



# PRIME MINISTER

**JOINT PRESS CONFERENCE WITH THE PRIME MINISTER, THE  
HON P J KEATING MP AND THE MINISTER FOR INDUSTRY SCIENCE AND  
TECHNOLOGY, SENATOR THE HON PETER COOK  
WORLD CONGRESS CENTRE, MELBOURNE, 6 DECEMBER 1995**

## **E&OE PROOF COPY**

**PM:** Well, ladies and gentlemen, you know that I had the opportunity of delivering on behalf of the Government this statement to the National Trade and Investment Outlook Conference, which is now a very large forum for advancing Australia's trade development and trade policies. And we are getting a very high degree of attendance, larger constituencies from various countries and business communities around the world and particularly around the region. And we are very pleased with the progress of it.

So we thought given that much of what we are doing here today is building on the successful industry policy structure we have put into place, it was important to put that in the context of where Australia is growing in trade and investment in the region and to say in which way it is changing and to take the policy framework further and that we are doing.

Could I say that the principal driver of the process has been my colleague, Peter Cook, as Minister with industry responsibilities and I think that you will see by the nature of the package that, as I said in the Conference today, we are long past the notion of whether we are free trade, or protection, or those old debates. But rather how we can grow out, further, product innovation, research and development, applying better ideas and seeing which way we can help small and medium sized business communities and this - can I say also - my colleague, Senator Schacht, has had a substantial role to play and in doing this, looking into the package as a way of further developing innovative policy in Australia.

This is part of a package. It is a responsible package. It is, in fact, raising about \$350 million more in revenue than we are actually spending over the next four years. But, I think, it is important to show that money of this dimension, sensibly spent, can have a big impact in filling out the picture, in building on what we have now in terms of our trade development, in terms of the development of Austrade, in terms of our outreach programs and, of course, in the big context of APEC etc.

It further underlines a central thing too which this Government has always been committed, which is competition. It is through competition - which we have had by dropping the tariff wall, by micro-economic reform, by opening up the airline system, in whichever field you wish to focus on - that competitive urge is what is making Australia more efficient, where we have seen productivity higher, inflation lower and our trade competitiveness in better shape.

So we need to provide the sort of fine textured detail on how to grow and prosper in the world and, I think, that this sort of a statement wouldn't have been possible, it wouldn't have meant anything, in Australia ten years ago. But, of course, now it fits I think very well the niche we need for it.

It has got a number of elements to it. Perhaps I can just flick over them and then Peter can round out my remarks. We have always had a very strong public sector research and development effort. We have a very large commitment. We spent about \$3 1/2 billion on current public sector support for R&D. We have now succeeded, I think, in building private business R&D and you can see that with a lot of Australian specialised businesses now. What we are seeking to do here is to improve that. Also, focussing on some major facilities which will advance that effort and then looking at such things as the extension of the 150%, the Major Facilities Program, the Cooperative Research Centres, in commercialisation, using ideas. For instance, in areas such as the specialised manufacturing technologies of Fraunhofer type institutes, or the Queensland Manufacturing Institute - taking that further, linking Australia to world leading edge technologies. All these ways of deepening our innovation and our propensity to use it.

There is also, I think, an important change here for the support in equity of small and medium sized enterprises through encouraging banks into the equity business. It is banks, after all, who have the closest focus on medium sized firms, who know more about their prospects and their management than say any funds management institution would. And we think this will be an important component for the equity support of businesses which are already up and running and which require that kind of support.

And then reaching out to the world, we have got the TradeBlazer program which is, again, looking at not only providing, if you like, on-line advertising for one's product and the capacity to link to a market abroad. But, also, to actually do your business on-line and do the customers procedures and all the payments system being on-line too and this, I think, is a very innovative program.

We have got the proposal where we are going to use funds with other commercial enterprises in building up a trading house capacity in Osaka, in Japan. We have had approaches over the years from the Kansai region. Set up costs in that part of Japan are lower than in Tokyo and Kansai has a

population almost twice the size of Australia and, therefore, we think this is a good place to try and advance further the whole notion we have had with Austrade and start to focus it in, in a practical way, on these things. But not the Government doing it - doing it with private business, but us helping.

In new ways to operate, we have got the leading edge customers, encouraging suppliers. We have got the response to the Karpin Report. In industry technology, further developing the whole notion of access with schools and young people, children, communities and, in content, through the Creative Nation on-line services developing that further. And in industry, with the computer bounty, helping firms operate with the TradeBlazer concept, the Highway Ready Scheme.

As you know, we are rolling out the cable in Australia now very quickly through Telstra and through Optus. We have got an ambitious regulatory environment post-1997 into place. We have already seen prices falling. There is about a \$1/2 billion benefit, in recent times, to the whole community from falling telecommunications prices. And so that IT componentry, the access and content of the industry, the regulatory environment, all this complements the general thrust of bringing innovation to Australia.

So I complete on these notes to say that what governments have got to do now is be alert to the directions in which innovation is heading, in which ways government might help to spur that process and to know that in all these international and competitive things - like benchmarking and the focus on leading edge technologies and the dissemination of these ideas and the linking of small and medium sized businesses into it - are the way in which the trade debate, under this Government, is heading.

And my colleague, Peter Cook, has been the driver of this and I would now like him to round out my remarks. Thank you, Peter.

PC: Well thanks, Paul, and thank you ladies and gentlemen. Can I just start by saying this is a fully costed package as Paul has said. It falls easily into five parts: generating ideas; once you have generated them, commercialising them; how Australia then links to the world; and new ideas of business in the workplace; plus accelerating ideas, bringing us all into convergence with the superhighway.

I would describe this as really the post-debate for the tariff free trade argument in Australia. We have passed that. We have crossed the Rubicon. We are looking at Australia in the international open market as a competitive nation and what this package does is build our scientific prowess, which is considerable, with our commercial sector. Commercialising the ideas that we create in Australia to give us a sharper edge and a more competitive edge in a more open APEC trading environment. And so it is about Australia winning in APEC and winning in the world as an outcome for the free trade market that we are creating.

Can I also say that one of the questions I am often most asked is where are the jobs coming from in the future in the next century. This is a package that addresses that full on. As Paul said in his speech, we have invested a huge amount in education, skill and training in this country. This is a natural out-growth of that significant investment in education because we are talking here about intellectual industry - intellectual industry in the next century - and positioning Australia to be a leading provider of that in this market.

The main elements that I think have been left to me, however, is to say that this package also involves a major investment by Australia in new science facilities - \$62.4 million - which was funded under the Working Nation program and which means investment for Australian science in new infrastructure that will underpin its international leadership position. Now that goes to the Australian Telescope, upgrading of that, building interchange links between Australian astronomers and world astronomers. It goes to renting some time on the Synchrotron Research Program and expanding our cooperation with the Japanese on Synchrotron research. That is all a very, very important element for our science community. It involves, as well, the Genome Research Facility at the cost of \$10 million, which we will establish now based in the University of Queensland and the Walter and Eliza Hall Institute of Medical Research in the Royal Melbourne Hospital.

\$8.5 million on Airborne Research, which is to do studies including the ozone layer, water and soil evaluation studies, remote sensing studies, studies on oceanography and environmental monitoring studies - this is an area where Australia does have a world leadership, this facility will consolidate that leadership.

The Proteome Analysis Centre at \$7 million will study the structure of proteins formed from genes and fit closely into the Genome Facility that we are funding. And the Plasma Fusion Research Facility at a cost of \$8.7 million, which will look at energy fusion options.

All of those will give Australian scientists major facilities enabling them to continue their leadership role in these sectors of the economy and they will be facilities in Australia. And, under the arrangements that we have worked with out with APEC Science Ministers, we will have some of them come and work with us - some of their scientists from this region - as well on our facilities, so that we can build closer links within the region which we can husband internationally.

So, for me, if I had to describe this in a brief summary call, I would say that what the Snowy Mountains Scheme did for Australia in the 1950s, this package is aimed at doing for Australia in intellectual industry in the next century and putting Australian intellectual infrastructure in place to capture what will be the new frontiers of industry in this region and the world in five years to time, for the next millennium.

- PM: Well thank you, Peter. I think we are actually happy to take questions.
- J: Mr Keating, some would say you are taking more out of research and development than you are putting in .... [inaudible]?
- PM: No, not out of research and development. It is taking it out of, some times, the hands of some of the tax professionals doing that. But it is not taking out of R&D and the closer focus of the measures means that - and also using money directly into some of the other related programs, other than by the tax system - the overall R&D effort will be more effective.
- J: How quickly, Prime Minister, will you expect the changes to withholding tax on the arrangements of banks to translate into cuts in interest rates and are you able to quantify that at all?
- PM: Well I mean, I think, the changes that take effect on 1 January 1996 - we will still have to legislate the changes - but their impact, I think I wouldn't want to make a judgement about their impact on interest rates at this point.
- J: Prime Minister, there is an extra \$350 million to play with, where would you like to direct that?
- PM: Well the Government will be announcing a series of statements over ensuing months and, of course, that will be employed on that task.
- J: Will part of the money be put into the housing statement?
- PM: Well we have got a housing statement coming, which is I think it is going to be a very large change in policy and it may require some of these funds. But I am not sure that it will.
- J: Prime Minister, in your speech you expressed some scepticism about the possibility of educating superannuation fund trustees about making money, equity funds, available for small and medium enterprises. Do you have any ideas, any carrots, or sticks in mind for helping to educate them in that area?
- PM: No, but I think it is important that .... I mean a lot of trustees are conscious of their trustees' obligations and they feel, correctly, the impulse to be prudent and to be cautious. It is a matter of letting them understand that within the framework of that prudence that they can do things which are better for their funds, for their earnings, for their members, and for the economy. But they need to get their confidence levels up and I think that is all about education. And then, of course, with it up, they will be more demanding of the funds management industry and it will commensurately have to improve its act as time goes on. So I think given the fact that we are moving now down the road of a Government engendered in Government sponsored, but privately operated, national savings schemes through superannuation, we need to get the private participants role in it up and, I think, this is one of the ways of doing it.

- J: Prime Minister, who has been rorting the R&D allowance system and how have they been getting away with it?
- PM: Well the Tax Commissioner could probably give you that advice, I can't Malcolm. But one thing is certain, that Peter Cook and I - and before Peter, John Button - we have taken the view that we want to make a statement about research and development and the importance of innovation in the Australian corporate culture. We haven't had the spread of R&D into the private economy in this country as we have seen in comparable economies. We have got a very big concentration in the public sector. We wanted to underwrite, very obviously, investment in research and development and we have done that by allowing 150% deduction for investment there. But, like any concession in the system - glaring concession as this is, as we want it to be - the tax professionals will be in there trying to work out how they can use it to shelter income, or avoid income. Some of that, we think, has been going on and these changes should yield savings to the Budget which won't diminish the R&D effort in the nation overall. But will certainly improve the Budget balance and let us have a better bank for the buck in industry policy terms.
- J: Prime Minister, it won't be easy .... banks to buy equity ... John Howard announced it two weeks ago .....
- PM: No, no, let me just correct this. John Howard's idea of policy is to find out what we might be doing through the bureaucracy and try to announce it before we actually get the documents down.
- J: So are you saying he pinched your idea?
- PM: Look he doesn't have any ideas. So must of the stuff that comes from him is from us. I mean this is a derivative business. He derives much of his stuff from gossip around the corridors or from the bureaucracy. In this respect, can I say to you, before John Howard ever made that statement, I had had long meetings with a couple of the managing directors of the major banks, going through the tax principles involved, whether they were accruals taxed, whether there were tax choices between accruals and realisations on one side, whether we would have in the tax system the tax treatment of it being either on realisations or an accruals basis, guaranteeing symmetry of tax treatment on the way through. And in that long debate, when you are involving private companies - as we are with private banks - even for those who have difficulty recognising a policy idea, there was probably so much of the bits and pieces around the landscape that Mr Howard has tripped over one. But let me assure you that was all on weeks and weeks before John Howard ever said a word about it.
- J: John Howard has these great contacts, these great sources ....

PM: Well can I just say, he doesn't have them though, Laurie. You see what he does is he picks up the threads and the thread he picked up on the growth numbers, of course, today he exposed himself on AM.

J: He is right on one leg. Why shouldn't he be right about the other one?

PM: Well where did you get that notion from?

J: You claim he got a leak about your policy here. So how can you dismiss ....

PM: In other words, a leak about something in industry policy we have been speaking to a bank about, means that any leaks he gets on anything else must be right.

J: [inaudible]

PM: Now, Laurie, even for a champion leaker like you, with Budgets and other things to your name, even you wouldn't subscribe to those principles. And I thought John Howard put himself down eloquently today by saying, when asked by the compere 'you don't really have an idea about this Mr Howard do you?' And he virtually admitted he didn't.

Can I just say about the growth figures. We are in our seventeenth quarter of growth, we have been through our seventeenth quarter of growth and we are in our eighteenth. And certainly the strong contribution which we saw in the September quarter from the rural sector which has come, of course, from the breaking of the drought in some areas. It won't be repeated and stocks may detract from growth, but there is going to be a very strong contribution there from the public sector and from investment in plant and equipment which fell last time, but we think we will be stronger through this quarter. The bottom line is we believe we are in our eighteenth quarter of growth and, I think, most of the private economists agree with us and if you turn up our famous The Economist magazine forecast, they have got for Australia in 1996 3.1 per cent, which is of course, very strong growth.

J: One more question Prime Minister, Mr Beazley on Sunday didn't seem entirely confident about that?

PM: It is your judgement about the degree of confidence. I am entirely confident that we are in a growth quarter and we have already created the post war record last quarter. The country has never had 17 consecutive quarters of growth since the war. It has now had it and we are now in our eighteenth quarter. Remember this, John Hewson said before the last election that we were going into a double dip recession and then as he got gloomier, we were going into a depression. You might remember John Howard echoed those comments in the lead up to the 1993 election. This is the Howard version of the Hewson foray into econometrics and economy forecasting. He is trying to get everyone ready to think that while we have had this huge growth phase which he formerly described as a double dip recession and a depression, making them seem complete jokes both of them, he is now

trying to say 'oh, oh, the best days are over'. Remember his five minutes of sunshine. I don't know how many five minutes there are in 17 quarters.

J: ... figures for the 18 quarters of economic growth ...

PM: I'm not sure when they are published.

J: March 20?

PM: March 20, if you ask me to assure you about the election campaign date, of course I wouldn't.

J: Prime Minister, I am a reporter from Taiwan's Commercial Times, my question is in regard to a story published in our newspaper that Australia ... there, Australians have a lot of business because Canberra can not stand up to China over the issue of Taiwan, I would like to have your comment on this.

PM: I don't think that has been a major factor in the development of our exports. Our policy is well known on this issue and during the period when this has most been debated around the world, Australian exports have gone from 13 per cent of gross domestic product to 22 per cent of gross domestic product. So, if it is restraining our growth in exports it is not apparent.

J: Prime Minister, one of the innovations here in Victoria causing controversy is the Citylink project. You have got your reservations about that, but can you confirm that there will be no changes under Federal law to the tax treatment of that project even though you disagree with it?

PM: The Federal law in respect of the Melbourne Citylink has never been an issue. It is a matter for the Victorian Government and they want to avail themselves of these capacities, the capacity under the tax system to do things, it is a matter of how they construct packages with private companies and what they have to do to make them work. If Jeff Kennett wants to make a sheep run out of the Citylink it is his business. It is like saying to the Commonwealth 'well, if some company is doing one thing or another because they are all subject to the Australian taxation system in some way then the Commonwealth is responsible'. Well, of course, it isn't unless, of course it is out in the area of tax avoidance or something like that.

J: Mr Keating, how much damage could Mr Howard cause by talking up a recession at the moment?

PM: Well, it didn't do Dr Hewson much good and, I think, this sort of what I call studied gloominess Mr Howard now has won't do him any good and, of course, it is not meant to do the economy any good and that has been their stock in trade. They have tried to score off the backs of the Australian people and their progress for their own miserable political ends. I think, Mr Howard running around talking about negative growth in this quarter is just like the unbelievability of his five minutes of sunshine line.



- J: ... any interest rate cut that might occur before the next election then has the gloss taken off it and seen in the context of an economy stalling, just as he as predicted?
- PM: Not at all. The Government has made it very clear, as I have all the years I have been the Treasurer or Prime Minister, that interest rates are adjusted when they need to be not in response to the political circumstances. Let me remind you of the former Governor of the Reserve Bank. He said 'relations with the government have been entirely proper, but only an insider could know this was not always so.' That is alluding to John Howard's period as Treasurer and his intervention in interest rate setting and Dr Hewson's intervention when he worked for Mr Howard - forays which were famous in the corridors of the bank. Now, this never happened under this Government and it is not happening now. Mr Fraser has made it very clear that if he sees a need for interest rates to shift and he approaches the government and the government agrees, the initiative for that will come in response to the economic circumstances. In other words, it will be entirely and I think Mr Fraser will take this view, that he may or may not do things which are seen to advantage the government just the same as he might do the contrary. In other words, he won't be taking any notice of the comments of commentators about making shifts in policy in response to the electoral cycle.
- J: ... (inaudible) ...
- PM: I got asked all those silly questions for years and I gave silly answers, but I have run out of them.
- J: Prime Minister, can I ask .... you ... John Howard ...
- PM: Well, I'm just saying and let me just get this clear. This is a policy which we have developed over, now, quite a long period of time. We have been thinking about it for well over a year, probably 18 months or so.
- J: That being the case Prime Minister, why then did Senator Cook bucket it?
- PC: Let me indeed answer that, because if you compared what he said to what we are doing, my criticism of the broad idea which we were at that stage refining was that his structure of it, the idea in the broad that he had pinched would have caused the advantage to drift to the big end of town. This is a targeted measure which is aimed squarely in the heartland of where it is needed among small to medium sized companies and what he missed out on was the policy refinement we brought to this measure.
- PM: The real debate about this measure was, apart from the prudential question of the Reserve Bank, but in the terms of the tax treatment was whether a bank investing in a company which was experiencing loses could actually deduct those loses in the year in which the loses, were actually hitting the balance sheet. In other words, were we going to tax them on an accruals

basis where as they got the deduction for loses, they were given it, but when the company went into profit they were then taxed on an accruals basis as it went into profit. Now, it won't surprise you to know that some of the banks wanted accruals deductions for loses, but realisation taxation for gains. The point I made to them was that we had to have symmetry of tax treatment, not asymmetry. You couldn't have accrual deductions for loses on one hand, but not accruals taxations for gains on the other and whether they weren't better opting for the tax treatment under capital gains where they're taxed ... they get the benefit of deferment and they are taxed on a realisations basis only. In the end, I think, this is what they have chosen as the best way to go. It is certainly the way the government believes it is best, but that has involved a number of meetings, no doubt a number of papers being written in banks and a bit of this stuff has fallen in Mr Howard's hands. We have seen no policy detail from him, but he is quite happy to run out and blurt this out knowing full well that the government had the matter well and truly in hand for a long time.

J: .. how can you say that business finance is targeted ... guidelines ...

PC: No, we have said it is for equity finance between \$2 million and \$50 million and it is in that area that we are proposing to the Reserve Bank for the guidelines to be reconsidered and that is the area where most Australian small to medium sized companies operate at.

J: ... companies access to funds to actually start up ... emphasise ... why can't ... supervised access ...

PM: Well, we have had that in the past with MICs and other instruments, but what we have found is that the costs of first of all researching out the companies, seeing what the value of the innovation is, how it might be applied, how it might be commercialised before one dollar is actually put into the business. These have got very high background costs and the dollars that need to be committed for the outcome or output have, whenever we have seen them, not been there. With the MIC companies what we found was that were it not for the value of the tax concession we would not have had the investment. There was no genuine interest in investment by the funds management business in what they might see as the blue sky of high growth, innovative companies. We have, I think, discerned the greater need for those to be who are already up and running, but who are desperately short of equity or capital and can't get it. Often companies that have capital, so called, or equity, the equity has been borrowed from someone else - maybe relatives or maybe a financial institution or some other business - yet if they have equity, I think, the attitude of the banks would be and they can speak for themselves, but if they stay in these companies for four or five years, build them up and then offer the equity back to the original owners or anyone else that wants to take a part in the business. That is, they get them on their feet, put the equity in them and then move out of them

For banks who are looking at a marginal return on debt at best and 100 per cent loss at worst, or a large part there of and requiring something like 11 and 12 per cent return on funds, it's going to help them flesh out their return on funds if they invest in companies that actually grow and produce high levels of earnings. In other words, for banks that are facing competition now in the banking system for housing and some of the staples where their margins are being thinned out, this will be a useful area for them and, I think, given the fact that banks are closer to most companies, they can get the specialisation there that a funds management business can't.

So, that is why, I think, it is a real opportunity for the banking system because we are seeing the whole basis of banking change. Banking is changing, where once people had the mortgage, that was the foundation building block of their relationship with the bank. Those mortgages are now being packaged up and sold into the bond markets. The founding relationship with the bank now is your credit card, the plastic card and it is through the plastic card and transaction charges that banks are making their earnings and, I think, this gives banks another area in which they can actually lift their profitability and do some good things for companies.

We think those medium range companies, the ones that have got money, are already going, is where the greater need is rather than us trying to devote a substantial slab of our own equity to a venture capital business.

- PC: Can I also say the premise is a bit wrong. Have a look at the research commercialisation program which is \$10 million over four years to help public sector science products to be commercialised which is, really, at the very early stages of start up and the Australian technology group which helps private sector start up companies get their product commercialised too. This is an area in which there are positive supports for very early first stage commercialisation.
- J: Prime Minister, given your interest in family television, how much input did you have in this so called 'V' chip proposal to cut offensive material off?
- PM: This technology is around the world, it is about these days and we are going to see how it might be applied and, I think, Michael Lee is going to talk to the broadcasting authorities about how and in which way it might be used. But obviously, the capacity is there if a family wants to block out some of this violence in television or particular categories of programs that seems to me to be a very democratic choice that the technology will offer them.
- J: ... (inaudible) ...
- PM: I don't know, free to air broadcasting is a science all of its own. There are greater authorities on that in this country than me.
- J: Prime Minister, your forecasts are quite specific, how confident are you that you will actually meet those forecasts and will there be any pressure on the

R&D body like the industry board et cetera to actually ensure that those targets are met by limiting access to the tax concessions?

PM: Well, there is always pressure in the tax system particularly when the accountants are in there in a big way in some areas and no doubt we will get pressure from this, but again, I think, good policy is best achieved by being clear about what the objectives are and going after them. I cut my teeth on the Fringe Benefits Tax and the Capital Gains Tax and a few of those other icons, so this one is very much par for the course.

J: Mr Keating, a question not about the election, but after the election. If the government is returned ...

PM: When the government is returned.

J: It is good to see your confidence. If the government is returned to office what are the two most important things that you would like to achieve in that term of office?

PM: This is all election campaign material, you are wanting a peek-a-boo into the campaign, telescoping into the campaign? Well, I think, the most important thing we have done in this Parliament is the development of APEC. From a cold start we have now set up the political infrastructure of the Asia-Pacific and a trade structure there and the integration of Australia with Asia, I think, has been one of the things in this Parliament we have concentrated on - all of us - I mean, Peter as Trade Minister at the conclusion of the GATT round and then into industry and his lock in to all these export markets. That is one thing and the other thing, of course, is you can't do these things without understanding some of the core elements of our identity. Of course, the issue which will most focus that in the next Parliament will be the republic.

J: Mr Howard [cross media] ... (inaudible) ... Kerry Packer?

PM: Did you notice he slipped this little one out on a Perth radio station late for the evening news and he had to wait until the Parliament got up before he said that he thought he would get rid of the cross media rules. To say that he thinks that television owners can own print in the same city.

J: ... we are seeing now between Rupert Murdoch and Kerry Packer increasing links over recent months, there is no such thing as this being the Packer candidate, I mean a Packer-Murdoch conglomerate.

PM: I think that you should have read closely the fine print of Mr Kitney's story last week and you would have found that Mr Howard's expressions which I believe largely came from his end of year drinks party made it very clear where his loyalties were going to be. He was telling us a couple of years ago we should junk the foreign investment policy and now he is getting all very het up about Australian owners of television and media assets. I think

Rupert Murdoch knows it doesn't mean him, so he might be slipping past one or two of you, but I doubt if he is slipping past Rupert.

J: ... (inaudible) ... [contribution to the Carmen Lawrence Fund]

PM: I think I probably will, yes.

J: ... (inaudible) ... [how much?]

PM: Why should I tell you?

J: ... (inaudible) ...

PM: No, everyone can make their own minds up about these things. This is some moral issue here as the Coalition who have staged a \$5 million royal commission against one person and then when that person seeks representation before the commission as other people have done, as Nick Griener has done and Mr Grey in Tasmania has done, she has been denied the appropriate finance by a very snaky and spiteful opposition. I would like to see how they feel about that if Mr Court was drawing on the resources of his boat building business to pay for some of his freight.

J: Mr Keating, if the superannuation education campaign fails to change the behaviour of fund managers, could you consider other incentives given the frustrations you have expressed about their performance?

PM: We are going through a very interesting time in the building of a pool of national assets that we know that have been privately funded and privately managed and we hope can be privately employed in a way that really benefits the nation and to individual superannuants. I think, that the debates that we have been having, whatever the occasions of them may be, are good for this process and, I think, these sorts of things are going to be good for it to try to encourage trustees to know more about the business they are in and be more discerning about who manages their funds. To be picky and choosy about who does it, why, what their objectives are et cetera. But when we get that diversity in funds management, the market itself will start picking out the people with the bigger ... I mean, the specialisation you see in the US fund markets is there where some fund managers distinguish themselves by consistently higher levels of earnings. This will just draw custom to them, so others will fall by the wayside and that has already been happening. You can see it with the changes of the AMP Society, the changes in management there.

J: Mr Keating, with the changes in the Reserve Bank guidelines to allow them to invest in small and medium sized businesses for the first time, what sort of safe guards will there be to ensure that the banks don't, in fact, demand equity in small businesses in return for extending credit.

PM: Some of these issues will need to be worked out between the bank and the banking system, but I think, there is a big opportunity here being given to

the banking system. I notice Mr Mercer in the print today talking about the future of banking and I think this is one of the innovative things that banks can do and do well. Given the opportunity, I think, they will make the most of it with the Reserve Bank.

J: You don't believe ... (inaudible) ...

PM: Well, let's see how the regime comes out.

J: Can you spell out what limits will apply in the prudential guidelines as to what sort of companies they can lend to and how much of their issued capital ...

PM: Obviously, we will be more precautionary about it than we would be if this was obviously a scheme that is up and running. They are all subjects that we will attend to, I think, in defining that.

J: ... how much money they might be prepared to put into this venture?

PM: ... would contribute to the order of \$300-400 million in the first tranche which is a sizeable slab of capital given that we are talking about companies needing somewhere between probably \$210 million and maybe \$215-220 million. It is going to be a healthy addition and certainly to the stock of companies which any one particular bank has the relationship with.

J: ... (inaudible) ...

PM: I could, but I don't know whether I should Michelle (Grattan). I will just say that I have had strong indications from the banks, in general, that they see a future for themselves here and, I think, they will take the opportunity up. I thank you all for coming.

ends