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AUSTRALIA

PRIME MINISTER

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SPEECH BY THE PRIME MINISTER
ADDRESS TO FEDERAL CHAMBER OF AUTOMOTIVE INDUSTRIES
CANBERRA - 6 MAY 1991

These are times of great change - in your industry and in the economy generally. In such times it is important that communication between industry and Government be frank, informed and totally open. Certainly from my Government's point of view, our door is always open to you - and for the same reason I'm grateful for your invitation to address this dinner and to outline to you my perspective on the many issues facing us.

Not the least important of these is the new chapter that has been opened in Australia's economic history with the watershed tariff reductions I announced on 12 March.

In my statement, I put to the people of Australia several fundamental propositions. I made the point that the world does not owe, and will not give, the Australian people a free ride. As a nation we must face the challenges of improving the productive capacity of our economy so that it will be more internationally competitive.

For years, the Australian economy sought to deny those truths, preferring instead to closet its manufacturing sector behind high tariff walls, insulating it from the challenges and the opportunities of the international market place.

The so-called "assistance" offered by tariffs to industry turned out to be no assistance at all : it was no assistance to be confined to the smaller domestic market; no assistance to efficient industries to pay higher input cuts; no assistance to be isolated from new technology and new work and management practices.

At the end of the day, it was no assistance to the community as a whole who footed the bill for tariffs through higher taxes; who paid again in the form of higher consumer prices; and who ended up with an economy less efficient that it could otherwise have been.

My Government has tackled this problem consistently and with determination. And the results already registered are an impressive demonstration of the effectiveness of tariff cuts as a means of expanding the manufacturing sector and boosting manufactured exports:

- most of our merchandise exports - 83% in 1988-89 - are goods that do not 'enjoy' any tariff assistance at all;
- most of our very substantial growth in manufactured exports - 118 points of the total 148 per cent since 1983-84 - has come from the unassisted sectors of industry;
- since we took office we have slashed tariffs by over a third - and, since 1985, employment, output and exports from the manufacturing sector have all grown at a rate faster than the OECD average.

It was on the basis of evidence such as this that the Statement I made on March 12, in conjunction with Senator Button and the Treasurer, provided for further tariff cuts as the basis for taking Australian industry, including the automotive industries, successfully into the next century.

With these latest cuts, we will, by the end of the decade, have brought the average nominal rate of assistance to the manufacturing sector down from 13 per cent to 3 per cent; and the average effective rate from 22 per cent to 5 per cent.

Specifically in the automotive sector, this latest decision will continue the thrust of the Button car plan by providing policy certainty through to the end of the decade.

PMV tariffs will be phased down from 35 per cent in 1992 in annual steps of 2.5 per cent to 15 per cent in 2000.

That is the measure of our determination to ensure the increasing competitiveness of Australian industry and the increasing internationalisation of our economy.

At the same time, new arrangements under the duty free entitlements, export facilitation and minimum volume requirements will continue to further the Government's objectives of seeking an industry more internationally oriented and better focussed on viable production for the domestic market.

We recognise that results cannot be achieved overnight. But we are determined to capitalise on the reforms and restructuring that have already taken place.

At the same time, we will continue to work with industries and trade unions to ensure the transition is as smooth as possible.

The tripartite relationship that we have created for the car industry since 1983 is a good example of the benefits of this kind of cooperation.

Under the Button car plan, production has already been rationalised, so that the number of models produced has decreased from 13 to eight, and average production runs have risen from 28,000 to 45,000. Exports have improved dramatically with total automotive industry exports rising from $370 million dollars in 1984 to just under a billion dollars in 1990.

Today, the Australian car industry is exporting cars to the United States and car parts to Germany and Japan - that's a significant achievement and I applaud it.

So while there will be significant pressure on car markers as a result of these new tariff cuts, this needs to be put in its proper perspective.

According to the Industry Commission, the share of the domestic market supplied by domestic producers has been essentially static over the last 15 years. Australia's vehicle fleet is ageing.

The Commission's conclusion was clear: "the high price of new vehicles in Australia, as a result of the very significant price raising assistance provided to the domestic industry, has been an important factor" in causing the static sales by domestic producers.

By the same token, as the price of new vehicles falls with the reduction in industry assistance, domestic producers can expect to benefit from a more dynamic market.

Certainly, sales figures this financial year are disappointingly low, and lower than expected.

But the fundamental point must be that the prospects for car making in Australia are sound - both in the short term, as demand rebounds from its current trough, and in the longer term as the industry adapts to the more competitive environment being created.

And let me stress too that the March Statement was never intended to stand alone; rather it is supported by, and has to be judged with, the range of other reform initiatives we have underway.

In particular, it must be seen in the context of the Government's overall economic management and in the context of our continuing micro-economic reform momentum.

As I have said on other occasions, I expect the economy to start to recover this year. Since January 1990, the official cash rate has been reduced by 6½ percentage points to 11½%. Disposable income was boosted by tax-cuts in January. Businesses will soon begin to rebuild stocks, and the housing industry is poised to move into its cyclical upswing.

However, this recovery will be very different from the recovery from the 1982-83 recession. We will emerge from this recession freed of many of the structural problems which have impaired previous recoveries. Since we came to office we have deregulated financial and exchange rate markets, introduced tax reforms and restored the share of profits in national income, to name just a few of our achievements. We are continuing to implement policies designed to increase productivity and flexibility in the economy.

And, not least, we will have a lower inflation rate and current account deficit.

Most forecasters now expect inflation close to zero in the March quarter and less than 5 per cent over the next few years.

Importantly, inflationary expectations have fallen significantly. We have seen a swift adjustment in longer term inflation expectations in financial markets, affirmed by the decline in the 10 year Treasury bond to under 11%, its lowest level for more than 10 years. Business decisions and wage claims are now being based on lower inflationary expectations.

Lower inflation will help to improve our efficiency, foster a better functioning price system, lower interest rates and induce better saving and investment decisions. It will also reduce the remaining distortions in the tax system, enhance the quality of information available for business decisions and allow a more equitable distribution of income and wealth.

The improvement in the current account has been encouraging. The current account deficit for the first nine months of this financial year was 24% lower than the same period last year. There has been a merchandise trade surplus for 10 of the last 12 months.

This means that while we still make considerable interest payments on our overseas debt, we are now adding less to our monthly stock of debt.

So as growth returns to the economy, we will emerge with a fundamentally stronger economy, better placed to compete in the international market, better placed to provide the means to achieve our wider social objectives.

Recent developments on the Australian waterfront show our capacity, as Australians working together, to make progress towards this goal.

What we have seen in recent days on the waterfront is the process of negotiation yielding positive results - results that represent not a win for any particular party to those talks so much as a win for Australian competitiveness.

This afternoon Commissioner Sweeney conducted a private conference of the parties and has released a statement setting down 23 and 24 May as the dates on which the matters will be brought back to the Commission.

The reform process is continuing unabated and the deadlines that we have set for the waterfront will be met.

It is a result that could not have been achieved with the Opposition's confrontationist approach. This way, we have got progress without the chaos of full-scale industrial warfare.

Those who would recommend confrontationist tactics really do bear the onus of explaining how that approach could possibly yield better results than sitting down at the negotiating table and hammering out an agreement that sticks.

Because the labour market lies at the very core of our economy and because changes in it affect the lives of everyone of us, the evolutionary change we are presently witnessing there is naturally causing some concern in the community.

The Government is pursuing the development of a more flexible approach to the National Wage Case decision so as to accommodate the pace and breadth of microeconomic reform we consider essential. In this, the Accord will continue to be, as it has been for the last eight years, central in providing unprecedented stability in the wages system and avenues for fundamental reform to awards and work practices.

Federal Cabinet discussed this issue only this morning and our conclusion is that while we believe the AIRC will have an important and continuing role, both the Government and the Commission must each consider more precisely what this role will be in the more decentralised wages system of the future.

Ladies and gentlemen

In the new atmosphere of competitiveness and productivity that is being created, the ultimate responsibility for success lies with individual firms.

You don't need me to remind you of the criticisms that the Industry Commission has levelled at the automotive industry's work and management practices, its industrial relations record, and its inadequate performance in training and in quality.

These issues need to be addressed, urgently, by individual firms if they are to survive in this new atmosphere.

International best practice needs to be the target - not merely honoured as a worthwhile concept but assiduously pursued as a real and ultimate goal.

Without it - without better management, product design and workplace practice - the Australian car industry can never be competitive.

With it, you will have a strong base from which you can compete with the best, exploit new markets, develop new products - and at the same time respond to the changing requirements placed on industry by the community. For example, an increased commitment by industry to adopting world standards in product design and production will ultimately be of commercial advantage to you - as well as helping the community achieve better road safety and lower greenhouse gas emissions.

I don't pretend that the future of the automotive industry is devoid of complex issues awaiting resolution.

But I do know, on the basis of what is now a long and close working relationship with you in Government, that the kinds of changes currently underway are producing the only framework in which the industry could prosper.

I believe you will prosper.

But I am certain this can only happen if we keep our eyes on the goal of creating that framework - a framework of increased competitiveness and productivity for the whole Australian economy.

In concluding, I want to pay particular tribute to Ivan Deveson, who has made an outstanding contribution to your industry over the past decade, and who has been a significant partner with the Government in the development of the policy framework I have discussed this evening.

He has not always been in agreement with everything the Federal Government has said or done, but he has been reliably frank and constructive in what he has said and done as we work through these issues together.

I offer him my congratulations and I have been asked to announce that the Federal Chamber of Automotive Industries has decided to award Ivan Deveson life membership.

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