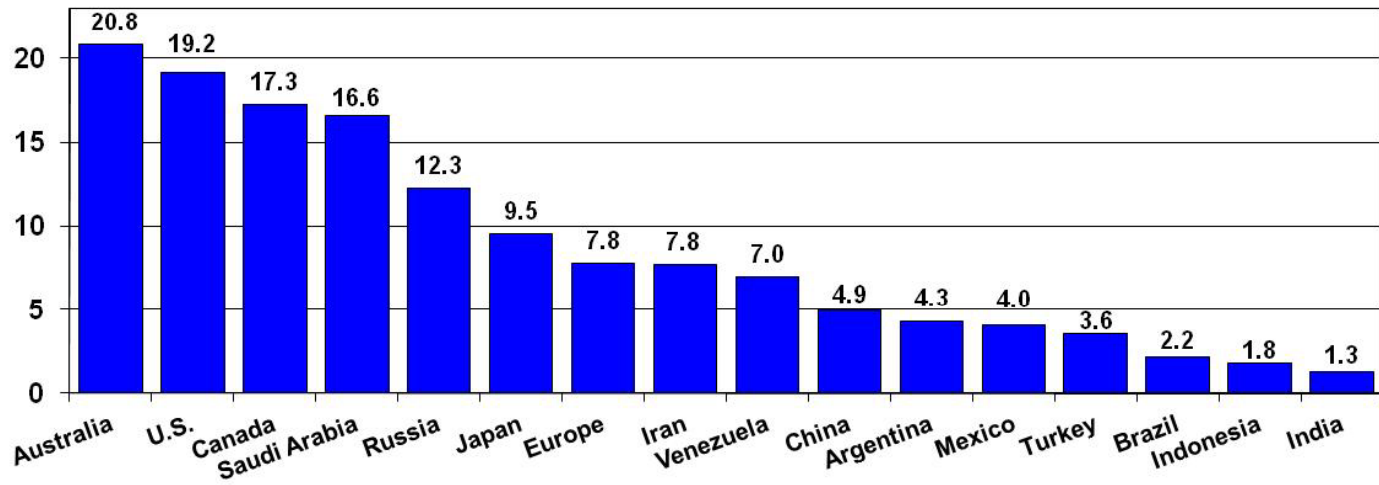
Per capita CO₂ emissions by country in 2008

emissions from the consumption of energy



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Metric tons of CO₂ per person



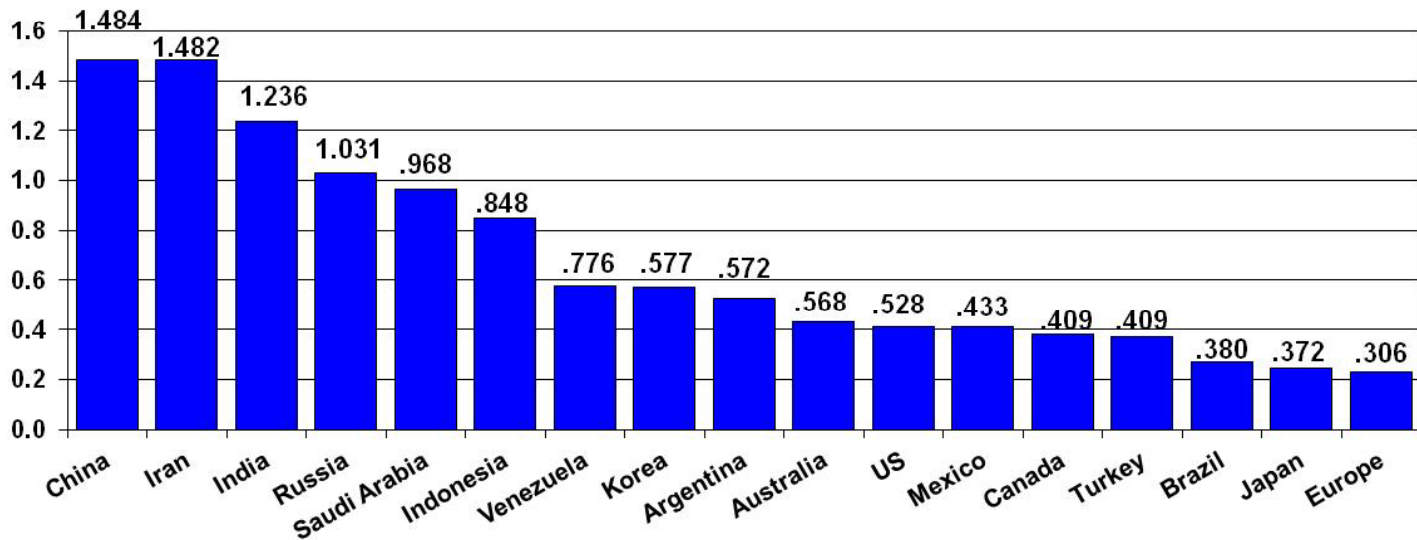
CO₂ emissions per unit of production

by country in 2008 *emissions from the consumption of energy*

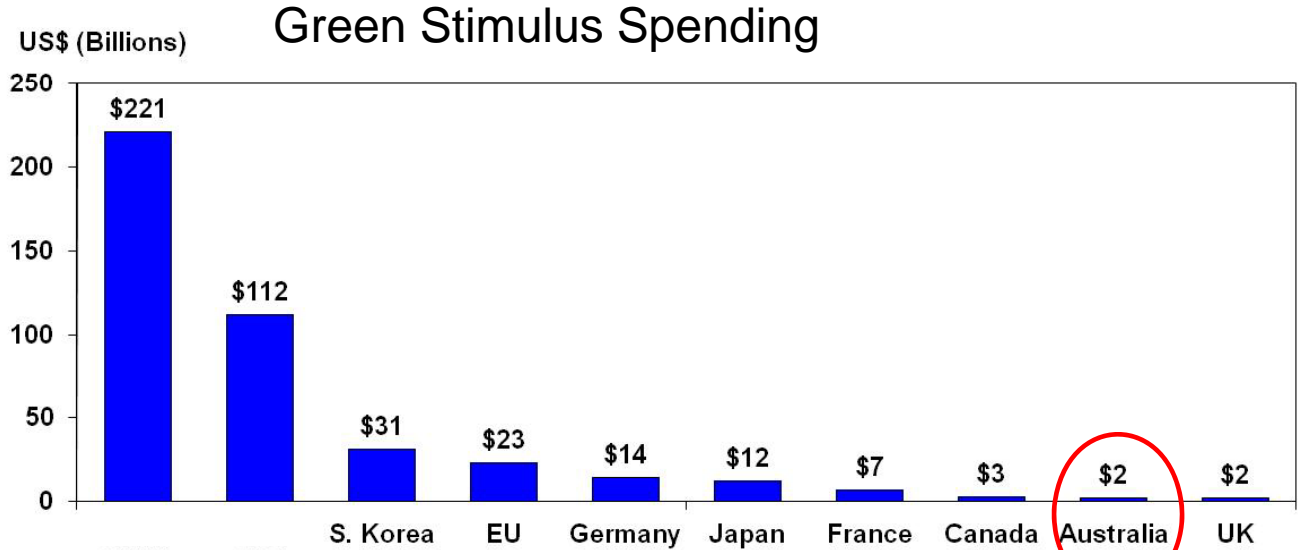


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Million metric tons of CO₂ per \$US billion GDP



China is now the biggest government investor in green energy...by far



Chinese government also creating a highly supportive environment for CleanTech

Renewable energy targets:

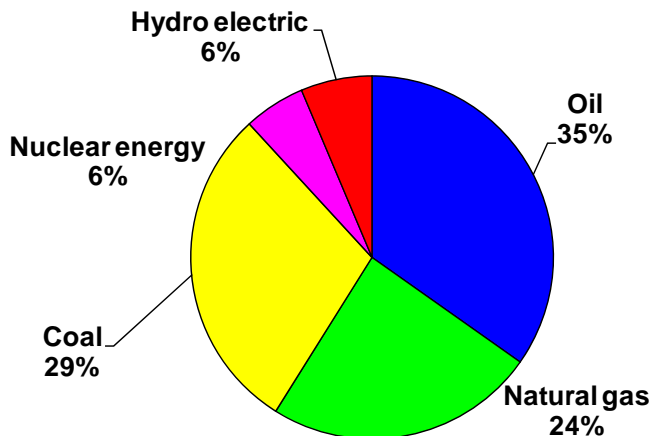
National Targets	2005 (Actual)	2008 (Actual)	2020 (Target)
Proportion of RE in national energy mix (%)	8%	16%	17%
Hydropower (GW)	120	172	300
Wind power (GW)	1.3	12	150
Biomass power (GW)	2	3	30
Photovoltaic power (GW)	.07	.14	20

Additional policy support:

- National pricing regulations
- Tax incentives
- National cost-sharing
- Planning for renewable energy transmission
- Support for wind
 - Feed-In Tariffs (FITs)
 - Turbine bidding favoring domestic manufacturers
 - Six 10+ GW farms bases by 2020
- Support for solar
 - Major provincial and city plans
 - Rumors of a national PV FIT underway

Oil accounts for one-third of global primary energy consumption 2008

Global primary energy consumption



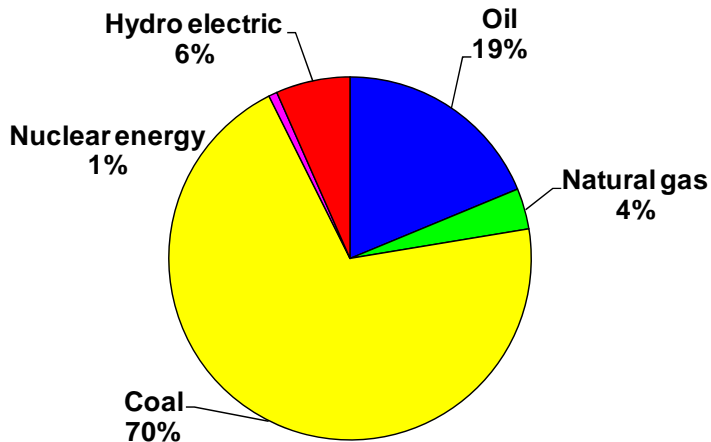
Source: BP Amoco's.

Coal accounts for 70 percent of China's primary energy consumption *2008*



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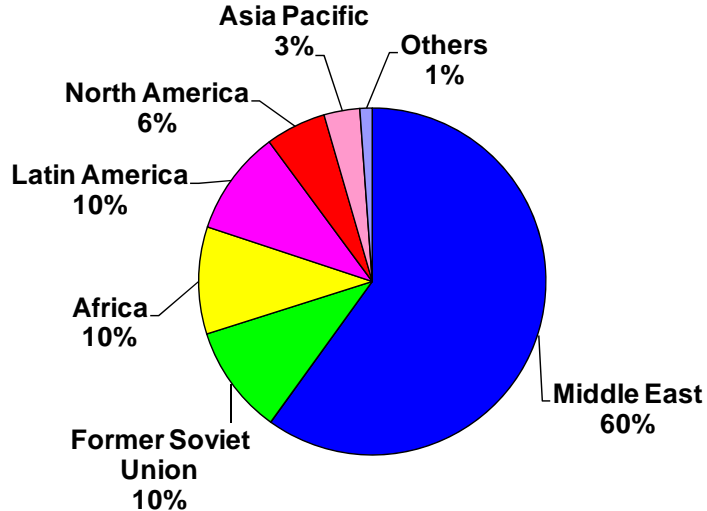
China's primary energy consumption



Source: BP Amoco's.

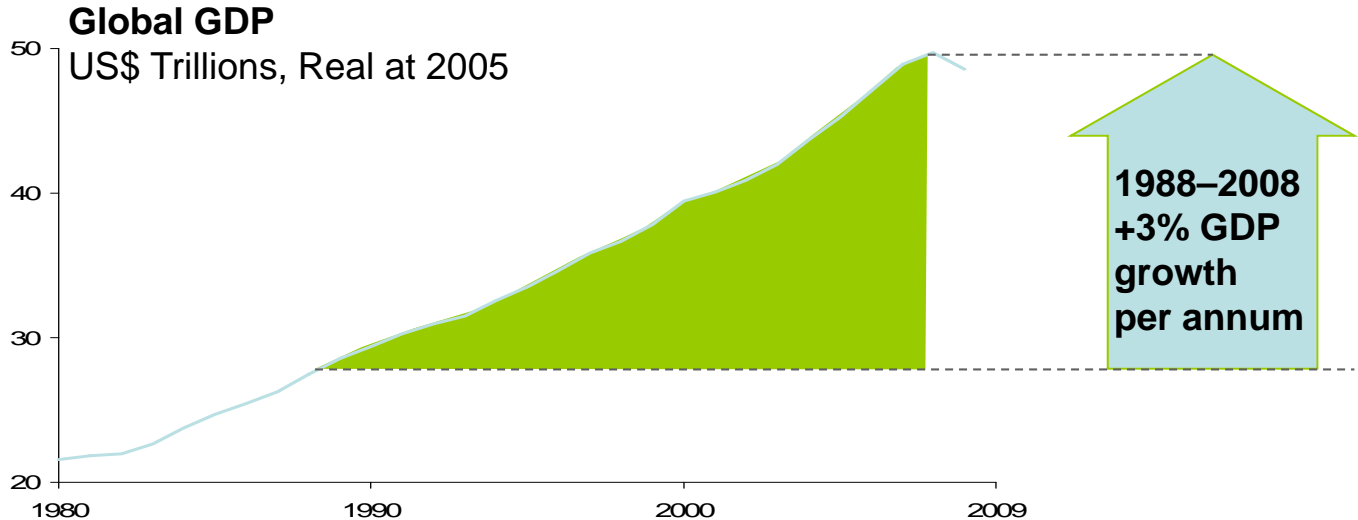
Oil reserves concentrate in politically unstable regions

Total proved reserves (2008): 1.26 trillion barrels



Sources: BP Amocos, Milken Institute.

The global economy has grown significantly over the past 20 years



Growth has been accompanied by a dramatic increase in living standards in lower income countries

World Bank Development Indicators Low and middle income nations

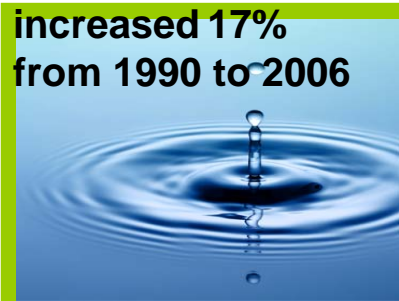
**Child Immunisation¹
up 93% from 1985 to
2007**



**Electric power
consumption up
74% from 1985
to 2006**



**Access to adequate
water supply³
increased 17%
from 1990 to 2006**



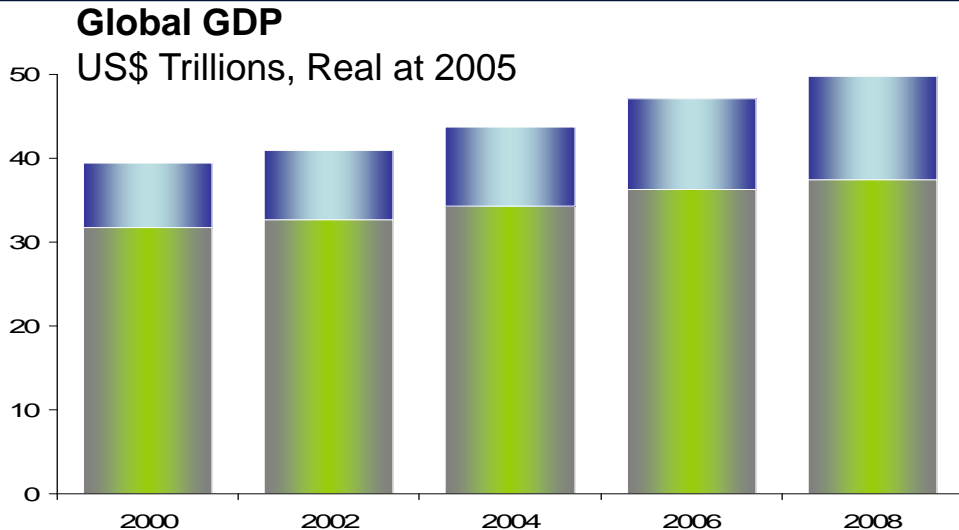
¹ Percent of children immunised aged 12-23 months from 42% in 1985 to 81% in 2007.

² As measured in Kilowatt hours (kWh) - 794 kWh in 1985 and 1,378 kWh in 2006.

³ Percent of population with access to improved water supply - 72% in 1990 and 84% in 2006.

SOURCE: World Bank Development Indicators

Growth in the developing world has driven global growth



◀ **6% growth¹**
per annum in
developing
world

◀ **2% growth¹**
per annum
in rest of
world

¹ Compound annual growth rate.

SOURCE: World Bank Development Indicators.

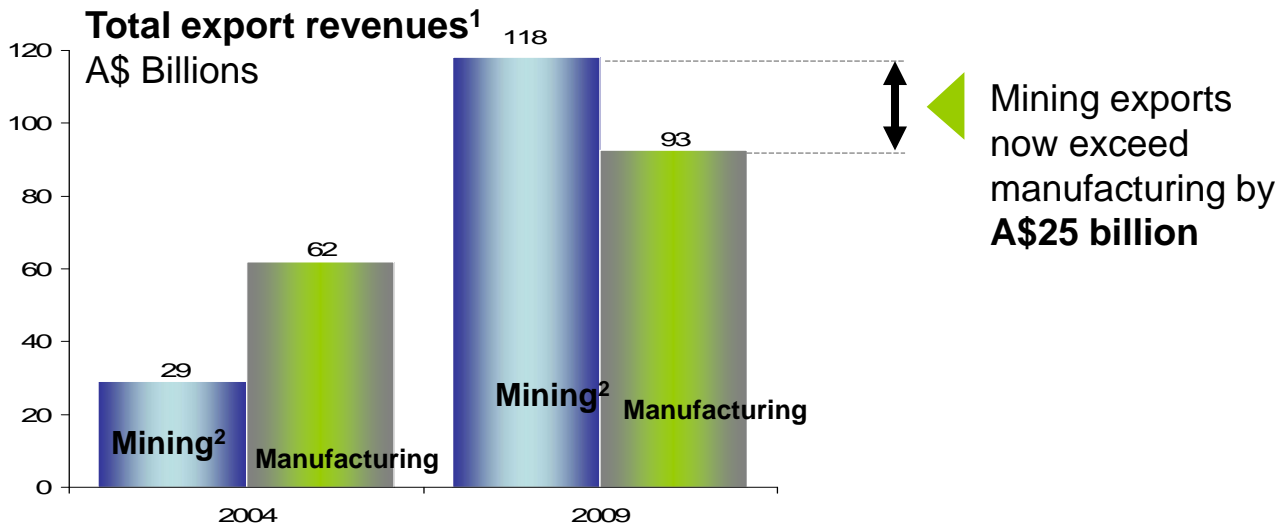


Australia has abundant natural resources

Australia's ranking of natural resource reserves by size

	Bauxite	1
	Uranium	1
	Nickel	1
	Gold	2
	Iron Ore	3
	Coal	6
	Manganese	7
	Oil and gas	20

The natural resources sector is now our largest source of export revenues

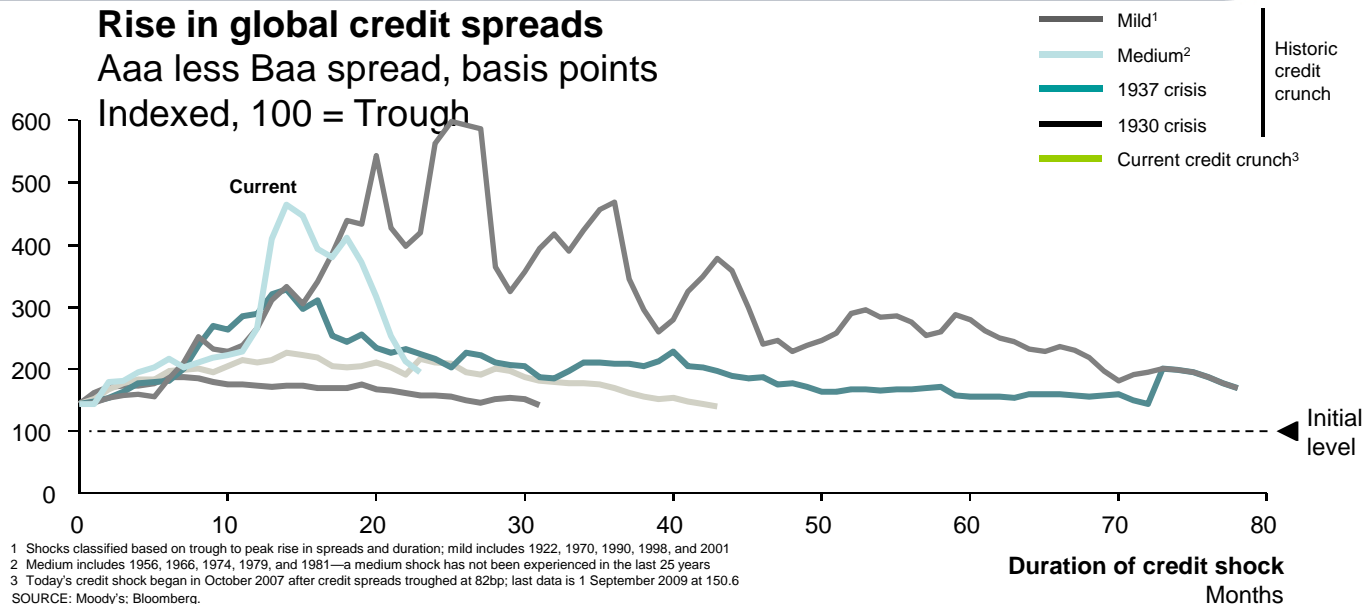


¹ Free on-board value

² Includes oil and gas

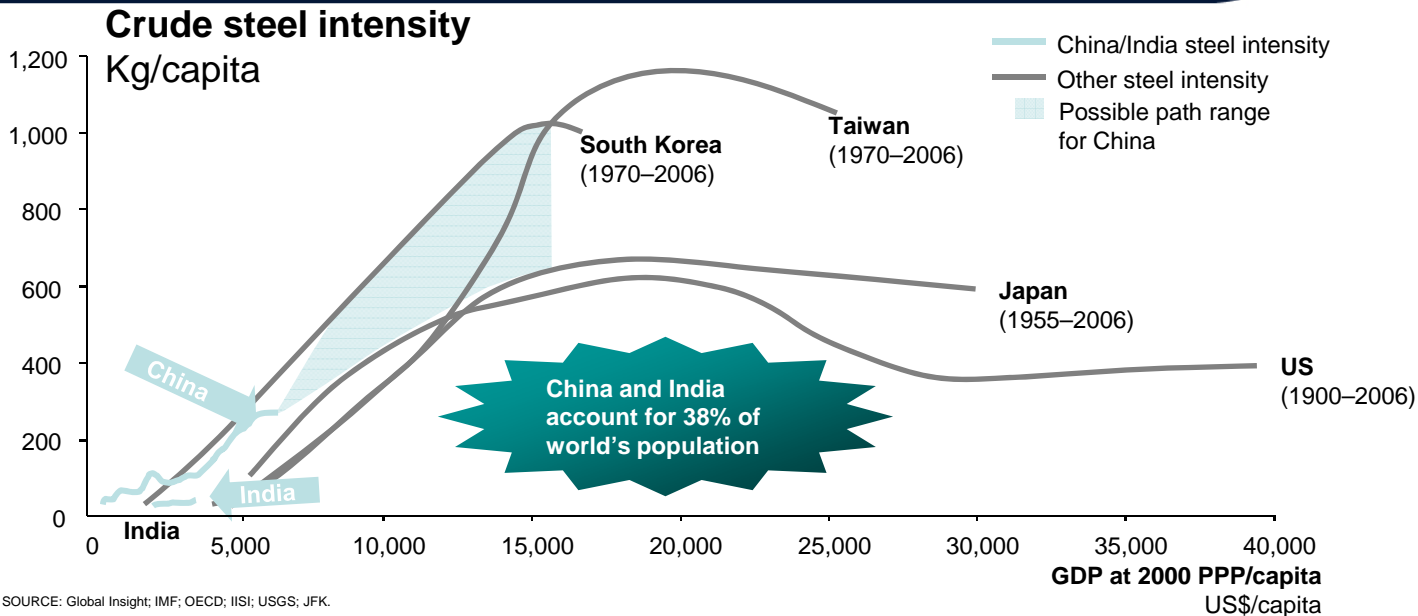
SOURCE: Australian Bureau of Statistics; 8417.0 Mining Indicators (released Aug 2009); 8229.0 Manufacturing Indicators (released Aug 2009)

However, we may not be completely out of the woods yet...





Future demand for our minerals is assured



Challenges to future growth

Global

- Growth of Asia's biggest nations
- A changing balance of power



Domestic

- Labour flexibility
- Scale



Labour and talent

- Talent and labour are critical sector constraints:
 - Remote areas
 - Retirement of experienced workers
 - Aging population
 - Mix of graduates
- Talent gap will return with demand
- Must access the increasingly global talent market
- Need more training and incentives

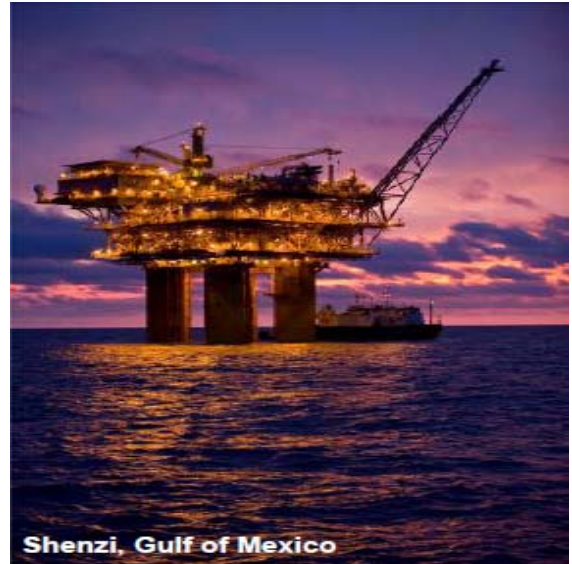


Iron Ore, Western Australia

Scale

- 'Scale is king' in the resources sector
- Scale is needed to develop assets to their full potential
 - Skill base
 - Financial strength
- Australia risks losing market share if it does not continue to build scale

...and to build this scale
requires funding



Funding and investment

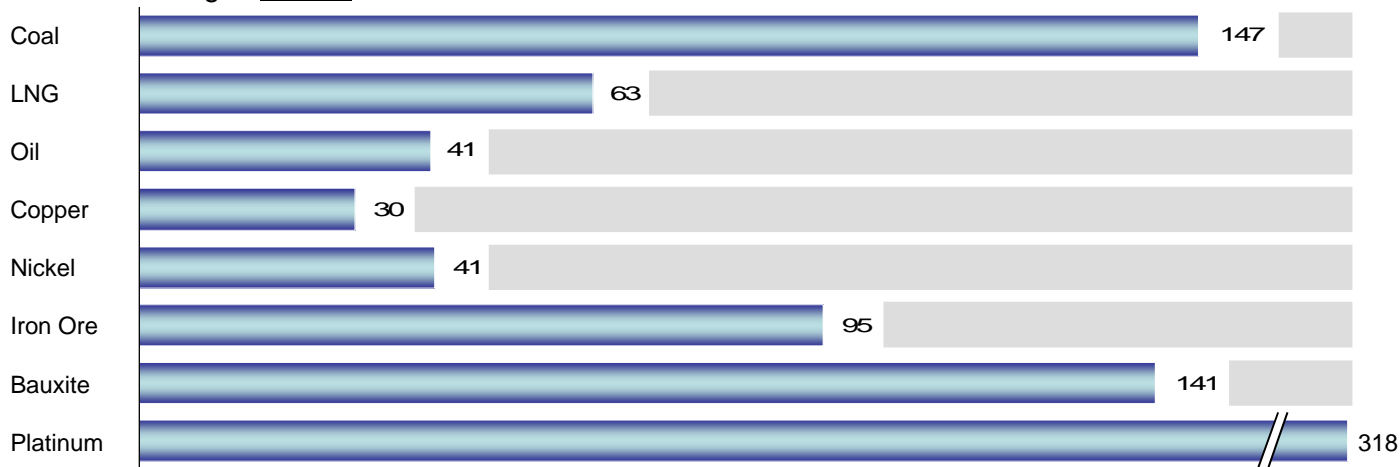
- 74 projects worth A\$80 billion
(in advanced planning stage in Australia)
- Limited capital sources to fund projects
 - Foreign banks more willing to loan
 - Stunted Australian bond market
 - Equity markets a short-term solution only
- No simple solution, but must involve:
 - Foreign Direct Investment
 - Long-term fiscal stability



Resource reserves are assured for decades

Known recoverable world resource reserves

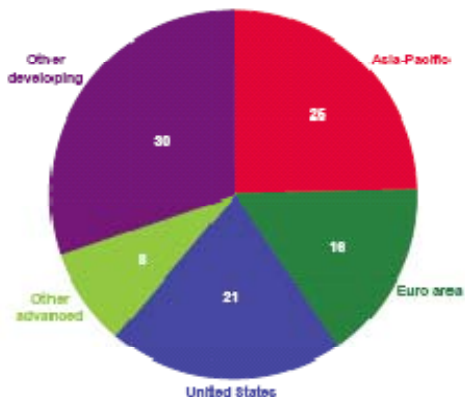
Years remaining at current demand levels



Reserves will increase with demand due to investment in exploration

The Asia-Pacific accounts for one-quarter of the world economy...

(Share of world GDP, PPP^a basis, 2008)

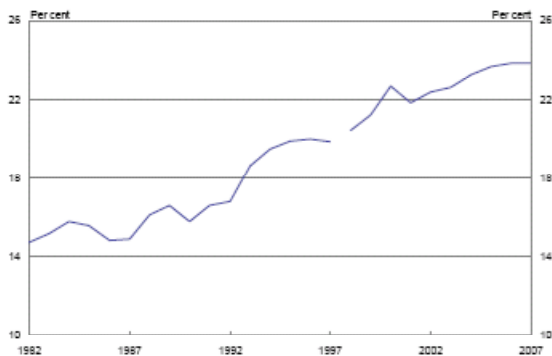


Note: Asia-Pacific includes most of the World Bank defined East Asia and Pacific as well as Australia, Hong Kong, Japan, Singapore, South Korea and New Zealand.
Source: IMF World Economic Outlook Database.



... and a similar share of world trade

(Asia-Pacific's share of global trade)

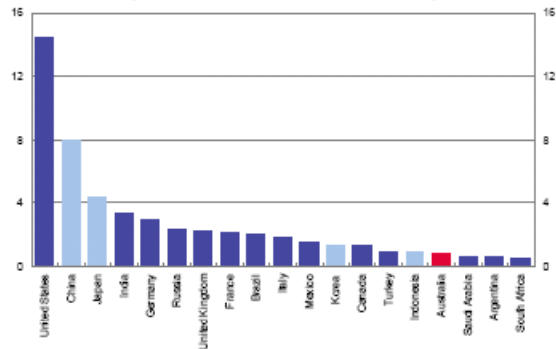


Note: Series break in 1995 due to addition of Hong Kong; 2006 data is incomplete and therefore excluded.
Source: Treasury and World Bank Development Indicators.

The Treasury

Australia is the fifth largest economy within the Asia-Pacific...

(Nominal GDP, PPP basis, G20 countries, 2008)

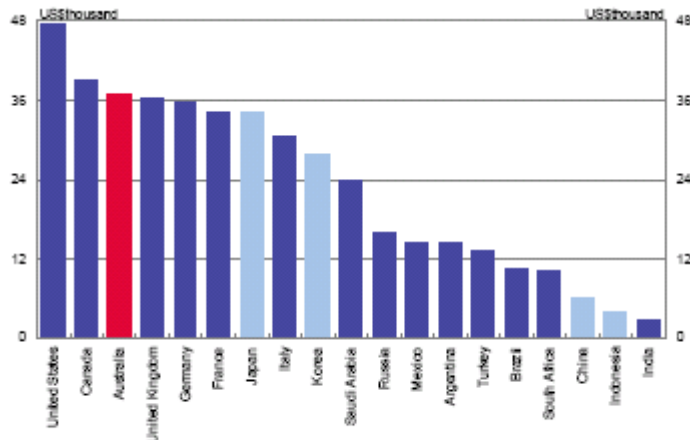


Note: G20 Asia-Pacific economies are Australia, China, Indonesia, Japan and Korea.
Source: IMF World Economic Outlook Database.

The Treasury

... and the largest on a per capita basis

(Nominal GDP per capita, PPP basis, G20 countries, 2008)

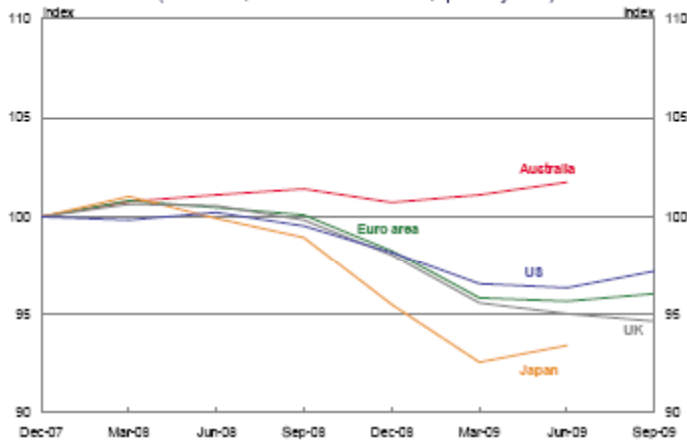


Note: G20 Asia-Pacific economies are Australia, China, Indonesia, Japan and Korea.
Source: IMF World Economic Outlook Database.

The Treasury

Australia has outperformed our peers during the crisis...

(Real GDP, December 2007 = 100, quarterly data)

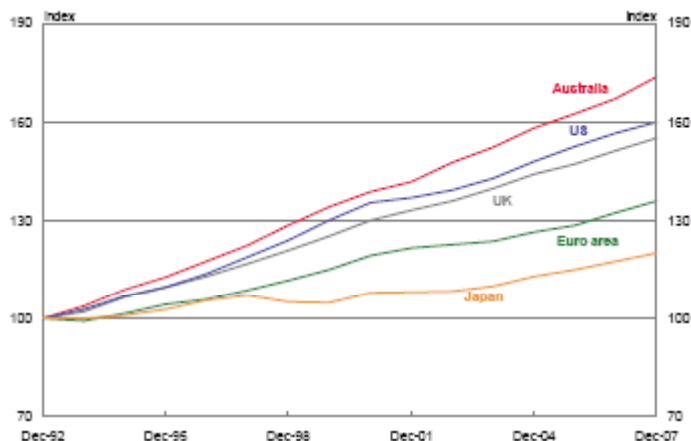


Source: ABS Catalogue Number 5206.0 and national statistical agencies.

The Treasury

...and before the crisis

(Real GDP, December 1992 = 100, annual data)

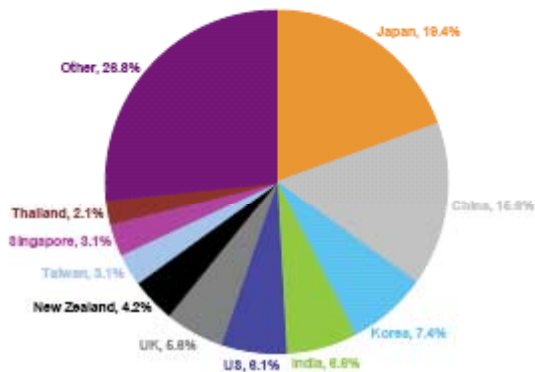


Source: IMF World Economic Outlook Database.

The Treasury

And with our major trading partners in the Asia-Pacific region...

(Australia's major export destinations by share 2008-09)

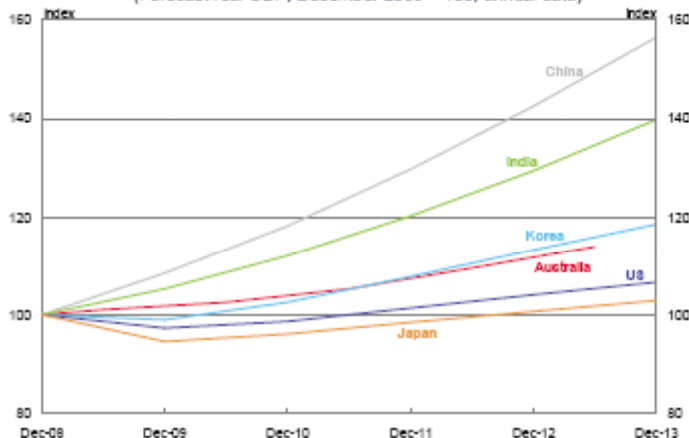


Source: ABS Catalogue Number 5368.0.

The Treasury

... Australia will benefit from their strong expected growth

(Forecast real GDP, December 2008 = 100, annual data)



Note: Australian forecasts are financial years, beginning from 2009-10.

Source: ABS Catalogue Number 5206.0, IMF World Economic Outlook Database and Treasury.

The Treasury

Our strength is supplemented by our economic freedom...

(Index of Economic Freedom Ranking – 2009)

- | | |
|---------------------|--------------------|
| 1. Hong Kong | 6. United States |
| 2. Singapore | 7. Canada |
| 3. Australia | 8. Denmark |
| 4. Ireland | 9. Switzerland |
| 5. New Zealand | 10. United Kingdom |

Source: Austrade, The Heritage Foundation and Dow Jones and Company Inc.

The Treasury

... with this strength and freedom leading to
growing investment from abroad

(Stock of Foreign Direct Investment in Australia)



Source: ABS Catalogue Numbers 5306.0 and 5302.0.

The Treasury

The Australian Government has remained
among the most financially sound ...

(Sovereign CDS premia, 5-year contracts)



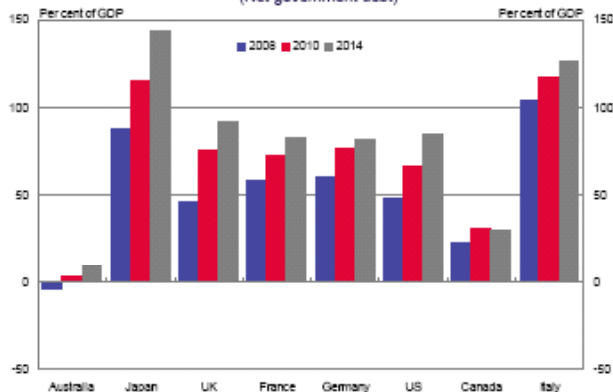
Source: Bloomberg.

The Treasury



... and this is reflected in our small debt burden

(Net government debt)

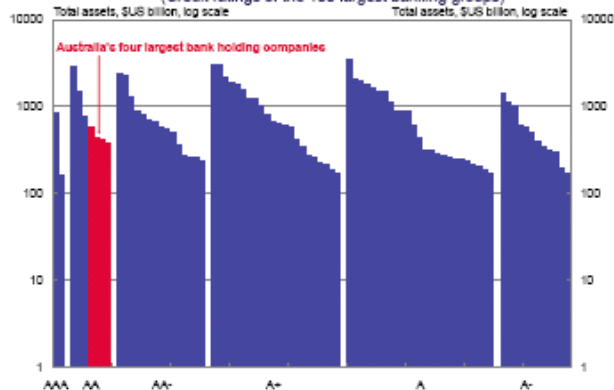


Note: Data are as at end of calendar year, except for the Australian Government where data are financial years from 2007-08.
Source: IMF World Economic Outlook Database and Treasury.

The Treasury

The Australian banking system is among the strongest in the world

(Credit ratings of the 100 largest banking groups)

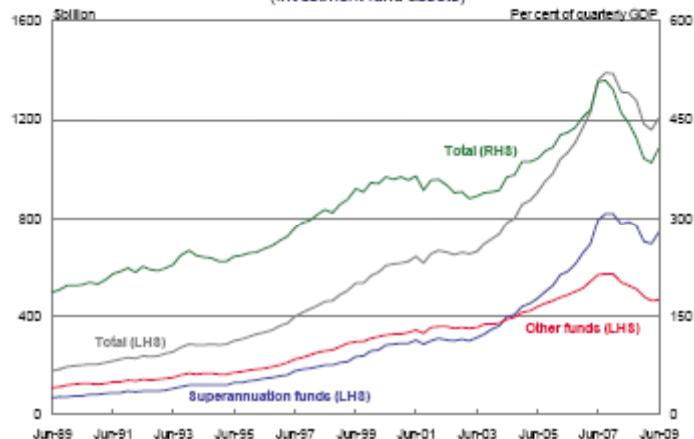


Note: Bank holding company assets as of late 2008. Bank holding company ratings as of 2 November 2009, predominantly Standard and Poor's.
Source: Bloomberg and The Banker.

The Treasury

Australia's pool of investment funds has experienced strong growth...

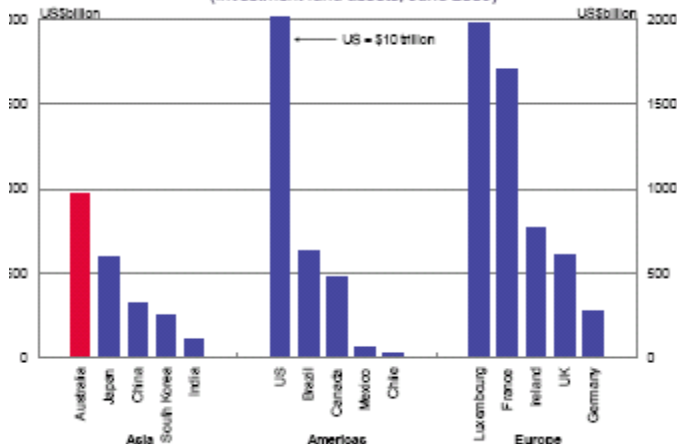
(Investment fund assets)



Note: 'Other funds' include superannuation assets managed by non-superannuation funds.
Source: ABS Catalogue Numbers 5206.0 and 5655.0.

... and is now one of the largest contestable investment fund pools in the world

(Investment fund assets, June 2009)



Note: Hong Kong and Singapore were excluded due to the lack of June quarter 2009 data. However, at end 2008 Australia had a larger pool of investment funds than both of these economies.
Source: Investment Company Institute.

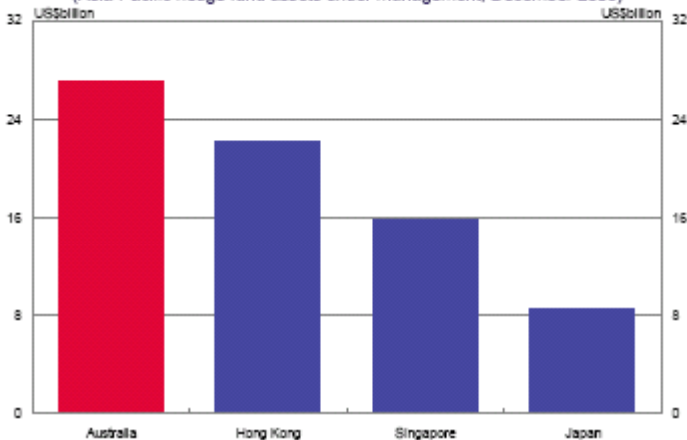


This is largely due to our compulsory superannuation scheme

- Australia has a three pillar retirement system:
 - Means-tested age pension
 - Compulsory superannuation
 - Voluntary superannuation and private savings
- The Superannuation Guarantee (Australia's compulsory retirement savings scheme) was established in 1992.
- It provides a majority of the Australian workforce with a source of private savings that can be accessed in retirement.

Australia is also the largest centre for hedge funds in the Asia-Pacific

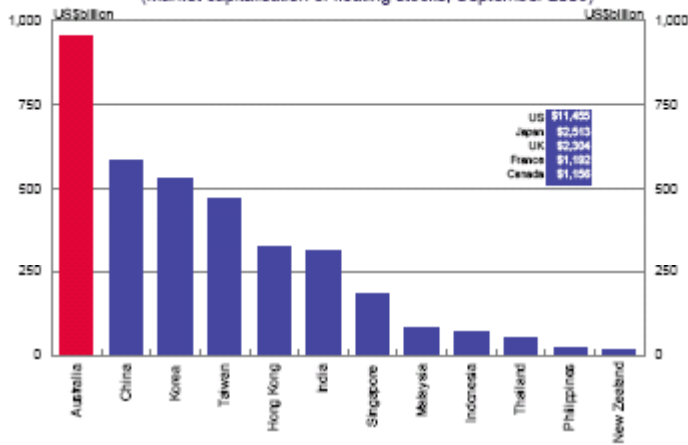
(Asia-Pacific hedge fund assets under management, December 2008)



Note: Australia includes manager assets only, excluding fund of hedge funds and Australian investor allocations to offshore managers.
Source: Aisledge and Austrade.

There are plenty of domestic investment opportunities...

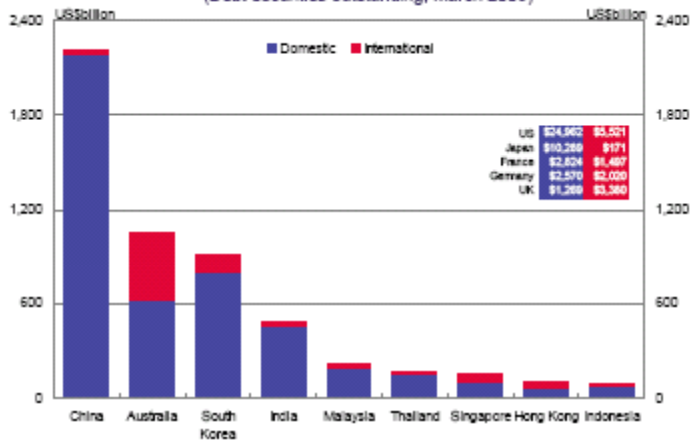
(Market capitalisation of floating stocks, September 2009)



Source: Standard and Poor's.

... with our securities markets among the largest in the Asia-Pacific

(Debt securities outstanding, March 2009)

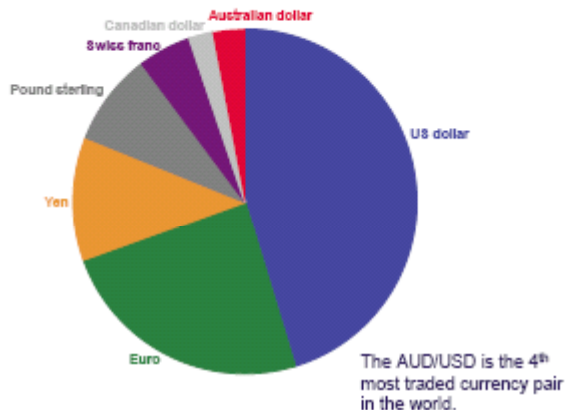


Source: Bank for International Settlements.



And Australia has one of the most liquid foreign exchange markets

(Share of turnover of seven most highly traded currencies, April 2007)

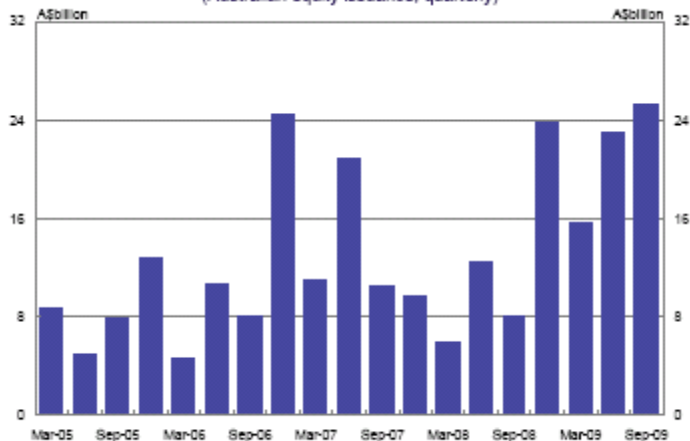


Source: BIS Triennial Central Bank Survey 2007.

The Treasury

Australian equity markets remained open for new issuance throughout the crisis

(Australian equity issuance, quarterly)

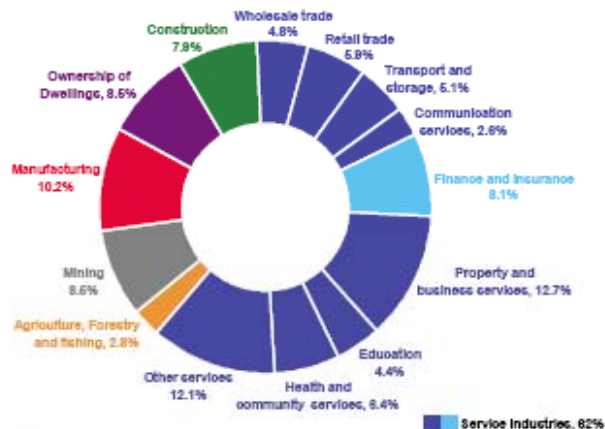


Source: Thomson Reuters.

The Treasury

Australia's financial services industry is the fourth largest contributor* to domestic output...

(Australia's real gross value added by industry, 2008-09)

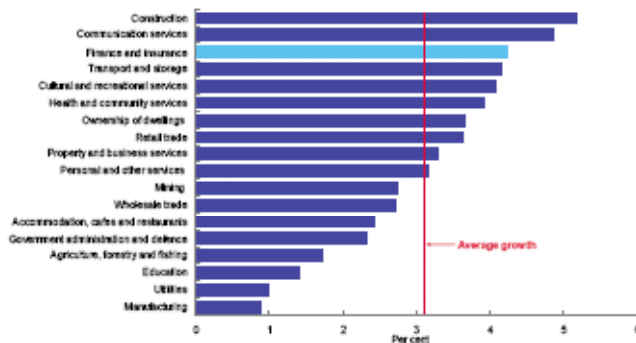


Note: * Ownership of Dwellings is excluded.
Source: ABS Catalogue Number 5206.0.

The Treasury

... and has been increasing its share over the last decade

(Average annual growth in real value added, 1998-99 to 2008-09)



Source: ABS Catalogue Number 5206.0.

The Treasury

Australia is the second most financially developed country in the world...

(World Economic Forum 2009 Financial Development Index Ranking)

- | | |
|---------------------|----------------|
| 1. United Kingdom | 6. Canada |
| 2. Australia | 7. Switzerland |
| 3. United States | 8. Netherlands |
| 4. Singapore | 9. Japan |
| 5. Hong Kong | 10. Denmark |

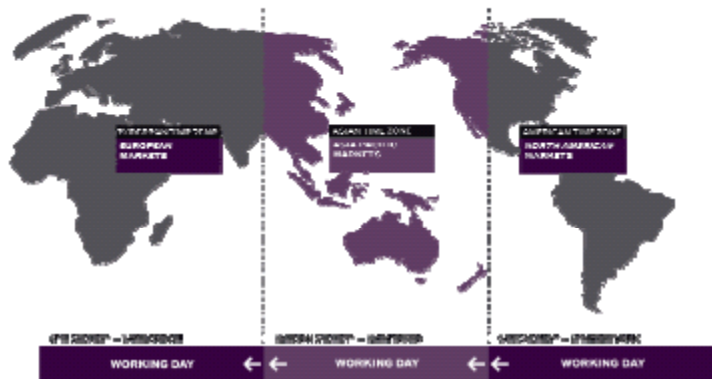
...with our financial services, markets and access among the best

(World Economic Forum 2009 Financial Development Index Ranking)

- Australia's high rankings include:
 - Fifth in banking financial services
 - Third in non-banking financial services
 - Sixth in financial markets
 - First in financial access
 - The Forum's report notes that accessibility, along with the size and depth of the financial system, has a significant effect on a country's real activity, economic growth, and overall welfare.



Australia is perfectly situated to act as a bridge for global companies



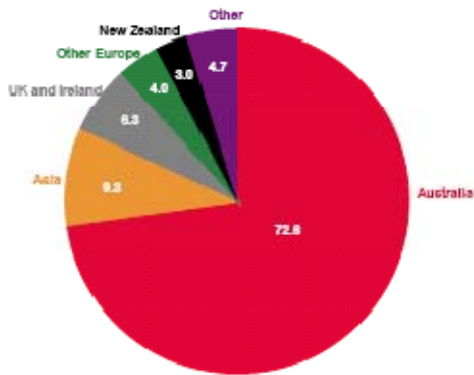
* AUSTRALIAN BUSINESS STANDARD TIME

Source: Australia.



Australia has a culturally diverse workforce...

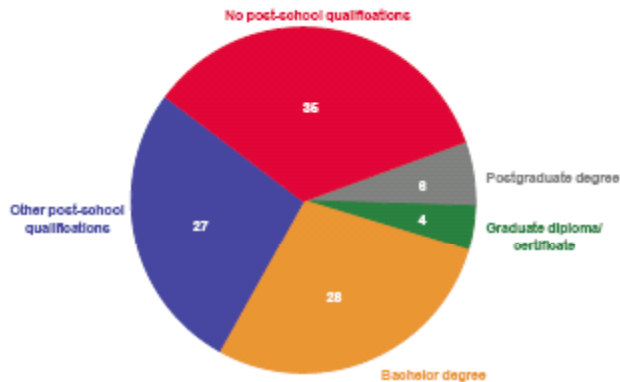
(Australia's labour force by birthplace, August 2009)



Source: ABS Catalogue Number 6105.0.

... that is highly skilled ...

(Qualifications of Australia's finance and insurance workforce, May 2008)



Source: ABS Catalogue Number 6227.0.



Our regulatory structure is considered global best practice...

- Australia has a 'twin peaks' model with two clearly defined regulators:
 - Australian Prudential Regulation Authority (APRA)
 - Australian Securities and Investments Commission (ASIC)
- This structure encourages a stronger focus on key regulatory objectives by each of the agencies.
 - The Australian system is currently being replicated in proposals emanating from the US and European Union.

... with respect to both prudential regulation...

- APRA has strong powers to regulate and intervene in the operations of financial institutions.
- Its role is to protect depositors, policyholders and fund members and to maintain the stability of the financial system.



... and market regulation

- ASIC regulates Australian companies, financial markets, financial service organisations and financial service professionals.
- Among others, its role is to protect retail investors, build confidence in Australia's capital markets and facilitate international capital flows.

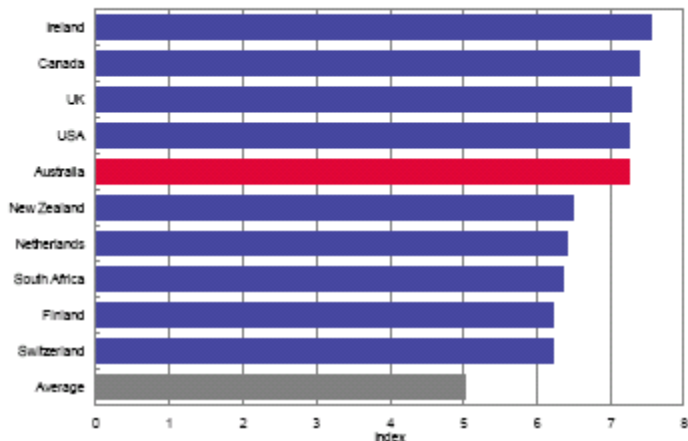
Australia is one of the safest places to operate a business...

(World Competitiveness Yearbook Ranking 2009)

	Australia	China	India	Hong Kong	Japan	Singapore	USA	UK
Competition Legislation	4	47	31	22	14	15	29	23
Ethical Practices	7	41	33	21	14	9	19	17
Protectionism	8	42	34	10	26	22	39	24
Government Decisions	9	15	41	23	47	1	38	44
Transparency of Government Policy	9	42	34	14	44	5	26	32

... and we are world leaders in corporate governance

(Global corporate governance ratings – September 2008)



Source: Asiatrade and GovernanceMetrics International.



Australia has recently initiated several competitive enhancements to regulation...

- Established the Australian Financial Centre Forum
 - With a mandate to examine policy settings and identify strategies to position Australia as a leading financial services centre.
- Transferred supervision of financial markets to ASIC (the corporate regulator) from the individual financial market operators (the ASX, for example).

... and taxation

- Cutting the withholding tax on certain foreign distributions from managed funds.
 - From 30 per cent, one of the highest in the world, to 7.5 per cent, one of the lowest.
- Other reforms to the taxation of managed funds, providing greater certainty.
- Reform of attribution rules
 - Designed to substantially reduce compliance costs.