



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON PJ KEATING MP,
AND THE MINISTER FOR PRIMARY INDUSTRIES AND ENERGY, THE
HON SIMON CREAN MP, PRESS CONFERENCE, 2 FEBRUARY 1993**

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PM: I've got a Cabinet meeting on which we've broken in the course of the day and it's to reassemble at 3.30pm, so we're going to be reasonably brief with you. The point of our press conference is to indicate that the Cabinet has adopted a reform package for the Queensland sugar industry, which has been negotiated by my colleague Simon Crean, and is an interim reform package which dovetails in with the Queensland Government's reform program which meets its next point of change in 1995-96. The sugar industry has been an industry which has been substantially regulated under laws of the State of Queensland. In a sense the Commonwealth plays, in this industry, a more peripheral role than it does in many others because the regulation and management of the industry has been by the industry itself and under arrangements constructed over a long period of time under Queensland law.

We've made decisions today in consultation with the industry. I visited Bundaberg with Brian Courtice, the Member for Hinkler, and members of the Taskforce to meet sugar growers in November to get a first hand view of the problems and to try to understand better the industry. Simon has had a number of visits to the region to meet members of the industry, representatives of the Taskforce, the Queensland Government, and we've developed between us a package.

Part of the Commonwealth's responsibility in this is to make decisions in an area where we can, this is in relation to tariffs, which is for us the key to

unlocking a larger reform of the industry, and the larger reform goes to all those questions which deal with assignment, which deal with single desk selling, which deal with water articulation, which deal with the poolings, the two pools and the price differentials, these are the key issues in reform.

So we have used the leverage the Commonwealth has, I think, sensibly to bring together a reform package which will, as most of the Governments' reforms have, over a period of time have been affected on a phased basis which will be the case here. But I take this opportunity to congratulate Simon on getting this together. This has been a most contractible problem because it has been peculiarly a State problem and certainly on the part of Coalition Governments in Queensland in the past, no willingness to improve the flexibility of the industry over time. This has changed of course with the Goss Government and the Government there is working cooperatively with the Commonwealth Government. So I'd leave my introductory remarks at that and now invite Simon to add to them.

SC: Well the detail is there, I suppose there are just two points that are important to make. Firstly, so far as the sugar industry is concerned the issue is not just about tariff, that I believe is a mistake that the Coalitions Parties have made. Tariff, as important as it is as a price support mechanism, is only worth \$32 million to an industry which is now in excess of \$1200 million dollars. But it is an important price support mechanism in the context of a corrupted world trading environment.

I have always resisted throughout these negotiations, and for the purpose of setting up the task force, just treating tariff in isolation. If you look at the Industry Commission Report it identified a number of impediments that had to be addressed but acknowledged that the only thing the Commonwealth could do was really phase down tariff.

In essence, what we have done is to use the leverage of what we can influence to affect change in other areas that the IC Report acknowledged we had no influence over. And that is what has been achieved. So whilst the tariff has been held, and as a result of holding tariff, if you are going to deliver it you have got to retain acquisition. The two important impediments to growth are the assignments system, the means by which you open up the land, and we now have an arrangement whereby that can be negotiated at the local level.

The other important issue has been the price pooling arrangements whereby not only has a differential existed between that which is in the number one

pool, vis a vis the number two pool, it has also meant invariably that growers in the number two pool who are the new entrants get less than world price. Now that is just a crazy signal to be sending out to an industry that you want to expand, that you can't even get world price. Really what this agreement does without compensation, because the task force recommended a compensation package for the phasing out of the price pooling differentials, what we have achieved is a phase down by agreement with the cane growers and the Queensland Government so that we can get clearer market signals to the new entrants, because it is the new entrants which are going to undertake the expansion.

So not only is this a strategy to deal with the tariff issue, because that's been the big political issue, but it's also a strategy for growth and expansion in the sugar industry. And most importantly, it's been a strategy developed with all of the stake-holders, and essentially all of those stake-holders support the thrust of this agreement. It's been a very fulfilling exercise and demonstrates yet again our approach to industry development compared to that of our components.

- J: Prime Minister, is this decision to hold \$55 a tonne tariff good politics but bad economics?
- PM: Simon answered the question for you. The good economics is that it is basically one of the keys to constructing a reform package which would not otherwise be capable of reconstruction or construction. That is, the reform of the Queensland sugar industry is largely a State matter because all the things that matter, such as the pricing, the pools, the price signals, the assignments, all of the other issues, the infrastructure, are State issues. The Commonwealth's role in this is, as I said, a marginal one, but one which we've successfully been able to use to change yet another industry.
- J: Haven't you backed off using the stick that you had of the tariffs to get faster reform?
- PM: Put it this way, without having the leverage the Commonwealth enjoys in tariff, we'd have no reform here. Simon has been able to construct this with the Queensland government and the growers, something which probably three months ago people would have thought was incapable of happening. So getting the phase down, the price differential between the two pools, modifying the land assignment system, these issues are key to the sugar industry becoming a more flexible, productive, competitive industry.

SC: But we have used the stick of tariff to affect the real reform. Understand that in terms of tariffs we halved the level of tariff support in a value sense – it's come down from \$110 to \$55 in the space of 18 months. What we are doing now in response to an Industry Commission report and in consultation with the industry is saying there are more important issues that at the moment need to be tackled and we have used the impact that we have been able to have over tariffs to achieve that pace of reform.

J: How do you see this decision impacting on the clothing and footwear industry, are you prepared to consider tariff pauses in those industries?

PM: That has got a different impact. There is hardly any sugar imported, this is not the case with those industries. This is largely a domestic price support mechanism and therefore the parallels are not there. But again, the clothing, textile and footwear has been subject to a phased reduction in tariff over time as has been the case with motor vehicles et cetera, which we undertook in 1988 and reviewed in 1991. In this case we've had a reduction from \$110 to \$55, we are reviewing it in 1995-96, but along the way as a result we've opened up a much more substantial reform.

J: Would you rule out any wider tariff pause?

PM: This is a one industry specific matter. This is a complex industry, very much patterned upon State industry structures and State regulations.

J: So you wouldn't rule out that ...?

PM: But the implication of the question is, Michelle (Grattan), there are linkages here. There are not. It is as simple as that.

J: Forgetting the linkages, would you take this occasion to rule out a tariff pause?

PM: I've just said to you, yes. If you want simple answers to simple questions – yes.

J: At \$55 a tonne there are some ... that the tariff costs in domestic industry something like \$51 million inflates the price of sugar by 23 per cent to the domestic market. How is this sort of action going to enhance the value adding side of our domestic industry and make them more competitive?

SC: Because there can be an exemption from the tariff impact if the companies using the input re-export. Direct incentive to export industries, that has always been the case I might add, but the other thing that convinced me in looking at these figures is that whilst that figure is dubious of the \$51 million because it is worth \$32 million, it's a return of \$32 million, if you like, to the sugar growers. The fact of the matter is it is a minuscule component of total input costs for the food processing industry in total costs. It is an important aspect and I'm not trying to pretend that in itself it's not an impediment, but it's not going to be the thing that makes or breaks that industry. What is going to make or break the sugar industry is its ability to expand and its ability to do that through proper price signals and you've got understand really, that the sugar industry itself is in excess of \$1 billion. It is a huge industry in terms of our natural resource base. What we've got to do is to secure it and at the same time insure that those input costs are properly identified, properly addressed, and they will be over time.

J: In today's announcement, has the industry effectively been given some time to restructure itself and to become more competitive and efficient and that when you do come around to review tariffs in 1995-96 you would be hoping to cut tariff rates further then?

PM: This review dovetails in with the Queensland review in 1995-96. Simon made the point to you earlier, I'm not sure whether everyone here is familiar with this industry, but all the new growers or old growers producing marginal tonnages are paid [12 per cent] less than the world price. How can you have an industry continuing on that basis? That is the key thing, if you want the sugar industry to grow and prosper, that's one of the things that has to be changed - the right to send your sugar to different mills. To change the assignment system is another such thing. They are the key things, compared to the tariff issue, the tariff issue is an infinitesimal issue compared with those. That's what is being affected here today.

J: ... but giving them time to adjust those reforms in the industry.

PM: Yes, that's right.

SC: You are giving them time to adjust in certain aspects, but what you're driving is a faster pace of reform than would have been the case. Before this package there would have been no change to the differential between number two and number one til 1996. We're getting it immediately. It is important in terms of the question that Michelle (Grattan) asked. Just because we've held tariff doesn't mean we've held the pace of reform. But

what you have got to understand is that tariff is not the only mechanism for reform. It is not the only dimension of micro reform, there are other aspects of micro reform. But what we've been trying to demonstrate is, areas of micro reform are not all within the purview of the Commonwealth and therefore what the Commonwealth has got to do if it's smart about these things is use the leverage of its position to drive the pace of reform in the other areas. That's why we've got the conditions to the development allowance, that's why we've used this strategy to get the pace of reform in sugar and in dairy, that's why we used the pace of reform, the approach that we adopted there to also push the States. That's a sensible national approach.

PM: It's the same thing that we are doing with electricity. Commonwealth-State co-operation, in this case with one State, in the case of electricity with three States.

J: Given the benchmark nature of this agreement, I take it you will be urging Dr Hewson to adopt it.

PM: Dr Hewson is going to do what he likes. I urge him to adopt some things, but it's up to him to make his own judgements about this. They take the view, they are the zero tariff outfit. They think that there should be no protection in this country for any industry at any level. That's never been the Government's position. The Government is a low tariff party, it's not the zero tariff party. We made that clear in 1988 and we made that clear in 1991.

J: What are the political implications here though? Will you be able to pick up votes in Queensland marginal seats?

PM: Whatever they are you've got about a minute to get them out of me.

J: Will you be able to pick up certain Queensland marginal seats with this decision do you think?

PM: This is a genuine issue in reform. It's like every other industry left by the Coalition for years sclerotic, nothing happening. The same as electricity, the same as ports and wharves, the same as airlines, the same as telecommunications, the list goes on, dairy now sugar. We move through these industries and this has come up in a natural sequence of events, reports et cetera.

J: Prime Minister, should Leo McLeay give the \$65,000 back?

PM: The Speaker has rang me to say he's going to release the statement later today about his position.

J: ... potential for expansion?

SC: Yes, the potential for expansion is identified as going from somewhere around about the 4 million tonnes of raw sugar to close to 5 1/2 million tonnes. Big expansion and obviously the extent to which you get the assignments and the freeing up in land that opens up the commitments to investment in milling as well as refining capacity.

J: Are you confident that local arrangements will achieve this?

PM: Yes, I am because what I was very keen to insure in terms of the wording associated with assignments was not just satisfactory to the cane growers, but that it was satisfactory importantly to the people who have to make the investment decision in the private sector and they believe it will provide that important freeing up. They see significant advantage in both the assignments dimension of this package as well as the price pooling arrangements.

J: How many years do you think it will take for that expansion to ...?

SC: I don't know, I think the assessment is somewhere between three and five years.

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