



PRIME MINISTER

**SPEECH BY THE PRIME MINISTER, THE HON P J KEATING MP
THE NATIONAL TRADE AND INVESTMENT OUTLOOK CONFERENCE
MELBOURNE, 6 DECEMBER 1995**

I am very pleased to be here to address this National Trade and Investment Outlook Conference - for the third successive year.

The innovative Minister for Industry Science and Technology, Peter Cook, was instrumental in establishing the conference and the Australian Government is pleased to sponsor it. NTIOC has become one of the more important conferences on the business calendar.

I thank you all for coming, and in particular let me welcome to Australia our visitors from overseas.

This conference is at once a manifestation of the change taking place in Australia and throughout the world, and an agent of that change.

And that is what, primarily, I want to talk about today - the change we are seeing, the changes we can and should make.

It is often said these days that we live in an era of *unprecedented* change.

In fact, I suspect politicians have been saying we are living in an era of unprecedented change since politics was born. I'm sure I remember a former Prime Minister of ours, Bob Menzies, saying we were living in an era of unprecedented change - and Bob was reluctant to change a light globe.

I'm equally sure that if anyone had kept an ear to the ground in the 1950s they would have heard what we sometimes hear now - which is people saying they are tired of change. These days the sociologists and psychologists are warning us that people are fed up with it, exhausted by it.

Yet we also see evidence of their willingness to *embrace* change. The last decade bears witness to that. In their workplaces and communities, on their farms and in their businesses, in schools and universities, in their minds - in the way they think about the world and their country's relationship to it - the Australian people have *made* changes.

They have made Australia a much more competitive country - 40 per cent more competitive than a decade ago. They have seen exports rise by one third in the last five years. They have seen ETM exports grow by 17.5 per cent per annum over the past decade, so that they now make up almost 23 per cent of our total merchandise exports. Put another way, 17 out of the top 50 Australian export commodities last year were ETM's - in 1983 only 3 of them were.

All this is reason for optimism. So is the growth in Australian services exports - 10 per cent per annum since 1988/89 with the likelihood on current trends of a net surplus this year.

We have recorded national economic growth in every one of the last seventeen quarters.

And we are looking to positive growth in the eighteenth quarter.

And of course we are becoming more closely integrated with the fastest growing region in the world. By as early as next year, when our exports to Indonesia and Malaysia will each exceed our exports to the United Kingdom, all our top ten markets will be in the Asia Pacific.

If all these developments give us cause for confidence, so does APEC. In fact few developments in our recent history are such a cause for confidence and optimism as APEC.

The meeting in Osaka recently was an outstanding success. It cemented APEC as the key regional body for coordinating the development and growth of the Asia-Pacific over the next century. All APEC members will benefit from the liberalisation and facilitation agenda. Once all the effects have flowed through, the Income of APEC members will increase by around \$1 trillion.

Australia's real income is expected to rise by \$40 billion, and growth of this order can be expected to generate around half a million new jobs.

For individual businesses the benefits will be substantial. For instance, differing standards can add between 5 and 10 per cent to a new exporter's costs. In Osaka it was agreed to harmonise and simplify customs procedures on an APEC-wide basis by 2000. And within the next 10 years the requirement for paper work for key trade and transport documentation will be entirely eliminated.

In a remarkable step, at Osaka the leaders demonstrated their seriousness of purpose with down payments on their Uruguay Round commitments.

For example, Japan accelerated its tariff reductions to the tune of \$135 million; and China brought forward to 1996 its WTO accession bid of reducing tariffs on more than 4000 items by an average of 30 per cent.

These were just two of many steps at Osaka which were unthinkable four or five years ago. When some of them were mooted even 18 months ago, the cynics came out in force. Seattle, Bogor and Osaka have proved the cynics wrong.

The APEC process has proved a triumph. The Leaders meetings have established a unique degree of trust and good will - and authority. And the decision to establish *end points*, and then move towards them with the weight of that authority and the force of that cooperation, gives the process much more momentum than the Uruguay Round and the WTO could ever achieve.

That is why APEC should give us confidence: it has established enormous momentum in a very short period of time, shorter than even its most passionate advocates anticipated.

Great as the economic benefits will be, there will hardly be a greater one than the lesson about the potential for cooperation between countries. As I said after the Bogor declaration - this was not something which necessity demanded we do. It did not have to be done. Instead, between us we imagined what we *might be capable of doing*, and we are doing it.

And, as I said before, once you create an environment for change and a framework for it, change begins to grow of itself. Suddenly needs are recognised. Suddenly the solutions are at hand. The advance on GATT commitments is one example. Another is the proposal we put to develop a working group on food security, which is bound to become a major issue as the Asia Pacific grows. Another is our announcement of the APEC business travel card to facilitate regional travel by accredited business people. Another is the decision of the Leaders meeting to establish a permanent APEC Business Advisory Council.

One important way of interpreting the policies and initiatives I am announcing today is that I want Australia to be APEC-ready: ready to respond to the challenges and to realise the commercial opportunities of the free trade and investment environment we have in the making.

The initiatives in many ways reflect the new phase in our industry policy.

Our reforms in the early and mid 80s concentrated on opening the Australian economy to the world and to global competition. Subsequent reform concentrated on building a competitive domestic environment through microeconomic change. Neither process has ended. They are ongoing.

But now we address the question of what it takes for the individual firm to maximise its competitiveness, meet the challenges of open markets and take advantage of the opportunities they present. And a key is a commitment to innovation.

I can, perhaps, best illustrate this by two very different industry examples. The first is BHP, Australia's largest company. A little over a decade ago, BHP Steel was a predominantly domestic producer threatened to the point of extinction by import competition. In 1983, BHP, the Government and the unions agreed to a Steel Industry Plan which saw BHP revolutionise its work practices and undertake almost \$2 billion worth of investments, including investment in new technology.

In a second phase of reform, since the late 1980s BHP has focussed on securing productivity gains by improving skills, restructuring awards, total quality management and encouraging a more customer oriented culture.

The effects have been dramatic and are perhaps best expressed this way: production of tonnes of steel per person in 1982-83 was 175; in 1987-88 it was 257; last year it was 618. It now has one of the highest export/production shares of any major steel maker in the world.

In a sense, BHP Steel's story mirrors the story of Australia's reforms since 1983. And it is not merely among big companies that versions of the tale are told.

Bilcon Engineering is a Victorian based manufacturer of quality precision metal componentry. After operating for 50 years, in 1990 it faced closure, but it re-made itself through innovation and quality. Bilcon has achieved a 220 per cent turnaround in profitability and more than 100 per cent employment growth - and Bilcon components can now be found in Europe, Asia and South America.

Good policy like good company management is a process of continuous improvement.

Australia already has the ingredients of a dynamic and effective innovation system, ranging from the tremendous national asset of our excellence in science, to our very strong propensity to take up new technology, to the surge of our companies - including the crop of export-oriented small and medium enterprises - towards best practice and commitment to quality.

So the policies we announce today are not the first word; and, certainly, nor will they be the last. They represent steps along the road of continuous improvement.

In fact, today's statement provides for measures that will raise \$353 million more in revenue over the next four years than will actually be spent.

In this way, the Government is making room for a range of other initiatives which also build on success in other areas.

What we are about today is good public policy and good government.

The Government has already done much to foster innovation by creating a more open economy and a better macroeconomic environment where competition is more vibrant and the rewards of innovation easier to capture. There have also been significant investments in education and training and in our basic research effort.

Today we take the next steps to strengthen Australia's capacity for innovation - by which we mean:

- generating ideas
- commercialising and using new ideas
- linking Australia even more closely into ideas elsewhere in the world
- encouraging new ideas in business and the work place
- accelerating the application of ideas by using the information super highway, and promoting access to information technology for all Australians, including people with disabilities, those in remote areas, people on low incomes and women.

Put simply, innovation is about new products and services and new and better ways of producing them.

For a company, innovation provides a key to increased competitiveness.

In today's world, tastes and technology change rapidly - information moves fast. And good ideas are quickly copied or superseded. There is constant pressure to come up with something new and better.

Success depends on being able to meet the needs of more discerning customers.

The firms that will prosper will be those committed to continuous renewal through innovation - the ones which are enterprising and skilled enough to differentiate their product and create a distinctive competitive edge.

For the economy as a whole, innovation lies at the heart of productivity growth. And at the heart of innovation lie ideas. Innovation in putting ideas to work.

It is not just the skills of the workforce or management, or the capital they have to use, but *how* these are used in ever more productive combinations, which is the central driver of economic growth and rising living standards. Fostering an environment which rewards innovation is therefore a powerful lever in raising productivity and growth.

But imperatives of innovation go beyond the economic. A sophisticated and just society will be information rich. It will be enterprising in its response to new ideas and challenges and it will utilise technology to its full capabilities. This will ensure the highest quality of life for all Australians.

There is no simple model of innovation. It can come from different sources. It can come from basic scientific research which produces a result capable of commercial exploitation. It can come from changing the way a workplace is organised to improve flexibility and responsiveness to customer needs. It can come from utilising existing equipment in a novel way, not envisaged by the original manufacturer.

Innovation is a complex process of interaction and information transmission which is strongly influenced by a nation's culture, particularly its willingness to reward enterprise and risk taking.

Ideas can emerge from anywhere within such a system. Turning ideas into maximum economic benefit depends primarily on a competitive and responsive private sector and strong lines of communication between all parts of the system.

These outcomes will only materialise where information flows freely within the system. The most successful firms are those that are highly attuned to the needs of the market, have access to leading edge technology to convert market needs into commercial products or services, and the management and the financial resources to facilitate this process.

Australia already has the basis for building an innovative and enterprising society. For many reasons - among them the quality of our education, our investment in world class science and research, our cultural diversity, our capabilities in technology and engineering, our first class communications - we can build an information rich society which complements the advantages which our natural resources and environment provide.

I do not say we have reached optimal levels in these. Indeed, I am very much aware that we need to work on all of them. They are relative strengths, but collectively they provide a very strong foundation.

So let me summarise the measures we are announcing today.

First, we need to keep generating new ideas.

- The Government has chosen seven visionary science projects which will boost our science infrastructure and link industry with large scale collaborative research to keep Australia abreast of the world's most advanced technologies.
- The Government will continue its support for industry research and development through the 150 per cent R&D tax concession, which will be fine tuned to improve accessibility, management and cost effectiveness. Change will reduce uncertainties for companies, while closing all opportunities for abuse.
- The Government will renew the \$40 million a year competitive grants scheme for industry research and development. The grants target high quality projects by well managed companies, recognising that high-technology start-ups are the nurseries for new industries.
- The Government will fund five new Cooperative Research Centres (CRCs), bringing the total to 67, and has decided to establish the CRCs as a permanent program with new CRCs approved on a rolling two year basis. New CRCs are to be supported in the areas of advanced engineering, sports science and medicine, intelligent transport systems, textile technology and building and construction technology. Next year the Government will contribute around \$140 million to the CRC program.

The second category of initiatives will improve the flow of finance into business innovation and our capacity to commercialise our scientific research.

- A new package of measures designed to help finance the innovation process will be implemented. An important source of 'patient' or 'growth' capital will be opened up with the new ability of the banks to provide equity capital to their clients needing to fund business expansions. Initially the investments are likely to be directed to firms with strong growth potential and turnovers between \$1 million and \$50 million. New programs will upgrade the financial management skills of SMEs to prepare them better for raising debt or equity finance - to make them 'investment ready'. Through an education campaign, the Government will also help increase the understanding of the investment community, particularly superannuation trustees, of the opportunities for profitable investment in Australian companies.
- Three new Innovation Flagship Projects will bring science, industry and user groups together to speed the development of new products, processes and services. The new projects, costing \$23m, will comprise a mineral technologies pilot plant, a hydrodynamic testing facility, and a facility for the development of magnetic resonance in the advanced diagnosis of cancer.
- An additional \$20 million will be spent over four years to encourage greater access to, and uptake of, new technology by Australian firms. More Technology Support Centres, which were established to help SMEs with technical advice and access to R&D facilities and skills training, will be established. Experience with institutions like Germany's Fraunhofer, and the Queensland Manufacturing Institute clearly demonstrate the advantage of these centres to innovative firms.

- A new **Research Commercialisation Program** will help get the high quality work which is done in our public sector science agencies into the market. The Government will also encourage the establishment of new companies as **business spin-offs** from the research sector.
- The Government will strengthen Australia's **Intellectual property system** to better protect ideas developed in Australia.
- A broad-ranging **Innovation Culture Program** will raise community awareness of the importance of science, engineering, technology and enterprise to Australia's future economic and social well-being.

Third, the Government will spend \$17 million over four years to expand **International science and technology** links and cooperation and establish an international panel for CSIRO to help promote Australian science to the world.

- Subject to private sector participation, the Government will provide funding for an Australian Trading Company in Osaka, Japan, to help firms, particularly in the food sector, sell to Japanese retail outlets; and, in addition, support stronger collaboration between Australian companies and R&D agencies and partners overseas through strategic alliances, joint ventures and consortia.

Fourth, we will stimulate innovation in business and the work place.

- Demand for new and better products is a potent force for innovation along the supply chain. The Government will devote \$6 million to a pilot **Leading Edge Customers** program. Major commercial and Government customers, including BHP, will participate.
- The best Australian managers are equal to the best in the world, but there are not enough of the best. Better management will help generate both employment and productivity. The Government will support a range of **management initiatives** in response to the recent report of David Karpin's Committee on leadership and management skills.
- We will establish a **National Centre for the Workplaces of the 21st Century**, and a **Benchmarking Information Service** to conduct and sponsor research projects and spread best practice.

The fifth set of measures relates to information technology, probably the dominant force for change in our economy in coming years.

Already in Australia the national digital broadband network is being rolled out. By 1999 Telstra will be servicing 4 million homes and Optus 3 million.

We are seeing Australians embrace the new on-line services in their schools, their work places and their homes.

The number of Internet users is currently doubling every three months.

And only the United States has more Internet users per capita than Australia.

Of course, this is not really surprising because Australians have always shown an enthusiasm to adopt new technologies.

For example, we have the third highest number of personal computers per head in the world.

Australia, as a sparsely populated island continent, has everything to gain from instantaneous flows of information and the capacity to do business anywhere in the world at our finger tips. The communications revolution also suits our social ambitions - our egalitarian and inclusive ambitions.

The Government has created a national strategy for information and communications services and technologies.

Today's statement takes the strategy a step further, ensuring wide access throughout the community to information services, developing content for the information networks and providing the support of information technology to Australian industry.

The starting point for access must be to ensure that all our school children have the opportunity to benefit from the new information services and the confidence to use them. This will be vital to their future. That is why we have been working with the States and Territories to establish the Education Network Australia (EdNA) to deliver a wide range of services to every school, technical college and university.

It is also why Telstra and Optus are spending \$185 million to provide the infrastructure to link our schools to information services. By 1999, 97 per cent of schools will have ISDN digital links and half of them broadband links.

The Government appreciates the importance of assisting the wider community to be part of this revolution as well. Homes and businesses are the key platform, but community facilities must be included, not least as a safety net. Accordingly, we will:

- Ensure that every public library is linked to on-line services.
- Extend the community information network, which provides a network of computers in public locations, to all States and Territories by the end of 1996.
- And provide a national indigenous radio and news service and extend the Tanami network.

The greatest benefits to flow from the new technologies will accrue to those countries which create the content.

In the Government's cultural policy, *Creative Nation*, we identified three waves of content production, namely material for CD-ROMs, on-line services and broadband interactive services.

The measures introduced today will help see this momentum carry on to the second phase, namely on-line services.

Ten million dollars will be committed to a new program called "Australia's Story" to digitise cultural material from our national collections and make them available on-line.

The ABC will be funded to digitise its radio and TV science archives to establish an on-line science service for schools. Support will be provided for curriculum materials showcasing Australian science, and for career education materials covering science, engineering and technology-based employment.

As a result, all Australian schools and libraries will have access to a very rich array of cultural and scientific material.

School children will be able to read the journals of Captain Cook, or explore Australian flora or fauna, or view an Arthur Boyd painting by clicking on a few icons.

Information technology has itself become an important Australian industry. The Government's decision to extend the computer bounty will secure Australian manufacture of the computer and communications hardware to underpin development of new products and services, including software.

But more broadly, Information technology is vital to our industry performance as a pervasive enabling technology. It is, itself, a key to innovation across the range of industry sectors. Accordingly, we have decided to:

- establish a \$3.8 million **Superhighway Ready Scheme** to show how businesses, including SMEs, can use network information services.
- support the new information system, Tradeblazer, to help Australian firms identify opportunities and do business by accessing information through the Internet.
- accelerate Australia's effective use of **High Performance Computing and Communications** through \$24 million for broadband communications between existing supercomputers, including between Australia and Japan. Centres of excellence in supercomputing applications - for example, in environmental modelling - will be established.

I appreciate that many of these announcements today are of domestic Australian government policy. However, to those of you visiting us from overseas, I say this - all these measures which encourage the innovative thrust evident in Australian industry will make us an even more attractive business partner in the years to come.

Innovation - whether at the national level, the industry level or the level of the firm - is a matter of continuous creativity, adaptation and change. So is good policy.

Which is why over the past three and half years we have kept up the momentum. Not because we think we will ever complete the task: we know you never get to the last chapter in the story of change.

Not that we should find this too odious a fact of modern life - I can't think of anything more pointless than governing without a mandate for reform.

Our objective has always been not only to institute change, but to create an environment in which change will breed change, and indeed a greater *capacity* for change.

The same goes for our efforts - Australia's and those of other nations - in the GATT Round and with APEC. The aim is to create a world and regional environment in which the great economic forces we are seeing unleashed, and the great revolution in technology and global communications, become waves we can all ride in the 21st century.

The emphasis must be on "all". We will meet less resistance, we will grow less tired of change if we make it with the collective interest at heart. We will generate more momentum and we will get more far-reaching reform, if we take up the challenge as a *cooperative* enterprise - one in which all may engage and from which all can benefit.

What is remarkable about these times is their potential for cooperation. And what is remarkable about cooperation is its potential to create more general prosperity, more opportunities and better lives for more people.

Sceptical as Australians by nature are, I think the last few years have deepened our belief in the potential of the times in which we live.

We recognise a much greater capacity to trade and constructively engage with our region and the world, a much greater capacity to grow and manufacture products and services, to work in more productive, creative and satisfying ways, to use technology in ways which bring to our lives more knowledge, more security, more satisfaction - to innovate in ways which will bring us closer to realising our personal and collective ambitions.

This statement we have released today will help increase the potential of our times and deepen our faith in it.

So will this Conference - and I thank you for inviting me today.