

PRIME MINISTER

ADDRESS TO QUEENSLAND CANEGROWERS COUNCIL

28 FEBRUARY 1977

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It is a pleasure to be here today to open the Fiftieth Annual Conference of your Council. The industry you represent has a long record of sustained progress of which you must be properly proud. Over the fifty years your Council has existed, the Australian sugar industry's production has grown more than six-fold. It now exceeds three million tonnes a year.

The domestic market has made an important contribution to this growth but the primary factor has been your successful penetration of world markets where competition has been strong and conditions have been subject to many and sudden changes. Many commodity markets are subject to sharp price movements and to the introduction of substitute products.

In your case, you also deal in a product that can be produced in numerous parts of the world under widely different climatic conditions. You have had the energy and skills to overcome these difficulties and to capture a large export market. Your negotiation of long term export contracts at stable prices with major purchasers was a notable step towards establishing a firm and reasonable foundation for investment and production plans.

The Government is alert to the importance of the industry, and to Australia, of these contracts with Japan, Malaysia and Singapore. We have demonstrated our concern and willingness to provide appropriate support for the industry whenever the question of renegotiation of any contracts has arisen.

When I was in Japan in June last year, I discussed the long term sugar contract with Mr Abe, the then Japanese Minister for Agriculture and Forestry. I drew his attention to the deferment of shipments to which the Australian industry had agreed in an endeavour to ensure the smooth operation of the contract.

I know that discussions between Australian and overseas commercial interests regarding the operation of the various contracts have taken place and are continuing. My Government's objective is to ensure that at all times the Australian commercial negotiators receive adequate advice and assistance from the Government.

The Government has made it clear that, although it is not a party to the contracts and believes that the matters at issue should be resolved commercially without Government intervention, it will follow the negotiations closely.

We will continue to provide appropriate support and assistance to the industry and to the efforts of C.S.R. Limited to foster the long term continuity on fair terms of these commercial arrangements. Firm long term contracts between producers and the consumers are desirable, and to be encouraged.

In addition however, as the recent volatility of the world sugar market has once again highlighted, there is a need for cooperative and workable solutions to the problems of producing and consuming nations. Negotiations are now scheduled for a new agreement to replace the 1968 International Sugar Agreement.

In these discussions, there will be close cooperation between the Queensland Government, the Australian sugar industry, and the Commonwealth Government. The industry has shown before that it can cope with short term downward swings in sugar prices. And that such movements do not undermine your confidence and ingenuity in finding new and growing markets.

I have no doubt that your industry will continue to maintain its contribution to the development of Queensland and Australia, and it is a very valuable contribution. Your 1976 export earnings of some \$600 million made a substantial contribution to our export earnings as a nation and placed Australia among the top three sugar earning countries.

In terms of productive value, sugar ranks first among Queensland's rural industries. Over seven thousand producers rely on the production of sugar cane as their main source of income. Approximately two hundred thousand people directly depend upon the sugar industry for their livelihood.

The expansion of the sugar industry has done much to provide employment opportunities away from the big cities and underpin the growth of regional towns. Between 1971 and 1976 Mackay's population grew by 14.3%. Cairns by 21.8%. Bundaberg by 20%, and Townsville 19.5%.

By comparison, Sydney and Melbourne grew by 2.9% and 4.1% respectively.

This trend towards a better balance in our national development is to be welcomed. The Coalition Government recognises the importance of the rural industry to Australia, the close inter-dependence between city and country. We also recognise the difficult situation many rural producers have been facing.

We recognise the fact that rural producers have been caught in the vice of sharply rising costs on the onehand, and often severe marketing difficulties and depressed world prices for their products on the other. We recognise the fact that in the three years between 1972/73 and 1975/76 prices paid by rural producers rose by 75%, whereas prices received rose by only 7%.

We recognise the fact that adverse seasonal conditions have often seriously aggravated these problems. The Labor Government resolutely refused to face these facts.

You all remember that their "Rural Policy" was a policy to attack the rural sector on all fronts. You remember the Coombs Task Force; the abolition of the superphosphate bounty; the attempt to reduce the wool reserve price by 20%. You all remember Mr Whitlam telling a rural audience in 1974: "You never had it so good".

The Coalition Government has adopted policies towards the rural community in stark contrast to Labor's hostility. Our policies are designed to assist the rural sector maintain the productive activities which are so important for the well-being of all Australians.

We have taken a substantial number of specific initiatives to aid particular rural industries. And I would briefly like to mention the measures we have taken to assist other important rural industries, in particular wool, beef, and wheat which, together with your own sugar industry constitute the backbone of Queensland's rural strength.

For the 1976/77 season for wool, the Government initially guaranteed a minimum reserve price of 234 cents per kilogram clean clip average, a rise of 14%. We also undertook to retain not less than such minimum price throughout the 1977/78 season. After the devaluation in November, the minimum reserve price was raised to 284 cents to give growers the full benefit of devaluation.

There has been continued strength in the wool market and the present price of 322 cents is well above the reserve price. The beef industry has been facing extremely difficult times. The plight of many beef growers is recognised by the Government in its provision in the last budget of a further \$15 million to be made available for carryon loan assistance to be jointly financed with the States.

Conditions of these loans have been liberalised to enable producers who had already obtained finance to apply once again.

The Government has also suspended the meat export inspection charge and is contributing in excess of \$10 million for the tuberculosis and brucellosis eradication campaign. The best indicators for future prosperity in this industry are the prospects for greater market access, particularly to Japan, the USA, the EEC, the Soviet Union and the Eastern Bloc. The recent Australia/Japan Ministerial Committee Meeting in Tokyo resulted in a supplementary global quota of 15,000 tonnes for the second half of this fiscal year; a special additional quota of 5,000 tonnes boiled beef and beef for Japan's school lunch programme; an undertaking by the Japanese officials to endeavour to announce the quota for the next six months as soon as possible after 1st April.

Negotiations have also led to an increase of 9,000 tonnes in our entitlement in the US. market for 1977, and probable shipments of about 70,000 tonnes of beef to the Soviet Union.

It is expected that the meat board will soon announce a 15,000 tonne order to Egypt and the possibilities are that this will be the fore-runner of a long-term arrangement. The possibility this year are for record meat sales and the abattoirs will be at or near full capacity. Wheat growers have had a less difficult period, although total production this year will be slightly down. The first advance on wheat for 1976/77 has been increased 20% to \$66 per tonne. The home consumption price for wheat has been increased by \$6 per tonne. General initiatives benefitting all primary producers have also been taken by this Government.

The Income Equalisation Deposit Scheme supplements the existing tax averaging arrangements. It should greatly assist primary producers in providing a flexible method of evening-out fluctuations in farm incomes. It will place them in a better position to withstand natural disasters and unusually poor returns. It can be particularly helpful when a producer receives an abnormally high income from forced sales and insurance proceeds arising from a natural disaster.

Despite the fact that the Scheme was recommended by the I.A.C., Mr Whitlam denounced the Scheme in the Parliament a couple of weeks ago as the "latest lurk for Pitt and Collins Street farmers".

The Labor Party's hostility towards the rural community has not been altered by its period in Opposition.

The other recommendations of the I.A.C. regarding the averaging of incomes have not been rejected by the Government and remain under consideration. A new rural adjustment scheme has been introduced in cooperation with the States. This new scheme replaces a variety of earlier schemes and like the Income Equalisation Deposit Scheme it is based on I.A.C. recommendations and will apply to all rural industries.

We have reintroduced the superphosphate bounty. In the case of the subsidy on nitrogenous fertilisers, we have accepted the I.A.C. report in principle, but a decision has not been taken as to the rate of subsidy to apply from the end of this year.

Devaluation will, of course, also be of great assistance to the primary producer. Our competitive position in world markets - where over half our rural products are sold - should be improved. Rural producers incomes should be boosted.

We are currently proceeding with plans for the establishment of a national rural bank. The purpose of this new institution will be to provide long term finance and specialist services to the rural community. Other taxation reforms which have been introduced will yield benefits to primary producers as well as to income earners generally.

Indexation of personal income tax is a major reform, designed to ensure that the tax take will not rise automatically as the result of inflation alone. All taxpayers will benefit; and the revenue foregone this financial year will total about \$990 million. Next year, the amount of tax foregone by the Government is estimated at \$1050 million.

Investment allowances have been introduced to help lift private investment from its depressed levels. Next financial year, the tax savings to the private sector from this concession are expected to reach \$550 million. Farmers will share in these benefits. The requirements covering the distribution of profits by private companies have been eased. This will relieve the tax burden on small businesses which are of great importance in the Australian economy.

Estate duty relief has been introduced in cases where an interest in an estate passes to a surviving spouse.

Actions demonstrate clearly the Government's willingness to act quickly and decisively to assist the great rural industries to maintain their viability and continued growth in our economy. But the most important thing we can do for rural producers and all other Australians is to defeat inflation, so that we can have a full return to economic prosperity.

During 1976 considerable progress was made towards the Government's three year goal of bringing Australia's economic problems under control. The strategy we have pursued since being elected is based on the fundamental recognition that renewed economic growth could occur only if an environment was created in which the private sector would emerge with higher levels of production, profits, investment and hence employment opportunities. Fundamental to that is the control of inflation.

The revival of the private sector also required measures aimed directly at restoring incentives in the private sector and cutting back on the growth of government. We have carried through that strategy and we have already begun to see its fruits.

A considerable winding down in the underlying rate of inflation was achieved during 1976. This was apparent in a number of important indexes. For instance, in the first three quarters of 1976 the deflator for the major components of gross national expenditure - the sum of all domestic final expenditure, private and government - rose by 4%, 2.7% and 2.2% respectively.

I mention these indicators of inflation because much emphasis - sometimes too much - is understandably placed on movements in the C.P.I. as the measure of inflation. In fact of course, that index merely records price movements for a specifically confined set of goods and services. Despite the limitations of the C.P.I., its recent movement viewed in their proper perspective, confirm other signs of a marked downward trend in inflation during 1976.

The effect on the C.P.I. of such once-for-all influences as the health insurance changes have nothing to do with underlying inflationary pressures in the economy. For instance, in the second half of 1975 underlying inflationary pressures were great.

But in the September quarter of 1975 the CPI rose by only .8%. - it was artificially depressed by the introduction of Medibank and was an inaccurate reflection of basic inflationary forces. This is demonstrated by the fact that the 1975 December quarter CPI rose to 6.3%. The most recent December quarter index rise must be discounted for the effects of changes in health insurance arrangements. Once this adjustment is made, the CPI increase is 2.8%, well below the 6.3% increase recorded in the December quarter of 1975.

The main fact is that inflation in the second half of 1976 was running at an annual rate some 4 percentage points or more lower than in the second half of 1975. The C.P.I. figures, adjusted as I have described, were 10.2% in 1976 and 14.3% in 1975. Whichever way one looks at the figures, a broadly similar conclusion emerges.

Considerable progress has been made in the fight against inflation.

That there is justification for adjusting the C.P.I. for Medibank effects is borne out by the deflator for major components of G.N.E. This broadly based measure of price change automatically adjusts for Medibank effects. It makes this adjustment because inherent in its construction is the plain fact that the community must always pay in one way or another for its health care. Health services did not suddenly become free on 1 July 1975; nor did they suddenly become more costly to the community on account of the charges effected on 1 October 1976.

Any rational assessment of the C.P.I. and other indicators of inflation underlines the progress that was made in the fight against inflation in 1976.

In other respects too, the economic environment has improved. The distortions which developed to key economic relationships during 1974/75 began to be corrected during 1976. There has been a recovery in business profitability.

In the September quarter of 1976 company profits were up 39.4% on a year earlier. This partial climb back from the extremely depressed level to which profits were driven in 1974 and 1975 is central to the revival of business confidence; business investment; and, of course, the creation of new job opportunities.

On the activity front, aggregate expenditures and national production began to grow again in 1976. Most striking has been the provisional 7.5% rise in real gross non-farm product between the December quarter of 1975 and the September quarter of 1976.

A most impressive but little appreciated feature of the growth recorded in 1976 is that it occurred despite a reduced level of real government spending. The momentum for growth lay entirely in the private sector. The growth in demand and production has not yet been translated into a decline in unemployment. As in the early stages of past recoveries employers have begun by making fuller use of their existing workforce.

At today's much higher levels of wage and salary costs, there is an even stronger incentive than before for employers to seek out every alternative means of increasing output before hiring additional fulltime workers.

The government's objective is to get people back into jobs. We are particularly concerned at unemployment amongst youth and have initiated a number of innovative schemes to deal with this problem. But ultimately, the speed with which unemployment is reduced depends on the degree in wage restraint that is achieved in the course of the year.

In your own State, the signs of economic recovery are encouraging. It appears the building industry is now sharing in the strong recovery in dwelling construction activity since 1975.

The buoyant levels of new motor vehicles registration for the second half of 1976 suggest that Queensland has shared in the strengthening of consumption evident for Australia as a whole. In the year to January 1977 registrations were 13% higher than the previous year. The corresponding national figure was 2.6%.

Civilian employment in Queensland increased by 3,200 between November 1975 and November 1976. Although this has not been sufficient to bring about a decline in unemployment, it compares with no change in employment over the year to June 1976.

As well there has been a recent intensification of planning activity in the area of natural resource projects in Queensland which will be of great importance to Queensland and Australia in the years ahead. Devaluation has clearly strengthened the planning basis for projects of this kind. Some of the largest projected developments are in the coal industry. Projects such as the Collinsville Project; the proposed expansion of operations at Blackwater; and the vast Norwich Park, Hail Creek and Nebo projects in central Queensland will, hopefully, proceed in the years ahead

resulting in hundreds of millions of dollars - and perhaps as much as a billion dollars - being invested in mineral development in Queensland.

Development of mineral resources, of course, is not something that can be turned on quickly. The government recognises this fact and has done a great deal to restore the incentive for exploration.

In this context I must stress that the benefit of devaluation in the form of increased private investment in natural resource based projects and in manufacturing, will accrue only after a time lag. You will readily understand that it takes time for the businessman to capture new markets and to plan and implement new investments. /

On coming to Government, we made savings of over \$3,000 million in Government spending. This year we have announced savings of \$250 million in the current financial year. And we have committed ourselves to keeping outlays for 1977/78 to within zero real growth. These decisions are designed to reduce the deficit and provide the maximum room for income tax reform.

We have already made personal income tax reforms which will amount to \$990 million in 1976/77 and \$1050 million in 1977/78.

Those that call for immediate reductions in taxation ignore the magnitude of our tax reforms to date, and they gloss over the fact that the consequences of tax cuts now would have to be further large cuts in government spending which no one has advocated or further government loan raisings which would involve a significant increase in interest rates, or a bigger deficit and the printing of more money which would be disastrous. Our commitment to carry through tax reforms clear, and so is the significance of the steps we have already taken. Although tax cuts are inappropriate at this time we are committed to having further tax reforms when it is responsible to do so. In this context, the government will be monitoring the wage situation closely in addition to its continuing search for economies in the expenditure. Evidence of a significant moderation in the rate of wage increases would be an important pre-condition for any further revisions in taxation.

We have been using all the instruments within our power - monetary policy, budgetary policy, and external policy - to the fullest extent possible in bear down on inflation.

In budgetary policy we have made the major savings mentioned earlier. In monetary policy we have moved to prevent excessive easing in monetary conditions which would be accommodating to inflation. And the exchange rate is right.

Moreover, through tax indexation and the family allowance scheme, we established the situation where the community and the rank and file trade unionists have accepted wage restraint.

The Government does not however have direct power in respect of wages and salaries. It is the Arbitration Commission which has this power, and with this power, a large responsibility. A responsibility not only for resolving industrial disputes but for the health of the Australian economy.

Nothing would more quickly and surely undermine the economic progress which has been made than a flow on of the full six percent December CPI increase into wages. This would increase inflation, this would increase unemployment, it would erode the benefits of devaluation - the increased investment, the more healthy growth and increased job opportunities.

I believe that the community and rank and file unionists accept the need for wage restraint. Since the end of 1975 we have made considerable economic progress. We intend to make further progress in fighting inflation and unemployment through 1977.

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