



# PRIME MINISTER

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CHECK AGAINST DELIVERY

SPEECH BY THE PRIME MINISTER  
HEAVY ENGINEERING MANUFACTURER'S ASSOCIATION  
CANBERRA - 17 SEPTEMBER 1984

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I would like to thank you, Mr Chairman, and your Association, for your kind invitation to me to be guest of honour at this, your 16th Annual Dinner.

I particularly appreciate this opportunity to renew my acquaintance with the top management of an industry which for so long has played such a vital and dynamic role in the development of Australia's resources and economy.

Your role has notably expanded and diversified with the great demands associated with the development and exploitation of the resources discovered particularly in the last twenty years.

Your industry has also been instrumental in the creation of the industrial, transport and energy infrastructure which forms an integral part of Australia's contemporary economic strength.

Through your efforts Australia has been the beneficiary of some truly great projects. The Snowy Mountains Scheme, the first phase of the North West Shelf project, and several of the mining and processing facilities established over the past two decades rank with any internationally.

They are clear proof of the sophistication of Australian engineering skills and of the success with which you have developed techniques and skills appropriate to a harsh and often unyielding environment.

The entrepreneurial and innovative flair demonstrated by your industry has been an important part of making Australia the great nation it is today.

The current difficulties being experienced by the industry should not obscure its proud record.

Indeed the present circumstances of the heavy engineering sector are rather unique. Unlike other parts of the economy, your sector has yet to reap the benefits of the domestic and international economic recovery.

This reflects in part the end of the resources development boom. It also reflects the expansion of capacity the industry undertook to meet the demands of that boom. As well, your industry was badly hurt by the major increases in labour costs associated with the wages explosion of 1981/82.

The coincidence of the end of the resource boom construction phase with the downturn in the international economy was especially unfortunate. The increases in Australia's capacity to produce and export our mineral resources came precisely at the time when demand for those resources fell away. It also came at a time of increased capacity among other international producers.

In 1981 the volume of iron ore exports fell over ten per cent. In 1982 the volume of coal exports fell two per cent.

That decline in international demand and resultant over-capacity in the international mineral industry quite radically changed the outlook for new resource developments.

At the same time, new investment in domestically oriented industries was also declining. In 1982/83 non dwelling private business investment fell 13.8 per cent.

Most recently, however, there have been firm signs that demand is picking up.

Resource exports have lately performed very strongly. In the six months to June 1984 the volume of iron ore exports were 28.9 per cent higher than in the same period in 1983. Exports of coal have also shown accelerated growth, with the 1983/84 volume being almost a third higher than in 1981/82.

While this turnaround was in part a reflection of increased demand associated with the international recovery, it was also very much a response to international appreciation of the marked improvement in Australia's reliability and competitiveness as a supplier.

Australia in the past year has experienced a remarkable movement towards industrial harmony - the last twelve months saw the lowest number of industrial disputes in sixteen years. This is now being translated into a willingness on the part of international buyers to place orders with Australia. This very satisfactory situation is a direct result of the Government's highly successful Prices and Incomes Accord, as well as of the special consultative arrangements that we have been developing in key resource industries.

The rapidly increasing utilisation of capacity in some resource industries (although not in the foreseeable future leading to full capacity utilization for the coal industry), together with the moderation of inflation and interest rates and the generally more favourable economic outlook, mean that soon some new resource projects will be joining the general pick-up in investment activity.

While it does not constitute another resources boom, the level of activity now ready to commence is high by historical standards. This obviously presents real opportunities for the industry.

The industry's own efforts, at both management and union level, to deal with its problems have been impressive. The Government, through its trade policies, its macro policies stimulating growth and stability, and through budgetary measures, has also contributed significantly to the type of environment needed by the heavy engineering industry.

There are, nonetheless, currently strong calls for some measure of more direct Government involvement with the problems of the industry.

But we should ensure that only well-considered solutions appropriate to the requirements of the industry and consistent with wider community interests are adopted.

It is in this spirit that the Government has asked the IAC to report within three months on measures needed by the industry in the short term. We shall also be getting later from the IAC a report on the long-term assistance needs of the industry.

These reports, together with proposals put by the industry itself, should provide a basis for any necessary short-term and long-term action by the Government.

Any such action should be considered within the wider context of the Government's general approach to industry policy. We have already demonstrated through the motor vehicle and steel industry plans how, on the basis of extensive consultation with all interested parties, policies can be devised that will make long-term employment secure, restore profitability and safeguard the contribution of such crucial sectors for the economy more generally.

At one level EPAC has played a crucial role in this consultative process. Its consideration of medium and long-term economic trends represents a critical step in establishing the framework for necessary sectoral decisions.

EPAC's success in exercising this role is now widely recognised. This is reflected in the high level of public interest in its work and in the representations to the Government regarding the membership of EPAC. Most recently, when I met representatives of the Australian Chamber of Commerce in Canberra last week, they reiterated their request for participation in this consultative body, which they saw as having a valuable role to play.

At another level the Australian Manufacturing Council is now making good progress on developing advice on a broad framework for Australian manufacturing development. I was particularly pleased that the statement on manufacturing industry policy that was issued by the Council last Friday, reflected consensus on an approach which left behind the sterile old arguments, within which free trade and protection were seen narrowly as the only issues in industry policy. Consistently with views that John Button and I have put forward over the past year or so, the Council declared that Australian manufacturing industry must expand sales both in international and domestic markets, and that the key to success in both areas was enhanced competitiveness. The challenge now for all of us is to identify and nurture the processes through which we achieve enhanced international competitiveness.

The emergence of this broad consensus on industry policy, admittedly at a high level of generality at this early stage, is of great importance. It sets the context within which we might now, with far greater confidence, address otherwise seemingly intractable industry development problems. Perhaps most importantly, it has served to highlight the futility of narrowly-based, and often ill-conceived, solutions to the problems of Australian industry.

The sharpened focus on competitiveness raises doubts about some suggestions that the problems of your industry can be addressed effectively by increased protection from imports and higher public sector expenditure on the output of your industry.

Such palliatives could have quite the opposite impact to what is intended. They would raise costs faced by other industries and the community at large. In this way the national strategy for general economic recovery would be put at risk.

None of us can afford to ignore the broader inflationary impact of higher costs at the very start of the production process. With firms throughout the economy striving to restrain costs and remain competitive, cost pressures arising from increased protection for an industry basic to the economy would be a serious blow to Australian business confidence. They would also kill off the very resource projects the industry itself needs for its own growth and development.

We should also consider the increased costs to exporters of increased tariff or non-tariff protection from imports. There is also the possibility of adverse reaction to such measures from our trading partners.

Indeed any increased imposts on exporters, direct or indirect, could only impact negatively on an industry such as yours, being as heavily oriented as it is to resource development.

Obviously import replacement and export expansion are thoroughly good things if secured through improved competitiveness. The real task confronting us as a nation, and industries such as your own in particular, is to remove impediments to such competitiveness.

The focus for all concerned should be on securing the conditions of improved competitiveness, and on establishing fair access to international markets for all Australian suppliers. It is to these points that the Government, I believe very successfully, has been directing all its efforts.

Some have suggested that major increases in public spending are needed if the heavy engineering sector is to be revitalised.

There is, however, already a very high level of capital expenditure in the Government's budget. You would all appreciate how the positive impact on demand of the high level of public sector spending on non-dwelling construction will be of real benefit to the industry.

But I am sure you would all also agree there is no point in building new capacity - for example in electricity generation - in advance of demand for output. More generally, you would also appreciate that the Government's economic strategy has required the utmost restraint on public spending consistent with the Government's social responsibilities.

Increased expenditure could only be financed by some combination of increased taxes and higher Government borrowing. Either course would adversely affect private sector expectations and expenditure and would jeopardise the economic recovery.

Greater spending would also represent a reversal of the Government's commitment to ongoing budgetary restraint. Such restraint is required to lower the public sector's call on the domestic capital markets to ensure room is made for private sector investment. Otherwise, there would be the prospect of a sharp clash between public and private sector borrowing requirements, which would put upward pressure on interest rates and the exchange rate.

Either consequence would be disastrous for the investment and market development interests of the heavy engineering sector. Indeed the lower levels of the exchange rate in recent months, which may not have emerged without the Government's deregulation of financial markets, should be a major factor in restoring confidence to the sector.

The obvious success of the Government's economic policies in achieving non-inflationary, sustainable growth in an atmosphere of declining interest rates is readily apparent. We are not about to reverse those policies.

Nor, as I have suggested would it be in the best interests of the Heavy Engineering industry for us to do so.

Neither can the Government hope artificially to recreate the investment conditions of the resources boom.

Nor would we want to.

What we can do, and are doing, is to create the framework in which a sustained period of investment might be undertaken. The improved business and consumer sentiment apparent in recent surveys, and the reduced inflation and interest rates now achieved, will provide the atmosphere most conducive for the long-term investment expenditure which your industry needs.

The success of the Accord in reducing the growth of prices and labour costs has been important in creating these conditions. We have also provided explicit support to business investment in the Budget through significant changes to taxation arrangements. These measures will have beneficial effects both in 1984/85 and in the years ahead.

In particular, I would point to the increased rate of depreciation for non-dwelling construction and the deductibility against income from any source of money spent on general mining exploration. The extension of eligibility for the investment allowance to plant and equipment in place by 30 June 1987, also carries real benefits for the large, long-term project developments of particular importance to your industry.

More generally, it is clear that all levels of Government - both Commonwealth and State - and the heavy engineering industry itself need to identify projects in which the skills and resources of the industry can be used.

In this regard, a special meeting was called on 30 August of the Australian Industry and Technology Council to discuss the difficulties facing Australian industry and, in particular, the heavy engineering sector. I am told that at that meeting it was agreed that a final appraisal would be made of the short and medium term outlook for ongoing or committed public and private projects, immediately following presentation of current State Government budgets.

The Machinery and Metal Engineering Council has also recommended that the Commonwealth establish an industrial supplies office for the Australian machinery and metal engineering industry. Innovative approaches of this kind will be given the closest consideration.

I see much merit in the concept. In co-operation with industry and the States, such an industrial supplies office could play an important role in increasing the awareness of Australian firms of construction opportunities.

I should expect more such opportunities to present themselves in the months ahead. The fact that the international economic outlook is now the brightest it has been for some years, must give grounds for confidence for the future.

The recovery underway since mid 1983 is broadening and consolidating. Most relevantly, world steel production has risen sharply in recent months. OECD steel output in the five months to May 1984 was up almost 13 per cent on the comparable period in 1983 and the highest since 1981. Recent monthly annualised steel production rates in Japan are the highest for four years.

The improvement in the international economy, and of the domestic economy under the Labor Government's policies, bodes well for business confidence and investment in Australia.

The greater predictability and certainty of conditions associated with the Labor Government's economic policies present unprecedented opportunities for investment interest in Australia. Obviously, these opportunities are now being seized - to the great advantage of all Australians.

Amongst very recent developments we can point to the agreement on the Portland aluminium smelter, the Bunbury aluminium smelter and power station project, the Channar iron ore mine in the Pilbara to supply the Chinese market, the progress on the North West Shelf export phase, and the range of major investment decisions announced over the last month or so in both the motor vehicle and steel industries.

The industry itself needs to recognise, however, that in the near term there is unlikely to be the level of investment expenditure domestically that will fully employ its resources. The industry must look overseas.

The inward looking economic policies of earlier Governments have tended to shield our industry from the opportunities - as well as the challenges - of the international market place. That has been to our cost and to the detriment of the industry.

I believe it is now widely understood in the community that it is to our benefit - at the level of the firm and the nation as a whole - to expand our horizons to take advantage of the rapid changes occurring in the world and our region.

Dynamic growth in the economies to our immediate north and technological advances in communications have created opportunities which we can and must exploit.

In this way, the obvious limitations of a relatively small domestic market can be overcome.

We are well equipped to pursue such a course. The capacity of Australians and Australian firms to compete successfully internationally using the lessons and skills learnt at home is undoubted. There are a multitude of instances in fields as diverse as sport through music to business that show Australians can excel against the toughest opposition.

An industry which has a record of achievement as impressive as yours should not be backward in pressing its claims overseas.

The recent success of BHP Engineering and Export Development Australia in getting the contract for the construction of the Shun Chang cement plant in Fujian Province in China is a clear demonstration of what is possible. It is also an obvious example of what is being achieved through the Government's considerable efforts to build a substantial trade relationship with China, including in this case direct representations by Lionel Bowen and myself on our respective visits to China this year. I am pleased that many parts of Australian engineering industry are now recognising and pursuing the enormous market possibilities now opening up in China.

There is also great opportunity for Australia in the dynamism and opportunity of the neighbouring Southeast Asian economies. The recent acceptance by the Malaysian Government of Leighton's bid for the Telok Intan Hospital project was a major breakthrough for the Australian construction industry. Direct Government representations in support of this bid played an important part in our securing it - as also did the restoration, through my own and Dr Mahathir's visits to each other's countries, of close, businesslike relations between Australia and Malaysia.

Another closely related development was the successful negotiation, also by Leighton's, of a joint venture arrangement with the Promet Corporation of Malaysia. This offers yet another instance of the type of initiative that can only increase the chances of successful off-shore work for Australian industry and is a pointer to the continuing validity of the priority attached by the Government to the development of soundly based trade relationships with the countries of the region.



Certainly, if Australia's heavy engineering industry can secure consistently contracts such as these, its future is assured.

For this, among other reasons, the Government will continue working hard, both bilaterally and through exercises such as my regional trade initiative, to consolidate and develop further Australia's place in the markets of the region. Credit lines provided by the Export Finance and Insurance Corporation and the support available through the Development Import Finance Facility will continue to be extended to well considered Australian project proposals, as they were in BHP's bid for Shun Chang and in Leighton's success with the Telok Intan Hospital project.

The Government intends doing everything it can to see Australian enterprise securing its rightful share of the burgeoning opportunities of our region.

The benefits to be derived from outward looking industries and trade and economic policies can no longer be ignored. In an economy like Australia's, such approaches are absolutely essential if we are to make the most of our opportunities to provide all Australians productive employment at high living standards.

To become a richer nation we need a more resilient, responsive, diversified and competitive, outward-looking economy.

In this regard, production for domestic and foreign markets should not be seen as competing claims. They are mutually supportive. It is important that our resources - human, intellectual and physical - be directed to where they can be most usefully employed.

What is required are national policies to promote sustained economic growth and a flexibility within the industry to respond to the opportunities - both domestic and international - such policies will provide.

There is no answer to the industry's problems either in trying to close out the rest of the world or in ignoring the opportunities that our own region is now presenting.

Rather what the industry needs is growth - and the reality is that this is only possible if the industry (and indeed all sectors of the Australian economy) adopt an international orientation.

In short, the industry must now seek off-shore opportunities aggressively. This, together with the enhanced opportunities that the reversal of fortunes of the domestic economy will have, even for heavy engineering, as investment picks up in the year and years ahead, and successful pursuit of enhanced competitiveness, will bring your industry to a new stage of achievement and service to Australia.

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