

CEDA Crystal Ball Event

I am very honored to be here today and greatly appreciate that I have been asked to be part of this illustrious gathering.

I was asked to share with you my perspective looking back on the challenges and opportunities for SA in 2012 and looking forward to new challenges, issues and opportunities for 2013.

Dickens classic opening line from the Tale of two Cities – It was the best of times, it was the worst of times – captures for me something of the paradox we find ourselves in.

For in talking about where South Australia is, and in looking forward to 2013 and beyond, the story cannot be told without acknowledging a myriad complexity of positives and negatives.

The positives are very positive indeed.

South Australia has a diverse economy with core strength in agriculture, defense, manufacturing, and resources.

We have excellent education and health services, world leading research and development and strong elements of a knowledge economy.

We are blessed with a wonderful climate and a pristine environment.

Our size is an asset and our relative isolation is not problem in today's virtual world.

We are one of the most livable places on the planet and the South Australian DNA, our collective history of economic, social and environmental creativity, innovation and industriousness, has equipped us well to flourish in the twenty first century.

And yet we find ourselves at a threshold.

Our ability to maintain and increase our enviable prosperity depends on staying ahead of the game, on adding more value in our economic activity, on continuously driving up productivity, on putting into place social and environmental programs that protect our way of life.

With this as a context, let's take a look at South Australia and see where we are at the end of 2012.

Despite the financial difficulties that we see in so many countries around the world, many indicators of South Australian economic activity by comparison continue to show strength but they are often accompanied by areas of concern.

- ▲ During 2011-12, South Australia's Gross State Product (GSP) rose 2.1% in real terms. Nationally, GDP rose 3.4%. South Australia ranked fifth of the States, with moderately lower growth than in New South Wales and Victoria.
- ▲ In the 12 months to December 2012, the value of South Australia's overseas goods exports totaled \$10.7 billion. The growth in the value of our overseas exports goods continues to be supported by primary industry and resource goods.
- ▲ During the year to June 2012, South Australia's Estimated Resident Population increased by 1.0%. However, South Australia recorded the second lowest population growth rate out of all the states and territories in this period and our growth rate is not sufficient to address the reality that Greater Adelaide's population is older than the Australian average and our share of people aged over 65 is growing faster than the national average.

- ▲ In relation to mining we experienced the worst of times in 2012 with the disappointing but not totally unexpected announcement by BHP Billiton of their decision to delay the Olympic Dam project. The South Australian government has granted a four year extension of the indenture, whilst BHPB invests heavily in ways to improve the project's competitiveness. There is the potential for South Australia to position itself as a global centre of excellence on addressing technological challenges of Olympic Dam. It is important to remember that South Australia's Olympic Dam is not the only example of the State's resource potential. South Australia has 20 major mines in operation or under construction with close to another 30 mining projects in the assessment stages or close to approval. Non-petroleum mining exploration expenditure reached \$83.4 million in the September Quarter 2012 and rising 9.4% year over year.
- ▲ Agriculture contributes \$5 billion annually to the value of our overseas goods exports (almost half) and 18% of the State's work force is employed in the agribusiness. We are home to world leading agricultural R&D centres including the Waite Research Institutes and the CSIRO.
- ▲ South Australia is Australia's 'Defence State' – 25% of the nation's defence industry is located here, employing over 26,000 people – an increase of more than 4,100 jobs over the last 4 years. South Australia's defence industry reported a revenue of \$1.8 billion in Fy20111 – an increase of 50% since 2008. In December 2012, it was

announced that a new facility for testing submarine systems, including propulsion, energy and integration technology, would be based in Adelaide. The Future Submarine Program will be the largest and most complex Defence project ever undertaken by Australia.

- ▲ Manufacturing accounts for 10% of our workforce and more than 40% of research and development expenses. While there will continue to be a decline in lower value manufacturing jobs, the technical skills base developed from years of success in the automotive, technology and defense sectors is providing a sound platform from which new and existing manufacturers are responding to local and global events and moving into advanced manufacturing businesses focused on resources, technology, clean-tech and medical equipment to name a few.
- ▲ Education and research continue to be key contributors to the State's economy and the impact of overseas students although down in 2012 is still over \$900 million and is the State's largest service sector export.
- ▲ The construction industry has been subject to a long term downturn in business following the GFC. The number of new dwellings built in SA declined by 18% in financial year 2012. Figures released in October 2012 showed the number of dwelling units commenced in the June 2012 quarter was just 1,905 units. The last time it was lower than this was in 2001 when there was just over 1,600 units in the June quarter of that year. In comparison, in

the June quarter of 2010, there were 3,295 new builds. In response to this, the State Government announced a new home buyer's grant to provide much needed stimulus to the industry. The total number of dwelling approvals in South Australia has been improving since then and the latest December report shows 733 dwelling approvals, which was 2.7% higher than a year ago.

- ▲ South Australia's competitive advantage relative to other states was historically based on lower labour costs, which in turn reflected lower housing costs. This has been lost, having been eroded over the last ten years. On a dollar per square metre basis, land in Adelaide is now more expensive than in Brisbane and is on par with Melbourne. Today Adelaide, along with other Australian cities, has one of the most expensive housing markets in the English speaking world relative to income. The Adelaide median house price have risen from \$166K in 2002 – to \$384K in 2012 with the ratio of median house price to average annual income rising from 3.6 in 2001 to 6.5 in 2012 ranking us ahead of New York which is 6.2 – we would be more comfortable if this was below 5. The rising cost of housing not only impacts on the cost of living, but has the potential to affect our reputation as a destination for investment and migration.
- ▲ In December 2012, the South Australian participation rate rose 0.6pp to 63.1%. Nationally, the participation rate remained unchanged at 65.1% in November. We need it

to rise to 69% if we are to maximize our economic potential.

- ▲ In a recent KPMG Competitive Analysis report, which compares Sydney, Melbourne, Brisbane and Adelaide – on an overall basis, South Australia had the following rankings:
 1. Corporate Income Tax (CIT) - SA ranked least competitive of the four states
 2. Other Corporate Taxes (OCT) - including capital taxes, sales taxes, property taxes and miscellaneous business taxes based on actual costs incurred by each business - SA ranked the least competitive.

However, on the positive side:

3. In regard to Statutory Labour Costs (SLC) - These costs include both statutory plan costs and other wage-based taxes - Adelaide was the most competitive
 4. And looking at the Total Effective Tax Rate (TETR) which expresses total tax costs as an effective rate and contextualises tax burden relative to income - On this basis, Adelaide was the second most competitive.
- ▲ As seen in the mid year budget review, the State budget is under enormous pressure and our debt levels have bumped up against the governments self imposed limit of 50% of the annual budget. However, the debt is running at just below 10% of GSP compared to more than 50% of GSP when Sir Thomas Playford used debt to transform the State's economy and build a manufacturing base in the

mid fifties. His use of debt was instrumental in our States growth for many decades and demonstrates the positive impact where debt is used for productive investment purposes. Investment in infrastructure and taking on debt to build that infrastructure makes sense in the context of putting in place the foundations upon which to build a new society. Debt to fund inefficiency and waste is unacceptable.

So as I look to 2013 I see a number of things that we need to keep doing and areas where we need to stop and invent new ways of doing things.

- ▲ In 2013, I see us needing to continue investing in critical new infrastructure, especially ports and other transport systems to expedite growth in mining and agriculture, and creating the incentives to attract private sector funding for such initiatives. Infrastructure projects should only be supported if they meet rigorous evaluation standards and support high growth sectors of the SA economy. I believe that the demands for infrastructure can be better managed with proper pricing if greater use is made of private finance. This non governmental source of finance for infrastructure will require us to creatively explore alternative avenues and new financial instruments, and possibly reassess how risk is allocated on infrastructure projects.
- ▲ In 2013, I see local businesses working aggressively to capture the support and service demands of the mining

expansion, building on the opportunity to use mining as the platform to drive our businesses up the value chain, building knowledge-intensive, high-value adding service, technology and manufacturing industries. In order to capture this potential our businesses need to be aggressive and proactive. They need to innovate, take risks, and perhaps joint venture or even merge with other businesses so they have the scale and balance sheet strength necessary for capturing business opportunities. Local companies need to analyze not what they currently do but what they are really good at – their core underlying capabilities – and work out how to apply them to support the mining value chain or the advanced manufacturing, defense, agriculture or clean-tech industries, all of which are complex and demanding.

- ▲ In 2013, I see us needing to continue expanding agriculture and supporting industries to help meet the world's food shortage. The world is projected to need twice as much food in 2050 and South Australia's natural land and sea resources are a wonderful asset to respond not just to the basic food needs but to do it in a way that is clean and green. Just as our forefathers were the inventors of the stump-jump plough and Ridley stripper that enabled agriculture to sustain the state, we must continue to bring that kind of ingenuity to the forefront of the State's agricultural industry so that we significantly increase production and are seen as a premium provider of high quality food stuffs.

- ▲ In 2013, I see us needing to continue to attract and develop the skilled workforce to meet emergent demands. The greatest potential impediment to realising SA's future prospects is skill shortages. The pressures on the training system to meet the demands of new entrants and existing employees for new skills have been identified and the new programs like "Skills for All" implemented. We need to be aggressively attracting new skilled migrants to assist in filling the more than 160,000 total job openings over the next five years.

- ▲ In 2013, I see us needing to continue to ensure the North Terrace and River Precinct is world class reflecting the vibrant new Adelaide. I see this investment as a major symbol of Adelaide's new vibrancy and change, with the potential to create confidence and excitement across the whole State and nation and, therefore, we must guard its excellence. This also encourages private sector investments in projects such as the \$300 million Sky City Casino project and the new \$200 million Mayfield project in Sturt Street

And in 2013 we need to stop and change some things.

- ▲ We need to make SA the most competitive state in which to do business by implementing state based tax reform that makes doing business in SA unambiguously the best bet. The State budget is experiencing challenges in the current economic environment because of:

- Increasing expenditures to provide services and infrastructure;
- Reducing Commonwealth revenues and volatile and shrinking revenues from “transactional” State taxes; and
- A tax system that is based on a narrow base of tax payers that is shrinking.

South Australia needs a taxation system that will meet the States expenditure, but also one which satisfies good taxation system design, to replace a tax system based on the old economy. Clearly there is a need for taxation reform that is more efficient, equitable and stable. But it is not easy and it is not as simple as replacing the tax you do not like with one that someone else does not like but is fine with you. In 2013 I believe we need to create a bipartisan, public / private taskforce and give them a limited time - six months - to recommend a holistic reform to taxation and involve academics, industry, and the community to ensure the broadest participation.

- ▲ In 2013 we need to create an Efficient and Customer Focused Public Service. Thomas Friedman says: "... in the globalization system ... one of the most important and enduring competitive advantages that a country can have today is a lean, effective, honest civil service" The Premier has embarked on a program of renewal in the public sector; one that is aimed directly at its culture and workforce, beginning with its core values and moving

outward to its way of working. In effect we are talking about modernising the sector in its way of working: lifting productivity, increasing the use of innovation in delivery of services, and generally streamlining administrative inefficiencies. This state needs, and I believe it can have, a public service on par with the best in the world. I am pleased to be personally working with the team on this project.

- ▲ In 2013, we need to put greater emphasis on practical programs to unleash the participation of women and seniors in the economic and social development process. Business leadership groups I speak to often have less than 10% women in the room – frankly some have had none. It makes good business sense to encourage women to seek operational leadership roles. Research by the US organization, Catalyst shows Fortune 500 companies with the highest representation of women in top management teams experience significantly better financial performance than companies with the lowest women's representation. Similarly with seniors, we need to find ways to engage our aging but active population in the economy by creating more opportunities for part-time work or volunteerism. We should look at tax and work cover reforms that encourage older retirees to re-enter the workforce.
- ▲ In 2013 we need to look not only at our economic wellbeing, but our general wellbeing and mental

resilience. A mentally fit community is necessary for a productive and prosperous society. Mental illness is devastating to families and communities and costly to society. One in four young people suffer from mental illness (beyondblue). Australia loses over 9 million working days per annum to young men with mental illness. We are fortunate to have world renowned psychologist, Dr Martin Seligman as the current Adelaide Thinker in Residence, with a residency entitled “Wellbeing and Resilience: building a flourishing state. Dr Seligman’s research has demonstrated that susceptibility to mental illness can be reduced by deliberately building wellbeing assets to promote a more mentally resilient, optimistic and productive society. The big ideas arising from the residency is for South Australia to be the first state in the world to immunise our young people against mental illness by introducing the science of positive psychology across all schools, second to make South Australia an international hub for teaching and learning positive psychology and third establish in concert with the SAHMRI a world leading wellbeing retreat and research Institute. This positions South Australia as the first global “state of well being.”

- ▲ And lastly, in 2013 we all need to “Live the Future Now,” embodying the confidence of the renewed South Australia. All of us must continuously tell the story of the changing economic and social environment of SA, and South Australia’s potential. To compete in an increasingly competitive global economy, we need better

understanding of where South Australia is and what it stands for. The EDB has facilitated a robust process for the development of the State Brand which will help us become recognisable as great place to do business, to visit, to move to and to learn more about. The place brand is not just a logo – it is about affecting how people perceive South Australia adding value to our economy by improving knowledge about and understanding of where we are, who we are and what we stand for. Brand research expert Peter Joy assisted us with a comprehensive consultation process, involving thousands of people, which shaped the development of our Brand. The aim of the research was to uncover perceptions about our State by both South Australians and those interstate and overseas and to map our State's 'Brand DNA'. We identified that, as a State, we have a strong history of creativity, innovation and industriousness. These values also represent how we want to develop and be known into the future. Internationally acclaimed designer Ken Cato has designed the Brand visual identity which will be flexible in format enabling it to be used in many ways across all sectors and industries. The Brand has been developed by the people, for the people. The release of the work of the brand is scheduled for March. That is only the beginning. Maximising the potential value of this Brand will take time, and it will require the support of all South Australians. I hope you and your organizations' will get behind this process and use the

brand in positioning your own enterprises and initiatives more effectively.

Clearly, 2013 is a pivotal year for our State.

Will this be the best of times for South Australia or will we be consumed by “worsts?”

Will this be a time of hope for South Australia or will we succumb to fear?

I am afraid that a reflection on 2012 would suggest that we get a failing grade in respect of our ability to create an environment of open and honest and thoughtful debate about our future and the changes needed in the present. I hope 2013 will be different!

This is a wonderful time to live and invest in South Australia, and at a time when cities, states and nations all over the world are struggling to engineer solutions to the challenges of economic decline, social dysfunction, and environmental degradation South Australia can again act as the incubator of the essential ingenuity the world so desperately needs.

If business, government, social agencies and the community invest and work together, South Australia can reach even greater heights of prosperity and continue to be one of the most liveable places in the world and a global model for twenty first century living and well-being.

This is our “tale of two cities.”