



## PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP  
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PM: You want some general comments, I think, about the meeting and its prospects. Well, let me begin by saying, I think, we've now been for most of the last decade embarked on a program of opening Australia up and inducing a productive ethic into the way in which the Australian economy operates. The Commonwealth Government - this Labor Government - took huge decisions in the 1980s, removing exchange controls in 1983 and starting to knock the tariff wall over in 1988 to the point where we'll have tariffs down by about five per cent by 1997. The competitive breezes which then come with that - through input, competition, through a free flow of goods in the economy, a free flow of funds - all needs to be complemented by productivity change at the workplace, by productivity change in all of the areas of commerce including that of the big state utilities.

So, one of the principle matters under discussion here today is the competition principles which are part and parcel of the Trade Practices Act which under the recommendations of Professor Hilmer should be extended to States authorities. In other words, we get the same competitive elements into those parts of the economy which formerly have had them locked out. Because we know to keep the Australian economy growing, to not run up against a Balance of Payments constraint in the future, to produce more goods and services, we are going to need to have the Australian economy supple and that means electricity authorities, it means rail authorities, port authorities, just as it has meant for the Commonwealth - telecommunications and airlines.

Now, at our officials discussions we are at the point where there can be a full embrace of the program which we adopted in principal in Hobart at the COAG meeting. Now, there is some trepidation on the part of some States about this. I mean, in a sense, as there was with the Commonwealth Cabinet when we decided to start knocking the tariff wall over in the 1980s. But, competition matters and competition works and I hope it is not too ironic that a Labor Prime Minister has to say to a collection largely of Coalition Liberal and National Party Premiers who are always telling us about the virtues of the market, that

there is actually a virtue in marketplace competition. Now, I think, they're saying 'well look, we can swim, but you are now asking us to dive into the deep end of the pool. Now, I'm sure we're going to make it, but let's think about it first.' So, they are coming to the edge and standing back a bit, then coming to the edge and standing back a bit. But I think, there is a tremendous opportunity to be seized here and one that's really going to mean that for consumers we are going to see lower prices, for businesses lower electricity charges, better water charges, better gas access, all of these sorts of things.

Now, this is not a revenue matter. When the Commonwealth started to pull tariffs down there was a tremendous cost to the Commonwealth budget in lost customs duty. So, we didn't say 'oh well look, we are going to lose custom duty here we'd better not do it.' We did it because we wanted a new industrial society and that's what we have got as a consequence. We've now got high technology companies being born all over the country. We've got a massive shift in the nature of our domestic producers who are now finding export markets, you've seen the McKinsey Report on the 700 exporters, all of that has come because largely we've knocked over protection and we did it not because of influences on the Commonwealth budget.

Now, the States are saying to us now 'well look, there is going to be ... they have a number a \$5 billion budgetary benefit for the Commonwealth here and you should split that with us and this is basically a money matter.' Well, it's not a money matter because largely what is going to happen here, most of the benefit ought to go to consumers. It is not a budgetary thing, it's not going to go to the Commonwealth or the State budgets. It's really about getting some of the monopoly profits back into the hands of business with lower prices and consumers with lower prices. Now, the change is worth doing for those competitive and efficiency reasons and not for any consequential revenue effects.

Let me just for a moment give you an indication of how this \$5 billion number, for what that's worth, is way wide of the mark. The States say there is a \$5 billion benefit to the Commonwealth in this. Well, as Professor Hilmer said on the radio this morning, even if you add up all of the States authorities - water, gas, electricity, ports - their income to States, it doesn't amount to \$5 billion. But, were the Commonwealth to collect \$5 billion on it through its corporation tax - you know the corporate rate is 33 per cent - to collect \$5 billion at the rate of 33 per cent we would have to be taxing \$15 billion of profits. Now, what does the State authority get? Would it get 10 per cent on turn over? So, if they have got \$15 billion worth of profits, what is the turn over? \$150 billion. Now, the whole economy is only \$400 billion. The whole Australian national economy is only \$400 billion. So, nobody is going to accept the notion that a behavioural change or a competitive change is going to add \$150 billion of economic value which would

translate to profits of \$15 billion taxed at the Commonwealth rate of 33 per cent to a \$5 billion benefit to the Commonwealth. It is just an absurdity. Any benefit to the Commonwealth would be lucky to be 10 per cent of the \$5 billion the States are speaking of and for our part, if it is of those orders of magnitude, and it is, we don't mind to let the States have a substantial proportion of that back.

But, there is another agenda here, can I just say this. The other agenda is that a number of Premiers have said 'look, this is an occasion to sit down and give us a chop at the Commonwealth's tax base, let's get, you know in the bonhomie and fellowship of the human race and the rest of it, why don't we decide how much of the Commonwealth's tax base goes to the States?' Now, no one can quite say the phrase 'revenue sharing', but that's what they mean. Now, let me just say this about revenue sharing. If the States were revenue sharing with the Commonwealth in the last three years, they would have lost \$2.3 billion. So, now the recession is past and growth is back again, they are saying 'well look, we wouldn't have shared with you in the recession, but we will share with you in the up side.' I would say well, that's very interesting. Whereas we said look, look what we have done, you gave some ground in February at COAG in adopting the Hilmer competition policies in principle. At the Premiers conference in May we showed our bona fides by giving you a new financial deal for three years. That was real terms guarantee per capita. That is the maintenance of your revenues with inflation adjustment in real terms plus a population factor. This has given the States more certainty than they have ever had, certainly since 1983 and I believe before that. I said, so, you gave a bit in February, the Commonwealth has given some in May, now is the time to drive the Hilmer reforms home and when we sit at the next Premiers conference we can have a sensible discussion again about these things.

So, from my point of view there is no reason why all the States can't agree to the elements of the proposals outlined in our draft communique. That is, for competition principles, extending the Trade Practices Act, the access regime, the pricing and price surveillance regime, the competition council to look at the way in which monopolies might be treated in the future and with the transitional provisions there is all the protection in the world in there for the States. And, really, what we've got here is a bit of fear about the marketplace. A little bit of fear about competition. Now, that is understandable, but it shouldn't be enough to deter States from actually picking this up.

J: In the spirit of give and take that you talk about then, can you genuinely proceed with Ralph Willis' threat to legislate the competition measures without the States co-operation. It may be legal, but is it practical?

PM: Well, one of the notions that is around they are saying, well, let's say for what's called State Mandated Conduct, this is where a State agrees to a particular activity be it an egg marketing arrangement or a sugar marketing arrangement or something like that, that the States should have an over ride of the Trade Practices Act. But, they can mandate any activity. For instance, someone could mandate the Coles Myer take over of Foodland and then we would be suspending the Trade Practices Act, so we wouldn't be moving on from here in a progressive way to reform with good competition principles, we'd be actually taking the Trade Practices Act back before 1975. Now, one thing for sure here, we are not going to go backwards. If the Commonwealth already has these powers in this Act, then seeking to co-operatively extend it is the way to go. But, we are not going to co-operatively go backwards and I think that is the point.

J: But without co-operation will you go forward. Will you legislate whether or not you have the States approval?

PM: Well, I think that there is enough respect for some market disciplines in this meeting to get a degree of agreement, but I think States have got to face this fact and particularly Coalition States. They can't go embracing free enterprise and the marketplace and the moment a Labor Government says 'well, what about trying a dose of it' they say 'oh, no, no, we won't have that.'

J: But, every Premier, even the Labor Premier coming in today has said that they want a fair share of the benefits of this and they all talked about billions of dollars. Now, is that just not on the table?

PM: Well, I've given you the answer to that. The value of the revenue change here is not the issue. The issue is whether the consumers of Queensland and NSW and Victoria, say in electricity, get lower electricity prices. Whether the business, the aluminium smelters and other people get lower electricity prices. Whether the water authorities, whether businesses which use water, including consumers, get better prices. I mean, that is the issue.

J: But, do you accept that revenue may not be the issue for you, but it certainly is to them. They see you getting more money.

PM: Their budgets at the moment are growing much more rapidly - their revenues than the Commonwealths. That is, state stamp duties on property, on shares. Their budgets are responding, their revenue growth has outstripped ours enormously in the last two years. So, the States are now in a very ... look at Premier Fahey's spending in the last six weeks - a railway line to Parramatta, \$400 million for a railway line to the airport. Premier Kennett is telling us about the surplus in the Victorian budget. I mean, the Commonwealth carries the cost of

the economy in the recessions. It takes the shock absorbing affect. It has got to have the capacity to get back into surplus in the good times.

J: What about the argument for transitional assistance from the Commonwealth as Professor Hilmer suggests. Any financial money there and if so how much?

PM: Well, that's what we are talking about. I think we are prepared to talk about that, but again, taking some notional GDP effect and then trying to divide that into Commonwealth revenue is, you know, the games that shouldn't be played on an old war horse like me.

J: Are you going to talk to Mr Fahey about Circular Quay, Prime Minister, today?

PM: No, well, maybe I will, but that would be a side event.

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