
Support for industry

On 6 March 1979, Fraser tabled the report of a study group on structural adjustment led by economist Sir John Crawford. The report concluded that higher levels of economic growth and employment could only be achieved if manufacturers became more competitive both at home and abroad. Substantial government assistance would be needed to encourage exports, to make industry more capital and skill intensive and to develop large-scale resource projects. The report held out hopes of tariff reductions in the long term, but opposed the immediate introduction of a program to reduce tariffs.

The Government was not enthusiastic about a report which recommended increased Government spending and involvement in industry, although it endorsed its broad directions. Opposition leader Bill Hayden was more enthusiastic, calling the report a 'general blueprint for action' and criticising the Government's 'quaint but totally unjustifiable faith that market forces will right it all'. On 24 July Cabinet considered the recommendations of a committee of ministers who had examined the report. Cabinet endorsed the report in broad terms, including the need for industry to be more export-orientated, but it was cautious about making further specific commitments to tariff reductions or industry support (Submission 3341; also Decision 9559, not printed here).

Selected document

Submission 3341, Crawford Report

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Submission 3341, Crawford Report
 [A12909, 3341]

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FOR CABINET	
	Submission No. 3341 Copy No. 54
Title	CRAWFORD REPORT
Minister	Phillip Lynch, Minister for Industry and Commerce
Purpose/Issues	<p>To convey to Cabinet the recommendations of the Ad Hoc Committee of Ministers required by Decision No. 7725 of 6 March 1979 to co-ordinate the examination and assessment of the proposals contained in the Crawford Report.</p> <p>To determine the Government's response to the Crawford Report.</p>
Relation to existing policy	Relates to manufacturing industry policy and a range of related policies, including manpower, trade, regional and financial policies.
Legislation involved	Implementation of some recommendations would involve legislation.
Urgency: Critical/significant dates	The Ad Hoc Committee was required to provide a comprehensive report in time for consideration by Budget Cabinet.
Consultation: Ministers/Depts consulted	This Submission conveys decisions by the Ad Hoc Committee (Crawford Report) which were reached after full consultation with relevant Ministers/Departments.
. Is there agreement?	
Cost	\$7-15 million in the 1979/80 Budget, depending on the level of funding determined for IR&D incentives.
. this fiscal year	
. year 2	A minimum of \$30 million in the 1980/81 Budget.
. year 3	



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Public Presentation - Minister's Proposals

1. (a) When and where is the decision to be announced?	Statement by the Minister for Industry and Commerce about the time of the Budget Speech.
(b) Is a draft press statement attached?	No
(c) How widely is the announcement to be circulated?	-
2. (a) Is a press conference considered necessary?	-
(b) What media opportunities will be taken?	-
3. What supplementary material is required for backgrounding journalists, Members and special interest groups?	-
4. (a) What prior consultation with State Governments or other official bodies is required?	-
(b) Which special interest groups should be advised of the announcement?	-
5. What general or sectional support can be expected?	Support is expected from the companies and unions in most manufacturing industries.
6. What criticism is anticipated and how will it be answered?	Some economic commentators and the rural sector may criticise decisions to provide additional financial support to manufacturing industry, especially if the Government is considered to be delaying the Crawford Report's recommendations on protection.

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THE ISSUES

The main issue is the Government's response to the Crawford Report. In determining this, the key issues to be settled are:

- (a) Whether the Government wishes to endorse the broad objectives of the Crawford Report;
- (b) What commitment the Government wishes to make to industrial development policies in 1979/80 and beyond; and
- (c) Whether the Government wishes to give a commitment to begin a general program of further gradual reductions in protection.

BACKGROUND

2. The arrangements for handling the Study Group's Report were addressed in the Prime Minister's Submission No. 2998 of 2 March 1979. Cabinet, in Decision No. 7725 of 6 March 1979, charged the Ad Hoc Committee (Crawford Report) with:

- (i) responsibility for co-ordinating examination and assessment of the proposals contained in the Crawford Report; and
- (ii) reporting progressively to Cabinet with a comprehensive report to be provided in time for consideration by Budget Cabinet.

On 6 March 1979, the Prime Minister tabled the Study Group's Report in Parliament. A copy of the Prime Minister's statement is at ATTACHMENT B.

3. The Ad Hoc Committee has completed its examination of the Crawford Report. The Committee has considered twenty-five Cabinet Memoranda prepared by the Crawford Report Task Group bringing forward the Study Group's proposals. In addition

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following its referral by the Ad Hoc Committee (Budget) (Decision No. 8644(Ad Hoc) of 16 May 1979) the Committee also considered the grant rate to apply under the Export Market Development Grants Scheme from 1 July 1979. Cabinet in Decision No. 8883 (IP) of 5 June 1979 agreed to endorse the Committee's recommendation that the Tariff Review program be completed. This decision has been announced.

4. Prior to commencing its examination of the Study Group's proposals the Ad Hoc Committee met with Sir John Crawford, Mr E. J. Hawke and Mr N. S. Currie. Sir Brian Inglis was unable to attend the meeting. Copies of the summary record of the meeting are available from the Cabinet Office.

CONSIDERATION OF THE ISSUES

Crawford Report

5. The Study Group argues that in order to raise growth rates and to avoid the threat of long-term unemployment at very high levels manufacturing industry in Australia will need to become both more competitive against imports and more export-oriented. It considers that the process of changing the orientation of the manufacturing sector cannot be left to business alone and argues that positive Government support and involvement will be required as the market as it now operates is seen as not being capable of supporting industrial development and restructuring at the desired rate and with costs acceptable to the Australian people.

6. To deal with adjustment in manufacturing industry the Study Group proposes the implementation of an industrial adaptation policy. The two key elements are industrial development policy and protection policy. Industrial development

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measures which are designed to encourage industry to take on a range of desirable attributes comprehend export development incentives, measures to upgrade technology and innovation, management efficiency and productivity, financial arrangements and the communication of Government services to businesses. A general program of gradually reducing high levels of protection is envisaged to provide a spur to increase competitiveness. The Study Group also makes recommendations on a range of associated policies designed to encourage the emergence of a more competitive manufacturing sector and to facilitate the realisation of growth opportunities; promote flexibility and adaptability in the economy and the workforce; and ease the adverse consequences of adjustment.

7. The Study Group's estimates of costs of its main industrial development policy initiatives were: export development (additional \$125 million); IR&D (additional \$45 million); innovation (additional \$6 million); and finance (additional \$13 million). If all the options canvassed in Chapter 7 (Industrial Development Policy) were adopted the Study Group estimates that the total additional cost to the Budget, in a full year, would be of the order of \$190 million. It is noted that exports of manufactures are stronger now than at the time of the Study Group's deliberations, having grown rapidly in the latter half of 1978. As a result of these developments, the additional cost of the Study Group's proposals on export development would now be \$175 million when compared to the Export Expansion Grants Scheme operating at the time. More recently, of course, exclusions have been made from the scheme involving outlays of around \$40 million in respect of the 1978/79 grant year.

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Views on the Crawford Report

8. Two views emerged within the Crawford Report Task Group on the appropriate response to the Report. In one view the Report provides a credible long-term industry policy framework consistent with both the Green Paper and the White Paper on Manufacturing Industry. It agrees with the Report that the process of changing the orientation of the manufacturing sector will require Government assistance. This view advocates the implementation of industrial development measures like those in Chapter 7 of the Report to encourage industries to develop desirable attributes followed by further and gradual reductions in protection. It sees this approach as providing the opportunity to move towards positive encouragement and greater competitiveness and away from assistance aimed at resisting change. Such an approach is considered to provide a basis for obtaining the support of industry for the achievement of the Government's objectives for the development of manufacturing industry.

9. The alternative view is that the long-term objective of a more competitive industry can be achieved without the package of industrial development policy initiatives proposed by the Study Group. The Government's overall economic strategy to foster sustainable economic growth over the medium term together with existing relevant programs and the phasing-out of excessive protection will permit the economy to adjust satisfactorily to necessary structural change. Increased Government involvement is seen as being both unnecessary and potentially harmful as it could, by making more difficult the Government's central objectives of lowering the Budget deficit, inflation, interest rates and the level of taxation, work against the re-establishment of an environment in which stronger recovery

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can occur. At most only a limited number of "positive adjustment policies" are seen as being needed, and then only if they facilitate the operation of market forces in providing the direction for structural change.

Industry Views

10. Industry has expressed strong support for the Crawford Report. The Confederation of Australian Industry indicated that "the Report's recommendations - when regarded as a total package - provide a realistic forward policy for the manufacturing sector, and are supported by the CAI. We urge the Government to announce its adoption of the Report's recommendations, and to begin their implementation forthwith". The Australian Chamber of Commerce "fully supported the basic thrust of the Study Group's proposals". The MTIA and the AIDA have also welcomed the Report. The AMC in expressing strong support for the Crawford Report emphasised their view that Government policy towards manufacturing industry should be consistent and predictable.

11. While industry recognises the current tight budgetary situation, it is looking for some movement towards the Crawford Report's recommendations. A common thread running through industry reaction is the view that after the Green Paper, the White Paper and the Crawford Report it is imperative that the Government make up its mind now on a forward policy direction for industry. The Liberal Party Committee on Manufacturing Industry regards a commitment by the Government to the package of measures proposed by the Crawford Report as essential in terms of the credibility of the Government's manufacturing industry policy and in respect of policies which will encourage industry to make further investments of the kind anticipated by the White Paper.

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Ad Hoc Committee - Conclusions

12. The Committee considers that the long-term industry policy framework set out in the Crawford Report is on line with the policies the Government is following. It agrees with the general policy direction advocated by the Crawford Report that the Government's policies should be designed to encourage the development of manufacturing industries that are more export-oriented, innovative, specialised and internationally competitive. It considers that there should be a gradual movement in manufacturing industry away from a domestic market orientation to an export-orientation. To support this process the Committee sees a need for the Government both to provide industrial development policy measures and to increase competitive pressures by a general program of further gradual reductions in protection. It also sees a need for complementary action in a range of related policy areas.

13. The Committee notes in relation to industrial development policy that many of the areas covered by the Crawford Report are matters to which the Government is giving continued attention, e.g., export incentives and IR&D incentives. The question at issue in these cases is not one of principle. Rather it is a question of quantum and timing. It is also a question of presentation. While the Government has put in place a set of industrial development measures, and has in some cases given significant forward commitments to them, they were introduced separately. The Crawford Report provides an opportunity to present these measures as a package.

14. The Committee considers that in order to maintain the credibility of the Government's policies on manufacturing industry,

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especially in the light of the recently announced decision to abolish the Trading Stock Valuation Adjustment which will have a significant direct impact on manufacturing industry, and to support the impetus towards a more internationally competitive manufacturing industry the Government should be seen to be responding positively to the Crawford Report. The central importance accorded by the Study Group to export incentives and IR&D incentives as part of industrial development policy gives them a special place in a credible response to the Crawford Report.

15. Consistent with these considerations, and having regard to the current budgetary situation, the Committee proposes that the Government should adopt some relatively modest industrial development initiatives to be announced in the 1979/80 Budget context. The recommended measures comprise

- . certain increased grant rates for the Export Expansion Grants Scheme
- . additional funding for IR&D incentives
- . the establishment, on a trial basis, of points of first contact for business seeking information on Commonwealth and State industry programs.

These measures are estimated to cost the Government an additional \$7-15 million in the 1979/80 Budget, depending on the level of funding determined for IR&D incentives, and a minimum of \$30 million in the 1980/81 Budget.

16. As concerns the 1980/81 Budget context, the Committee recommends that the Study Group's proposals on export incentives and IR&D incentives be further considered at that time. It also recommends that reports be brought forward for consideration at

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that time on the proposed Australian Innovation Authority and depreciation allowances on income producing buildings.

17. On the other major industrial development measures, the Committee recommends that a report be sought from the IAC on investment allowances and depreciation rates for plant and equipment; and that further consideration of financial arrangements await receipt of the Campbell Report.

18. The Study Group's major proposal on protection policy is that a commitment be made to a general program of gradually reducing high levels of protection once economic circumstances permit. The Committee notes that movement to lower levels of protection, which was inherent in the Green Paper, is being increasingly accepted by industry itself. It also notes that development of a more export-oriented manufacturing industry will depend on gaining access to overseas markets and that this may depend in turn on allowing overseas producers greater access to Australian markets. The Committee considers that the Study Group's proposal is consistent with Government policy towards manufacturing industry and an integral element of policies designed to bring about desirable change in the orientation of manufacturing industry.

19. The Committee recommends therefore that a program of further general reductions in protection be initiated: consistent with industry development measures (for example, export incentives and IR&D incentives) along the lines of Chapter 7 of the Crawford Report; on the basis of a policy of predictable gradualism; with reductions phased in to provide time for the community and social consequences; and, in the context of the Government's overall assessment of economic circumstances with particular regard to the question of unemployment.

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20. The Committee agrees with the Study Group's proposals that the IAC be asked to inquire and report as to the appropriate approach to general reductions in protection and recommends that the reference be sent after the IAC has reported on the Tariff Review references - the IAC would be asked to complete its report on the general approaches reference within eighteen months. The decision on the commencement of the general program would be taken in the light of prospective economic development, including employment prospects. Pending implementation of the general program, the normal arrangements for handling IAC and TAA reports dealing with particular industries will continue.

21. The Committee has also examined and made recommendations on the other elements in the strategy outlined and developed in the Crawford Report. Particular emphasis has been given to resource-based development and trade policy as essential elements of policies designed to facilitate growth opportunities and improve export performance. Manpower policy and capital policy have been examined in relation to promoting the adaptability and flexibility of the economy and industry-specific and regional policy in relation to easing the adverse consequences of adjustment. The Committee has also considered the Study Group's proposals on information and foresight and policy execution and formation. The outcome of the Committee's considerations of these matters is set out in ATTACHMENT A.

22. Attention is drawn to the fact that in many instances the recommended response to the Study Group's proposals calls for further study by Government agencies and committees of inquiry. This tends to flow directly from the Study Group's own recommendations. In a number of cases the Study Group recommends

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that matters be referred to the IAC for public inquiry and report; in others that its analysis be complemented by related studies already underway, such as the Inquiry into the Australian Financial System.

23. To ensure appropriate follow-up of the Government's decisions on the Crawford Report the Ad Hoc Committee considers it would be desirable that the Industry Policy Committee of Cabinet be requested to monitor progress on follow-up action and generally to assume overall co-ordination on the Crawford Report; that the follow-up be conducted along the lines of that adopted for the Galbally Report; and that monitoring support be provided by the Department of the Prime Minister and Cabinet in conjunction with the Department of Industry and Commerce.

24. In conclusion, the Committee notes that the situation in manufacturing industry is starting to lift - production is gaining strength and confidence appears to be returning. It considers that it is of the utmost importance for the sound and steady development of manufacturing industry that there should be a consistent and predictable approach to assistance measures for industrial development. This does not mean that individual elements might not vary. However, industry should be able to plan on the basis that the fundamental approach will be maintained short of significantly changed circumstances.

FINANCIAL CONSIDERATIONS

25. The financial impact of the recommendations made by the Ad Hoc Committee are:

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	Approximate Cost of Existing Policy in 1979/80	Additional Cost of Proposed Initiatives	
		Impact in 1979/80	Impact in 1980/81
	\$m	\$m	\$m
Export Development	180	Nil	25*
IR&D	24	7**	5.6
Points of Contact (trial)	Nil	.05	***

* Gross of tax clawback and assuming a 15% growth in exports. Offsetting this would be exclusions from the scheme involving outlays of around \$40m in respect of the 1979/80 grant year.

** This is the minimum level of additional funding recommended by the Committee. It also recommended that further additional funding, up to an additional total of \$15m, be considered in the context of the 1979/80 Budget. If further additional funding were agreed to it would have implications for 1980/81.

*** Cost would depend on the outcome of the trial.

26. As noted in paragraph 15, a number of studies have been recommended that could have an impact on the 1980/81 Budget if the Government decides to act upon them.

RECOMMENDATION

27. I recommend that Cabinet endorse the recommendations of the Ad Hoc Committee (Crawford Report). These recommendations are summarised in ATTACHMENT A.

CANBERRA, A.C.T.

11 July 1979

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