



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP,
PRESS CONFERENCE, ADELAIDE, 4 FEBRUARY 1993**

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PM: I thought I'd start by saying a few things to you, and then you can fire away after that.

The point of the visit today is to cut through the (inaudible). This State has problems from which it is not going to extricate itself. We've had national problems with the recession and post recession period, and the recovery. But these problems are more particular than the general problems. So what I've sought to do is to bring the debate into the open. That is, because South Australians are going to have to make a choice soon about the national government. That choice is going to materially affect them and I want them to realise that that choice is going to affect them.

In truth, it's only the Federal Government that has the wherewithal to deal with South Australia's particular problems. South Australians must be scrutinising the policies of the two parties and ask the question who will be prepared to provide the resources to enable South Australia to work its way out of its problems. In other words, ask the key question, which of the parties has a policy for South Australia, which of the two is interested in it and which will provide the resources for the resolution of South Australia's problems? This Government has always accepted that South Australia needed special attention. It's not been in a position to pick up a lot of the buoyancy of the '80s that came to the Eastern States, or doesn't have the base in wealth that, naturally, Western Australia has. So that's why, in the course of the 1980s, while the Treasury was arguing for per capita funding for States, I stuck with fiscal equalisation. Fiscal equalisation meant another \$380 odd million into South Australia. In other words, I always took the view that you had to lift the smaller States up because just paying on a per capita basis meant that services in this State, the economy of the State, and the strength of the State would be diminished.

Over the same period, we made very clear that because we believed the State needed special attention we argued that the submarine program would be best set up in South Australia, again to provide more balliest to its industrial structure over a long period of time. The same with the multi-function polis, we've done what we can to facilitate that. In my visit to Japan earlier in the year, the Minister for International Trade and Industry told me that MITI is strongly behind the development of the MFP in South Australia. And with that commitment and the successful development of the MFP will come a lot more interest by Japan in the State of South Australia.

The car industry, the Government has always taken the view that Australia needed a car industry. When one asks the essential question, should Australia have a car industry?, we've said yes. We've made clear that governments have to do things that both maintain and build these industries. And that's why in cars, and in componentry, we've always had South Australia particularly in mind because it's such a large part of the Australian vehicle industry and components industry.

More recently, of course, is the One Nation Statement. I included in that the Melbourne-Adelaide standard gauge railway, which is going to be built, and the link to Port Adelaide, so that we tie South Australia more into the Eastern States' economies through a rail linkage that should have been reality always had. There can be no more basic thing than transportation and transportation services to underpin any economy. I've taken the view that in terms of South Australia that should be done.

Building Better Cities, again we've got programs and funding across Adelaide and the State. The road programs, the cooperative research centres where we focussed particular funding on institutions and their collaboration with companies for particular areas of research which we think are in South Australia's long term interests.

So let me just say this, Labor knows that South Australia needs federal policy, that is in terms of industry, in terms of its industrial breadth, and federal help in terms of its fiscal position.

I'll just say a couple of things about the Coalition. By contrast, Dr Hewson offers the scorched earth policy. He wants zero tariffs - he wants zero tariffs for cars, for the motor industry. He wants to cut Commonwealth revenues to the States - he wants to cut \$9 billion from outlays and make a very large cut in Commonwealth revenues to the States. He has Premiers Mr Fahey and Mr Kennett breathing down his neck on fiscal equalisation - they say that payments shouldn't be made in the way they're being made to the smaller States. That means that \$385 million which comes across under the equalisation pool is at risk. Of course this would come on top of the nearly \$300 million which the South Australian budget has got to find now to service the State Bank debt.

So I put the question – can South Australians trust Dr Hewson to withstand the pressures of Premiers Fahey and Kennett in seeking to renegotiate the fiscal equalisation policy and the formulas which attach to it? What I would contend to you is that that sort of policy would push South Australia under.

Perhaps I could conclude on this point. Dr Hewson has no concept of regions. He doesn't understand that, for instance, cars and components are important to South Australia. He doesn't understand sugar is important to Queensland. It's basically an ideological approach which says if you tax your clothes and your haircuts and your water bills and your power bills, then that's all that needs to be done, you don't need to think about regions as regions, you don't need to do things for regions, you don't need to comprehend regional economies and their needs. Well the Government does, and that's why it has only been the federal Labor Government in the '80s and early '90s which has looked at South Australia particularly and set up the programs and policies I have already mentioned to you. But now that the problems of the State Bank hangs over the South Australian budget, given the fact that the revenue base of the State is limited, I think there's about \$600 odd thousand tax payers only to carry this burden, then we believe that this matter ought to be brought into national focus, that the shadow debate should stop, the South Australian Government by itself left to itself left to its own resources is not in a position to stabilise the debt, and therefore I'm willing to, after a federal election, help and deal with fiscal problem and stabilisation of South Australia's debt cooperatively with the government of Premier Arnold.

So I think I'll leave my remarks at that and invite questions.

J: (inaudible).

PM: No, no, how do you contend that? The fact of the matter is you've got a debt of \$3.15 billion, which is already now being carried from the State budget into the bank. That's going to cost South Australians on an ongoing basis about \$300 million a year. What's going to happen, left unattended South Australia is going to get itself into a debt trap. It just won't be able to meet the interest on the interest. I don't think this has been said quite as obviously as this, and that's the point of me saying it.

J: How much are you prepared to offer?

PM: It's not a matter of that, it's a matter to negotiate. I've told you that I've already spoken to the Premier about the question of the tax compensation which flows from the State Bank becoming a federal tax paying institution, therefore diverting the receipts from the Treasury's budget to the budget of the Commonwealth. In that case, what has to be done is that the Commonwealth will negotiate with South Australia as to the value of those stream of payments. The stream of tax payments which were formerly going to the South Australian budget will now go to Commonwealth budget. They can be capitalised into a capital sum, and that

capital sum can meet some of the debt obligation, as indeed can the proceeds of the sale of the franchise of the bank meet those debt obligations.

J: But that's not special treatment, that's no more than the State Bank of Victoria or the GIO received.

PM: For a start the bank has to be sold, that's what we're saying. Two, that we will then negotiate. It's a matter of negotiation. What we see as the value of that stream of payments, what the tax position of the bank is, what the value of that stream is worth. Then on top of that is, beyond that the residual debt that has to be serviced. South Australia will need Commonwealth assistance, just as this Government provided Commonwealth assistance to the Northern Territory, and as we negotiated Commonwealth assistance for the State of Tasmania for similar reasons. But the reasons are not as large or as acute as the problems here.

J: The debtors have pointed out it's around \$3 billion. If the bank makes the sort of profits it would be expected to, it would be around \$100 million a year which would indicate you could expect a profit stream of around (inaudible) a year. Given those profits over 5 years, what are you offering, \$(inaudible)?

PM: I don't know, that's to be negotiated. Obviously it's not a back of the envelope occasion, it's a matter of sitting down and working out what that income stream is worth. I did that with the State Bank of Victoria, and Premier Kimer and I successfully arranged the State Bank's sale which plugged a very big hole in the debt of Victoria, and has now seen that bank incorporated solidly into the Commonwealth Bank of Australia, making the Commonwealth Bank an even stronger institution than it was, and of course most particularly protecting the depositors in Victoria. That negotiation took place and a similar one will take place here. In fact we've already had discussions about it.

J: Mr Keating, why is it impossible to work out the details before the election?

PM: The details on the bank?

J: Yes.

PM: The details on the bank ...

J: And your proposition?

PM: That's only on one thing, that is on the income stream. But then the franchise has got to be cleaned up, the debt skinned out of it, and sold. Nobody is going to buy a bank with a whole lot of contingent liabilities. The franchise has got to be sold clean.

J: (inaudible)

PM: There would have to be a due diligence done obviously, as there was with the State Bank of Victoria.

J: The Bank is clean now ...

PM: That depends on the view of the buyer. Buyers have particular views about cleanliness, and they're called due diligence. And they'll do a due diligence to make sure that when the franchise is offered that they can successfully manage it and confidently buy it. When that happens, then the income stream can be one of the key issues.

J: How quickly do you expect to sell the Bank?

PM: I think the Government of South Australia should be moving to put the Bank in a position for sale, and to develop a sales process.

J: Looking at the GIO's sale, that took a couple of years.

PM: We did the State Bank of Victoria in a much shorter time than that. And it was quite a complex situation because ...

J: It won't be a shotgun wedding, will it, with the Commonwealth Bank?

PM: It all depends on what a particular bank's market share is in South Australia and whether there would be trade practices problems putting together what is already a large market share, combined with an even bigger market share.

J: Who would buy the bank, Prime Minister?

PM: The market has shown that business can expand their stock for acquisitions, and obviously there are a number of both domestic and foreign banks who may well be interested in it.

J: Would you prefer a foreign buyer?

PM: No.

J: (inaudible)

PM: That's always been a commercial matter, whether it's been commercially viable. Every study we've had, no-one has ever stepped forward to do it.

J: Are you saying you'd allow the sale of the State Bank of South Australia (inaudible) foreign (inaudible)?

- PM: I wouldn't, no. But it may be that the large domestic banks here ... This will be the last great franchise to be sold in Australia. The big State Bank of New South Wales was incorporated into the Commonwealth Bank in 1931. The Commonwealth Bank of Australia was largely a national bank flying on one wing, that was on New South Wales. It got the pigeon pair together when it picked up the State Bank of Victoria. There are no other such franchises left, except the State Bank of South Australia. There's the R and I Bank, but it's a much smaller institution, in Western Australia. The only other large one is the State Bank of South Australia.
- J: Mr Keating, are you considering suing Dr Hewson over his allegations that you made policy decisions for personal gain?
- PM: Dr Hewson made an intemperate remark yesterday, it's in the same class as the intemperate remark he made about Bob Carr saying he was suspect because he didn't have any children and didn't drive a motor car, the same intemperate remarks he made about renters saying you could always tell a renter in the street by the way they look after their house. I put it in that category. Dr Hewson would be wise to think before he speaks.
- J: You're not considering suing him?
- PM: I've got no more to say about that.
- J: On fiscal equalisation, in the last three the years the fiscal equalisation payments have been reduced, have they not, to South Australia, it's been a feature of the local budget, are you saying this will stop that downward trend?
- PM: No, I'm saying that there's a pool of nearly \$2 billion which is distributed to the smaller States under fiscal equalisation. I'm saying that as an express issue in policy I believe that fiscal equalisation should be maintained. That is, that the smaller States should be supported, that they can't provide the services left to their own devices and their own finances.
- J: Will that pool get larger or will South Australia's share get ...?
- PM: The Grants Commission makes recommendations each year about the revenue effort of the States and it equalises. It makes recommendations on the equalisation, to see what the relevant disadvantage is. The Grants Commission has done that year in, year out, and the Government makes a decision about it every year. The issue in principle is the pool. Fiscal equalisation is an interventionist policy. One has got to cut across per capita payments, that's equal payments per head across all the Australian States, and say in an interventionist way we believe there will be express payment streams coming to these States for these reasons. What I was contending to you was the philosophic basis on which Dr Hewson works is non-interventionist per capita. That's a big risk for South Australia,

particularly a big risk when he's got Fahey and Kennett breathing down his neck about it. So, if South Australians ask themselves the question – could they trust Dr Hewson to keep the payments off with the two large States on his back, both Coalition States?, well I'll leave the answer to you.

J: Why can't you quantify the sort of offer, why can't you put some sort of figure on it?

PM: Because it's not a matter of simple figures in response to a simple question. This is not simple, it's complicated. And it's complex by virtue of the state of the State's budget, the paucity of its revenue base, the weakness of its revenue base, the problems of the State Bank, and being able to pull together a debt profile which doesn't see the budget of South Australia caught in a debt trap.

J: Knowing all of that, can't you give us some indication of how high you're prepared to go?

PM: It's a ridiculous question, you're asking a simple one number question. That's the sort of question you'd expect from page 30 of a tabloid.

J: A ball park figure would be reasonable.

PM: I'm saying that we will sit down with the Government of South Australia looking at all these issues – the sale of the Bank, the value of the tax stream, the compensation, and what further Commonwealth assistance is necessary to provide a profile to South Australia's budget and debt position.

J: (inaudible)

PM: I don't think anyone else has come and told you that your budget in the long term isn't viable. Has anyone? I know you're super news sleuths, but has anyone told you that? And if they haven't, it might be worthwhile you taking the issue seriously.

J: We have been taken seriously which is why we've been slashing public service numbers and Lord knows what else in this town for the last two years. (inaudible) the cutbacks in the federal budget. Are you not prepared to put any figure at all ..?

PM: Of course I'm not, but I'm making it very clear that I don't believe that the South Australian budget is capable of dealing with its debt position, and that the Commonwealth Government is saying it will assist, it will provide federal assistance. That's the issue in principle.

J: If you decided not to sell the Bank will there still be federal assistance?

PM: I think the Bank should be sold and I think the Premier's view is that it should be sold, too.

J: And that's the only condition on which (inaudible)?

PM: The State has got to make its own efforts to deal with its debt problem.

J: Prime Minister, on Leo McLeay, do you believe he should stand down?

PM: Let's just deal with this issue of substance.

J: Then can we talk about whether you are concerned about what Mr Hawke has said?

PM: I'm not going to answer those questions, forget about those things.

J: Do you agree with former Prime Minister Hawke that you'd lose the election if it was held today?

PM: You people have a responsibility for reporting the news that's key to the future and well-being of the community of South Australia. I'm a Commonwealth Prime Minister and I've come here to talk to you about it. I'm not interested in picking up Mr Hawke's interview of last night.

J: As a national broadcaster, Mr Keating, we have an obligation to service other parts of Australia, and they're the questions we've been told to ask by our Canberra bureaux.

PM: Just tell them politely that the Prime Minister refused to give you an answer on that. OK?

J: OK, looking at pay TV then, the former Prime Minister says your pay TV policy is strange.

PM: Before we go through all these things, have you got any more questions about South Australia?

J: On fiscal equalisation, how can you undertake to make the pool larger when you're running such a large deficit now?

PM: It's not a matter of making the pool larger. The Grants Commission decides how much is required to equalise the payments.

J: Will we be getting some payments that would have otherwise gone to Western Australia or the Northern Territory?

- PM:** No, you will be getting assistance beyond that which comes in the pool. That is, the Commonwealth will add to the financial assistance grants by way of direct Commonwealth financial assistance, as we did for the Northern Territory and as we've done for Tasmania.
- J:** It won't go through the Grants Commission.
- PM:** No, it would be an express policy decision of the Commonwealth, as it was for those two States.
- J:** On the issue of the car tariffs and how that affects South Australia, what is different about what you are saying now to your policy a month ago?
- PM:** Dr Hewson has reaffirmed in Fightback Mark II a zero tariff policy. He's saying he doesn't believe the car industry - Mr McLachlan said it for them - he said it is 'restructure or perish', was his expression. They're saying we don't particularly say there should be a car industry. There's going to be a zero tariff, if you can survive, fine, if you can't survive, bad luck. We're saying something totally different. We're saying there should be a car industry, and we're saying that the tariff levels which the Government have determined are ones which will keep the car industry viable and let it grow. It was on the basis of those tariffs that John Button, principally, and myself were able to interest the Toyota Motor Company establishing a state-of-the-art plant in Victoria. It's on the basis of that policy that I believe that you'll get expansion from the current car companies of South Australia. But only on the basis that the notion that you can provide some level of protection that compensates for the small volume of production. Nobody is going to invest in a state-of-the-art plant, to build 35-40,000 units, particularly when we're talking about the Japanese, they can build them in Japan. I went to the Toyota plant late last year where they have a run of 310,000 cars per year in one production run. It's much more simple for that company to make that run - 340,000 - and build all the cars in Japan, than to seek to build such a plant in Australia on a zero tariff with the disabilities of distance and costs and the disabilities of scale. So there has to be some recognition of that in the tariff. The Government recognises that, the Opposition doesn't. As far as the Opposition is concerned, the car industry in South Australia can disappear if it can't stand on its own two feet with a zero tariff. This would be fatal to the South Australian economy, fatal to the city of Adelaide.

- J: You don't think there should be a slow down in the tariff cuts?
- PM: We had a long negotiation with the car companies when we put these together, in 1988 and then in 1991, and they phased down to effective end points of 35 per cent - average effective rates of assistance of 35 per cent. I think there's a reasonable trade off there between the interests of consumers and the interests of car companies, and the employment base of cities such as Adelaide in South Australia in that kind of tariff level. If one takes the view that at zero and the survival of the fittest, the fittest will be the 300-400,000 per unit through put companies in Japan and elsewhere.
- J: The economic climate has assisted with the balance of payments...?
- PM: No, no. The proof of the pudding is in the eating. The Toyota company is one of the largest motor companies in the world, it has the fastest growing market share of any company in the world., it made a decision in the face of that plan to put in what will be the most modern plant of its kind in the world.
- J: That company's President, Mr Robert Johnston, was critical of the Labor Party's plans ...
- PM: They made it quite clear, he said it by virtue of the fact they made a decision to invest.
- J: (inaudible)
- PM: The Toyota company decided to set up a state-of-the-art plant in Australia on the announced tariff policy of this Government. That's it, say no more. They' wouldn't have done it for zero tariffs, and Mr Johnston made that very clear to Dr Hewson, as has Mr Quinn and everyone else here in South Australia. The zero tariff policy in manufacturing is a zero Adelaide policy. That's Dr Hewson's policy.
- J: ... sugar decision the other day and now help for the State Bank of South Australia today, is that a reaction to bad polls?
- PM: The sugar decision has been one which has been on for a couple of years. We sent a reference to the Industry Commission in 1991, and it's come back, and we've made decisions, and we made a decision the other day which will radically change the sugar industry. The sugar industry is largely a State regulated industry, the Commonwealth is only a marginal player in it, it only has a role through the sugar tariff. But all the things such as land assignment and all the other pricing signals are questions which devolve to the Queensland Government. The Queensland Government has a reform plan for 1995-96 which we've now been able to tail into. So it was a sensible reform decision, it has nothing to do with hand outs which is implicit in your question. In respect of South Australia, you have a

problem if the national leadership of this country ignores or fails to understand the problems of South Australia.

J: We've had this problem for a couple of years too.

PM: I know, and so have I, but I've made it quite clear that the Commonwealth will provide financial assistance. That's the key change. I've been speaking to the Government about the problems now for months.

J: Co-operative research centres ...

PM: It's in the press statement. One's on the wine industry, viticulture, the other is one sensor signalling and information, the other is on tissue growth and genetic engineering, there's a number of them. These things are all again there to direct and try to foster the development of certain industries. We've set up 51 cooperative research centres across the country, and they are there to try to promote areas of Australian science that will give Australia a comparative advantage in the world through technology, and that has to be our long suit. Australia's great comparative advantage is not its mountains of minerals or its acres of wheat, Australia's great comparative advantage is its education system, its research and development base. And it is that that we're promoting. We've invested \$250 million in cooperative research centres and we've invested with that \$650 million from the private sector. So there's now the better part of about \$900 million or a billion dollars worth of effort going into these novel areas of scientific research and development, and the development possibilities flowing from them. Dr Hewson says you shouldn't have that intervention, it's sullyng the market, they shouldn't be there, we don't believe in them. Whereas in fact, it's pulling together companies, universities, specialist institutes to do specialised things that can give Australia a huge leap in certain areas of technology and in production. That's why they're important across the Commonwealth and just as important in South Australia.

J: (inaudible)

PM: There's always a debate about MH and MRC budgets with all the medical research faculties around the country. This is a separate program altogether. The cooperative research centres are a separate program, which as I say has been so successful we've matched \$600 million of private investment with \$250 million of government investment in what is going to be a very novel thing. I opened one recently in Tasmania in Eucalypt plantation technology. There it is said that 30 years growth of a Eucalypt tree can be accomplished in 7 years, that the trees will be more resistant to bugs, they'll be straighter, that they'll saw better for saw log, that it will establish plantation. These are the things where Australia obviously has an advantage and should be pursuing it. And it's what governments should do. Governments have to decide whether they're going to support particular industries or particular enterprises, just as I've made the point to you about cars.

- J: On the car industry, why are you so inflexible by not agreeing to a mid-term review on the tariff policy?
- PM: Because the flexibility was all occurring in 1990-91 when we had these continuing conversations with the motor vehicle industry. That's when all the flexibility was.
- J: They asked for 25 per cent?
- PM: OK, but there's a thing called the national interest, there's people out there in motor cars that are now \$20,000 that would have been \$30,000 without these changes. So we're going to sell more cars. That's going to be good for Australia, good for the motor vehicle industry. It's a trade off. It's a matter of finding the right balance, but the right balance is not zero. That's the point.
- J: But we sell fewer cars now than we did 20 years ago.
- PM: Yes, and why is that? Buyer resistance to price.
- J: Why would it hurt to have a mid-term review?
- PM: Because the review was mid-term. We started this in '88.
- J: There's a lot of volatility in there, particularly with currencies.
- PM: Yes, and the volatilities run in favour of higher protection for the motor vehicle industry.
- J: At this minute.
- PM: The currency has fallen by 12 per cent in trade weighted terms, which far outweighs any shift down in the tariff, far outweighs.
- J: The currency must recover in the ...
- PM: I'm just saying to you, you make decisions on the basis on where you believe the effective average rates of protection can sustain and grow a motor industry that gives a consumer a fair go, that we don't pay through the nose for cars, where the quality rises, where we end up with export potential, where those balances lie. And the time for all that flexibility was when we gave it the flexibility - in 1990-91.
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