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Good morning and thank you for inviting me to address today's Asian Venture Capital Journal Private Equity and Venture Forum.

First, on the Asian Venture Capital Journal, the AVCJ. As all of you know the AVCJ Group has been very active across the Asian and Australian regions in providing editorial coverage, data and analysis to your sectors and indeed, beyond. So good job and keep it up – it's an important contribution.

And on the Private Equity and Venture Forum itself, it is fast becoming an important regional discussion for this sector and the broader investment community.

In the room today I am advised there are approximately 200 delegates who together represent some 15 countries and more than $4 trillion in investment capital.

I also understand that the Treasurer, Wayne Swan, addressed the forum back in 2008 and the former Prime Minister Paul Keating addressed the meeting last year – illustrious people to have to follow but I will give it a shot.

Today's Forum is an important platform to discuss the range of issues facing your sector – whether they be financial, regulatory, tax, international directions or what I'd call "optical". But more on these later.

Now, it is of course very appropriate we are here this morning in Sydney, being Australia's great financial services city.

To this effect, this morning I will also speak briefly about the Rudd Government's efforts in relation to promoting Australia as a regional financial hub and our efforts to promote a robust, open and appropriate flow of international inward investment into Australia.

But before I do, I wanted to give a very brief overview of the economic conditions Australia faces today and to touch on the role I see for private equity and venture capital in a vibrant investment sector.

The Australian economy

I would start by making the point that Australia has navigated through the global economic crisis better than most nations in the world.

It is interesting to reflect just how much has changed over the past 12 months for the global and Australian economies.

This time last year, the Government had just announced its $42 billion Nation Building Economic Stimulus Plan, providing further critical public support to both households and businesses at a time when the outlook for the international economy was at its lowest.

Both arms of macroeconomic policy were in full swing, with the Reserve Bank cutting the cash rate by a total of 425 basis points from September 2008 to April 2009, providing immediate financial relief to households and businesses.

These actions, along with our links to China, India and Asia more broadly, protected us against to the worst of the global economic conditions.

Many of you are aware how the Australian economy has responded over the last 12 months.

Just yesterday we had the latest National Accounts, being for the December Quarter of 2009, and what we have is a very solid outcome for the Australian economy, with the economy growing strongly in the quarter and continuing to outperform other advanced economies.

GDP grew by 0.9 per cent in the December quarter to be 2.7 per cent higher through the year.

This is a remarkable achievement in a devastating year for the global economy. During the worst global financial and economic crisis in since the 1930s, as most advanced economies contracted, the Australian economy grew - quarter, after quarter, after quarter – four quarters out of four.

In year average terms, advanced economies as a group contracted by a record 3.2 per cent in 2009, compared with 2008, and the global economy contracted for the first time in the post war period.

Without the fiscal stimulus, Treasury estimates that the economy would have contracted by 0.7 per cent.

Furthermore, recent data highlights the remarkable resilience of the Australian labour market. The unemployment rate in January was 5.3 per cent, around the same level as at the beginning of 2009.

What does this mean in numbers of jobs for Australians? It means more than 180,000 new jobs right here, while right across the developed world we have seen job shedding – that's the contrast: job creation versus job destruction.

Tackling the fiscal pressures

This improved outlook has prompted calls that the fiscal stimulus should be unwound.

By design, the Government's fiscal stimulus is gradually withdrawing as the economic recovery unfolds. It peaked in the middle of last year and will subtract one percentage point from growth through 2010.

The Government remains committed to ensure fiscal sustainability and responsible economic management through adhering to our medium-term fiscal strategy, which includes:

- achieving budget surpluses, on average, over the medium term;
- the Government remains committed to keeping taxation as a share of GDP below the level it inherited, on average. That is 23.6% of GDP in 2007-08; and
- improving the Government's net financial worth over the medium term.

Because of this fiscal discipline, the latest MYEFO projects the budget to return to surplus by 2015-16, with net debt to peak at 9.6 per cent of GDP in 2013-14.

Australia will continue to have lower deficits and lower debt than the major advanced economies. The net debt of these countries will be an average 93 per cent of GDP in 2014 – in other words, Australia has one-tenth the average net debt of the major advanced economies.

Diversity leading to ongoing strength

So, all in all, we can be proud as a nation of where we stand today.

But we must of course continue to work hard to ensure that the competitive advantages arising from our experience and our successes are maintained.

One of the key elements of ensuring this ongoing advantage was to ensure a strong foundation for our core credit and banking system, and then to add to this through a diverse set of additional credit and investment flows.

Normalising credit markets

First to the strong core foundation.

As you would all know, the Rudd Government's response to the global banking and financial crisis included initiatives to support the flow of credit.

In late 2008, at the peak of the crisis, and in the context of unprecedented policy responses from authorities around the world, the Government took quick action to ensure Australian financial institutions could continue to access funding.

On 12 October 2008, the Government announced the Guarantee of Large Deposits and Wholesale Funding for authorised deposit-taking institutions.

This initiative gave our banks continued access to global capital markets on competitive terms, allowing them to raise more than $160 billion. And allowed them to keep lending to Australian businesses and households, providing vital support for continued economic growth.

Without the Guarantee, Australian banks would have been forced to lend less, and charge higher interest rates to borrowers.

You are also no doubt aware that on 7 February, the Treasurer announced that the Guarantee Scheme would close on 31 March 2010.

The Council of Financial Regulators, which comprises the heads of the Reserve Bank, Treasury, ASIC and APRA, have advised that bank funding conditions have improved so much that the Guarantee is no longer needed, and that no Australian institution will need the Guarantee to fund themselves.

This is an important step along the pathway to the full normalisation of our credit and banking markets.

Securitisation market

As mentioned, we are conscious that in addition to this strategy we have taken major steps to boost other credit markets.

As such, in addition to the Guarantee, the Government's $8 billion investment in residential mortgage-backed securities has helped smaller mortgage lenders to raise funds and exert competitive pressures in the mortgage market while securitisation markets remain dislocated.

On 11 October 2009, the Treasurer announced that he would direct the Australian Office of Financial Management to provide up to a further $8 billion of support to new issuances of high-quality residential mortgage-backed securities, depending on market conditions.

This investment will provide a further boost to smaller lenders and promote competition in the mortgage market, helping to put downward pressure on borrowing rates over time.

Foreign investment

Australia has a long history of welcoming foreign, or international inward investment.

Such investment makes a critical contribution to our economy in terms of generating wealth and jobs, providing access to new technologies, financing new and often risky innovations and providing opportunities for global integration and networking.

For many of the reasons I have already outlined – and for many others too – Australia is a highly attractive investment destination, particularly for the mining, manufacturing and financial services sectors.

In fact, foreign investment supports about one in four Australian workers in our mining industry, many of which are in rural and region locations.

Foreign direct investment in Australia has increased dramatically, from $110 billion in 1992 to $392 billion in 2007.

The World Bank's 2009 *Doing Business* report ranks Australia ninth out of 181 countries for ease of doing business.

To further promote Australia's attractiveness as a destination for foreign investment, the Government has reformed aspects of our foreign investment regime and taken steps to improve its transparency.

On 22 September 2009, we lifted the monetary screening threshold for privately-owned foreign investors to $219 million — more than twice the previous threshold of $100 million.

We simplified the thresholds, and indexed them to keep pace with inflation. And we abolished the screening requirement for private investment in new businesses.

And just last month, legislative changes announced early in 2009 came into effect to ensure that proposals involving complex

investment instruments, such as convertible notes and warrants, can be screened in the same way as shares.

Private equity

Of course, as part of a diverse market, there is also a role for private equity finance.

The Government recognises the importance of the Australian private equity market, particularly as the world recovers from the recent economic turmoil.

A 2006 PricewaterhouseCoopers and AVCAL survey highlighted the contribution that private equity investors can make to efficient capital markets.

The survey found that private equity investment led to 72 per cent of investee companies developing new and innovative products, compared with only 27 per cent of firms pre-takeover.

AVCAL estimate that private equity funds accounted for over $22 billion in funds under management as of end-June 2009 and that these funds were invested in 326 companies across a wide range of sectors.

Local investor commitments to private equity have risen over threefold since 2000.

AVCAL also point out that Australian private equity funds have historically performed on a par with American and European funds, Furthermore, I am advised that there is an estimated $6.5b in

unused commitments available for investment over the next two or three years.

So the message is that private equity is an important part of a diverse investment sector.

Venture capital

And of course we also value the innovative thinkers, entrepreneurs and researchers behind our venture capital market.

I understand that elsewhere in the world the private equity and venture capital market sectors can often be cut-throat, even aggressively, competitive against one another.

Here in Australia, you work much more closely together and that's, in my view, a good thing.

Venture capitals, as you all know, are really the people who convert ideas into successful commercial realities and create many jobs that support productivity growth.

Again AVCAL advise that the Australian venture capital industry holds over $2 billion in funds under management – moderate numbers in an economy wide sense but important nonetheless.

Australia has cut a role as a leading Asia Pacific venture capital market and that is also strongly supported by the Government.

Katherine Woodthorpe tells me that around half of all active Australian venture capital firms have now been in business for over

ten years – so it is about not just about creating value, but also sustaining it.

Johnson Report

Before I say a few words on the particular challenges facing your industry – whether they be financial, regulatory, tax, international or optical, I want to just mention one other key area of focus for the Government.

In September 2008, the Government established the Australian Financial Centre Forum. The Forum has a mandate to examine policy settings and identify strategies to position Australia as a leading financial services centre in the Asia-Pacific region.

Together with Minister Bowen, I recently released the Forum's report, *Australia as a Financial Centre: Building on Our Strengths*, more commonly known as the Johnson Report.

A key way that we can enhance the competitiveness of Australia's financial sector is to ensure that fairness, certainty and efficiency are inherent components of our taxation system.

I know that industry shares this view.

The Johnson report outlines recommendations designed to remove tax uncertainty around offshore funds under management in Australia, and improve access to capital markets.

The report includes recommendations to remove Interest Withholding Tax on offshore borrowings, introduce an Investment

Manager Regime and for the Board of Taxation to review taxation regulations to ensure there is a level-playing field for Islamic finance products in Australia.

We are carefully considering each recommendation of the Johnson report in conjunction with the report of the independent tax review.

The Government is confident that the Johnson Report will contribute substantially to our ongoing policy of securing Australia's status as a leading financial centre and I thank the private equity and venture capital industries for your engagement to date.

I could continue on as there is a list of measures we have already enacted to boost Australia as a regional financial services exported:

- cuts to the withholding tax on certain foreign distributions from managed funds
- electable capital account treatment for MITs
- an expansion of the definition of an MIT under the withholding tax rules
- a modernisation of how we tax financial arrangements by enacting the stage 3 and 4 TOFA measures
- signing world-leading mutual recognition agreements with the United States, New Zealand and Hong Kong.
- announcing our intention to repeal the Foreign Investment Fund and Deemed Present Entitlement provisions, and

- modernising and rewriting the Controlled Foreign Company rules. We recently released draft legislation for comment.

Together these are all important steps towards our common goal of boosting and reinforcing Australia's role as a regional financial hub.

Protecting the integrity of our taxation system

As you can see, the Rudd Government is committed to fostering economic development by giving businesses opportunities to grow and encouraging foreign investment and financial services.

And of course the taxation system plays a big role in this equation.

But we always need to be mindful of striking the right balance between achieving our goals and protecting the integrity of our tax system.

The community expects the tax system to be fair and equitable, and that businesses, whether large or small, will meet their tax obligations.

Likewise, the Government and our tax treaty partners want to ensure that complex financial structuring involving jurisdictions with tax arrangements that might not meet generally accepted international standards are not used to avoid the payment of tax.

I know, from my long and detailed engagement with the private equity industry over the last few months that your central players and your main investors share that goal – we must of course be alert to those on the margins who may not.

I know that many of you are interested in the recent private equity rulings and associated judicial proceedings which have been gaining a lot of media attention.

I simply cannot comment on the case, but what I can do is say that in December 2009, the ATO released two draft tax determinations on this issue. One deals with whether the gain from the disposal of the target assets is of a revenue or capital nature.

The other considers the question of whether the general anti-avoidance provision of the income tax law can apply where the private equity investment is routed through a variety of tax jurisdictions which could include a tax haven.

I would like to point out that it is the proper role of the ATO, which has sought comments on these draft determinations, to provide its view on how the current tax law operates.

In this regard, the Commissioner of Taxation is an independent, statutory office-holder. This process should be allowed to run its course.

However, the Government is following this issue closely, and has been consulting widely with industry and other stakeholders. I recently sat down with AVCAL for several hours to listen, in considerable detail, to their views.

I can say that it was an important and useful discussion for which I am grateful.

As a result of this consultation we now have a very good feel for the issues involved. We will consider stakeholder representations and advice from Treasury and the ATO before deciding what action, if any, may be needed in the coming months.

Conclusion: the private equity "optics" challenge

To conclude this morning I would like to lay down a challenge of sorts to the private equity industry.

Whether rightly or wrongly, there are many in the wider community and some in the business community also, who have a somewhat dim view of the contribution private equity makes to our economy generally and to the companies you invest in specifically.

Several high profile cases over recent years have contributed to that.

So I would say to you – the challenge you face, regardless of the final landing point on the ATO rulings and the Government position – is that a further, clearer and more digestible message about the positives would be a good thing.

You have an increasingly effective industry body in the form of AVCAL which has an engaged leadership. You have forums such as today and organisations such as the Asian Venture Capital Journal Group to assist in your cause.

As I have said, the Government firmly sees a role for private equity and venture capital in a diverse Australian investment landscape so I hope we can all work together towards just that outcome.

Thank you again for having me here this morning and the best of luck for the rest of the forum.

ENDS