



PRIME MINISTER

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ADDRESS TO CONFEDERATION OF AUSTRALIAN INDUSTRY

The task of Government and industry will be made much easier now that there exists a top level national organisation covering the entire spectrum of Australian trade, industry and commerce - primary, secondary and tertiary.

I know that Max Dillon and his committee have worked extremely hard over a long period to bring this Confederation into being. I congratulate the Associated Chambers of Manufactures of Australia and the Australian Council of Employers Federation on their initiative and foresight in coming together in this way.

As you will know, I returned home today after extensive discussions in the United States, Europe and South East Asia on the international economy and world trade. I am now more convinced than ever that the world economic trade situation is critically balanced.

During the next few months, the world's main trading nations will be making decisions of crucial importance. It is currently intended that major decisions will be taken by mid-July in the Geneva Multilateral Trade Negotiations. The seven-nation economic summit will be held at Bonn on 17th and 18th of July, and it is expected that, later this year, the UNCTAD negotiations for a Common Fund to stabilise world commodity trade will be reconvened.

This then is a year in which decisions will advance world trade, or resurrect protectionist pressures. This is a year in which either nations will recognise and act on their mutual economic interdependence to their common benefit or allow narrow self-interest to predominate to the detriment of all. This is a year in which decisions will take the world forward with more sensible trading arrangements, or slide backwards into protectionism.

It is imperative that the right decisions be taken, decisions that will reduce trade barriers and lead to an expansion of world markets; decisions that will enable mines, farms and factories to expand their production, their employment, their overseas trade. If the wrong decisions are taken, then I believe there would be grave risks of a world-wide retreat to the type of beggar-thy-neighbour protectionist policies we witnessed in the 30's.

It is in this nation's interest as a country heavily dependent on world trade to do all in its power to avoid such an outcome. If these negotiations do fail, it will not be for the want of trying on Australia's part.

This has been my prime objective, my main concern, in my overseas discussions which began with Prime Minister Fukuda in Japan, in April and which I have pursued in the United States, Europe and South-East Asia in the past few weeks.

It is clear that the world economy is far from having recovered from the setback caused by the excesses of previous years. The rate of growth in world trade, a key to the full economic recovery of all nations, continues to be sluggish. It will only increase if the trading nations improve the conditions under which trade is conducted in three inter-dependent areas - in manufactured products, in agricultural products (meat, grains, daily products, and fruits), and in other commodities.

In the first two areas, manufactured products and agriculture, critical decisions will have to be made in the next few weeks in the Geneva Multilateral Trade Negotiations. All sections of our economy - mining, manufacturing and primary industry - will be affected by these decisions. They will have an impact on the lives of every Australian, and on our wealth as a nation.

A successful outcome to the negotiations is of vital importance for the entire trading world.

To date, the negotiations have focussed almost exclusively on reducing tariff and non-tariff barriers on manufactured products. Agriculture has been neglected - despite the fact that it forms a most significant part of world trade, and must play an important role in any broadly-based expansion of trade. The fact that there has not yet been any movement in reducing the rigid barriers against many agricultural products is a matter of deep concern.

The plain fact is that the tentative agreements so far reached in the Multilateral Trade Negotiations - the "MTN" - relate only to certain industrial products. Tariff reductions in these products would affect 40 per cent of the exports of the major trading blocs, but only 20 per cent of world trade, and no more than 5 per cent of the exports of Australia or of many developing countries. On average tariffs for most industrialised countries, the proposal would result only in a reduction of half a per cent a year spread over eight years. Such a limited agreement plainly could make only a marginal contribution towards expanding world markets.

If the final MTN agreement is to make a real impact across the broad spectrum of world trade, it is essential that agriculture be included. The United States and Australia are united in our efforts to see that the negotiations are broadened to encompass trade in agricultural products and incorporate a code of behaviour on export subsidies. We both want an agreement which is wide ranging, covering all sectors of trade. Unless agriculture is

included, the US will walk away from the Geneva negotiations. I received firm and categorical assurances on this in Canberra from Vice-President Mondale, and in New York from President Carter's Special Trade Representative, Mr Strauss.

The trade benefits we can achieve for our rural industries - industries which account for half our exports - would benefit all Australian enterprises. Strong rural industries contribute to a stronger Australian economy, to greater demand, to greater growth within Australia and to greater markets for Australia's own manufacturers. More than ever, we need to understand the essential interdependence of the different sectors of the Australian economy. Indeed, the wide membership of your new Confederation itself is a recognition of this central fact.

While many factors have contributed to the sluggish state of Australia's manufacturing economy, one major factor - the present impoverished state of much of Australia's rural industries - is too often overlooked. Achieving a meaningful MTN result which will lead to a broadly based expansion of world trade will require the maximum effort and commitment by all trading nations, and a willingness to look beyond narrow self-interest.

For Australia's part we have decided to make the greatest contribution we can, for in negotiations of this kind any additional weight in the right direction can help to make the difference between ultimate success and failure.

Accordingly, Australia decided to participate in the 40 per cent formula cut approach for tariffs on industrial products. This decision differs sharply from the irresponsible 25 per cent across the board tariff cut of 1973, which was made unilaterally without exceptions, without reciprocity. Our offer is of course subject to receiving fully reciprocal benefits, including reciprocation at last for the earlier unilateral cut.

Like all other countries adopting the formula cut approach our offer will be subject to appropriate exceptions, it will be phased in over the next decade, and we will, of course, retain our existing rights to safeguard under GATT.

Australia has made this positive and prudent offer at the negotiations because of the importance of a successful MTN. We have made every effort to bring about a successful outcome to the negotiations, which would benefit all sectors of Australian industry.

Our offer is not a "trade-off" between industry and agriculture, it offers benefits to all Australian enterprises. A stronger total economy will give manufacturing industry a better export capability. Coupled with specific government policies to assist industry, including our new export incentive scheme it will help many manufacturers to get back into, or increase their penetration, of export markets.

By making the formula cut offer we have extended the challenge of reciprocity to the major industrial countries, a challenge to offer realistic reductions in their barriers to agricultural imports.

In this regard, the European Community has a particular responsibility. As the world's largest trading bloc, it should ensure that there is a successful outcome to the total trade negotiations. We shall be using the forum provided by the MTN to test the EEC's response to our own demands for a more equitable balance of trading opportunities. At the same time, Mr Garland will continue our bilateral negotiations with the Community.

We are resolved to continue the pursuit of a realistic and equitable trading relationship with the EEC. Unless the EEC is prepared to move towards an equitable relationship Australia will have no alternative but to reappraise the totality of our trading and commercial relationship with the Community.

I have advised Mr Jenkins, the President of the EEC, that the Community would be seriously mistaken if it underestimated Australia's resolve and determination in this matter. The MTN does not only hold out a promise of expanding world markets, from which all nations would benefit, it also presents the threat of failure and a reversion to protectionism.

In particular, we must strongly oppose an attempt by European nations to have the principle of "selective" or discriminatory safeguards accepted in international forums. Such so called "safeguards" could be reminiscent of the worst features of the destructive protectionism of the 1930's.

The most fundamental principle of the General Agreement on Tariffs and Trade is the most favoured nation rule - this specifies trade rules instituted by one member nation of GATT must apply equally to all others. GATT members are not permitted to discriminate against each other. This rule is the most important single aspect of GATT that protects middle range developed countries, and the developing nations against the dangers of arbitrary and discriminatory action against them by the major trading powers.

If it were to be accepted under international agreements that nations had the power unilaterally to impose restrictions on imports from particular countries this would strike at the very heart of the GATT and the pressure to impose such restrictions could be irresistible.

If the breach of the most favoured nation principle was conceded discriminatory rules proposed could be used against smaller countries, weaker countries, the newly industrialising developing nations. Discriminatory action could be directed against Australia.

I now turn to the third area in which there is a need for concerted action to stimulate world trade growth. I refer to trade in commodities, and the need to take more fully into account the interests of the developing world. This is not a matter of charity. It is a matter of self-interest.

Many developing countries rely overwhelmingly on one or a few commodities for their export earnings. Even when petroleum is

excluded, commodities account for 55 per cent of the exports of developing nations. The developing countries represent a huge potential for new market growth. As their economies grow an enormous expansion of trade will undoubtedly follow. For this to happen, their export earnings must be stable and growing.

In the last decade, markets in the developing countries have grown from about \$50 billion to \$215 billion. Over the same period, our exports to developing countries have grown from \$0.73 billion to \$3 billion - over one quarter of our exports.

What has happened is that, as developing countries enter economic take-off, our trade has grown very rapidly. Ten years ago, our exports to the Republic of Korea totalled \$8 million - today they are running in excess of \$200 million, a graphic illustration of the scope of the expansion of such markets. On the basis of such mutual self-interest, Australia has been pressing for a better deal for the developing countries, and for a more pragmatic approach to be taken by both developed and developing countries on ways of stabilising world commodity prices. This is the issue symbolised by the concept of a "Common Fund".

Through our own experience with the International Wheat and Sugar Agreements and our Wool Price Reserve Scheme, Australia believes that commodity stabilisation arrangements can be made to work and bring stability to prices.

At the present time, there is a wide divergence of views between many of the developed and developing nations on this issue. But I am convinced, that with proper will and determination, a fair compromise can be reached between the two extreme points of view. I know that the Commonwealth Secretary-General, Mr Ramphal, is working particularly hard to achieve such a result.

All these questions will be discussed at the seven-nation economic summit meeting in Bonn next month. This will be a meeting of fundamental importance and one of great difficulty. Most of the principal participants have different objectives. The United States and Britain want stronger economies, such as Germany and Japan to pursue higher growth rates; Britain and France want discriminatory safeguards to form a principal feature of the new trading arrangements emerging from the MTN; the prime aim of Germany and Japan is to ensure that the world does not slide back into protectionism.

The Australian Government believes that any agreement reached at Bonn will need to reinforce the efforts of national governments to put their own domestic economies on a sound basis, so that long term growth can be achieved without renewing higher rates of inflation.

Some countries have tended to say that if only the stronger economies would reflate more weaker economies could be pulled out of their difficulties. But what has to be understood is that countries suffering high inflation rates must themselves establish the essential preconditions for non-inflationary and lasting growth.

The Japans and Germanys of this world cannot solve all the world's economic problems. Even such a powerful economy as that of the United States will, as President Carter has recently affirmed, require remedial action if their recent resurgence in inflation and their imbalance of payments is to be overcome.

It is disappointing that the United States, which has been maintaining a rate of growth which many of us would like to see has slipped back into an unhappy inflationary situation as a result. The United States is thus once again in the position where it has to exercise restraint.

The Australian Government believes that the Bonn Summit should also make a commitment to fairer and more broadly based international trading agreements reaching a consensus that the final MTN trade agreement should cover all the major areas of trade - not just industrial products.

Australia and many other countries also look to the seven nations at Bonn to fulfill their great international responsibilities, particularly to the developing world.

There is a need for international leadership, particularly on the important issue of fairer trading arrangements for commodities, and the establishment of a Common Fund.

The Bonn Summit presents a challenge to statesmanship. The actions which these major nations take affect all others. Their views are critical to achieving a practical and far-sighted resolution of the current international trading negotiations.

All the discussions I had overseas greatly reinforced my belief in the appropriateness of the policies which the Australian Government has steadfastly pursued for the past two and a half years.

Our economic policies have emphasised not the chase after short-term growth rates, but getting the fundamentals of the Australian economy right. In this way, we may be assured of not merely temporary growth but lasting growth into the 1980's and beyond.

It has been very encouraging to see the way in which, gradually, many of the unpalatable inescapable truths of economic policy in our private enterprise economies are today being accepted internationally.

No less encouraging is the marked change in attitude among foreign business and financial leaders towards the Australian economy. When I spoke with foreign business and financial leaders in 1976 and 1977 there was some reserve about whether we could really put our economy to right again. There was a respect for the efforts we had been making and the successes which these efforts were then just beginning to show. But nonetheless there remained a clear suspension of judgement on whether we would have the staying power and will to see it through.

During these past few weeks I have found a very different mood. These independent observers of the Australian scene - and most of them are very well informed about us - are now much more convinced both of our policies and of the clear progress these policies are now producing.

I need hardly say how important this is for Australia, particularly in view of the immediate prospects for international trade which, for the reasons I have already outlined will continue to be difficult for some time yet.

In the rather cold world in which we shall have to go on living the countries with the best domestic policies will be the ones best able to withstand and overcome these international chills.

In the weeks ahead, when Cabinet is considering the outlook for 1978-79, we shall be maintaining the same policy attitudes that have brought us our success to date. We shall in particular be bringing to our deliberations the most rigorous attitude towards public spending. For only in that way can we hope to maintain an appropriate firm grip on the deficit, the growth of the money supply, and less directly the escalation of wage increases.

If there is one thing which experience has taught us in recent years, it is that the growth of total demand in the economy is not helped - rather it is hindered, by excessive growth of government expenditures. Such a route has proved disastrous in its implications for private business investment - which lies at the productive heart of our economies, and which is an essential prerequisite of raising our living standards. It is very easy to be seduced into spending some hundreds of millions of dollars on falsely conceived "employment-creating" schemes.

But it ought to be understood that spending by governments in that way can alter the basic perception of the Australian economy held by investors here and abroad. The result would be that increased government spending of three or four hundred million dollars could reduce private investment and consumer spending by much more than that. While there would be more people on the government payroll, there would be fewer people employed overall. That, I believe, is a bad bargain. It is not one that my Government will entertain.

Mr President, I am delighted to have been able to speak with you at the inauguration of this Confederation. Australian industry is a central force in our economy. I know you have been through a long and difficult period. The world trade and economic scene is likely to remain difficult not for months, but for years, and we cannot hide from the hard times ahead. We are a trading nation and our prosperity ultimately depends upon trade. It is therefore up to all of us as Australians to commit ourselves to this country; to commit ourselves to success, to boldness, to innovation; to seek out and develop new markets here and abroad, not merely by aping products and techniques devised overseas, but by developing our own products, our own expertise.

We cannot tell with accuracy how the world economy will fare, nor can we know with certainty what direction the MTN will take, or how rapidly world trade will grow.

Of one thing we can be certain. The stronger the Australian economy, the more we can develop our own products and expertise, the better we shall be able to withstand the difficulties and grasp the opportunities which lie ahead.

Our future depends above all upon ourselves - upon our capacity to overcome difficulties, to respond to change to meet future challenges. Our greatest resource is the skill and capacity of our people. It is time we used these qualities to the full to take advantage of our opportunities.

My Government will, through predictable and stable policies, give Australian industry the effective support and encouragement it needs.

We will do everything we can to re-establish the basic relationships which are essential to your health within the Australian economy - better profits, incentives for investment and development, and a lower inflation rate.

In this way, industry can once again thrive, invest and make profits and provide jobs.

I wish your Confederation every success.

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