

MASTER

4.

**PRIME MINISTER**

**SPEECH BY THE PRIME MINISTER, THE HON P J KEATING, MP
ADDRESS TO THE AUSTRALIAN MINING INDUSTRY COUNCIL
ANNUAL DINNER
6 MAY 1993**

E&OE PROOF COPY

Thank you very much, Campbell, and congratulations to Peter Barnett on his election as President of AMIC over the next two years. Ladies and gentlemen, well thank you for having me along here tonight to speak to you.

I have had a very long association with AMIC, twenty years this year, in fact, and barring the last, I suppose six or seven years, quite a close association as many of you probably know. For nearly a decade I was the Shadow Minister for minerals and energy and I emerged from the shadows in 1983, of course, to become Treasurer, leaving that particular interest not behind, but to one side for others to handle. But I have always had a great regard for the industry and a great respect for its capacity to earn for Australia and to play a role as Australia's, at least equal to any other, leading and competitive industry.

Campbell's made tonight a number of challenges for me. He has got me in running races on wet tracks and all sorts of things. He has given a big challenge to Governments in this country and I am sure that we have all taken note, Richard Court, and Marshall Perron, I am sure have taken notes at the table as well. But there are challenges for all of us and I think, certainly the Government looks forward to the challenges which Campbell mentioned, but they are also challenges for the industry, I think, to acknowledge that much has changed and moved favourably for it and also the challenge to take advantage of the environment which is now here.

So much has changed and the Government has done a great deal. The mining industry has been internationally competitive, but the great agent for change in the '80s was not the private sector of Australia, it was the public sector. That's the truth of it. It took Australia from basically an industrial backwater to a modern country again, started to open it up. That change has continued and much of it, of course, has been a benefit to the mining industry. There was a time when you used to talk to mining companies and they would say, look we are quite efficient, we are at least, in terms of best practice,

up with other companies around the world, price is not bad, but profits are lousy. The profits are lousy for two reasons, because the exchange rate was wrong and because wages were too high. These were the things which were holding the industry back, and both of those very major variables were dealt with in the 1980s, and the cost of that adjustment was borne by the community at large to set the industry up to become an internationally competitive world player.

When the Government de-regulated the exchange rate in the early 1980s the adjustment burden of that change had to be borne by the community and wage earners in particular, because we knew the exchange rate was substantially over valued and when it finally fell to recover our competitiveness that shift to inflation, in inflation, which was about 5 per cent had to be cut from wages and the burden of that fell on wage and salary earners, and the political burden of that fell on the Government. Not just the Government but the trade unions, and of course given the fact that we couldn't have accommodated such a change as easily as perhaps we did without fiscal policy and without tax cuts. So in the 1980s we produced these fast fiscal surpluses, while at the same time paying \$5 and \$6 billion tax cuts to take the inflationary surge from wages to see that the real exchange rate was competitive to see that the mining industry could keep its head up and earn profits from its own efficiency.

Now, one can't just put in one's pocket changes like these and say the track has been pretty soggy, I mean the track has been pretty good for a long time. We have had our soggy spots, but one of them wasn't in macro-economic policy where that huge change, and you can see it now, commodity prices have fallen in the last year of so, the exchange rate has gone down, it has equilibrated and I think if you look at the adjustment in commodity prices via the exchange rate it is about 1 per cent over the year. In other words, you have got a mechanism now that is working for you which is maintaining your competitiveness and you are doing it in a wage environment where the wage share in the economy today, the average of the 1960s and the profit share is all ready at this stage of the business cycle at the average of the 1960s, and where we have seen a substantial shift in profitability, indeed, profitability, net profits in the December quarter were 75 per cent above levels of a year ago. So profits are recovering, inflation is low, we have broken the back of Australian inflation. The great threat to the mineral industries competitiveness, the greatest threat, a desperate out of line inflation rate has been brought into line at substantial cost to the community and of course that means working people in general

Not only that, but the one thing, the one claim that the mining industry used to make in the years when I had close associations with it was that Governments take the monkey of tariffs, off the mining industry's back. Now, of course, that never happened until a Labor Government came along. From 1988 through to 1991, and then the adoption of phasings from 1991 through to 1996-97 will see the tariff wall in Australia substantially reduced to an average manufacturing tariff of 5 per cent by 1996-97 and commensurately lower tariff rates for the plan areas of the economy like motor vehicles, textile clothing and footwear. So, in terms of setting the industries agenda, seeking to have in office a Government which first gave it a competitive exchange rate mechanism broke the back of inflation, carried the huge adjustment costs of competitiveness like a ball and chain around its neck, and then smashed the tariff wall

down, they are the things that the mining industry in the '70s used to dream about, and they were all done.

Now, Campbell was waxing lyrical here about whether political expediency will return, well let me tell you this, Campbell, there was nothing politically expedient sitting with 18 per cent interest rates three months from an election, I can tell you. There is nothing politically expedient about bringing down tariffs in a recession. But I am quite sure you are referring to things like Coronation Hill. Coronation Hill became a totem issue for the mining industry, where in fact the things that mattered, I think, beyond Coronation Hill, that is, the things that mattered in terms of the big macro picture of competitiveness, whether it be by way of exchange rate wages or inflation, other competitiveness issues generally. These are the things which have had greater weight and I think people in the industry know that. Coronation Hill had its problems, as a mine, frankly you could fit it in your eye, the size of it, in terms of the size of Australia's mining produce it never really mattered, it was some of the principles in there about how it was treated and whether in fact it was a place that should have been reserved because of Aboriginal interests. I don't really think that expediency is an issue in Australian public policy today. I think this Government has been prepared to take issues on which other Governments haven't, and not only take them on but continue to go through them.

One of the other things that Campbell put to us, will our tax regime be adapted to be a truly world competitive one? Well we have just introduced legislation this week to reduce the company tax rate from 39 per cent to 33 per cent. When I became Treasurer in 1983 the company tax rate was 46 per cent and there was a 60 per cent marginal tax rate on distributed income. So, there was 78 cents of tax paid in every dollar of company income. That today is 33 per cent or if you distribute 47 per cent. So, 78 to 47 if you distribute, but for private companies as well as public companies they are no longer forced to distribute they can retain earnings in a business, so a business could retain 67 cents of every dollar of company income after tax today and before a distribution where that was 22 cents years ago. Now that is a very large change, and coupled with that of course is dividend imputation. Dividend imputation is a huge tax break for domestic investors. What it essentially has done is make the company tax a withholding tax for domestic investors. If anyone at an AMIC seminar in the '70s said, I will tell you what else we will do, not only will we give you a competitive exchange rate, but we will knock tariffs over, we will get real wages down and profits up, we will radically change our industrial relations scene, we will remove the double tax on dividends, well I am quite sure that everyone would have fainted at the tables. But those things have been done and I think dividend imputation is a great reform and it has been a great thing for the companies.

I just tonight picked up just some graphs of the capitalisation of some of the major companies in the period, in 1983-84 BHP was capitalised at \$3 billion, today it is capitalised at \$23 billion. So someone is doing right somewhere and I don't think it was all the BHP Board's doing. CRA was capitalised at \$2.7 billion, today it is nearly \$8 billion. Western Mining, all those lefties down there, they were capitalised at \$1.1 billion and they are at \$5 billion, peaked at \$7 billion in '87, but held most of it and have sort of travelled in the area of \$4 to \$5 billion since. Now part of that is the enhanced profitability of industry, the enhanced competitiveness of the industry which

has come of course through investment and good management, but it has also come through macro-economic policy, it has largely come through macro-economic policy, and that dividend imputation and that more attractive share price, attractive profitability for shareholders took our stock market index from about 1200 after the stock market crash back to about 1500 and it sort of oscillated in that 1500 now to 1700. So, part of that market capitalisation is dividend imputation which is another leading tax change. We have got a 10 per cent investment allowance there for projects over \$50 million, half of the projects in the \$130 billion of registered projects are actually mining projects. There is a 10 per cent investment allowance for projects over \$50 million, there is another 10 per cent investment allowance for those projects, that's both under \$50 million and over \$50 million, but for any over \$50 million it is 20 per cent and we have got now a very competitive schedule of depreciation, I think it is competitive as anybody we trade with. Which sees, for instance, forty year assets written off in 15 years, 20 year assets written off in 7, 5 year assets written off in 3 years. So rapid acceleration, a 33 per cent company rate, full dividend imputation, an investment allowance of 20 per cent, I don't know what else we have to do for you, Campbell, in terms of a tax regime which is truly world competitive. This is, in OECD terms, outrageously competitive. In Asia-Pacific terms very competitive, I think we are one of the very few countries that has a dividend imputation regime.

Now, as well as that, you quite correctly pointed out that the Government needs to keep the progress up, in terms of micro-economic reform, and I agree with you, I think that is one of our challenges, it is one of the challenges we all face, it is certainly one we face and I am quite sure that Richard, and Marshall Perron, who are with us tonight would agree it has won the States faith as well. But much has been done and we are seeing for instance in our waterfront reform program productivity in our ports have been boosted by 127 per cent in recent years. Telecoms productivity has increased by 98 per cent over the last five years, reforms to electricity generation and transmission have seen productivity increased by 41 per cent over seven years, and more is happening, we are trying to put together an East Coast electricity grid so that industries can get the benefit of that coal seam down the East Coast of Australia. We have set up a competitive modelling in telecommunications with Optus and now a third cellular mobile carrier. We are continuing of course with water front reform and we have now got OECD crew manning levels, or actually better than OECD crew manning levels, on our ships. So, that change is continuing and in the course of this Parliament we expect to do more about that as well, and of course the largest perhaps of those changes in the micro-economy is in labour market reform, which you correctly identified, and in that we are now conducting a comprehensive consultation on a reform package to consolidate our gains there. That is, to spirit along enterprise bargaining so that we can see productivity, the production of productivity and the sharing of productivity between profits and wages, where we can see that accomplished as an enterprise where it couldn't be accomplished from the decision of the central wage bench. The central wage bench will be there for the weaker areas of the labour market to be setting appropriate minimums, but in the other areas of the economy, which is most of them, we hope to see a structure for enterprise bargaining go through. That will mean that employees and owners of businesses will be able to sit down and do something interesting and clever to make the business better, and tonight at the table, Campbell, was telling me of his own experience at Renison Tin Mine in Tasmania where the same thing has happened, that very thing has happened between

his management and his employees to see a large shift in productivity. This is occurring across the country but there is not enough of it and we want to speed the process up. But it not though, people are saying I noticed my colleague, the Leader of the Opposition, chiding me yesterday, saying, well you are following us on that. Well I haven't followed John on many things, and I am not following him on labour market reform because what the Coalition had in mind was basically a single wage contract, individual wage contracts, what we have got in mind is the collective bargaining of the employees of an enterprise with the owners and operators of an enterprise. It is a wholly different thing. You could never get that cohesion and sense of common goals, shared goals, and common commitments while each person is basically sliced off individually into a common law contract. It is not the same, and it won't produce the same results. But it is important to get the problems of a business identified and to have them repaired and the make the business more efficient and that can really only be done on the spot. It can't be done by someone at a hearing in one of the central business districts of the country, and that's why I think the progress now, the opportunity now, now we have got inflation low to be able to lock that low inflation in and with high levels of productivity, not only keep it down but also enhance profits on the way through. So, I think, this is one of the areas where we do want to keep that progress up.

We have been trying to facilitate major projects, and we have got a unit in my Department which has been involved in expediting projects worth over \$4 billion in its first year of operation, and we have been quite successful there I think, and that coupled with the investment allowance has brought a number of projects forward and I think we are going to make progress on them, but more needs to be done to consolidate them.

The other important issue, I think, is the question of Mabo and where it goes. I have said to Campbell and his colleagues who saw me last week with APEA and the National Farmers Federation that I think Mabo is a distinct opportunity for Australia, and one that should be pursued ambitiously. That is something now which the Government is seeking to do. That is, to talk to all the stakeholders, the organisations I just mentioned, as well as the Aboriginal community itself, and to see that we can reach a regime which will be one which is such that we can put to the States at the Council of Australian Governments in June or July some proposals where we can advance the whole establishment of a regime to do justice to the High Courts decision. There is a bit of a view in the industry that this is something the Government has brought on and it is something the Government is quite happy to deal with, to wrestle with, it's a decision of the High Court of Australia of a case which was heard over many years and the High Court has turned over the concept of Terra Nullius and has said there is a native title right in common law, it hasn't said what the title is, how it should be established, who has the title, or how it may be used or exploited, and we are as a Government saying, well look, we will try and establish a regime here, but we have to talk to all the stakeholders, and they are principally the States, the industries, pastoral, mining, etc and of course the Aboriginal community. This won't be easy, but it will require a mature set of judgements to reach a package which I think is possible and which will do more in the event for a true reconciliation between the Aboriginal and non-Aboriginal communities in this country than perhaps any other thing has the immediate opportunity of so doing. So, we have already started in those negotiations

and we are continuing, but we are of course in entirely new territory with this, there is no structure at all, it has got to be all put into place, and the High Court has only but given us clues as to what, that is, beyond saying that there is a title, a native title, given us only clues about what they think the character of the title should be.

So, it is not going to be an easy matter, and it is not going to be a matter where sloganeering has any place, or incantations, because that could be a pretty expensive exercise, I think, for all of us. But again, in a consultative, cooperative environment between ourselves and the States, yourselves, the pastoral industries and the Aboriginal community itself, I think we can do a great deal.

Let me just perhaps close and sum up on a few of these points. In this year we expect mineral commodity exports to increase by 9 per cent to a record high of almost \$31 billion. Total new capital investment we expect in this year to reach a record of about \$5 billion and over the next five years the ABARE forecasts the total value of mineral commodity exports will increase by 22 per cent in real terms and the production of metallic minerals will increase by 25 per cent. So, commodity exports this year up by \$9 to \$31 billion and total capital investment reaching records of about \$5 billion. That is not too bad, a pretty good result, and the key thing is, I think, to keep all those elements and competitiveness in there so that we can maintain this kind of an effort. This is what the Government is committed to and of course as you know this week I had the pleasure of seeing Prime Minister Miyazawa in Australia and that raises the other prospect of Australia finding itself in an even better position in this part of the work, bearing in mind 72 per cent of our exports go to the Asia-Pacific area, that we have a unique opportunity I think with the region, with APEC, this body which we are now using in a fledging way to develop an open liberalised set of markets in this area, the interest in APEC by the United States, Japan, China, Canada and most of the countries of South East Asia, it gives us an opportunity to perhaps find a place for Australia, an enhanced place, again, not just for manufactured exports or services, but also for our traditional commodities such as mining. Campbell made the point that we are also shipping products to the old world and I think that says a great deal about the entrepreneurship and competitiveness of the industry that that is so, but we have always tended to be most competitive in the area of our immediate region and the possibilities of us finding better markets in this part of the world, are I think, have the potential to be quite substantially enhanced if we kick the foreign policy and trade balls in the right way. So, I think that is another challenge we could perhaps add to Campbell's challenges as well.

All in all could I say that I have always had a great respect for the mining industry. In the 1970s when I first had contact with it, apart from some segments of our agriculture industries it was the only internationally competitive industry. It led the way in developing new markets in new areas of financing, it had the entrepreneurship the rest of the country needed. In those days we had people like John Stone giving us the dismal lesson that you couldn't have a manufacturing sector sitting beside an efficient primary export sector that was part of the Treasury orthodoxy of the day. Well I don't think it was the Treasury I think it was his, but it was his anyway. Of course as you know in the end commodities couldn't cut the mustard. When John Howard finally toddled off into Opposition in 1983 we were running a current account deficit of 6 per cent of GDP, because the terms of trade have shifted so dramatically on us that the

world wasn't paying us the prices for raw materials it used to pay us twenty years earlier, and we left it too late to adjust Australia without a fair bit of pain. But we are now a long way through that adjustment task and we can now have an efficient primary exporting sector sitting beside an efficient manufacturing sector and efficient tertiary and service sectors. So the dismal legacy of those views has now passed there is no more Gregory thesis trying to rocket our exchange rate on the back of the mineral industry while manufacturing has been cut to pieces. We have got all these things much more nicely in balance because the country, the Government, the industries and the community have had the courage to face the challenges and meet them. We are a long way down the road. We have got a long way to go. But this Government is going to use its mandate to advance it further and it will be doing it in those areas which do matter in the micro-economy, in wages, in the maintenance of a low inflation rate and doing all those sensible things to facilitate project development, be it in the mining or in other sectors of the economy.

Could I again thank you for having me a long tonight. I appreciate this contact with the industry, I thought it was a good opportunity so closely following the election to come along at Campbell's invitation. I am pleased to be here and say that we will be keeping the dialogue with the industry open, perhaps more fulsomely in the first instance on Mabo, which I think is a huge challenge for all of us and will test our ingenuity, I am certain. Thank you very much for having me, I am very pleased to be here in the company of my colleagues, Richard Court and Marshall Perron.

Thank you.

ENDS