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PRIME MINISTER

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SPEECH BY THE PRIME MINISTER
21ST ANNUAL JOINT MEETING OF THE AUSTRALIA/JAPAN
AND JAPAN/AUSTRALIA BUSINESS COOPERATION COMMITTEES
MELBOURNE - 26 OCTOBER 1983

It is with great pleasure that I join you tonight on the occasion of your twenty-first Joint Meeting.

Your committees have been at the forefront of extraordinarily productive exchanges over the years to the benefit of both our countries.

Your success demonstrates very clearly how a close relationship can flourish when people from two countries sit down and discuss common problems in a frank and open manner.

Your efforts have contributed importantly to broadening our two countries' understanding of each other.

They have strengthened the relationship and provided a sound basis for growth in mutual trade.

But we cannot afford to rest on the gains already achieved.

The recession has made deep inroads into overall growth of global output, employment and international trade and has seen measures adopted which are seriously eroding efficiency in the use of national and international resources.

Both Australia and Japan have a shared interest in redressing this situation.

We have a joint interest in the maintenance and extension of an open trading and payments system.

It may be the case that little more than half of the value of world trade is now transacted on the basis of the non-discriminatory provisions of the GATT system and that bilateralism has increasingly come to supersede multilateral approaches.

But as countries whose prosperity critically hinges on vigorous growth in international trade we need to act together to ensure the maintenance of conditions necessary to a strong and resilient world economic and trading system.

I can think of no better place to start than with a review of issues current in the Australia/Japan trading relationship.

Contemporary Australia is dedicated to an open, non-discriminatory international trading system.

We see our future as being closely linked with the maintenance and further development of our partnership in the dynamic economic growth of the Asia/Pacific region.

Within this region of growth, we are ready to stand on our own competitive capacity.

Naturally these perceptions find a particular reflection in Australia's trading relationship with Japan.

There is no doubt about the fundamental importance to both Australia and Japan of the bilateral economic relationship.

It is a striking fact that Australia's export trade with Japan is greater than our trade with our next four most important trading partners put together.

Japan is now overtaking the United States as our most important overseas supplier.

But if anything I fear constant reiteration of recognition of this interdependence over recent years may have blunted awareness of important changes taking place, particularly within Japan.

The key change has been that in the last two to three years Japan's economic growth has slowed again following the earlier movement to a lower growth trajectory following the first oil shock.

In a buyers' market Japan has cut back markedly on imports from Australia, both in quantity and price.

The basic materials industries are now among the low growth sectors of the Japanese economy.

It is quite possible that activity in these industries may have plateaued permanently.

While there will be some short-term recovery due to cyclical factors, the inescapable fact is that Japanese industry is restructuring and forward planning is directed to the promotion of high technology industry and products.

These industries will consume less energy and less basic metals.

Fortunately for Australia, other markets are now opening up in newly industrialising countries of the region.

But those markets should not be considered a substitute for the Japanese market.

The Japanese market will continue to be vitally important for Australia.

The slower growth in total Japanese demand for resources that is now in prospect focuses attention on Japan's import sourcing policies.

Japan has been experiencing increasing pressure to give other resource suppliers privileged (and, in our view, economically unjustified) access to its markets, either to offset imbalance in other parts of a larger commercial relationship or for broad political/strategic reasons.

On this point my Government was very pleased, indeed relieved, to receive the assurances the Japanese Trade Minister and Foreign Minister recently gave senior Australian Ministers that Japan has no intention of solving trade problems with third countries at the expense of Australia.

The Australian Government had been deeply concerned at the weight of pressure being applied to Japan and regards it as critically important to avoid a response that is at the expense of such close and reliable partners as Australia.

But there is another aspect to the sourcing problem which continues to cause Australia concern.

The development of equity tied mining arrangements by Japan is soon going to impact heavily on both the coal and iron ore trade.

I have heard it said that new Canadian coking coal mines which have significant Japanese equity and loans have contracted tonnage representing 12-15 per cent of a more or less static Japanese import demand for coking coal. This could be accommodated only if the new supplies were forced into an already oversupplied market.

The United States, being the higher cost producer may, as some observers suggest, be the 'swing supplier' in this situation.

But whether or not this less inefficient outcome is achieved depends on the the considerable bilateral pressure being exerted on Japan by the United States to ease its huge trade surplus by importing more US products, including coal.

Similar factors are at work in the iron ore trade.

The pattern of increased Japanese overseas investments in alternative raw material resources and iron and steel production could threaten the share of the Japanese market available to more efficient Australian raw material producers.

For example, one major iron ore project in another country has recently received significant Japanese financial support in the form of equity and loan funds respectively; and there are commitments by Japan to purchase ore from the project when it comes onstream.

For Australia this can only create problems.

Maintenance or improvement of our market share will be the more difficult.

For coal, both coking and thermal, the issue is more one of growing unease over the value of long-term contracts and uncertainty about the stability of the market.

This has been highlighted recently by severe cutbacks on existing suppliers who have long-term contracts and proven performance.

These suppliers have made investments on the assurances provided by Japanese buyers within long-term contracts.

It is a matter for regret and real concern that those assurances have not been fully honoured at the same time as the buyers are mounting investments and undertaking commitments elsewhere.

But there is another aspect to the situation which cannot be ignored.

Considerable difficulty has been encountered in obtaining adequate and reliable information on Japanese future demand prospects and in assessing the extent to which contracted tonnages were likely to be taken up.

Levels of forecast demand have brought forth over-supply.

Australian producers are now geared to supply much larger markets than are now or potentially open to them.

The transformation in Japan's energy demand structure and the consequent reported downward revision of approximately 20 per cent in the Japanese government's energy demand forecast for 1990 carry major implications for our energy resource trade.

Obviously, Australian sales of raw materials and energy resources to Japan will remain large in absolute terms but we cannot look to the kind of growth we have come to expect in the past.

This has significant consequences for Australian development and for our entire industrial structure.

For some products Australia may have to face cutbacks in sales to Japan.

This is now the reality.

But I believe strongly that Australia is, and will remain, a reliable, competitive supplier of resource goods and traditional commodities.

This belief is grounded in recognition of:

- the importance of Japan's market to Australian industries serving the raw materials trade, and the associated advantages of working within a large-scale established trading relationship;
- the highly competitive position of Australian suppliers vis a vis suppliers in North America, China, South Africa and Latin America and
- the commitment of my Government to ensure that the industrial framework in Australia buttresses the underlying competitiveness of these industries.

Australia should be and expects to be given fair access to the presently limited Japanese market. If one party takes advantage of short-term market fluctuations to change arrangements temporarily in its own favour, there will be no satisfactory basis for long-term commercial relationships.

Australia's record in handling the necessary adjustments to dislocations in the raw materials and agricultural trade is testimony to our reliability as an economic partner.

Australia, for example, met its full commitments to supply beef to Japan throughout the very severe drought of 1982-83 and is committed to continue to do so.

We do not seek privileged treatment on the basis of non-commercial considerations.

Australia is not in the business of seeking special favours in the international market place but asks only for a careful appreciation of our capacities and for a long-term perspective to be applied to present difficulties.

We expect recognition by Japan of the particular and enduring advantages of trading with Australia.

As a country Australia has:

- very large reserves of a wide range of high quality minerals and other resources, particularly energy resources
- geographical proximity to Japan
- large-scale, low-cost operations
- political stability and
- common security interests and membership of the Western alliance.

The continued complementarity and interdependence of Australia and Japan is an inescapable reality.

This is not to deny that both Japan and Australia have a legitimate interest in diversifying supply sources and markets.

The growth of Asean and of the newly industrialising countries of this region offer significant opportunities that are already of considerable interest to both Australia and Japan.

Due regard must be had, however, to the effect of diversification on existing facilities and infrastructures established (often on the basis of long-term contracts) in the expectation of continued non-discriminatory access to each other's markets.

Australia cannot go on expanding production while some mines are selling at a loss.

We need to sort out the real basis and operational validity of traditional long-term contracts with Japan.

We need to achieve mutual recognition of the dangers of encouraging over-supply - initially for the supplier but in the longer-term equally for the consumer.

This danger becomes real once market uncertainty prevents investments from proceeding and artificially low prices force the closure or abandonment of mines and facilities that would otherwise operate economically.

To avoid these problems it would be useful to increase information sharing between our industries and to develop common perceptions with competitor supplier countries.

Our membership of several international agreements and study groups could facilitate such consultation.

As a productive first step, these efforts could be directed to improving the accuracy of demand forecasts.

Clearer and more effective guidelines about the future requirements of Japanese industry for Australian resource materials are needed.

An equally clear statement of Australia's situation - its development plans and problems - would also, I am sure, be of value to Japan.

Such matters should be the subject of effective and continuing consultations at both the business and Governmental levels. This would, I believe, be of substantial value to producers and consumers alike.

Sir John Crawford's recent proposal at the Australia-Japan Economic Issues Symposium for an "international forum on security of supply and market access in the resources trade, notably in coal", is more ambitious. It is nevertheless, as recent circumstances suggest, timely; it merits serious consideration by all parties concerned.

Mr Nagano,

Closely linked with consideration of Australian competitiveness must be an assessment of our reliability as a supplier.

Although I believe concern on this point has often been exaggerated and motivated more by an interest in negotiating leverage than in realities, the point is sufficiently central to merit close attention.

Last year Brian Kelman of CSR presented at this meeting a carefully considered analysis of Australian industrial relations in the context of the trade in natural resources between Australia and Japan.

The picture which emerged bears repeating:

- Time lost due to strikes in Australia was about average by world standards
- Most Japanese buyers of Australian commodities experienced little or no inconvenience or additional cost due to industrial disputes in Australia
- There were a couple of industries in Australia with a worse than average past record, but in these cases the current situation had either improved or was improving
- In at least one of these latter industries, the most competitive supplies available to Japan continued to emanate from Australia.

Had Mr Kelman conducted his analysis this year I am sure the picture would have been even more positive

- There was a significant decline in the level of industrial disputes nationwide in the 12 months to July 1983; only 289 working days were lost per 1000 employees compared with 671 days the year before.

In part this situation reflects the impact of the recession; it also reflects more effective industrial relations - a trend which State and Federal Labor Governments are well placed to nurture, and are intent on co-operating to do so.

While we can take satisfaction from this trend, it offers no grounds for complacency.

Industrial disputes have caused problems which we could all have done without.

Whatever the progress that has been made, room for improvement on all sides still exists.

The Australian iron ore industry has had a particularly chequered record.

Although there has been no occasion since Australia began shipping ore to Japan that production by the Japanese mills was interrupted due to disruption of Australian supplies, the situation at the Pilbara has for a long time been difficult and a source of legitimate concern.

Some of you would be aware that back in 1976, as President of the ACTU, I addressed a meeting at the Pilbara on industrial relations issues in the iron ore industry.

Subsequently, in January 1977, I led a delegation to the Japanese steel mills to discuss the same issues.

Now in Government I have given high priority to improvement of Australian industrial relations in general and Pilbara industrial relations in particular.

The Western Australian Premier, Brian Burke, and his senior Ministers, share our views on the priority of these industrial questions.

Some of you may have seen reports recently in the West Australian papers about the possible establishment of an Iron Ore Industry Consultative Council involving State and Federal Governments, unions and employers.

This is currently the subject of active consultations among interested parties.

Consistently with my Government's approach to matters of this kind, we would want any new institutions to have the positive support of all interested parties.

If any new plan is to be successful, those affected need to concur with it and be involved in bringing it to completion.

If it could be achieved I would see the establishment of a tripartite body along these lines as a most significant development.

This joint initiative constitutes a particularly clear demonstration of Australia's commitment to maintaining and improving its performance as a reliable supplier.

The Western Australian and Commonwealth Governments look forward to a fresh start in industrial relations in the Pilbara.

But the current situation requires more than just getting our own house in order.

Australians must also be more active in the international market place.

We need to expand the base of our exports to Japan - and to do this we need to know better what the Japanese market wants.

The Japanese economy continues to grow and represents a lucrative import market for those countries able to supply its needs at this advanced stage of its development.

Japan's high and increasing living standards will generate opportunities for items such as high quality processed foodstuffs and high technology manufactures, leisure and sporting goods, high fashion items, travel and recreation, and the products of the services industry, particularly education services.

If Australians are sufficiently concerned with innovation and quality, and do their homework thoroughly, we will not be denied a place in that market.

I believe that we even have some natural advantages in these new areas as well.

Our small scale, highly differentiated manufacturing industry could be well suited to filling niches in this highly sophisticated market.

We can succeed with a carefully conceived and committed approach aimed at understanding Japanese needs and developing our capacity to meet them.

The assurances given to both Mr Bowen and Mr Hayden earlier this year by their Ministerial counterparts in Tokyo that Japan will co-operate constructively with Australia in the context of Japan's program of import expansion give me further confidence.

I welcome these assurances as a measure of Japan's desire, shared by Australia, to see the relationship flourish.

This squares well with Australia's aim to strengthen manufacturing productivity, upgrade our resource based processing, manufacturing and exporting, and take full advantage of the existing opportunities for stronger technological co-operation.

That said, the huge and strategic raw materials trade remains of critical interest in the Australia/Japan relationship.

Neither our business communities nor our Governments can afford to neglect the problems involved in that trade.

Where Australia is competitive, as we are in energy, raw materials, agricultural and other commodities, Australia can legitimately expect the maintenance of its established shares in the Japanese market, especially in these times when the market is tough.

This is not simply a matter of clinging to the past.

Instead it is a matter of recognising the importance of building across the business community, the governments, the general community in Australia, Japan and other Western Pacific countries a climate for open trade policies.

Our two countries share a strong interest in the maintenance of strong trade expansion and economic growth throughout our region.

This implies an even more open, vigorous and active partnership between Australia and Japan.

It requires business in Australia and Japan to recognise our strong mutual interest in efficient patterns of trade; in drawing supplies from the most competitive sources, independently of external political or commercial pressures.

The reward of our success will be the maintenance of our region as a centre of economic dynamism without equal in today's world.
