

SECURING AUSTRALIA'S FUTURE: WHAT ROLE WILL RESOURCES PLAY?

Jac Nasser
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11 April 2013

Introduction

It is a pleasure to be here among so many friends.

I am glad the Chamber has organised today's lunch at the Crown Towers. Although, I have to say, I'm not sure Lloyd Williams had the relationship between Australia and Britain in mind when he named the casino "Crown" back in 1994.

Of course this relationship goes back 250 years and the Chamber has been an important part of that for over a century.

But let me point out another important year in our joint history – that is – 1885. That's when BHP started in Broken Hill. This turned out to be a big win not only for Australia and Britain but it was also a big win for Scotland. One of the original founders of BHP was George McCulloch and our first chief executive was William Jamieson from Aberdeen.

Next month, after a short break of several decades, another Scotsman Andrew Mackenzie takes over as our new Chief Executive. In fact he and his wife Liz moved in to Melbourne this week.

While Scotland did well in the executive stakes in 1885 and BHP did well in mining, you won't be surprised to learn that Australia didn't do so well in cricket. That year the Australians lost to the English, in what was, the first ever five-match-test.

The newspaper reports show the games were characterised by disputes about money, umpiring and match fixing. It's lucky we've moved on from there!

International Competitiveness

Seriously though, I think sport has helped define the relationship between our two countries.

But the sporting success of both countries hasn't happened by chance. It has required leadership both on and off the field.

Athletes – like Anna Meares who we proudly sponsor - guided by their coaches and assisted by supportive government policy are prepared to sacrifice the easy life for the hard work and discipline that makes them internationally competitive.

But sometimes even that isn't enough.

After a long period of outstanding achievement – Australia's sporting performance, in recent years, started to decline. And so last year, the Sports Commission, developed a strategy to take Australian sport from world class to world's best. Let me read the introduction from their strategy "Australia's Winning Edge":

"The world is changing. International competition is intensifying and improving all the time. Many other nations have now replicated our innovations, tapped into our expertise and made strategic investments and as a result have become strong competitors in international sport. This is true of developed and developing nations alike. In any area of human endeavour, there is one truism – past success is no guarantee of future performance."

These words could just as easily describe where Australia sits in the global economy. Every country is competing to lift the living standards of its people.

But the difference is this.

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The gold medals in the economic competition between nations will determine Australia's growth and living standards well into the future. And they will determine how much of our future we control and what opportunities we create for all Australians.

Our ability to compete on the world stage is created, not inherited. Luck in terms of natural resources, or proximity to important markets, doesn't guarantee competitiveness – nor does the value of a country's currency or its interest rates. Rather over the long term our competitiveness depends on productivity and supportive national policy. In turn national productivity depends on a country's ability to create the environment for its companies to succeed through innovation, technology and efficiency.

So where is Australia in the economic Olympics?

Well, on GDP per capita we come in fifth behind countries like Norway and Switzerland. But if we look at labour productivity for the entire economy Australia drops back to fourteenth place. On both measures Australia is within reach of world class but we are not the world's best.

So what can we do to be the best in the world?

Like many countries with a small population Australia has a history of extraordinary innovation:

- in health care – from the first penicillin-based medicines to the bionic ear
- in aerospace – from the box kite to the blackbox
- and in communications – from the car radio to Wi-Fi.

So we know we can be world class – and even world's best.

And yes, for more than 100 years we have also been world class in natural resources. World class but not always world's best.

Australia is lucky to have so many of the highest quality, largest and best positioned resource bodies in the world. Other countries have their share of natural resources but they don't have the scale, quality, diversity and experience we do. And the prize is big and worth pursuing.

As we will see shortly, Australia's resources economy is a major part of the national economy. There are very few businesses, large or small, that are not touched by an industry:

- that accounts for 50 per cent of this country's exports
- that has invested about \$230 billion in Australia over the last five years, including through the global financial crisis
- that last year paid \$20 billion in taxes and royalties
- that accounts for over one million jobs
- and in which almost all Australians have a large part of their savings invested.

Given the continued growth in China and Asia, over the next decade the potential investment and jobs created could be as big as the last ten years. So by working together I believe governments and resource companies can secure Australia's future.

But as Australians – the choice is ours.

- we can view the resources industry as an income source when governments need revenue and make policy decisions for the short term; or
- do we want to leverage the fact that almost every Australian has a financial stake in the success of the resources industry? That it is "one in, all in" and that if we come together with focus and drive we can develop something special and unique. Something that is globally competitive on a large scale based right here in Australia that has and will continue to benefit every Australian.

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What I am talking about is an industry that is of scale; an industry that is safe and sustainable; and an industry that is world's best.

To make that choice to secure our future we need to first answer two questions:

- Does the resources industry make a critical and continuing contribution to the Australian economy?
- Do Australians get a fair share of the success of our resources industry?

Contribution – Australian Economy

Let me deal with the first question. Does the resources industry make a critical and continuing contribution to the Australian economy? Well the Reserve Bank of Australia, together with many other independent sources, seems to think so.

The RBA estimates that the resources economy accounted for around 18 per cent of gross value added in 2012 which is double its contribution to the economy in 2004. It also estimates that the resources economy accounts for over one million jobs in Australia or nearly ten per cent of total employment. This is also double what it was five years ago. Last year the resources industry exported around \$160 billion worth of commodities such as iron ore and coal. To put that in perspective that's just over 50 per cent of the total value of all Australian exports.

In addition, there are about 300 companies employing around 265,000 Australians that provide mining equipment, technology and services to our resources companies. These suppliers themselves export over \$12 billion a year making them one of Australia's most global sectors.

But there is also a more direct contribution the industry makes to the savings of millions of Australians. As a country with a long established mining industry, Australians are heavily invested in resources companies. At BHP Billiton alone we have over 550,000 individual shareholders. In addition millions of Australians own BHP Billiton shares through their super funds. Superannuation is successful because thoughtful government policy over time has aligned the interests of the country, the industry and individuals. Superannuation means that people own a financial stake in the future of Australia.

So the answer to our first question is yes – the resources industry is economically important to the country and to all Australians.

Fair Share – Taxes, Royalties and Dividends

Let me turn to the second question. Given our substantial role in the national economy, do Australians get a fair share of the success of our resources industry? That is, do we as an industry pay our fair share of taxes, royalties and dividends?

Well, last year the industry paid \$20 billion in Australia in tax and royalty payments. Of the \$11 billion BHP Billiton paid in tax and royalties globally last year we paid \$9 billion to Federal and State governments in Australia. This is an effective tax rate in Australia of 45 per cent.

Let me try to put that in perspective for you. The \$9 billion that BHP Billiton paid in Australia last year in taxes and royalties is about what the Federal Government spent on higher education. And just to make it clear, these taxes and royalties are prior to any additional extraordinary profit taxes from the Mineral Resources Rent Tax or the carbon tax.

In terms of dividends last year we paid around \$3.6 billion to BHP Billiton Limited shareholders. And over the last ten years we paid dividends of \$18 billion to our shareholders. I think on any measure these payments put us in gold medal class.

In answering a question on paying a fair share I always look at the cash actually paid back into the economy. It seems to me the \$13 billion BHP Billiton paid last year in taxes, royalties and dividends contributed significantly to the economic and financial health of all Australians.

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By anyone's standards – that adds up to a fair share.

Becoming World's Best

But becoming the world's best isn't easy. Over the last ten years the industry has experienced unprecedented growth employing more people and capital than ever before. At the same time Australia's costs rose more quickly than our global competitors; we faced a stronger Australian dollar; more onerous tax and regulatory requirements; and industry productivity fell.

So when we talk about capturing the next generation of opportunities in the resources industry, we need a new plan – a plan with national productivity at its core.

We have all the ingredients of a large scale, high quality industry that is centred in Australia – and we, as a country, are really good at resources.

But we are at a tipping point.

It is so important for Australia to get this right. So where do we start to become world's best?

We should start by looking in the industry's own backyard. We need to start with self-help. The Australian resources industry is responsible for its own future. We need to run our businesses more efficiently, more flexibly and at a higher level of productivity.

Productivity is all encompassing. Some people think of it as only about fewer people and less equipment but in fact it is more broad-based than that. Productivity is also about getting more from what we put into our business and wasting less, to increase our competitiveness and attractiveness to global capital – and to protect the environment. It is also about the people who work in our industry – offering safe, performance driven, skilled and satisfying jobs.

Let me give you two examples where technology and innovation continue to drive productivity improvements.

In the past discovering ore deposits was back-breaking work. It took a team of people covering thousands of miles. Most of today's giant ore bodies were discovered years ago because they were exposed at the Earth's surface. Today we use a combination of sophisticated satellite and ground-based sensors that have transformed the way we discover and mine resources. By using these techniques combined with modern drilling technologies, we are now able to confirm these ore bodies even at depths of thousands of metres.

We have also seen advances in the way we manage the complexity of logistics in our business. Our iron ore port and rail operations in the Pilbara are a good example of this. We have over 200 engineers and technicians working 24 hours a day managing almost every aspect of our supply chain, based in the Integrated Remote Operating Centre in Perth, 3500 kilometres away. We run 34 trains a day taking ore from our seven mines to the port. Each train is around two and a half kilometres long – that's from here to the MCG. They run on 1600 kilometres of rail linking the mines to Port Hedland – Australia's busiest port and one of the largest ports in the world. The more ore we carry on each train – and every minute we save in loading and unloading turnaround times – makes a real difference to efficiency, costs and overall productivity.

Stable and Competitive Policy Framework

But industry action alone isn't enough. Improving productivity is a national priority deserving urgent attention.

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Which is why the Business Council of Australia has placed national productivity at the top of its agenda - and we feel that's appropriate. Government, industry, employees and investors all need to work together. This teamwork is what has delivered success for Australia in the past.

The major policy and economic reforms that began 30 years ago succeeded because they challenged inefficient work practices and rewarded firms that developed new and competitive business models. They brought greater competition, a more flexible workforce, financial market efficiency and greater prosperity to Australia.

But as in sport, Australia's past performance is no guarantee of future success. For me the choice is simple – we must be world's best and we must plan for the future on a long term, sustainable basis.

In the past I have suggested two key levers that will make a difference.

These two levers – a fair tax system and a robust and fair industrial relations framework – have always supported the confidence that generates long run investment, productivity and wealth creation.

I haven't changed my view of their importance.

First – the tax system must be prospective, equitable and stable. It must encourage and support investment and be internationally competitive. Every business needs to have confidence to invest. In our industry we make investments that are large and long term. We have to be confident that the rules of the game won't change.

While the tax system is a matter for governments – if there are changes they should recognise that the resources industry already pays our fair share and that stability and certainty is critical for ongoing investment and long term success.

Secondly, we need an industrial relations framework that is robust and fair. The adversarial approach to industrial relations has seen the cost and time associated with managing disputes continue to grow. It must be reversed and we must build a system based on mutual benefit for employers and employees.

If Australia doesn't get both of these policy settings right – industrial relations and taxation – we will not drive the improvements in economic prosperity that we should all expect for our country.

Conclusion

So let me conclude. Over the last 40 years I have lived and worked in many countries around the world and that has strengthened my view that we have so much going for us here in Australia. We should be proud of this but we shouldn't take what we have for granted.

Over the last decade Australia has become more prosperous than ever and our resources industry has played a big part. But we have the opportunity to see the industry make an even bigger contribution to our national prosperity.

Australia's resources underpin the once in a century urbanisation and industrialisation of countries like China and India – from a demand perspective the outlook for the industry remains positive.

But the reality is we are facing a new generation of stronger, smarter competitors.

The resources industry in Australia has, and should continue, to be one of our greatest competitive assets. We should fight to keep this.

Our industry is the driving force for Australia's opportunities and is aligned with every Australian's aspiration for a better life. But it is our collective responsibility to get productivity to competitive levels – backed by the right regulations, the right infrastructure, the right tax framework and the right climate for innovation. This will make sure that Australia is match fit.

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We all share this obligation to secure the future of all Australians by getting it right. We owe it to the country to achieve our full potential and to be world's best not just world class.

Thank you.