



**PRIME MINISTER**

**EMBARGOED UNTIL 8.30 PM, 6 OCTOBER 1997**

6 October 1997

**ADDRESS BY THE HON JOHN HOWARD MP  
TO THE AUSTRALIAN CHAMBER OF MANUFACTURES  
120TH ANNIVERSARY DINNER  
CARLTON CREST HOTEL, MELBOURNE  
6 OCTOBER 1997**

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**REMOVING THE SPEED LIMITS ON GROWTH**

I congratulate the Chamber on 120 years of service to Australian industry. I welcome the chance to share this important occasion with you.

My Government values its links with Australian business. We have much in common. Most importantly we share the common goal of a strongly growing economy with expanding job opportunities and rising living standards for the Australian people.

There is only one way that common goal can be realised.

We must remove the speed limits on Australia's economic growth.

All of our economic actions since taking office 18 months ago have been dedicated to that end.

Unless the Australian economy can burst free of the boom bust cycle of the past 20 years and enjoy sustained and higher levels of economic growth we will not reap the human dividend of lower unemployment.

That is why we have cut the budget deficit.

That is why we have reformed Australia's industrial relations system.

That is why we have further reformed Australia's financial system.

**That is why we are in the midst of the largest program of privatisation in Australia's history.**

**That is why we have made major changes to boost the small business sector which is the principal source of jobs growth in the economy.**

**That is why we have committed ourselves to the greatest remaining economic reform of all - overhauling and modernising Australia's taxation system.**

**By the end of our first term we will have converted the \$10.3 billion deficit left to us by Mr Keating and Mr Beazley into a surplus of over \$1.5 billion. Outlays as a percentage of GDP will be the third lowest in the OECD and on current fiscal settings by the turn of the century we should have a surplus of over \$10 billion.**

**In the process we will have halved general government net debt as a percentage of GDP from 19 per cent in 1995 to 10.5 per cent by the year 2000.**

**This massive fiscal reform seems to be taken for granted by some in the business community and elsewhere. Yet it represents a huge turn around involving numerous difficult and sectorally unpopular decisions.**

**Reducing the deficit has taken the pressure off interest rates. Business lending rates have fallen by about 2.5 per cent since July 1996, providing a boost to business confidence and investment.**

**Inflation has fallen significantly over the last 18 months and is well below the RBA's target range of two to three per cent. Underlying inflation through the year to the June quarter was 1.7 per cent, the lowest recorded since the March quarter 1972.**

**Investment is currently at record levels in real terms - around 13 per cent of GDP.**

**And growth is projected by the OECD to be higher than in any of the G7 countries over the 1997 and 1998 period.**

**To these changes in the macroeconomic area can be added the Government's extensive and ongoing microeconomic reform agenda.**

**Our industrial relations reforms have made the labour market more flexible and removed the disincentive of Labor's unfair dismissals provisions. Applications for unfair dismissals, in the first 35 weeks of the new provisions, show a 54 per cent fall on the same period in 1996.**

**If Labor and the Democrats were genuine about helping small business to boost jobs they would support the Government's legislation to exempt from the unfair dismissal laws all new employees (excluding apprentices) of businesses with 15 or fewer employees.**

The National Australia Bank business survey found that 36 per cent of businesses expect to complete workplace agreements during the next year with expected productivity offsets averaging 2.5 per cent.

Full competition has been introduced into the telecommunications sector which has the potential to reduce communications charges in some areas by up to 50 per cent.

A number of initiatives aimed at revitalising and extending Australia's rail system have also been launched.

the sale of the National Rail Corporation and Australian National will lead to more efficient rail freight and passenger transport;

negotiations are well advanced with States on arrangements for the interstate network;

Commonwealth and Victorian track from Wodonga and Broken Hill to Kalgoorlie will be placed under single management by July 1998; and

\$100 million from the Federation Fund will be available for an Alice Springs to Darwin railway.

Reform of the public sector has opened up greater opportunities for Australian business through contracting out and competitive tendering for delivering government services.

Mr Bob Mansfield's appointment as my Major Projects Facilitator is ensuring more speedy approvals for major investment proposals.

We have introduced a \$130 million Innovation Investment Fund to assist small, technology-based firms obtain start-up capital.

Having restored the economic fundamentals the Government is now working on its programme to realise Australia's potential as a nation into the 21st century.

That means an active government role in offsetting distortions and removing impediments to growth in key sectors.

Decisions on tariffs for passenger motor vehicles and the TCF sector will help develop sustainable, internationally competitive industries in the lead-up to more open trading environment beyond 2010. Our aim is to improve job opportunities and encourage new investment without resiling from our commitments to trade liberalisation.

The benefits of our car decision are already being felt. Toyota, for example, is taking advantage of the favourable climate by expanding production of its Camry and launching a new large car project.

We have also sought to deliver a better future for the Textile, Clothing and Footwear Industries.

action agendas will be developed for wool, cotton, leather and fashion industries;

a TCF Investment Programme and a \$10 million TCF Technology Development Fund will be established, as will a \$10 million national centre for TCF training;

the Overseas Assembly Provisions will be expanded;

a \$2.5 million per annum Market Development Programme will be introduced; and

anomalies in TCF by-laws and tariff concessions will be examined and removed.

The Government will continue to support investment and growth in the pharmaceutical industry. When the current scheme expires in 1999, it will be replaced with the Pharmaceutical Industry Investment Programme which will run for 5 years at a cost of \$300 million.

My Government is committed to realising the potential of new technology and the online economy. The National Office for the Information Economy has been established to develop and coordinate policy for online activities and I have appointed Senator Richard Alston as the Minister responsible for the information economy. A New Ministerial Council is working to develop National Information and Online Services Strategy.

The Government is soon to respond to a series of reports aimed at better focussing the Government's strategic approach. The Goldsworthy and IPAC reports into the information sector have added to the debate as has the Mortimer Report. I also welcome the contributions made in recent months by sections of industry.

Crucial to realising our potential as a nation into the 21st century is the overwhelming need to embark upon reform and modernisation of Australia's taxation system. This is the single greatest remaining area of economic reform. Tax reform is essential to provide incentives to work, save and invest. As it stands, the current tax system does not do enough to promote jobs, exports and investment. The next century demands a modern, competitive and incentive-based taxation system which has the restoration of fairness as the key to reform.

Against the background of these reforms - and the fruits of them already apparent - I reject the claims of some that the pace of reform under my Government has been too slow.

In 18 months - despite the handicap of a hostile Senate - historic reforms have been achieved.

They have helped produce the most fortunate conjunction of economic circumstances seen in Australia for decades:

- very low inflation;
- falling interest rates;
- falling national debt;
- strong business investment.

Strong investment flows from Australian business makes clear that the business community is voting with its dollars in response to a more favourable business climate.

The determination of companies such as Rio Tinto to reclaim management prerogatives taken for granted in other industry sectors is powerful evidence of just how extensive have been the changes to our workplace relations laws.

Such action would have been unthinkable 18 months ago.

The speed limits on economic growth are being removed. We are not quite yet on the freeway but it is well and truly in sight.

Now I wish to say something on one particular pressure building on Australia which threatens our prospects for higher growth. There is a call that Australia's growing economy be burdened with a new, unrealistic and unfair speed limit upon growth, a speed limit imposed by uniform mandatory emission reduction targets to address the global problem of climate change.

## **SOLUTIONS NOT POSTURES**

My foremost responsibility as Prime Minister of Australia is to promote and protect the national interest. That is my goal for this issue as it is with every other area of public policy. My political opponents have sought to criticise me for this but I will never be apologetic for protecting Australia's national interest.

Whenever I have been attacked for defending the national interest Labor has sided with foreign interests at our expense. It has been this combination of posturing and opportunism that has been the Labor way. The former Environment Minister, Ros Kelly, boasted about unilateral efforts in reducing emissions.

Now Labor offers no solution - it has no ideas, only postures.

My message to them is that the national interest is not served by posturing on this issue instead of advocating a realistic and fair solution.

## **UNACCEPTABLE PROPOSALS**

While there are still many uncertainties surrounding the science of climate change, particularly relating to the timing and magnitude of climate change that we might expect, the Government accepts the science of climate change and the need for proportionate action in line with the precautionary principle.

The potential risks to the global environment are simply too serious to ignore. Along with other leaders at the recent South Pacific Forum, I recognised and endorsed the deep concerns regarding the impact of greenhouse emissions on rising sea levels and changing weather patterns on Forum members, especially low lying island nations.

The Government is committed to ensuring that Australia will play its part in tackling the problem of climate change.

That is part of our enlightened national self-interest.

Pulling our weight, however, doesn't mean having to cop more than our fair share of the task. But that is what is being asked of Australia by the European Union.

Australia cannot sign up to proposals that would lead to the export of jobs and our energy efficient minerals and metals processing industries.

The European Union is advocating a legally binding uniform reduction target for greenhouse gas emissions of 15 per cent from 1990 levels by the year 2010.

The enormity of the task that the European Union's proposed uniform target threatens to impose on Australia, is simply out of all proportion to Australia's contribution to global greenhouse gas emissions. Let us not forget that Australia accounts for only 1.4 per cent of global emissions. This compares with the United States which accounts for 22 per cent of global emissions, and the European Union which accounts for 14 per cent of global emissions.

The European Union proposal is unachievable because it does not reflect Europe's own recent performance. Nor can Europe demonstrate how it will achieve the target. According to the European Commission, the EU is not on track to meet the implied Rio target of stabilising emissions at 1990 levels by 2000. Without the collapse of East German industry - whose emissions fell by almost half - EU emissions would have risen 9 per cent above 1990 levels by the year 2000.

As the EU can expect no further one-off windfalls, such as the collapse in East German industry, their proposal should be regarded as unrealistic. It cannot provide the basis for long-term action. I can say that we are not alone in being sceptical of EU proposals.

Accounting arrangements increase our scepticism. Denmark has claimed its CO2 emissions in 2000 will be 11 per cent below 1990 levels. However, this result is largely due to not counting electricity exports in their emissions. The emissions embodied in these exports are not counted by the importing countries either so they are simply 'lost'. Discounting this unilateral correction, (which is not allowed by the Convention), the EU

estimates that Denmark's emissions will be 7 per cent above 1990 levels. If we adopted this sort of approach we could all get our emissions down without making the environment better off.

There are other reasons Australia is opposing the uniform target approach. Because they distort trade and investment patterns, uniform target approaches will reduce global emissions only marginally.

There are those who argue we should all have uniform low per capita emissions. This would in effect require all OECD countries to evolve into 'look-a-like' economies. It would be just plain silly to demand that all OECD countries should have the same economic structure or to base important decisions on the fantasy that they do.

Even if we all took all the sensible steps possible to conserve energy, Australia's economic structure and circumstances mean that the target proposed by the European Union would not be feasible.

Japan has just announced a proposal for emissions to be reduced by five per cent from 1990 levels by 2010. Their proposal allows for some small differentiation to a maximum of stabilisation of emissions at 1990 levels by 2010. These targets are simply not achievable without enormous economic costs for Australia.

## **THE COST OF AGREEING TO UNIFORM TARGETS**

Our economic structure and trade profile demands that a fair and achievable outcome for Australia will need to allow for some emissions growth - even though this will be much reduced from what we would expect from business as usual.

We are not alone in seeking some responsible growth in our emissions. Under the 'EU bubble' many European countries will be allowed some growth in their emissions.

What this means is that what we are seeking is not special consideration, but fair consideration in line with what is being offered to European countries.

Australia's economic structure and trade profile is unique among OECD countries because of our resource base and other circumstances, such as our relatively strong population growth. So our greenhouse gas emission profile is also unique among OECD countries.

Economic reform has produced significant reorientation of the Australian economy towards the export sector in general and the resource and resource-processing sectors in particular. Australia's economy has become both more highly specialised and more emission-intensive over time.

No other OECD country trade profile combines a concentration of emission-intensive goods, in the composition of its exports, with strong developing country trade links.

Eighty per cent of Australia's exports - petroleum products, basic metals, agriculture and chemicals - are energy and greenhouse-intensive goods.

We would be penalised for being an efficient producer of energy and emission-intensive goods, most of which we export to other countries that need them for their own industrial growth.

The magnitude of the task that Australia would face would be grossly disproportionate to that faced by others and would severely affect all Australians.

According to a Department of Foreign Affairs and Trade survey, even stabilising emissions at the 1990 level by 2010 would put at risk around \$68 billion worth of investment in the energy and mining sector over the next five years and tens of thousands of new jobs for Australians. It would particularly harm competitive export industries of Australia such as the coal and aluminium industries. The job losses and dislocation of peoples' lives would be immense including in the Hunter Valley, and the Illawarra in New South Wales, Geelong and the Latrobe Valley in Victoria, the Bowen Basin and Gladstone in Queensland, Port Pirie in South Australia and the Kwinana and north west regions of Western Australia.

The impact on demand and prices would reduce coal output by 20 per cent by 2010 from what it would otherwise have been. Aluminium smelting would fall by 50 per cent below the level it would otherwise have reached.

If we were to agree to a stringent uniform emission target the high economic costs we would incur could not be cordoned off; these costs would impact on every sector of the Australian economy and community.

According to the ABARE an agreement with binding uniform targets to stabilise emissions at the 1990 level by 2010 could also involve an increase in petrol prices of up to 70 cents a litre and similar increases in diesel prices, an increase in natural gas prices of up to 40 cents a litre and an increase in average electricity prices of up to 100 per cent by 2010.

Without the involvement of developing countries, emission-intensive industries currently located in OECD countries, will simply relocate to developing countries with no emission abatement commitments and possibly with less efficient technology. This phenomenon, known as 'carbon leakage', would undermine the very objective of setting targets for one group of countries alone.

Australia is particularly vulnerable to 'carbon leakage'. For some industries, such as our aluminium industry, it would be devastating. And it would represent little gain for the global environment as Australia is one of the world's most efficient producers of energy and emission-intensive goods, such as aluminium.

We must ensure that regional economic integration through APEC to encourage lower trade and investment barriers and promote growth is not jeopardised by the Kyoto outcome. We cannot accept a solution that pretends economic costs don't matter.

These negotiations are too important for the Government to be unduly concerned about the unfair and often ill-informed criticism levelled at Australia's position.



## **OUR PROPOSAL**

As I indicated earlier, Australia is, of course, prepared to pull its weight. Climate change will have adverse consequences for Australia, with its long coastline and vast rural areas. We therefore have an interest in a global response to climate change which will be effective. To be effective the approach must be realistic and equitable.

In the long run the only way we will achieve a workable system to control greenhouse gas emissions all around the world is to ensure that everybody who contributes to the problem contributes to the solution. Any agreement has to provide the basis for involving the developing countries as they account for nearly half of the global emissions by 2010, compared with less than a third today. To deliver that outcome requires different targets for different countries in different situations.

Australia wants each country to negotiate its own target in light of its own national circumstances. Differentiation provides the basis for developing countries, especially significant emitters, to come on board and make their own contribution because it acknowledges differences in stages of development and national circumstances. Without differentiation, the price, for developing countries, of taking mitigating action will remain too high.

The acceptance in September this year, by South Pacific Forum leaders, of the need for the Kyoto outcome to provide for the future involvement of significant developing country emitters was an important step forward and is the first time that developed and developing countries have joined forces on this issue. It is an essential step if the concerns of island countries are to result in effective global action.

Differentiation is nothing more than what the European Union has proposed for itself. If, as proposed, Eastern Europe and Russia are also allowed differentiated targets - then only 8 out of 35 countries, including Australia, will be left in the position of having to accept a take-it or leave-target. This is unacceptable.

We do accept that global action will impose costs on us as well as others. However, the Government's approach is to ensure that those costs are not an unfair burden on ordinary Australians.

The Government is not prepared to sign on to any agreement at Kyoto unless it is fair; unless we are confident that the Australian community can achieve any commitments we undertake; and unless we have a clear idea about how we would go about achieving such commitments.

Australia faces some very real difficulties in these exceedingly tough negotiations.

We will have to work hard to gain wider acceptance of the link between Australia's economic and trade profile and our emissions profile. It is proving a challenge because our particular economic circumstances are not shared by the larger, more diversified economies like the US, the European Union or Japan. These key players will determine the outcome of the current negotiations, ensuring that their own particular circumstances are taken into account.

Differentiation, unlike uniform targets, can achieve this for all countries not just the majors. Negotiated targets will ensure that all economies are treated fairly and trade and investment patterns are not disrupted.

### **WHAT AUSTRALIA HAS ALREADY DONE**

At various levels Australia has demonstrated its preparedness to play its part.

In response to the climate change threat Australia has already developed a strong program of domestic action covering a wide range of sectors:

- under the Greenhouse Challenge Program, many of Australia's biggest enterprises - including BHP, Rio Tinto, Shell Australia and ICI Australia - are on track to reduce the growth in their emissions by 18 per cent by 2000, this is equivalent to taking 3.2 million family cars off the road;
- the Government has recently extended the Greenhouse Challenge Program to cover small and medium-sized enterprises; and
- Australia's aluminium industry, already among the world's most efficient, has since 1990 lowered their emission levels per tonne of aluminium produced by 14 per cent and this should be further lowered to 20 per cent by 2000.

I note that the Australian Chamber of Manufactures is contributing to the domestic effort to tackle greenhouse gas emissions, having signed a Greenhouse Challenge Facilitative Agreement in September 1996. Under this agreement, the ACM is identifying and assisting industry members who can contribute to, and benefit from, reducing their emissions and encouraging them to develop company cooperative agreements with the Greenhouse Challenge Office. The Chamber also provides information and assistance services to members on environmental and energy efficiency issues with a view to assisting industry to improving their environmental and energy performance. I congratulate you on this important contribution.

The Government has also increased attention and funding for land care and land management through the \$1.25 billion has been set aside under the Natural Heritage Trust.

We are providing climate change related support through our aid programme with projects worth \$45 million in the South Pacific.

In addition to these measures we are currently considering a package of measures to strengthen our domestic response even more.

This will demonstrate both the seriousness with which we take our international responsibility to pull our weight on climate change, and just how tough emissions reductions are going to be for Australia.

The fact that our emissions are growing does not mean that we are not doing enough or that we are not prepared to shoulder our fair share of the global effort. Our recent performance in reducing our emissions growth has been comparable with most others. Australia's has been an honest effort in that we have not had to rely on any one-off or accidental factors, and we have not engaged in any fiddling of the numbers.

The Government has acted to promote greater community awareness about what is at stake in these negotiations. Last week the Government released an issues paper to provide the community with detailed information about the science of climate change, the international negotiations, Australia's options and the potential implications for Australia. The issues paper, *Australia and the Climate Change Negotiations*, provides the wider community with an opportunity to provide feedback to the Government about what sort of target Australia could achieve and how we could go about it.

Reflecting the high stakes involved for Australia, the Government has also strongly taken up the issue internationally - I have argued Australia's case on climate change with President Clinton, Prime Minister Hashimoto, Chancellor Kohl and Prime Minister Blair, and argued against agreement to an unfair, ineffective outcome at Kyoto.

I understand that President Clinton is soon to say more about the position to be taken by the United States and we will take these into account during the course of our negotiations.

## **FUTURE NEGOTIATIONS**

The national interest is at stake in these negotiations.

We are not interested in token 'feel good' gestures. We are guided by our determination to ensure that Kyoto provides for a durable and environmentally effective outcome.

The outlook for Australia in these negotiations is tough. The challenge should not be underestimated.

We are asked to announce a numerical target or a bottom line. However, it makes no sense for us to announce a target at this stage in the negotiating process - when we are arguing for a substantially different, innovative and more effective structure to tackle climate change than is being proposed by the European Union, Japan and the United States.

It is also not possible for us to say what we could agree to now, because the Government is still in the process of consulting closely with the States, Territories, industry and the wider community.

Our aim is for a solution which takes into account both very important environmental considerations and the future of Australian industry, jobs and improved living standards.

To this end we are actively campaigning for a global strategy on climate change which will, unlike the others being proposed, make an effective difference to global warming. We have presented this case in concrete detail. It promotes the national interest by

offering the prospect of genuine improvements to the world environment without imposing unnecessary speed limits on Australian industry and Australia's economic growth.