

MANUFACTURING INDUSTRY — A MATTER OF GREAT URGENCY

An Address by

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Chairman, Repco Corporation Limited to The Securities Institute of
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During the last 18 months Repco has adopted what, for this country, is the unusual practice of using the occasion of company reports to make statements on economic policies, and to give these statements wide circulation in the press.

Our main concern has been of course over the free trade protection issue. This was not because protection was fundamental to Repco's survival, as I shall make quite clear to you later on. The real thing was that being close to manufacturing industry we could see what was happening as the result of free trade policies, and we felt we had a duty to speak out in the national interest.

I know you will be relieved to hear that I do not intend to rake over the whole free trade protection issue today. But I would like to refer to one or two aspects of it.

Let us first look at the World about us; at a world of highly administered economies; a world in which there is no free trade.

- a world in which it is the declared intent of the IAC to make Australia a free trade nation.
- a world where Australia stands out for having its media, its bureaucracy and large sections of its Parliament holding the view that protection of manufacturing industry is a dirty world.

May I first draw your attention to the fact that almost all of the great Australian Corporations have a natural protection by virtue of the nature of their products or because they are service industries.

This is no doubt one of the reasons why Repco has had so little public support from business leaders, because they have not felt the urgency of the issue directly.

But I can tell you that I know from the very large volume of mail that I have received about Repco's statements that there is almost universal agreement among them with what we have been saying.

To go back to the World about us — and this is very important because a free trade philosophy in a protectionist world is an irrelevancy.

First, may I read to you some of the headlines out of the issue of the Financial Times of 4th March, 1983.

Financial Times — 4/3/1983 HEADLINES

- Split over Spanish car imports.
36.7 per cent tariff on British cars into Spain against 4 per cent other way.
Editorial — Spain's car industry.
- Rumania to lose US tariff benefit because of restrictions on emigration.
- UK defence sales hit by US trade bar.
- Tougher EEC exports stance urged (re flour and US agricultural surplus export attempts)
- Food Manufacturers Association wants more help for home market.
- Canadian government takes Massey shares.
- Brussels waits for Japan to act on VCR accord.
(Video Cassette Recorders)

I should like now to give you some information about Brazil — a good example of a NIC (New industrial country) to which we give special tariff treatment as we do also to Taiwan, Korea, Hong Kong and others that are also supposed to be backward industrially. Within a year or two, Korea will take over from Japan as the world's leading shipbuilding nation.

Now to Brazil —

BRAZIL

An original member of the GATT

Receives Developing Country tariff preferences from other major GATT members including Australia.

BRAZIL/AUSTRALIA ECONOMIC STATISTICS

POPULATION

Australia	—	15.2 million (30th June 1982)
Brazil	—	117.0 million (July 1982)

AREA (Square Miles)

Australia	—	2.97 million square miles
Brazil	—	3.29 million square miles

WAGES (As at April 1982)

ALL DOLLARS US

	BRAZIL	HOURS	AUSTRALIA	HOURS
Toolmakers/1st Class Machinists	\$3,100	40.0	\$14,400	38.0
Bus drivers	\$2,700	45.0	\$15,300	40.0
Textile workers (female)	\$2,000	48.0	\$ 9,900	38.0

(Authority: Union Bank of Switzerland Publication, Volume 81)
(Prices and Incomes around the Globe — 1982.)

Currently enjoys an imbalance of trade with Australia
1981/82 Exports to Australia \$136,298,000.
Imports from Australia \$20,126,000.

Has an automotive industry twice the size of Australia's
with a high degree of locally produced components.

All the major vehicle builders have interests there. e.g.
Ford, GM, VW, Fiat and Mercedes Benz.

Many large component manufacturers also operate in
Brazil. e.g. Bosel, Lucas, Borg-Warner, TRW etc.

Substantial export incentives are currently in operation
because of Brazil's precarious international financial
standing.

Major incentives include:

(a) Exclusion of export sales earnings for company tax
(between 35 per cent and 45 per cent of total tax
depending on the level of profits earned overall).
This is an export-performance orientated scheme
and as such is outlawed under the MTN
agreement of GATT signed by Brazil on 28th
December, 1979 and followed by others including
Australia.

Australia's Export Expansion Grant (EEG) is ending
on 30th June, 1983. Brazil has just renewed its
scheme for another 7 years.

(b) By-laws (or duty drawbacks on imported materials)
are added to exempted corporate taxes (in
advance of exports).

(c) Relief from Industrialised Production Tax (IPT) — a
sort of VAT — applies particularly to capital
imports.

(d) Exclusion from ICM/VAT on all exports.
ICM = Tax on Federal circulation of merchandise.
VAT = State taxes on distribution.

(e) Export finance for private banks available at low
rates of interest. Exporter can obtain 85 per cent of
the value of each shipment at 7.5 per cent p.a.
interest for capital exports and 8.5 per cent p.a. on
consumer durables.

(f) Bank of Brazil has established a "golden cheque"
system of credit for overseas customers buying
Brazilian goods. Repayment is made in the
importer's own country at commercial rates over
two years.

(g) Subsidised shipping rates from Brazil to overseas.
An example is the Brazil/Australia line which has
run at a loss for years but is subsidised by the
Brazilian Government.

What may be said of Brazil will apply equally to Taiwan,
Korea, Hong Kong.

Combined Effect:

1. Labour cost — 1/4 of Australia.
2. Lower raw material costs.
3. Much lower overheads.
4. 10 per cent or 15 per cent duty advantage, making
only 10 per cent or 15 per cent net.
5. Modern equipment and methods of production.

I know this is pretty tedious stuff but what can one do
but go on repeating it in the hope that one day enough
people will know the facts, for the free trade
momentum to be arrested and reversed in Australia.

Now, one or two more brief comments about other nations — France and the EEC.

EEC share of world food exports up from 8 per cent in 1976 to 17 per cent now. Wheat \$210 a tonne in Europe against \$130 in USA Europe's new export markets are primarily the result of massive subsidies. The EEC's agricultural policy is budgeted to cost \$14 billion in 1983 and do great damage to agricultural protection in the Third World by dumped European surpluses.

And finally, Japan in a different context — where legislation is pending to restructure depressed industries such as petro-chemicals aluminium and chemical fertilizers. Believed to be the only legislation of its kind in any major industrial country, the law drafted by MITI will enable the Ministry to call for the preparation of capacity scrapping programmes by seven designated industries and, of course, the way in which Japan has won dominance of a series of industries by selective use of protectionism is well-known to you all.

A hundred years ago, Karl Marx was pointing to the depressed condition of the masses and it was an important part of this whole thesis that class conflict would keep them oppressed and in poverty.

Since then, thanks to the brilliant achievement of private enterprise, the standard living of the western world has risen enormously and the first consideration of political parties of any colour is the wealth, health and welfare of the ordinary working people.

At the time of the French Revolution nearly 200 years ago, 80 per cent of the French people worked on the land. Today in China 80 per cent are engaged in food production. In most western countries it is well under 10 per cent except Russia, thanks to Mr. Marx, where it is still much higher than that.

The time may even come when in Australia we cease committing economic mayhem, when Unions and Government no longer seek to cripple business with appalling costs, and when our political leaders see their prime task as one of running a very large commercial operation.

We need to keep our manufacturing industry alive and well — not only for all the reasons that we know, defence, employment, balance of payments, our culture — but to have some options for the future, for the time when as a nation we are again in an up-cycle.

The really serious situation that has now developed is that we are down to the seed corn — to the point where there is structural damage, where the old skills are dispersed and gone forever, where plant is ageing and not being updated, where there is disenchantment and disinvestment. Production volumes are lowered and this has undermined efficiency and productivity.

Let there be no doubt about it — neither Summit nor the Government, nor any other agency can solve the economic ills of this country unless they restore the health of manufacturing industry.

This is the central issue to which there is no solution that does not involve changing our present untenable position of being one of the most open-markets in the world.

There is some parallel with the situation in the UK No doubt industry there is leaner as a result of the recession and the economic climate there of recent years. But is it fitter? Probably it is weaker. For one thing, many of the small specialist engineering firms have disappeared and there is no one to supply many of the vital high quality components on which large corporations depended.

Because of this and the impact of lower volume it is difficult to see how many British manufacturers will ever regain their international competitiveness.

Here as in Britain, may I add, the motor industry — and I mean the component industry and not vehicle assemblers — is vital to the survival and prosperity of much of general industry. Let us remember that the engineering industry in particular and so called mature industries in general are the gateway through which the newer high technology industries will emerge. No substantial manufacturing, no engineering base, no large engineering schools, means no high technology.

And finally, for a long time to come the bulk of Australian manufacturing industry will be concerned with the products of what we currently know as standard mass production. It is a long time hence before Australia will employ more than a handful of people in the so called high technology industries.

And it is quaint indeed to hear this proposal being made so often in a country which has already killed off the only high technology industry it had — the electronics industry.