EMBARGOED UNTIL DELIVERY CHECK AGAINST DELIVERY

AUSTRALIA

PRIME MINISTER

SPEECH BY THE PRIME MINISTER
AUSTRALIAN MINING INDUSTRY COUNCIL ANNUAL DINNER
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Distinguished Guests, Ladies and Gentlemen

I particularly appreciate the opportunity to join you this evening.

I think you will all agree we are in the midst of a very important phase in Australia's economic development.

1983 was the year in which economic recovery began

- in which significant inroads were made into unemployment and employment rebounded from the depths of recession;
- in which the inflation rate was significantly reduced;
- in which a number of measured steps were taken to begin the process of structural adjustment and to improve the flexibility of the Australian economy.

1983 was also the year in which Australia gave itself a new deal in industrial relations and benefitted greatly from the consequent decline in the incidence of industrial disputation.

I appreciate that not all sectors have as yet been able to participate fully in the general economic upturn.

For some segments of the mining industry, in particular, the outlook is not as encouraging as for other sectors in the economy. A variety of factors contribute to this rather unique situation of some parts of the mining industry.

A major factor is that one would normally expect some slowing as the several large resource projects undertaken over the past few years come to fruition.

Those projects had a genesis in an economic climate, and the associated perceptions of the future, which is quite different to what we are experiencing today.

A particular feature of that climate was a view that the 1980's and 1990's would be marked by the levels of supply and demand for energy resources which were experienced in the 1970's.

For a number of reasons that expectation has not been realised.

These include that energy conservation and the pattern of substitution between energy sources has turned out to be less favourable to Australian producers than then thought.

At the same time there has been a substantial decline in demand resulting from the global recession from which the industralised countries are now emerging.

These factors have resulted in a difficult trading environment and have contributed to a squeeze on volume and value of sales, and hence profitability. Recovery from this situation will be governed both by the pace at which sales pick up and by improvements in the competitiveness of the industry.

Both the domestic macro-economic outlook and the prospects for the international economy suggest, however, that in the longer term, the Australian mining industry can anticipate a better operating environment.

Central to this view is that, nationally, conditions are now in place on which to build sound economic recovery with improved profitability, employment, and living standards.

A key of Labor's economic policy approach - and critical to its success - is the Prices and Incomes Accord.

The Accord has ushered in a new era of better industrial relations and a new approach to economic management in Australia.

Despite a strong upturn in economic activity, the number of working days lost due to industrial disputes in Australia in 1983 was the lowest since 1967.

As you would all know Award wages have grown in line with half-yearly indexation arrangements with very little movement outside of that.

- award wages grew by only 4 3/4 per cent in 1983, compared to 11 1/4 per cent in 1982

Individual unions have made public commitments to the Arbitration Commission - and indirectly to the Australian people - not to seek extra-indexation payments.

And, overwhelmingly, these undertakings have been honoured.

Under the terms of the Accord, wages growth over the next twelve months will be low by international standards:

- The March quarter CPI, just released, has shown a fall of a striking 0.4 per cent, the lowest outcome in 30 years.

This movement, of course, reflects the impact of Medicare on the price to consumers of medical and hospital services. But not just the Medicare effect. Excluding the hospital and medical services component, the CPI rose only 1.2 per cent in the March quarter

- Half the rise of the December quarter; and almost a percentage point less than the rise of the 1983 March quarter

This is the lowest rise in the overall CPI in six years; and provides further testimony of the moderation of inflation which our policies have brought under the terms of the Accord.

This, together with signs of some renewed inflationary pressures among our competitors, has substantially improved Australia's competitive position.

I would add in this regard that it is now likely that award wages growth over the course of 1984 could be as low as 5 per cent.

Indeed it is notable that by the second half of 1983 the non-farm profit share of GDP had risen to 15.4 per cent, the highest level since the second half of 1973. At the same time the wage share had fallen to 63 per cent, the lowest level since the second half of 1970.

Under the current indexation arrangements and a climate of broad adherance to the Commission's rulings, a further decline in real unit labour costs and an increase in corporate profits can reasonably be expected for the rest of 1983/84 and through into 1984/85.

This will provide our industries with a valuable competitive fillip at a time when international inflation is likely to be picking up.

The decline in inflation has also been reflected in a general downward trend in most long-term interest rates since mid 1982.

Share market prices have also reflected the long-term improvement in business conditions.

These developments have significantly facilitated the servicing of debt and have improved the climate for refinancing.

In the context of the scope for non-inflationary expansionary policies which the Accord had established, the Budget in 1983-84 provided stimulus to the economy at a time when private sector demands were weak.

In this regard the 1983-84 Budget is recognised as having been outstandingly successful. It struck the right balance. Furthermore the 1983-84 Budget deficit is still on target - an achievement our predecessors were incapable of delivering.

Our aim in the 1984-85 Budget will be to maintain and broaden the recovery that is now underway. We will again strike the balance which is right for 1984-85.

While it is not possible to be precise about numbers at this stage, the Government's aim is to reduce significantly the deficit in 1984-85. What we wish to achieve is a significant reduction in the share of the Commonwealth deficit as a percentage of GDP. We expect to do this while also achieving some significant alleviation of the personal income tax burden on lower and middle income groups.

Such a reduction in the demands made by the public sector on financial narkets is the responsible course given that the economy is now growing again and that there is some evidence that the private sector's demand for funds is picking up.

The actual deficit will need to have regard for balance in the pursuit of our objectives. These include a wish not to put undue pressures through the financial markets on interest rates or on the exchange rate. As a Government we have been and will remain very mindful of the relevance of such factors for the profitability and competitiveness of Australian industry. We would, nevertheless, be irresponsible to cut spending programs so sharply as to undermine or put at risk the recovery in domestic demand and profitability, and the viability of the Accord.

The prospect next year is for declining, not rising domestic pressures on interest rates and the exchange rate. These prospects will provide substantial benefits to the mining industry.

I would add that the decision taken last year to float the dollar was enthusiastically greeted by exporters, including many of you here this evening.

It was acknowledged to be a sound and rational move.

The exchange rate will no longer be artificially manipulated by non-participants attempting to second guess the market. The exchange rate is now attuned to market realities.

In respect of home markets it is clear that 1984 will continue to be a good year for Australian industry generally, which will also go some way towards improving prospects for the mining industry.

Both the housing industry and consumer spending seem set to remain strong in 1984.

These developments, the likely rebuilding of stocks, and the pickup in the general level of domestic manufacturing activity - provide a firm base for an expansion of domestic demand for metals and metal products.

We are aware that a pick-up in business investment is necessary if we are to have sustained economic growth. But we recognise that decisions about the timing and volume of investment are of course for business to make in the light of commercial judgement.

The Government also recognises that the readiness of firms to undertake investment normally emerges at the later stages of the recovery cycle.

What we contend is that the Government has put in place the macroeconomic policies which are producing an environment increasingly conducive to renewed business investment.

I appreciate that while there are indications that 1984-85 will be a better year for business investment than 1983-84 - and the The Government considers it important that it should be - this will not be the case in many segments of the mining industry.

As I mentioned earlier there are forces at work unique to the industry affecting the supply of and demand for many minerals, which are a deterrent to renewed growth in some areas.

But at the same time it is encouraging that prospects for world recovery into 1984 and beyond are good.

The United States' economy, which has become the fundamental engine of growth in this upturn, has grown vigorously during 1983 and into the early months of 1984.

Current forecasts by world agencies have conservatively put United States growth in 1984 at around 5 per cent.

The Japanese economy is also exhibiting encouraging signs of growth, with a forecast for growth of 4.1 per cent in fiscal 1984.

The international recovery remains rather narrowly based in other industrialised countries, but the signs of pick-up are unmistakable.

Economic activity in the newly industrialising economies of East and South East Asia, continues to be strong.

To date, the world recovery has been achieved without a resurgence of inflation.

Fears have been expressed, however, that the US recovery may be too rapid. This may, subject to the stance of US monetary policy, fuel higher inflation as time progresses.

Some may see short-term advantage in such a prospect.

To date, the pick-up in world activity has had only a patchy impact on the demand for our major mineral exports and the prices which are paid for them.

Faster recovery abroad and faster inflation abroad will tend to benefit both Australia's competitive position, and the profitability and volume of our exports in the short run.

But the price which the economy would pay in the long-term would be an international recovery which is short lived and, therefore, a renewed downturn in our trading prospects.

But it would be wise not to be unduly pessimistic.

In calender 1983 the volume of our non-rural exports rose rapidly - by about 11 per cent.

This growth was broadly based, reflecting a rise in Japanese purchases of iron ore and coking coal; increased exports of gas; and strong growth in manufactured exports.

The current situation facing Australian coal exporters merits particular comment.

The long-term electricity supply plans of our trading partners Japan and Korea, point to significant prospects for future exports of Australian steaming coal.

Of course, I am not suggesting that we are assured of future expansion of these exports. The current oversupply situation, bilateral trade pressures and policies directed at diversification of sources of supply must temper this assessment. Nevertheless current trade forecasts suggest that we could double or even treble our steaming coal exports by 1990.

These projections stand even in circumstances where there has been a lower than expected growth in power demand in recent years and a consequential slowing of the rate at which steaming coal is being substituted for oil.

The outlook for coking coal is less clear. While our exports are growing and record export tonnages are likely for 1983-84, future sales contracts with Japan remain uncertain. Total exports by 1990 may only increase marginally from their current levels.

There is no question that price cuts and tonnage reductions in the Japanese market will increase pressures upon the local industry. We are indeed aware that a critical stage has been reached in the coal industry's development and we have made it the focus of several important policy initiatives.

Since assuming office we have implemented an export control administration which is directed to the optimisation of our market strength by unifying our selling position. In this endeavour we have sought to work closely with the industry to reach broad agreement on market strategies.

We are now examining ways in which this process could be improved.

It has been with reluctance that the Government today approved pricing proposals submitted by the Australian industry for the sale of hard coking coal to Japan.

As the Minister for Trade Mr Bowen said earlier today, the Government was very concerned that the Australian negotiating position had been undermined by some companies having agreed to price cuts, and indicating their intention to abandon agreed parameters and settle without Government approval. Thereafter, as Mr Bowen has said, the negotiating position of the remaining Australian companies collapsed. It became untenable for the Australian Government, in these circumstances, to expect any revision of the pricing arrangements imposed by the Japanese mills.

Future prospects of the iron ore industry are interwoven with those of coking coal.

Although some predicted that the international situation would not improve until 1986, there are now signs which are more encouraging. 1984 Japanese steel production estimates are up to 104 million tonnes. This, together with the recovery in the domestic steel industry, should be encouraging news for iron ore producers for 1984.

In addition, we have the potential to expand into other markets in Asia. Sales to China and Taiwan in 1983 enabled us to make up the shortfall in exports to Japan. Along with Korea, these countries offer scope for export growth in future years.

However, the Government is not simply waiting for an upturn in the trade cycle to provide a panacea for the ills of the mining industry. We have taken positive measures in the search for new market opportunities and to address structural problems in the industry.

We are now reviewing in consultation with the New South Wales Government, the operations of the Joint Coal Board to see how it can be improved.

We have also established the Australian Coal Consultative Council in order to improve the ongoing dialogue between management, unions and Government.

Similarly we have encouraged the creation of an Iron Ore Consultative Council. This represents a very positive step towards fostering a spirit of consultation and co-operation.

More broadly based and necessary consultations are also being encouraged. I appreciate, for example, the concern of the mining industry to be fully consulted on any legislation proposed by the Government on aboriginal land rights. For reasons such as this the Minister for Aboriginal Affairs is seeking to establish a Forum through which the relevant concerns of aborigines and the mining industry can be raised and considered in detail.

Our program of assistance to the steel industry has also provided tangible benefits to the iron ore industry.

The measures taken should lead to a steel industry which is well placed to take advantage of new opportunities. They will also contribute to the continued viability of the iron ore industry.

The joint initiative for iron and steel co-operation with China will also contribute to maintenance of a viable and competitive Australian steel industry.

This is a most important initiative.

The Joint Study Group, the establishment of which was agreed between Premier Zhao and myself in February, met formally in Beijing a couple of weeks ago. Concrete possibilities were identified and discussed in each of the areas that Premier Zhao and I had considered.

Simultaneously Australia's private corporations - with whom the ultimate commercial decisions on trade and investment will rest - have been engaged in detailed discussions of specific commercial opportunities in this area. CRA, under Sir Roderick Carnegie, has already discussed a range of concrete proposals for co-operation in iron and steel. As well, delegations from BHP's minerals and steel divisions have visited China recently to discuss a number of substantial proposals.

This considerable level of activity will shortly be complemented by the visit to Australia, starting on 10 May, of the Chinese Minister for Metallurgy. He will familiarise himself with the Australian iron and steel industry, advance discussions with Australian companies and hold further discussions with the Australian Government.

In short, there has already been very considerable progress with this major development in co-operative relations between Australia and China. The Government will continue to pursue its interest in ensuring a satisfactory framework within which Australian industry might secure the very real opportunities which exist.

It is, as I have said, for the companies concerned to make the necessary decisions. I am confident, nevertheless, that with the continued co-operation of all parties quite substantial benefits will be realized by all concerned.

Distinguished Guests, Ladies and Gentlemen,

My Government recognises the vital role which the private sector has to play in securing Australia's economic future.

Our policies are framed to provide an environment conducive to private sector recovery.

Macroeconomic policy is supporting domestic demand in the short-term, while putting the maximum feasible restraint on domestic costs. These are creating the conditions for durable recovery in the private sector. The Government aims to remove distortions in the Australian economy wherever possible and thus improve our ability to compete in world markets into the future. Our initiatives are measured and realistic. They are being developed in consultation with the business community and the trade unions.

They require the co-operation of all parties to be successful and I have no doubt that they will continue to receive broad support.

The final message which I wish to convey to you this evening is the firm confidence I hold in our future. In saying this I do not wish to resurrect the damaging "boom" rhetoric of the previous Government. Nor would I wish to underestimate the challenges we face; one the Government is particularly concerned with, for example, is the promotion of necessary structural change in Australian industry.

My message to you is more specific. It is simply that despite the short-term problems which still plague the resources sector - including worldwide overcapacity and depressed prices - it is essential that we remain a nation with an efficient and competitive resources sector.

This is a fundamental factor which will ensure Australia's underlying strength for the future.

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