



## PRIME MINISTER

TRANSCRIPT OF A JOINT PRESS CONFERENCE BETWEEN THE PRIME MINISTER THE HON P J KEATING MP, THE HON RALPH WILLIS MP, MINISTER FOR FINANCE, AND SEN THE HON BOB COLLINS MP, MINISTER FOR TRANSPORT AND COMMUNICATIONS, CANBERRA 2 JUNE 1992

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PM: My colleagues and I are here to announce a little bit of history. It's always Labor that makes the history and it's making it again.

The Government has approved the sale of Australian Airlines to Qantas. It's also endorsed the sale of 100 per cent of a combined airline subject to approval by the Australian Labor Party. These decisions were taken by the Cabinet last night and agreed to by the Caucus this morning.

The main factors bearing upon the decision are that the Government believed that selling the two airlines separately, after we'd moved from expression of interests to indicative bids, that there was not substantial recompense to the Commonwealth in selling Australian Airlines alone or selling 49 one hundredths of Qantas alone, and that the benefits to each company of joining them making Qantas a more complete carrier with a domestic and international base substantially revalued, up-valued the value of the merge entity.

So what will happen now - a sale agreement will be signed tomorrow between Qantas and the Government under which Qantas will pay \$400 million to the Government for 100 per cent of Australia Airlines, and then subject to the processes of the Australian Labor Party the Government will then propose to sell 100 per cent of Qantas by a trade sale and a public float, retaining a golden share for the national safeguards which we think are appropriate for the dominant national carrier.

As well as that, the Government will be establishing an independent Tribunal by legislation, which we

will introduce shortly, to allocate routes to the other domestic carrier Qantas. It would have been in terms of the 'One Nation' statement to the two domestic carriers Australian and Ansett, did I say Qantas I meant Ansett. As now the international routes associated with Australian will be those of Qantas. Ansett or any other domestic carrier may apply to the Tribunal for international routes, and we would require as part of the legislation of the Tribunal the task of building a competitive international market for aviation from Australia. So that would see a second international carrier established and based in Melbourne.

In all the Government is breaking down another micro-economic reform barrier to give Australians cheaper seats, better service, a better international airlines system, adequate financial compensation to the Commonwealth and the important and substantial recapitalisation of Qantas/Australian of a very large sum and should return to the Budget over \$1 billion.

Again I make this point to you. Whether it be in the waterfront, in telecommunications, in road transport, in rail, in aviation, the only party that has made the micro-economic changes is the Australian Labor Party - this Government.

The last Government, the Government Dr Hewson advised, signed the two airline agreement in indecent haste, three weeks before the 1983 election. We had to rely on this Government to deregulate that system in the late 1980s to now be able to put us in a position to produce a mature airline structure for Australia. So not only did the Coalition not take the moves to make the airline system better, it actually positively obstructed it by signing again, after the writs had been issued for an election, a two airline agreement. So I put to you, those of you who tend to write us off every three weeks because we haven't done hand stands, triple somersaults with pike, broken down fifteen other micro-economic barriers which no other Government did in 50 years, that again only this Government is changing Australia, only this Government knows how, and only this Government has got the courage to do it.

J: Prime Minister, how quickly do you expect the Labor Party to respond to this fait accompli that you've presented them with?

PM: It's not a fait accompli, but we are using the due processes of Caucus Committee, Cabinet, Caucus and then Party considerations and I'll be taking the issues up with the National Secretary forthwith.

- J: Should there be another special party conference like there was last year?
- PM: Well that's a matter for judgement for us. Can I just say that any questions you'd like to put to Ralph who has overseen the assets sales process now for some time and Bob, who while just now Minister for Transport and Communications, was Minister for Aviation for some time and has been wrestling with these issues for some time, both of them of course being entirely material to bringing this matter to a head.
- J: Mr Keating will the funds from this sale be earmarked in any special way, I think there was a resolution to that affect, wasn't there, at the 1990 conference?
- PM: No, they are not earmarked, but again it would obviously give the Government more budget flexibilities than it would otherwise have?
- J: Is that billion dollar figure the net figure?
- PM: That would be net. Would you chaps like to say anything?
- RW: Just on recapitalisation, the billion dollars plus, which is referred to in the press statement, is after recapitalisation of the airlines. So in other words, that's all to us that the new owners will be in charge of the recapitalisation of the airlines, that's all cost to us.
- J: Didn't you have a figure written into the forward estimates already for an estimated sale, price for the airlines?
- RW: No, we had some figures in this year's budget, \$500 million for assets sales which included the airlines. That's obviously slipped. Now the amount that will be in the Budget for next year from asset sales will obviously be much higher.
- J: Isn't this in reality making a virtue of necessity that the asset sale program can become bogged down, frozen and this is really a text book case of how not to privatise. You've been changing policy I think 4 times now since you started this process. This is the sort of the inevitable conclusion of a lot of confusion.
- PM: The Sydney Morning Herald can always put the most negative connotation on the most positive outcome. If you didn't fly the flag Tom, (Burton), of the sell of professional narks, I'd be disappointed in you. But could I just make the point that we have through this sought to see which is the best way we

could get flexibility in policy and at the same time maximise values. Now we've had these expressions of interests, you've got to ask people what they think they'll pay, not what some adviser thinks but what they'll actually write a cheque for, and then see what options are available to you. The main thing is getting the mail through, getting the job done. This is a substantial and large micro-economic change. In national political terms it beats the hell out of frightening old ladies, which is what Dr Hewson is about with his pamphlets.

- J: Prime Minister, ... it will carry through into pay television as well?
- PM: We considered that last night, we are going to consider it again in the Caucus processes over the next day or so and then take it to the Caucus - probably tomorrow.
- J: Are there any changes re some of the other areas such as foreign ownership, such as local content?
- PM: You'll hear about all those at the right moment.
- J: What's your assessment of the Caucus' view this morning Mr Keating, of selling 100 per cent of the merged entity?
- PM: The Labor Party has got a great attachment to the various Government Business Enterprises it has, but it also has a mature view about their long run benefits. Long run benefits for Australia, and the long run benefits of them being properly set up. Qantas has been an undercapitalised business for a long time - it's got 90 per cent debt and 10 per cent equity. This simple notion that people feel a warm inner glow about it, but give it no money is not doing it justice. And if we sit around the Cabinet table - I think Ralph would bear this out because he and I have sat through all of the Budget rounds bar one for me over the years - but if we said to any of them look social policy takes second place to a Qantas recapitalisation, there wouldn't be one element of the Caucus support it. Now there may be people fairly dewy-eyed, getting dewy-eyed about Qantas, everyone who is in that predicament had there cheque books shut as far as the Government was concerned, and Qantas they thought could live on implicit guarantees and debt. And in the end equity doesn't attract an interest rate and debt does, and in the lean times you've got to pay the interest rate.
- J: Will the name Qantas be retained?
- BC: Yes, by way of the golden share and Tom. Can I just say this about those policy changes. It's

absolutely true that there have been policy changes and you would have to acknowledge that every single one of those policy changes has enhanced the aviation environment, there is no question about that, and the tourist industry. And I have to say I'm personally delighted with Caucus support this morning for this latest one because it is going to further enhance the environment for the travelling public. I mean, these changes have been painful, there is no question about that. They've been difficult to make and a lot of people have felt the pain from it. They haven't been made for the benefit of the airlines, they've been made for the benefit of the national economy and the national good.

Now I might also add this stands in very stark contrast, and I invite you to have a look at it, at what's been proposed by the Opposition in what has now become the most important export earner this country has got - that's tourism, \$7 billion a year. We've just provided a number of policy changes that have substantially improved the results that that industry is going to get. By contrast, "Fightback" have proposed an outrageous policy, and it is outrageous, where they are going to provide extremely valuable rights for a whole mass of international carriers with no reciprocal rights being negotiated for Australian carriers under the guise of this so-called open skies policy. Now this is an outrageous aviation policy when you consider the value of these assets and how every aviation nation on this earth negotiates in this part of bilateral arrangements, but on top of that if that's not enough to kill off our aviation industry, they're going to stick a 15 per cent GST tax on the best export earner the country's currently got, the only export industry that is not exempt from this tax. Now that's a great way for encouraging Australians to take their holidays overseas and providing a disincentive for people to come here.

- J: The view though you've ridden over party's own policy - how do you explain that to traditional Labor voters?
- PM: No, that's not right. This Government doesn't usurp the prerogatives of the Labor Party. Now if you go in my case, when I needed to change the policy in relation to foreign banks I went to a Labor Party conference. When we needed to change the policy in relation to telecommunications we went to a Labor Party conference, to its procedures, to its Executive, to its forums. This will be the case now.
- J: Given that fact, Prime Minister, when do you expect to this process to be complete?

- PM: Well early enough for the sales process to complete so as to tabulate and collate the proceeds into the figuring for the 1992-93 Budget.
- RW: So the trade sale which has been in place for some time will go on to the end of this year, it should be completed by the end of this year for the 49 per cent, or some part of that 49 per cent, by the end of this calendar year, and then there will be a float in the first half of next year of the 51 per cent, which is not in the trade sale and any part of the equity in the trade sale, which isn't sold as part of the trade sale.
- J: The next step, Mr Keating, that you go to the National Executive and determine whether you can bypass a special conference or you need a special conference, is that how you now proceed?
- PM: We'll open discussions with the National Secretary and the National Executive.
- J: Will the proceeds from this sale be used to reduce the Budget deficit Mr Keating, or to fund additional spending?
- PM: You're asking me is it to be devoted. We couldn't say now what the Cabinet's spending priorities will be. Whatever the proceeds are they will diminish the budget deficit in the final analysis by that figure. That's not to say though that the proceeds themselves, if one were to look at the actual block of funds, would be devoted exclusively to lowering the budget deficit, they may not.
- J: Mr Keating what would you say to members of the public who think this Government had a \$2 1/2 billion deficit blow-out a few weeks ago? Now we have got all this sudden urgency to sell-off the airlines.
- PM: Well, I would say that if they had followed the debate and the process from the last National Conference of the Labor Party in late 1990, they would know that this process has been running at least since then.
- J: But why the sudden urgency? You were talking 70 per cent on Sunday.
- PM: Well the sudden urgency is that the expressions of interest period has ceased, the indicative bids have been lodged, the Government has now got to make a decision about moving to the next stage which is a due diligence on the part of the bidders of the assets in question, and then for binding bids to be

made. I mean, the urgency is the process which is now at that point.

J: But why did you have 70 per cent on Sunday?

PM: Well that was an option, 70 or 100.

J: Why didn't you announce the 100 on Sunday?

PM: I did. I said 70 or maybe more, 100.

J: What's a golden share, and how does it work?

BC: It's a standard provision that's found around the world in a whole different number of aviation environments. It is well understood by the business community now, I mean Malaysian Airlines, Singapore Airlines, KLN, a whole range of airlines have been sold. Fundamentally it is a contractual condition which is placed on the sale by the Government with whatever conditions attached to it, the Government determines appropriate to preserve the national interest provisions. But at the same time, not so onerous as to depress the price.

J: On the Paye TV issue, are you prepared to stick to the 45 per cent proposal ... ?

PM: Well we have considered this matter last night and we will consider it today and tomorrow, and I think then is the appropriate time for me to speak about that.

J: Senator Collins won't the State of Qantas' business value be subsumed by the international interests within the trade sale?

BC: Well that's not possible because for a start, in terms of foreign interest, we are constrained not simply by our own rules, but by the I.C.A.O. rules, as you know, which means that an absolute maximum of 35 per cent of the airline can be owned by foreign interest, otherwise it loses its designation as an Australian national carrier. And by process of a trade sale, and a public float, I think that ultimately the lion's share of the airline, in fact, is going to rest with the public.

PM: Before you continue, we have got question time on at 2.00pm, so we have only got time for a few more.

J: Won't then Qantas lose some routes?

BC: No, in fact, under the proposals that are ancillary to this, in terms of the Aviation Tribunal legislation, which Caucus I might add approved this morning, and it will be introduced into the Senate this week. All of Qantas' existing entitlements are

protected, and of course they are public assets, and as you know those entitlements are very valuable assets, as the way it should be. So Qantas doesn't stand to lose anything by this deal, it in fact stands to gain considerably.

J: What measures have been put in place to create a competitive market? You indicated you wanted to try and grow ...

BC: Yes, those matters are layed out very thoroughly and Tom (Burton) I am happy to show them to you later, they are contained in some detail in the Government's policy statement which is enforceable under the provisions of legislation. They are the things that the Tribunal has to have regard to in making decisions, and it is a pro-competitive set of criterium that are being used.

J: How can you be sure fares will be cheaper, if you talk about domestic and international? Can you put any sort of figure on it?

BC: Well I personally haven't even raised the question of cheaper airfares.

J: The Prime Minister has.

BC: Well it will inevitably have the same result, you can never put a figure on it, that's determined by the market. And in fact, it was interesting watching in the early hours of this morning, the Chief Executive of American Airlines talking about the situation that does exist in the deregulated market where he said that the whole market is basically hostage to any irresponsible operator. I mean, these are the down-sides of a deregulated market, but the up-sides are enormous. And if you doubt that just have a look at the tourist figures in what has been a booming market in the face of an otherwise flat economy. There have been enormous benefits from domestic deregulation, the same benefits are going to be delivered by opening up the international area. But I will just make the obvious point, that is already a highly competitive market of course, we are talking about additional Australian carriers in what is already a very competitive international market.

J: And the second international carrier will have to be based in Melbourne?

PM: No, but if it's Ansett it is based in Melbourne, and Sydney Airport is of only limited size and the Qantas Jet Base is there, and its headquarters are there, and it simply couldn't stand physically another major carrier as a base.



BC: I might also add while this has been going on we have of course been advancing negotiations with the New Zealander's. The New Zealand Minister for Transport was over here last week for a second round of negotiations. Those discussions are proceeding very positively and both Governments are confident we will be making a joint statement in the near future about that.

J: What's more likely to be the second international carrier, Ansett or Air New Zealand?

BC: That is why we are establishing a Tribunal, which will be a publicly accountable process. So that it won't be the Government picking winners in this sense, it will be a process which is open and accountable.

PM: Thank you.