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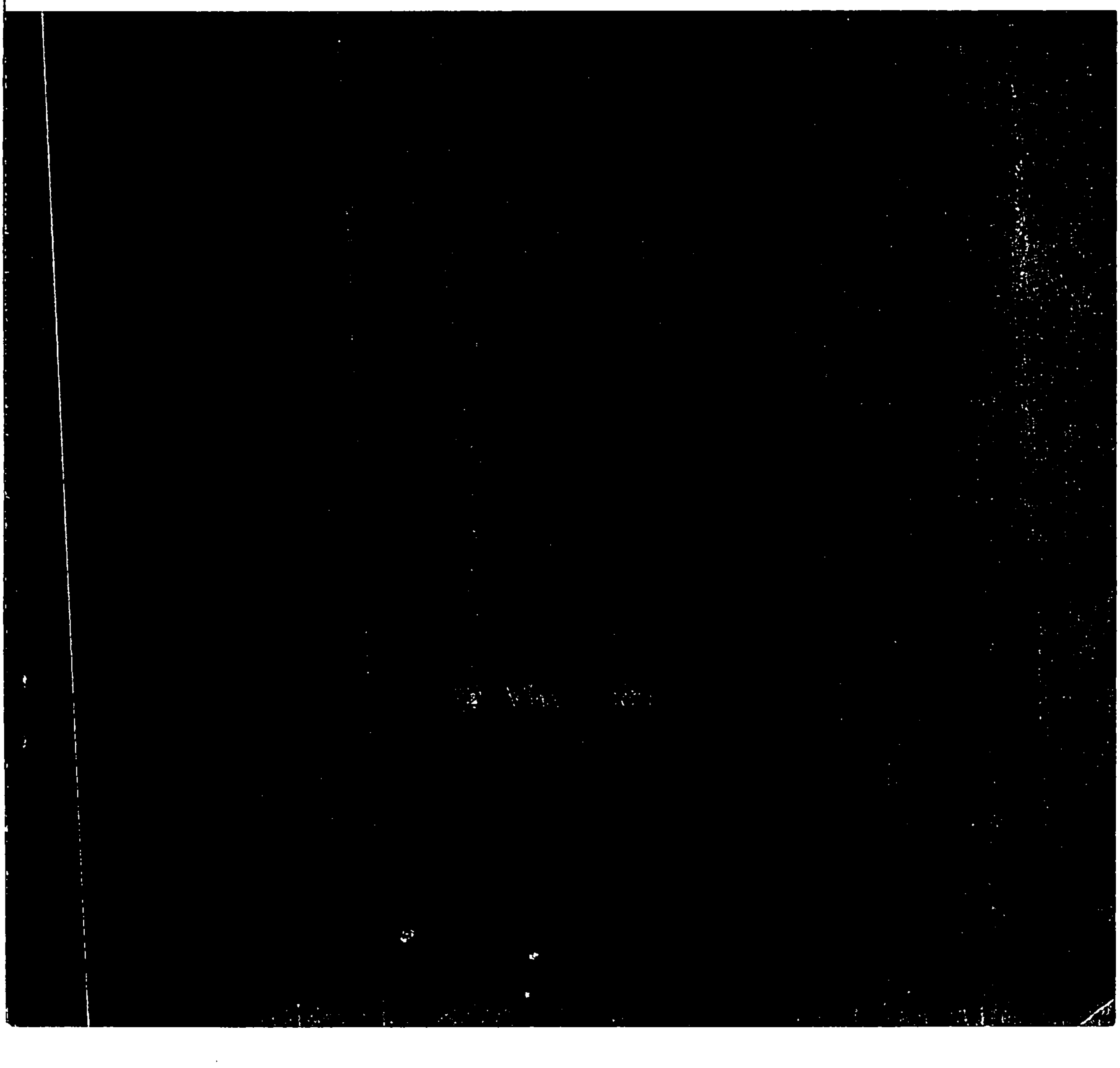
PRIME MINISTER

The Right Honourable Malcolm Fraser, C.H., M.P.

ADDRESS TO THE CONFEDERATION OF AUSTRALIAN INDUSTRY



ADDRESS TO THE CONFEDERATION OF AUSTRALIAN INDUSTRY

The following is the edited text of an address by the Prime Minister, the Rt Hon. Malcolm Fraser, to the Confederation of Australian Industry on 12 May 1980.

I am very pleased to be with you to address such an important national forum as the Confederation of Australian Industry. It provides an essential opportunity for those engaged in a wide range of industries to look at their future direction and shape.

Much has already happened in the 1980s which suggests that we live in difficult international circumstances. Yet, in spite of this, Australia has entered this decade blessed with a combination of assets, some or all of which are denied to other countries. This is not the time to be daunted by the prospect of difficulty. Rather, we need to add to our impressive legacy of endowments a motivation and determination to capitalise on the undeniable opportunities unfolding before us. It is the same with any new period in history. Each decade presents new challenges, new opportunities, unimagined difficulties and the prospect of inevitable change. But none can justify a reluctance to tackle the future.

It is worth remembering that the most dramatic political and economic events of the 1970s were quite unforeseen at the beginning of the decade. The lesson in that is that we must be ready to identify and face new challenges as they occur; seize new opportunities and seek from them productive advantage. We must never allow our creativity and our sense of enterprise; our preparedness to take risks and our willingness to surmount obstacles; we must never allow these timeless qualities to be corroded by crises or diminished by difficulty.

Certainly there are difficulties. The political and economic instability in the Middle East and West Asia pose a continuing threat to the availability and price of oil. The staggering increase in oil prices has not only resulted in higher international inflation; but also, it has meant a significant transfer of real resources from the industrialised countries to OPEC; and both of these have contributed to lower growth rates. These are some of the factors leading to increased pressure from international industries for government assistance and protection.

Another consequence of the international position, and in particular, the Soviet invasion of Afghanistan, has been a heightened visibility of the growing military power confronting us. The response by Western allies to this growing power has been a welcome commitment to the development of an increased defence preparedness. Yet this also has to be achieved at a time of severe inflationary pressures. Certainly then, we face an extremely complex set of inter-related political and socio-economic problems.

Yet, paradoxically, the combination of these factors has led, on balance, to a greatly improved position for Australia, relative to that of her trading partners. Our political stability; our skilled management of the economy; our abundant natural resources; our proven skill in finding and developing them; and our favourable geographical location; all of these factors enable us to face a difficult international environment in a position of advantage and privilege.

Challenges ahead

Of course, challenges still confront us. The new international economic conditions will continue to require our industries to adapt at a pace not always so pressing when the economic environment is more favourable. After all, the 1950s and 1960s were, on the whole, years of relative stability and moderately strong growth.

An expanding domestic market was serviced by the rapid growth and maturity of a number of key manufacturing industries. A brisk migration program accelerated the forces of supply and demand. It was a period of diversification with a good deal of impetus coming from import replacement in the home market. But having passed through a phase of relative stability in the 1960s, industry met new demands in the 1970s.

First, we had a massive mineral boom and a strong inflow of foreign investment which came with it. This resulted in a rapid strengthening of our balance of payment position which for so long had been a constraint on domestic economic growth. Our capacity to import vital goods for industry was improved. Then in the early 1970s, came the energy crisis, triggered by massive OPEC price increases, followed by a world wide bout of severe wage and price inflation and recession.

All the Western industrialised countries felt these pressures but the response in Australia of the government of the day was in itself, a transparent crisis of management and policy because in many ways, Australia was in a more fortunate position than most other countries.

Our natural resources, significantly developed at the end of the 1960s; our great endowment of energy; our long record of lower inflation: these should have provided the foundation for a relative improvement in Australia's position during these difficult years. Yet, we lost ground. Australia suffered a severe loss of international competitiveness. Australian industry lost export markets; faced increasing competition from imports; and, as a result, became locked in a struggle for survival, let alone adjustment.

Now, five years later, as a result of steady application of responsible policies, designed, first and foremost to reduce inflation and inflationary expectations, dynamic forces are at work in the Australian economy and Australian industry which give cause for justifiable optimism.

The Government has worked from the premise that it must restore a stable economic climate in which business can make decisions. It has remained dedicated to the belief that much of the future prosperity of Australian industry will come from a fuller participation in world trade; that, as a consequence of this, our first priority must be to encourage the development of internationally successful industries by improving and maintaining our overall competitive position. And part of our program for promoting this, has involved investment allowances, export incentives and research and development assistance.

Strength in industry

Just as importantly, government policies have been designed to foster strength in Australian industry. In the three years to 1978-79, Commonwealth Budget outlays showed virtually no growth in real terms. At the same time, we have reduced the deficit, as a percentage of GDP, to under 2 per cent this year; sought to contain wage pressures and held the money supply at responsible levels.

It is also a matter of concern that our political opponents continue to attack the Government's investment and other business incentives. Their firm restatement of those traditional commitments, I believe, diminishes the possibility of achieving bipartisan support in matters which are of major concern and interest to a thriving, prosperous and profitable Australian business. Our progress in the last four years, though difficult, has been significant. Our inflation rate, running at more than 17 per cent in the March quarter of 1975, was little more than 8 per cent in the March quarter four years later.

Over the twelve months to March 1980, consumer prices have risen by 10.5 per cent. This increase derives primarily from strong rises in the price of oil and other internationally traded commodities, and must strengthen us in our determination to maintain our anti-inflationary stance. It is worth comparing the success of our performance with what has happened in a number of other countries. In the twelve months to February, inflation in the U.S.A. was 14 per cent; in the U.K. 19 per cent; and the OECD generally over 13 per cent.

Maintaining our inflation success relative to that of our major trading partners is fundamental to our international competitiveness. And this competitiveness has been restored to levels which existed at the beginning of the 1970s, with a sustained improvement over the last four years in the order of 15 per cent to 20 per cent.

The Statistician's major production series for the March quarter 1980 compared with the year earlier, showed rises in twenty-one of the thirty seasonally adjusted items with significant increases in steel, bricks, chemicals, refrigerators and some textiles. In rural industries, the recovery from deep recession has been even more remarkable. The value of rural output rose by over 60 per cent over the past two years. Income per farm more than doubled to be 75 per cent higher than in the first few years of the 1970s. All of this is reflected in the employment position. While unemployment is still too high, in the twelve months to March 1980, total employment rose by over 180 000. These are encouraging signs.

The 1980s promise a continuing recovery for Australian industry. That is the only way we can be sure there will be benefits for all Australians. The vast trading potential to our north; our mineral and energy resources; the accelerated growth in all our industries from renewed competitiveness; and the beneficial effects of all of these on the economy will provide new opportunities for Australians in the years ahead.

To take advantage of these opportunities, business and industry in the 1980s must be outward looking. We must be aggressive in our market thinking rather than tentative. We must take advantage of our geographical position rather than lament the mistaken view that we are geographically isolated.

The Asia market

It is not such a long time ago that Australia was described as an isolated continent, distant from the markets of Western Europe and North America. Yet today industrialising countries of Asia are a major and growing market for Australian exports at a time when Australia enjoys the combination of a favourable geographical position, a privileged resource strength and an increasingly sound economy.

Most of the economies of East and South-East Asia are growing at rates ranging from 7 per cent to 12 per cent per annum, an impressive result when much of the world has been experiencing economic recession. These economies will need to supplement the output of their own growing industrial bases with a wide variety of imports, not only basic raw materials. There are immediate opportunities for Australian rural industries: for coal, iron ore, alumina and aluminium, iron and steel, agricultural and specialised industrial machinery, consultancy services—and the range should widen. There is also considerable scope for the use and application of Australian technology and expertise, notably in the agricultural sectors of developing countries in the region. When one realises that the growth of the total import market in the developing economies of Asia has been projected by the Industries Assistance Commission at about 11 per cent per annum in real terms, then the opportunity for Australian industry is significant indeed.

Asian countries are already high on our list of important markets. In 1978-79, Korea was our fifth largest market, China sixth, Malaysia ninth and Hong Kong tenth. Only six years ago, exports to the developing countries of East Asia were $409m; in the last financial year, they were $1521m.

The importance of these newly industrialising economies is heightened when we note that many of Australia's traditional markets either have restricted access for Australian products or have relatively mediocre growth prospects over the next few years. On the other hand, if current trends continue, the developing Asian market economies will have contributed about as much to Australia's trade by the end of this decade as Japan had by the end of the 1970s.

Yet we can do better. Our share of the market in these economies is only a little over 3 per cent compared with Japan's share of 30 per cent and the U.S.A. 19 per cent. Thus, even a small increase which must be within our capacity, given our present low base, would represent a significant gain for Australian exporters.

With the right business attitudes and appropriate government policies, there is no reason why Australia cannot seize these opportunities, especially when our industries have demonstrated a capacity to seek out new markets and to change their pattern of trade.

For over the last two decades, such a change has been dramatic. In 1958-59, about 16 per cent of Australia's exports went to East Asia. Twenty years later the level had risen to almost 40 per cent. By comparison, in 1958-59, we were selling about 54 per cent of our exports to Europe.

Today, that market receives only about 19 per cent of our exports. These changes, already under way in our trading patterns, are not temporary. They will continue as real incomes rise in the East Asian and South-East Asian region, producing a quickening in demand for consumer goods, and for inputs for industrial development.

Yet, in spite of these already developing trade patterns, we have heard, in recent years, an almost incessant request for government assistance to achieve structural change in industry. It is important to understand government and industry responsibility. The essential government role must be to create the institutional infrastructure and broad economic policy framework in which market forces can operate.

We take the view that government cannot replace the key role of investors and company managers in deciding where new funds will be directed; in determining which companies and industries will successfully carry new projects through to completion and subsequent profit; in anticipating which products can compete effectively in a tough and changing trading scene.

Where appropriate we are prepared to provide incentives to our industries; but the main engine of growth and progress must be our private sector. It alone can respond adequately to market signals and take productive advantage of the support for business development offered by the Government's policies.

I have great confidence in the capacity of our business managers to recognise the changes in the external environment and to perceive the new trading and investment opportunities which these changes are creating. To speak of industries failing is to ignore the fact that good management in industry is synonymous with successful adjustment to change. Some firms may wither and fail; but no firm need do so. The historical lesson of Australian industry is that successful management does not wither; it adjusts.

Australia's economic strength has been based primarily on the capacity of entrepreneurs, business managers and farmers to create, or build upon, industries which can compete effectively in the trading world. Notable amongst these, are our great rural-based industries which in recent years have had to compete with EEC agricultural products in receipt of government support in excess of $30 billion for the calendar years 1977 to 1979.

Steel industry record

The Australian steel industry has an even prouder record in international competition and it has achieved this in the face of massive subsidies to its European competitors. For example, the French steel industry received approximately $A800m in direct and indirect assistance from the French Government in 1979. And the U.K. steel industry received approximately $A1250m in producing a little over twice as much steel as BHP. And despite massive government assistance to many overseas producers, our manufactured exports are successfully penetrating overseas markets.

In 1979 Australia enjoyed a 28 per cent growth in the volume of manufacturing exports, proof of the increased orientation of Australian management towards the external market. Surely in the light of this, proponents of government programs of adjustment need to be very clear about what they have in mind.

It is significant that the Secretary of the OECD in calling recently for policies of positive adjustment was really suggesting the removal of government from the process of adjustment in order to allow the smoothness of market processes to work. For, it is a characteristic of market-based economies that they do respond readily, flexibly and relatively smoothly to change and new opportunities. How much more desirable this is than a program of government intervention which distorts the process of change and locks capital and labour into unproductive enterprise.

Adjustment to change

Adjustment to change is the weather-vane of industry; for, in a real sense, change in industry is the only thing that is permanent. T. S. Eliot once said: 'In the life of one man, the same time never returns'. So it is in the world of commerce. And change, arising from market forces is the greatest part of the continuing adjustment which is taking place in our economy.

It is an adjustment based on economic factors; on an identification of needs; an examination of costs; and a capacity to reconcile both of those in a profitable way. It is when change threatens to be abrupt, severe and far-reaching, especially if concentrated in particular areas, that difficulties arise in a social sense. The resistance that can then build up, can be an impediment to any further adjustment. Governments can aggravate the process of smooth adjustment to change.

The European experience has shown us how massive job subsidy schemes, capital subsidies and, in the case of agricultural industries, blanket protection, obscure market forces; distort economic reality and create circumstances far worse in their totality than those they initially sought to alleviate. However, we should not countenance a sudden and radical departure from existing systems of trade adjustment.

There is no productive future in living in a giddy and unnerving whirlpool of rapid and dramatic change. Historically, Australia has a record of smooth, beneficial and manageable adjustment to new economic circumstances.

This is the most manifest in our move from being a country substantially dependent on our farms, to the development of a wider industrial base incorporating one of the most important mining industries in the world, and, in the process of industrial diversification, spawning a highly sophisticated tertiary sector.

And more recently, the dramatic worsening of the energy position of industrialised countries, bringing with it as it did, severe economic problems, has called for rapid adjustment in industrialised economies. For all countries, the challenge is to maintain a long term balance between oil demand and supply. The prospect is for even higher real prices for oil as we move towards the end of the century.

Damaging as these circumstances are for many countries, it only serves to remind us how uniquely placed we are to meet the new economic and energy challenges. Because we have regained our international competitiveness, we are able to fully capitalise on being one of the few net energy exporters among OECD countries, with substantial reserves of uranium, black and brown coal, LPG and natural gas.

Energy policies

Allied to this energy strength, the Government's energy policies are geared to securing our future energy demands by promoting the objectives of greater exploration and development of all our energy resources, conservation of our scarce liquid fuel reserves and greater use of alternatives to oil supplies. These objectives are being met. It is estimated that total expenditure on petroleum exploration and development will exceed $500m in 1980; an excellent recovery from the state of investment fatigue in the mid 1970s. In 1979, the rate of increase in our petrol consumption was only half the average of the last five years and proof of the validity of pricing our oil according to its value in world markets.

There is one aspect of the energy problem that has not been emphasised and that is the agreement by member countries of the International Energy Agency to set targets for oil imports as a means of underlining their intention to reduce dependence on imported crude oil. Australia has agreed to participate in this oil import target exercise. The targets emphasise the need for countries to adopt policies to conserve oil and to encourage the use of alternative sources of energy.

In Australia's case, current indications are that in 1980 our imports will be well below the target figure set. Yet, if we were to indulge in the extravagant use of oil; and if further emergencies were to arise as a result of shortages in Middle East supply or production, then the IEA would be entitled to look with a very jaundiced view on countries who failed to act responsibly in their use of scarce oil supplies.

If, through extravagance now, Australia, in the future, was faced with forced cutbacks, our industries, our economy and our way of life would be in jeopardy. That is why we will not relax any of our efforts to maintain a responsible level of oil consumption. In the search for new sources of oil, the Rundle shale oil project poses a challenge to technology and an opportunity for Australia to increase dramatically its indigenous supplies of crude oil, coming on stream hopefully at a critical time in the production of Bass Strait oil.

All this is happening because of the promise of competitive returns in Australia on capital, technology and labour skills, resources for which Australian industry has to compete internationally. This has brought to Australian industry a new phase in its continuing adjustment, not contemplated a decade ago. It will provide for our industries a substantial advantage over competitors in many other countries. And our aluminium industry is already enjoying this advantage.

Higher oil prices, together with greater national resource competition that they generate have reduced the number of countries in which it is attractive to build new smelting capacity. Coal-based electricity generating costs in three eastern States are now considered to be significantly lower than those in many industrialised countries and there is every reason to believe that this competitive edge will be maintained. The increasing activity by other less well energy-endowed nations to locate energy intensive industries offshore will add undoubtedly to Australia's already favourable economic position.

Private enterprise is alive to the possibilities created by our energy advantage. And in the decades ahead we can expect that the new growth areas of mineral processing and mining will continue to expand at a rapid rate.

With increased oil costs, the cost of shipping must inevitably rise bringing with it an added inducement to process raw materials in Australia and take away the finished product rather than bulk materials. That this is already happening represents a measure of the adjustment being made in Australia to the new world demand for energy and energy based projects.

But there are other sectors as well which demonstrate the increasingly competitive nature of Australia's resource based industries, including pulp and paper, wool processing, mineral sands and metallurgical processing industries such as zinc and copper.

Human input

To this must be added the human input, the skilled labour, the development and application of advanced technology and the entrepreneurial skills involved in production programming, marketing and innovation. These are going to be just as much a part of Australia's productive adjustment in the 1980s as our raw materials and energy.

Another element required to productively complement Australia's balanced development in the future is an increasingly efficient and competitive capital market. A market which encourages the mobilising of equity and fixed interest capital; which helps Australians to become partners and participants as investors in our development projects.

A great program of national development lies in front of us. Australia will be capital hungry in the 1980s. Funds will be needed from overseas, but we will also need to mobilise Australian savings for long term investment purposes. And here lie new opportunities for all Australians.

I can think of no more effective use for the investment of our present savings than in the development of our national resources; in the support of outward looking and aggressive manufacturing industries and in the provision of modern finance and servicing industries.

We have already taken positive steps to facilitate the financing of private sector initiatives. To enable the Australian financial system to meet the anticipated demands on it for long term development finance, it is important that the system be able to respond appropriately to such demands.

These considerations prompted the Government to establish a committee—the Campbell Committee—to inquire into the ways in which the Australian financial system can achieve its utmost potential effectiveness. The Committee has been asked to make its inquiry against the background of the Government's free enterprise objectives and broad goals for economic prosperity. Already we have taken some preliminary steps which have furthered these objectives and assisted the operation of the capital market and the financing of domestic projects.

Amongst these are inter-related initiatives including the Commonwealth's reduction in its own demands on the capital market through a reduction of its deficit and the Government's streamlining of its methods of selling its securities. These measures have secured a more effective control of the money aggregates creating a more stable monetary environment which is critical for economic growth and the control of inflation. They have induced confidence in Australia's economic future and this confidence is well placed.

The diversity of the opportunities before us is immense and constantly changing. These opportunities must surely inspire those with ideas and a willingness to implement them. They must surely galvanise into action others who enjoy challenge and the rewards that come from successfully meeting it.

One of the easiest ways to successfully predict the future is to accept the responsibility for shaping it. Leaders of Australian industry have a proud role in this regard throughout our history. I am confident that in the years ahead the promise that we now see will become the progress we all seek.

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