

LETTER FROM MELBOURNE

January 2024 "back to work" Edition - www.affairs.com.au

In this Edition

Editorial

Sunday - a magical day of test cricket

The US election, Trump will be on the ballot - what will that mean?

Tax cuts - a comment

'It hasn't delivered': The spectacular failure of self-service checkout technology

How not to use AI

Whats happening at Boeing with the 737-MAX?

Big vs small government, or is that also a hybrid?

President Milei at Davos - was that unexpected?

Affairs of State, what we do best

What is a green hydrogen hub, why have one?

More IR, casual workforce changes will impact businesses, eg hospitality

And, if you get to the end....some January 2024 observations and things to know!

—//—

Thanks for reading, we just appreciate it.



Editorial

The summer wake-up, which usually happens from the end of January and the return to school, is about to happen. What do we think of 2024, I have no doubt it will be tough, especially those impacted by consumer demand and business confidence.

Interest rate cuts should be starting at the next RBA meeting, yet we can be pretty sure that any interest rate cuts will not happen for much of this year. Why?

We have an immigration boom ongoing, on a tight housing market that has seen rents spike in the last 18 months.

We have allowed energy profiteering and we have some of the highest energy costs, embedding inflation into everything.

Governments seem unable or unwilling to curb spending.

The Albanese government is not showing any signs of lowering, or suspending, the fuel excise. Maybe that comes closer to an election, it should be happening now as it also embeds inflation!

Here we go... I want to tackle something difficult, treaties.

For those that know me, and for those that have been reading these pages regularly you should know I am all about equality, hope and opportunity. I am Dutch, and Kiwi, I support the Pies, seriously none of that matters. We live in a beautiful place, we are all the same.

We need to look forward.

Diplomacy is sometimes about knowing when to say the quiet bits out loud, and when to leave the loud bits unsaid, I suspect I am about to break that rule, in the eyes of some!

Continued on next page



A magical test day

Reshaping the future of the game, a test cricket boost so needed and so good? To think it came from a young man, Shamar Joseph, who three years ago had not even played with a hard cricket ball!

A young, inexperienced West Indies team stood up and beat the Aussies in a day night test at 'fortress' Gabba in Brisbane. Joseph was playing his second Test with a foot so sore he didn't even want to come to the ground! He still bowled around 150kph, he took 7 for 68 and told the world the West Indies have a future in test cricket.

Concurrently in India, where a typical spinning wicket signalled the start of a five test series between England and India, another incredible test win completed.

England was down and out, some 190 runs down on the first innings. Step up unproven test no.3 Ollie Pope with a terrific innings of 196.

England posted a second dig score of 420, producing a lead of 230 runs. Up stepped new England spinner Tom Hartley, on debut. In the first innings his first test cricket delivery went for six, in the second innings he took 7 for 62. England, remarkably, won by 28 runs.

This Kiwi fan predicts more Aussie test losses in NZ this summer. The Black Caps should be competitive!

Sunday was an example of beautiful test cricket at its finest. Shamar Joseph deserves all plaudits. Test cricket.....what a game!

NZ changed government in November, the National Party formed a coalition with two right-wing minor parties, ACT and New Zealand First. These parties won policy concessions to explore rewriting NZ's treaty of Waitangi principles and removing its impact from law. The new government is scrapping "co-governance" - or power-sharing arrangements with Maori - from many public systems and dismantling the national Maori Health Agency. The new government administration believes in single systems for public service delivery, and has labelled Maori-only systems as "separatist".

Back to here, I think we should be developing policy enabling "equal opportunity" for everyone that lives here. We are all in this together, anything that bridges the gaps that exist in our society can only be a good thing. That should not need a treaty!

Already we are seeing treaties become politics, the Liberal VIC opposition has tried to boost its fortunes with the statement that it would no longer support a treaty process in Victoria. The LNP in QLD has distanced itself, the election there is later this year!

What is treaty in Victoria. The answer, is here:

<https://www.firstpeoplesrelations.vic.gov.au/treaty>

The concept of what a treaty is or involves remains vague for many people including, I think, governments.

Treaties involve both sides committing to responsibilities, promises and principles that bind the parties in an ongoing relationship of mutual obligation and shared responsibility. Most importantly, a treaty is built on the recognition of Indigenous Peoples' sovereignty. As part of this, a treaty would provide for some degree of self-government. What this looks is worked out in negotiations.

In VIC, treaty negotiations between the First Peoples Assembly and state government are expected to begin by the end of the year.

Does 61% of the nation believe this was rejected last year?

Why are state governments still set on voices, treaties and the truth-telling that a majority of the Australian people did not want, understand or support?

What of those outside the treaty process - Victorians who want to know more, who don't believe in divisiveness, and Victorians who believe in equality and accountability?

VIC is in deep trouble at every level. Debt is spiralling further out of control, the interest bill is huge and climbing! Our health system can be better, albeit the people within it can be awesome. Crime is higher than ever before, roads are still full of potholes, government charges are higher than in any other state or territory, standard of living is going backwards. Irrespective of views on a treaty, can we align it with other, needed government strategies to make our place better across all communities? Some may tell me I have missed the point, have I? If so, how so? Pretty sure I am not alone!



What else could President Trump do?

Trump will support Israel.

He has already stated he will wind back ideologies like gender. Trump says he will ask Congress to pass a bill establishing that “only two genders,” as determined at birth, are recognised by the United States.

With a crack down on gender-affirming, Trump will declare that hospitals and health care providers offering transitional hormones or surgery no longer meet federal health and safety standards and will be blocked from receiving federal funds, including Medicaid and Medicare dollars.

He will likely support Taiwan.

Will Trump become president again? He is running neck-and-neck against U.S. President Joe Biden and his polling is better than at any point in the 2020 cycle, where he lost by only small margins in several swing states.

Trump’s newest campaign platform goes farther than past ones on multiple fronts: in its nationalism, its economic populism, and its focus on crime reduction and punishment. Early contours of his plan put adversaries on notice, with warnings to Biden, federal officials and others they’ll be investigated.

Trump wants to shatter the “deep state”, he wants to sign an executive order to reclassify up to 50,000 bureaucrats as political staff in order to strip them of job protections. Trump intends to shake the public service!

The US election, Trump will be on the ballot!

For our astute readers, and here is me quickly admitting, I made a prediction in the last edition of Letter from Melbourne that neither President Biden or Donald Trump would be on the ballot in November. Wrong, Trump has just won the New Hampshire primary by a mile, he will be the candidate and I started to think about what that will mean! We need to start thinking about that as he looks an almost sure bet and he won’t be campaigning from a prison cell!

As I had this thought I read an article in the Australian by Robert Gottlieb. It was published last Wednesday. Mr Gottlieb gives commentary around 12 strategies that he says are in play if Mr Trump becomes the 60th president. I think he is right on most of them and I have listed these strategies here:

- Trump aims for the US to have the lowest-cost energy and electricity of any nation in the world, including China, by reversing the Biden carbon policies. He will ramp up oil drilling on public lands; and offer tax breaks to oil, gas, and coal producers; roll back current efforts to encourage the adoption of electric cars; and reverse the proposed pollution limits that would require at least 54% of new vehicles sold in the US to be electric by 2030.
- He will impose a new so-called universal baseline tariff, which will trigger a tax on “most imported goods.” Many countries will retaliate and impose carbon taxes on US goods. Trump policies will test our free trade agreement. Trump will use the tariffs to fund income tax cuts.
- Trump has a four-year plan to phase in a ban on importing key categories of Chinese-made goods like electronics, steel and pharmaceuticals. He will enact aggressive new restrictions on Chinese ownership of assets in the US and stop the investment of US companies in China.
- Trump will tighten the border with soldiers and an assault on immigration and non-approved migrants.
- Trump will increase policing to reduce crime and he will go hard at drug smuggling.
- In education, Trump says: “When I am President, we will put parents back in charge and give them the final say.
- Trump claims that even before he is inaugurated, he will have settled the war between Russia and Ukraine. That includes ending the “endless flow of American treasure to Ukraine” and asking European allies to reimburse the US for the cost of rebuilding stockpiles. He will “fundamentally reevaluate” NATO’s purpose and mission.

It is unclear whether he would insist that Russia withdraw from territory in Ukraine seized in the war it launched in February 2022.

Tax cuts - comment

There are two aspects to the government's change of mind on stage three taxes: integrity; and the economic value of the policy change.

Right or wrong, in the political world where accountability continues to erode, this change of tax direction locks this government in as untrustworthy, now and forever more! It erodes ability to be believed during any other political debate, impacting the credibility of future promises and needed policy action.

The stage three tax cuts were legislated, with Labor's support, with a pledge they wouldn't be altered. They were locked in at the election, with a promise they wouldn't be repealed. That commitment was solidified post-election with assurances time and time again that nothing would change: the tax cuts would take effect as legislated.

If you can't honour commitments, don't make them in the first place. If you want to break them, take the change to an election.

Tax bracket creep is real. The government wants wages growth to match inflation. If that happens in high inflationary times, many taxpayers they currently claim will be better off under their redesign will soon be worse off. Is this different to the RBA saying they would not raise interest rates?

If the welcome PM Albanese got at the tennis last night was any indication, there are a lot of unhappy people out there, which could also be about super and \$275 power savings!



Has self-checkout worked, nope?

It's a common sight at retail stores: a queue of people, waiting to use a self-checkout kiosk, while a lone store worker attends to multiple malfunctioning machines. The frustration mounts while unmanned, roped-off tills sit idle in the background. Most of the time the customer experience is nothing but horrendous!

For shoppers, self-checkout was supposed to provide convenience and speed. Retailers hoped it would deliver a new channel for cost savings. Their thinking: why pay six employees when you could pay one to oversee customers at self-service registers, as customers do their own scanning and bagging. While self-checkout technology has its theoretical upside for both consumers and businesses, is it living up to expectations?

Customers are still queueing. They need store employees to help clear kiosk errors or check their identifications for age-restricted items. Stores still need to have workers on-hand to help, and to service the machines.

In the US, Target is restricting the number of items self-checkout customers can purchase at one time. Walmart has removed some self-checkout kiosks in certain stores to deter theft. In the UK, supermarket chain Booths has cut down on the number of self-service kiosks, as customers say they're slow and unreliable.

In addition to shrink concerns, experts say another failure of self-checkout technology is that, in many cases, it simply doesn't lead to the cost savings businesses hoped for.

I'd love to see the numbers, more staffed tills seems to suggest that retailers may continue to rely on the technology, but many aren't putting all their eggs in the self-checkout basket. For the customers that do choose to self-check it seems there's one thing that won't change, shoppers are likely to continue to find themselves disappointed and frustrated most of the time - or am I getting old?

How not to use AI

If you have read anything in the last several weeks, chances are you've seen something related to Artificial Intelligence (AI). Perhaps, if you work in the public relations or communications industries, you have heard that AI will take your job in the coming years. From 2022 to 2023, the number of news articles and blogs mentioning AI increased by 550%, and there's no sign of the trend slowing down. Apparently if you are a young, budding consultant AI can take your job, which kinda means we are corking the pathway to experienced consultants!

AI use will continue to rise in 2024; Many companies plan to use AI to edit and refine text, develop new ideas, edit and generate images and respond to customer service inquiries.

Because of the healthy criticism that exists about AI, brands must know how, and how not, to use it. Yes, AI can save you time, but it can also take away from the authenticity of your content. It is best to think of AI as an assistant - it's there to help with the work, but it can't do it for you.

Generally, AI is best used to:

- Brainstorm or Generate New Ideas
- Give Content Suggestions
- Write First Drafts of Captions
- Suggest Images

You should NOT be relying on AI to:

- Create a Content Strategy
- Follow Brand Standards
- Respond to Consumers
- Develop a business process

It is important to remember that relationships are built on trust. If a consumer does not feel an authentic connection to your brand, they may not trust you.

What's happening at Boeing with the 737-Max?

I ordinary hold back talking about this. I have been an airport and airline CEO, safety is paramount and the number one priority, yes even above the fiscal factors. There is a reason aviation regulators identify you as the accountable manager!

Aviation is a complex industry, but aviation is simply about getting people from place to place, safely, on time, at value with compelling and consistent service propositions. The type of plane, for most, does not matter. The overall experience does!

I will say, with experience and from a strictly personal view, that the 737-MAX has highlighted issues in the US between Boeing and the Federal Aviation Administrator (FAA). The FAA oversees US aviation on behalf of the US Department of Transportation.

Netflix created content on these issues.

So, my personal point of view, the 737-MAX is a new airplane type. It is not the transition we have seen previously from a 737-300 to a 400 series 737, its not the process that took the 737 through to the 800 series, it was a new airplane.

The FAA allowed the manufacturer to self-certify the 737-MAX, as Boeing had done with previous 737 type upgrades. Boeing was able to influence regulation, the FAA should have approached the 737-MAX as a new type to market, which would have meant a much more detailed scrutiny before the airplane was certified and approved to enter the market.

Today, Boeing's name and its 737 Max model are linked to some of the worst aircraft safety and design failures in recent aviation history. Some 346 people lost their lives in the Boeing 737 Max crashes of Lion Air Flight 610 in late 2018 and Ethiopian Airlines Flight 302 less than five months later. Boeing agreed to pay \$US2.5 billion in a deferred prosecution agreement related to the two crashes with the Department of Justice in early 2021.

Just days into 2024, a hole in the side of a Boeing 737 Max 9.

On January 5, an optional door was sucked from the almost-new aircraft, exposing 177 people on board to being pulled from the fuselage mid-flight. Fortunately, no lives were lost, the jet touched down safely at Portland, Oregon. Alaska Airlines will resume service of its 737 Max 9 fleet on Friday with a flight from Seattle to San Diego.

Boeing's 'revival' hinges to a large degree on returning the company to its engineering-first, pilot-focused, safety-centric operations, rather than seemingly being driven by financial metrics like free cash flow, market value and dividends. Market share battles with Airbus should be sidelined. A change in focus does not fully address issues with the 737-MAX, it takes years to create viable alternatives and it would take many a dollar to replace 737-MAX fleets ahead of time due safety challenges!

Big vs small government

Isn't it more likely that we are heading for a sort of hybrid system of free markets mingling with bigger government out of necessity?

Will climate change motivate most of the world towards a bigger role for government?

Has Covid and climate change shown that externalities and abnormal events are now first order, and that the only way to prepare for them is through a bigger government?

Some say that the previous coalition government made a debacle of climate change, which contributed to its election defeat - an obsession with low taxation and small government. If that is true, have they figured that out yet? Big government supporters will argue that resilience disappears in small governments. For example, Germany's lack of attention to risk allowed it to depend on Russia for its gas. Now it, and the world, are paying a high price for that.

A simple view of big government might be that it believes a large government is crucial in the influence and decision making of a country. Large government is one body, that in its simplest state, diversifies interest, resulting in stagnate government that harms the progress of the government itself.

I don't think, post Covid and with swings from right to left and back again that a true big or small government is sustainable. The right hybrid model could work!



President Milei at Davos - was that unexpected?

I thought so! Argentine president Milei is also sounding nothing like Trump, or a hard right leader, the message seems to be a decree toward small government. Big government versus small government, which is the best way to grow our economy?

If our desire is to grow our economy faster and raise the standard of living for all, then taxes must be kept low and the government smaller. It's common sense!

Milei, at Davos, was talking about the bureaucratic class for whom a big state is necessary to preserve their way of life: a political class that wants to 'stay in power and retain its privileges'. It will have made for uneasy listening at Davos, which is founded on the idea of bringing the state and business into closer partnership.

Milei's speech was not the first time we've heard that the 'western world is in danger'. Arguably it's been the theme of the past four years, as the pandemic, growing trade wars and the rise of strongmen who make good on their promises to wage war have exposed the West's many weaknesses. But Milei's warning was unique, in that it brought attention to another pressing danger that is not as openly discussed by politicians these days: the refusal of politicians (still) to acknowledge the role domestic decisions played in the inflation crisis and spiralling debt.

It's never a good idea to get too excited about a politician - hitching your ideological hopes to an elected official almost certainly guarantees heartbreak. It is far too early to write the story of Milei.

We don't know how his plans for Argentina will pan out. But, with each intervention we get from the Argentinian president, we do not see a politician reaching for authoritarian levers or pivoting towards protectionist populism to gather support - like Mr Trump! Instead, we see a politician doubling down on the classically liberal values that make up a free society.



Affairs of State - what we do best

Affairs of State is a Melbourne based public affairs and professional services firm that specialises in working with government and industry to deliver outcomes.

We use strategy and leadership to produce effective program delivery, improved demand generation, greater awareness and problem solving. Affairs of State provides specialised services that act as a bridge between high growth companies, government, boards and investors.

Over much of the past 10 years we have worked on some of this country's most challenging issues, often at the point where government, private and community interests intersect. Our experience covers areas ranging from industry development, to emergency management, to pandemic recovery, to core economic growth], to AI and to renewable energy transition projects.

Can we help?

Contact Us

Michael; michael@affairs.com.au

Hans; hans@affairs.com.au

What is a green hydrogen hub, why have one?

Hydrogen is a clean energy source produced by splitting water molecules via electricity.

Green hydrogen refers to hydrogen produced via renewable electricity, whereas brown hydrogen is produced with coal, which gives off emissions. Green hydrogen is expensive to produce, but demand is expected to rise.

As reported in Launceston's The Examiner, federal Energy Minister Chris Bowen said green hydrogen was key to de-carbonising transport, including ships and heavy vehicles.

"If shipping was a country it would be the seventh biggest emitter in the world," Mr Bowen said. "It's one of the hardest nuts to crack when it comes to finding ways of reducing emissions around the world [but] we know it'll rely in some form or another on green hydrogen."

Hydrogen production takes a lot of electricity, which is expected to come from wind and solar farms.

"What we've got to do is build a domestic hydrogen industry which will then grow into an export industry ... that's certainly what we'll be doing here in Tasmania's Bell Bay and across the country," Mr Bowen said.

For our client Hydrogen Fuels Australia, Affairs of State produced a strategy to transition heavy transport and equipment to green hydrogen, with a series of initiatives to convert interest to learnings and, learnings to decisions across new and existing transport and heavy equipment assets. A pilot program, in Melbourne, is being contemplated with Deakin University and its solar farm at Waurm Ponds.

With work and much greater awareness, green hydrogen produced through renewable resources such as solar and wind—holds significant promise in meeting niche, sector future energy demands. The economics of green hydrogen are challenging today, primarily because the underlying costs and availability of renewable energy sources vary widely. The green hydrogen market worldwide has the potential for demand growth, our key green hydrogen market thoughts:

- Demand growth will grow at a moderate, steady pace through niche applications until 2030. Transport, agriculture and mining are key interest sectors, for assets that need "splash and dash" refuelling and performance not available from electrification.
- After 2030, demand growth will accelerate.
- Green hydrogen demand, pending global climate ambitions and the development of sector-specific activities, energy-efficiency measures, direct electrification and the use of carbon-capture technologies will be demand led, based on asset life-cycles, performance metrics and cost parity with fossils.



Careful with casual rules?

An economic storm is approaching this year for businesses of all sizes. The remaining Closing Loopholes legislation, which the government will try to pass next month, could make offering casual jobs far less appealing for employers and finding those kinds of jobs far harder for workers

Casual jobs, which make up almost a quarter of all jobs, are essential to the workforce and to maintaining consumer spending. For many staff, including students, carers and parents who enjoy the flexibility of casual work, the ability to take home an additional 25% casual loading is highly valued with current living cost.

At a time of wavering robust employment and wages growth, IR Minister Tony Burke would be better engaged sorting out IR problems than imposing more rigid strictures and costs on business.

Particularly following the pandemic impacts it should be prudent for governments and industry groups to recognise the fact that sectors such as hospitality are the backbone for tourism and communities.

Events, seasonality, different times of the week and day put in place a demand for casual engagements that benefit both employers and employees - ensuring that hospitality experience and customer service is as good as it should be! We simply cannot afford to brush aside the concerns of employers, especially in those sectors so heavily depended on reductions in discretionary spend.

January 2024 observations and things to know!

- Last month's bold prediction was a US presidential election in which neither Biden or Trump would feature. I'll call that wrong now, Trump is going to be the Republican candidate.
- Liberal stalwart Eric Abetz has been backed by the rank-and-file who have backed him as their number one choice to run in Franklin at the next state election. It was reported that Mr Abetz received 54 votes in a ballot of four candidates, including two sitting MPs, the other three had only 11 votes between them!
- The Australian Energy Market Operator has warned it has a lack of reserve electricity generation to meet record high demand in Queensland amid hot and humid weather. The warning is the latest test of Australia's energy grid, which has so far withstood periods of sustained high demand brought on by a hot El Nino summer - a prediction that seems a flop and it draws the not unlikely view that had VIC been hot this summer we could have seen blackouts extend well beyond QLD!
- "Victorian fire services respond to at least one significant lithium-ion battery-related fire each week and this trend is expected to increase," a spokesperson said.
- China pressures Iran on Houthi attacks. Chinese officials have reportedly asked Iran to help rein in Houthi attacks in the Red Sea or risk harming Iran's business relations with Beijing. China is Iran's biggest trading partner: Chinese refineries bought over 90% of Iran's crude oil exports last year!
- Rio Tinto expects to ship slightly more iron ore this year thanks in part to an expected second-half recovery for China, despite concerns among analysts about slowdowns in the world's second largest economy.
- Junior staff should spend more time in the office to get quicker promotions, the UK boss of accounting giant PwC said, as AI is poised to take on routine tasks traditionally given to younger workers. AI is removing "tasks that in the past our more junior staff trained and cut their teeth on," Kevin Ellis, the chair of PwC UK, said during an interview at the World Economic Forum in Davos, Switzerland. Without those tasks, "you've somehow got to get people through the career path faster", he added.
- Apple surpasses Samsung, becoming the biggest manufacturer of smartphones, surpassing Samsung in phone shipments for the first time in 2023.
- The Federal Government has stepped in to block the offshore wind terminal because the risk to the Port of Hastings wetlands was "clearly unacceptable" - Interesting ironies at play here!
- With a tax cut made for Dunkley - how will Dunkley vote?