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AUSTRALIA

PRIME MINISTER

EMBARGOED UNTIL DELIVERY CHECK AGAINST DELIVERY

ADDRESS BY THE PRIME MINISTER - THIRD ANNUAL GENERAL MEETING
BUSINESS COUNCIL OF AUSTRALIA - SYDNEY - 17 SEPTEMBER 1986

The Australian community is increasingly coming to understand the dimension of the economic challenge confronting our nation.

I am not here today to attempt by way of any rhetoric to increase that level of comprehension.

Rather within a calm appraisal of our present and foreseeable economic environment I will announce to you several important new steps the Government is taking to put Australia into the best possible position to meet this challenge.

It is now four weeks since the Budget.

The Treasurer and I have explained the rationale of the Budget on many occasions over these weeks and I do not intend to go over that ground in any great detail today. The main point I have to make is quite straightforward.

Like any household which falls on hard times Australia can for the present no longer maintain its accustomed living standards. We must face up to the reality of drastically lower world prices for much of what we export, prices that are unlikely to recover quickly in the short term.

As a nation, we simply cannot go on indefinitely spending 6 per cent more than we are earning and financing the difference by adding to our external debt.

Accordingly the Budget is designed to slow the growth of public and private sector consumption and raise public sector saving.

It will thus directly reduce the public sector's claim on private sector saving and help to lessen Australia's need to import and to borrow from abroad. In this way it will also aid the process of domestic economic adjustment unleashed by the dramatic improvement in our international competitiveness over the past year and a half.

In fact the dramatic fall in our terms of trade over the period simply brings into sharp focus a number of issues which have been on this Government's agenda these past three years.

A consistent tenet of our economic policy has been the need to internationalise the Australian economy.

This strategy has rested on three simple observations:

. First, the fastest growing economies over the last decade or so have been those which have placed greatest emphasis on export-oriented strategies.

. Second, while services and manufactures have been the fastest growing components of world trade, Australia's share of this trade has been steadily declining since the early seventies.

. Third, it has become very much tougher to sell into Australia's traditional export markets. The reasons are clear. Agricultural trade is corrupted by subsidies; and for this and other reasons several previously large net importers of foodstuffs have become self sufficient or large exporters. Moreover many metals and minerals are in chronic oversupply, partly because new technology has reduced the resource-intensity of world production.

Of course export-oriented strategies are not just about exports. Just as it is true, as every first year economics student knows, that "a tariff is a tax on exports", so it is true more generally that inefficiencies in any sector of the economy can hamper Australia's trading performance overall.

So an essential part of our thrust to internationalise the Australian economy has been a series of initiatives to lift the performance of all sectors of the economy - whether directly engaged in trade or not.

By any standard the list of measures taken is impressive:

. Reform of the financial system, including floating the currency;

. Taxation reform incorporating substantial personal tax cuts and the ending of double taxation of dividends;

- Incentives for industrial research and development which are among the most generous in the world;

- Steps to reform the education and training systems;

- The steel, motor vehicle, ship building and heavy engineering industry plans;

- Incentives to promote the formation of venture capital companies;

- Liberalisation of foreign investment guidelines and administration; and

- Measures to reduce farm costs.

Shortly I will also be announcing major reform of the Commonwealth Public Service - reforms to streamline and rationalise public sector operations and thus contribute to a more efficient economy overall.

Moreover substantial progress has been made in reducing the burden of business regulation.

I provided a first report on progress in this area in my address to last year's Annual General Meeting. I will not repeat that list, except to provide an updating in just two cases.

The BRRU estimates that in the first case - the streamlining of Customs clearance procedures introduced last year - the savings already being achieved by business amount to more the $30m a year. In addition, I am pleased to announce that, as foreshadowed last year, all States have now agreed to a National Food Standards code, which it is estimated could save business about $50m per annum by eliminating the need to comply with different standards in different States.

In the past year the Government has continued to reduce the extent of regulation wherever possible. For example, the Commonwealth has withdrawn from regulating private hospitals, taken further substantial steps to relax controls on foreign investment and begun to phase out inspection of processed fruit and vegetables except where a requirement is imposed by the target market.

I would add that business has had a major input into the work of the Business Regulation Review Unit. Business was consulted in the drawing up of the priorities for the Unit. But, in addition, two people have been seconded by business groups to assist the BRRU. The Head of the Unit, Alan Moran, tells me that the work of these secondees has been invaluable and productive.

The last of the secondees will return shortly to his parent company and we have invited business groups to nominate four replacements. I cannot stress too heavily how important it is for the BRRU to gain the services of suitably qualified and experienced people with a business background.

If the BRRU is to play the role the Government hopes for it, the Unit needs to be sensitive and responsive to the needs of business as well as the wider community interest. It is for this reason that I urge business leaders here today to consider seriously making quality people available to the Unit on a temporary basis.

Measures to improve the internal workings of our economy have been complemented by initiatives directly to improve Australia's ability to market goods overseas. These include the formation of Austrade and action at government-to-government level to secure Australia's access to key markets. In my Address to the Nation last June, I announced a number of further measures in this area, including the launch of a national export drive and initiatives to assist small exporters.

But I can now say that the Government has taken further substantial steps to make it easier for Australian firms to meet world competition.

The first concerns international marine insurance. In 1984-85 premiums totalling about $800m were paid in respect of such business originating in Australia but only some 25 per cent of this was written by Australia-based insurers.

Stamp duty on international marine insurance contracts varies from State to State - but invariably is substantially in excess of the world norm.

The Government considers this to be an unnecessary impediment to the sale of insurance services by Australian insurers. Accordingly the Commonwealth has decided to remove duty on contracts written in the ACT as soon as possible but no later than end December.

I have written to State Premiers and the Chief Minister of the N.T. advising them of the Commonwealth's decision and requesting their co-operation in removing the duty Australia-wide.

The second set of new measures I am announcing today concerns export controls.

You may recall that in my address to your Annual General Meeting last year I said that the Government would relax or abolish or simplify export controls wherever they no longer serve legitimate ends or they involve excessive costs.

The Government has now decided to relax substantially controls on the export of crude oil and a range of minerals.

In the case of crude oil surplus to domestic needs, prior approval of export prices no longer will be required. But prices will continue to be monitored to prevent avoidance of excise revenue.

The requirement to obtain prior approval of negotiating parameters for coal export sales has been removed. In future, companies will only be required to seek approval of final settlements. Export approval will be given except where it would be against the national interest to do so. There will be early consultations with the Australian Coal Consultative Council to determine the basis for the exercise of this reserve power.

Following detailed consultations with industry initiated after my address to your last Annual General Meeting, we have also removed the requirement on exporters of bauxite and alumina to obtain approval for their negotiating proposals.

Henceforth transactions between unrelated parties, which account for 60 per cent of these exports, usually will be approved. The new arrangements also provide scope for simpler procedures in the case of transactions between related parties, which raise questions of transfer pricing and the associated scope for tax avoidance.

Export controls on tungsten are to be terminated. This brings tungsten into line with tin, as these controls were lifted in July.

Further details of these measures are being announced concurrently by the Acting Minister for Trade and the Minister for Resources and Energy.

Taken together these steps represent a considerable easing of the regulatory burden affecting more than a quarter of total exports in 1985-86. They will give Australian mineral exporters much greater scope to respond flexibly to market opportunities as they arise - a capacity which is so important in today's tough minerals markets.

Uranium apart - for which our position is clear and where we properly apply the most stringent safeguards in the world to ensure uranium cannot be diverted from peaceful purposes - the Government will continue to review the remaining areas of export control to see whether they are still justified or could be made less burdensome.

This task will be carried forward as part of the work of a special Sub-Committee of Cabinet which was formed (last night) to consider a number of specific areas in which action could be taken to reduce impediments to trade competitiveness.

The Sub-Committee, to be headed by the Minister for Industry, Technology and Commerce, Senator Button, has been charged to examine and report to Cabinet on a number of specific reviews commissioned by Cabinet. Ministers have been requested to bring relevant papers and their recommendations to the Sub-Committee against defined deadlines, mostly staggered over the next few months.

As well as the remaining export controls, papers relate to a number of issues including, for example, policy in respect of visa free entry of tourists and other short term visitors and a number of studies which are underway concerning transport and handling procedures.

The formation of the Sub-Committee will enable proposals for change to be considered in an integrated and co-ordinated way but with the degree of urgency which our difficult trading conditions now require.

Of course the major impediment to exports in 1983 was the manifest uncompetitiveness of our economy.

Real wages were too high. The exchange rate was too high.

Today the story is very much different. Despite economic growth averaging about 4-5 per cent per annum, real wages have declined by 4 to 5 per cent over the past three years.

The significance of this point cannot be overstated. Since 1949-50 there have been five occasions on which a year of weak economic growth has been followed by at least three years of strong economic growth.

Apart from the period 1983 to 1986, in none of these cases did real wages decline over the period. The lowest comparable outcome was a rise of 1.5 per cent in the three years following 1977-78. In all other cases real wage growth has exceeded 6.7 per cent.

Those who would decry the value of the Accord to the Australian economy would do well to heed those facts.

Returning to the present, restraint in unit labour costs, combined with the 36 per cent decline in the value of the currency since 1983, has produced a profound improvement in the competitiveness of Australian manufacturing. Indeed Australia has not been as competitive for at least two decades.

By far the largest element in that improvement has been depreciation. While necessary to rid us of the encumbrances of the past, however, we cannot rely on on-going real depreciation to preserve our competitive edge.

The only effective way for us to retain our competitive edge permanently is to take our destiny in our own hands, work harder and more effectively, and maintain firm wages restraint for as long as it takes - a course to which my Government is resolutely committed.

What we require in Australia at the moment is nothing more nor less than a thorough reshaping of our attitudes to work, to costs control and reasonable price-setting, to innovation and to risk taking. And that means not just exploiting our export competitiveness, but also our competitiveness against imports.

That reference to import substitution may strike some ears as sounding odd against a general policy thrust to internationalise Australia's economy. But, of course, it is perfectly consistent with that thrust.

What is different now as compared with earlier periods of substantial import substitution is that it will take place not because we have hidden manufacturing away behind a higher wall of protection but because our relative costs are now such that we can compete. In fact the trend under this Government has been - and will remain - to reduce protection.

Investment in additional productive capacity will, of course, be a critical element in Australia's ability to take advantage of our newfound competitiveness.

For that reason it is particularly pleasing to note that new manufacturing investment in 1985-86 rose by 40 per cent in nominal terms, which by any stretch of the imagination also implies a substantial real increase - and possibly as much as twice the 10 per cent real increase of 1984-85. Similarly it is pleasing to note that tourism-related activity has been well to the fore in the 40 per cent real increase in non-residential construction which has occurred in the past two years.

Nevertheless it remains true that the share in GDP of business investment overall has been low in recent years compared with the average experience of the 1970's and 1980's. And moreover, it is obvious that increased investment would be a powerful vehicle for increased productivity.

The Government is looking to the business sector for a far sighted appreciation of the fundamental change in Australia's economic circumstances over the past three years. While recognising that profitability varies as between firms and industries, it is nonetheless true that the profit share is now the best that it has been since the late 60's and early 70's. And the opportunities for business to invest in profitable export-oriented and import replacing activity rarely have been better.

One of the least appreciated developments of recent years is the recognition that investment by Australian companies overseas can also be a spur to Australian exports. A recent survey by CEDA of major Australian exporters to the ASEAN region highlights the necessity for exporting firms to develop an adequate marketing and distribution presence in target markets overseas.

I am aware of some cases in which Australian exporters with a substantial permanent presence overseas offer assistance to smaller exporters of complementary products. The benefit to the smaller exporter is the ability to tap into existing expertise and facilities to promote their products, to the mutual benefit of both companies.

I can only applaud such "piggy back" arrangements. I have asked Austrade to establish a register of companies willing to assist smaller enterprises in this way and to stand ready to put potential partners in touch with each other.

Increased productivity, combined with wage moderation consistent with our straitened economic circumstances, is essential if we are to trade our way out of our current difficulties. And that response cannot be a short-lived one. A permanent improvement in our competitiveness cannot occur without a permanent improvement in the quality and productiveness of our work.

I have been drawing attention for some time now to the need for management and labour to work together more effectively and more efficiently.

And, indeed, many business people have told me their particular stories of how unions and management have worked quickly and co-operatively over recent years to review thoroughly the way work is organised. In each case the objectives have been improved quality, greater flexibility, improved productivity and sustained growth of sales.

But in view of the rapid deterioration in our terms of trade, which is now slicing $6 billion from our national income, our pressing need is to speed up the internationalisation of the Australian economy. This has given a new urgency to the task of workplace reform.

We simply can no longer afford to retain many of the work and management practices which grew up or were agreed to in earlier periods, when trading conditions were less demanding.

Our competitors produce high quality products, on time and within budget. We must learn to do the same.

I have spoken, over the past few weeks, to representatives of both business and unions, to highlight the Government's concern that workplace reforms should now receive greater priority.

The response has been very heartening.

Representatives of BCA, CAI and the ACTU have agreed to participate at a meeting which I will convene in Melbourne on Wednesday, 24 September.

The parties have agreed to meet with one very clear objective. This will be no talk fest. The parties agree that reform is both necessary and urgent - and moreover that they do not need to waste time telling each other so.

Rather the objective of that meeting will be to discuss practical ways to give added impetus to this task of boosting productivity. All aspects will be on the table - all aspects of work and management practices within the overall context of seeking to achieve the optimum investment and productive strategy calculated to meet the economic challenge facing our country.

The role of Government initially will be limited to convening the meeting. Once that is done we will withdraw to allow the parties to address the questions which only they can resolve.

The Government of course will stand ready subsequently to provide whatever further assistance the parties themselves may consider necessary.

The meeting next week, being a meeting of peak councils, cannot resolve issues which require a detailed knowledge of particular industries, enterprises or, in some cases, plants.

However I look to the meeting next week to face squarely how to encourage the most productive dialogue between those best able to effect change.

I call upon all parties to approach this task with energy and foresight. A little vision and a large measure of co-operative leadership at this stage can set Australia firmly on the course of sustained economic growth in the challenging new environment now confronting us.

The meeting next week will, of course, be only the very start of what must of necessity be a painstaking process. But it is a very necessary first step.

To succeed there must be others - in unions, in firms, in industries - prepared to take up the challenge and carry forward the impetus to co-operative change and reform.

I have every confidence in the capacity of ordinary Australians, when confronted with the facts, to respond constructively.

Ladies and gentlemen

The measures I have announced today will, I believe, be welcomed responsibly by the business community. That sense of responsibility derives from our shared knowledge that the private sector provides seventy five per cent of employment in Australia.

A healthy, competitive private sector means more jobs and more secure jobs. And that sense of responsibility means equally, I believe, an understanding by the business community of its obligation to respond positively and co-operatively in its investment and management strategies to maximise the opportunities for growth and employment.

Australia is facing a crucial time in its history. The task is large but it is by no means insurmountable. Moreover the instruments to deal with it are to hand.

These instruments are as pervasive as they are powerful. They include:

. A massive real depreciation - of the order of 30 per cent since end 1984;

. A Budget to support adjustment in the current account but also, as sentiment improves, to permit lower interest rates;

. An approach to wages policy which will produce real wages outcomes consistent with our new circumstances;

. Government measures - both longstanding and recent - to promote adjustment and to internationalise Australian primary, secondary and service industries; and

. Most of all, the determination and co-operation of the Australian people.

Together this is an unbeatable combination.

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