In the last week the estimates for the Department of Primary Industry were debated. The tobacco industry achieved more attention than it ever had in the past. The Opposition charged that the Government had neglected this industry and that the protection and assistance given to it was not adequate. This seemed an odd charge to make because in the last fourteen years tobacco production in Australia has grown from under 3½ million to 32 million pounds per year. The industry is more highly protected than any other primary industry, the general rate of duty on imported tobacco is 460%. There is a concessional rate which still stands at 120%. This rate is based on the landed cost of American tobacco. In addition to this there is a device called the Mixing Regulation which requires Australian manufacturers to use a certain proportion of local leaf before they can qualify for the concessional rate of duty. This Mixing Regulation has been increased from 3% to 4½% in the last eighteen years.

The odd thing about this industry is that so much protection is necessary.

The Australian tobacco growers are not competing with the low wage countries of Asia or Africa, they are competing with the tobacco growers of the United States.

It is very much a labour intensive industry and is not adaptable to really heavy capitalization. Labour costs in the United States are of course much higher than here. We can produce most agricultural products very much cheaper than the United States but their growers get about 60d. a pound and ours require between 120d. and 140d. a pound before they are really happy with the situation.

The reason for the comparative inefficiency of the Australian producer as compared with the American must apparently be found in adverse climatic and soil conditions.

As a result of our very high protection to this industry the United States share of the Australian market has fallen from 66% to 33% in the post war years. We may tend to say this is a good thing because our local industry is replacing imports and that this is the important consideration.

It would be all right if this were the end of the story, but it is not.

There is an inter-relationship between tobacco and other major commodities exported from Australia. This can perhaps be understood when I say that the Americans feel very much about our tobacco policy as most Australians feel about the policy which the United States Senate tried to impose on our meat trade with America. There point of grievance is this. While the Australian market is growing quite markedly, American imports have been pegged largely because of the very heavy protection afforded our own industry which demands a much higher price than our competitors. The Americans would have no case if our industry were relatively efficient and anywhere near competitive, but it is not.

In the not too distant future an important international trade and tariff negotiation will take place. The purpose of these negotiations will be to reduce trade barriers between countries.
One of the things that I hope the Australian Government will ask for will be a reduction in the American Wool Tariff. This could have a noticeable effect on the price of wool in the Australian auction market. However, I am utterly convinced that the Americans will ask for a change in our tobacco policy if we expect them to reduce the wool tariff. A reduction in the American wool tariff could increase the price at Australian wool auctions by one penny or two pennies a pound. For every penny increase in price £8M additional of overseas funds would be earned by the wool industry.

And so we have the interests of Australia's greatest industry inter-woven with the interests of an industry that is thoroughly uneconomic by world standards.

Let me just demonstrate how Australia could be advantaged by some change in policy.

If all present Australian tobacco production were imported the equivalent tobacco could be bought for £10M. This, of course, would be a nonsense policy because only the most inefficient of the Australian producers would go out of production. If Australian tobacco production were reduced by one-third, the additional imports that would be involved would cost about £3M or £4M on present import prices and if a consequent reduction of the wool tariff increased the price of wool in the Australian auction by 1d., Australia would gain an additional £8M in overseas funds. The balance of advantage of this sort of arrangement would clearly be on our side.

This sort of deal would be good business for Australia and if we expect to have a reduction in the wool tariff it may be necessary.

This certainly would not mean casting the tobacco industry to the wolves.

Some of the additional customs revenue obtained from increased imports could and should be used for the reorganization of the tobacco industry. If necessary inefficient producers could be bought out, and they could be established in other industries with no hardship to themselves.

Let me be more precise. If a change in our tobacco policy led to a reduction in the American wool tariff and if at the same time five million pounds weight of additional tobacco had to be imported £1.75M of extra customs revenue would be collected. This could be devoted to the reorganization of the industry and over a period the less efficient producer could be established in other industries with great benefit to themselves and to Australia.