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## PRIME MINISTER

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SPEECH BY THE PRIME MINISTER AT MANSION HOUSE, LONDON, 2 JUNE 1977

I am most grateful for the invitation from Mr. Callaghan to visit the United Kingdom. This is my first official visit to Britain as Prime Minister, and I am enjoying my discussions both with Prime Minister Callaghan and his colleagues, and I am looking forward to participating in the Commonwealth Heads of Government meeting next week.

My visit is also timed to enable me to participate in the Silver Jubilee celebrations. As you know, for us, these began in March when Her Majesty and Prince Philip had a most successful visit to Australia. The visit reaffirmed once again the warm affection in which Australians hold Her Majesty and all the Royal Family. Do not pay too much heed to stories about republicanism in Australia. There is no doubt about our feeling of independence, but neither is there any doubt that most Australians still favour our current constitutional position.

After the recent hectic years of Australian politics - with seven Prime Ministers in the past decade - you might well ask what of Australia today? And where is it heading as a nation? Our major domestic objective has been to put the economy back on a sound basis. On the international scene, our objective has been to restore relations with close friends and allies.

I would like to take a few moments of your time to talk about the economy, international trade, and relationships, and some of our perspectives on the world.

First the economy. There has been of course a recession in all economies. In Australia, however, domestic factors played a larger part in the recession than they did in most other countries. These factors were: a rapid expansion in the size of the Government sector. In one year (1974/5) Government expenditure increased by 46%. Monetary policies which fuelled inflation; utterly unrealistic wage and salary increases - wages in manufacturing industry went up by 53% in two years; a more interventionist Government role, which restricted the ability and confidence of the private sector. Clearly, we needed a change of direction. In the view of my Government a lasting economic recovery will only occur if we can defeat inflation.

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As your Prime Minister said at the Labour Party Conference last year, it is not possible to spend our way out of unemployment at a time when inflation is still high. It would lead to further inflation. We have directed the arms of economic policy towards defeating inflation. We have restrained Government expenditure - cutting Government spending by \$3 billion in our first nine months in office. We have established a responsible monetary policy - one which treads the narrow path of providing adequate funds for real growth without adding to inflation.

We seek to improve the private sector's profits so that investment can be encouraged and incentives have been introduced to achieve this. We have used all the avenues open to us to restrain wage increases and we have adopted other policies making it reasonable for wage earners to accept restraint. We have restored the competitiveness of Australia industry by devaluing the exchange rate. We had maintained an over-valued exchange rate until all the instruments of policy were effectively focussed on fighting inflation. And we have strengthened our anti-inflationary policies since devaluation.

There has been a change of direction, substantial progress has been made. During 1976, inflation was reduced from an annual rate of 16% down to around 10%. Real gross domestic product resumed moderate expansion, compared with an actual decline in 1975. The growth in the money supply remains on target for this financial year at about 10-12%. The effects of devaluation on the internal price structure have been small and the underlying rate of inflation has continued to fall. Company profits, particularly those in the export industries, have continued their striking recovery from an appallingly low base, and private investment is growing again in real terms.

Recovery is necessarily a gradual process - but that is accepted. You will be aware of the importance of mineral development to Australia, and also its importance to other economies which we supply.

The value of mineral production over the decade increased sixfold to over \$3 billion, of which by far the greatest part was for export. Exports of iron-ore, alumina, mineral sands, lead, bauxite, zinc, coal and nickel are all very substantial. Collectively over the last ten years they rose from 11% to 29% of total export earnings. As part of this development, 22 new towns and 11 new ports have been built. Total capital expenditure on mining, processing, smelting and refining through the decade comprised a quarter of all new capital expenditure. This development peaked around 1971/2. Although the value of exports continued to surge ahead strongly after that period, both capital investment and exploration fell away, discouraged by Government policies and world recession.

However, now I am confident that another decade of major mineral development is unfolding. This calendar year I expect investment in the mineral industry to be about 40% up on last year with the momentum building up as the year progresses. Exploration drilling for oil and gas will be approximately double last year's.

/Base metal

a more constructive role in world affairs. The policy objectives of the Treaty of Rome were born from the highest motives and worthiest aspirations. The community has in fact made considerable progress. But there are many people who believe that those original objectives and aspirations have not yet been achieved.

It is easy to understand that in the early days of the Community there was a preoccupation with internal matters. Nor was it surprising that, at the outset, the Community should concentrate its efforts in reducing barriers to trade within its own boundaries. However, internationally the Communities have now acquired a distinct personality which is being expressed with greater and greater coherence. In international forums the nine member states have developed, and continue to develop, common proposals, common positions, and have common purposes. It is therefore a matter of regret that in some aspects of Australia's relations with the European community we still have significant problems which seem to us to run counter to an outward-looking approach and which, if I may venture to say so, seem to us to run counter to the longer-run interests of the Community itself.

This brings me to a subject on which there is a particularly strong need for us to understand fully each other's perspectives. I speak of our trade relations and the question of access to each other's markets. First, let me deal with manufactured goods. The European Commission has pressed Australia to reduce our tariffs on manufactured goods. This pressure is understandable. With large markets at close proximity and advanced scientific and technological resources, members of the European Community have been able to develop a capacity for large scale competitive exports of manufactured goods. Australia's manufacturing sector is in a different position. The bulk of our present industry was developed during and after the last war. Our dependence on others for manufactured goods had become most evident during the war, and we consciously set out to expand our manufacturing sector in order to secure a greater measure of economic independence and a more self-sufficient community.

The relatively small size of our market however has made some significant degree of protection imperative. Yet Australian tariffs have been reduced overall. Since 1973 our tariffs have been reduced by about 30%. Furthermore, Australian tariffs have not prevented E.E.C. manufactured goods from gaining access to our domestic market. Even though those imports adversely affect our local industry, between 1972/3, the year before the onset of the recent recession, and 1974/5, at the height of the recession, the share of the Australian domestic market in manufactured goods accounted for by imports from all sources increased by nearly 40%. The E.E.C. is today the largest single source of imports to Australia, supplying more than one quarter of total imports.

Turning now to agricultural products, the situation is quite different. In Australia's case, we excel not only as an exporter of mineral ores and metals but of agricultural products. We are able to produce at a lower cost than yourselves, beef, butter, wheat, flour, dairy products, sugar. In short, almost every product you eat. Europe however has the same problem in agricultural production that we face with manufactured goods. Europe has a traditionally high cost agriculture which cannot

/survive

Base metal exploration is under way once more, and there have been encouraging discoveries in Western Australia and South Australia. There are no less than 19 mining or mineral processing projects under construction, or which should commence this year, with a total estimated capital cost of about \$2½ billion. There are, in addition, some 25 projects in Australia which are under consideration with a combined capital cost running into very large sums indeed.

This immediately raises the question of the availability of capital. I have no doubt that as the investment projects are developed, overseas capital will be required to supplement that which is available in Australia. It is for this purpose that when, for domestic monetary policy reasons, we introduced controls on overseas borrowings early this year, we specifically exempted overseas borrowings for capital development in mining and manufacturing industries. Moreover, the Government has adopted a policy on foreign investment designed to ensure that worthwhile projects go ahead and are not held up by shortages of domestic capital. These policies are working well, but if there are any difficulties, I would like to hear about them.

One mineral of particular importance is uranium. Australia holds about 10% of the western world's low cost uncommitted reserves. The Government believes that the export of uranium involves important considerations of a kind not involved in the export of other commodities, and last week we announced a comprehensive safeguards policy for uranium exports. Its essential elements are: careful selection of customer countries, and a two-tier system of ensuring that customer countries adopt proper safeguards.

This involves applying firstly the international Atomic Energy Agency's safeguards to verify that material supplied for peaceful purposes is not misused, and secondly, establishing additional safeguards through a bilateral agreement with each customer country. Australia will also be actively involved in international effort to upgrade safeguards. We will shortly be in a position to discuss with potential customers the details of our safeguard policy. Final decisions will be made concerning the first and second reports of the special uranium environmental enquiry soon after my return to Australia.

I now turn to the question of relations between Australia and Western Europe. Relations between Australia and Britain have of course always been strong. Our special relationship is founded on common history, on shared political and philosophical ideals, and on the contribution that British migration and investment have made to Australia's development. These ties remain strong; despite the changes inevitably brought by Britain's entry into the E.E.C. When Britain first contemplated joining the E.E.C. there was some criticism and a general sense of unease in Australia. In a debate in our Parliament in 1961, after Mr. McMillan had announced that Britain would negotiate for admission to the E.E.C. I recall being one of the very few Members of Parliament who took a view contrary to that expressed by the Government of the day. I supported wholeheartedly Britain's entry into the Common Market. My only regret was that Britain had not entered into such an arrangement with the original six members at a much earlier date. The signing of the Treaty of Rome was accompanied by high hopes on the part of all those interested in European and world affairs. The Treaty seemed to offer Europe the prospect for the first time in centuries of unity and cohesion; an end to internecine conflict which more than once embroiled virtually the entire world; and the opportunity to fulfil

It would seem to me that you can answer these questions in the affirmative while still preserving the basic thrust of the Common Agricultural Policy. It is clear that we look at these matters from different perspectives. We need to understand each other's point of view. I have spoken about our trade relations because of their importance to both of us, but there is a whole range of other issues, political and international, which are also of mutual concern.

We hope to see the European communities increasingly develop the role which they are already playing internationally as a force for stability. We have many shared interests which a developing international role by the Communities can do much to enhance. Quite apart from our agricultural products, our capacity to act as a long term and stable supplier of raw material and energy resources clearly provides a basis for such a closer relationship. Moreover, despite our distance from Europe we are most conscious of the strategic importance of Europe and the contribution which a strong European Community makes to the North Atlantic Community and the present global balance.

While we are all deeply involved in the regions nearest to us, we sometimes overlook the identity of interest between democratic communities. This is more than a regional matter. Despite the doomsayers, those who speak of inflation and unemployment, of the crisis of democracy, our societies have great internal strength and resilience. However, because we are dispersed in large and small groups around the world, the interdependence of the democracies is seldom well understood. The common interests between us are rarely sufficiently emphasised. Our strength does not lie exclusively in the U.S.A., Europe or Japan or in any other single region in the world.

Our future is in a fundamental sense a collective one. We should not allow ourselves to be isolated from one another commercially or strategically. We need a global outlook and this is no less true of Europe than it is of the South Pacific countries. Our societies are pre-eminently ones which thrive on their interconnections with one another and the rest of the world. They would wither without them. You in Britain have much to contribute to fostering this recognition, to help avoid narrow exclusiveness which corrodes a common purpose.

My Lord Mayor, thank you for your invitation to speak to this distinguished gathering today. I am looking forward greatly to the discussions which I will be having over the next few weeks in London, Brussels, Paris and Bonn. Australia strongly desires a closer and broader relationship with all members of the European communities, complementing the strong relationship which we already enjoy with Britain. I am most hopeful that these discussions will be a start in securing that closer relationship which we seek.

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survive open competition with producers such as Australia. The European Community response, in contrast with ours in respect of manufactured products, has been the Common Agricultural Policy under which variable import levies are set at levels which severely restrict or exclude utterly imports of important Australian agricultural products

So now we see two sides of the same coin. Each of us has our strengths, each our weaknesses. In these circumstances there is a natural tendency for each to wish to liberalise trade in the area in which it is stronger, and ~~sh~~ore up protective measures in the sector in which it is weak. But the responses to this problem from the E.E.C. and from Australia have not been the same. Despite our tariff barriers, Europe does have reasonable access to our markets, but we cannot get reasonable access to European markets for important agricultural products. Twenty years ago, exports to the nine member states of the E.E.C. were virtually at the same level as our imports.

Today, largely due to the Community's Agricultural Policy, there is a serious imbalance of trading opportunities between Australia and the E.E.C. Last year, the value of imports from the E.E.C. exceeded that of our exports to the E.E.C. by nearly 60%. Reduced opportunities for Australian agricultural exports to the E.E.C. have had a direct effect on Australian primary producers. For example, in the last six years, one dairy farmer in three has left the Australian dairy industry.

In other areas of export opportunity, such as processed mineral products, Australia is often faced with escalating levels of tariff in the E.E.C. as the degree of processing increases. For example, the duty of bauxite is nil, alumina attracts a 5.5% duty, and aluminium ingots attract up to 22%. This policy directly inhibits the development of processing operations in our country, but the imbalance in our responses to the problem of market access is even greater, for, under the Common Agricultural Policy, the Community does not ~~erely~~ prevent reasonable access for our goods to your domestic markets; it heavily subsidises the export of primary products to other markets.

In some cases, the subsidy is greater than the final price of the products. The subsidies have the effect of depressing world prices and disrupting our traditional markets outside Europe. Let me give you just one example of what has happened. Our largest traditional market for flour was Sri Lanka. Our share of that market used to be 87%. It is now less than a quarter of that because E.E.C. subsidies have enabled European exporters in recent months to undercut our product by up to \$36 per tonne. The E.E.C. subsidy is in the order of \$100 per tonne. A similar story could be told for numerous other products in other markets.

All of this raises some questions. Would it not be possible to find a level of beef support and beef levy that allowed trade to flow without damaging the European beef producer? Would it not be possible to find a level of support for wheat and grains and other foodstuffs that also allows trade to flow and that allows the consumer the benefit of cheaper food? Would not this also help you in the fight against inflation? Would it not be possible to fix levels of export restitutions, subsidies, that do not wreck other people's markets, that do not depress world prices? These are questions I asked myself.

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