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■ Proposal to boost shareholder power lashed ■ Move would destabilise companies, say chairmen

Boards slam executive pay reform

Annabel Hepworth and Ingrid Pyne

Some of Australia's most senior chairmen have slammed a key proposal in the Productivity Commission's executive pay reforms that would give a minority of shareholders the power to oust boards, claiming it could be used to destabilise companies.

Directors said they were also

COMPANIES ROUND-UP

'A leading superannuation investor group has dubbed the directors' response the "Chicken Little effect".'

— John Kehoe, page 4

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concerned the focus on executive pay could divert boards' attention away from more substantive issues. Leading chairmen have warned

that the sweeping two-strike rule proposed by the Productivity Commission goes too far. The proposal means if 25 per cent of shareholder

votes oppose executive pay recommendations at an annual general meeting, and an unspecified level the following year, the entire board would be forced to face re-election.

National Australia Bank and Woodside Petroleum chairman Michael Chaney said if a two-strike rule were to be adopted, the trigger for a spill of the board would have to be based on a majority vote.

Commonwealth Bank of Australia chairman John Schubert said there could be serious unintended consequences from the change.

Wesfarmers chairman Bob Every said the plan could allow a "rule of the minority", while David Jones and Perpetual chairman Bob Savage said it would undermine the interests of the majority of investors.

Continued page 4

Labor faces union revolt on donations

Mark Skulley

The Labor Party is heading for a major internal row as unions prepare to fight the Rudd government's planned overhaul of political funding, which includes caps and tougher controls on donations and other external contributions.

Senior Labor sources said the government was moving quickly on legislation to reform political donations, funding and expenditure by restricting external contributions to political parties and putting a greater reliance on public funding.

The legislation is expected in this parliamentary session and will have major ramifications for minor parties, independent candidates and lobby groups such as the Wilderness Society, the RACV and GetUp.

A government green paper shows Labor is considering stricter controls on "political expenditure" by non-political parties, raising concerns among lobby and interest groups about freedom of speech and constitutional rights.

Talks have been held between ALP national secretary Karl Bitar and his Liberal counterpart, party director Brian Loughnane, but Labor sources said there was growing opposition from unions.

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Comment, page 8

Hard to get a fair go, page 55



Sun shines on coal

Queensland's coal export boom is set to fire again, thanks to renewed demand from China and India, and the knock-on effect will help the state economy bounce back from the downturn. Mark Ludlow reports, page 52.

Photo: GLENN HUNT

How Rudd risked it all to combat crisis

When Prime Minister Kevin Rudd, senior ministers, advisers and bureaucrats spent the weekend of October 11 and 12 last year huddled in the cabinet room desperately looking for ways to safeguard the economy from the threat of the global financial crisis, a lot of time was spent considering the potential fallout for the government.

The big political question on the

One year on, Geoff Kitney reveals how Kevin Rudd orchestrated the dramatic plan to avert economic disaster as the financial crisis hit.

table was how far Labor could go to protect Australia from the global meltdown without trashing one of the key factors in its election success: its

promise of economic conservatism.

Rudd had staked his credibility on his vow to continue the prosperity under the Howard government by managing the economy responsibly.

But that weekend, exactly a year ago, the aftershocks of the global crisis were so severe that the Australian banking system was starting to wobble

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Mortgage market gets \$8bn lifeline

Matthew Drummond

The federal government has extended its lifeline to regional banks, credit unions and non-bank mortgage providers hit by the credit crunch, offering another \$8 billion to buy residential mortgage-backed securities.

But the offer falls short of proposals pushed by smaller lenders that argued the existing support package, also worth \$8 billion, had made little difference to their ability to compete with the Big Four banks.

After months of intense lobbying, federal Treasurer Wayne Swan said yesterday the government's Australian Office of Financial Management (AOFM) would buy up to \$8 billion of AAA-rated residential mortgage backed securities (RMBS), mirroring a program announced in September last year.

"It will increase the funding that goes to the smaller lenders and we need the smaller lenders in the game to keep the market competitive," the Treasurer said. "Competition puts downward pressure on rates."

Mr Swan ruled out a government guarantee of high-quality RMBS, which Bank of Queensland, Bendigo and Adelaide Bank and the federal opposition argued would be a better way to support smaller lenders.

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Real estate sales hold up, page 3

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Coal boom set to fire up again

Fears earlier this year of a serious slump in demand for coal have been allayed as Chinese buyers return, writes **Mark Ludlow**.

In Mackay, the gateway to Queensland's mineral-rich Bowen Basin, the locals are calling it "boom two". While the shedding of 4000 jobs over the past 12 months fuelled proclamations the coalmining boom was over, those who make a living from Queensland's biggest export see it differently.

The long queues of ships off Dalrymple Bay coal terminal are returning to record numbers and the contractors who lost their jobs have found work elsewhere as the big coal companies start hiring again.

It's either "the second part of the same boom or the start of a new one", says Mackay Chamber of Commerce president Martin Lambert. Like many in the mining services city of 109,000 people — the hub for fly-in/fly-out or drive-in/drive-out miners working in the coalfields of the Bowen Basin — Lambert sees this year's economic downturn as the correction that had to happen, taking the heat out of the skills crisis and allowing companies to retrain staff.

The fears earlier this year of a serious slump in demand for coal were soon allayed as Chinese buyers came back to the thermal coal market in NSW and then the coking coal market in Queensland.

If Japan and Korea return to normal demand and China and India maintain their interest in coking coal, the next upswing could be even bigger than the last.

Gladstone Ports Corporation chief executive Leo Zussino, who oversees the Central Queensland coal port at the bottom end of the Bowen Basin, says the port may have been breaking export records over the past few months, thanks to a surge in Indian and Chinese demand.

"The big question is, how sustainable is China's metallurgical demand?" says Zussino. "India is sustainable because it is continuously growing its steel industry."

"If China and India remain at the level they are now — and when traditional customers come back to normal demand — it's going to be very interesting. It will put significant pressure on infrastructure."

At Hay Point, 20 kilometres south of Mackay, 40 to 70 ships are waiting — sometimes for weeks at a time — to collect their multimillion-dollar cargoes as the queues reach the size of those during the 2007-08 log-jam.

Mackay Regional Council deputy mayor

Daryl Camilleri says the past year has allowed Mackay city to rebuild and regroup, with life on the mines losing some of its lustre.

"There's been a bit of a flight to security since the financial crisis hit," he says.

Camilleri says vacancies at the council — which employs about 1000 people and is an accurate barometer of employment in the city — have eased from 60 in the middle of last year to about 30 in August.

Another large employer, Mackay Sugar, has also picked up more staff, especially as sugar prices reach a 20-year high.

While last year's chronic skills shortage was epitomised by the 180 vacancies in McDonald's restaurants in the Mackay region — as fast-food workers, teachers and police officers alike pursued six-figure salaries in the mines — the threat of a recession has prompted some workers to head back to the security of a job in town.

The "us and them" mentality between those who had six-figure salaries in the mines and those who worked in town has eased, but locals fear it won't last long.

There is still a lot of wealth in the town once known primarily for sugar. The growing number of berths and the size of the boats in Mackay's marina near the city's northern beaches is evidence of that.

Many firms that kept hold of skilled staff in the downturn are bracing themselves for the next upturn and the staffing challenges that come with it.

Isaac Regional Council mayor Cedric Marshall — who oversees the mining towns of Dysart, Glenden, Moranbah and Middledmount — says while residents, like consumers across the country, had eased off on their discretionary spending, they are now filled with optimism about the future.

"There's talk that the next boom is going to be bigger than the last one," says Marshall.

"The big mining companies usually have their finger on the pulse and they haven't backed off with their new expansions. They must have faith in the industry because they are still going ahead."

While the locals are imbued with optimism, Queensland Resources Council chief executive Michael Roche is more cautious talking up the next Bowen Basin mining boom. He says the impact of Japanese steel companies cutting their production by 30 per cent hit a lot of coal companies hard. Some



operations, including BMA's Norwich Park mine, were put on "care and maintenance" for a month while there was some reduction of shifts at other mines.

But a record month for coal exports in July, based on China's new appetite for the state's metallurgical coal, helped fill the void as companies lifted production and re-employed hundreds of workers.

In the northern end of the Bowen Basin, Macarthur Coal, Rio Tinto and Xstrata have all recently put on more staff to cope with the demand for metallurgical coal.

The latest Australian Bureau of Statistics jobs figures show there were 45,800 full-time jobs in the mining sector in Queensland in August compared with 37,800 last year — an increase of 21 per cent.

By contrast, Western Australia is still recovering from its peak mining employment of 69,500 in August 2008, with only 56,500 full-time workers in August this year.

"Some companies who never sold coal to China are doing so in quite large tonnages but on shorter-term, spot arrangements," says Roche. "All the coal chief executives are willing to say is this is not a sustained new source of demand, but it certainly has been very useful in plugging the gaps."

Roche says 24 per cent of coal from the Port of Gladstone in June and July was destined for China. "That's from a port that didn't send any ships to China 15 months ago. It's emerged quite quickly," he says.

Coal prices have fallen by 40 to 60 per cent from last year's unsustainably high levels,

returning to long-term trend prices of about \$US125 a tonne for coking coal and about \$US70 a tonne for thermal coal. But export levels are booming.

Attempting to match the demand for shipping, rail and port capacity was the major struggle during the last mining boom. Although most of the major coal ports, including Dalrymple Bay, Gladstone and Abbot Point, have upgraded capacity, there are fears a surge in demand will create the same headaches which plagued the supply chain a few years ago.

Zussino says port congestion on the eastern seaboard is at about 100 vessels, which is the second highest peak of congestion since the infrastructure bottlenecks of 2007-08.

The increased activity at the coal mines and ports has flowed through to the hundreds of supporting industries based around Mackay. One of Mackay's largest employers, G&S Engineering Services, is building four stacker/reclaimers for the Abbot Point coal terminal, at a cost of \$35 million each. It is rehiring after cutting back its workforce from 1000 to about 740 early this year.

Chief operating officer Mick Crowesays confidence is returning. "What the global financial crisis did was remove long-term confidence and put pressure on cash costs," says Crowe from G&S's office in the Paget industrial estate near the city's airport. "Expansions were scaled back or delayed and maintenance was on a 'do what you have to do' setting. There is increasing confidence. It's moved to underpin strength and a mood of no



What slump? . . . Regulars at the Nebo Hotel say there's plenty of work.

Photo: GLENN HUNT

DOWNTURN GAVE COMPANIES A BREATHER

At the Nebo pub, an hour's drive west of Mackay, a group of contractors who have just finished a long shift working on drag lines at BHP Billiton Mitsubishi Alliance's South Walker Creek mine are in little doubt about their career prospects.

"It's all hype [about the downturn], there's a lot of work," says one Mackay-based contractor who did not want to be named. "People were scared that they were going to lose their jobs, but it hasn't happened."

Mackay Whitsunday Isaac Regional Economic Development Corporation chief executive, Narelle Pearse, says a few mining services companies went under in the last boom but they had over-stretched themselves and tried to expand too quickly.

There is evidence of this just outside Nebo, where about half a dozen coal trucks, worth about \$4 million to \$5 million each, are lined up by the side of the road for sale.

Pearse, who is also managing director of the Mackay Area Industry Network, which represents 85 companies that supply goods to the coal mines, says the downturn took a bit of heat out of the market and ever-increasing prices.

"It's actually been good for the region because demand had been outstripping supply for so long. It has been good for our companies to take a breath," she says.

The chronic housing shortage in mining towns such as Nebo, Moranbah and Dysart — where mid-last year at the peak of the boom it would cost at least \$400,000 to buy a basic three-bedroom house — has eased, but prices are expected to start to rise again soon.

In Dysart, 280 kilometres west of Mackay, Vision Real Estate's Kerri McIntyre says house prices have fallen by 20 per cent in the past year, but southern investors are still looking to be part of the next boom.

"Things are definitely picking up. I can feel it about to take off again," she says.

The rental crisis has also eased, but to an outsider the prices still appear on the high side.

A four-bedroom house rents for about \$1200 a week, while a decent three-bedroom property is \$800 to \$900 a week in a town where the pub and a DVD store appear to be the only forms of entertainment.

According to RP Data, in May the median house price in Dysart was \$410,000 (up from \$46,500 in 2004), \$412,500 in Moranbah (up from \$133,000 in 2004) and \$251,500 in Collinsville (up from \$52,500 in 2004).

Ever keen to spruik an investment opportunity, another real estate agent advertising at the Dysart shops is offering a free seminar entitled, "Don't miss the next boom!"

Mark Ludlow

How Rudd risked it all to combat the economic crisis

From page 1

and a dramatic shift of economic strategy was called for. Urgent action was needed to protect the banks. And government money — large amounts of it — was going to be needed to prop up the wider economy.

Some of the key figures in those discussions have revealed to *The Australian Financial Review* that the politics of the government's response to the crisis were at the centre of the October weekend's discussions.

Before the emergency cabinet room meeting, Rudd had met what one official said was "an uncharacteristically animated" governor of the Reserve Bank of Australia, Glenn Stevens, who gave him an alarming assessment of the potential risks to Australia's banks, which until then had been considered among the safest financial institutions in the world.

Stevens told Rudd that the offshore availability of funds to the Australian banking system had virtually dried up and two second-tier banks (Brisbane-based Suncorp and Perth-based Bankwest) were at risk. Both were suffering from larger than normal rates of withdrawal of customer funds. Physical movements of cash had dramatically increased, with reports of much bigger than normal operations of the fleets of vans operated by the major security companies on the streets of the major cities.

Rudd also spoke by phone to British Prime Minister Gordon Brown, who was in the middle of a growing crisis in the UK banking system. Brown had briefed Rudd on confidential emergency discussions that the Bank of England and the UK Treasury were having with major British banks that were also struggling to raise funds.

The Bank of England has since revealed that on October 5 and 6, two of the UK's biggest high-street banks, HBOS and Royal Bank of Scotland Group, weren't confident they could get to the end of the day. RBS owned Perth's Bankwest.

When Rudd and his "kitchen cabinet" — Deputy Prime Minister Julia Gillard, Treasurer Wayne Swan (by phone from the US, where he was attending a meeting of International Monetary Fund economic ministers) and Finance Minister Lindsay Tanner — and their teams of advisers met that weekend, "the atmosphere was like we were at war, very grave", one participant says. "We knew we were dealing with a once-in-a-lifetime crisis."

The most urgent issue was the looming threat to the Australian financial system. Officials say the decision to introduce the guarantees for Australian banks, announced by Rudd on Sunday afternoon, was taken on the basis of

clear information about the banks. But the second issue, the need for economic stimulus, was more complicated — largely because it was taken with little physical evidence of the state of the rest of the economy.

"We were really flying in the dark," one official says. "The data we had at that point was not useful in telling us what was about to happen. We had to make very difficult judgements about the likely impact of the global financial crisis on the real economy."

Swan, calling late at night from Washington on a secure phone line from an Australian embassy residence, reported that the outlook for the world economy as seen by the IMF finance ministers' meeting was alarming. He said he had seen "fear on the faces" of some of his fellow ministers. The IMF meeting had issued a grim assessment of the likely impact on world growth of the crisis and called on governments for immediate fiscal stimulus measures to counter the likely collapse of private sector activity.

Rudd, who had returned from the US at the beginning of the month deeply concerned about the likely magnitude of a global

heightened when, in the new year, it became clear that a second round of stimulus spending would need to be considered as the depth of the global recession began to become clear.

These concerns started being confirmed after the May federal budget, when the full impact of the loss of revenue and increased spending were spelt out publicly for the first time. Government strategists say that the opposition attack on the government's "reckless spending" began to gain traction in polling taken after the budget.

But since the massive distractions of the OzCar affair and the role of Treasury official Godwin Grech and the turmoil in opposition ranks of climate change policy, concerns about the government's economic management have become more muted.

"Obviously, it's not all because of Malcolm's misjudgements," one senior Labor source says. "The fact that we have outperformed the rest of the developed economies has obviously helped us politically."

But a year after what insiders say will come to be seen as the most fateful days of the Rudd government, senior ministers are quietly raising a toast to Malcolm Turnbull's leadership of the opposition.

The government is convinced that in large part it has Turnbull's lack of political judgement and his scatter-gun approach to issues — particularly the great mistake of the OzCar affair — to thank for the fact that its credibility on economic management has survived a massive blow-out in the budget deficit and deep underlying public unease about growing government debt.

But there is also concern in the government that a Liberal leadership change — especially to shadow treasurer Joe Hockey, who last week signalled his availability for the job — could change these political dynamics overnight. Officials say that this is a risk factor ministers are plugging into the government's assessments of the improving economic outlook and the pace at which it winds back the stimulus and reduces debt.

Government insiders say that public concern about deficits and debt have become a permanent undercurrent in Australian politics and may come back more strongly into play as the economy improves and more interest rate rises follow.

These will be major considerations as the government decides when and how quickly to withdraw the stimulus — keeping in mind the fundamental importance of reassuring voters that the Rudd government remains true to its commitment to responsibly manage the Australian economy.

We were really flying in the dark. The data at that point was not useful in telling us what was going to happen.

AN OFFICIAL PRIVY TO THE MEETINGS

economic slowdown, was unhappy with the initial proposals drafted by officials for an Australian fiscal stimulus. He believed they were not bold enough and demanded that the options be reworked to increase the size of the cash handout to taxpayers and to provide forecasts of the potential impact on the budget bottom line of loss of revenue from a major economic slowdown and a dramatic increase in spending to stimulate the economy.

Senior sources say that a key part of the debate was the political risk of being seen to go on a spending spree as the budget plunged back into deficit. They say both Swan and Tanner raised concerns about the fiscal outlook.

Despite these concerns, Rudd pushed his ministers to go for a bigger number and over the weekend the amount of the initial stimulus, finally set at \$10 billion, almost doubled from the initial proposals put by officials. The stimulus package, which included the extension of the first-home owners scheme, was announced on October 14.

Concerns that spending so much money might have a big political cost were further

Activity at the coal mines and ports has been rapidly increasing.

Photo: GLENN HUNT

longer panicking, but it hasn't gone on the front foot."

Crowe is already worrying about the return of the skills shortage. While some firms have retrained some staff in the past year, not enough has been done across the industry to address fundamental problems.

"It was hopeless 12 months ago and it's now manageable," he says. "I absolutely believe there is a strong ongoing demand for coal. But I believe the biggest risk for this pause is that it will make the ramp-up steeper."

An acute problem nationwide is the constraints created by a dearth of quality skilled workers during the construction phase of projects, Crowe says.

The Bowen Basin region is already experiencing the impact of the \$50 billion Gorgon gas deal in Western Australia as demand for skilled workers rises.

More port and mine expansions in the Bowen Basin — including the opening up of the Galilee Basin and increased capacity at Abbot Point coal terminal — as well as the potential \$50 billion liquefied natural gas industry based around Gladstone, will put more pressure on an already stretched workforce.

"By 2012, what is likely to happen in Queensland will lead to a massive problem," Crowe says. "There is still the shortage of skilled staff in construction and maintenance and it won't take much time for things to come back on to highlight that."

State Treasurer Andrew Fraser often talks up Queensland's diversified economy — which is not as reliant on mining as the other resource-rich state of Western Australia — but admits Asian demand will keep coal as a significant driver of jobs in the state, not to mention taxation revenue.

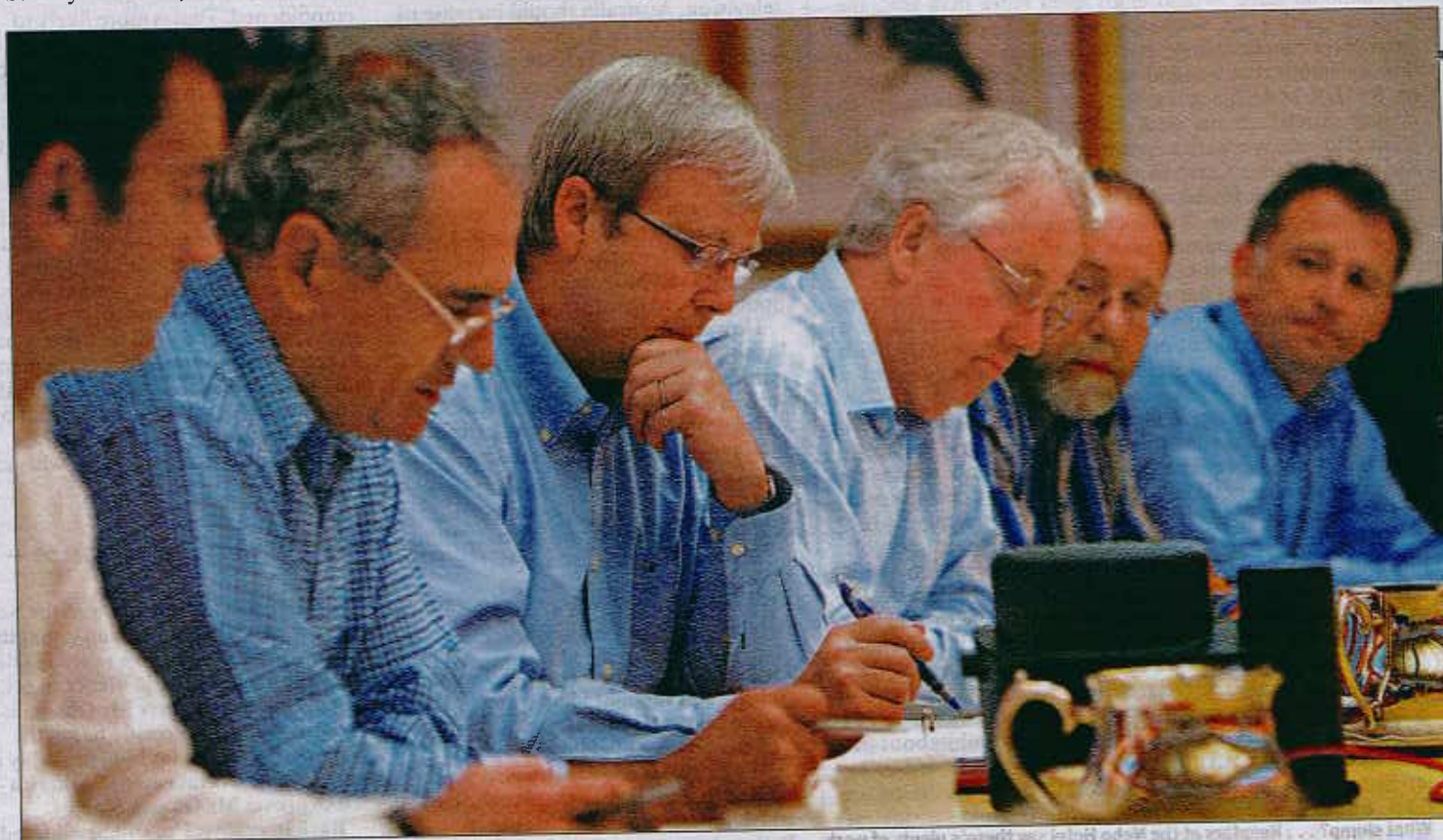
Despite the fall in annual coal prices, the coal industry is expected to deliver \$1.4 billion in royalties in 2009-10 alone.

Even the question mark over an emissions trading scheme, which the QRC is saying will cost the sector \$14 billion, and the state government's planned sale of Queensland Rail's \$7 billion coal freight network, has done little to dampen the enthusiasm for the future.

At Dalrymple Bay coal terminal — in which Babcock & Brown Infrastructure sold a 49 per cent stake to Canadian fund manager Brookfield Asset Management last week — the port recorded its best month ever for exports in July. The recently completed expansion makes it, for now, the single biggest coal terminal in the world. The terminal is operating 24 hours a day, seven days a week, with up to 25 trains a day bringing coal to the port, about 30 minutes south of Mackay.

Standing on one of the four shipping berths looking at the line of 40 ships waiting patiently to be loaded, DBCT Management deputy project director Peter Wotherspoon says it's hard to be anything but optimistic about the future.

"People were worried last year about what could happen," he says. "That's now been replaced by optimism and a feeling that in a couple of months, things are really going to take off again."



'Like we were at war'... Kevin Rudd flanked by Ken Henry, second from left, and Terry Moran at a crisis meeting this time last year.

Photo: GLEN MCCURTAYNE

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