



PRIME MINISTER

E. & O.E. - PROOF ONLY

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PM: What I'm going to do is just take you through what happened this morning generally and tell you something of what I said. And then there is a domestic matter I'd like to go to.

The two things that were involved this morning were the international economics and there was a statement on Cyprus by the President and a couple of contributions from Bangla Desh and Guyana. I didn't have the opportunity of speaking there, but it is going to be further discussed on the weekend here and I will be talking about that then.

The contributions on the international economics were by Mrs. Gandhi who made some brief introductory comments, but was introduced by New Zealand. Other speakers were Trinidad and Tobago. They were reporting on the outcome of the Commonweath finance ministers meeting. Tanzania, Sri Lanka, Kenya and I wound it up.

I'll go through the contribution that I made. There was no doubt about the seriousness of the problems confronting the international community in securing long term growth and employment and I emphasised the ultimate progress in regard to dealing with these matters is involved in ensuring that the measures which are adopted contribute to the long term solution. I put it that there were four crucial pre-conditions in achieving this.

The first one is that the domestic policies of the major industrial countries should be compatible with the requirements of sustained economic recovery.

Secondly, that there be a movement towards a free and open international trading system.

Thirdly that there be firm action directed at strengthening existing international financial institutions.

Fourthly, that appropriate domestic economic policies be followed by all countries whether they were developing countries, middle developed countries or fully developed countries - that there is no way in which you could expect that problems were

going to be solved by just looking outside yourselves. We all have to adopt appropriate policies.

They were the four crucial pre-conditions. I said that in the framework there seem to be five major economic policy tasks confronting us.

Firstly, the promotion of growth in developed and developing countries so that from this growth we will be able to get higher employment and better living standards.

Secondly, a revival of trade, especially through serious efforts to promote conditions which were consistent with open model ... trading system.

Third, that we have to promote the adjustment process in debtor countries by maintaining flows of finance from official sources which in turn would operate as a catalyst force for stimulating private growth.

Fourthly, that there had to be an encouragement of a greater convergence in economic policies between countries so that there could be a reduction in exchange rate fluctuations and in that way create a better environment for trade investment.

Fifthly, that there should be a lowering - facilitation of lowered international interest rates which means particularly a reduction in the inordinately large budget deficits that are around and in that way improving inflationary expectations.

I said on each of those points the major industrial countries beared particular responsibility. For example, if you look at the high interest rate levels, they had been influenced by size in the fiscal deficits in the major industrialised countries and that has contributed considerably to the uncertainty in international markets and ... is responsible for large question marks that must be said to exist over the durability of sustained international economic recovery.

I then went on to point out that a particularly significant feature of recent experience has been the growing recognition of the danger posed by increasing resort to protectionism and there was an understanding developing of the heavy inter-relationship between trade and financial policies, both domestically within countries and internationally.

From this I went on to speak particularly from Australia's view, saying over recent times the aggressive use of subsidies by the European and the United States which is threatening markets, bringing about suppressed returns and creating price instability and within that framework the increasing tendency amongst the majors to settle issues between them by bilateral arrangements don't necessarily take into account the interests of smaller countries and I pointed out to them that Australia really had suffered within that process. There were three bites of the cherry, if you like, as far as we are concerned.

Firstly, with the development thing, the European Community. We had been pushed out of traditional markets there.

The second stage in the process was where the European Community had then started to subsidise its exports in surplus production into our traditional markets and had hit us there.

Now, thirdly - the third stage - is that we've got the United States responding to that process and I pointed out by way of example the fact that in the traditional area of our wheat market, ... was now having to build wheat silos as part of the sale of wheat to match the sort of conditions which the Americans are providing in their sales.

I emphasised that the sorts of solutions that are arrived at between - in these bilateral deals - the majors at the expense of third countries are not only discriminatory and inequitable, but they involve the gradual undermining of orderly international trading system. Therefore, one of the things that we had to give emphasis to was the return to creation of an open multi-lateral trading system.

I pointed out that within this context there had been some calls for a new round of trade negotiations and I said that our response to that would be influenced by the extent to which these are going to address themselves to the needs of all countries - developing as well as developed - and that as far as we are concerned we would welcome a new round, providing that there was a comprehensive approach to the problems of international trade.

I then moved on to talk about the central relevance of the effective management of the situation of the heavily indebted countries and this has now come to be recognised as critically important to the past in restoring a balanced global trade and ... system. I said that it was important that the adjustment process makes it possible for the heavily indebted countries to service their debt and particularly by way of increasing their export earnings.

Now, I went on then to say that the critically important
(?) retail area is the role of the international financial institutions and I went out of my way to say that it had to be understood in discussions like this just what a critically important role the international financial institutions had fulfilled. They had provided the backstop in a channel through which arrangements can be made between debtor and creditor nations and with the major banks. This had to be understood if you were going to really address yourself sensibly to the future. You had to really understand that they have done a very significant job and that what was important now was to see that despite the bridging role, the major financial institutions was facilitated so they could really exercise their mandative role.

Now, in this respect I said the early application to the 8th IMF quota increase in the large general arrangements to borrow is important and it would still remain to be considered whether following that ratification you still had to consider then whether the liquidity needs of the international financial institutions would be sufficient for them to discharge their responsibilities and in that context I pointed out that while you could look to a rapid growth in international liquidity flowing from the deficit of the United States balance of payments, it still seemed likely that some liquidity would remain scarce and I then said, should it be the case that the recent sharp decline in the balance of the IMF loan ... coming at the same time as reduced opportunities for borrowing for lenders. If it appeared in the ... day circumstances, that there was bound to be a particular pressure on fund resources and that there may be a case for supplementing those resources. I didn't pursue the details of that but really was concerned to flag that that was something that we may have to consider.

I then pointed out that the CHOGM is likely to be ... in regard the provision of concessional finance through the International Development Association and therefore pointed out that it was necessary to recognise the need for the replenishment of the IDA to be implemented - to be agreed and implemented - on schedule by July of next year.

I referred to the United States tradition in that regard because the problem there is the task confronting the United States administration in getting Congressional agreement to that replenishment and I pointed out that we attached very particular importance to the American participation ... replenishment should be at a level commensurate with the historical share which the United States has had in the IDA. I pointed out that we had in fact, in bilateral discussions with the United States administration, stressed the importance we attach to that.

I said that this necessity of negotiating annual bridging arrangements was a most inefficient and unsatisfactory way of providing funds for such a major international institution and this would be avoided if possible.

Overall, I wanted to say two things - that the international financial institutions have done an important job. They have shown a flexibility and a capacity to do an important job in difficult circumstances and it was important that they be provided with the funds necessary to enable them to meet the existing problems.

I then went on and said that the relationships between trade and development in monetary issues it was now recognised that was in dispute was ... the nature of the economic mixture between trade, financial, monetary and other macro-economic policies. What mix was necessary to address the immediate problems and try and get a basis for long term sustainable economic growth.

I pointed out it wasn't surprising that the differences should be apparent and what therefore was needed was co-operative action which the Commonwealth was well-placed to try and sustain to stimulate world trade and promote international economic activity.

Now, I then went from that to say that what we've got to do is be realistic in our approach to this and what really the essence of the problem confronting the Commonwealth now is to balance on the one hand that sensitivity to the dimension of the problems that exist - that on the one hand, but on the other - to be putting proposals which would get the necessary measure of international agreement which would be critical if you are going to get effective action.

So, what I said was needed were wide policies and approaches and not some possibly endless wrangling about new financial institutions or existing ones.

So, the task at CHOGM was to show a continued readiness to look for practical and realistic remedies to the international situation.

So that really concludes it. On the basis of therefore adopting the realistic approach of what is achievable I said that we would rate very high priority to be attached to ensuring the effective operation of the existing institutions and that that point should be the focus of any group - the working group that was set up by the Commonwealth in this area.

I went on to say that it was particularly relevant to the work of any such group that it should secure the co-operation of the major developed countries and to ensure that they retain their concern and support for the IMF and the world bank because they were the major sources of funds for those institutions. Therefore, any group set up should really be directed towards ... this way to develop some sort of consensus building process.

I then said finally, that subject to those sorts of conditions being adopted by the Commonwealth that Australia would be prepared to endorse a proposal that Commonwealth members should take steps to explore with other countries how these issues that I have been talking about could be effectively addressed and solutions advanced.

That was it.

JOURNALIST: How does it look as though this debate is panning out. I mean I just want to get some sort of context. To what extent so far has there been a lot of support for this group to look at new financial institutions?

PM: The interesting point to make there is that in his presentation Muldoon was, I think, much more cautious in his approach. He was not pushing aggressively for a new Bretton Woods conference. He was stressing the need to move cautiously to try and get agreement and interestingly Mrs. Gandhi also, in her intervention made the point that if you could get existing institutions to work effectively then there was no need to create something else. So, I think the exposition that I gave and which was prepared in advance is consonant with the type of approach which seems to be coming. In other words, before hand there seemed to be a sort of rush towards a brand new Bretton Woods conference. They went straight to that and were going to solve the problems. Now, there seems to be a recognition that that is not the appropriate approach and I welcome that because my view has been, and not only expressed here, but I gave some indications beforehand that you have got to recognise that the existing institutions have done a considerable job and it is much more likely that the major industrial countries are going to be prepared to work through a strengthening of the existing institutions than be responsive to some excessively optimistic concept about, as I say, some radical new approach.

JOURNALIST: Does it look at this stage as though there will be this group set up

PM: It's too early to say because the only speakers so far, as I say, have been Muldoon and Trinidad and Tobago reporting on the Commonwealth finance ministers meeting. Then we had Kenya. We had Tanzania and Sri Lanka and myself. So this matter will be resumed. We are not going to talk about this over the weekend. Basically - well, not in a structured way. It looks as though the main topics over the weekend will be Cyprus and Southern Africa, although there will be probably some discussions about where they may be able to go in general statements on the international security area, but the detailed debate on this will be picked up on Monday.

I would guess that this sort of approach that I have formulated there and it got a very good reception. I think that if those sorts of qualifications are embraced that probably there would be no significant opposition to that sort of step, if you like.

JOURNALIST: And that basically is where Muldoon is at the moment. Do you think Muldoon will accept something like that?

PM: Let me put it this way. His introduction was not inconsistent with what I'm saying. He has observably moved to a more cautious, I think I would say, and more realistic expectation about how you can go about this.

JOURNALIST: Mrs. Thatcher, though, seems to be ..

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PM: Mrs. Thatcher is yet to speak and so I can't indicate - I just don't know, but I think that in broad terms she would see ... than the sort of approach I've made.

JOURNALIST: Had you done much brief chatting and talking to heads of government about this particular issue before the debate started?

PM: No, not a great deal. In the meeting with Mrs. Thatcher on the first morning we did traverse it slightly, but no, up to this point the other issues have been very much more on peoples' minds.

JOURNALIST: Could I just check. I think you mentioned at the start there being some domestic matter you wanted to raise.

PM: Well, let's be quite straightforward. Are you aware of what's come out of this ... Business Review Weekly by Stuart Simpson?

JOURNALIST: I'm not aware of it.

PM: Well, it's something that by the time we meet on Sunday you may be.

JOURNALIST: Inaudible

PM: I'm sure it's for the best ...

JOURNALIST: Well anything you say now can get in our main editions, so if you would like to say something, by all means do so.

PM: Well, what's happened is that Stuart Simpson has used some revised Summit projections that were circulated to participants at the last EPAC meeting. And he is making some suggestions that this may tend to undermine the Government's case on indexation and so on and I believe that Peacock and Howard are calling some press conference to carry on with this matter. Well, I would certainly like to say something about that. These matters are relevant. The first, that the revised projections that were put at the meeting. They had no official status and they were not accepted by EPAC. At the meeting there was discussion about technical problems that were in fact involved and the shortcomings were recognised and specifically it was said that it would be some time before we would be in a position to have reasonably reliable medium term forecasts. The authors of these projections emphasised that they were projections and not forecasts and you will appreciate the difference. Really, their main value is for testing outcomes from various policy assumptions.

The second point that I would make is that in any case the revised projection one was broadly consistent with the Budget forecasts and the general observations that both the Treasurer and I have been making about growth through the year of the order of 5-6%.

Now, the next point I would make is that if you looked at the economic indications that are in fact available to us now, they do show that the economy is performing considerably better than is suggested in the revised projection one. Just for example, it referred to a 3% growth in dwellings investment, which is obviously considerably understated. 14% growth in farm output, which again, I think, is considerably understated and also the employment and unemployment elements in it were, I believe, an understatement of the outcome that we can reasonably expect.

Now, that is for comments in regard to 1983/84 on the projections. Now, of course, beyond 83/84, as I have been stressing in recent speeches in Australia, it is too early to be making judgements about that. But what I have been saying what is fundamentally important is that we've got to make sure that the business community and the trade unions have got the right sort of attitudes and approaches if we are going to sustain beyond 83/84 the significant improvement that is clearly coming into place now, as a result of the policies that we have adopted. I would think we would make the observation that as far as beyond 83/84 is concerned, I remain confident that we will be able to make the sorts of decisions that are necessary to deal with that clearly.

JOURNALIST: Could I just clarify that. The point is that these revisions were not accepted by EPAC.

PM: Well, let me make it clear. They were projections that were put up. They were not accepted by EPAC as in any sense definitive. The authors pointed out the difficulties involved in their construction, the assumptions that were involved and the only way in which they were in any sense regarded as being immediately useful, was for conferring alternative policy assumptions and that they were quite unreliable about actual outcome. As I pointed out in several observations, if you look at what we built in for 83/84 like, as I say, in regard to dwellings investment - 3% in 83/84, obviously it's going to be very, very much better than that. Obviously the farm output figures are going to be very much better than the 14% that was built in. So, any attempt to suggest that that sort of information which wasn't accepted for any other purpose by EPAC than for testing possible alternative assumptions, that that indicates any problems as far as what is happening and it was an absurdity. It is just completely unsoundly based because I would make the fairly obvious observation as far as Messrs. Peacock and Howard are concerned - it is quite understandable that they would be clutching at the odd straw like this, in the light of the avalanche of statistical information that is becoming available about how well the economy is going. I mean, since we've left you would have seen the reference to the Melbourne Institute consumer confidence survey, which shows the best figure, I think, for 12 years. When you take all that evidence with the other that was there before we left, you certainly understand Peacock and Howard trying to grab hold of something.

JOURNALIST: Is it the Government's intention subsequently to do what it did at the Summit and that is make public these sort of projections?

PM: What is done with the material of EPAC is a matter for decision by EPAC. There would be a whole range of material which just simply wouldn't be appropriate to distribute beyond EPAC where it was there simply for the purposes of comparing with possibilities of determining outcomes ... tape ends

.. if there was some material which would be useful in stimulating a general debate and EPAC regarded it as appropriate, well then, that would be done. EPAC will be the master of its own destiny in that respect.

JOURNALIST: Just to follow up on an earlier point. You obviously are very concerned at the trading situation in terms of our products, particularly agricultural products ... the EEC and the United States. Is there any specific action we can take on this approach in the near future and is this something which you will be taking up yourself with these countries?

PM: Well, there are three points to be made about it. We raised it here at CHOGM which collectively the Commonwealth ought to take up and use its influence in relevant international fora to try and increase the proportion of international trade which is part of a free open multi-lateral trading system because the sort of evidence now suggested about 50% of international trade is in fact not in that category. The second thing is that we have already made representations to, for instance, the United States and Japan in this area where we are concerned that the discussions between the United States and Japan may be to our disadvantage. So, we have already made representations. I have made them and so has Lionel Bowen. The third point, yes, we will continue to make these representations in our bilateral relations with various countries and we will continue to make them in relevant international fora.

JOURNALIST: Can I just ask you how do you think Grenada is going to go? Do you think it is likely to reach an accord during the formal talks here?

PM: No, I don't think there is any possibility of an accord on this.

JOURNALIST: If there are discussions of any assistance to Grenada, as far as policing and that sort of thing, would Australia be willing to contribute?

PM: I don't want to say anything about that at this stage. You know from the report of what I said yesterday that if there were a position where the Commonwealth and the countries concerned wanted some sort of training assistance for police there. That was one thing that was specifically mentioned by some of them. Obviously that is something that we would take

into account. We would consider it. But let's be clear that that is a quite hypothetical position. There is no suggestion at this stage that even that minimal sort of request would be made.
