

Where to from here – the sustainable growth challenge

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1. Introduction

- It is a great pleasure to be here at the 2005 Cotton Shippers Association Conference.
- Many of you will have noticed I'm a Scot and my own heritage is in Dumfries, which is still dependent on sheep and cattle farming, and has a long tradition in the manufacture of knitwear.
- Of course, here in Australia people have done their best to convert me to cotton.
- Peter Corish and I met in early 2003 in Moree at Namoi Cotton's 40th anniversary. I also visited Auscott and I had the privilege of experiencing the Kahlbetzer's hospitality when I stayed on their property.
- It's also particularly relevant for ANZ as we play a leading role in financing the downstream cotton industry both here in Australia and internationally - you'll hear more about that, particularly in relation to China later today.

2. Sustainable Growth

- The theme of this conference is "*where to from here*" and it resonates with me as a chief executive because one of the problems about growth is sustaining it over long periods of time.

- To bring this alive for you, there is a simple lesson of history for companies that don't adapt, innovate and grow.
- Can you tell me how many of Australia's top 20 companies in 1980 are still in existence? In fact, only 5 are still in the top 20.
- Of course, I'm pleased to tell you ANZ is one of them. But it points to the fact there is something unsustainable about corporations.
- Partly this reflects the short termism of equity markets that are focussed on the need for companies to produce short-term results, often at the expense of the need to invest for growth in the longer term.
- So while there is a need to produce short-term results, I believe the prime role of a CEO is to produce long-term value for shareholders, while producing acceptable short-term results.
- The value of the firm – return, growth, risk, fade.
- Over the last 8 years at ANZ, we have increased returns; enhanced growth; reduced risk and advanced our franchise strategically by effectively applying the model of the value of the firm.
- It has made us the leading bank in New Zealand; the leading bank in the Pacific; the leading Australian bank in Asia and of course we have a number of leading positions here in Australia.
- Based on this model, the key to sustainability is the need to serve all other stakeholders in the business:
 - Customers
 - Government
 - Community
 - Staff

- This has led me to set a new set of priorities for ANZ in the period ahead.
 - **Growing** – raising our game on revenue growth.
 - **External** - we need to be externally focused and cut out unnecessary activity, red tape, while maintaining momentum with our people and culture, and in the community.
 - **Lean, agile, sharp** – simplifying and transforming ourselves with a lower cost-income ratio while radically improving our agility and speed to market.

3. Creating Sustained Success in Agriculture

- Now, similar thinking about sustainability and performance applies to agriculture.
- Phil Ruthven recently point out in BRW that 200 years ago Australia's agricultural, forestry and fishing industry produced half Australia's gross domestic product – 60% if downstream industries were included.
- But in 2005, the contribution of agriculture and its downstream industries is much smaller - less than 10% of GDP.
- Nevertheless, today growth prospects are good. Annual growth in agribusiness is forecast to be 3.3% over the next five years, only slightly below Australia's growth rate of 3.5%.
- And the cotton industry is forecast (10.9%) to be among the fastest growing segments, albeit with this growth following one of the worst droughts on record.

- For me, the success of Australian cotton over many years is no surprise – the industry has systematically focused on developing economies of scale, driving efficiencies and creating the capacity to invest in the future.
- However, it's useful to remember that the top 25% of broadacre farms have produced investment returns (including capital appreciation) of around 16% each year since 2000/2001 which, on average, is double that of the sector.
- So agriculture can be a good place to be, as participants are corporatising and using a new business focus that combines the heritage of agriculture with the professionalism of the farm boardroom.
- This is already an established trend - in 1980, about 5% of agricultural revenue was corporate; today it's closer to 20%. Of course cotton has been a leader in area.
- As a consequence there is significant change occurring in farm financial structures as farms divest marginal fixed assets such as land buildings and equipment and focus what they are best at - farming productive land.
- Of course, these changes are not occurring in isolation and the external environment mean the need for these changes takes on additional urgency.
 - The cotton industry has had several drought-depressed years and continues to experience lower than normal production.
 - The global market place remains very tight with depressed commodity price driven largely by an increase in Chinese production that is outstripping its own consumption.
 - Growing competition from Brazil in our traditional markets.

- The Australian Dollar at recent historical highs has further reduced agricultural sector income.
- Rising fuel prices increasing our cost of production over more labour intensive growing regions.
- And we are likely to see responses. Rationalisation in some form is likely across agriculture, as experienced in many other sectors affected by increasing global influences.

3. ANZ and Sustainable Growth

- To make this change, the agricultural industry also needs the support and engagement of the financial services industry.
- In saying that, I want to acknowledge that during the 1990s we didn't always behave as though we understood that.
- We acted in an unsustainable way by not serving the interests of all our stakeholders, particularly many of those in rural areas.
 - We closed branches and withdrew services from the bush forgetting how important a human face is in banking.
 - Inside the farm gate, we lost our connection with some of the things that are unique about agriculture by treating it the same way as other city businesses.
- In 1999, we stopped this. We announced a moratorium on branch closures and began to think differently about rural and regional Australia.
- Since then we have built on that by recognising the importance of being local by creating a specialist rural business.

- As a result we have localised, not centralised.
- We have opened new branches, established local agribusiness specialists and employed around 500 additional people to better serve our customers and bring a human face to banking.
- We have also led financial innovation to address critical issues such as water rights and water trading.
- With the corporatisation of sectors such as cotton, we have also been able to create dedicated relationship structures and draw on our investment banking capabilities and the strength our unique Asian network to support international trade.
- And so it is an honour to be here today, as a long term, committed partner of the cotton industry, and to share some thoughts on the future and the strategic issues we both face in creating sustainable growth.
- We are excited by ability of the agricultural sector to address and adapt to the challenges of the future.
- I am also excited by prospects for our own rural and agribusiness specialist business in supporting your future growth.
- I believe the best for each of us is yet to come. Thank you.