



PRIME MINISTER

PRIME MINISTER/MURRAY NICOLL, RADIO 5AN - 4 FEBRUARY 1993

E. & O.E - PROOF ONLY

NICOLL: It was a little unexpected your ride into town today. It presents an intriguing picture really, riding into town to save the State. Is that what it's like. A State in distress.

PM: Well, I think it's calling it as it is. That is there's been a big shadow boxing game going on now between the Govt down here and the State Opposition and the residual problems from the State Bank and its aftermath are such that I know that the Govt of SA regardless of what it tries to do has not the adequacy of resources to meet the problem; that is that the residual debt which the State is now carrying, having funded over \$3BN into the State Bank is a burden which is too much to carry and it will require Commonwealth assistance.

NICOLL: You're saying only the State Bank can save us, we're that badly off are we?

PM: Only the Commonwealth.

NICOLL: I'm sorry, only the sale of the State Bank.

PM: Oh yes. I think the State Bank should be sold because the franchise is still one of the best franchises in the country - that is, if the debts are skinned out of it, and you're just left with the actual business - the franchise - it's the last great franchise left in the country. So, it's definitely valuable, and worth a lot of money.

NICOLL: How would you envisage it happening, the same as in Victoria, a straight sale to the Commonwealth Bank.

PM: Well, not to the Commonwealth Bank. In Victoria there was a process where the State Bank of Victoria was offered to other banks generally to acquire and that process would need to be followed here. But, the biggest part of the process is what's called the due diligence, that is seeing what the contingent liabilities of the bank are, because nobody is going to buy a problem, they'll want indemnification or to be certain that the problem has been cleaned up, that they're buying the business without all of its former problems. So, it takes time to do a due diligence, that is a comb through the books to make judgments about all the contingent liabilities, the value of the assets, and to arrive at a figure of nett assets and goodwill. See, there's a goodwill attaches to the business because it has such a huge support within SA. The franchise carries a lot of

goodwill and when that's established then that can be offered to other financial institutions. Now, in Victoria, the American investment banking firm and advisers Merrill Lynch handled the sale and it would require someone of that standing I think probably to manage a sale process here.

NICOLL: So a parallel with the Victorian setup.

PM: Pretty much so I think, Murray, pretty much so. And I think if the State does that, gets into a position to get it sold, there's then the question of compensation for the change in the tax arrangements. At the moment there's a tax stream that runs to the State Govt, that would transfer to the Fed Tax Office. So we can capitalise that income stream and hand it to the State as compensation. So if you look at the sale of the bank plus the compensation package, this would meet some substantial portion of the debt. But even after that there will be such a residual that I don't believe that the Sth Australian people, the Sth Australian Govt's budget, cuts in govt spending or prevailing on the community with higher taxes, will meet the costs. I think the risk is SA is in a debt trap from which it can't emerge without the assistance of the Commonwealth Govt.

NICOLL: Of course the State Bank is not our only problem, it's only one of a very considerable economic problem that the State's facing, a narrow base which is really restricting us. I'm wondering if we'll ever get out of it.

PM: Well, I think again there is a role for the Commonwealth and there has been already now for ten years of the Commonwealth Govt saying that it will intervene in the economy to guarantee that a place like SA, a State like SA, which is dependent upon a certain range of industries does have support. And it's things like the submarine program, which the Commonwealth decided upon some years ago, the Multifunction Polis, the extension of the narrow to the standard gauge railway into Melbourne, all of these things and particularly the support for the car industry, all of these things are necessary things to give the State of SA the industrial weight and ballast and breadth it needs. Now, you know, I've made the point today, the Govt is the only party in Australia that believes the Commonwealth should intervene and make things happen in a State. My opponent, John Hewson, doesn't believe that - he doesn't believe in intervening, he doesn't believe in intervention. Now, what we're saying is if you take the motor industry for instance, you ask yourself the essential question, should Australia have a motor industry. The Govt says yes, the Opposition says, well if it can survive we'll have one. The Govt says, hang on, that's not right, it has to survive. So you arrive at a set of arrangements and tariffs that let's it survive and grow.

NICOLL: Well, that's critical in this State. Does that

mean that you'll extend the same assistance to the motor vehicle industry that you extended to the sugar industry in Queensland.

PM: Well, the motor vehicle industry has been subject to a phase down in tariffs over period 1988 to 1997, we're now two-thirds the way through it, (words unclear) the two-thirds the way through it.

NICOLL: The industry says you can't sustain the risk, not here.

PM: Oh, yes they can, yes they can. They can't sustain zero, they can't sustain zero which is what John Hewson and Ian McLachlan want to give them, but the end point of the Labor Govt's tariff change is an effective rate of protection of 35%. Now, it's a good compromise between the interests of consumers and the interests of the industry and its employees because cars which are now \$20,000, standard saloon cars which are \$20,000, would have been before these changes, \$30,000-fewer people would have bought them and the industry would be so much weaker. But at zero, obviously ... if we take let's say a Japanese manufacturer who's running 300,000 cars on one run in Japan, they're not going to come to Australia to build a plant for 30,000 cars with zero protection. Why would they. At zero protection why would they wear the disabilities of scale and distance to build 30,000 cars here when they can easily go from 300,000 to 330,000 in Japan.

NICOLL: So how much lower have you got in mind beyond the Year 2000.

PM: Well, I think the nominal level of ... it's 35 effective and nominal 15. The 35 comes with the export facilitation programs. At those levels I think it's a fair deal for the motor industry.

NICOLL: Will you hold them at that beyond 2000.

PM: At this stage I've got no intention of trying to press them beyond that point. I was part of negotiations with John Button with the various motor industry leaders in 1990 and '91 and of course like every industry, Murray, you know, people make the claims and they press you, a Govt has to work out how far it can go and how far the claims are real. We think we've got the right result and I think the fact that the Toyota motor company decided to build a state of the art plant in Melbourne, you know, proves the point that is the proof of the pudding is in the eating. They on the Govt's tariff policy set up a world state of the art car plant. But Bob Johnson from Toyota made clear that at zero they wouldn't have made that investment. Mitsubishi in SA have made clear that at zero they won't make the investment and that's why I've made this clear before to the

people of SA that the Commonwealth Govt, Labor Govt, does believe in a motor industry, will support it with the appropriate mechanisms of support and will do the things that have to be done to give SA an industrial base of some breath, such as the submarine program, such as the Co-operative Research Centres, such as the railway programs etc.

NICOLL: Alice Springs to Darwin railway line, will that last.

PM: Well, that's a commercial thing, it's not part of the main frame rail system. If someone comes along with a positive commercial story to tell on that, then I think that's different. But at this stage no one has emerged. We've had a couple of Japanese Corps in the late eighties express some interest in it.

NICOLL: They looked pretty responsible.

PM: Yeah, but they dropped away, no one has kept it up.

NICOLL: So a good viable commercial offer on the Darwin to Alice Springs railway line would not be thrown out, it would be given consideration. Not out of the question.

PM: It would be examined but we've got to see one yet. Can I say though, in the One Nation Statement what I proposed was that we build a standard gauge from Adelaide to Melbourne. I think that's far more important to SA, that SA be pulled more tightly into the eastern States economy. And the thing that does that is basically the standard gauge line over to Melbourne which of course SA has never enjoyed but should have had many years ago.

NICOLL: You're moving around the country at the moment, you and the Leader of the Opposition and various Cabinet and Shadow Ministers are all over the country. This is obvious election campaign then and yet we haven't had an election called yet. Say the word.

PM: Well, everything in due time. Issues have to be attended to. Last week we had a Cabinet meeting attending to a number of major issues including as you mentioned earlier sugar. We have considered now, as a group, SA for some time. I met the SA members to discuss the questions which were in the Statement which I made today in The Advertiser.

NICOLL: Is this conditional by the way on the election. I mean, can you start the process now that needs to be done if Lynn Arnold says okay, we'll take that.

PM: Oh yes, we're already, we are already discussing with Lynn Arnold and the Govt the compensatory package for the sale of (word unclear) the tax stream, the change in the tax stream from the State to the Commonwealth Govt. That's already happening now.

NICOLL: Is this a fait accompli. Have you decided, you and Lynn Arnold, that you will sell the bank.

PM: No, I think it is his intention in the right circumstances to sell the bank. He wants to know where we stand on a compensation package. We're now negotiating that with him.

NICOLL: So we don't have to wait until after the election to get the details.

PM: No.

NICOLL: And when are we going to have an election. Is Parit going back on the 23rd.

PM: Well, that's the \$64 question.

NICOLL: As scheduled.

PM: Well, that's what I intend. And we have to call an election by early April at the latest so it's not that far away.

NICOLL: Not far away, with Leo McLeay in the chair.

PM: Well, in an election the House of course is dissolved.

NICOLL: I mean on the 23rd, if you go back on the 23rd with Leo McLeay in the chair, not standing down.

PM: Well, he can't stand down. I mean the Speaker is elected. The Speaker is elected by the Parit.

NICOLL: He can stand aside.

PM: Well, it turns out you can't as the law turns out. I think he has to either be out of the country or ill. Anyway, that's not the point.

NICOLL: The Opposition will be all over that like a rash.

PM: Oh well, the Opposition has got plenty of problems. We've got plenty of problems ready for them.

NICOLL: I think you've got a few of your own too.

PM: Oh yeah, but that's public life.

NICOLL: Bob Hawke is having a bit of a shot at you at the moment. He says, he still says that the ALP was wrong replacing him with you back in '91. He says if the Fed election was held today the Coalition would probably win and he also says that the Australian people want a change of Govt.

PM: Well, he's entitled to his view. It's a free country.

NICOLL: Your response, is that it.

PM: I couldn't, you know, there's an old saying in public life, the dogs may bark but the caravan moves on.

NICOLL: Okay. In other words who cares about what Bob Hawke thinks.

PM: Well, obviously he cares and good on him.

NICOLL: But you don't.

PM: Not very much, no.

NICOLL: How much longer are we going to see this between you and Mr Hewson. There's a feeling abroad in the country that we really need leadership right now.

PM: Absolutely. The very day I'm down here talking about the SA budget, the debt profile, the capacity of SA to fund itself, the breath of its industrial base, I've had to contend with John Hewson sort of attacking me. Well, you know, I hope John wakes up to himself and gives it away.

NICOLL: Will you sue him?

PM: Well, let's see what he says about all this. I mean, he made an intemperate claim - it's the same sort of intemperate claim he made about Bob Carr just before Christmas, saying you got to wonder about a fellow that doesn't drive a car and doesn't have children. It's the same sort of intemperate claim he made about renters - he said you can always tell a renter's house by the grass growing through the front fence; they don't look after the place. I mean, it's that sort of intemperate quality and this was just another example of that I think.

NICOLL: Bearing in mind the parlous state of SA, let's come back to that for a moment, and the Fed election, would you consider making your campaign speech, launching the campaign

formally, instead of informally which has already be done, formally launching it from this city perhaps.

PM: Well, that's a matter as much for the Fed organisation of the Party as for me and these are things we have not yet decided. So, you know, I can't be anymore prescriptive about that than being able to say as I've just said. But I think that the important thing is rather than the cosmetics of any of these things, I think this is going to be an important election, it's going to materially affect the fortunes of SA. Now I think the people of SA have got to make a very, a reasonably acute judgement here.

NICOLL: This state and WA are going to considerably affect the fortunes of the Keating Govt at a Fed election.

PM: Well, they do in every election, they do in every election.

NICOLL: More so this year than perhaps ever before.

PM: Well, I don't know. No, I wouldn't concede that. But the judgement will be which of the two parties is in the first instance, interested in SA. In the second instance, is prepared to take a hand in being certain that it doesn't fall into a debt trap and can fund itself without an inordinate burden on the community and a big cut in public services. Which party will intervene in the economy and guarantee that the motor vehicle industry stays in business and grows. Which party will broaden the industrial base of SA and intervene in it.

NICOLL: Can you guarantee all of this.

PM: Well, I say, look at our record rather than our words. Our record is the submarine program, the MFP, the railways, the Co-operative Research Centres, fiscal equalization which I supported for 9 years as Treasurer which pays a higher proportion of the State pool into SA and the smaller states.

NICOLL: Record unemployment.

PM: Than the bigger states. I'm just talking about the state itself. Those things we've done and I made the point today in the speech that since 1978 Australian employment has risen by 28%. But employment in SA has risen by only 15. And if you look at some states, Queensland, employment has risen by 53% over the period. SA by 15. WA employment risen by 44% over the period, SA by 15.

NICOLL: It's all a bit embarrassing isn't it.

PM: Well it means that there's got to be an effort

made on the part of Govts you can't just say look we'll leave it to market forces as John Hewson does. If you say that, what will happen is the industrial base of SA will shrink further and the employment base with it. So, Govts must come out and do things to maintain the ballast of the state which the Labor Govt has done over a decade and which we'll continue to do.

NICOLL: So you'll see us right.

PM: We'll see us right in this respect. We'll continue with a policy of fiscal equalisation; that is, rather than just per capita payments to the States we'll see that this pool with an inordinate share for the smaller states to maintain services, we'll see SA right in joining with the Arnold Govt to see that some of that debt burden is spread more widely than the people of SA, that's the State bank debt burden, and we'll see SA right by guaranteeing that we focus on its industrial future including the motor vehicle and components industry.

NICOLL: Would the same apply to a Liberal Govt. I note you say specifically the Arnold Govt. If there's a Liberal Govt after the next State election which is not far away.

PM: Yes, yes, as far as I'm concerned. I mean, it is the people of the State that matter, it's a region of Australia which is important and you know, I just don't believe that a conscientious Govt in Canberra can ignore a problem of these dimensions.

NICOLL: Just finally, let me ask you, probably the most difficult question of the lot, and that is look ahead 10 or 15 years, what's your vision for the country. Is it possible for you and we need this, we really need it desperately, is it possible for you to tell us what you've got in mind for this country. How you're going to do it in the next 10 to 15 or 20 years.

PM: I think Australia has already crossed the Rubicon. It's become -

NICOLL: We've heard it before.

PM: Oh yes, but look, exports are still going gang bust. As at two days ago you could see it again -

NICOLL: Imports too.

PM: No, no, look 10 years ago we were exporting only 14% of our national production. That's now 24%. I mean it's been a revolution. This is a much more productive country. It's now enmeshed truly with the rest of the world economy as it never was before 1983. Before we floated the dollar, removed exchange

controls and lowered general levels of protection, the Australian economy was an isolated uncompetitive economy. It's now an integrate competitive economy and what the Govt's done the last couple of years, and last year in particular, is much more successfully integrated Australia into the SE Asian and north Asian economies. So if you look at the 90's you'll find that Australia is well setup, it's a low inflation economy, it's got a competitive exchange rate mechanism. It's got a change in the productive culture at management and with labor we're a high productivity country at the moment. We're well set up to hop into that growth in the vortex of growth in the Asia Pacific which will lift income and living standards through the 90's and beyond. I mean Australia has made the change. We've got further to go but we have made the fundamental change which I was talking about in the early to mid 1980's and the Australian people deserve a tremendous amount of credit for making that change and being so conscientious about their economic and social circumstances.

NICOLL: It's interesting that you mention Asia because those countries do have long term plans. Japan for example, thinks decades ahead. We don't, do we, we think from one election to the next.

PM: Except, I mean I think we are now by getting the line straight, that is do we want to be a closed economy shipping a bit of wheat and wool, no. Are we happy to have only 3 kids in 10 completing secondary school, no. What have we got now. We're not just a closed economy shipping a bit of wheat and wool, we're an open economy, where this year for the first year ever manufactured exports equal rural exports and the fastest growing component of that is elaborately transformed? manufactures. This year nearly 8 kids in 10 complete secondary school. Ten years ago it was 3 in 10.

NICOLL: A lot of them are there because they can't get work.

PM: Oh no. Well, there are some there obviously but the retention rate has climbed right through the 80's even when employment was strong. And we're now concentrating on Australia's greatest comparative advantage, which is its education system. Education, research and development, product innovation, elaborate transformation of products dovetailed into the Asia Pacific. That's Australia future, not just selling commodities which is what the Liberal Party locked us into and where the debt came from. The debt of Australia started in the late 1960's and because basically we went through the Rip Van Winkle years of Menzies and later, but the transformation of Australia to a modern industrial country with a productive culture didn't occur. It waited until 1983 before we started, but we're well on the way now and I think Australia has made the fundamental change and will continue to make it as the 90's go on.

End