

WEST AUSTRALIAN CHAMBER OF MANUFACTURES

1970 ANNUAL DINNER

PERTH, W.A.

10 APRIL 1970

Speech by the Prime Minister, Mr. John Gorton

Mr. Chairman, Sir David Brand, Distinguished Guests and Gentlemen :

Thank you very much, Sir, for that introduction, and thank you for the opportunity that you have afforded me to speak tonight to this very representative gathering of Western Australians.

I don't think there is any point in my detailing to you that which you all know so well and that is the great and exciting changes that are taking place in this part of Australia. Let us take that virtually for granted because indeed I suspect you know more about it than I do, though I think I know a great deal about it, particularly about the iron ore developments in this State. Yet, we know this, and your menu tonight in capsuled form shows that one thousand new factories have been opened here in the last five years and that alone is an indication of what is happening here and all throughout the Commonwealth of Australia.

And so what situation do we reach? What economic position do we reach as a result of this surge of development in secondary industry, in minerals - not unfortunately in primary production, though the increase is there but not the return -- but what do we find now economically as a result of this?

At this stage we see in Australia that we have reached an employment situation which we have not known since 1965, the situation where we have absolutely full employment, in my view, and indeed a situation where, on the statistics, there are more jobs available than there are people to fill them, a tight labour situation indeed as I do not have to explain to anybody in this audience.

In the field of home construction - (I am going through all those indicators which show the sort of state that an economy finds itself in) - one of the tightest labour situations since 1965, one of the most obvious booms in housing construction and other construction that Australia has ever known. Motor registrations rising year by year to an extent not previously even expected by the motor industry itself. Consumer spending rising quite high, hire purchase debts increasing, wages rising by some 9 per cent or so this year... all of them indicators that in normal times, and in the past, one would have expected to lead to be indications that there was a need, if inflation is to be avoided, for demand to be reduced.

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And yet we find, looking at the obverse side of the coin that the cost of living index this year is rising at the rate of about 3 per cent which is not unbearable as long as the rise does not continue to accelerate; which is surprisingly low compared with all the other indicators that I have given. We find that capital inflow having dropped off in the early part of the year is increasing again because of conditions overseas. We find our reserves; not falling but beginning to rise, and we find our overseas trade balances showing most healthy balances in our favour. And, normally, in the past the original indicators that I would have shown would have led people to expect that overseas trade balances would fall instead of rise, and overseas reserves would fall, and so there is an economic difference here from anything we have seen before in our national life.

And because of these differences, and because we are going to have this year what we aimed for, and that is an internal surplus of at least \$500 million, and because there have been some measures taken to reduce the demand for money by increasing the price that has to be paid for money, because of these things, I believe it unlikely that the indicators which one would have thought would lead to inflation, will in fact lead to such inflation at least during the balance of this financial year.

At that time, when a new Budget is being looked at, then the situation must be looked at anew; but it does appear that in spite of that prosperity, in spite of the housing boom, in spite of the tight employment situation, that so far we are being enabled to avoid an inflation which must eventually be avoided. And this is due, to some extent, to the changing pattern of production inside Australia itself.

We have in the past lived on primary produce, on the sheep's back during all our formative years as a nation, but last year, I am told, on the figures, rural production was 51 per cent of earnings, minerals 23 per cent and manufactures 18 per cent of our earnings. And last year, the mineral exports of Australia, for the first time, brought us in more than the greasy wool crop of Australia, and within the next few years, Western Australian iron ore production alone will bring in as much as our entire wool crop. Western Australian iron ore production alone, leaving other minerals in other States out, is estimated to bring in as much as that crop on which in the past we have entirely depended.

This is, I think, a dramatic illustration of the change of Australia's economic orientation. From this growth so far, from this change in pattern, enormous opportunities are going to open up throughout Australia, given a Government which is prepared to be unpopular as we would be prepared to be unpopular if necessary, by ensuring there is no inflation, given that kind of stability, then there will be enormous opportunities.

I want to examine just some of the things which are involved in the accelerating growth in the future, which I believe that we can expect. I want to examine it against the background of overseas investment in Australian industry, in Australian mining, and of Australian participation in Australian industry and Australian mining.

Let me at the start set out the Government's position regarding overseas investment. We believe, indeed we know and I am sure you know, that it is impossible to generate within Australia the amount of capital that is going to be required if we are to proceed to develop at the rate which history demands we should. If we are going to increase our industrial capacity, if we are going to increase the rate of our extractive mining industries, if we are going to increase the processing of the minerals, then we cannot within this country generate the capital which is required. So we welcome and encourage and want overseas capital in enterprises in Australia. Let us make that quite clear from the start and from the beginning.

Having said that, I still think that we should bear these things in mind. Our motor vehicle industry in Australia today, important to our economy as you would agree, is 90 per cent owned and controlled by overseas capital. Our chemical industry in Australia today is 75 per cent owned and controlled by overseas capital. Our electrical and electronic industry which will play an even more important part in all branches of industry in the future, is over 50 per cent owned and controlled by overseas capital, and the alumina and aluminium industry based on deposits of bauxite which perhaps may be the greatest in the world is almost 100 per cent owned by overseas capital. Let us bear this in mind, not in the sense that this is bad in itself, not that this does not bring us benefits because it does in many ways. You and I are 50 per cent partners in all these enterprises because of the company tax that you and I collect. Not in any sense saying that this is bad, but recognising it and putting it in our minds as a fact of life.

We hear on all sides people saying most of Australian industry is owned by Australians and controlled and operated by Australians, x per cent of factories is so owned. And so it is, but that is not the point. The point is what is the size of those factories, in what fields of enterprise are they engaged.

And again, for background and to keep in our minds, the factories with under 50 employees are 26 per cent, only 26 per cent owned by overseas capital. Over 50 employees - 34 per cent by overseas capital. Over 100 employees - 37 per cent. Over 500 employees - 43 per cent. So the larger enterprises, the larger the factory, the more likely it is that there will be this control or this ownership from overseas. And perhaps in more definite terms and perhaps again to put in our minds what in fact is the case - before we draw inferences from it but just what in fact is the case - let me trespass on your patience a little by giving some examples of actual foreign-owned or majority foreign-owned companies in Australia, some examples only which I have culled from a much longer list and which I have sought to distribute over various fields of industry.

We find in this list such household words as GMH, Ford, Chrysler, ICI, Union Carbide, Heinz, Kelloggs, Frigidaire, Hamersley, CRA, Alcoa, STC, Philips, Vicars, Caterpillar, Massey Harris, Colgate, Portland Cement and others which I won't go on with because I merely sought to indicate some pointers on this list. Now, all that has been good.

All right, as some people do, to attack GMH, for example and say they have a 100 per cent owned company in Australia and they built up with the profits they made in Australia, but you must look at the obverse side of the coin, too, and realise all the smaller factories which have come into being as a result of GMH, and which are providing GMH with the spare parts or which are providing them with services of various kinds, and you must take into account the export drive which GMH has made - I don't say it is better than Ford or Chrysler but I am using it as an example - which they have made to contribute to the Australian economy.

These are not one-sided things I am trying to put. I am not trying to say this shouldn't have happened or isn't good for us. I just want, as a preliminary to what I propose to say later, to show that these things are in fact happening. And they may happen to a greater extent in the future in this era of opportunity that is opening up.

In the last five years, which we can take as an indication of the next five years, we had \$18,000 million invested in industrial enterprises of all kinds in Australia. That is \$18,000 million from all sources, internal and external. And of that \$18,000 million, one-sixth or \$3,000 million came from abroad. Ten years ago, investment from abroad was \$388 million. One year ago, it had risen to \$967 million. And in mining, particularly, there is this pattern being reproduced. Five years ago, overseas investment was \$34 million. It has risen on the last figures I say, to \$244 million, which has been accompanied by a rise in overseas ownership and control of minerals. Indeed, the control of production, the Australian control of production in minerals has dropped from 63 per cent in 1963 to 47 per cent in 1967.

And this process probably will continue, given the facts I set out at the start, that if we are to progress as fast as we must, then we can't generate inside our own community enough savings and enough funds to allow this to happen.

Now I said that this was not bad. I said that on balance this was good, and I believe it to be so, but surely there must be a requirement to see, in this situation, that as much of the new development as is possible, without turning away overseas capital, without impeding its inflow, that as much as is possible remains under Australian ownership. The Government has taken that view, and we have taken various courses to try and see that it would happen.

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We have first indicated our views, our desires to overseas companies and to overseas governments that there should be an opportunity, as far as possible, for Australian participation, for Australian ownership, for Australian management and for Australian control - not said that we would force this, not said this would be a legislative matter, not said that we would bring in regulations, but said this is what the Government would like to see, and it has had a result from responsible overseas companies of stature. The result has been that there has been more offering to Australians of equity in new developments in this country. If we can't take them up, that's too bad, but the offerings have been made.

We have brought in a system of guidelines which many of you gentlemen will know about on the borrowing in Australia of fixed interest by overseas companies, wherein we have laid down that - let us use this as an example, 20 per cent of total new funds to be put into industrial development, 20 per cent only can be borrowed in Australia by an overseas company; but given an incentive to overseas companies by saying "if there is more than a certain proportion of Australian ownership in your company, then you can borrow more than that 20 per cent on Australian markets on fixed interest," and this is a real incentive because the interest rates here have been so much lower than they have been abroad. And we have indicated that we should restore the benefit of allowing convertible notes to be issued by companies, so that those Australians who have money to invest and who must get a return on that money in order to live, will be enabled now to invest it in a company knowing that they will get interest on it and knowing also that they will have an opportunity at the end of a fixed period of years to translate that fixed interest investment into equity in the company in which they invest. All of these things were done for the purpose of giving more opportunity, more incentive, more chance of the greatest possible Australian ownership and control of Australian industry.

Now, we propose to take another step, and we propose to take it for the same reasons. We propose to establish an Industry Development Corporation of which many of you might have heard. I cannot go into details of this yet because the detailed bill has not been introduced to Parliament, but I can discuss some of the questions which this proposal has raised and I can give the reasons behind this decision and what we hope this decision will lead to.

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We believe that there are important areas of Australian industrial activity in which the potential financial requirements in the developing years ahead are not completely served now and, as we think, may not be able to be completely served by existing financial institutions. For example, in the mineral field alone, which must in the nature of things take a prominent place in all questions of Australian ownership, experience shows that in the extraction and the subsequent processing, particularly the subsequent processing of basic material resources, there is overwhelming foreign ownership because of the enormously high capital required in this field.

And leaving that field, coming into secondary industry generally, we think that new scientific developments, new technological developments, new knowledge as the frontiers of knowledge are pushed back, are going to lead to capital needs which industry has not in this country hitherto known. We think that in many fields of manufacture, Australian enterprise must be much more massive than is the case in much of Australian industry, if there are to be economies of scale to enable that industry to compete on a world market and to compete in Australia with overseas industry with a minimum of tariff protection. In other words, the industry must grow to be comparable with a massive world industry if it is ultimately to be able to compete and the capital requirements of this are going to be most significant.

And we believe that it is desirable in these fields which I have mentioned to aim at such companies, whether they be new processing plants, whether they be industrial companies which are going to be developed, to aim at their development, while still retaining as much Australian ownership as it is possible for us to have. Now, at present the statistical facts show that this is not happening, and it is not happening for one of two reasons.

Either there is not a will on the part of industry and owners of industry to retain ownership in Australian hands, and I discount that because I believe the will is there, either there is not a will or there is an inadequate opportunity to obtain the capital required and at the same time retain Australian ownership. Well, at any rate, statistically, either one of these factors is operating because more and more of our industry is passing into foreign control.

And we haven't had in the past enough policy on this, and a policy saying that the primary purpose we must have is to enable not the prevention of the inflow of overseas capital, but the retention of the maximum Australian ownership. This has not been a policy and it seems to me that Australia has lagged behind in the past.

Sir, it is towards filling this very significant gap in our policy that the Industry Development Corporation is intended to be established. I think it clear that the phenomenal pace of industrial development in Australia over the last ten or twenty years has been facilitated by that huge inflow of capital which has brought with it technical skills and access to overseas markets of which I have spoken. And let me reiterate - we recognise this as a government, and we approve it and we want it to continue.

But there is absolutely nothing connected with the industrial corporation we propose to establish which will in any way inhibit or frighten off or prevent the inflow of this capital in this way. What it will do, we hope, is as an Industry Development Corporation, be able to give assistance to Australian industry, a particular Australian industry when, and only when that assistance is sought, - when and only when that assistance is sought - to help such an industry to obtain the capital it needs from overseas without having to take in an overseas partner in order to get overseas capital. In this way, we will not stop the inflow of overseas capital because the object of the IDC is to borrow overseas itself. We will hope to make available to an industry in Australia which wants to develop, the capital to enable it to develop, if it asks for it, if it is a good business risk; and retain its full ownership in Australian hands.

I think, Sir, that too many Australian industrial enterprises which are growing and have grown, have run into limitations in the past on the ability to raise capital. They have had, in order to obtain capital - to borrow, to break in a partner who can borrow abroad, and resolve the dilemma of being unable to raise the capital themselves in Australia or overseas; to resolve that dilemma, they have taken in as partners a company which can raise that capital, but which is foreign.

I think that hardly a week passes, Sir, when we don't read of an important and growing enterprise which for one reason or another has been taken over by an industrial concern from abroad. Now, again let me make it clear that takeovers and mergers are not necessarily bad. They can be good - in many cases they are good. They are part of a normal business scene, maybe part of the process of an industry developing, growing up, becoming more efficient; or it may be that a joint venture between Australians and foreign firms may be a desirable step in Australian industry development and the opening up of overseas markets to an industry. All these things are true. But it is also true that it is frequently an unfortunate feature in the pattern of such arrangements that when the Australian partner can't get his share of the capital requirements, whether equity or loan, he will at best become the minor partner in the new enterprise that results. We wish, not to stop the new enterprise, but to enable the Australian partner to be not a minor but an equal partner in it, by helping him to borrow abroad through the IDC.

Sir, that there are great resources of capital overseas willing for investment in Australia, surely nobody has to prove. It is therefore either equity or fixed term lendings, and the facts of the capital inflow into Australia themselves prove that this is so; just as the fact that the high interest rates required for such capital do not prevent it from being borrowed by such firms, for example, as Hamersley because, on a business judgement, it is possible to pay that for the capital and still make a profit. I am sure nobody doubts that these firms that are borrowing it will do this. The capital is there, but is not available to small firms. It is available to Hamersley. It might be available to BHP, to CRA, to Utah, to Comalco, to some world-wide company of great stature and great standing, but it is not available to a relatively small company.

An industrial corporation established in Australia can have the stature and the standing of a great international company and can when approached by an Australian firm - a relatively small firm, act for it. It will act for it under the control of a board of directors, predominantly drawn from private industry, in due course, to retain all the benefits which that capital has brought in the ownership of that industry itself. This must surely be a proper objective. This must surely be another step in retaining as much as we can of our ownership and of our control. This must be a help to the development of Australian firms, and it must surely be obvious that it cannot in any way interfere with that continuing flow of overseas capital to overseas-owned firms which we still want to continue along with this. This is the last step that the Government has taken, along with indicating its desires, with its borrowing guidelines, with its convertible notes, this is another step along that path.

And I hope, gentlemen, that it will commend itself to the thinking of most people. It has been attacked by people who do not understand it, who have been misled by initial press reports about it. But bear these major points in mind - it can only act when it is asked to act; it cannot interfere with a company; it will be by law prevented from getting an equity share in a company which will control that company; it will by law be required to divest itself of any equity it gets in helping an Australian company, as soon as it is clear that that equity can be disposed of on the Australian market to Australian buyers; it will only act when asked; it will mobilise funds which Australian industries of small or medium stature cannot mobilise for themselves. And it will do it in a way that the Resources Development Bank and other institutions cannot do, because the Australian Resources Development Bank, important as it has been, has, in fact, as an institution owned by the trading banks, been mobilising

Australian capital to great effect and to great benefit. Some \$250 million or more has been mobilised inside Australia from Australian sources, almost nothing has been borrowed from abroad. And, indeed, it is not altogether surprising because the Australian Resources Development Bank is a bank and is subject to banking requirements, and what banks pay for deposits is not comparable with what many industries pay for capital, and indeed not comparable with what Eurodollar market requires to be paid for its capital.

Further, by the very nature of banking, certain risk enterprises do not commend themselves very much. But whatever the reasons may be, the pragmatic fact is that there has not been the borrowing by this great and effective institution, there has not been the borrowing abroad that we seek to get now. And this, I think, will get capital to the great good of Australian industry, to the ultimate saving of some interest which would have to be paid overseas, the ultimate saving of dividends that might otherwise have to be paid overseas, and yet without in any way interfering with the flow of capital we need as well. We are merely seeking to see that if it is unnecessary to pay a high price for capital from abroad for development, then we don't have to pay that price and that is the objective of the IDC. If it works and if the development expands and accelerates in the future, as I am sure you all believe it will, then in ten years' time, I think we will be able to look at it, and say this has served Australia as well as that other institution which was attacked in the same way at its beginning - and I refer to EPIC - as well as that other institution, EPIC, has served Australia, and Australian industries and Australian manufactures.

I thought I would take this opportunity of speaking to you and proposing the toast of secondary industry, to set out, necessarily in a brief form, the approach which the Government has in these matters - not a chauvinistic approach but a business-like approach, which we have taken, and the thinking underlying the next step we propose to take.

I hope, gentlemen, in the years to come at gatherings such as this, when people rise to talk, it will be no longer necessary to speak, because events will have proved the success of what we are now setting out to do for industry, and, as we believe, for Australia.
