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PRIME MINISTER

CHECK AGAINST DELIVERY

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**SPEECH BY THE PRIME MINISTER
MICRO-ECONOMIC REFORM: THE FOURTH TERM AGENDA
SYDNEY - 22 FEBRUARY 1990**

Last Friday, after I called upon the Governor-General to recommend an election be held on 24 March, I outlined to the media in Canberra the vital issues facing the Australian people in this election campaign.

I said that the election will determine whether we continue forward into the 1990's, creating a fair society, an efficient and productive economy and a healthy environment for ourselves and our children - or whether we turn the clock back to the days of entrenched privilege, lost opportunities and environmental degradation.

As the campaign progresses my Ministers and I will be spelling out our practical and progressive plan to take Australia through the 1990s and into the next century.

Yesterday, Paul Keating laid down the framework for Labor's macro-economic policies - a statement that demonstrated, once again, Labor's capacity to achieve real improvements in family living standards within a responsible and fully-funded fiscal framework.

Labor wants a modern, growing economy, shaken out of the old complacent dependence on commodity exports, re-equipped and restructured in its attitudes, institutions and technology, to be fully competitive in the world.

Fundamental to the achievement of this goal is the obtaining of more from any given level of human or capital resources through micro-economic reform.

As you know, Labor's achievements in micro-economic reform have already been far-reaching. The Australian economy is profoundly more efficient, less hamstrung - more competitive, less fettered - than it was when we came to office in 1983.

I am releasing a detailed list of our micro-reform achievements to date - so I will not detail them further here.

I will simply make the point that Australia is now well placed to maximise the gains from these reforms. Professor Ross Garnaut, in his recent report to me on Australia's links with Northeast Asia wrote that, after missing out on earlier opportunities up until the early 1980s:

"Australia's advantages this time are a wider community perception of the magnitude and complexity of the task, and a recent record of solid achievement on policy change in the directions that are necessary for long-term success. A start has been made on reform in most of the areas where change is necessary."

So I want to outline today ten central elements of Labor's fourth term micro-economic policy agenda.

I apologise in advance if the detail is somewhat technical.

But I want it very clearly understood from the outset of this campaign, that Labor's plans comprehensively dominate the debate about micro-economic reform in the 1990s.

Ours is an ambitious but achievable agenda that covers ten areas of critical importance to Australia's economic future - ten areas where Labor has both the plans and the means for further reform.

1. Aviation

The most significant impediments to growth in Australia's tourism industry are the regulations limiting aviation.

That is the clear conclusion of both the Industries Commission and the Garnaut Report.

We will continue to remove those impediments.

From November, new airlines will be able to compete on major routes for the first time. Already, at least two operators have foreshadowed genuine competition to the existing airlines.

My Government has ensured gateway access at major terminals for new entrants by negotiating terminal leases. The Federal Airports Corporation, the operator of our airport facilities, is discussing with airlines the establishment of common user facilities.

Where essential facilities would otherwise remain undeveloped, we will accept, as Ross Garnaut recommended, private development of airport or terminal facilities.

We are conducting a joint study of a single aviation market between Australia and New Zealand. It's appropriate to accelerate our consideration of trade in services, including the current exclusion of aviation from the Closer Economic Relations Agreement between Australia and New Zealand.

This naturally leads to the questions of domestic rights for Qantas and Air New Zealand, international aviation rights for domestic operators and the future possible links between Qantas and Australian Airlines. Professor Garnaut has highlighted the potential gains and we will carefully examine all the options.

We are also looking at the feasibility of a new international air freight operator. Proposals from a number of operators are before the Government.

As our crucial decision to build the Third Runway at Kingsford Smith Airport shows, we have the commitment to take the tough decisions in this area.

The third runway cannot, however, be built for some years. We will implement a system to allocate landing slots in peak periods following receipt of a traffic management review in the next few months.

2. Telecommunications

For Australia in particular, our isolation and size demand that we are able to communicate efficiently. Australian business must have access to the most recent technology. We must achieve better services through greater competition.

AUSTEL - our new telecommunications watch-dog - is reviewing the use of private networks. My Government will use this report to open the way to effective sharing of private networks between different corporations, without threatening Telecom's basic system.

Further reviews by AUSTEL are being undertaken in the area of mobile communications - cellular mobile telephone systems and cordless remote systems. Mobiles are a phenomenal growth area - look in any restaurant or city street - and we will be working towards increasing consumer choice in this area.

Also on my Government's fourth term agenda will be consideration of AUSTEL's review of Telecom's first phone monopoly which will expire on 1 July 1991.

And we are also examining the inter-relationship of the three public telecommunications operators with a view to achieving maximum efficiency. This will be in effect the first review of the total structure of telecommunications in many years, and can only lead to further improvement.

3. Industry Policy

Labor aims for nothing less than a fully competitive, internationally oriented, manufacturing sector.

From 1972 through to 1992 the average level of protection will have fallen by over 60% - all achieved by Labor Governments.

Professor Garnaut has recommended the complete removal of all tariffs by the year 2000. This recommendation will receive our very close assessment early in our fourth term, as I indicated when launching Ross Garnaut's report last November.

Under our existing policy approach, protection will decline significantly beyond 1992, and such declines will accompany broader policy moves to improve the business environment and the competitiveness of our industries.

Consistent with this, the new Industry Commission will handle a vast range of related references over our fourth term covering: the construction costs for major projects, the commercial tariff concession and by-law systems, export franchising, availability of capital, statutory marketing arrangements and raw material pricing for domestic use.

In addition the Industry Commission will review the passenger motor vehicle, dairy and sugar industries.

4. Shipping

We will promote internationally competitive shipping over our fourth term.

Our international shipping reforms in 1988 have received universal approval and even the Coalition has dropped this area from its agenda.

On coastal shipping, we will implement the recently revised guidelines allowing foreign flag ships to engage in Australian trade where domestic services are inadequate. The success of this change will be vital for the future of new resource based projects.

The incentives we have provided to overhaul this industry are a precondition for pragmatic change which allows competition but retains jobs.

Under our reforms new vessels are being rapidly introduced, half of which are net additions to the fleet. ANL has been returned to profitability. OECD standard manning levels have been achieved, without strikes, on more than a third of the fleet, and we will ensure that, by 1992, the rest of the fleet achieves this goal.

This "revolution" will be strike-free.

BHP has shown the way. It profitably operates Australian crewed vessels on triangulated runs internationally and on the coast.

We will be discussing with New Zealand means of lifting union bans on foreign vessels on the Tasman. These discussions need to involve unions from both countries and to focus on freeing up specific trades.

5. The Waterfront

On the waterfront, we will achieve a more than 20% increase in productivity in our fourth term through: redundancies for 3000 waterside workers; 1000 new and more skilled employees; transition to enterprise employment; training and multi-skilling of the workforce; and removal of outmoded management and work-practices. These are reforms unmatched since containerisation.

We are concerned about the lack of competition on the waterfront. We have already increased the resources of the Trade Practices Commission to allow them to investigate restrictive practices on the waterfront. We will now ask the TPC to report on any other activities which restrict competition or inhibit efficiency.

Stevedoring costs will be further decreased during our fourth term by the replacement of antiquated paper transactions with electronic data interchange.

This development, which will flow into road, rail and air cargo transport, stems directly from our waterfront reforms.

It will lower costs by up to \$200 million per annum.

It will also improve timeliness and reliability of cargo movement.

These reforms will lift waterfront productivity. They will justify the taxpayers' investment. Our next term will prove that.

6. Electricity Generation

One of the main impediments to export-oriented processing industries is the inefficiency of electricity generation.

Again, Professor Garnaut cited these industries as offering great scope for improved exports.

My Government has asked the Industry Commission to review electricity generation and distribution.

The Commission's report will hand my Government, and the public, a powerful weapon with which to combat resistance to reform from State and other interests.

Particularly, we will examine the private provision of electricity to industry, as recommended by Garnaut, with surplus or shortfall capacity able to be sold to or bought from the grid.

7. Railways

Increased rail efficiency will, for local firms, increase the effective size of Australia's domestic market.

And it will relieve pressures on the roads.

As with electricity generation, we have asked the Industry Commission to review the efficiency of Australian railways.

And as with electricity, we will use whatever powers are at our disposal to see that sensible recommendations are implemented.

We will not wait for the Industries Commission report, however, before finalising our current feasibility study on a national freight carrier - one integrated entity to move freight door to door across State boundaries.

8. Export of Services

Australia stands to earn substantial additional income from the export of services - especially to our dynamic Asia/Pacific region.

In health, education, the law and tourism, Australia offers attractive services that will be in increasing demand in the 1990s.

Austrade has identified \$150 million a year in earnings in health in the early 1990s; we are earning \$100 million a year in the export of legal services; education is already earning some \$200 million a year.

We intend sending early references to the Industry Commission on impediments to the export of both health and education services.

Austrade will move increasingly into these service export areas, including the export of legal services.

9. International Trade

Australia needs a competitive and fair international trading environment in which to participate.

And this is one of the starkest differences between us and the Coalition.

Andrew Peacock's flirtation with an Asia-Pacific trading bloc is extremely dangerous.

Imagine if he were able to pursue this option.

In the next few months, Australia becomes known - again - as a protectionist nation. The Cairns Group then collapses. Later this year, when the hard bargaining of the Uruguay Round commences, Australia has no voice.

Just comprehend the mindless irrelevancy of the Opposition. This Parliamentary Leader, Mr Peacock, calls for the creation of a trading bloc - and then his office said he didn't understand what a trading bloc is. The Federal Liberal Party President, Mr Elliot, says we should join the European Community - and his office, together with everyone else in the country, gives a collective horselaugh. And these people want to run our country!

The alternative, under our approach, is to see the Cairns Group retaining its very substantial clout. With the successful launching of the Asia-Pacific Economic Co-operation initiative, too, Australia is well-placed to put the case for reductions in international protection and improved overseas market opportunities. We will pursue these opportunities with vigour.

10. Education and the Labor market

Continuing education and labour market reforms are vital parts of the Government's fourth term agenda.

I will be talking further on education later in the campaign, and Paul Keating's statement yesterday went to labour market reform.

An element of Paul's statement that deserves special attention is the restructuring of assistance for the unemployed.

This is far-reaching micro-reform.

Indeed, it constitutes possibly the most important labour market reform since Federation.

Many developed economies - such as the United Kingdom and the USA - have spawned a permanent underclass of people for whom jobs, decent housing and relevant training are unattainable. With these reforms, we seek to ensure that in Australia, human resources are not wasted, and human aspirations can be fulfilled.

This reform is the culmination of our consistent increasing emphasis on training for employment rather than fostering the dole mentality. It is the antithesis of the Opposition approach which simply wants to replace the social safety net with a social trap door - let the unfortunate fall through and forget them.

Ladies and Gentlemen.

Institutions and attitudes can't be changed overnight. Results can never be immediate.

Public debate will be dominated by the vocal complaints of the minority who are adversely affected, rather than by the vast majority of consumers and taxpayers who are incrementally advantaged.

This underlines the need for creative thought, proper consultation and a willingness to ease the burdens on those facing change. It also shows that, at times, a Government needs to stand firm against those groups who, for short-term or selfish reasons, threaten to upset the gains that can be made by the community as a whole.

I've shown today Labor's credentials for this task. We have the energy and determination to develop a workable agenda for change. We have mastered the skills of consultation. And we have also shown we will stand firm where we have to.

Our political opponents understand none of this - and yet they repudiate all of it.

For them, consultation is a waste of time.

For them, standing firm involves too a high price - they would just cave-in, as they would have done with the pilots, whose irrelevant Federation is, understandably, now pumping for the Opposition in this election.

For the Opposition, productivity is an empty buzz word. They know it is something good, but they haven't the faintest notion of what to do if they were elected.

The Opposition Leader insults our intelligence by saying that his immediate implementation of a micro reform program will lower interest rates.

This is absurd, for at least three reasons.

First, markets will want to see improvements, not accept promises.

Indeed, the markets know that Opposition to change can temporarily make things worse.

Second, the performance response to micro reform is never fast, as I have said.

And often we must await new projects or new capacity to see the largest benefits: for example, from changes in coastal shipping.

Michael Stutchbury said in yesterday's Financial Review that "... to avoid the severe short-term indigestion costs of labour market deregulation, the productivity pay-off can only come slowly. And this means that Mr Peacock's promises of big and quick interest rate falls are baloney".

Third, the Liberals' policies, when you look at them, go nowhere.

Look at their promise to introduce company-based employment on the waterfront, and not pay money without genuine change. This is a shorthand description of Labor policies that are already being implemented.

In coastal shipping they'll introduce foreign competition. Full stop. No adjustment package, no consultation. What do they expect the coastal shippers' response to be?

Mr Peacock probably hasn't thought about it. But badly handled - and you know the Liberal's IR record - such moves could easily close Australia's sea transport for months.

Labor will achieve OECD manning limits, and the use of foreign vessels via continuous voyage permits. We had some heated discussion, but no industrial disruption.

The Coalition will cut tariffs, they say. Well, they never have before. Only Labor has.

The ultimate irony for those subjected to the Opposition's new-found enthusiasm for micro-reform is that much of the legacy of inefficiency that Labor is erasing today dates from the days of Liberal rule.

It was the Liberals who established the two airlines agreement and the system of waterfront pooling.

Today they have found voice to decry such inefficiencies - and to damn us for our slow pace of reform!

Late last year, when I was speaking at the National Press Club, I summarised my Government's achievements in micro-reform and I issued a very specific and pointed challenge.

I challenged anyone to find a period in Australia's history that had seen an achievement of micro-reform that came within a bull's roar of ours.

That was on 7 December - 77 days ago.

The response to my challenge from the Opposition, those faint-hearted champions of productivity, has been total silence.

That silence speaks more eloquently than words; it virtually shouts from the rooftops; it declares that when it comes to micro-economic reform, Labor in the 1980s set an unparalleled pace of reform.

My first challenge has gone unanswered. So let me issue another today.

Now that I have announced Labor's agenda for reform in the 1990s, let the Opposition reply.

Let them show how they would match the rapid pace of reform we will set - and to do so without sacrificing the jobs of thousands of Australians and without wrecking the successful integration of Australian industry into a competitive international environment.

Labor set the pace for micro-reform in the 1980s.

And it will be Labor in the 1990s who will maintain that pace. Not glib promises, not the slick phrase but real, determined, well thought out action to take Australia fully, competitively, into the vigorous and highly lucrative international economy.

MICROECONOMIC REFORM UNDER LABOR

1. General Tariff Reform

With the exception of the two industries described below and a small number of rates that would otherwise have become anomalous, all tariffs above 15% are being reduced to 15%, and those tariffs between 10% and 15% are being reduced to 10%, all over 4 years to July 1992. The general revenue duty of 2% was abolished at a cost of \$240m.

2. Motor Vehicle Tariff Reform

Tariff quotas on motor vehicles were removed and tariffs are to be reduced from 57½% to 35% by January 1992.

3. Textiles, Clothing and Footwear Protection Reform

Quotas are to be phased out by 1 July 1995 to leave tariff-only protection.

4. May 1988 Agricultural Reforms

Assistance to sugar, dried vine fruit, tobacco and citrus industries was converted to tariff and subject to the same reductions as applied to manufacturing industry and some domestic administered price arrangements were liberalised (eg. dairy). Removal of fertiliser subsidy.

5. Foreign Exchange Market

The \$A has been floated and the major part of existing exchange controls have been abolished. The Government authorised 40 companies to deal on the foreign exchange market, thereby broadening that market from its dominance by the major banks.

6. Banking Sector

All maturity controls on bank deposits have been removed, thereby enabling banks to compete in the short term money market. Following consideration of 42 applications, 16 partly or wholly foreign based applicants were invited to establish banking operations in Australia. The interest rates ceilings on bank loans under \$100,000 has been removed; the ceiling on bank home loans has been removed; the distinction between trading and savings banks has been removed; and the SRD requirement has been replaced with a non-callable deposit (NCD) requirement.

7. Non-Bank Sector

The "30/20 rule" (which allowed tax concessions to life offices and super funds provided they held at least 30% of assets in public securities and at least 20% in CGS) has been abolished. On 1 July 1987, the Cheques Payments Orders Act came into operation enabling non-bank financial institutions (NBFIs) to issue cheque-like instruments called payment orders and thereby compete better with banks in the demand deposit market.

8. Deregulation of Foreign Investment

Most investments are approved unless judged contrary to the national interest. As a further step, the Treasurer in January 1988 announced changes to the foreign investment guidelines as they apply to oil and gas projects over \$10 million. Today, all proposals in the oils and gas sector are approved unless judged contrary.

9. Termination of the Two Airline Agreement

Present regulation limits competition on trunk routes between 18 Australian cities to two airlines. Prices are set by a Tribunal. On termination of these arrangements at the earliest practical date (October 1990), all routes will be thrown open to competition, prices will be set by the market, and new entrants will be guaranteed gates at all major airports. Also "user pays" pricing for use of airport facilities will allow the Federal Airports Corporation to respond quickly to industry needs for new facilities. At least two new entrants are at an advanced stage of planning for major trunk operations.

10. International Passenger Charter Policy

Charter flights for tourists have been broadly deregulated. Programs of charters are now strongly encouraged and previous restrictions designed to protect scheduled carriers have been reduced to the minimum consistent with Air Service Agreement obligations. Canberra, Perth and Cairns have as a result received the benefit of major new tourist flight programs.

11. International Air Freight

Both charter and scheduled capacity have been strongly encouraged through virtual deregulation in the case of the former and positive negotiating stances in the case of the latter. Charter flights have increased from 167 to 956 over the life of the Government. Scheduled capacity is up from 85,000 tonnes outbound to 166,000 tonnes.

12. Grain Handling Reform

Recommended reforms were estimated to produce cost savings of up to \$10 per tonne (more than \$100 million a year in total). Whilst the Commonwealth legislated to implement those recommendations which fell within its responsibility, action at the State level was disappointing. In view of this, the Government decided to use Commonwealth powers over export and interstate trade to include in new wheat marketing legislation provisions to regulate to exempt the AWB and other grain trading corporations from restrictive State legislation in the areas of grain storage, handling and transport and the marketing of wheat.

13. Telecommunications Reform Package of May 1988

Allows effective competition in the provision of customer premises equipment (eg PABX), value-added services (eg answering machines) and other telecommunications services (eg phone maintenance, installation of second and subsequent phones) through regulatory changes and the establishment of AUSTEL. This independent body will subsume Telecom's regulatory functions, so allowing effective competition.

14. Company Tax Reform

The corporate tax rate, in one step, has been cut from 49 per cent to 39 per cent. This built upon earlier reforms, which abolished the double taxation of dividends through introduction of the imputation system, and was accompanied by major reforms to the company tax base to remove tax distortions. Depreciation provisions were brought into line with the economic life of assets, removing 5/3 year depreciation provisions which distorted decision making. Likewise concessions, favouring particular industries such as gold mining, agriculture, life offices and other groups were removed.

15. Reform of Government Business Enterprises (GBEs)

Over 40 longstanding controls have been removed from nearly all GBEs, allowing them, for example, to enter into contracts without Ministerial approval; exempting GBEs from processes under the Public Works Committee Act 1969; extending their ability to invest surplus monies and enter loan contracts without Government approval; providing to boards the right to dismiss a Chief Executive; removing many public service staffing and administrative practices; and allowing GBEs to establish their own superannuation schemes.

16. The Industrial Relations Act 1988

Places special emphasis on settling disputes at the workplace level, provides scope for greater flexibility with respect to working arrangements and remuneration, requires unions to increase membership to at least 1000 and facilitates union amalgamation.

17. Award Restructuring

This offers the prospect of substantial workplace reform, in particular reform of Australia's traditional craft based union structure. To a significant extent, the success of award restructuring has been and remains dependent on the initiative shown by management in fully exploring the opportunities offered.

18. Deregulation of Oil Marketing

Effective from 1 January 1988 refiners and crude oil producers are able to negotiate freely the quantities and prices of crude oil they buy and sell.

19. Natural Gas

The Government has terminated the administered pricing formula, allowing a more flexible approach to price setting, and relegated export controls to a strictly reserve power.

20. Request and Response Procedure

For review of existing regulations - announced in December 1988, provides for industry-driven regulatory reform.

21. Coastal Shipping

Program to reduce industry costs by incentives to replace old, ineffective ships with new vessels - as a result, 25 new vessels have been ordered or introduced (one-third of the coastal fleet). This is linked explicitly to lower manning levels and multiskilling of crews on the new vessels - average crew sizes have as a result fallen from 33 in 1983 to the mid 20s now and will be 21 by 1992 (equal to OECD levels). With a program to alter leave and other conditions the number of crew per berth should fall from 2.2 to 2. In order to see that these cost savings are passed on to users, a Prices Surveillance Authority review will take place. The new policy permits foreign vessels onto the Australian coast where Australian vessels cannot meet customer requirements.

22. Waterfront

By 1992, all major stevedoring operations should be fully responsible for their own work forces rather than dependent on a "pool" system financed by levies. The present system allows no flexibility in employment arrangements and little in terms of pricing between operators. The new system will make the waterfront labour market similar to that in other industries; this is an essential precondition to competition.

Further, the industry and the Government have agreed to finance a package to release from the industry 3000 of its least productive members, and bring in 1000 new employees. Together with multi-skilling, the removal of poor work practices and new investment, this will raise productivity by over 20%. Container depots will be freed from all constraints on competition.

23. Defence Industry Reform

There has been a massive program of restructuring Government-owned defence facilities. The Government sold the Williamstown Naval Dockyard in Victoria and the aircraft workshop in South Australia; it converted the former Government Aircraft Factories at Fishermen's Bend and Avalon into a Government-owned enterprise, Aerospace Technologies of Australia, run strictly on business lines. Since 1984 the annual cost to the taxpayer of subsidies to our Government-owned defence factories has been cut by around \$250 million. The number of employees in dedicated defence manufacturing facilities has been reduced from more than 15,000 to 6,800 employees.