A LOOSE PARTNERSHIP: BUSINESS AND THE REGIONAL STATE IN THE DEVELOPMENT OF QUEENSLAND'S RELATIONS WITH JAPAN

by

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The work presented in this thesis is, to the best of my knowledge and belief, original except as acknowledged in the text, and the material has not been submitted in whole or in part for a degree at this or another University.

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ABSTRACT

This thesis examines the relationships between business and the regional State in the development of Queensland's trade with Japan from the end of World War II to the late 1970s. The analysis has been organised around case studies of four of Queensland's principal export industries and the major decisions involved in the establishment and management of their trading relationships. The study acknowledges the minimal influence of a small State such as Queensland on the international forces which determined the pattern of trade opportunities and concentrates its attention on the interaction of State and business in making the economic and political adaptations necessary to develop Queensland's strong natural advantage in the production of agricultural and mining products into a flourishing and long-term trade. Queensland tradition demanded and economic necessity urged an active role for the State in the growth of industry and trade, acting in response to the demands of business, but at the same time having real, though limited, autonomy to pursue interests of its own. The thesis seeks to clarify the nature of State-business interactions and to define more precisely the role of the State in the development of relations with Japan.

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ABBREVIATIONS

AAPC	Australian Aluminium Production Commission
ACTU	Australian Council of Trade Unions
AGPS	Australian Government Publishing Service
AIDC	Australian Industry Development Corporation
AMB	Australian Meat Board
AMLC	Australian Meat and Livestock Corporation
ANU	Australian National University
ASPA	Australian Sugar Producers' Association
ASJ	Australian Sugar Journal
AWU	Australian Workers' Union
BAE	Bureau of Agricultural Economics
BCSA	British Commonwealth Sugar Agreement
c.i.f.	cost, insurance, freight included in price
CPD	Commonwealth Parliamentary Debates (Hansard)
f.o.b.	cost "free on board"
f.o.r.	free on rail
GATT	General Agreement on Tariffs and Trade
ISA	International Sugar Agreement
MITI	(Japanese) Ministry of International Trade and Industry
NADC	Northern Australia Development Committee
QCGC	Queensland Cane Growers' Council
QERAC	Queensland Energy Resources Advisory Council
QGMJ	Queensland Government Mining Journal
QPD	Queensland Parliamentary Debates (Hansard)
QSA	Queensland State Archives
SCAP	Supreme Commander for the Allied Powers (used to refer to both General MacArthur and his administration
UGA	United Graziers' Association
UK	United Kingdom
UQA	University of Queensland Archives
USA	United States of America

INTRODUCTION

In the thirty five years between the end of World War II and the early 1980s the Queensland economy was transformed. Its rural base remained, but became more diversified and capital-intensive as producers were increasingly aware of the need for production to be determined by reference to the wants of a variety of marketplaces. The mining industry became the most dynamic and productive sector of the economy, regaining the important position it had enjoyed in the late 19th century before it degenerated, with few exceptions, into a series of small scale enterprises of doubtful financial viability. Underpinning and stimulating these developments was the growth of Queensland's relationship with Japan which marked a change in the State's economic orientation.[1] Major sectors of the economy ceased to be inward-looking, relying primarily on domestic sales or markets in the southern States of Australia or in Britain; instead they developed an aggressive commitment to production for export and looked outward to Japan and to the United States and elsewhere for markets, capital, partners and technology.

The history of Queensland's relationship with Japan extends back before Federation, with contacts in the pearling and sugar industries and attempts by government and business to develop trade in the years around the turn of the century. During the 1920s and 30s a vigorous and extensive commercial relationship developed, including the beginnings of an export trade in mining products as inputs to Japan's growing industrial sector. After World War II, trade resumed with many of the same products, actively promoted by some of the same individuals and organisations involved in the prewar years.[2] Many of the prewar issues and problems arose again, and it may have seemed that the war years were a short break in a continuing trade pattern. Yet for Queensland, World War II was more than a temporary interruption to long-established patterns and institutions of trade; it was a decisive turning-point in the relationship. In the postwar period, new goods were traded which by their nature involved Queensland in wider political and strategic issues, with Japan's domestic policies, and with that country's concern for resource security. New personalities and enterprises were involved, new institutions and networks developed. Japan came to provide the principal market for a number of important Queensland industries, the stimulus for much of the State's economic development, and the mainstay of significant towns and regions especially in the northern and central areas. Governments recognised more clearly than they had done in the prewar years the importance of the trade for the Queensland and Australian economies.

After World War II the relationship between Queensland and Japan re-emerged slowly, with great caution and considerable uncertainty even among its promoters, based not only on wartime experiences, but also on memories of prewar trade problems. There was a pragmatic acceptance of the likely revival of trade, though with substantial reservations even from those most likely to benefit. As early as 1946 a Gallup Poll found that 51 percent of respondents favoured the resumption of trade with Japan,[3] and the Queensland government was interested in efforts to resume sales of wool. At the same time there was opposition to Japanese involvement in the trochus, pearling or fishing industries, calls for government to ensure that Near East trade did not go back into Japanese hands, reluctance to purchase even limited quantities of Japanese goods to help overcome shortages in building materials and expressions of concern from some sections of the wool industry that Japan might seek to manipulate the auction system to regain the dominant market position she had enjoyed prewar.[4]

Yet the relationship did resume, based almost completely on trade, and dominated by many of the same products which had been important in the 1920s and 30s. Imports, principally textiles and manufactures, had less impact on the economy of Queensland than they did in the southern States because of Queensland's comparatively small secondary sector producing essentially for a limited local market. Questions of protection, tariffs and import controls were therefore less significant; the focus of the trade relationship for Queensland lay in the products it was able to sell in the Japanese market. Exports for Queensland, as for Australia as a whole, were initially principally of rural origin such as wool and wheat, though the trade was widened and deepened by the addition of "new" agricultural and mining products such as sugar and coal and by the growth in the volume and range of traditional exports.

By the end of the 1950s, Japan was already Australia's second-best overseas customer, taking 17 percent of exports in 1960-61, with agricultural commodities accounting for over 80 per cent of their value.[5] Queensland was an important part of the agricultural trade as a major supplier of wool and beef and the only supplier of sugar. By 1959 Japan took 15 per cent of Queensland exports, with the principal commodities being wool, sugar, and hides and skins.[6] By the early 1980s Australia's main agricultural exports to Japan had not changed significantly from their rural base, and were wool, wheat, sugar and beef. Queensland supplied 100 per cent of sugar and sorghum exports, 56-67 per cent of frozen beef and 85 per cent of chilled beef, 10.6 per cent of wheat and 7-8 per cent of wool. She also supplied 80 per cent of edible tallow, 58.7 per cent of hides and skins and 16 per cent of cotton.[7] Queensland provided a significant proportion of Australia's exports of resources as inputs to Japan's expanding industrial production, especially coal, copper, bauxite, rutile and zircon. During the 1960s and 70s agricultural exports formed the basis for substantial and continuing trade, while the spectacular growth of mining exports was the catalyst for a change in the pattern of Queensland's economic growth and the basis for a wider and deeper relationship with Japan.

The growth of the Queensland-Japan trade relationship and the changes it wrought in the State's economy saw a continuous evolution in the range and volume of production, the size and structure of industry, the nature of technology and production methods and the quantity and direction of exports. Taking advantage of the opportunities for trade required the assumption of risk, overcoming technical and financial obstacles, developing appropriate products at internationally competitive prices and establishing and maintaining required levels of quality. At the political level, the development of the relationship with Japan cut across traditional ways of thinking about policy and across the compartmentalized structure of government departments and agencies through which policy was developed and implemented. The complex requirements of new industries developed primarily to serve the Japanese market necessitated not just new policies, but new structures and practices and new ways of thinking. The processes of this change involved an intricate and extensive web of interactions between business, governments and other sections of the state. These occurred within the framework of the federal system and in the context of Queensland's traditions, institutions and structures which together limited the range of possible strategies and policy responses to the opportunities for the growth of the relationship with Japan.

The aim of this thesis is to examine how and why Japan became a focus for policy in Queensland in the period between 1946 and 1980 and how the Queensland State government came to have a vital interest in promoting the relationship. The thesis studies the sorts of processes involved, the ways in which political and economic forces came together and how encouragement of Queensland-Japan relations became a "settled" policy. It seeks to identify the key political decisions associated with the growth of the relationship, how a "Queensland" policy towards Japan developed in the context of the federal system, and the ways in which the interests of Queensland and the Commonwealth conflicted or coincided. The central focus is the way in which Queensland dealt with a major area of economic policy and how government and business interaction contributed to the development of Queensland's relations with Japan. Ultimately the thesis is concerned with the respective roles of capital and government in a regional State within a federal system, and in the context of a modern capitalist economy.

The foundations of the study lie in the concepts of the extensive body of literature which analyses the role of the modern state in market-based economic systems. These analyses identify a multiplicity of motivations, purposes and processes involved in the relationship between the state and significant sectors and interests in society. This diversity makes it difficult to define or categorise particular systems, though analyses fall loosely into two main groups - neo-marxist and liberal. Neo-marxists focus on the way in which state actions serve the interests of domestic or international capital, although Tsokhas, for example, has documented the importance of other influences or of the state's own interests.[8] Liberals emphasise the interactions among competing groups in society and the role of the state in processing, articulating and responding to the group demands. Of particular relevance to this thesis is Lindblom's argument that in a modern economy government and business exercise a "duality of leadership" in which businessmen are "functionaries" performing roles essential to government. Government is active in supporting business, offering whatever inducements it needs to fulfil its role in the market system.[9]

But other studies in the United States, Europe and Australia suggest the interactions between state and business are more intricate and variable than Lindblom indicates.[10] The diversity of interests and organisational structures within the business sector, the multiple agencies of the state apparatus and the international political and economic dimensions of policy formulation lead to complex relationships even within a single industry or section of the economy. Different sectors of business may have competing or conflicting interests or different opinions on specific issues. State agencies themselves have an institutional power base which allows them to develop a policy perspective independent of the stance taken by business, although some agencies are so closely related to sectors of capital that separate views are difficult to determine. Business enterprises themselves are ambivalent about the appropriate relationship between state and capital; there is a very fine line between supportiveness and excessive regulation and a tendency for more, rather than less, intervention to be sought in difficult economic times. The relationship cannot be reduced to a simple statement that the state performs a specific role whose nature is determined by the interests and demands of business. The interactions of state and business are rather an array of different and slowly shifting relationships including consultation and cooperation between independent units, close interlinking and interdependence, or formal sharing of authority as embodied in corporatist-type structures.

Separate but related studies of regional States indicate that they also play an active role in a market system, although constrained by their small size and the arrangements of the larger unit of which they are a part.[11] In Australia, studies of specific States and industries argue that States such as Queensland have the power and scope to foster the exploitation of favourable market opportunities, to capitalise on the State's economic advantages and to take an assertive role in promoting a particular pattern of economic development.[12] In so doing, however, the States are essentially responding to rather than creating economic conditions which have their origin in national and international forces. Such studies emphasise the real but limited autonomy of the regional State to be active in pursuit of its own interests, interacting with business and other sectors of society and economy in a range of processes similar to those identified at national level.

This thesis takes the propositions of the theoretical and empirical literature as a starting point from which to study the role of Queensland as a regional State in the development of the relationship with Japan. It will argue that comparative advantage and complementarity between the Queensland and Japanese economies pointed to the possibilities for bilateral trade. These possibilities were enhanced by changes in the international trading environment and in international political arrangements and by political and economic factors in Japan itself. But the processes involved in taking advantage of these opportunities, of developing and continuing the trade, provide another example of the ability of a regional State to act, albeit within a limited framework, to influence the pace and pattern of an area of economic development. The patterns of State involvement and of State/business relations do not conform exactly to one specific theory of the political economy of nation states, nor are they identical with those in other sub-national units since they reflect the particular characteristics of the Queensland context in which they occurred. The interrelationships do, however, bear out the proposition that regional States can and do take an active and decisive role in matters affecting their own development, though within the limits of opportunities and structures determined at national and international level.

Clearly, as economic theory suggests, trade between Queensland and Japan was based on complementarity between the two economies and on patterns of comparative advantage, though modified by non-economic considerations such as traditional ties and protectionist policies. In the immediate postwar period, Queensland supplied foodstuffs needed for subsistence and materials such as wool which were inputs to those Japanese industries permitted to redevelop, while Japan supplied products such as nails, wire and galvanised iron essential to Queensland's housing, industrial and public infrastructure.[13] From the mid 1950s as Japan's heavy industry began to grow and incomes and lifestyles changed, Queensland was an abundant and geographically close source of a range of raw materials for the rapidly expanding Japanese industrial sector and of primary products such as beef and sugar for which demand rose as Japan's affluence grew. By the mid-1970s, changes in Japanese economic structure hastened by the oil crisis opened markets for steaming coal and energy-intensive products such as alumina, but created what were to be ongoing difficulties for resources such as coking coal tied to industries which were declining or moving offshore. Complementarity and comparative advantage were important pointers to the possibilities for trade, but turning possibilities into reality required action to make resources known and accessible, long-term strategies of technological innovation and capital investment to enhance the advantages of natural endowment, and adaptations in production and marketing in the light of changing international circumstances. Comparative advantage and complementarity do not explain why postwar trade was so much richer and fuller than it had been prewar or what the processes were which turned possibilities into reality.

Part of the explanation lies in the radical changes in the international political and economic environment in the postwar compared to the prewar period.[14] The decline in British power and influence and Britain's eventual entry to the European Community helped to redirect the attention of Australian governments and business away from reliance on markets in Britain and the Commonwealth. The rising importance of the United States and her strategic significance for nations of Asia and the Pacific associated Australia with American politico-economic thinking. The United States' concern with the consolidation of a Western coalition against the communist bloc and the need to incorporate Japan within this group hastened the signing of the Peace Treaty in 1951, the return of Japan to a normal pattern of full industrial production and her entry into GATT. The desire of the United States to minimize economic tensions which might undermine Western solidarity, coupled with the general prosperity of the world economy, allowed the expansion of world exports and helped to sustain a system of freer trade from which Australia was able to benefit. As the perceived immediacy of the threat from the Communist bloc retreated during the late 1960s and 1970s, economic issues emerged on to the forefront of international relations when serious domestic problems beset Western industrialised nations, especially after the 1973 oil embargo. The United States became much less tolerant of the export policies of allies as domestic and politically significant industries exerted pressure for protection or for more reciprocity in trade. Subsequent bilateral arrangements and protectionist sentiments in major trading countries significantly affected the nature of opportunities for small, open economies such as Queensland.

In Japan itself, the interaction of political and economic factors delineated the market niches which Queensland business had the opportunity to fill, modifying the possibilities suggested by comparative advantage and making more precise the general range of opportunities created by changes in the international environment. In the immediate postwar years, controls exercised by SCAP effectively determined the volume and nature of trade, but by the mid 1950s new industrial and political directions set the scene for trade expansion as Japan embarked on a program of rapid growth based on capital intensive industrialisation. The need for markets and for access to reliable supplies of resources as inputs to industry underlay the start of the slow process of trade liberalisation, beginning in the early 1960s, and capital liberalization from 1967 which opened opportunities for Australian exports and for Japanese investment in resource development. Worldwide shortages and the high prices of resources in the early 1970s curtailed this rapid growth and evoked from Japan a range of policy responses which dampened the opportunities for some Queensland products, increased the demand for others, and created pressure for trading arrangements which ensured security of supply. Particularly important were Japan's relations with major trading partners such as the United States and the way in which Queensland's small economy was affected by Japan's efforts to accommodate political and economic pressures at home and abroad. International factors established the opportunities for Queensland-Japan trade within a framework of structures negotiated bilaterally or multilaterally by national governments. The response in Queensland to those opportunities depended on the actions and interactions of individuals and companies and of the State and Commonwealth Governments.

The principal hypothesis to be examined in this thesis is that, in responding to the opportunities in the Japanese market, Queensland was an active and interventionist State, fostering, supporting and promoting the growth of trade. The initiative and entrepreneurship essential in promoting entry to the Japanese market and the impetus for domestic changes necessary for the long term development of trade came from the business sector. But at significant points in the development and management of Queensland-Japan trade, State decisions and State actions influenced the ability of business to respond to the market and the way in which conflicts and issues were resolved. State and business could be regarded as semi-autonomous, each with its own interests and resources, making its own efforts to develop trade and thus the bilateral relationship. At the same time, for specific industries and policy questions there were areas of overlap where State and business were participants in loose partnership through which their efforts were concentrated in ways which facilitated the changes necessary to take advantage of opportunities in the Japanese market. Over this range of issues, State and business were mutually supportive, working towards common goals whose roots lay in Queensland's traditions and institutions as well as in contemporary conditions. Within the partnership, the respective roles of the participants were fluid and ill-defined. Goals and priorities were often vague and imprecise, with areas of competition and conflict as well as the shared base of a commitment to decentralised and rapid development, preferably with minimal reliance on southern States or the Commonwealth. The result was a tangled network of interactions, varying with time, with the specific issues, the nature of the industry and market and the historical and contemporary contexts. Queensland's approach to the development of trade with Japan cannot be reduced to a single role, but rather to a series of roles along a continuum from formal partnership to arms-length support.

The nature of Queensland-Japan trade itself contributed to the diversity of interactions between State and business. Rural industries relied on Queensland and Commonwealth Governments for essential infrastructure such as irrigation works, beef roads and the opening up of new lands for production. Much of the research on which enhancement of natural advantage depended was conducted by Departments of Primary Industry or by government instrumentalities such as the CSIRO. Marketing and promotion were supported or controlled by a wide variety of government, industry, or combined organisations. However, as Head has pointed out, the needs of multinational capital crucial to the development of mining products required different forms of State participation.[15] The enactment of legislation was necessary to ensure security of tenure for potential mine developers and to establish the terms of access to resources and the conditions governing their exploration and exploitation. Arrangements had to be put in place for the provision of port and rail infrastructure, for the provision of services such as water and electricity and for the coordination of separate projects within the overall framework of the State's fiscal and developmental priorities. New regulations, policies and administrative machinery were required to deal with emerging issues such as land use, the impact of projects on the environment, the demands imposed on Local Authorities and the wider implications of regional development for the provision of government services. Governments became involved in discussions about contracts where government policies on such matters as franchises and infrastructure were themselves an integral part of the contract negotiations. In the longer term, government policies such as encouraging expansion in the number of mines and maximisation of output, and the security deposit system for the provision of infrastructure, had a major impact on problems of costs, pricing and contracts which arose when world recession and Japanese economic restructuring led to an excess of supply over demand. The precise details of State involvement varied widely from industry to industry, influenced by the nature of the product, but also by factors such as the strength of inter-regional and inter-state competition, geographical location, and the changing priorities imposed by international circumstances.

However, as the central hypothesis suggests, much of the success of trade initiatives and of export-oriented projects can be attributed to the far-sightedness, enthusiasm and expertise of entrepreneurial individuals and company executives who had to recognise opportunities, conceive projects, marshal resources, innovate, assess and accept risks and ultimately make the decision whether a particular project would proceed. It was private enterprise which discovered bauxite at Weipa and coal in Central Queensland and found markets for them in Japan, individuals and firms who developed the trade in frozen and then in chilled beef, the sugar industry itself which initiated and funded bulk handling and reorganised its methods of production to deal with the quality issues on which continued trade depended.

There were characteristics of entrepreneurship evident also among some Cabinet Ministers and senior bureaucrats. This is not to suggest that the State itself was entrepreneurial. Rather, there were among Ministers and senior public servants key personnel who exhibited the risk-taking, forward-looking characteristics of entrepreneurs. They were instrumental in inducing at the political level a change in the vision of Queensland's development, an assertive approach to trade opportunities and an image of a progressive State attractive to customers and long-term investors. They were prepared to take risks, to persuade their colleagues of the potential benefits of Japanese trade and to act at crucial points to overcome obstacles to its development.

This view of entrepreneurship within the public sector is at odds with the idea expressed by some writers that Queensland was a conservative State with a distinctive brand of State paternalism directed towards the maintenance of traditional patterns of economy and society.[16] The thesis will argue that there were key characteristics of the Queensland context which promoted a positive response to the opportunity to look outward for trade and investment by both business and government and contributed to the shared vision and close relationship necessary to achieve the economic changes this trade would impose. Both State and business were active in developing the trade with Japan, but neither could have succeeded without the other. The active collaboration which a partnership implies was essential to the development of the relationship.

To test this hypothesis, the concepts of the theoretical studies and the lessons of the State's historical experience are combined to derive a "Queensland approach" to the issues of trade with Japan. The prewar experience of Queensland-Japan trade is analysed to draw out the significant influences on and lessons from trade as a basis for postwar development. Two specific policy areas are analysed - the trade in rural products, especially beef and sugar, and trade and investment in the mining sector, with emphasis on coal and bauxite. They represent the major areas of trade which had a specifically "Queensland" dimension, made a significant impact on the Queensland economy, and were a focus for the interaction of the major determinants of the relationship. The analysis examines these key areas from the point of view of the appropriateness of the "Queensland approach" and how the environmental, political and economic factors interacted to promote the growth of Queensland-Japan trade.

The primary sources used have been archival material, newspapers and journals and Parliamentary records. These were supported by a series of interviews with individuals and representatives of organisations involved in trade and with politicians and key bureaucrats. The perceptions of these participants in the processes of trade development provide an insight into the way in which key decisions were reached and the interactions of State and business at crucial turning points in the development of the relationship.

The analysis is organised around the themes discussed above. Chapter 1 outlines the historical and theoretical contexts which provide a frame of reference within which to examine the development of the relationship and the respective roles played by the state and capital. The chapter examines the major theories of the state, and of the role of the regional State in a federal system. It argues that Queensland has a tradition of active State involvement in economic life, despite the constraints and conflicts of the federation.

Chapter Two sets the scene historically, arguing that there were continuities in the pre-and postwar links with Japan and that the prewar interactions represented the first tentative steps towards the wider postwar relationship. The chapter emphasises that basic complementarity in economic structures encouraged trade, although neither business nor government recognised opportunities beyond a narrow range of goods which acquired a small proportion of market share. The dichotomy of the views and interests of exporters and of Australian industry was evident in the prewar period as were some of the major postwar issues such as Japan's reputation as a tough and opportunistic trader, the difficulty of devising stable marketing arrangements satisfactory to both parties, and the pervasive influence of government policy on the progress of trade.

Chapters Three and Four examine two areas of rural trade - beef and sugar, emphasising the efforts of rural entrepreneurs to develop trade within the boundaries imposed by the political control of markets and the effects of international arrangements. The first represents the archetypal rural industry with a multiplicity of individual producers, widely dispersed geographically, often in inhospitable and difficult conditions, producing a range of products for different markets. The second is a uniquely Queensland industry, tightly controlled from planting to sale, with title to the crop residing in the Queensland Government which is responsible through the Sugar Board for disposal both at home and abroad. The interactions between State, business and Japanese interests in these two industries illustrate very different, but active, roles for the regional State.

Chapters Five and Six cover two aspects of Japanese trade and investment in the mining industry - bauxite and coal. Here we see the importance of entrepreneurial initiatives, and the way in which the development of trade depended on government support for and collaboration with private enterprise. Bauxite is of particular interest as it was discovered in commercial quantities only in the 1950s and is one of the few minerals in Queensland where business and State combined to give a comparative advantage in the processed product rather than just in the raw natural endowment. Its discovery and development marked the start of the world-class mining industry and a change in the perception of the State's role in development. The coal industry had been established in the nineteenth century and there were long-held views about its prospects and structure and the appropriate relationship between the industry and the State. The growth of the coal trade with Japan required the overturning of all these preconceptions as it became of major significance to both the Queensland and Japanese economies and a focus for the redefining of Commonwealth and State roles within the federal system.

The analyses of these four trade areas serve to elaborate the themes and theoretical issues on which this thesis is based. The studies develop the argument that international factors determined the setting in which the growth of trade became possible, and that business and the State were active in a variety of ways, both separately and in collaboration, in taking advantage of the opportunities afforded by political and economic circumstances. What emerges from the studies is that the role of the regional State is not easily described by a single model. Rather there are a series of roles varying with time, the nature of the industry and the issue and with the changing priorities of the State itself. The interactions may be viewed as being along a continuum - on one end the formally defined roles of an official partnership, on the other the loose association of two groups - State and business - working within a common framework towards separate, but related goals more readily achieved by the cooperation of the two parties.

The analysis is grounded in the principal theories of the role of the state in economic life which identify key aspects of state/business relations, in the understandings of the nature of the federal system, especially in relation to foreign trade, and in the wider experience of the role of the State in Queensland's economic life of which relations with Japan are an important part.

CHAPTER ONE

STATE AND ECONOMY

A QUEENSLAND CASE STUDY

INTRODUCTION

This chapter introduces the theoretical and historical contexts which provide a frame of reference for the study of State/business interactions and the role of Queensland as a regional State in the development of Queensland-Japan relations.

The focus is firstly on contemporary views of the main problems and issues involved in understanding the relationships between state and business in a capitalist society, concentrating on the principal varieties of liberal and neo-Marxist thought and on studies of small economies open to the influence of world markets. The central question is whether, in its extensive participation in economic life, the state is simply responding to demands and pressures from within society or whether the state has autonomy to pursue interests of its own, providing some of the dynamic of the system. Writers ask whether the state is just a regulator and supporter in the interests of the community as a whole or of a particular class, or whether the state, particularly in Australia, is simply the "client" of the international business community.[1]

The chapter then turns to examine a number of key aspects of federalism to determine how we need to modify the theoretical propositions about the role of the state in applying them in the Australian context. Miliband defines the state as "the government, the administration, the military and the police, the judicial branch, sub-central government and parliamentary assemblies". But Australian sub-central units are not merely "an extension of central government and administration"; they are, constitutionally, "power structures in their own right".[2] Certainly regional States are constrained in their scope and power by the limits of the Constitution and by the way in which the increasingly complex relationships within the domestic economy and between the domestic and international economies tend to emphasise national rather than sub-national issues. However, the regional States retain a wide range of powers which enable them to respond in their separate ways to economic opportunities, even where these prospects lie in international trade which is the responsibility of the national government.

Consideration of the economic activities of a regional State such as Queensland must, however, first be placed in the wider context of the political economy of the nation of which it is part. Before developing the notion of a Queensland approach, we therefore examine how Australian political economists have viewed the role of the state in Australian life in the light of the main theoretical positions, though modified by the structures and practices of the federal system.

Finally, we develop a concept of State/economy interactions in Queensland as a framework for the analyses which follow, and consider this approach in terms of historical patterns to draw from Queensland's experience those characteristics which impinge on the nature of relationships that may be argued from theoretical perspectives.

The purpose of this chapter is to present an overview of the important themes from theoretical and empirical studies which are most relevant to the central question of this thesis and to develop from them a "Queensland approach" to be used as a basis for the analyses of State/business interaction in four specific industries as they developed their trade with Japan.

THE ROLE OF THE STATE - THEORETICAL FRAMEWORK

There is no single theory of the role played by the state in the context of a capitalist economic system. There is a general acknowledgment that, since World War II, State-economy relationships have become more complex and the scope of State activities more extensive. However, there is considerable disagreement about whether there has been a fundamental change in the political process, and hence in the form and character of the role of the state in the modern economy.

There has certainly been in the postwar period a trend towards the extension of state functions, for example by the adoption of techniques of Keynesian economic management and the promotion of economic development. Consequently, public objectives, strategies and activities have become intermingled with those of the private sector, leading to debate about the precise nature of the interrelations between state and economy and the respective roles of state and business in economic life. Debate was further stimulated in the 1970s by the search for a solution to the problems experienced by advanced Western economies. The failure of the management of monetary and fiscal policies to achieve macro-economic stability or to stimulate economic growth in the face of global pressures[3] called into question the role of the state and its relationships with other actors in the economic process. In some countries such as Japan, whose large economy has a major influence on the world economic environment, a long period of consistent growth has been attributed, at least partly, to the statist nature of its political economy. The apparent adaptability and economic success of countries such as Singapore and Switzerland led to a consideration of the role of the state in small countries or regions in evoking a positive response to international events and promoting economic growth.[4] On the one hand, it was argued that the complexity of structures and functions of the modern state and the growing importance of transnational corporations diminished the state's ability to take autonomous initiatives. On the other hand, evidence from studies of particular countries suggested that the state's capacity to promote change and to harness and direct economic forces was central to contemporary economics.

Writers from both main strands of social and political thought - marxism and liberalism - attempted to develop an explanation of the role of the state consistent with empirical evidence from modern capitalist societies but firmly anchored in historical and theoretical frameworks.

A liberalist reassessment

A reassessment of the role of the state in the context of postwar economic experience rejected the "diffusion of influence and power and mutual adjustment"[5] of conventional pluralist theories as a realistic and adequate model of the role of the state in modern capitalist economies, although pluralist processes remained an important part of the political life of liberal democracies. The state could no longer be regarded as passive, and its role merely administrative as it executed "the expressed demands ...[of] organised bodies".[6] Writers acknowledged that the state was at times able to resist or transform demands from the environment, to pursue interests of its own and to use its powers to initiate and direct particular aspects of policy. Some liberal writers argued that policy was not determined by the open, fluid interaction of diverse groups, but was largely in the hands of elites - groups occupying leading positions in public or private organisations, sometimes with a partial monopoly in a particular field, official recognition, or the right to take part in institutional consultation.[7] The state as an institution was merely one of the groups forming the central core of strategic decision-makers. Other writers from both the liberal and marxist traditions proposed more state-activist models which necessarily called into question the political relationship between business, organised labour and governments.

Within the liberal tradition, Lindblom argued that in a modern economy the state is a partner in a "duality of leadership" with business. Business occupies a privileged position alongside the state because business has a political role in providing the essential dynamic of the system. The role of the state is to ensure the provision of whatever is needed as a condition for business to take risks, engage in enterprise and expand production so as to perform its economic function. The state is active, supplementing market with political inducements, nurturing market demands, supporting business, providing infrastructure and creating "a good business climate".[8] Structures for formal consultation allow for active and frequent negotiation between business and the institutions of the state and may involve a sharing of some authority through regulatory Boards and Committees. Critics have pointed out that the relationship between state and business is not as straightforward as Lindblom suggests. Neither business nor the state constitute a homogeneous unit. Business consists of a variety of sectors with diverse interests and organisations, while the state apparatus includes a range of different boards, departments, commissions and authorities which may pursue opposing objectives or seek to represent particular segments of "business". This diversity makes it difficult to determine the general interest of business, to arrive at the consensus about social, economic and political goals essential for a successful partnership, or to argue that business interests are an ever-present and potent motivation for state decisions. Nevertheless, Lindblom's argument draws attention to the likelihood that state and capital will have a common interest in the success of business and business projects, irrespective of political party, the pattern of relationships in a particular industry, or the specific national or subnational context.

The marxist view

Modern writers disagree with the older marxist position that the state is a parasitic institution which has no economic role in its own right, but exists merely as a tool of the capitalist class. Writers such as Poulantzas,[9] Miliband[10] and Tsokhas[11] emphasise that the state has an important role in reconciling and mediating between competing sections of capital so that social cohesion will be maintained and capital accumulation allowed to proceed unhindered. The state has relative autonomy from the dominant class; state action is not simply a response to the needs of capitalists, though it acts to serve the interests of capitalism within a partnership of state and class interests.

This "dual and contradictory" role of the state in both fostering social harmony and complementing the activities of private enterprise to sustain the process of capital accumulation has led to a "fiscal crisis" caused by escalating demands on state expenditures, especially for social and technical infrastructure.[12] It is argued that the result of attempts to resolve this crisis has been the growth of state planning and regulation, a stronger central government, and an increasing need to assert the legitimacy of the state through its ability to ensure material rewards and the resolution of economic crises.[13]

Neocorporatist consensus

The role of the state is central to the concept of neocorporatism, defined by Schmitter as

> a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized by or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.[14]

In this system the state is not an arena for the conduct of group struggle, but

> a constitutive element engaged in defining ... encouraging, regulating, licensing and/or repressing the activities of associations - and backed in its efforts ... by coercive action and claims to legitimacy[15]

Policy is the outcome of negotiations between economically defined groups in government, business and, sometimes, labour who share an ideology of social partnership which enables them to integrate different demands with "vague but firmly held notions of public interest" and who are able to secure the compliance of their members in the implementation of agreements reached.[16]

As Zysman has pointed out,[17] there are many variations within the bargain-adjusted model, depending on the particular state's historical experiences, its beliefs and objectives, economic circumstances and political and social structures. In countries such as Japan and France which have been termed "statist" or "state corporatist", governments have "built on a tradition of state authority and intervention ... to become full participants in strategic decision - making". Governments have been able to "orchestrate a range of powerful political instruments" to translate their own preferences into authoritative actions.[18] In other countries, different areas of state activity exhibit different patterns of interest politics and political processes,[19] so that both pluralism and corporatism may be present at the same time. There will therefore be both formal interactions between acknowledged representatives of economic and political organisations and informal relationships between individuals, voluntary organisations and government.[20]

Each of these theories throws light on the relationships between state and economy from a particular perspective and suggests important questions to be addressed in analysing substantive issues in the development of Queensland's relations with Japan. These include the way in which the growth of trade created demands for supportive or facilitative policies, whether the State's responses reflected only the interests of business, and the extent to which diverse groups were able to influence policy outcomes and at least partly displace the pressures from capital. It is also relevant to ask how important in Queensland was economic growth as a criterion in establishing the legitimacy of government. Given the significance of Japanese trade as a stimulus to growth, was there a commonality of interest between the State and those businesses developing the trade which formed the basis for a "duality of leadership"? Did the processes of policy development follow a single pattern, or were there a variety of processes in which the institutions of the State interacted in different ways with businesses, individuals, and interest groups in society ?

Any adequate analysis of the role of the state in Australian economic life at national or sub-national level must take into account the way in which federalism fragments the power of the state and permeates the fabric of the politico-economic system.

THE IMPACT OF THE FEDERAL SYSTEM

The growth of a substantial trade relationship between Japan and the peripheral States of Queensland and Western Australia brought into debate a number of issues related to the nature of Australian federalism and its impact on economic decision-making. These issues included the division of powers between the States and the Commonwealth, in particular the extent to which the Commonwealth could negate or frustrate State decisions about economic development, the adequacy of Federal-State financial arrangements and the significance of bilateral and multilateral treaties and obligations for the States. These issues have arisen because for Australia, as for most federations, the classical definition of federalism is a theoretical construct rather than a realistic description. The central and regional governments are not in their respective spheres "coordinate with the others and independent of them".[21] Rather, while the national and State governments maintain a degree of autonomy, interdependence and interaction are essential features of the federal system. The functions of central and regional governments are closely interwoven, with significant areas of overlap, intermingling and blurred responsibility. On particular issues, State and federal governments may be co-operative, complementing one another to achieve a common goal; at other times they have opposing views or approaches which are unable to be reconciled. There is no clear cut division of jurisdiction; power and administrative activities are shared, with neither tier of government subordinate to the other. Decision-making in the federal system thus has a "multiplane dimension"[22] in which outcomes depend "on the balance of power among various federal, state and corporate players and the political economy dynamics at any particular time".[23]

Divided sovereignty

The tension between federal and regional governments concerning their respective powers originates in the formation of the Australian federation from pre-existing regional units which agreed to share their sovereignty with the new national level, retaining for themselves those powers not exclusively vested in the Commonwealth or specifically removed from the States. The States did not relinquish their sovereignty; on the contrary, as Wiltshire argues, it is jealously guarded and "entrenches the position of the States in relation to Australian priorities", constituting "the whole foundation" of their bargaining position within the federation.[24] There are very few exclusive, or effectively exclusive, Commonwealth powers, and in many fields State and Federal Governments exercise powers concurrently, while there are others where the legitimacy of authority is contested.

In principle, the functions of Federal and State governments are divided so that national or international issues are assigned to the Federal level and matters whose effects are confined within a State are assigned to the State level of government. Thus the Commonwealth was given or has acquired over time a range of powers such as macro-economic management, external and interstate trade, and foreign affairs. In addition, determinations of federal authorities and agencies such as industrial tribunals have established benchmarks which, in practice, have been closely adhered to even within State jurisdictions. The States exercise extensive influence over local and regional development through their control over resource ownership, their residual powers over infrastructure and services essential to industry such as power and transport, and over the provision of urban and regional facilities. But in the twentieth century, external and internal, national and local concerns are so interwoven that almost every activity has become the subject of national interest and of federal/State politics. In reality the relationship is a "vast crisscross of formal and informal transactions, traversing both the areas demarcated within the 'division of power' and areas untouched by and unknown to the original division".[25] Demarcation lines are both fluid and ill-defined.

The division of powers and functions between the tiers of government has important effects in shaping the decision-making process. Constitutional provisions and their subsequent interpretation by the High Court have made the national government effectively supreme over the States in many areas. This dominance is reinforced by Commonwealth's effective control over State revenues through the centralised taxation system and the Commonwealth-State financial arrangements, and by the fact that the States have little or no input into "bodies which allocate powers, resources and values" such as the Industries Assistance Commission, the Reserve Bank, the Industrial Commission or the Australia Council.[26] The existence of the separate State and Commonwealth legislatures, bureaucracies and publics gives issues multiple points of access to the policy agenda[27] and raises the possibility of interest groups' playing one agency or tier of government against another in ways not possible in a system of undivided responsibility. Wiltshire has pointed out that achieving a workable accommodation of so many competing interests over a range of policy spheres requires concerted action among separate governments on a regular basis. This tends to result in a proliferation of executive federalism through intergovernmental machinery established to mediate and coordinate these interdependencies. This machinery itself, from the Premiers' Conference and the Loan Council to Ministerial Councils and meetings of administrators, may become an avenue for power plays between State and federal governments.[28]

Friction may be generated over fields of jurisdiction or the conflicting demands of particular regional issues, industries or interests or because of different policy objectives pursued by State and Federal governments. Export-oriented resource development is one area of considerable jurisdictional overlap and conflict of interest where States stress rapid development, while the Commonwealth may pursue other objectives such as resource conservation or naturalization of foreign investment which it deems in the national interest. Such disagreements can be escalated beyond their natural significance - "catapulted to the centre of attention by being coupled with an outbreak of direct state-commonwealth confrontation" in which a State leader can "mobilise strong sentiments of state patriotism" under the banner of "states' rights".[29] Queensland's campaign against Federal guidelines for mineral export prices and its use of export controls is a classic example. Although such disputes may be aggravated by partisan differences between political parties, regional loyalties often supersede Party ties and make possible alliances between State Premiers of very different political persuasion or bitter disputation between State and Federal governments of the same political party, though sometimes for political purposes rather than for substantive divergences of interest.

Regional differences

The divided structures and responsibilities of the federal system elsewhere in the world are often the expression of major cultural, social or religious differences within the nation. Although there are no similar cleavages within the Australian society, it has nevertheless been argued[30] that there are differences between regions of Australia sufficiently great to be better served by a federal rather than a unitary system of government. Such differences, whether perceived or real, have become institutionalized and entrenched by the existence of regional States and reinforced "by policy singularity, by emphasising heterodox rather than orthodox views and issues".[31] This is especially true of Queensland where mistrust of "the south" is part of political orthodoxy and political leaders make a virtue of asserting that Queenslanders really are different. Certainly the States differ in many ways such as their geography, climate, resource base, history and social composition, economic structures, and the laws and administrative arrangements built up over time to cope with the particular demands of their residents. In addition, the natural differences have been exaggerated by politicians such as Premier Court in Western Australia and Premiers Hanlon and Bjelke-Petersen in Queensland for their own purposes. Within each State, the relationship between groups, elites and government forms a unique political pattern that in some way is seen to represent the demands and preferences of its particular citizens.

The complexities of divided functions, and disputes regarding "the distribution of competence between the centre and the regions" [32] led to the establishment of the High Court to interpret and police the operation of the Constitution. Its decisions have generally supported the steady accumulation of power in the hands of the Commonwealth, and have been one method of adjusting the balance of power within the federation to accommodate "the shifting balance of common and disparate values, interests and beliefs" that are "reflected in more differentiated or more integrated relations".[33]

Federalism and International Relations

Of particular interest in the postwar period has been the way in which the changing nature of international relations relates to the Constitutional division of powers between State and Commonwealth Governments. This has proven of especial significance to Queensland.

Section 51 of the Constitution clearly gives the Federal government concurrent powers over external affairs {S.51(xxix)} and over trade and commerce with other countries{s.51(i)}. But the nature of external affairs is changing from the "classical agenda" of "boundaries, spheres of influence, national security and balance of power"[34] as many issues impinge on both international relations and internal politics, and patterns of international economic dependency involve both national and regional economies in global issues. As foreign and domestic policies have become more intermingled, there has been difficulty in determining the extent of federal powers and the boundaries of State and federal responsibility, especially in matters on which there is no consensus and where previously the Commonwealth seemed constrained by the federal system.

One of these areas has been the application of the external affairs power to a range of issues, including many which would otherwise fall within the jurisdiction of the States. Some of these matters are the subject of bilateral or multilateral treaties, many of which are readily agreed to by the States because of their coincidence with State priorities, because pressure of sectoral interests ensures State cooperation, or, more rarely, because affected States have been involved in treaty negotiation. In addition, formal cooperative arrangements were established in 1977 so that the implementation of treaties is a highly consultative and democratic process, with States closely involved.[35] Nevertheless, the broadening scope of treaties and the tendency for High Court interpretations to extend the jurisdiction of the Commonwealth have caused concern in the States that they are unable to prevent the steady erosion of their authority since they do not possess a residue of exclusive powers which are beyond the reach of superior Commonwealth legislation. In Queensland, such concern led in 1974 to the establishment of a Treaties Commission to assess the effect of international treaties on the State and make recommendations about the extent of cooperation with the Commonwealth in their implementation, and Queensland, together with Tasmania, suggested to the Constitutional Convention that the Constitution be amended to limit the application of S51(xxix) and the intrusion of the Commonwealth into their affairs.

The most protracted and bitter disputes between the Commonwealth and the States related to external trade have centred around natural resources and their development, often for export. Residual power over resources lies with the States, but the Federal Government is able to intervene indirectly through the use of its authority over such matters as foreign investment, taxation and external trade. The use of these powers, for example to effectively end sand mining on Fraser Island, has been the focus of State-Federal conflict and of wide disagreement among conservationists, miners, the legal profession and the States on the costs and benefits of Commonwealth intervention.[36] Essentially these disagreements relate to differing interpretations of the way in which trade, economy and resources can be managed in the light of the sometimes conflicting interests of the Australian community as a whole and those of the particular State in which development occurred.

International relations and economic well-being are inextricably linked in a State such as Queensland where economic growth is heavily dependent on production for export to Japan. Federal responsibility for external affairs and the ability of the Commonwealth to extend the application of this power to previously purely domestic issues created a barrier limiting the State's ability to encourage particular kinds of development within its own borders according to its own priorities.

Federalism and the role of the state

Wiltshire argues that features which are inherent in federalism such as fragmentation, diversity, multiple centres of power, and complexities in law-making, administration and co-ordination extend beyond the formal structures of State and Federal governments to underpin the many organisations of social and economic life. Trade unions, political parties, agricultural and business organisations, for example, embody the federal structure, having a significant State orientation as well a national interest.[37] This exaggerates the opposing tendencies for political and economic developments on the one hand to centralise national life and on the other to allow the States, especially those with strong international links, to pursue their own interests. The relationships between a State and business within its borders are made more complex because they involve not just the national level of government and its agencies, but the national level of economic, business and political organisations as well. Substantive questions of policy and policy implementation may generate cooperation among the different parties and organisational levels or a pulling in many directions. Policy formulation and implementation may become entangled in other issues dividing the parties, in the general climate of interrelationships, or in a struggle between the participants over their respective powers. The segmented pattern of policy-making and the variety of organisational structures inherent in the federal system restrict the State's influence over its own development and set the scene for a diversity of State-business relationships varying with the Constitutional division of responsibilities, the structure and functions of the organisations involved, as well as the policies and priorities of the State itself. Federalism thus has a profound bearing on the role of the state in Australian economic life and particularly on the role of a regional State such as Queensland with an outward-oriented economy.

THE STATE IN THE AUSTRALIAN ECONOMY

Until the late 1960s there was very little interest among political writers in seeking to analyse the role of the state in Australia at either national or regional level. Studies concentrated on the machinery of government administration, the institutions of the politico-economic system, and on the ways in which diverse groups sought to take advantage of the numerous foci of decision-making power in a federal system. Galligan[38] argues that interest in the role of the Australian state was revived by a combination of international and domestic events. These included the resurgence of nationalism, the decline of British influence, the rising economic and strategic importance of Asia, together with the changes in style, attitudes and policies at national and State level after the retirement of Menzies, the revitalization of the ALP and the election of the Whitlam government in 1972, and the defeat of long-standing State governments such as Labor in Queensland in 1957. In the economy, by the 1970s, the postwar period of relatively constant economic growth with low inflation and unemployment gave way to stagflation. Seemingly intractable economic problems precipitated in Australia, as in other Western economies, a debate about the efficacy of Keynesian economic policies and the role of the state in stimulating economic growth, especially in an economy increasingly vulnerable to movements in international investment, dependent on volatile patterns of international trade and influenced by the decisions of transnational companies. Economic development based on secondary industries in the southern States gave way to resources-based, export-oriented growth in the formerly less-developed States of Queensland and Western Australia.

These structural changes "upset the settled patterns of state politics and affected the established balance" between the States.[39] New tensions were created among the States and between the States and the Commonwealth over issues such as resources policy, environmental protection and foreign investment, as well as over broader questions such as the impact of regional developments on Federal-State financial arrangements and the extension of Commonwealth power into areas integral to economic development in the States and where State control of policy had not previously been questioned. States such as Queensland led a vigorous opposition to Commonwealth policies which appeared to threaten their interests, often escalating the dispute into an issue of "States' rights", utilising the Senate as the States' House in the Parliament, together with the State-oriented sections of the media and the State councils of political parties. It was obvious that the States were very much alive, despite the contentions of earlier writers such as Laski[40] and Greenwood[41] that they were obsolescent and the fears of contemporaries such as Stevenson,[42] Crough and Wheelwright,[43] and Patience and Scott[44] that those States which had been the main beneficiaries of the resources boom had become tied to international markets and international capital in ways which drew them apart from other States and which could lead to the fragmentation of federalism.

Hancock[45] and Eggleston[46] had much earlier recognised the active role of the States in providing the framework of economic infrastructure, and to some extent in stimulating and diversifying economic development. For the average citizen, it was the regional state rather than the remote government in Canberra that was "a vast public utility whose duty it is to provide the greatest happiness for the greatest number".[47] In the pattern typical of new settlement or frontier societies such as Australia and Canada, substantial state intervention was required to create the conditions for economic growth in a hostile physical environment with little community infrastructure. Hancock called this a type of "state socialism"[48] which had arisen not for ideological reasons, but as the only practical way of responding to the needs imposed by the circumstances of the time.

When serious discussion about the role of the state in Australian life resumed in the early 1970s, neo-marxist writers such as Connell and Irving questioned whether, in a capitalist society, the state was manipulated by elites of the dominant class seeking to preserve or enhance their privileged position.[49] As a particular case, Crough and Wheelwright argued that the penetration of Australian business by international corporations and the dependence of the economy on international trade condemned the Australian state to a "client" status whose function was "to shape the future development of the economy" for the benefit of foreign corporations.[50] This exaggerated view of the impotence of the Australian state was modified by later writers such as Tsokhas who acknowledged that the major sectors of capital had a significant input into politics and considerable power within the decision-making process.[51] On the other hand, Tsokhas showed that, even in mining where foreign ownership is very high, Australian company officials and Australian governments have been able to act independently, sometimes despite opposition from parent companies abroad.[52] Tsokhas found that the Australian state was not a tool wielded in accordance with the desires of a homogeneous, economically dominant class, nor was it a perfectly integrated system. Policies adopted by branches of the state were influenced by business, but also by political parties, alliances or conflicts with other sectors of the state or were motivated by their own interests.[53]

Galligan rejects both the "doctrinal limitations of Marxist class analysis" and "the emasculating assumptions of pluralist 'interest group' theory" as a basis for understanding "the modern state in principle, and the Australian state at both national and regional state levels."[54] He calls for a more 'state-centred' explanation that takes account of the dependence of Australia's economy on the international marketplace, the 'settled' national policies and institutions that are only occasionally politicised, and the special arrangements between the state and business that are made away from the political limelight. He further suggests that the assertiveness of States such as Queensland and Western Australia shown, for example, in key decisions concerned with the management of resources development, justifies the extension of the "state-centred" approach to the relationship of subnational as well as national units to the economic system.

Recent studies have investigated the close association of government and industry, but pointed to the difficulties of regarding the state in Australia as a partner in corporatist negotiation.[55] The adversarial nature of Australia's industrial relations system, the fragmented structure of the organisations representing employers and their inability to agree on a common position on issues such as taxation and tariffs, and the inability of employer and employee organisations to guarantee policy implementation by their members are obstacles to corporatism. Further, the ability of interest groups to take advantage of the multiple points of power afforded by federalism makes corporatism unlikely at the national level over an extended time period. Tripartite union, business, government negotiations did occur in establishment of the Accord in the 1980s and through the proliferation of advisory boards and committees. Gerritsen calls this "consensual corporatism", sustainable only in the face of national economic crisis, while the Opposition is weak and business is convinced it must work with a Labor Government, and while the ACTU is able to exert moral authority over strong unions in industries which could otherwise pass on wage increases.[56]

Studies of the regional States reveal a pattern of interventionism in which the State role varies with the peculiar local history and social and economic contexts which underlie it. In South Australia, Sheridan has identified the facilitative role of government through infrastructure investment, the establishment of public corporations, the regulation of manufacturing, service and labour markets and above all, the deliberate public connection of "growth policies to welfare and distributional benefits widely understood and shared by the community".[57] In Western Australia, Head describes "a significant entrepreneurial element" in State intervention, particularly for development in remote areas, and a "partnership" with private capital in which the State provided ad hoc support, together with overall policies designed to attract capital and enhance the profitability of private enterprise.[58] In Victoria, the Cain government went beyond the traditional facilitative role of the State to provide more direction to the economy. The State became directly involved in providing some of the dynamic of economic growth through planning mechanisms that allowed the efforts of public and private sectors to combine and through government bodies such as the Victorian Economic Development Corporation which provided both financial assistance and equity capital for joint government-private sector enterprises.

Queensland's experience also suggests that interventionist economic goals are relevant at the subnational level and that the relationships between State and economy in achieving them may be viewed from the general theoretical perspectives, although modified by local conditions and history. We turn now to examine key aspects of Queensland's historical experience which form, with the theoretical considerations, the foundation for an understanding of state/economy relations in Queensland.

THE QUEENSLAND CONTEXT

Considered in conjunction with the wider array of contemporary and historical relationships with business, Queensland's role in the development of trade with Japan is seen to be an extension of traditional patterns of active involvement in economic life. Historical studies suggest that involvement has been characterised by the priority accorded to development and decentralisation, by a preference for indirect influence rather than direct participation, by the belief that the dominance of southern financial and goods markets restricted the achievement of Queensland's potential, and by the attempts of successive Governments and Premiers to propel the State into rapid growth through their support for large-scale, speculative ventures heavily dependent on outside capital and foreign markets.

Shared ideology of development

The growth of Queensland's relations with Japan occurred firmly within the context of well-established and widespread commitment to "development" as the primary interest and objective of the State. Queensland politics was "the politics of development; concerned with things and places rather than people and ideas".[59] The broad traditions of how that development should proceed had their roots "in the very beginnings of the State and permeate(d) its history".[60] They comprised four essential elements:- an emphasis on primary industries, active promotion of decentralisation in all areas of the State, recognition of the need to obtain and accommodate southern and/or foreign capital, substantial government involvement. These attitudes and patterns provided a background of support for the resumption of trade with Japan in primary products, the import of Japanese manufactured goods especially for works and housing, and for the growth of mining in central Queensland.

When Hanlon took office in 1946, the general shape of development and the government's role in achieving it had long been entrenched. The State's priorities lay in the growth of primary production - "the natural occupation of mankind"[61]- and the government insisted on planning for the settlement and development of even marginal rural land despite postwar Commonwealth plans to give priority to secondary and tertiary industries. Very little came of the hope of the Secondary Industries Commission that wartime manufacture, though largely confined to Brisbane, would form the basis for a "surge of industrialisation in centres away from the capital cities" through a mixture of public and private initiative.[62] Little heed had been paid to the advice of Professor Brigden (Director of the Bureau of Economics and Statistics) in 1933 that a "planned and stable" economy would need "large combines",[63] and such industries as did develop were mostly small scale processing or branch industries making products too expensive to transport interstate. According to Wiltshire, the commitment to a rurally-based economy, to traditional ways, and to equality of treatment for all regions was sufficiently widely held to be a major factor inhibiting the development of secondary industries in the late 1940s and 50s. "There were simply no votes to be gained" from encouraging particular large-scale projects or encouraging specific sectors or regions to lead the way towards economic growth.[64]

Under both Labor and National-Liberal Coalition Governments, the importance and urgency of developmental works overrode many other considerations. Faced with chronic shortages of materials, Hanlon was willing to import supplies from Japan despite the probability of strong anti-Japanese sentiment in the community. The State Electricity Commission obtained a permit to import insulators, the import of Japanese steel and cement was proposed, especially for the Burdekin and Fitzroy bridges, and galvanised iron obtained for the

Department of Works and Housing. Similarly, Fitzgerald argues,[65] twenty years later, the Bjelke-Petersen government, buoyed by prospects of economic growth based on developments in mining and tourism, ignored sustained, widespread and popular opposition to allow oil drilling on the Great Barrier Reef, sand mining on ecologically important sites such as Fraser Island and the development of the Iwasaki tourist resort at Yeppoon. Opponents were pilloried as "ratbags" and Environmental Impact Statements regarded as bureaucratic nonsense invented by southerners with little understanding of the needs of resource development and used by them in an attempt to deprive Queenslanders of opportunities for growth and prosperity.[66] The single-minded pursuit of "development" and the societal values associated with rural conservatism made it extremely difficult for the countervailing power of pluralist interest-group activity to operate effectively in Queensland. At the same time, the pursuit of development and the understanding of its nature served to unite the disparate goals of government and business and provide a basis for shared effort towards taking advantage of trading opportunities in Japan.

Indirect and piecemeal intervention

In the main, post-war governments in Queensland, whether Labor or Country-Liberal, did not involve themselves directly in business. The prewar Labor ventures with State ownership of or participation in business firms were rejected even by the ALP itself, although the socialisation of the means of production, distribution and exchange remained part of the Labor Party platform for many years. The Liberal and National Parties believed there should be planning for specific purposes, but thought that government activity should support and stimulate, but not replace, private investment and personal effort.[67] Even after the State became more actively involved in economic life in the

1970s, the Queensland government did not invest directly or take equity positions through semi-government bodies to enable it to be involved in commercial projects.

Instead, expenditure on public works and infrastructure was relied on to stimulate overall economic growth and to encourage or facilitate developments of particular kinds or in specific locations. Under Premiers Hanlon and Gair, the Government Works programme was centred on basic infrastructure - water, electricity and communications - to promote decentralised development. Serious efforts were made to plan for the future growth of the coal industry as the basis for electricity production and industrial development. Grandiose entrepreneurial schemes for a State-wide hydro-electric grid, huge irrigation works, and the development of large farm areas to supply food for export were intended to encourage the expansion of rural production and the growth of closer settlement. Industries attracted by plentiful coal, cheap electricity and raw materials were to be the means of ending the industrial inferiority complex fostered by industrialists in the south.

Both the Gair and Nicklin Governments undertook a series of ad hoc measures lacking any particular direction or plan to encourage and induce the establishment of secondary industries throughout the State. Industrial estates were developed, firms such as Bitumen Oil given technical advice and assisted in finding suitable sites, and businessmen encouraged to form local branches of the State Development Association to bring forward proposals to a Development Advisory Committee. Premier Gair himself tried to interest overseas firms such as F.H.Lloyd and Co. of the UK in building an iron and steel works in north Queensland and to encourage resource development. But the state did not take a pro-active or leading role in promoting industrial expansion through private enterprise as the South Australian government had done, for example, during the late 1930s.

Business generally had to struggle along as best it could in the face of large, well-established southern firms with their bigger markets and easier access to capital. Many small industrial operations and the main local retailing firms were subsumed within larger southern-based organisations.[68]

The way ahead was pointed out by the Economist Intelligence Unit of London, retained by the government to prepare a survey into the State's economic development, to determine the most suitable industries and the methods of attracting investment. Its Report outlined the problems to be overcome - a gross shortage of all-weather roads, a pattern of rail freight rates favouring primary rather than manufactured products, a shortage of capital, and a lack of technical facilities. It identified "the basic triangular pattern of Queensland trade" with imports consisting "largely of manufactured goods from other States and exports of raw materials and foodstuffs, predominantly overseas". What was needed was to "break through the existing web of circular causation and thus increase the tempo of activity". This could be done only by the government or some private enterprise with sufficient capital to provide infrastructure of optimum size, well ahead of the time when it would be used to its capacity, involving a substantial element of risk and a long time span before recoupment of outlay.[69] Prospects, initially in the United States market for beef, and in the Japanese market for sugar, coal, bauxite and alumina provided the stimulus for this kind of change and for investment by private enterprise, supported, facilitated and influenced by government.

A new vision

The election of the Nicklin Country-Liberal Party Coalition in 1957 did not of itself provide a break with the traditional concepts of the nature of development and the

State's role in achieving it. The four basic elements remained, although the balance between them began to change as the new government endorsed secondary industry as the primary objective, while retaining primary production as the core of the economy. The Coalition promised to break away from the stagnation of an economy based on rural industries and small-scale processing. This economic pattern had historically been supported by all political parties, but by the 1950s it had become identified with the ALP Government. Philosophically, Labor Party policy embodied support for closer settlement, decentralised development and rural industries; realistically, the Party depended for financial and electoral support on the dominant section of the Party organisation, the AWU, whose core membership derived from unions representing workers in craft-based industries and rural occupations. The new government wanted to distance itself from previous policies and to emphasise the change from Labor to Country-Liberal rule. The political desire for change was reinforced by the poor condition of the Queensland economy which had not fully shared in the postwar economic boom and was severely affected by the recession of 1960-61.

But the encouragement of secondary industries as envisaged by the coalition parties was not the catalyst for the change in the concept of development. That was provided by opportunities in the international market, especially in Japan, identified by private enterprise, but requiring more than general infrastructure support to be translated into viable development. A series of discoveries and opportunities associated with oil, coal, bauxite and processed zinc and copper held out the prospect of "unparalleled" development[70] with decentralisation based on resources rather than on closer-settlement farming.[71]

Some projects such as the oil discovery at Moonie did not fulfil their original promise, but many others were successful, and collectively they changed the perception of nature of Queensland's resources and how they could be used. Developments in resource industries were reinforced by prospects for greatly increased sales of agricultural products to Japan and, to a lesser extent, the United States. The most important of these were beef and sugar, but they included products such as cotton and tallow which had been exported to Japan before World War II, as well as "new" exports such as bone meal, sorghum and wheat. Queensland developed a type of dual economy, with a base of small-scale, decentralised local enterprises supplying domestic markets, and a superstructure composed of sections of rural industries together with large-scale resource-based enterprises producing for export. It was this latter segment which was to become the linchpin of Queensland's economic development.

At first there was no clear idea of where these separate resources projects would lead. Overseas advice was sought from a Canadian consultant, Charles R. Hetherington and Co. on how to make the best use of the energy resources of the State. As the extent of those resources and the level of overseas demand became clearer, the government began to take a wider view of potential industrial growth and the possibility of exporting "the products of our cheap power, our virtually inexhaustible raw materials and our proven skills".[72] Mining came to be regarded almost as a secondary rather than a primary industry and the government's commitment to industrial growth was thus extended to resources development and to processing industries and industrial diversification which were expected to follow.[73] The Governor's Speech at the opening of Parliament in 1964 reported the beginnings of many such projects indicative of the State's industrial expansion including automotive, chemical, gas, oil, cement and mineral extractive industries.[74] As industrial growth became increasingly entwined with mineral production, the government realised that developments in mining, supported by the growth of rural industries, and made possible by export opportunities, could form a viable platform for decentralised economic development.

In 1962 the Government introduced three major development Bills - the Beef Roads Scheme, the Brigalow Scheme, and the Thiess Peabody Coal P/L Agreement Bill. These Bills formed the legislative basis for developments that would lead to the export of beef and coal to Japan and were the first projects in which the government was involved from the earliest stages of planning, government requirements and decisions had a major influence on costs, and the infrastructure which was provided as an integral part of the project often extended in time and scope well beyond the initial undertaking. They marked a break in what the Economist Intelligence Unit had called the "safety-first protectionist attitude" of holding fast to what had been achieved without looking ahead at what might be in the future.[75]

By the end of the Nicklin premiership there had been a change in traditional attitudes about how development should occur in Queensland. Agricultural and pastoral growth continued in customary ways, but the apparently random, unplanned and often tardy support given to basically small industries began to be replaced by a conscious policy of emphasising large capital projects, with substantial government involvement and assistance. Concentration of effort around mining and resource-based industrial complexes had begun and a new set of relationships between State and business developed beside traditional structures. There was no complete break with the past, but rather a revitalization of the long-held belief in Queensland as a land "holding promise of economic potential eclipsing any other Australian State", which would one day lose its "cinderella state" image and assert its rightful place politically and economically.[76]

Patterns of State involvement

Large-scale, high risk, economically complex projects provided the dynamic of Queensland's take-off into economic growth and underlined the legitimacy of the Liberal-National government. This sector of the economy thus occupied, in Lindblom's terms "a privileged position" in carrying out some of the functions of the state. It was supported by "a set of governmentally provided inducements",[77] although the magnitude and extent of the benefits shifted over time between State and business interests.

The precise forms of State involvement varied widely from one industry and project to another, particularly at the outset when there was no real policy and each proposal was dealt with as a single entity. Small-scale projects such as the proposal to combine the output of small copper gougers into saleable quantities to meet Japanese demand received little support.[78] Interest was concentrated on large proposals forming the superstructure of the dual economy.[79] In traditional areas of regulation and assistance, essentially agriculture and pastoral industries, the State and Federal governments provided infrastructure such as water and roads to enhance natural advantage, and assisted industries to compete in volatile world markets. For the most complex and large-scale projects the State collaborated with business in defining the needs of the enterprise and devising and co-ordinating ways of meeting them. This did not necessarily mean that business interests prevailed over those of the State where the two were in conflict. The Government's refusal to excuse oil companies from the requirement to process the more expensive Moonie crude as well as imported oil is a case in point. Mining and mineral processing were to provide the raw materials and energy on which Queensland's industrial growth would be based, and it was inconceivable that the local product would not be fully utilised.[80]

The commitment of many branches of the state to the ideology of development was essential to the pace and success of agricultural and resource-based projects. Local Authorities in shires and towns such as Blackwater and Gladstone had to be willing to move well outside their previous experience to plan community facilities for the workforce associated with developments in Queensland-Japan trade. Harbour Boards co-operated in the development of new ports and facilities, Queensland Railways planned new lines and rolling stock and the upgrading of existing track, the Electricity Commission enlarged and reorganised power generation to ensure supplies to heavy electricity users. Investment in steaming coal was encouraged, not just for export, but because it fitted into the government's plans for the development of electricity for further industrial growth. By the 1970s, general infrastructure planning was integrated with large-scale resource-based development, and the government and its administrative agencies had developed "a far-reaching network of regulatory, planning and promotional activities concerned with monitoring and assisting particular patterns of economic activity".[81]

The State accepted some of the risks of development in both agriculture and resource-based industries. There had, of course, always been an element of risk-taking associated with large irrigation schemes such as Tinaroo, and in the support for one-off speculative ventures such as the Peak Downs Scheme or the development of Blair Athol by the British Electric Corporation (Overseas) Ltd. Now the risks involved industries which were integral to the direction of the State's development, and in the early 1960s at least, essential to the establishment of the Coalition government's political credentials. Some risks centred on the government's plan to develop east and central Queensland by opening land and developing ports and beef roads, while others were associated with the optimistic expansion of the sugar industry in the early 1960s in the expectation of a continuing market in Japan. The rise in incomes, the flow-on effects to other industries, and the chance that this spurt of development would begin the State's take-off into sustained economic growth were sufficient justification for the risks of providing infrastructure in excess of foreseeable needs and of encouraging increased production ahead of secured and profitable markets.

An essential component of promoting Queensland development was the maintenance of a "good business climate" and an image of a progressive State in which the leadership was committed to economic growth. An important step in achieving this change of image was the removal of responsibility for State and Industry development from more junior Departments to the direct responsibility of the Premier and hence into a powerful Department of paramount importance to State welfare. This change in status was reflected in a more confident image as Queensland began to "break away from being a branch-office State, a State whose fate is determined for us by outside organisations and outside capital".[82] The new image was no longer promoted by "propaganda and publicity blurb [which] would not satisfy an advertising agency let alone a hard headed industrialist or a business-man from overseas"[83] but by an expanded and professional Public Relations machine similar to that of Premier Court of Western Australia. Part of its role was to help maintain business confidence at a peak and to portray an image of a go-ahead State of boundless opportunities to encourage the continued inflow of foreign investment.

Structurally and politically the Premier was the focus of this progressive, pro-business image as he and his Department were directly involved in major questions of economic policy-making and in relationships with business and other levels of government. The tradition of strong leadership was an integral part of Queensland politics and Hanlon, for example, had been "one of Australia's most discussed and formidable political leaders" who "drove his Cabinet as a team where he wanted to take them" as Forgan Smith had done.[84] In the 1970s and 1980s the strong Premier was epitomised in Joh Bjelke-Petersen whose government and leadership were virtually unthreatened for two decades. The longer his term in office, the greater the image of stability much prized by large investors whose projects are long-term commitments with many years of expenditure before a profit can be expected. Underlying tensions between the National and Liberal Parties, culminating in the dissolution of the Coalition in 1983, only served to increase the dominance of the Premier and the association of his administration with large investors, mining companies, and Japanese traders. This was complemented by a change of name from Country to National Party and a broadening of the Party's support base from rural and small town interests to the provincial cities and suburban areas of Brisbane.

The success of the rural and resource-based projects which began to form the leading sector of the Queensland economy depended on adaptations by both State and business to meet the changing demands of large industries, capital-intensive production, and the needs of a variety of marketplaces at home and abroad. These adaptations required new forms of State-business involvement though they were contained within the traditional boundaries of indirect influence rather than direct participation by the State and continued the belief that a leading project or sector would precipitate a rapid take-off into economic growth.

Relations with the Commonwealth

The development of export-oriented rural and mining industries created new pressures on the relationship between the State and the Commonwealth just as it had on the relationships between the State and business.

Queensland's relations with the Commonwealth Government had historically been a mixture of cooperation and conflict, regardless of the Parties in Government. In the postwar period, both national and regional governments had broadly shared a commitment to rapid development.[85] Even after Commonwealth priorities changed in the early 1970s, on many issues, such as water resources or northern development, State and Commonwealth interests coincided and diverging views were worked out within established consultative mechanisms. On other issues, the priorities of Queensland and the interests of its dominant sectors of capital - mining, farming and foreign investors - diverged from those in the southern States or of the Federal government. Queensland interests generally were opposed to restrictions on international capital movements, controls on land use, and to high tariffs which benefited manufacturing capital concentrated in southern States. Queensland urged the Commonwealth to recognise the bilateral nature of trade and to do more to meet Japan's need to export its manufactured goods, otherwise "that important customer would be unwilling or unable to maintain her valuable purchases of our primary products".[86]

The most serious disagreements arose over the respective jurisdictions of State and Commonwealth, the way in which "development" overrode other interests in Queensland's priorities, and the basic objectives of resources policy. Mining was a major issue for the Commonwealth as well as for Queensland because of its contribution to Australia's economic growth after the mid-1960s, and its importance in the Australia-Japan relationship. In addition, Australia's role as "a strategic anchor sheet in Japan's raw material procurement"[87] gave the management of the trading relationship considerable regional and international significance, emphasising its importance for the national, rather than simply the subnational government. As boom conditions disappeared in the 1970s, conflict arose because of the State's desire to continue the pace of development and the Commonwealth's need to deal with "longer term problems of allocating the benefits in a way satisfactory to each party, reconciling bilateral interests with multilateral objectives".[88] The problem was exacerbated by the alliance between Queensland and Western Australia after the election of Sir Charles Court in 1974, which added a political disagreement about centralisation and State's rights to a substantive issue of national priorities.

Queensland's "open door" attitude to foreign investment also led to conflicts with both the Whitlam and Fraser governments. Foreign capital had been recognised by successive Queensland governments as an important means of achieving economic development and had been sought by Hanlon to develop Blair Athol in the 1940s and by Deputy Premier Morris in an effort to establish secondary industries in the early years of the Coalition government. Up to the 1960s, large scale projects in mining had been unable to attract local venture capital, and Mount Isa Mines, for example, was able to survive only with financing from the American Smelting and Refining Company (ASARCO). The huge size of the investments required in the 1960s and 70s, the relatively poorly-developed local capital markets, the reluctance of Australians to enter speculative ventures, and the complexity of the financing requirements contributed to the importance of foreign investment.[89] In addition, foreign companies contributed technical expertise in large-scale development, established relationships with Japanese companies, and a means of access to closely guarded foreign markets. For Queensland, development was the primary goal and foreign investment was not only supported but actively sought and encouraged.

For the Commonwealth government, substantial Australian equity in resource development became an important objective from the early 1970s as part of a change in community and political values. Prime Ministers Gorton and Whitlam established institutions to tap overseas markets for loan funds rather than equity investment and to screen potential foreign investments according to the "national interest". Whitlam and subsequent Prime Ministers developed guidelines for minimum Australian equity in new and existing mining projects, which impacted directly on resources policy in the States. Whitlam's actions coincided with a sharp decline in minerals and energy exploration, partly in response to the collapse of the world commodity boom and a rise in Australian costs and prices. But Bjelke-Petersen and the mining lobby blamed the ALP government entirely. Queensland joined other non-Labor State governments (and occasionally Labor governments as well) in "virulent and effective anti-Canberra strategy and ideology"[90] centring on the blockage of important resources and investment legislation by the Senate.

Mining was also the catalyst for major confrontations between the State and the Commonwealth concerning the relative priorities of rapid development and environmental conservation. The dispute was highlighted by two major controversies - Queensland's acquiescence in the late 1960s in plans by Japex to drill for oil on the Great Barrier Reef, and in the 1970s, sand mining on Fraser Island for rutile and zircon which were significant exports to Japan. These decisions were consistent with the importance accorded to rapid development in Queensland as a whole, by Departments such as Mines and Lands which were responsible for environmental aspects of particular proposals up to 1971, and by the Premier who subsequently oversaw such matters through the Coordinator-General. But the growing size and organisational sophistication of conservation groups and a change in community attitudes counterbalanced the development ethos and made use of the multiple points of access to the policy agenda in a federal system. Japex and its partner, Ampol, responded to intense and well-organised public pressure and withdrew from the Reef area. The Commonwealth used its Environment Protection (Impact of Proposals) Act of 1974-75 and the Australian Heritage Commission Act of 1975 to hold an inquiry into Fraser Island mining, to place the Island on the Register of the National Estate and to prohibit exports of sand mined there.

Patience argues that the events of this time "tested the outer limits of Australian federalism" and drew "the line on further centralisation of the Australian federal system". Bjelke-Petersen's "audacious challenge to the underlying structural tendencies in Australian federalism" was "successful in re-defining the residual constitutional powers of the States and asserting *their* preeminence in the federal system".[91]

Queensland - a State apart ?

Queensland's historical sense of separatism, its mistrust of the south and its sense of being unfairly treated by the Commonwealth and the other States were important background influences promoting Queensland's support for foreign investment and its interest in looking outward to Japan and other world markets as the basis for economic growth.

A pro-Queensland, anti-southern stance was taken by politicians of all parties in an attempt to influence the Commonwealth or to emphasise Queensland's independence and its differences from other States. Hanlon, for example, refused to transfer to the Commonwealth the authority to licence the operations of commercial aircraft within the State,[92] and would not participate in the Joint Coal Board because "we dare not allow competitive interests outside Queensland to control our industries; our industries depend on coal. If you control coal, you control everything".[93] The Federal decision to subsidise the import of overseas coal by South Australia and Victoria in the 1950s was criticised as a typical example of anti-Queensland activity by entrenched southern interests and their supporting politicians, despite assurances that it was a temporary measure until local supplies could be organised. Similarly, Premier Gair as Mines Minister bitterly opposed the Commonwealth's decision to discontinue the Australian market for Mt. Isa copper and he "gate crashed a meeting ... in Melbourne" to argue the Queensland case.[94] Even Party loyalty was outweighed by State interests and there was considerable hostility when support did not eventuate for the Mt. Isa railway, which became "a critical internal issue between Federal and State governments, or at least between Liberal party interests in the south and ... Queensland interests".[95] This sense of separatism reinforced the determination of the government in Queensland to be active in pursuit of opportunities for economic growth which were not dependent on capital from or markets in the southern States and which had the potential to enhance Queensland's status in the Commonwealth.

The development of rural and resource-based industries directed substantially towards exports to Japan was part of a wider process of structural change in the Queensland economy. This process necessitated and was a powerful stimulus to change in the relationships between the State and business and between Queensland and the Commonwealth. At the same time, traditional aspirations and attitudes defined a distinctively Queensland approach to the problems and issues of growth and the re-orientation of leading sectors of Queensland industry towards production for export to Japan.

A QUEENSLAND APPROACH

During the postwar period, in Queensland, as elsewhere, the degree of state intervention in economic life increased, stimulated in part by the efforts of entrepreneurs in the rural and mining industries to enter the Japanese market and the consequent demands for State involvement in the planning and implementation of projects, in establishing an environment conducive to trade and investment and in creating the preconditions for the growth of export industries. The domestic impact of external trade also gave the regional State an interest in the management of the international dimensions of important sectors of the State's economy, particularly trade with Japan.

The general features of the growth of State/economy interrelationships are readily observable. But to analyse rather than merely to describe them, to determine their implications for the role of the regional State in the contemporary economy, it is useful to set the discussion in the context of the competing views of pluralist, marxist and corporatist writers and of Australia as a federal state. While the theories of the role of the state cannot be applied directly and uncritically, they provide a number of alternative explanations of the structures and processes which observers describe, and a foundation and framework for an understanding of interactions between State and economy in the growth of relations with Japan.

Queensland shares with countries such as Austria and the Netherlands a number of characteristics of Katzenstein's democratic corporatist small states.[96] It is relatively open to the world market, with significant sections of its economy dependent on trade, particularly with Japan. However, with a small GDP in world terms, and a political position as a sub-central unit of the Australian state, it cannot influence the world economic environment or shape the pattern of international trade. It must accept the opportunities those patterns present and make domestic adjustments to turn the opportunities to its own advantage. This places heavy demands on business to be innovative and adaptable, especially where, as in Queensland, trade is in highly market-sensitive unprocessed raw materials rather than in manufactures or services occupying market niches where demand is relatively stable. The adjustments forced by adaptation to the market also place demands on the political system to manage the costs of change, providing political stability, while at the same time encouraging economic flexibility to achieve international competitiveness.

The response in Queensland to the need for domestic adjustments contains many elements of continuity with the State's historical experience. Like other States, Queensland has an activist tradition which Hancock, writing of the late 19th and early 20th centuries, attributed to the necessity of minimising "the harsh impact of adverse effects from a volatile world market" and of acting to both supplement and "create and foster" the market which had to be forged in a hostile frontier environment.[97] The twenty years after World War II represented something of a similar situation. World trading patterns and arrangements changed; the protected markets in Britain and the Commonwealth began to disappear; new markets which opened were more demanding and competitive. Business and community infrastructure - including basic services in water, transport and electricity - had to be rebuilt after the neglect of the Depression and War years as a prerequisite for business revival and the take-off to economic growth.

The sense of being at the frontier remained very much alive, driven by economic imperatives, reinforced by the sense of separatism and isolation from the centres of business and political power in the south. It continued through the 1960s as resources development began, largely in remote locations well away from established facilities, imposing increasing demands for new infrastructure, as well as for State assistance in finding a foothold in the difficult and unfamiliar markets in Japan. Economic necessity demanded and tradition required that the State in Queensland be active, not passive, although public intervention supplemented rather than displaced private decisions. The State did not act to control or direct private enterprise or to transfer the initiative for business decisions to the public sector. Rather, the State was active in supporting and enhancing the activities of business by indirect methods.

The frontier mentality and the long-established preoccupation with economic growth as the State's major objective were the foundations of an alliance between State and capital, although the nature of the association varied over time and from industry to industry. Large firms, especially those involving international capital in resource-based industries, provided the catalyst for a surge in economic growth through trade with Japan and became the dominant sector of capital. They were assisted by relatively unfettered access to resources, attractive conditions to encourage investment, and an intolerance of those with opposing views or other priorities. This sector of the economy came to be identified closely with the National Party in the 1970s and 80s and measures taken by the government to protect its interests from actions of the Commonwealth became the focus of Federal/State conflicts.

But Queensland's economic development and its trade with Japan were more broadly based, dependent on a range of products from both small and large enterprises, processed and marketed by a variety of locally and internationally-owned firms and government-sponsored authorities. Many of the products were from the rural sector whose long-standing relationships with sections of the bureaucracy and political parties and relevance to the aim of decentralised development remained well into the 1980s. Support for these industries was complemented, not superseded, by the growth of mining capital. There were many conflicts in the needs and interests of these two sectors, and even within one sector the range of different industries, locations, and enterprise sizes made the general interests of capital hard to determine. The relationship was not simply the State acting to support the dominant fractions of capital, or capital as a whole, but a shifting pattern of alliances, compromises and conflicts within an overall commitment to development which became dependent on trade with Japan.

The broad patterns of State/business interrelationships in Queensland seem to accord more closely to Lindblom's "duality of leadership" than to Marxist interpretations. The dynamic of Queensland's postwar economic growth was provided, not by Labor efforts to obtain foreign capital for mining or by Coalition attempts to interest overseas firms in manufacturing, but by private discoverers and developers of resources and by growers and marketers of primary products. The State provided support and assistance in a wide variety of ways which represented an accommodation between what business sought and what the State apparatus assessed as possible and essential for business to fulfil its economic and political role. The success of business, particularly the large, complex resources projects and the major rural industries which responded to opportunities in the Japanese market, underscored the legitimacy of the Liberal/National Coalition government, and encouraged the integration of project planning into government budgeting and infrastructure provision.

Lindblom's model focuses on the shared goals of business and the State and their joint role in capital formation. But the State has separate goals as well. These inevitably include the maintenance of social harmony, and in a federal state are also likely to encompass promoting one's own interests over those of other States, securing a fair share of Commonwealth disbursements and guarding the rights of the State against incursions by central authorities. Nor does Lindblom's model take account of the variety of structures and processes within Queensland industry, or the Constitutional restraints on the ability of a regional State to do what is necessary for business to perform its functions. When these are taken into account, the relationship between State and business forms a mixed pattern. It might best be described as a loose partnership in which both parties had the ability to act independently, but in which on issues crucial to the development of trade, State and business collaborated in ways which concentrated their efforts. The nature of the collaboration varied from formal partnership to a loose association in which the government assisted in establishing the preconditions for the production of an exportable product. Essentially, private enterprise recognised the opportunities in the Japanese market and took the initiative in developing them. State collaboration was necessary to assist and support industry in making the adjustments necessary to accommodate the scale of production, the quality demands of Japanese customers and the rigours of international competition. It will be argued in this thesis that it was their combined actions which enabled the growth of trade with Japan after World War II and was the distinguishing characteristic of the postwar compared with the prewar period.

CHAPTER TWO

TENTATIVE STEPS

THE PREWAR BASIS OF QUEENSLAND-JAPAN TRADE

INTRODUCTION

Reactions in Queensland to the prospect of Japan's re-emergence as a trading partner after World War II were, like those of Australia generally, heavily influenced by both the war itself and the experiences of the prewar years. The 1930s in particular provided "the only firm reference point from which Australian officials and businessmen could consider Japan's place in Australia's postwar future".[1] Queensland's experiences in her relations with Japan were in part shared with Australia as a whole and in part unique to herself because of geography, the nature and importance of trade and the history of the contacts between them.

Commercial contacts between Queensland and Japan began in the 19th and early 20th centuries at a time when the Colonial (and later the State) government was active in locating markets and fostering trade. In 1894 Queensland adhered to the Anglo-Japanese Commercial Treaty despite fears by other Colonies and by protectionist interests that the Treaty would lead to a flood of Japanese goods and Japanese immigration rather than to a market for the export of local products. In 1904 the government employed its own Commercial Agent to seek markets in China, Japan, Malaya and the Dutch East Indies both as an outlet for local goods and to help pay the interest on foreign borrowings incurred during the boom of the 1880s. Direct government participation in trade promotion was part of a pattern of active involvement in shaping the nature and direction of economic life, because, as Hancock[2] comments, it was the only practicable way of overcoming the problem of developing the colony in the face of physical difficulties.

Fitzgerald argues that this pattern of State involvement in economic life was perpetuated in Queensland at least to the end of Labor's period in office in 1957. It was characterised by the conception of the state as a developmental agency, reinforced politically by the paternal authoritarianism of governments, by the dominance of the civil, ecclesiastical and political bureaucracies and by the conservatism of society and the lack of the tradition of civilised dissent essential to pluralism. This view of the state was underpinned by a broad consensus that stability and development were the twin goals of Queensland economy and society.[3]

However, except in the first years after Federation, the broad role of the State government in international trade and investment before World War II was much more distant and indirect. Certainly the State apparatus was active in a range of issues where there was a clear link between domestic and external policies. Foreign capital was sought for railways to encourage decentralised development and for the support of firms much as Mount Isa Mines. Policies to restrain prices were used also to compel the American Meat Trust to supply domestic consumers before lucrative overseas markets.[4] Agricultural marketing boards were set up to facilitate domestic and overseas sales and to cushion the impact of volatile world prices on farm incomes. The Queensland Meat Industry Board was established to regulate the local market, but also to cooperate with the CSIRO in developing the technology to enable Queensland producers to take advantage of the market for chilled beef expected to result from the Ottawa Agreement in 1932. In these instances domestic objectives could be achieved by State measures to support and facilitate, and at times to direct, the actions of private enterprise.

But they were isolated examples, ad hoc responses to particular problems in the domestic economy which had an international dimension as well. They were not part of a coherent or consistent policy of cooperation between State and business to promote foreign trade as an engine of economic growth, or as a means of achieving the State's objectives. There was no concentration of the efforts of business and government which marked the successful development of Queensland-Japan trade in the postwar period and, the thesis will argue, made possible the domestic adjustments necessary for Queensland business to be competitive in the international market.

The State government was generally content to leave foreign trade to the Commonwealth and to acquiesce in its emphasis on relationships with Britain and the Dominions. This was supported by dominant firms in the Queensland rural economy such as Vesteys which were British-owned or had strong links with Britain and British Commonwealth countries. The Federal government was active in influencing the direction of foreign trade through its tariff policies, the negotiation of treaties, participation in discussions on Commonwealth preference and, on occasion, through direct actions such as the purchase of its own ships when British transport was not available during World War I. However, repeated Japanese overtures between 1911 and the late 1920s for negotiations leading to a Commercial Treaty were rejected and it was not until 1934 that discussions began, and not until 1940 that the first Ambassadors were exchanged.

Commercial contacts were initiated and developed largely by individuals or firms, except in the early years of the century, although the policies of governments, both

Australian and Japanese, had an important bearing on the progress of the relationship. By the outbreak of World War II Japan had become important to the economic prosperity of a number of industries, especially wool, but had generated concern at both official and community level about her trading practices, aggressive nationalism, and the way in which her demand for products was related to wider political and strategic goals.

THE NATURE AND EXTENT OF TRADE

Relations between Queensland and Japan were clearly centred on trade and commerce, although issues of immigration and security assumed more importance than they did with other States. Trade was based on complementarity between the two economies, with Japan acquiring raw materials and selling manufactured goods, while Australia supplied a range of primary products and, with her relatively high per capita income, provided an attractive market for Japan's increasing industrial production.

Before the 1930s, however, Japan accounted for only a small percentage of Australia's trade.[5] Between 1930-31 and 1935-36 it almost doubled in value to a peak of 10.3 per cent of total trade. From the start of the trade diversion dispute in June 1936, Japan's share of Australia's trade declined to levels lower than those even of the early 1920s. Queensland's experience is similar. Japan's share of Queensland trade ranged from 5.35 per cent to 8.4 per cent during the 1920s, increased rapidly during the first half of the 1930s, reaching 12.08 per cent in 1934-35. From mid-1936 Japan's importance in Queensland trade declined rapidly, to a mere 2.67 per cent in 1937-38. Thus, for most of the early 1930s, Japan's importance in Queensland trade was greater than that for Australia as a whole, the rise in her share of trade was greater and the eventual decline more severe.

TABLE 2.1

TRADE WITH JAPAN AS A PERCENTAGE OF QUEENSLAND TRADE

1921-22 to 1939-40

Year	Percentage
1921-22	7.61
1922-23	6.86
1923-24	7.05
1924-25	5.83
1925-26	5.45
1926-27	6.71
1927-28	8.44
1928-29	7.01
1929-30	5.35
1930-31	9.99
1931-32	9.6
1932-33	9.7
1933-34	9.2
1934-35	12.08
1935-36	11.6
1936-37	5.04
1937-38	2.67
1938-39	2.8
1939-40	3.4

Source: Statistics of Queensland 1929-30 and 1939-40.

Changes in Japan's share of trade were due largely to varying demand for exports, particularly wool. Japan bought between 1 and 4.5 per cent of Australia's exports to the beginning of the 1920s, rising rapidly to approximately 6-9 per cent until the onset of the Depression. From only 6.67 per cent in 1929-30, Japan's share of Australia's exports rose to 10.5 per cent in 1930-31 and peaked at 14.19 per cent in 1935-36. From the start of the trade diversion dispute in June 1936 Japan's share of exports fell rapidly to only 6.54 per cent in 1936-37 and a mere 3.97 per cent in 1939-40.

Throughout most of the 1920s Japan bought between 6 and 8.5 per cent of Queensland's exports, though this rose to 9.73 per cent and 10.27 per cent in 1923-24 and 1927-28 respectively. From a low of 6.03 per cent in 1929-30,Japan's share rose to 11.56 per cent in 1930-31 and reached a peak of 13.17 per cent in 1935-36 before declining by more than half to 5.18 per cent in 1936-37 and then to only 1.89 per cent in 1937-38.

Changes in Japan's importance as a supplier of imports were much steadier. She provided 0.97 per cent of Australia's imports at the turn of the century, rising steadily to 4.05 per cent by 1930-31 to peak at 6.55 per cent in 1934-35, except for the 2 years 1917-1919 when the percentage rose to 8.84. From 1936-37 Japan's share of Australia's imports declined a little, but was still 5.13 per cent in 1939-40 and 3.38 per cent in 1940-41. During the 1920s Japan supplied approximately 4-6 per cent of Queensland's imports. This reached 6.87 per cent in 1931-32, then rose rapidly to 8.12 per cent in 1932-33 and remained at around this level until 1934-35. Even before the trade diversion dispute, Japan's share of Queensland's imports began to decline, returning to more customary levels of approximately 4 to 6 per cent until trade ceased during World War II.

Prewar trade for Australia as a whole and for Queensland in particular was based on a very narrow range of goods. The principal Australian export was wool. Japan bought only 2.79 per cent of wool exports in 1920-21, but this rose during the 1920s to reach 14.75 per cent by 1927-28. After a brief drop to 11.37 per cent in 1929-30, Japan's share of wool exports rose rapidly from 18.85 per cent in 1930-31 to 28.64 per cent in 1935-36. The increase in Japanese purchases helped to compensate for the drop in purchases by other previously important buyers. The United States bought very little wool between 1927-8 and 1936-7, France reduced purchases sharply after 1933, while Germany and Italy were not consistent buyers. Wool was an important part of Australia's trade, representing between 40 and 50 percent of total merchandise exports in the 1920s and 35-45 per cent in the 1930s. Australia's other major export was wheat, with about 19 per cent going to Japan. Japan bought small quantities of a variety of other products including almost all Australia's exports of iron and steel scrap until 1936-7 and most of the small amount of iron ore exported.

For Queensland also the principal export was wool, with Japan taking an increasing share until 1936. Wool was a significant item in Queensland's merchandise exports and was particularly important to the State's objective of decentralised development as the grazing industry was concentrated in Western areas and formed the economic base for many rural towns. Queensland sold a very limited range of other products to Japan and A.C.V. Melbourne in 1934 lamented that the State supplied 21 per cent of Australia's exports of wool to Japan, 69 per cent of hams and bacon, 70 per cent of beef, 5 per cent of fruit and 10 per cent of cheese and butter, but very little else.[6] Other exports included animal products such as hair, bones and tallow, iron and steel scrap, cotton, and, towards the end of the

1930s, zinc. While the absolute value of sales was not large, Japan was the major or sometimes the only market for these goods and was therefore a valuable outlet for Queensland producers.

As a supplier of manufactured goods Japan was increasingly important, although Australia represented only a small segment of Japan's total export market - about 9 per cent in 1935. Japan provided in 1935 about 62 per cent of Australia's imports of silk and rayon piece goods, 21 per cent of cotton piecegoods, 30 per cent of crockery and 26 per cent of fancy goods and toys. She sold smaller quantities of a range of metal manufactures, machinery, bicycles, animal products such as gut or bristles and items of apparel and home furnishings. The broad composition of Queensland's imports was similar and was well established by the beginning of the 1920s, although within each classification the exact nature of the less important articles changed over time. What did change dramatically was the relative shares of Japan and the Empire in providing imports of a small range of products, mostly textiles.

EFFORTS TO EXPAND TRADE

Nineteenth century contacts between Queensland and Japan centred on the migration of Japanese to the sugar canefields and to the pearl and trochus shell fishing grounds in the north. Early hopes for Queensland-Japan relations were indicated by the establishment of a Japanese Consulate in Townsville in the 1860s and by the agreement of Queensland to the Treaty of Commerce and Navigation between Japan and the United Kingdom in 1894. The State withdrew from the Treaty in 1908 at the request of the Commonwealth and with the agreement of Queensland firms who could see no further point in adherence since Queensland goods received no tariff preference over goods from other States.[7]

In the first few years after Federation the Queensland government took the initiative in seeking to promote and develop trade with Japan, as well as with other countries of Asia. The State was interested in markets which would support development of primary and processing industries and provide funds to pay the interest on borrowings made during the boom of the 1880s. In March 1904 Mr. Frederic Jones was appointed the Queensland Government's first Commercial Agent in the Far East, including China and Japan, working from a base in Hong Kong.[8] He was to ascertain markets, and report on the demand for goods, specific requirements and prejudices of consumers and details of matters such as shipping and storage. He worked essentially as a commercial salesman, taking with him samples of goods provided by firms who were invited by the Secretary for Agriculture, or who responded to articles in the Press or made arrangements through their local Chamber of Commerce. The government acted to facilitate and support the development of trade by providing the services of Mr. Jones, but it was left to the decision of the individual companies whether or not to participate in the search for markets.

The response of business was a mixture of enthusiasm and lack of interest. Some were eager to participate, including Geo. Hiron and Sons (biscuit manufacturers),[9] the Merrimac Milk Co.,[10] and Queensland Meat and Agency Co., although they had only two cases of canned meat available that season.[11] Others declined the invitation to be involved. Walkers Ltd. (Engineers and Shipbuilders) felt they could not compete against the European wage rates and better shipping facilities,[12] while C.S.R. Co. Ltd.[13] and R.W. Thurlow and Co.(wholesale grocers)[14] saw little chance of doing profitable trade. Some, such as G.S. Lambert, (wine merchant and grower) were "not disposed to go to any trouble in the matter" because there were adequate markets within the State.[15]

Nevertheless, by 1906 a number of firms approached by the Government felt Mr. Jones had laid a good foundation in trade and one of his trips to Java, China, Japan and the East Indies had been possible because a group of firms had guaranteed his expenses.[16] They were pleased that Mr. Jones had brought them into touch with leading merchants[17] and introduced new business which, while still relatively small, had promise of expansion,[18] and some had undertaken expenditure on new plant to meet the special requirements of Eastern trade.[19] Government and sections of business thus cooperated to serve their joint interests by locating opportunities for trade with Japan, though the enterprise and persistence of individual firms determined the extent to which the possibilities were translated into trading outcomes.

Many of the trade issues raised by Mr. Jones[20] remained relevant throughout the 1920s and 1930s and many resurfaced in the 1950s and 60s when postwar trade was developing. He was insistent that exports to Japan and other Asian countries would develop only if close attention were paid to quality and to specific requirements. He identified a market for meat for the Japanese army provided the companies would supply the product in cans of exactly the required size and shape and with Japanese lettering. He quoted examples of American firms which had opened up markets at great expense and trouble, only to lose them permanently because of shipments of poor quality, and he warned that the same could happen to Australian merchants. He drew attention to the need for adequate display and demonstration of Australian products and described the Australian exhibits at the Commercial Museums in Osaka and Tokyo as "scarcely worth mention" - consisting of one case of wool, "a nice exhibit of wood from the Government of Western Australia" and "a few cans in an obscure corner" representing Australian manufactures.[21] He suggested a format for a Queensland display and submitted a proposal for the purchase of a coldstore for meat for which he could see a good future.

However, there seemed little real commitment at either government or business level to the development of trade on a long-term basis, although individual firms became established in the market. Mr. Jones' suggestions about the purchase of premises for the meat trade and displays to promote Queensland products as a whole were not taken up. There was no organised effort to produce or present goods in ways suitable for the needs of the Japanese market, as there would be in the 1960s and 70s. Government and industry did not always see the advantage in developing markets identified by Mr. Jones and potential trade avenues were left untapped. He was, for example, very anxious to organise sales of Queensland cotton in Japan, arranged with a firm in Kobe to accept consignments for auction and sent detailed advice on packaging and likely levels of demand. At the time, Australia and Great Britain took the entire crop[22] and the Under-Secretary for Agriculture could see no need to develop new markets. Traditional ties to Britain and the Empire were stronger than any opportunity to diversify, and after Mr. Jones completed his assignment at the end of 1906, official efforts to expand the trade ceased. It was left to private firms to locate and develop markets in Japan.

Only the pressure of economic circumstances in the 1930s revived official interest in the trade relationship with Japan. Even then, efforts represented the separate attempts of concerned individuals and groups to explore the market situation or raise awareness of possibilities rather than the combination of State and business pursuing definite opportunities. Difficulties included a continued commitment to Britain and British policies in trade and diplomacy, a reliance on the anticipated benefits from the Ottawa Agreement and the lack of an infrastructure of trade agreements and diplomatic representation. Nevertheless, efforts were made to take advantage of the spurt of economic growth in Eastern countries which coincided with the deep recession of traditional European partners.

The lead was given by the Senate of the University of Queensland, on the initiative of one of its members, J.D. Story.[23] In October 1931, in the depths of the Great Depression, he proposed to the Senate that "in view of the existing conditions and the desirableness of finding additional markets for Queensland products, particularly in populous countries within easy access of Australia" the time was opportune "to make a comprehensive survey of the extent of interest - common and otherwise - between Queensland and Eastern countries".[24] On the face of it this was a most unusual and unexpected action by an independent institution devoted to learning and research. But, as Thomis indicates, the University of Queensland, though independent, was established to apply its accumulated knowledge and research to Queensland's contemporary and practical needs and to have as its "prime concern" the commerce of the State and the promotion of industrial development.[25] It was not meant to be an isolated institution, but "a people's university"[26] and practical projects such as Melbourne's search for Eastern markets were evidence that it was fulfilling this role.

Story had been closely involved with the University since its inception, first as Under-Secretary, Department of Public Instruction, then as a member of the Senate, and was a firm believer in the University's responsibility to the community. He was Public Service Commissioner in the 1920s and 1930s when the functions of the State bureaucracy were expanded in areas such as Electricity, Main Roads, and the marketing of fruit and vegetables.[27] So great was his influence he was described by Colin Clark as the leader of "the little band of oligarchs ... who handled Queensland's affairs", and " had a finger in every pie".[28] He was well aware of the major problems arising from reduced domestic consumption because of the Depression, and from falling levels of demand and prices in traditional markets abroad. Finding new and expanding markets was essential for the continued viability of the State's rural producers, and economic growth in Japan and other Eastern countries suggested that opportunities for increased trade could well exist. While the University was not an official part of the State apparatus, its action on Story's initiative was closely related to the type of State involvement in economic life described by Hancock[29] and Fitzgerald[30] - positive action to overcome obstacles and forge markets under difficult conditions.

The Senate agreed to send Dr.A.C.V. Melbourne to Japan, China and Hong Kong during late 1931 and early 1932, with the cooperation of leading retailer T.C. Beirne, and a Miss Philp, who allowed funds they had contributed to the University for the purchase of Dunk Island to be utilised instead to defray the expenses of the survey.[31] Dr. Melbourne's study confirmed that exports to Japan were likely to be confined to primary products or manufactures of them, though he concluded that there was a very large potential market which Queensland had not really tried to tap. The main impediments to increased trade were identified as tariff policies, the feeling that Australia was willing to sell, but not to buy, and lack of effort to understand and meet demand. Japan was prepared, even anxious, to be friendly, and this opportunity might not recur; on the contrary, if Australia continued its policy of exclusiveness, it might well provoke a Japanese reaction.[32] Melbourne's major recommendations included the signing of a commercial treaty with Japan, revision of Australian tariffs, a reduction in the exchange rate to a competitive level, the encouragement of bank lending for forward exchange, and the formation of a Japan-Australia trading company with joint capital.

Australian tariff policies and the reluctance of the Australian government to enter a Commercial Agreement with Japan were identified by Melbourne as major obstacles to increased bilateral trade. Australian goods offered for sale in Japan were often far too expensive to find a ready market since they were admitted under the general rather than the lower "conventional" tariff. In many cases the disparity between the two tariffs was sufficient to inhibit sales, but an additional penalty was incurred by products classed as 'luxuries' and subject to an ad valorem tariff of 100 per cent. Dr. Melbourne felt that without these impediments Australia could have sold many products on the Japanese market, including items of particular interest to Queensland such as jams, fresh, cured and preserved meats, condensed milk, glue, tinned fruits and vegetables and leather.[33] Melbourne tried unsuccessfully to interest the Federal Minister for Commerce (Hon.F.Stewart) in the possibility of a Commercial Agreement,[34] since he felt it was "quite certain" that Japan would extend most-favoured-nation treatment to Australia and discuss improved access for existing exports or for other products, including tobacco and possibly sugar - both of which were of special interest to Queensland.[35]

The Australian government had consistently refused Japanese overtures to consider a Commercial Treaty, mainly because of Australian commitment to British and Empire trade and because of the possible effects of increased Japanese imports on Australian manufacturing. Fears of an influx of Japanese goods and Japanese immigrants had been a factor in the protectionist and White Australia policies at the time of Federation. These fears were overlaid in the years 1914-1920 by security concerns stemming from Japan's expansion into the Pacific and by hostile undercurrents in Anglo-Japanese relations, though Australian trade had benefited from Japan's search for alternative suppliers of raw materials when European sources were cut off during World War I. Melbourne argued that for Australia to take advantage of the opportunities presented in the 1930s from the expansion of Japanese industry, a Commercial Treaty was essential. This would necessarily aim "definitely at increasing the importation to Australia of Japanese goods" which would be "contrary to ideas generally accepted in Australia" of favouring British trade rather of making our way independently.[36] According to Dr. Melbourne, "responsible opinion in Japan readily acquiesce(d) in the policy of giving preference to Empire products", but it resented the imposition of prohibitive duties on Japanese commodities not produced in Australia or in which Empire countries could have no special claim. The Japanese would expect as a result of a treaty improved access to the Australian market of a range of Japanese products at the intermediate tariff including silk and cotton goods, china, porcelain, glass and toys. Queensland's small manufacturing sector would be relatively unaffected by Japanese imports, though both the Premier and businessmen expected opposition from vested manufacturing interests in the south to a reciprocal treaty.[37] From Queensland's point of view, the benefits of trade would outweigh the disadvantages, but there is no evidence to suggest that any pressure was exerted at either business or government level for negotiations towards a treaty to begin.

The Queensland Governor, Sir Leslie Wilson, also attempted to engender interest in Eastern trade and in March 1935 he undertook a private tour of the East - the first by a person at such a senior level since the early years of the century.[38] From the beginning of his term of office, Sir Leslie took every opportunity in both public speeches and private contacts to emphasise the importance of Eastern trade and urged Premier Forgan Smith's government to adopt a more energetic approach to the development of markets in the

East[39] instead of the "few efforts" in a "sporadic and unbusinesslike manner" that had characterised the approach in the past.[40] He suggested the appointment of Queensland Trade Commissioners with real knowledge and understanding of the region who would help overcome the problem of prospects ruined by ignorance and insensitivity. Both he and Dr. Melbourne suggested that the Bureau of Industry should be used as the vehicle for stimulating interest in and facilitating trade with Eastern markets and for overcoming the inertia which the Governor at least attributed in part to the "innumerable Boards of control" which regulated the marketing of all primary produce except wool.[41] But no official action was taken apart from a reference to the Bureau of Industry, and its commitment to British trade and emphasis on local economic affairs made it an obstacle rather than an assistance to the extension of Queensland-Japan relations.

The Premier referred to the Chairman of the Bureau (Professor Brigden) Dr. Melbourne's suggestion that the organisation collect information on market prospects and requirements and publicise it within the business community as part of its charter under the Act to "acquire and disseminate economic information".[42] The Governor kept in close touch with the Bureau and passed on material and information which he himself collected.[43] However, the Bureau was not interested in international trade issues and saw its main function as advising the government on measures to increase productive employment,[44] planning "a sound policy of development",[45] and coordinating specific projects, including the Story Bridge, the Hornibrook Highway and Somerset Dam. Prof. Brigden's poor relations with Premier Forgan Smith and his personality clash with Dr. Melbourne could not have helped matters,[46] though it is surprising that J.D. Story, one of the Bureau's directors and later its Vice-Chairman, did not champion the issue. The Director excused the Bureau's inactivity as being due to a need for time to assess the value of the recently-appointed Commonwealth Trade Commissioners. But, more to the point, he argued that Queensland could not "afford to throw away the substance for the shadow".[47] The Bureau believed that of Queensland's exportable products, only wool and meat could compete on the open market; others depended on political rather than economic advantage, and this was available only within the British Commonwealth.[48] Trade with the United Kingdom was vastly more important than any possible expansion of markets in the East, and could be damaged by efforts in that direction.[49]

At a Federal level, efforts to promote trade were stimulated by economic pressures of the Depression which helped to overcome the traditional reluctance to expand official relations with Japan. In 1934 the Lyons government agreed to Japanese requests, made periodically since 1895-6, to enter negotiations towards a Treaty of Commerce and Navigation, although the trade diversion dispute interrupted this process. In February 1933, the Federal Minister for Commerce convened a conference with representatives of the business community in Sydney to devise ways of increasing exports to the East. State Advisory Committees on Far Eastern Trade were established with delegates from State governments, commercial, manufacturing, shipping and producer interests. These in turn appointed delegates to the Federal Advisory Committee, chaired by Dr. Melbourne. Business representatives considered it essential that the Commonwealth Government give the lead in finding new markets and doing the pioneering work; without this impetus "very little headway" would be made.[50] It was seen as the state's role to forge markets in this alien and difficult environment; there were few in the private sector willing or able to take the risks and show the entrepreneurship necessary.

Business response to the tentative steps at government and semi-official level towards increasing bilateral trade with Japan was ambivalent. Sir Leslie Wilson felt that Queensland business was gradually awakening to market opportunities[51], but he acknowledged that, even aside from tariff imposts, Queensland goods were often not attractive to the Japanese market and little serious effort was made to address quality requirements. Dr. Melbourne[52] drew attention to some of the problems. Handling costs, especially at Australian ports, were high, supply was not always regular, quality was often poor in the mistaken belief that it was of no consequence, and the standard was sometimes reduced after initial shipments had established the trade. Labelling, packaging and grading were often careless, with cans of fruit, for example, not containing pieces of uniform size and number. Wheat was often dirty, with foreign substances being found in bags; there was a lack of uniformity in bag weight, with many bags broken because of careless loading. The Japanese wanted wheat shipped in bulk and the Australian standard (FAQ) altered to allow for different grades as in Canada, rather than a single classification being applied to wheat of different qualities. The Governor also urged the need to send the best available quality, attractively packaged and labelled and that the people involved should "show they genuinely care about purchasers and that we intend to do our utmost to foster a lasting trade relationship".[53] He emphasised the importance of sound quality, advertising and salesmanship and of not allowing the carelessness of a minority of exporters to damage Australia's reputation by treating the market lightly and underestimating the effort and high standards needed to get a foothold.[54]

Sections of Australian business remained unconvinced of the opportunities for trade with Japan and of the benefits that might flow from the appointment of Trade Commissioners and the Committees on Eastern Trade. Some large firms and organisations which already had extensive connections in the

East were opposed to more Trade Commissioners, although Dr. Melbourne thought they could help to overcome the barrier to trade growth caused by the dominance of Japanese trading houses and Japanese shipping and banking firms over the bilateral trade.[55] Purcell estimates that in 1931 the 12 major Japanese shosha controlled directly more than 60 per cent of the import trade and 73 per cent of the export trade and that by 1935 this had risen to 75 per cent and 93 per cent respectively,[56] with Mitsui Bussan consistently accounting for between 20 and 30 per cent of the entire Australia-Japan trade. In a letter to Earle Page, Melbourne argued that because of the influence of these firms throughout Japanese industry and their close connections with the Japanese Government, they bought only what was needed in accordance with Japanese policy, regardless of what Australia had to sell. Because Australia lacked a marketing organisation, smaller Japanese firms who might buy additional products had no way of making contact.[57]

Dr. Melbourne was particularly concerned that there was a "serious danger" that Queensland would not benefit from the Commonwealth initiatives because most of the firms doing business in the East were located or controlled in Sydney and Melbourne and were unwilling to share information and experience with newcomers who might undermine their monopoly of trade. He suggested that the new Trade Commissioners be used as a source of information about market prospects, and that a separate Queensland Trading Company be set up, controlled by Queensland firms producing goods suitable for sale such as wool and yarn. Finance might be available from the banks or from Eastern buyers, particularly in China and the Dutch East Indies, and possibly in Japan, though it would need "more careful thought".[58] The response of Queensland business to this suggestion and to the efforts of Melbourne and the Chambers of Commerce to organise a mission to Japan in late 1933 or early 1934 was lukewarm. The invitation to primary producers and manufacturers to participate drew a positive response from firms such as Ipswich Woollen Mills and J. Leutnegger Pty. Ltd., but leading banks and newspapers and many manufacturing firms were not interested. The trip was eventually abandoned because of "some rearrangement of the itinerary by the Japanese Government",[59] and the suggestion for a Trading Company was not taken up by either government or business.

Throughout the 1930s the Japanese themselves were active in promoting the growth of trade, especially in Japanese exports which lagged far behind imports from Australia. At official level, Japanese government pressure on Australia to enter negotiations for a Commercial Treaty was motivated by the effects of the Ottawa Agreement on Japanese exports and by the desire to reduce Japan's trade deficit with Australia to about 50 million yen.[60] At a business level too, efforts were made to expand Japanese exports. Trade Inquiries in the Journal of Commerce, especially during 1934-35, sought exporters of a few lines such as tinplate clipping scraps and cork for beer and cider bottle stoppers.[61] Importers or agents were sought for a wide variety of items such as textiles, sporting goods, stationery, toys, bicycles, tools, farm implements and porcelain ware.

Japanese businessmen visited Queensland seeking trade. In March 1935, Mr. K. Oshima of Osaka Shosen Kaisha, operating a monthly Japan-Australia service, arrived to investigate shipping,[62] and a delegation elected by the Tokyo Export Association visited in January 1936 to display quality Japanese goods, hoping to overcome prejudice against them and the belief that Japanese products were both cheap and shoddy.[63] In April 1935, the Pacific Economic Inspection Party - a delegation of 40 Japanese businessmen - sponsored by the Tokyo Nichi Nichi and the Osaka Mainichi newspapers arrived in Brisbane as part of an Australian tour, as guests of the Rotary Club and Thomas Cook and Sons.[64] Members included representatives of the sponsoring newspapers, Mr.

S. Megata, a director of Yuki Electric Co., with interests in shipping and real estate, Mr. Y. Takatsu, director of Minami Shinkichi Shoten, Mr. Yabashi, a marble dealer, and Mr. Yokoyama of Mitsubishi Shoji Kaisha. Mr. K. Sato, Managing Editor of the English edition of the Osaka Mainichi, foreshadowed the problems that were to dominate Australia-Japan trade over the next few years. He urged Australia to try to persuade the Empire to remove or alleviate trade barriers against Japanese goods, and warned that, if trade exclusionism continued, the time might come when Japan could no longer be a good customer of Australia.[65] Nevertheless, he asked the Commonwealth Government to support an exhibition of Australian primary products in the principal cities of Japan and Federal and some State Governments began planning for this event.[66]

During the same period, largely at the instigation of the University of Queensland, a first step was taken to expand the understanding of Japan by providing facilities for the teaching of its language, history and culture. A Joint Sub-Committee of the Faculties of Arts and Commerce appointed to prepare the Constitution and Rules of the Institute of Modern Languages (IML) recommended that the University should "encourage the study of languages with cultural and/or commercial value to the State" and these were seen to be Dutch, Chinese and Japanese (as well as French, German and Italian which were automatically included).[67] In August 1935 the University sent Dr. Melbourne to Universities in China and Japan to see how this could best be achieved. The Senate accepted his recommendation to seek the cooperation of the Department of Public Instruction in securing the appointment of a Japanese scholar as a lecturer who could take University classes in Japanese history, political institutions and culture, and teach Japanese language at the IML and at specified schools.[68] In his Press Statement in February 1937 announcing Cabinet's approval of the proposal, the Minister for Public Instruction said his Department had agreed to pay the lecturer's salary because of the need to increase understanding of Japan, the need in Australia for people with knowledge of Japanese language, and the employment opportunities in the public sector and in private firms available to people with a knowledge of Japan.[69] The Japanese Foreign Office recommended Mr. Ryunosuke Seita who took up duties in March 1938.[70] Although only a relatively short time elapsed before the outbreak of the Pacific War, the interest in Asian studies remained active in the University and the Senate decided to include a School of Asiatic Studies in its scheme of postwar expansion.[71]

In the years from Federation to World War II, some sections of industry and government and some influential community leaders recognised the potential importance of Japan as a trading partner. This was not reflected in firm official commitment at either State or Federal level or in any concerted effort by business or by a particular industry to meet the needs of the Japanese market and develop a long-term relationship. Aside from the large increase in wool exports, trade growth proceeded slowly, step by step, on the initiative of individuals or groups who struggled against the vagaries of the climate and the lack of supporting infrastructure which would have established the preconditions for the reliable, longterm production of an exportable surplus. The experience of the cotton industry is a case in point.

JAPAN AND THE COTTON INDUSTRY

Among the promising commercial contacts developed during the 1930s were those between Queensland and Japanese cotton interests.

The Queensland cotton industry was centred on the Burnett and Callide Valley areas which were part of the ill-fated Soldier Settlement schemes after World War I, and in the

Dawson Valley where cotton growing had been part of Theodore's grandiose plans for closer settlement on farms developed in conjunction with proposed major irrigation projects. In the 19th century, J.D. Lang had envisaged Queensland as a centre of cotton production, replacing the United States as the major supplier of Manchester mills. However, volatile world prices and dependence on seasonal conditions in the absence of irrigation made cotton-growing a precarious occupation. A modicum of stability was achieved only by bounties and by concentration on sales to domestic manufacturers in southern States and to guaranteed markets in Britain.

In the 1930s the Queensland cotton industry had an ambivalent relationship with the Japanese. On the one hand, imports of cotton goods, especially from Japan, began to make inroads into the market for Australian textiles manufactured from Queensland-produced cotton. On the other, the expansion of the Japanese textile industry and Japan's disputes with major suppliers in India and Egypt created a new market prospect for the Queensland crop. First sales were made in 1933 and the General Manager of the Queensland Cotton Board thought there should be no difficulty, with proper organisation, in selling the whole of the available surplus to Japan. Sales to Japan were particularly attractive since they were made f.o.b. and not on consignment as they were to the British market. However, the General Manager conceded that Queensland knew very little about the Japanese market and its requirements and recommended it be thoroughly investigated.[72]

Initial steps to open the trade appear to have been made by the Japanese. The Courier-Mail reported the visit of a Mr. Okamoto from "an Osaka textile factory" to investigate the possibility of exporting textiles and importing raw materials, especially cotton.[73] Later the same year, the Managing Director of Mitsubishi Shoji Kaisha indicated that

Queensland had a good opportunity to develop the cotton trade and sent Mr. Kawamura of the company's Sydney office to inspect the cotton fields and to seek a sample shipment of raw cotton and of cotton cake for stockfeed.[74] Up to that time, most of the cotton exported went to Britain, but the hostile reaction of Lancashire interests to Australian tariffs provided the impetus for the Queensland Cotton Board to seek to open negotiations with Japan as an alternative market.[75]

By 1934 Australia exported 5108 bales of cotton, of which 3430 went to Britain and 1678 to Japan.[76] The Queensland Cotton Board sought to sell linters there also, as a raw material in the manufacture of artificial silk and explosives. Formerly the overseas price was not economical and they were sold cheaply in Australia. But after a small shipment, Queensland succeeded in selling its entire stock of linters to Japan and could have sold more had supplies been available.

In 1935 Mr. Kitamura of Toyo Menka Kaisha visited Queensland with a representative of Mitsubishi Bussan to inspect cotton growing and to negotiate purchases. Japanese interests had been anxious for someone from the Queensland Cotton Board to go to Japan, but this had proved not practicable. Mr. Kitamura decided the Queensland product was ideally suited to Japanese millers' requirements. He was reportedly prepared to buy 10,000 bales although 5000-7000 seemed a more realistic target given the usual volume of annual production. Unfortunately, destruction of a large part of the crop because of the intense hot, dry weather and lack of irrigation prevented business on the scale anticipated.[77] It was ironic that thirty years before, Mr. Frederic Jones had been unable to interest either Queensland cotton growers or the Minister for Agriculture in the Japanese cotton market, despite his having organised an agent and made detailed plans for initial sales.

International factors provided the opportunity for the sale of cotton to Japan and prompted a positive response from the Queensland Cotton Board. But the State's inability to finance irrigation schemes from its own funds or from federal loans, and the inadequacies of schemes such as Soldier Settlement meant that the necessary conditions for the steady growth of the cotton industry were not realised. Trade prospects foundered because of the inability of producers to guarantee consistent supplies and this in turn was due to the limited capacity of the State government or private industry to provide adequate infrastructure.

It was federal rather than State policies which put an end to the good prospects for increased trade in cotton and other products when relationships were soured by the trade diversion dispute in 1936.

THE TRADE DIVERSION DISPUTE

The trade dispute between Australia and Japan stemmed from a series of measures adopted by the Commonwealth Government as a "trade corrective".[78] According to the Minister for Trade Treaties, Sir Henry Gullett, they were designed to reduce imports from poor customers, encourage Australia to establish its own secondary industries, speed up recovery from the Depression by increasing rural exports and primary and industrial production, and deal with a persistent problem in the Balance of Payments.[79] The underlying reasons were more complex. Certainly the tariff changes represented an extension of Australia's traditional trade policy of putting British commercial interests above all others.[80] But the measures were not simply "an example of a compliant Australian government sacrificing the interests of a key primary industry in order to advantage British manufacturers".[81] The Lyons government had interests of its own including privileged and secure access to the British market for meat, fending off an acrimonious dispute with

Britain over Australia's intention to promote its own secondary industries in areas previously supplied by British firms, and, according to Tsokhas, the need to realign and consolidate the fragmenting coalition of business groups on which the United Australia Party was based.[82] The ensuing dispute was portrayed by the Government and the Press as having been caused by Japan's intransigence, her lack of understanding of Australia's interests within the British Empire and her aggressiveness in pursuing her own commercial interests.

The measures prohibited a range of imports, mostly Japanese textiles which had succeeded in overcoming Imperial tariff barriers, undercutting British products and disrupting the traditional pattern of automatic domination of Australian markets by goods from within the Empire. The Commonwealth Government argued that, in the four years since the Ottawa Conference, Australia's dependence on Great Britain as a market had increased. Agricultural products, except wool, had been increasingly excluded from nearly all foreign countries and there was little or no prospect of Australia's recapturing its old position in world primary-products markets. Its only hope was to increase sales to Great Britain, but to do so Australia would "reluctantly" have to divert more of its import trade to that country as a reciprocal measure.[83] The Japanese retaliated by applying quota restrictions on Australia's imports including wool, and imposing a prohibitive surcharge on other imports, effectively causing a complete cessation of exports to Japan and Manchukuo.

The attitude of Queensland industries to these measures was mixed. The beef industry welcomed the prospect of secure access to the British market where it felt threatened by British agreements with Denmark and Argentina.[84] On the other hand, the Japanese market was valued as an outlet for types of beef not readily sold elsewhere.[85] It had been developed by firms such as Pacific Commercial Company in difficult circumstances of domestic shortages and government controls[86] and the appointment of Commonwealth Trade Commissioners had been expected to provide the first real opportunity for expansion. Other agricultural industries such as cotton and dairying welcomed overtures from the Manchester Chamber of Commerce suggesting the possibility of expanded trade,[87] although the Queensland Cotton Board had good prospects of sales to Japan. The most serious implication, however, was the cessation of the wool trade, especially as Queensland wools were those most suited to the Japanese market and Japan was the principal outlet for the State's production. Some sections of primary industry stood to lose substantially from the trade diversion dispute, while others stood to gain if Britain responded positively. It was difficult for the Queensland government to take a definitive position, and aside from a few brief comments, there was no official response and almost no mention of the dispute in the Queensland Parliament.

Politicians such as Sir Henry Gullet and the Queensland Minister for Agriculture, Mr. Bulcock, were at first sceptical of the ability of Japanese manufacturers to operate without Australian wool,[88] and appeared relatively unconcerned about the impact of a possible withdrawal of Japanese buyers. However, Japan had provided the main growth factor in wool exports during the 1930s and Japanese buyers had been keen competitors for lower grades of wool as well as average and better fleeces. Graziers were in no position to withstand a crisis after a severe drought in Queensland and years of poor prices and accumulated debts, and they feared the long-term implications of the development of synthetic substitutes which was being encouraged in Japan by the Ministers for Commerce and Industry, War and the Navy.[89] Wool industry interests were therefore hostile at the action of the Commonwealth which had deprived them of one of their best markets.

Queensland woolgrowers joined their counterparts in other States in "defending the interests of the Japanese"[90] and in trying to persuade the Australian government to take alternative actions or at least to be more flexible in negotiations over the size of textile quotas. Meetings of the United Graziers' Association and the Graziers' Association of Central and Northern Queensland received motions from their local and district branches in the Maranoa and in southern, south eastern, central and northern Queensland expressing alarm and concern and urging the "strongest possible protest".[91] The United Graziers' Association, encompassing the majority of Queensland growers, was an integral part of the Australian Woolgrowers' Council and the Graziers' Federal Council, and fully supported the strong opposition of those bodies to the actions of the Government and their efforts to impress on Cabinet the seriousness of the position.[92] Their reaction was summed up in a Letter to the Editor of the Courier-Mail by Mr. R.J.F. Boyer, President of the Warrego Graziers' Association and member of the Australian Woolgrowers' Council. In 1935, he said, "Governments and wool growers alike hailed Japan as the mainstay of the market"; by 1936 "countless loud speakers ... transformed her into a menace, a dictator, an enemy within our gates".[93]

Press accounts in Queensland emphasised Japan's role in provoking a tariff war, carrying almost daily reports of Japanese political and commercial leaders urging retaliation against Australia and united opposition to Australia's policies. Press and official spokesmen in Australia began to portray Japan as a menacing foreign power trying to dictate domestic policy to the Australian Government, destroy traditional commercial links, monopolise the market, undermine Australian industries and ultimately to weaken the security of the Empire as a whole. A series of editorials in the Courier-Mail linked Japan's disruption of British textile imports to Australia with foreign policy objectives of "economic and financial penetration" of the Asia-Pacific area as a preliminary to the sort of political domination being imposed in China.[94] The trade dispute thus came to be portrayed as something of a national conflict between Australia and Japan and by extension between Japan and the Empire.

The dispute eventually ended in December 1936 in a negotiated settlement establishing quotas for Australian textile imports, and securing a Japanese commitment to purchase up to 800,000 bales of wool in the 18 months to June 1938. Japanese buyers re-entered the wool market and bought freely at the Brisbane sales in March 1937, but in the years before trade stopped altogether, Japan never regained the dominant position she had occupied before the dispute. Japan continued to buy, mostly better class wools, obtaining the average and faulty descriptions in South Africa. Woolgrowers felt cheated. They had expected Japan to buy up to the limit of 800,000 bales, but she did not. By 1938, demand from the United States had fallen, wars in Spain and China reduced British buying, while competition from artificial fibres in Japan and Europe made sales difficult. There was a strong feeling that Japan had reneged on its agreement to the detriment of Australian exporters.

Importers such as T.C. Beirne also felt the new Agreement was "entirely in favour of Japan" with the benchmark for imports set at the peak year of 1934.[95] The Merchants' Association and the Chamber of Manufactures had welcomed the higher tariff and licensing as protection against the inroads of increasingly good quality and attractively priced Japanese goods.[96] They now sought Tariff Board protection against a new flood of imports such as Japanese earthenware and pottery which was cheaper than similar British or local articles, and Japanese hat linings which sold for less than 50 per cent of the cost of local production.[97] Imports from

Japan had declined very little during the dispute and it appeared that Japan had emerged relatively unscathed.

From both the Australian and Japanese perspectives, the Leader of the Opposition, John Curtin, summed up the results of trade diversion: far from increasing the number of countries with which Australia "was on terms of goodwill", it had engendered "a distinctly unwholesome atmosphere" for relations between Australia and her Pacific neighbours.[98] For Queensland's major industries - wool and meat - the dispute marked the end of trade growth as exports did not return to 1934 levels until after World War II. This was particularly important to the economy of Queensland which had a larger proportion of primary producers than the other States, a larger proportion of exportable surplus, and a heavier dependence on international trade. Economic nationalism had closed markets in France, Germany and Italy, [99] and Japan afforded the best hope for increased trade. The dispute left a residue of mistrust and caution which persisted well into the postwar period and which was reinforced by the experiences of the pearling industry and by Japan's efforts in the late 1930s to involve Australia in its expansion of strategic industries and in the structural reorientation of its economy from light to heavy industrial production.

JAPAN AND THE PEARLING INDUSTRY

The impression of Japan that emerged from the trade diversion dispute - of an aggressive trader, willing to disrupt established relationships and do anything to promote its own interests - was reinforced in Queensland by experiences in the pearling industry.

Japanese involvement in pearling began in the 1880s, and by the mid-1890s they were the largest national group working in the industry.[100] There were two major categories - divers and operators. The Japanese divers were highly skilled and for such dangerous and specialised work there were no alternative employees. The need for Japanese divers helped to bring Queensland into conflict with the developing "White Australia" policy, and eventually special arrangements were made to allow the number of Japanese to rise, which they continued to do until 1938-39 except for the two Depression years, 1930-31. The Japanese divers may have been respected for their skills, but owners resented the way in which they used their monopoly position to make ever-increasing demands for improved contracts, and for the employment of other Japanese as shell openers, divers and tenders. Owners accused Japanese head divers of being "the master(s) and director(s) of the Australian pearling industry."[101]

Even so, the most serious concerns in the industry related to Japanese who operated their own vessels, either as "dummies",[102] or openly as foreign owners working out of offshore bases, fishing international waters and sometimes poaching within the three-mile limit. By the 1930s some of these vessels were very large and well-equipped, such as those owned by Fukutaro Tange who was backed by Mitsui and Mitsubishi.[103] As the number and size of Japanese vessels increased, concern grew about the impact of Japanese fishing methods and the size of Japanese catches on the long-term future of resource stocks and of the industry itself. The Japanese were known to take the "chicken" or young shell which Australian licensees were forbidden to harvest, and they were accused of destroying all marine life in their path. As reported to the Mackay Commission, "they went over the Reef like a cloud of locusts" and left "nothing behind them, not even a clam shell".[104]

In addition, the huge Japanese catches had a severe impact on the market for Australian shell. European pearlers complained that, in addition to having larger vessels and avoiding restrictions and taxes imposed on Australian licensees, the Japanese had much lower operating costs and could still make good profits even when prices fell. This arose because their supplies were bought cheaply in Java and their catch could be sent to Japan from Thursday Island in their own boats for about $14 per tonne compared with $20-38 per tonne paid by Australian pearlers for shipment to Hong Kong.[105] European pearlers resented Japanese competition for the highly profitable pearlshell market in the United States which took a small, but significant share of the Australian catch, with the principal sales being in the United Kingdom. From 1915-18 Japan herself was the largest customer for Australian exports of shell, until imports were replaceby supplies from her own ships. Thereafter, until 1942, the United States was the major customer, especially for the larger and higher-priced shell. The Japanese made inroads into this market, partly on account of the superiority of their grading which in Australia was "purely nominal".[106] The situation was made more difficult when huge Japanese catches led to a rapid increase in quantities reaching the market as they did in 1935 when Mitsui and Mitsubishi arranged contracts for the supply of shell from Fukutaro Tange's vessels to the Otto Gerdau Corporation in New York, a market formerly dominated by Australia. Tange's catches were very large and when both Japanese and Australian shell reached the market simultaneously, prices plunged to levels unprofitable to the Australian sellers, though still providing a reasonable return to the Japanese.

Fears about the complete depredation of fishing areas and the commercial impact of Japanese pearling were compounded by suspicious about the objectives behind the presence of Japanese vessels inside the three-mile limit and the purposes of the unauthorised landings made from Japanese vessels on the Australian mainland and adjacent islands. Concern in northern Queensland was widespread. The Catholic Bishop of Bathurst Island claimed that young aboriginal women were bartered by older men of the tribe for tobacco, liquor and food.[107] Business interests in north Queensland, as in Western Australia and the Northern Territory, pressured the State and Commonwealth Governments to provide adequate surveillance. The Townsville Chamber of Commerce enlisted the support of its Brisbane counterpart in expressing its "alarm at the glaring and persistent visits of Japanese sampans on the Australian coast especially the Barrier Reef and adjacent islands"[108] and joined the Returned Services League (RSL) in urging the government to send a light cruiser to patrol from Cairns to Thursday Island "to prevent further depredation in the shell industry". Both State and Commonwealth authorities at first regarded their fears as greatly exaggerated. Nevertheless, police inquiries verified that some reports were accurate, and after the arrest by the Customs Department of a sampan off Booley Island, Premier Forgan Smith asked the Commonwealth to take action.[109] The Commonwealth decided to provide fast boats to check for sampans on the Reef, to use Qantas to assist in surveillance on their regular flights, and to send a patrol vessel to operate east of Darwin, though it proved not fast enough to catch boats poaching.

By the end of the 1930s Japanese dominance of the pearling industry was regarded as an economic threat to Australian interests. The best beds were denuded by Japanese operators, world prices depressed by the flood of Japanese supplies, Japanese divers demanded ever-improving contracts which European owners could not afford, and the formation of Nippon Shinju Kaisha directly tied the industry to Japan's plans for expansion in South Asia. In 1936 the RSL had asked the State Government to take up with the Commonwealth the possibility of an agreement with the Japanese regarding the size of shell taken from the Reef.[110] Diplomatic moves began during 1937-8 between Australia and Japan to establish a common policy in the three pearling States, but the States could not agree and nothing came of it. Pearling was an important industry in the economy of the north and of prime importance to areas such as Thursday Island. The impact of the Japanese on it reinforced the view, at least in Queensland, of Japan's aggressive nationalism.

JAPAN'S SOUTHWARD EXPANSION

Concerns about the presence of the Japanese in the pearling industry were not just economic, but political as well. Long before World War II appeared imminent, security and defence issues worried Queenslanders, especially those in the north, and the pearling industry became a focus for unease about Australia's "indirect but intimate involvement" in Japan's economic and military expansion.[111]

Japanese interest in Micronesia dated from the late nineteenth century, but increased significantly after World War I when Japan acquired Germany' former possessions in the Northwest Pacific under mandate. The extension of Japanese interests into banking, shipping and deep-sea fishing was led by large commercial and trading combines such as Mitsui, Mitsubishi and Nanyo Kaihatsu KK (South Seas Development Co.) and by the 1930s their activities were seen as part of a state-aided attempt to co-ordinate and intensify the expansion of Japan's influence in the area.[112] Her increasing presence in the pearling grounds off Australia's northern coast was part of this process. At the end of the 1937-8 season the Japanese fleet was recalled to its home base, where, with Government sponsorship, the separate owners merged to form a new and larger company - Nippon Shinju Kaisha - a subsidiary of Nanyo Kaihatsu KK. Nanyo Kaihatsu had played an important part in the development of Japan's Pacific mandates in the 1920s and 30s, especially in bringing workers to the sugar plantations of Saipan, and its move into the building of schooners and development of shipping interests was supported by the Naval General Staff First Committee.[113] The new organisation for pearling therefore seemed to be part of Japan's "southward drive" to expand and strengthen her influence in the region, and to obtain both markets for industrial goods and supplies of resources such as oil, minerals and raw materials.

Geographically Queensland was at the frontier of this expansion and increasing concern was evident in the growing number and urgency of reports of Japanese mapping, making naval surveys, illegally landing or having land bases on the mainland or adjacent islands under the cover of pearling operations. At the very least, Japan's southward expansion brought a substantial world power nearer to Australia than ever before at a time when there was potential for conflict over her desire for materials and markets and the ways she sought to obtain them.[114] The movement of the Japanese economy to a quasi-wartime footing and, after 1937, the exigencies of war with China, were major influences on the size and pattern of Australia-Japan trade after the end of the trade diversion dispute.[115] The rapid expansion of heavy industry increased Japan's demand for resources such as zinc, iron ore, lead, and iron and steel scrap, and the war made necessary hides for footwear, and tallow for use in explosives. While this provided export opportunities, at the same time it generated concern about Australia's role as a supplier to Japan's war-based heavy industry and the consequences of her place in Japan's "raw material procurement strategy".[116]

Serious Japanese interest in Australian minerals began in the mid 1930s as part of a pattern of Japan's involvement in the actual production of certain commodities rather than merely buying them from countries to her south.[117] Despite investment in Manchuria and North China, Japan continued to require imports of materials such as iron ore and European supplies dwindled as re-armament accelerated. Japan began to look at ways of obtaining supplies on a secure, longer-term basis from largely untapped resources in Australia, Malaya, the Philippines and Indo-china. With Japanese government approval and support, companies invested directly, or provided the capital for dummy firms, took the entire output of mines and provided Japanese shipping services, thus exercising real if not ostensible control over the whole mining operation.[118]

The first attempt to incorporate Australian resources into this pattern was the purchase of the Yampi Sound iron ore leases from the British company H.A. Brasserts and Co. by a dummy operating firm, Yampi Sound Mining Co. Ltd., fully funded and effectively controlled by Nippon Mining Company of Tokyo.[119] The project received the initial support of the West Australian government because it would promote development and employment in a remote area,[120] and of the Australian government because of its contribution to exports.[121] The project had not come into production when the Australian government banned the export of iron ore in July 1938, ostensibly because of Australia's limited reserves and the desire to conserve them for future needs.[122] The real reasons, however, were the "increasing geopolitical menace of Japan"[123] and "fears of the effects of Japanese ownership of Australian resources and its widening economic interests in Australia".[124]

The Commonwealth was concerned about the spread of Japanese ownership beyond Yampi Sound and the incorporation of Australia's northern regions with their mineral, fishing and pearling resources, into Japan's southward expansion. This concern was acutely felt in Queensland as well. In July 1937 Premier Forgan Smith warned the Prime Minister that Japanese companies, including the large mining group Ishihara Sangyo, were attempting to set up a dummy company to exploit the Iron Range deposits in Cape York Peninsula.[125] Direct approaches had been made to the Mines Minister, Mr. Foley, seeking local interest in mines for which Japan would guarantee a market,[126] and there were reports that Nobutaro Umeda, the chief intermediary in the

Yampi Sound dealings, had been making contacts in the State.[127] There had also been a report in 1936 from the Queensland Commissioner of Police to the Minister for Health and Home Affairs that Japanese were trying to obtain an interest in mineral leases on Iron Island outside Mackay and that two Japanese geologists, a silk merchant (Mr. Koiso), and a representative of Japanese financial houses (Mr. Matsumoto) had met with an unnamed European to discuss the proposal.[128] Concern about the long-term implications of the extension of Japanese ownership of resources and the expansion of its commercial interests in Australia underlay the Australian government's ban on the export of iron ore which effectively ended Japanese attempts to develop Australia's mineral resources in the prewar period.

Japan did provide a very useful market for zinc from Mount Isa Mines, though it embroiled the Company and one of its Directors in a great deal of public controversy. Mt.Isa was essentially regarded as a lead mine, which also produced silver; little interest was taken in the zinc which was not seen as a commercially marketable product. When zinc began to be produced in 1936, it was initially hoped that overseas sales would help relieve the financial distress from which the company suffered. However, rail freights absorbed half the very modest price that could be obtained, and for the most part the zinc was either stockpiled or jettisoned. An ambitious idea to construct a railway from Mt. Isa to Burketown to a port in the Northern Territory and thus escape the stranglehold of the Queensland Railways eventually came to nothing, although the Commonwealth Government showed initial interest because of the line's strategic value. In 1940 the Company sold its large dump of zinc concentrate and most of its current zinc output to Britain, but much of the zinc was never delivered because of a scarcity of shipping space. Although Japan took less than 3 per cent of the output of zinc concentrates, the Japanese market was thus particularly valuable, especially as the lead price was low, and British contracts for one month only. Zinc, however, was a strategic metal and in early 1941 its export to Japan was criticised in the Press and in the Commonwealth Parliament on the grounds that it could be surreptitiously resold to Germany. One of the Company's directors, Senator H.S. Foll, a member of Federal Cabinet, explained that the zinc contract had been authorised by the Commonwealth before World War II, and the Minister for Trade and Customs had taken precautions to ensure that it was not used for hostile purposes.[129] Nevertheless, the Senator was pressured into resigning from the Board very shortly before trade ceased altogether.

Exports of rural products, however, did not prosper from Japan's war economy and southward expansion. The Japanese developed a raw materials policy placing more emphasis on self-sufficiency, the spreading of purchases of essential goods such as wool, and the development and use of substitutes. As early as 1935, Dr. Melbourne reported that in the territories she controlled or influenced, Japan built up primary products that would supply material and foodstuffs and help her divert purchases away from countries (including Australia) with whom she had an unfavourable Balance of Payments.[130] Increased spending on munitions strained financial resources and in January 1938 economic controls were tightened and non-essential imports reduced by 50 per cent. Efforts were made by both Australia and Japan to increase trade in specific products. The Federal Department of Commerce and the Australian Meat Board explored the possibility of creating a regular market for Australian beef in Japan. They were encouraged by Mr. Hiroda of Kanematsu, visiting Australia in January 1938, who urged Australia to find markets outside the United Kingdom and away from Argentinian competition. The removal of a 50 per cent surtax and the inauguration of shipment of chilled rather than frozen beef made the prospect more realistic, though lack of refrigerated transport from wharf to store and the regularity of competitive shipments from China were major obstacles. The Japanese sought increased exports of Australian wheat but, by 1940, the export of wheat, and of most other primary products, was tied to Britain under wartime agreements. Queensland did, however, export increased amounts of hides and tallow to Japan at good prices though, by 1941, amid public criticism. Tallow had been exported to Japan for soap-making before the trade diversion dispute, but the market had been lost to imports from Manchukuo. Its reopening was welcomed by producers, but criticised because tallow could also be used as an input to explosives. In this way not only obvious strategic materials such as zinc, but primary products as well, were drawn into Japan's wider strategic plans.

Opportunities in the Japanese market for Queensland products after the trade diversion dispute were thus controlled largely by political factors - the limits placed on bilateral exchange by the negotiated settlement of the dispute, the desire of Japan to incorporate Australia, especially northern Australia, into its economic and strategic plans, and the response of the Australian government to the threat posed by Japan's southward expansion and its ownership of Australian resources.

CONCLUSION

By the end of the 1930s the bright promise of a friendly and expanding relationship had faded into suspicion and mistrust of the Japanese as traders and economic partners. By the outbreak of World War II, Queensland-Japan trade had declined to less than 3 percent of the total, due largely to a drop in Queensland's exports. The rapid and effective retaliation against Australia's trade diversion policies, the pattern of trade after the dispute's settlement, and competition in the pearling industry had given the Japanese a reputation as tough and aggressive traders and left a feeling in some sections of the community that the Japanese were not interested in a real partnership, but only in pursuing their own interests regardless of those of other parties. There was a sense of frustration and powerlessness, of being "used" as a pawn in a larger game where Japan did not quite play by the rules and in which neither business nor State and Federal Governments could act effectively to promote Australia's own interests. Such feelings were greatly intensified by World War II and underlay the responses towards the revival of trade, especially in the calls for the exercise of strict control and supervision and in the opposition, even in the 1960s and 70s, to Japanese ownership of Australian resources.

Yet prewar trade, in reflecting at least partly the economic strengths of the respective economies, did provide a basis from which the relationship would develop after 1945. Japan's exports of textiles and the terms of their entry to Australia would be important issues in postwar trade, though her prewar exports of toys and crockery had little in common with the consumer durables and capital goods which were major items in Japan's postwar exports. From Queensland's overwhelmingly rural economy Japan took small quantities of foodstuffs, but mainly products that were inputs to manufacturing - wool, cotton, hides and tallow - and the resumption of this profitable trade would depend on the attitude of Occupation authorities and the international community to the revitalization of Japan's industrial base. When industry did revive, it came to provide the main market for a range of metals and other resources of which in the 1930s only small quantities of zinc had been exported.

After the end of World War II, Queenslanders shared with other Australians a strong anti-Japanese sentiment which made them hesitant about the resumption of relations of any kind with Japan. Business was cautious; neither unions nor manufacturers were likely to welcome the import of cheap competitive goods. The State Government, the Director of Native Affairs, ex-service organisations and the Press were adamantly opposed to the re-entry of Japanese divers or boats into the pearling industry or into any kind of activity in waters in the vicinity of Australia. The re-employment in 1947 by Bowden Pearling of two Japanese, Tomitaro Fuji and Ken Shibasaki, who had lived on Thursday Island for many years, led to such a furore that Cabinet quickly issued directives that no Japanese were to be registered as divers or to work in any capacity.[131] Even wool interests which had profited greatly from prewar trade were hesitant about the possibility that Japan might again become an important factor in the industry's prosperity. Both business and government favoured the strengthening of ties with the Commonwealth rather than seeking or even taking advantage of opportunities outside it.

Yet, more quickly that might have been expected, there was a revival of interest in commercial opportunities stemming from a resumption of trade. There were difficulties because of the dollar shortage, tight controls by SCAP, and the limited capacity of the Japanese economy. Australia's protectionist policies and import restrictions, and the commitment of Australian primary products to the UK were further obstacles.[132] Yet both private traders (after 1947) and Government Departments and agencies sought entry to Japan to pick up the threads of prewar trade or investigate products to buy or sell. When applications were called by the Commonwealth Government for the first group of 24 to go to Japan in 1947, Queensland interests claimed that a representative from the State should be included because of the substantial trade of Queensland firms prewar and because Queensland's need for Japanese goods (presumably cotton textiles) was greater than that of the other States owing to the tropical climate.[133] For the Queensland Government, shortages of essential materials which delayed infrastructure projects and rural and industrial rebuilding engendered a pragmatic approach. Gallup polls indicated that a proportion of the public shared their pragmatism.[134] Other reports and articles in the Press agreed that, though the idea of Japanese goods was repellent, trade would have to be tolerated to provide employment for returned servicemen, to build up Japanese industry so she could pay war reparations[135] and because, according to the President of the Chamber of Commerce, "Australia had been forestalled in markets in the East that should have been her special care" by the opportunistic actions of the United States.[136] There was, however, a sufficiently substantial resistance by many individuals, groups and organisations to the restoration of trade to make reciprocity an obstacle to the growth of the relationship even 10 or 15 years after the war had ended.

By the end of the 1950s Japan took 15 per cent of Queensland exports, the principal commodities being wool, sugar and hides and skins, following the prewar pattern, and often handled by the same institutions and processes. Wool from the Brisbane sales in 1948 was one of the first products traded and remained the dominant export until the mid-1970s. The initially very small exports of beef represented a major part of Australia's total sales of meat to Japan and rose rapidly throughout the 1960s to become by the early 1970s one of Australia's largest export earners. Because of the pattern of its agricultural production, Queensland did not participate as fully as the southern States in the growth of the export trade in food and feed grains though, taken together, cereals provided a significant export income. Japan provided a useful outlet for Queensland barley as well as the main market for wheat and for sorghum after the southern stockfeed market was whittled away by New South Wales suppliers. However, the promising cotton trade which had existed prewar did not resume until the early 1970s when the extension of irrigation allowed the production of an exportable surplus coinciding with an unexpected reduction in the Mexican cotton crop and renewed interest from Japanese trade houses such as Marubeni Iida for Queensland supplies. The development of "new" agricultural exports such as sugar and the growth in the volume and range of traditional rural products made trade with Japan an important determinant of the economic well-being of Queensland rural industries and involved the State in Japan's domestic policies to an extent never imagined in the prewar period.

The trade in coal and minerals began more slowly than the sale of rural products, but in the 1960s and 70s Queensland and Japanese economic growth became closely linked through the rapidly increasing supply of the State's resources to Japan's expanding industrial sector. Sales of zinc from Mt. Isa resumed in 1953 with the export of 12,000 tons to Mitsui Mining and Smelting and expanded to other Japanese producers of high grade zinc for industry as rates of recovery from orebodies improved. Copper exports from Mt.Isa and Mt. Morgan began in 1959 after the completion of the Townsville refinery, and urgent efforts by the Japanese to secure supplies against an impending world shortage. It was made possible by the decision of the Queensland Government to pay for the upgrading of the Townsville-Mt. Isa rail link after approaches to the World Bank and to the Federal Government were unsuccessful. Exports of rutile and zircon from mineral sands along the Queensland coastline and offshore islands were inputs to the paint, paper and plastics industries and later to titanium used in aerospace and jet aircraft. Major mining developments in coal and bauxite, geared to the needs of the Japanese market, were reflected in greatly increased income from mineral exports and were the catalyst for changes in the pattern of Queensland's economic growth and the basis for a wider and deeper relationship with Japan.

There had been opportunities for trade in the prewar period, created by the unavailability of traditional suppliers during World War I, Japanese economic growth, especially in the early 1930s, and the desire of Japan to incorporate Australian resources into her plans for economic restructuring in the years before World War II. The ability of Queensland business to respond to these opportunities was limited. The wool industry, with a world-class, price-competitive product with few viable substitutes, was able to attract buyers to the wool auctions and had long-established relationships with Japanese spinners through the trading company Kanematsu Gosho. Apart from wool, Queensland produced only a limited range of products of interest to Japan, business was generally small, serving local needs or the secure and familiar markets in Britain and the Empire. Many Queensland products were uncompetitive and unattractive because of high costs, especially of handling and shipping, inadequate presentation, poor quality, and the inability to supply product on a consistent, year-round basis. Except for a small number of enterprising individuals and groups such as the woolgrowers and the Queensland Cotton Board, the opportunities in Japan went largely unheeded. The positive steps taken by the Government in appointing Mr. Frederic Jones were not followed through and the investigations and enthusiasm of Sir Leslie Wilson and Dr. Melbourne bore little fruit. There were few pathfinders whose success would show the way, and little recognition at industry level of the necessity of identifying and meeting the needs of the Japanese market in order to take advantage of the opportunities it presented. Queensland business, and Australian business generally, was committed to export to Britain and the Dominions with whom it had close historical ties and where political advantage and tariff concessions overcame the economic disadvantages business faced in Japan.

Except for the short period around the turn of the century, there was little effort at State level to promote trade with Japan, to take advantage of specific opportunities, or to encourage or support business attempts to break into the market, though it must be admitted that difficulties stemming from inadequate infrastructure were beyond the State's resources to remedy. Within the public sector there were those who were active in support of trade with Japan - Sir Leslie Wilson, J.D. Story through the University of Queensland, A.C.V. Melbourne through his chairmanship of the Committee on Far Eastern Trade. They were opposed by Professor Brigden at the Bureau of Industry and counterbalanced by the commitment at government and industry level to trade with Britain, and by the tendency to leave foreign trade matters to the Commonwealth government.

Dr. Melbourne had set out the alternative attitudes that government could adopt:

> we could just be passive and wait and see if they (the Japanese) still need us or go out and support purchases ... anticipate negotiations with competitors by gathering market information early ... gain acceptance ... watch for ... the possibility of improving products ... arouse interest.[137]

The Queensland Government clearly took the first course despite efforts by the Governor and others to induce a more active approach. There was no recognition that State objectives could be achieved through trade with Japan, no State-business collaboration to overcome obstacles and make adjustments necessary for market growth. It is the progress of the Government towards the second choice that is one of the features of the post war period and a major factor in the development of the Queensland-Japan relationship.

CHAPTER THREE

RURAL ENTREPRENEURS:

JAPAN AND THE QUEENSLAND BEEF INDUSTRY

INTRODUCTION

The development of the beef trade followed recognition by entrepreneurial individuals and companies that opportunities existed in Japan for the resumption and possibly the expansion of the exports of manufacturing beef which had existed in the prewar years. But the real impetus for the rapid growth in trade came from innovations in cattle raising and meat processing to satisfy the expanded demand in Japan for quality table beef and from joint industry/government promotion of a distinctively Australian product. This was supported by the actions of State and Federal Governments to open up new lands and to improve transport infrastructure, and by agreements negotiated by the Commonwealth for improved and more stable access to Japanese markets.

As for all rural products, the growth of the beef trade was heavily influenced by both domestic and international factors. The postwar arrangements with Britain, the development of the European Community, protectionist policies in Japan, and changes in the world economy affected the level of trade and presented major challenges in the management of the relationship. Within Australia, federal macroeconomic and specifically rural policies set the domestic economic and operational framework which helped to determine the ability of producers to provide, transport and sell the quantity and quality of products demanded by the Japanese and other markets and to make reasonable profits at the prevailing prices. In Queensland, State-based activities such as revision of rural leases, research into breeds and pastures, and joint State-Federal projects such as the Brigalow Scheme established the preconditions for the development of the industry so that it was able to take advantage of the opportunities in the Japanese market as they arose.

The nature and location of the beef industry, the large-scale public infrastructure needed to support it, and the influence of Japanese domestic and international trade policies on the beef market tended to emphasise the role of the Federal rather than the State government in the development of the beef trade with Japan. Important though the beef industry was to the Queensland economy, its gradual development and its national character meant it did not have the political as well as economic role necessary for a "duality of leadership" in the State or the close and formal sharing of decision-making with the State government which we shall see in the sugar industry. The relationship between State and industry was more remote, though in the areas for which it was responsible, the Queensland government was active and supportive, though limited by Constitutional factors and by the conditions of a market established elsewhere.

THE STATE AND RURAL INDUSTRIES

Governments at both regional and national levels have traditionally been deeply involved in rural policy for economic, social and political reasons. These include the large number of relatively small competitive units dispersed over a wide geographical area, the high degree of uncertainty and variability in seasonal conditions, markets and incomes, and the importance of agriculture as an earner of foreign exchange and as the economic base of most regions outside the capital cities. Politically the rural vote has been magnified by the distribution of electoral boundaries, especially in Queensland, and long-standing attitudes to primary production have given rural policies an importance in community values beyond that justified solely on economic criteria.

The Constitutional division of responsibility for rural industries has had a pervasive influence on the respective roles of national and regional State governments. At Federal level, government support has included measures to supplement the market, affect the economic structure of farming, and assist producers to deal with problems caused by the volatility of world economic activity and by the mercantilist approach to international trade within developed countries. Provisions for various industries at different times have included price support, input subsidies, protection against imports, tax concessions, payments for research and promotion, devaluation compensation and rural adjustment assistance. In Queensland, they have also included the general supervision of a range of Boards such as the Livestock and Meat Authority and the Sugar Board which are a basic point of contact between industry and government and an important part of the framework within which State and industry interact. The Boards' roles and functions vary widely and there is no set pattern in a complex of statutory controls, voluntary and compulsory organisations and stabilisation arrangements. Their ad hoc nature reflects the requirements of particular commodities and the attitudes of participating groups of producers. The result is that at both regional and national level, the relationship between state and industry is convoluted, varying with the commodity, its organisational framework, the nature of the issues, the degree of unanimity among interested groups, and the division of authority between levels of government.

In the beef industry, a number of State and Federal bodies and Departments, and various industry organisations, have had a role in the regulation, development and promotion of beef production and export. The Commonwealth Department of Agriculture supervised the quality of export meat by licensing export abattoirs, boning rooms and coldstores and providing a meat inspection service. The Australian Meat Board, established in the 1930s, had the complementary role of licensing meat exporting firms, but came to be responsible as well for market development, promotion and diversification of the industry and for market information and advice to governments on international trade. The Board was replaced in 1977 by the Australian Meat and Livestock Authority, with the statutory functions of promoting increased meat consumption at home and abroad, ensuring the specification of meat for export conformed to any agreement, trading on its own account if market conditions precluded private sellers, and issuing directives to licensed exporters on matters such as quotas.

In Queensland the Department of Agriculture and Stock maintained a parallel inspection service which concentrated on detection of diseases and refused, despite the recommendations of Inquiries and Federal legislative attempts, to agree to a single supervisory unit.[1] The Queensland Meat Industry Board provided all meat for domestic consumption in the Brisbane Metropolitan area and managed one of the abattoirs licensed to slaughter and prepare meat for export. The Board was replaced in 1978 by the Meat Industry Organisation and Marketing Authority, comprising representatives of the Primary Industries Department, meat processor and distributor organisations and meat producers. Its role was to advise the Minister regarding the industry, promote wider consumption of meat, conduct and manage certain abattoirs and to provide and develop programs of benefit to producers, processors and consumers. Both the State and Federal bodies include representatives of the industry and have established mechanisms for consultation with industry organisations and between the industry and related groups such as those representing shippers and unions.

The evolution of the State and Federal meat authorities marked attempts by governments and industry representatives to develop a structure able to deal with the issues of the global market, including Japan, in a way which reconciled the sometimes conflicting interests of the various producers, processors and exporters. The division of functions between the AMLC nationally and the Queensland Board and Authority reflected the major roles of the two governments in the industry. The Commonwealth was directly concerned with issues of international marketing, while the State concentrated on basic issues of industry development. Both were concerned with the maintenance of quality which was a vital element in obtaining and retaining access to the Japanese market and in promoting an Australian product acceptable to the Japanese consumer.

SALES OF BEEF TO JAPAN

Beef was among the first products exported to Japan when trade resumed after World War II, mostly supplied for the US Services stationed in Japan and paid for in US dollars. Quantities were small, with 95 tons coming from the "free quota" in 1952-3, 1298 tons in 1953-4 and 1503 tons in 1954-5 or about 1 percent of Australia's total beef exports.[2] During the 1950s, exports were restricted by a combination of factors including difficulties of producing sufficient to meet commitments to the UK market, the introduction of import restrictions in Japan, decreased demand from importers and the very attractive market in the USA for the limited quantities of "free quota" beef.

TABLE 3.1

EXPORTS OF AUSTRALIAN BEEF AND VEAL TO JAPAN

('000 tons shipped weight)

Year	Qty
1954	1.3
1955	1.5
1956	1.2
1957	8.0
1958	3.0
1959	1.0
1960	2
1961	2.1
1962	3.2
1963	3.2
1964	4.8
1965	6.2
1966	8.3
1967	8.4
1968	11.87
1969	14.63
1970	16
1971	29.7
1972	44.6
1973	84.9
1974	80.2
1975	8.12
1976	65.5
1977	71.2
1978	71.4

Source: Australian Meat Board Annual Report various years.

After World War II, most of Australia's exports of beef were made to the United Kingdom on a year-to-year basis, eventually formalised into the 15-Year Meat Agreement of 1952 which aimed to increase production, provide secure supplies to the British consumer and guaranteed markets to the Australian producer. Minimum prices were guaranteed for each type of meat with "deficiency payments" if market prices were less than the minimum. In return, Australia accepted, until 1961, restrictions on the export of meat outside the United Kingdom except for a small "free" quota to allow exploration of alternative markets. Although the arrangement provided welcome stability, it prevented Queensland and other producers from taking full advantage of opportunities in Japan when they arose.

A further and more permanent limitation on exports to Japan arose from that country's import policies. Imports in the immediate postwar period were limited by Japan's shortage of foreign exchange, especially for trade with countries such as Australia in the sterling payments area. But by 1954 foreign exchange banks were able to automatically approve applications to import a range of products, including beef, subject only to 10 per cent tariff ad valorem.[3] After 1957, however, the Japanese Government protected its high-cost domestic beef industry by quota limits on imports. At first, (1957-64) limits were determined by a ceiling on the monetary value of imports - the Fund Allocation system - supplemented by the duty of 10 per cent, a levy of approximately 5c per lb and a requirement that importers deposit 35 per cent of the cif value of proposed imports. Longworth argues that this system of limitation by value encouraged the import of cheaper meats where the maximum quantity was obtained with the limited funds available. Australia supplied mainly frozen briskets from grassfed cattle which were used in the institutional and processing sectors of the trade and it came to be believed in Japan that Australian beef was of very low quality.[4]

Subsequently, from 1964, after Japan joined the IMF, protection was afforded by restrictions on the quantity rather than the value of beef imported. This Import Quota (IQ) system posed new challenges but opened new opportunities for beef exporters. The quota system was linked to a beef wholesale price stabilisation scheme achieved using a buffer-stock operation and fluctuating imports to manipulate the amounts of beef entering the wholesale market.[5] Imported beef was purchased at world prices by the Livestock Import Promotion Corporation (LIPC) or permitted traders and resold to Japanese wholesalers at an amount sufficient to ensure high prices to Japanese beef producers. The quota system placed an upper limit on the market, but removed the incentive to import only cheaper cuts. Australian exporters and the Australian Meat Board worked to persuade the Japanese meat trade that better quality beef was available, but they met considerable resistance from the meat industry which believed that Japanese housewives would buy only fresh, and not frozen, beef.[6]

The uncertainties of the operation of the IQ system, especially the 6-monthly declaration of quotas, posed a major obstacle to the planning of appropriate production levels and sequencing the flow of beef for the market, while the complexities of the distribution channels meant there was no direct relationship between producer/exporter and consumer to facilitate understanding of market requirements.

Political influences on the beef market in Japan were the major determinant of the wide fluctuations in export opportunities in the 1970s. In the early years of the decade Japan was concerned that it might not have adequate supplies of domestic or imported meat to satisfy market requirements. The Chairman of the Australian Meat Board addressing the

Australia-Japan Business Cooperation Committee meeting in 1972 indicated that almost without exception every Japanese visitor in the previous year, whether Government official, commercial buyer or shipping representative, expressed concern regarding future supplies to Japan and tried to assess Australia's ability to meet requirements.[7] The import quota rose from 24,200 tonnes in 1971 to 160,000 tonnes in 1974 as part of attempts by the Japanese government to control inflation in general and meat prices in particular.[8] The Japanese Government in 1973 asked Australia not to restrict exports, as it had been considering in order to reduce domestic meat prices, but to increase them because of the scarcity of beef in Japan and the high prices that would result from curtailment of imports.[9]

TABLE 3.2

EXPORTS TO JAPAN BY STATES 1966-1973

(tons)

	NSW	Vic	Qld	S.A.	W.A.	Tas.	NT.	Total
1966	1841	1040	4803	...	422	206	65	8377
1967	1288	1082	4183	10	214	217	49	7043
1968	2278	306	8951	1	268	25	42	11871
1969	2052	581	11110	11	762	75	41	14632
1970	3700	2174	9517	39	646	129	37	16242
1971	5481	6173	16671	80	852	170	279	29706
1972	13133	7417	21316	200	1909	476	174	44625
1973	24682	14124	41362	297	2665	1687	145	84962

Source: Australian Meat Board, Annual Report various years.

However, by mid 1973 a decline in Japanese consumer demand, coupled with continuing imports, reduced prices below viable levels for Japan's domestic producers, and manufacturers and end-users were asked to seek deferment or cancellation of import contracts already entered into. Quotas were suspended and eventually cancelled, and the market closed altogether from February 1974 to June 1975. This action "shook the Australian beef industry to its foundations", particularly as it came as a complete shock.[10] Since Australia supplied over 80 per cent of Japan's beef imports, of which more than half came from Queensland, this State's producers bore the brunt of the embargo.[11]

Australia's exports of beef to Japan fell from 85,000 tons in 1972-3 to 80,200 tons in 1973-4 and only 8100 tons in 1974-5.[12] The value of Queensland's exports fell from approximately $64m in 1972-3 and $75m in 1973-4 to only $8m in 1974-5.[13] Given the importance of beef to both Australia and Queensland, this was a major economic setback. The Chairman of the AMB in the covering letter to the Minister with the Annual Report for 1974-5 indicated that during the year the industry had gone from relative prosperity to "a situation so critical" that its very survival was threatened.[14]

Despite the problems caused by market closure, the industry remained confident that Australia would regain its position and would be looked to as the source of the bulk of Japan's import requirements.[15] But when the market reopened, Australian exporters struggled to return their sales to Japan to former levels and to obtain some greater predictability in the quota system. Political decisions in Japan to make a positive response to United States demands for increased market access added to problems caused by Japanese protectionism. The administration of the quota system was changed to ensure that most of the increased quota for FY 1977 came from the United States.[16] Beef specifications were altered to relate them more closely to the US grading system, though this was not a problem for specialist producers such as Queensland's Beef City. More importantly, emphasis placed on cuts rather than full sets effectively prevented Australia from competing since there was no domestic or foreign market for the remainder of such a fatty and mature carcase. The effect of these changes was particularly evident on the decline in Australia's share of the high quality sector which had provided much of the market growth, together with good prices which were an incentive for improvements in production and processing. Between July 1978 and June 1979 Australia shipped only 227 tonnes of high quality beef to Japan in the form of full carcases in primal cuts,[17] though the fall was partly offset in subsequent years by the introduction of aged beef full sets into the LIPC frozen tenders. A delegation to Japan in June 1978 including the Chairmen of the AMLC and Australian Meat Exporters' Federation and subsequent negotiations between the Japanese and Australian governments sought to increase Australia's share of the high quality grain-fed beef market. The LIPC in 1980 agreed to establish as a trial a global quota of 200 tonnes in full sets, most of which was drawn from Australia[18], but the high reserve price placed on these by the LIPC and the difficulty of selling at auction only confirmed in Australian minds that Japan was deliberately discriminating against them in favour of US suppliers.[19]

Another factor contributing to the depressed demand for Australian beef was the extraordinary growth in imports of US grainfed diaphragm beef (i.e. hanging tenders and outside skirts), classed as "offal" rather than "beef" and therefore not subject to quota restrictions.[20] This meat was tender, juicy and marbled and was sold as steaks and sliced meat, especially in family chain restaurants and beef and rice fastfood outlets.[21] Australian diaphragm beef could not compete for the table trade because the grassfed animal produced diaphragm beef that was dry, tough and unappetising, although Australia continued to supply quantities of offal for ham and sausage processing.

TABLE 3.3

JAPAN'S BEEF OFFAL IMPORTS BY COUNTRY SHARE

1976-1983

Year	Australia	USA	Other
	percent		
1976	41.7	37.1	21.2
1977	29.7	55.3	15.0
1978	22.8	64.7	12.5
1979	22.1	64.7	13.2
1980	18.3	70.8	10.9
1981	13.7	76.1	10.2
1982	11.9	78.3	9.8

Source: A. George, Japan's Beef Export Policies 1978-1984 The Growth of Bilateralism (Canberra: Australia-Japan Research Centre, 1984).

The rise in US offal imports displaced demand for beef imports under quota, especially frozen grassfed beef which was outstripped by diaphragm beef as cheap meat for consumption at the lower end of the table beef trade.

The decline in Australia's quota for the second half of FY 1976 and subsequent incremental shifts towards US suppliers meant that Australia's share of total imports dropped from 78 per cent in 1978 to 66 per cent in 1983.[22]

Political control of the beef market in Japan was the major determinant of the extent to which increasing consumer demand was translated into opportunities for trade. The operations of the Japanese protection system established the boundaries within which Australian producers and exporters had to work, and precipitated the major crises of the trading relationship.

THE FOUNDATIONS OF THE BEEF TRADE - THE 1950S.

Despite the obstacles posed by the Japanese quota system and Australia's commitment to the 15-Year Meat Agreement, initiatives towards opening up the beef trade were taken by both Japanese importers and Queensland exporters. The first steps were taken by private enterprise, but the start of long-term development occurred after a combination of changes in the international market, difficulties in the Australian economy and industry pressure brought recognition by governments, government agencies and the AMB of the opportunities created by economic and social changes in Japan.

In April 1957 two Japanese businessmen came to Brisbane seeking to import 30,000 tons of meat. They were Mr. Okada of Nippon Chikusan Boeki, and formerly chairman of the Japan Meat Industry Board, and his import adviser, Mr. Okazaki of Rika Shizai Co. which also acted as a liaison company for the local firm Amagraze. Its Managing Director, Mr. Beaver, said his company had been working hard for two years to increase exports to Japan because the price was better than that in the UK market and he regarded it as only a matter of time before either Australia or Britain allowed the Meat Agreement to lapse. He believed that if Australia walked away from this opportunity it would "live to regret it" and urged that a way be found to permit at least a token quantity to be exported to "hold the market" and as a base on which to build an expanding trade in the future.[23] Although the delegation had to return to Japan empty-handed, since supplies were committed under the 15-year Meat Agreement, pressures were exerted by other sectors of the beef industry for positive efforts to be made to expand sales to Japan.

Their interest in the Japanese market was part of a recognition by the mid-1950s at industry and government levels that the wartime era in overseas marketing was over. Both the Queensland Department of Agriculture and Stock[24] and the Australian Council of Agriculture[25] emphasised the urgent need to open up new markets for products such as meat, oats, barley and sugar whose production had been expanding and to minimise problems in the Balance of Payments caused by escalating imports of goods such as petrol, rubber, fertilisers and machinery. The interest of beef producers and exporters in Japan was not at first supported by the Australian Meat Board or by the Bureau of Agricultural Economics. The Bureau found it hard to gauge the extent of demand in markets outside the United Kingdom and was reluctant to encourage their exploration since the arrangements of the 15-Year Agreement overcame the uncertainties of low prices and demand fluctuations which had bedevilled the industry before World War II.[26]

Nevertheless, sections of the beef industry urged a search for markets outside the United Kingdom, especially in Japan. In April 1958 a meeting of the Central and North Queensland Graziers' Association Cattle Committee decided to ask their representative on the Australian Meat Board (Mr. W.M. Gunn) to suggest to the Board an immediate investigation of the prospects of expanding sales to Japan. They urged that this occur prior to the scheduled review of the Meat Agreement so that Australian negotiators would be aware of the prospects before talks began.[27] The AMB believed there was no market in Japan for Australian beef and Mr. Gunn thought that Japanese restrictions on imports and increased domestic production meant that the continuing market for exportable beef would lie in the UK. Nonetheless, by 1959, with the end of the protected market in the UK in sight, the AMB began to look again at the possibilities of sales in Japan, though the Board initially saw the main prospect as manufacturing mutton. The price was "satisfactory" if somewhat less than in the United States market and some exporters appreciated the value of diversification. [28]

Although there were several buying missions from Japan after an AMB delegation visited Japan in 1959,[29] the Board was very cautious and thought it preferable that the market be developed judiciously because of the higher prices in the USA and the shortage of Australian supplies.[30] However, by 1960-61, changes in the international market coinciding with a downturn in the Australian economy made the development of new sales outlets more urgent. With the end of the 15-Year Agreement, restrictions on exports to the rapidly-growing and very profitable United States market led the Board to urge that trade with Japan "should be encouraged as much as possible because of the anticipated long-term advantages to the industry".[31] By 1961-2 it recognised "the special importance of the Japanese market" as a much-needed diversification away from the United States "for exports of meat particularly boneless beef and mutton".[32] After a visit by representatives to Japan in 1963, the Board acknowledged that at that stage the Japanese market "had not been properly covered or fully understood" and urged exporters to give it personalised, on-the-spot attention, to send senior executives to obtain first-hand knowledge and to develop trust and goodwill. The Board advised that consistently successful business would "depend to a greater degree than elsewhere on personal contact" and on patience and good faith.[33] By 1959-60 the value of Australian exports of beef and veal to Japan was $412,000 of which Queensland contributed just over 90 percent.

Economic and social changes in Japan and in the operation of the quota system created new opportunities for the export of table as well as of manufacturing beef. From 1967 the market expanded rapidly, especially for better quality meat. Real disposable incomes in Japan rose, and increasing urbanisation, the growth of the nuclear family, increasing demand for convenience foods and restaurant meals all contributed to rising demand. The growing use of dishes cooked on the stove rather than at the table, and the increasing use of hamburgers and similar foods opened the way for grain fattened beef and for better quality grassfed chilled beef which were very suitable for this "popular" market encompassing the table trade, supermarkets and convenience stores, hamburger and fast food chains. Australia thus positioned its exports in the most rapidly growing "submarkets" which account for some 65-70 percent of the total beef trade.[34]

Although Australian and Queensland beef had been sold to Japan before World War II, and in limited quantities in the early 1950s, the development of a substantial and long-term market was a pioneering project whose possibilities had only begun to be recognised by the beginning of the 1960s. Very little was known of the nature, characteristics and potential of the Japanese market or of the political role of the beef industry in Japan, and past experience was only a rudimentary guide to the tortuous channels and internal politics of the Japanese beef marketing system. There was little recognition in Australia or Queensland at an official or industry level of the changes in production, handling and marketing of beef that would be necessary to respond to the demands of the Japanese market or of the major improvements in transport, finance and land access that would provide the essential infrastructure for industry development. Taking advantage of the opportunities presented by economic and social changes in Japan depended on the willingness and ability of producers to provide beef of suitable quality, and on the marketing activities of private traders and the Australian Meat Board to identify and develop appropriate segments of the wholesale and retail trade. Private and national initiatives were supported by State-based activities, such as in Queensland the revision of land laws, research into breeds and pastures and cooperative projects with the Commonwealth, especially in transport and land development. These contributed to the development of the industry to a point where it was able to produce quality beef which was available for export all year round, thus establishing the basic prerequisite for the growth of markets in Japan and elsewhere.

DEVELOPING THE BEEF INDUSTRY

Marketing of beef is an activity involving the whole of the industry - breeders, producers, processors and marketers. Factors which impact at the farm level determine the ability of the industry to produce and deliver animals of suitable quality at the appropriate time at a cost that allows a reasonable profit at the prevailing market price. These factors include availability of suitable breeds, appropriate systems of animal nutrition and health management, transport and water resources, land tenure systems, and the general level of prices. Decisions about the mix of these factors in farm practice were in the hands of individual producers, but State and Federal governments had a major role in research and infrastructure provision and in general economic management which set the environment in which decisions were made. This influence on the ability of the industry to produce and deliver the basic product has been the main role of the State in the beef trade with Japan.

Like sugar production, the cattle industry was an important part of plans developed by State and Federal Governments for northern development and postwar reconstruction. A submission by Prime Minister Chifley to the 1944 Premiers' Conference led to the establishment of the NADC, the assembling of data on the pastoral potential of the north by the Queensland, West Australian and Federal Governments and the establishment of a Policy Committee consisting of the Premiers of those States, the Prime Minister, and the Minister for the Interior.[35] Recommendations from this

Committee and from the NADC, the Meat Production Development Committee and the Bureau of Agricultural Economics(BAE) led to vigorous research by the CSIRO, BAE and the Departments of Agriculture in Queensland and Western Australia into cattle breeds, nutrition and pastures, and formed the basis of policy initiatives by State and Federal Governments over the next 20 years.[36] Without them, Queensland would not have been able to achieve adequate production levels and deliver quality beef throughout the year to take advantage of export opportunities when they arose.

The beef cattle industry was also an important part of the vision of successive Premiers for large-scale development in Queensland. Premier Hanlon would not tolerate the negativism that pervaded the industry in the immediate postwar period and its members received a stern lecture from him in 1948 about the view then being expressed that Queensland would have no surplus available for export by 1960. "To suggest that was the best we could do with the immensity of the land available", he said, "was to give expression to a defeatist attitude from which ruination would be the outcome."[37] He promised that the government would do whatever was necessary to improve breeding and fattening country and that by 1960 industry members would laugh at "the crazy theory" that there would be no beef for export. Persuading beef producers that increased production would be viable in the longer term was an important step in developing an industry sufficiently large to take advantage of the opportunities that were to arise some 15 years later.

Industry pessimism had its origins in prewar experience, when producers, especially in the north and west, had been chronically on the verge of bankruptcy because of poor prices and difficulties inherent in the harsh environment. In the immediate postwar years, the economic gains from wartime stability had been eroded by the drought of 1945-6, while shortages of manpower and machinery impeded progress and contributed to the stagnation of inland towns. Both the Bureau of Industry and the Royal Commission on Abattoirs and Meatworks in 1945 had pointed to the "immense possibilities" of the Cooper Channel Region and the fattening areas between Clermont and Charters Towers which would be assisted by developments in irrigation and transport.[38] There were proposals to make the Channel Country accessible by a rail link from Bourke to Camooweal, a start was made on a system of beef roads and in 1949 Prime Minister Chifley and Premier Hanlon agreed to establish the Burdekin River Authority, similar to the Snowy Mountains Authority, to provide water and power to northern Queensland. The Bureau and the Royal Commission believed there was a "colossal market" to be developed in countries such as China and India as their living standards rose, and among the "teeming millions of Asia and underfed Europe" who could "destroy the world" if they did not get food.[39] The efforts of the Queensland government to overcome industry pessimism was based on the widely-held belief in the urgency of northern development for defence and strategic reasons, as well as on the State's interest in the development of all forms of rural production. The 15-Year Meat Agreement, with stability of prices and quantities, provided a foundation for a more optimistic outlook. Funds allocated under the States Grants (Encouragement of Meat Production) Act of 1949[40] went some way to assisting Queensland and Western Australia with developmental projects to put the beef industry on a firmer footing, although the grand schemes for beef roads and the development of the Burdekin were abandoned by the Menzies government.

The Nicklin Government also saw the cattle industry as important and sought to establish the basis for policy through consultation between the industry and Government Departments and agencies. It set up a Standing Advisory Committee on the Beef Industry, with representatives of the Departments of Agriculture and Stock and Treasury, graziers and meat processors, to advise the Minister on the production, processing, transport and marketing of beef.[41] In 1961 this Committee was asked to present a comprehensive report to Cabinet to serve as a guide for the development of the industry, especially in Central Queensland.[42] Government action was directed towards improving the ability of Queensland producers to compete on the world market, rather than just within the protected and guaranteed market in Britain.

An important and controversial step was the granting of concessions to large investors, even on matters regarded by many in the Government parties as settled policy. The Hanlon Labor government had rejected the major recommendation of committees appointed under Prime Minister Chifley that capital improvements were more likely with freehold title and with properties of sufficiently large size. Nicklin in his Country Party policy speech in 1966 said his government also had "repeatedly rejected arguments in favour of big company development" because "immediate closer settlement best serves the interests of the State and the nation."[43] In reality, the high capital outlays required for the production of quality beef in inhospitable areas militated against the small producer, and a necessary prerequisite for large capital investment was revision of the Labor land legislation to allow increased conversion to freehold and larger and more secure leases. Pastoral interests such as the United Graziers' Association, its President, Sir William Gunn, and companies with large-scale investments pressed for freehold or perpetual leasehold, questioning the wisdom of whittling down properties to parcel the area out to selectors.[44] Traditional policy allowing large holdings and long (30-year) leases only in remote areas where pioneering developments would eventually make way for "more productive settlement"[45] had been justified by successive inquiries - the Royal Commission on Abattoirs and Meatworks (1945), the Royal Commission on Pastoral Lands Settlement (1951), and the Land Settlement Advisory Commission (1959).[46] To encourage larger properties and economies of scale, Premier Nicklin relaxed the rules, over the objections of some in his own Party and of cattlemen's organisations, allowing extensive long-term leases in areas that could by no stretch of the imagination be regarded as remote.[47] Some of these areas were in or close to the Brigalow lands whose development, together with the Beef Roads scheme, marked a major State-Federal cooperative effort to encourage increased production, initially for the United States' market.

The Beef Roads scheme, which had been abandoned by Menzies, was important in providing access for cattle bred in the north and west to the good pastures of Eastern and Central Queensland where they could be fattened to produce high quality table beef. Manufacturing and frozen beef came from cattle which received good quality feed in spring and summer, and low quality in autumn/winter, whereas table beef came from young cattle that had never been set back, so that feeding had to be supplemented at certain times of the year. In the North and West this was more difficult as the young grass dried to straw very quickly and there was a shortage of legumes even in good seasons,[48] at least until new varieties were developed by the Department of Primary Industry and the CSIRO. The more reliable rainfall and more fertile soils in Central and Eastern Queensland were better for fattening on crops and improved pastures. The economic survey of the beef cattle industry organised by the AMB and the NADC identified a lack of facilities for the rapid movement of stock as a major impediment to the development of the industry.[49] Therefore the Agreement between the Commonwealth and Queensland Governments for the Beef Roads Scheme to provide better access between the breeding areas of North Queensland and the fattening areas of South and Central Queensland was an integral part of the development of quality beef which was available for the export trade all through the year.

So, too, was the opening up of the Brigalow lands, recommended by the Queensland Land Settlement Advisory Commission and urged by the State government to expand beef and grain production, and to redress Queensland's unfairly small share (0.4 per cent to 30 June 1960) of postwar Commonwealth grants to the States for land settlement.[50] Most of the cleared land was used for livestock fattened on improved grasses and grains which extended the fattening season and increased productivity. But costs were high - especially clearing and preventing sucker re-growth - and profitability depended on continuing good returns for beef on the export market. Established producers were very wary of the Government's expansion plans as they faced uncertainty in the UK and US markets and had little confidence in the long-term profitability of existing outlets. There were calls by organisations such as the United Graziers' Association, the Cattle Committee of the Graziers' Association of Central and Northern Queensland, and the Central Council of the Graziers' Association of Queensland for all government-sponsored rural development programs to be halted until lucrative and stable markets were found.[51] Nevertheless, the development of Central and Northern Queensland was so important that Nicklin was prepared to override objections that industry expansion could not be justified on economic grounds, the costs of development were too high, markets too uncertain and prospects of profit too far in the future. The programmes went ahead, and in the market downturn in 1975 many new producers found themselves financially overextended. When markets recovered, the Brigalow areas were able to produce pasturefed bullocks nearly equal in quality to grainfed beasts and at a more economical price. The determination of the Queensland government to see the Brigalow scheme go ahead allowed the establishment of an area which was to be the centre of high-quality beef production for the Japanese market.

The Queensland Government, under both Nicklin and Bjelke-Petersen, also overrode objections to support and even encourage foreign investment in beef and other rural industries in order to promote larger holdings, introduce new breeds and methods and provide much-needed capital. This investment was facilitated by the Aliens Act of 1965, allowing foreigners to buy freehold or leasehold land in Queensland as if they were citizens. Foreign ownership increased, although its precise extent was unknown. Some companies which expanded their holdings had been in Queensland for many years. They included Stanbroke Pastoral Co.(owned by Borthwicks and the AMP) and the English firm, Vesteys, operating as William Angliss and Co. New investors included King Ranch Development Co., responsible for the introduction of Santa Gertrudis cattle, and Tipperary Land Corp. which "pioneered the 'pasture revolution' in Queensland".[52] In 1968 the Lakeland Downs Co., an affiliate of Tipperary, undertook a large development "possibly unparalleled in any remote region of the north" especially to meet the demands of the Japanese market and in which Sumitomo Shoji (Aust.) acquired a 13 per cent interest.[53] The Queensland government did not actively seek foreign investment, but their cooperative attitude, together with that of the Federal government, made investment relatively easy and contributed to an inflow of capital and ideas, though there was disagreement at both community and industry level about the net benefit such investment brought.

Slowly at first, but with increasing strength, the community began to object to the level of foreign ownership of rural land, and by the 1970s these objections had become entwined with the larger, Australia-wide questions of foreign ownership of Australian resources and "buying back the farm". Local branches of industry associations, such as the Muttaburra and Stonehenge Branches of the Graziers'

Association of Central and Northern Queensland, urged their organisations to press for foreign ownership of rural land to be referred to the Senate Committee on Foreign Investment, and for limits to be placed on ownership by Japanese and other Asians.[54] Cattle industry organisations put together a set of guidelines for foreign investment, with 51 per cent Australian equity, no transfer of equity without Australian consent, and no transfer pricing - but the government was unwilling to adopt them.[55] By 1978 the Cattlemen's Union was expressing its concern at reports that Japanese tourist developer, Mr. Iwasaki, and some of his associates were planning to move into beef production on land bought for or near his resort at Yeppoon, and the National Party itself urged the introduction of a compulsory land register to enable monitoring of the level of foreign ownership of or interest in lands in the State.[56] Mr. Bjelke-Petersen, like his predecessor, was prepared to ignore these calls in the interests of "development", some of which was for the raising of cattle for the export of beef to Japan and the USA.

Increased investment, the opening of new lands, and improved transport were part of a changing attitude to beef production in Queensland and a prerequisite to the development of the Japanese market. Before World War II, graziers ran cattle only when they were unable to run sheep, and produced lean beef for the domestic market or fat beasts for the frozen beef trade with the United Kingdom. In the 1950s the opening of the United States market required a completely different article produced mainly from cows and lean beasts, with no marbling and no premium for fat cattle. New strains of cattle were introduced, especially those that were tick-resistant and suitable for North Queensland, and many producers turned to this type of production. When the market opened in Japan, production requirements were different again, and much more specific. The Japanese market paid a premium for the fat animal and set the tone for the fat cattle market. Efforts were made to produce a beast with an increasing percentage of saleable product, developed from British breeds and European/British crosses, meeting specific quality requirements in terms of fat, marbling, tenderness and colour.

Given the frontier nature of the beef industry because of its remote locations, its depressed and dispirited condition in the early postwar period, and the scope and complexity of essential improvements, only governments could provide the leadership and capital to establish the basic conditions on which the industry could build. All postwar Queensland Governments concerned themselves with policies such as roads and irrigation which allowed the cattle industry to exist, with improved communications to facilitate the transport of cattle to market or to fattening areas all through the year, and with concessions and infrastructure projects such as relaxed land tenure and the Brigalow Scheme to allow the Queensland beef industry to develop to a point where it could compete successfully in overseas markets. The most complex of these projects were beyond the financial capacity of the State and succeeded only with the cooperation of the Federal government. The development of foreign markets was left largely to individual exporters, the Australian Meat Board and its successor, the AMLC. Neither the Commonwealth Government nor the Queensland Government intervened directly, except in crisis situations.

DEVELOPMENT OF THE BEEF MARKET IN JAPAN

Exporters and the Australian Meat Board both responded to and helped create an increasing demand for better quality Australian meat in Japan. There were two major approaches: (i) improvement in commercial export marketing techniques to satisfy the Japanese consumer preferences, for example the development of the chilled beef trade and some commercial experiments as an integrated activity between feedlots, Australian export meatworks and Japanese importers (ii) identification on an increasing and widening scale of Australian beef at the point of sale.[57]

Initiatives in the chilled beef trade

Supplying quality table beef placed much greater demands on producers than supplying an anonymous input for processing. The quality and condition of the animal at slaughter was of paramount importance, and this had to be complemented by accurate grading and careful preparation and transport. The development of the chilled beef trade and the finishing of animals in feedlots were two of the major improvements designed to meet the quality standards of Japanese table beef. Initiatives in these developments were taken by private enterprise, though close involvement of government agencies such as the CSIRO in research and tighter classification standards were essential for the successful growth of chilled beef exports.

The development of the trade in chilled beef was encouraged by the broadening of the Japanese market to include a wider variety of cuts and the product found a ready outlet in retail stores and supermarkets. During 1967 the Japan Meat Conference considered the possibility of chilled beef imports and set up an investigating committee in which the AMB's Asian representative was invited to participate. In 1968 the AMB offered a small quantity processed in Brisbane as a trial for assessment and though it was well received, a lack of chiller shipping space precluded further development till after containers became available in the 1970s. Queensland cattlemen's organisations and some Harbour Boards were concerned that container shipping would bypass Queensland ports and representations were made to the Queensland Government, through the UGA and the Australian Woolgrowers and Graziers' Council and directly to the Minister for Shipping and Transport (Mr. Sinclair) to ensure that this did not happen.[58] Initial shipments began cautiously, accompanied by guidance and recommended specifications resulting from trade surveys undertaken by the AMB's Tokyo office. These included strong recommendations that Australian exporters select only "chiller quality" and the top range of first quality beef for this trade, most of which comprised cartons of boneless cuts, cryovac sealed. The cartons were convenient to handle, standards of hygiene in preparation and packing were higher than the Japanese equivalent, and the beef was cheap by Japanese standards.[59] The product gained ready acceptance and sales grew rapidly from 550 tons to December 1970, 3289 tons in the 6 months to June 1971, 12000 tons in 1971-2, and a peak of 43,000 tons in 1973-74.[60]

Initiatives in the development of the trade were taken by private enterprise, working within the Japanese import system, developing and adapting new technologies to fill niches which were identified in the Japanese market. The experiences of one of the first exporters, Thomas Borthwick & Sons (Australasia) Pty.Ltd., illustrates the entrepreneurship of firms and individuals and the important backing role of government agencies such as the CSIRO in giving technical advice.[61]

Borthwicks was an English-based integrated meat company which had operated properties and meatworks in Australia since the late 19th century. The Company produced mainly frozen beef for sale to the United Kingdom market, with small quantities sold in Japan after 1962. By the late 1960s the Japanese market was "not ... particularly significant, but it seemed it might become so."[62] In 1968 the firm's Sales Manager (Mr. C. Cole) and the Manager of the Brooklyn (Victoria) Branch (Mr. J. Palfreyman) went to Japan to investigate why Japanese importers claimed a shipment had not been of the type and quality ordered when the firm was confident that all specifications had been met.

During the visit they assessed the opportunities for future export growth and decided there were good prospects in the middle and high class market segments in Japan which Australian producers had never tapped up to that time.[63]

Despite high prices, per capita consumption only about 5 percent of the Australian amount, the desirability of beef as a "status" food, and the availability of suppliers, the Japanese beef import quota, small as it was, had not been filled.[64] For a variety of reasons, including cattle quality, the effect of freezing, and the fact that conventional Australian and western cutting methods broke muscle sections and thereby destroyed value by Japanese standards, high-quality Australian grassfed beef was positioned in the low-class market segment for canned meats, curries and products sold in inexpensive retail outlets. Nevertheless, Palfreyman and Borthwicks believed that feedlot and crop-fattened chilled beef could fill a niche in the mid- and high-class markets which together comprised 55 per cent of total sales and attracted prices over a wide range at a better level than for manufacturing meat. To do so would involve eliminating some distinctively Australian qualities in the meat such as yellow fat, grassfed smell, quality variation and traditional meat cutting. It also meant a "'watershed'-scale change in the technology of meat processing" to an extent last undertaken with the introduction of deep freezing in the late nineteenth century.[65]

Mr. Palfreyman played a key role in identifying the way in which technical developments in chilling, vacuum packing and containerisation could enable Borthwicks to supply a higher quality product, and in organising the resources to take advantage of this opportunity. The firm already had a working knowledge of the outlines of the technology from general experience in the meat trade and from vacuum packing for the domestic market. However, the company's plants were geared to a different type of production and, in common with a number of other firms, Borthwicks had recently had some plants delicensed because they did not meet the hygiene requirements for the US market. Production of consistently high-quality chilled beef for Japan required much higher standards still in order to reduce contamination of the meat after slaughter and enable it to be delivered in top condition with a shelf-life of around 10 weeks.

Research by Borthwicks and the CSIRO emphasised the need for careful handling of the live cattle to keep the pH of the meat as low as possible, strict temperature control with very small margins of tolerance in the processing plant and in the shipping container, and complete separation of carcases during processing. The work of the CSIRO was crucial in improving the Cryovac technology, previously used in packaging for the Australian and US domestic markets, but now required to withstand much rougher and longer handling. Their success helped give Borthwicks and, subsequently, other Australian producers a technological advantage over competitors not just in Japan, but in other countries where meat was to be transported over considerable distances and a long shelf-life was required.

Marketing the beef involved cooperation of Borthwicks and Japanese trading houses and importers. The firm decided to differentiate the chilled product so that the bureaucracy of the import system did not cause it to be equated with fresh or frozen beef with which it would then compete on the basis of price rather than on the basis of quality and technical superiority. The key to product identification was its external pack of pine wood cases with cardboard lids and insert of laminated card with factual information in Japanese.[66] Borthwicks decided not to reduce prices to obtain a contract, refused to quote an importer without knowing the client, and dealt only with trading houses who seemed most likely to build a quality image and least likely to be more interested in margins than meat.

Initial shipments were handled by C.Itoh who worked with other members of the Meat Importers' Association to disseminate information on the product and undertake promotion activities subsidised by the Japan Meat Conference. Borthwicks initially opposed the Association's involvement for fear of losing the competitive edge if information were widely released or if lead time were lost. Itoh insisted, and the company eventually agreed that the detailed analyses of the initial shipment provided to the Association and through it to the trade had been worth many millions of dollars in advertising.

The company attributed its success to technical superiority and product differentiation in a wide price-range sector and to the Company's ability to control its market by selling to specific consumers. This ability disappeared in 1975 when most beef was purchased by the LIPC rather than by licensed private traders. Although already-established brands or traders could still be preferred, some of the incentive for improved quality and technical innovation had been removed as the direct relationship between exporter and consumer was severed.

<u>The start of feedlotting</u>

The rapid increase in demand for chilled high quality beef stimulated an interest among a number of entrepreneurial Australian producers in finishing cattle in feedlots adapted from the US model to give better control over the quality characteristics of the product.

Cattle in Australia had traditionally been raised on extensive and abundant pasture lands, and the first exports to Japan were of grassfed beef which remains the major, though diminishing segment of the market. Feedlotters aimed at meeting the Japanese demand for beef from good quality steers with specialised grain feeding for 90-120 days, dressing at 270-340kg with a fat selvage less than 0.5".[67] This type of meat was not wanted in Australian or in other world markets where consumer preference was for a lighter beast and a leaner product. The AMB urged caution - "encouraging production of better quality beef for this and other markets" but not extensive feedlotting when cattle could be "fattened on improved pastures or supplementary or crop feeding at much less cost".[68]

Nevertheless, between 1970 and 1973 a number of individuals and firms were sufficiently entrepreneurial to establish feedlots to try to meet the demand in the Japanese market. Risks were high because of the lack of alternative markets for the specialised product and because the uncertainties of Japan's quota announcements were inconsistent with the planning time needed for lot feeders. However, the possibility of combining grains and cattle to give a higher value-added was attractive, especially in years when grain production was high and the grain marketing authority refused to accept the whole of the crop.

Some feedlots were integrated with export companies and/or feed producers such as Millaquin Sugar Co. which utilised waste from the Bundaberg distillery as an addition to stockfeed.[69] Some were under joint Australian-Japanese ownership, like the small pilot feedlot approved by the Reserve Bank[70] as a joint operation by Borthwicks, Mitsui and Co. and Itohan Provisions Co. Ltd. to supply a small, regular flow of high quality beef for the chilled trade.[71] The Japanese partners were perhaps impelled by encouragement from their Government for importers to consider investment opportunities in the beef industry in overseas countries as a contribution to the security of supply. The AMB reported in 1972 that worldwide the Japanese had plans for forty two projects in the meat industry. In Australia, 12 projects involving Japanese firms were operating in cattle raising, feedlot finishing or meat processing and 18 further projects were planned. The firms involved were major companies such as Mitsui, C. Itoh, Marubeni Iida and Mitsubishi, although the partners were often nominally department stores or supermarkets.[72]

Other feedlots were begun by individuals such as Mr. Don Bridgeford, a grain and cattle producer of Jandowae, who happened in 1970 to read an article on the poor reputation of Australia beef in Asia.[73] He had already been brave enough to develop a small feedlot with the idea of adding value by combining grain and cattle to produce a superior product, but lack of interest in the domestic market meant he was struggling to obtain a premium price and make the operation viable. Mr. Bridgeford contacted the Federal Minister for Primary Industries, Mr. Sinclair, who agreed with him that feedlot beef could help restore Australia's reputation for quality in Japan or other Asian markets. Mr. Bridgeford approached KR Darling Downs whose manager agreed to process the beef and persuade Dalgetys to broker and sell it through Kanematsu Gosho, thus providing the first container of grainfed beef to Japan in November 1970. Two years later, Bridgeford and three friends formed their own company, Stockyard Meat Packers, to trade with Japan. When the Japanese ceased beef imports in 1974, most feedlots closed, though some such as Bridgeford's turned to production for the domestic market until sales to Japan could resume. Even then, however, the price premium available was insufficient to justify the risks. Most commercial feedlots were able technically to quickly diversify to suit any market and depended much less heavily on Japan.

The start of feedlotting by private individuals and firms was important for the long-term development of specialised markets in Japan and a major step forward in matching the product to the particular demands of Japanese and other customers.

Relationships with Japanese importers

An important part of the development of the Japanese market was the establishment of close relationships between meat exporters and Japanese importers and meat industry organisations. Person-to person and firm-to-firm relationships complemented contacts developed by the Australian Meat Board personnel with sectors of Japanese industry and were important in establishing and maintaining a position as a supplier and in dealing with conflicts over Japanese government policies regulating access to that country's market.

A few relationships stemmed from prewar trading. In Queensland, for example, R.O.Manton and Sons, which had exported beef to Japan in the 1930s through the trading house Kanematsu, assisted Teys Brothers to market their product in the postwar period. Most contacts, however, were newly developed. Mr. R. Hart, one of the partners in Stockyard Meat Packers, was introduced to the Japanese market by Mr. Beaver of Amagraze who had made his initial contacts through the Australian Meat Board.[74] In the early 1970s Stockyard formed an association with Nitchiku, one of the 10 principal beef importing companies, which had as one of its shareholders the Department store chain, Hankyu. Nitchiku's main strength was in its representation of strong butchery and abattoir interests in Kobe and Kyoto, and the President of Zenchikuren, Mr. Hirai, held a senior position in the company. Such relationships were particularly important at a time when the bulk of the import quota was handled by the private trade, though the share of the LIPC was increasing. Even under the new arrangements from June 1975, a proportion of the trade remained in private hands, and part of the LIPC quota was sold direct to distributors under the "one-touch" system. In the complex channels and interlocking networks of the meat distribution and retailing system in Japan it remained important to have established connections and be a preferred brand in the market.

Kilcoy Pastoral Company was introduced to the Japanese market by Mr. D. Baldie, a friend of the Company's founder.[75] Mr. Baldie had set up his own trading company in the late 1950s after working in a large meat enterprise for some years and had gone to Japan to investigate the possibility of markets there since the end of the 15-Year Meat Agreement was in sight. He became acquainted with a Mr. Hasegawa who, like Mr. Baldie, had been a pilot in World War II and was in the 1950s an executive of a Japanese meat company with which Mr. Baldie began a trading relationship. Kilcoy Pastoral Co. supplied meat through Mr. Baldie's company until, in the mid-1970s, the companies merged and Kilcoy began to trade direct, continuing the close contacts with a small number of Japanese importers, servicing the needs of their particular clients. Beef was supplied to Kilcoy by a small number of feedlotters, including Bridgeford, who tried to meet the particular market requirements. They built up a basis of mutual trust and flexibility which survived the beef embargo and continued into the 1980s. When the demand for grainfed beef grew beyond the capacity of the feedlotters to finance, an innovative solution enabled production to expand. A joint venture - Mirrabook Cattle Co.- was established with Kilcoy Pastoral Co. holding 54 per cent and Japanese interests 46 per cent. Mirrabook leased the feedlots from existing suppliers such as Mr. Bridgeford on the basis of the profits being shared in equal thirds between Kilcoy Pastoral Co., Japanese interests, and the feedlotters. This arrangement is in the 1990s helping to cope with the increasing demands to target the needs of particular customers and to compete against the growing number of competitors in the liberalised market.

The development of relationships between exporters and importers helped to establish the reputation of particular firms and brands in the early years of trade and assisted those firms to work successfully within the Japanese protection system even in the changed arrangements after the beef embargo. Closer ties also promoted an understanding of market conditions in both countries, and helped the beef industry to ride out the problems which inevitably arose in a long-term relationship.

The Australian Meat Board and Market Promotion

The efforts of private traders were supported by the AMB's market development activities, designed to persuade the Japanese that Australia did have a quality beef product and that it could be successfully retailed to consumers.

The AMB directed its campaign first to the Japanese meat trade and then to retailers and end-users to create awareness of an identifiably Australian product.[76] The Board organised shipments of beef for public tastings and for private displays to the meat trade and distributed brochures and recipes. At the same time the AMB urged exporters to be careful about carcase weight shrinkage, short shipments which penalised importers and could lose them their deposit, and meticulous care and accuracy in shipping documents in order to engender goodwill and expansion of trade.[77] The promotion was further developed in visits to Australia by representatives of the All-Japan Meat Industry Cooperative Association (AJMICA), importing companies and the LIPC and by parties of Japanese meat retailers and processors and home economists brought to Australia by the AMB under a 3-year program from 1967 to 1969.[78]

From 1968-9 the AMB expanded its promotions to retailers and consumers with a series of Australian beef campaigns supported by the Kansai Housewives' Federation, cooking classes, and the production of a Handbook for retailers. A high degree of cooperation from Japanese retailer organisations was vital, especially in obtaining outlets to sell identifiably Australian beef on a daily basis.[79] The Australian Designated Store Project was developed and jointly funded with AJMICA and eventually expanded to over 7000 outlets throughout the principal cities of Japan.[80] In addition, from 1971-2, imported beef was sold separately from domestic beef in a series of Government (LIPC) designated stores and Australian beef identified by a small prepack sticker bearing the "Beef from Australia" logo and the name of the cooperating supermarket. To exploit the market opportunities arising from the increased involvement of the Japanese distribution trade in the sale of Australian beef, the AMB increased its promotion budget, subsidised dollar-for-dollar by the Overseas Trade Promotion Committee. The Board sponsored TV advertisements during the peak winter demand season, aimed at relating table quality Australian beef with the Board logo, so that "imported beef" and "Australian beef" would become synonymous. The Board continued its promotions even after the downturn in consumer demand from mid 1973, based on advice from the Japanese business community, representatives of meat traders and the Japanese government that buying patterns would soon recover.[81] When this did not occur, and quotas were suspended, the Board at first scaled down its promotions, discontinuing them altogether in October 1976 as Australia could readily sell all the beef it was allowed to export to Japan.

When beef promotion resumed in the 1980s it concentrated on television advertising in major population centres, identifying beef as a healthy, natural product, ideal for serving regularly to the family. Supermarket chains were the focus of complementary campaigns, because it was believed that in a liberalised market the supermarket chains would be the key to market development.

An important part of marketing was the development of better systems of grading to provide specified objective standards that adequately described the characteristics of meat, and this required the cooperation of State and Federal authorities and processing firms. The industry had been warned in the 1950s of competition from countries such as Argentina where production was technically inferior but grading and classification was much more strict.[82] The Japanese complained that Australia's export classifications were too general and the quality not consistent. Under the All-Japan Beef Carcass Transaction Standards (grading system) introduced in 1961, "most traditional meat traders in Japan would regard even the best grass-fattened chilled beef from Oceania as having a sashi (marbling) score of 1, and thus being in the 3rd grade category."[83]

The Australian Meat Board was generally responsible for meat quality, but there was no tight system of control as there was, for example, in the sugar industry, to ensure the achievement and maintenance of particular standards, except for those of health and hygiene enforced by the Meat Inspection service. In effect, control of quality was exercised through the willingness or otherwise of processors to purchase cattle and the price the animals could command, together with the practices and procedures of individual processing and exporting companies. This market-based system did not always have optimal results. As late as the 1980s a report commissioned by the Cattlemen's Union showed that "meat of extremely poor quality" had been exported to Japan, with quality varying according to the area of production and the packer, sometimes with unacceptable characteristics and not always matching the specification on the outside of the box.[84]

At national and industry level Australian beef was promoted in Japan by the Australian Meat Board through organised information campaigns directed first at the different sections of the Japanese meat trade and then at retail consumers. This was complemented within Australia by the efforts of the AMB, industry organisations and the State Department of Primary Industries to increase the knowledge and understanding of Japanese requirements among producers and processors and to promote consistent quality and improved grading standards. Although Queensland provided most of the beef exported to Japan, State agencies did not become involved in promotion and marketing, leaving it to individual firms to promote their own brands and the Commonwealth-sponsored AMB to create and foster a distinctively Australian image. Both exporters and the AMB were extremely successful until the closure of the beef market, difficulties with the quota system and arms-length purchases by the LIPC reduced the incentive for active market promotion in the late 1970s.

Social and economic changes in Japan created a potential demand for increased sales of beef, both processing and the more profitable table quality. Turning the potential into actual demand for specifically Australian beef was the achievement of entrepreneurs among beef exporters and producers who recognised and responded to market signals, assisted by the promotional activities of the Australian Meat Board and its successor which focussed attention on the Australian product and facilitated its entry into Japanese marketing channels.

DEALING WITH THE PROBLEM OF MARKET ACCESS

The beef quota system, the embargo, and the erosion of Australia's share in the Japanese market were part of a complex problem in which domestic and international policies were fundamentally linked, and conflicts over the respective roles of State and Federal governments clouded the way in which the issue was handled.

The problem of access to the Japanese beef market brought Australia into the centre of the international debate about liberalisation of markets for agricultural products, especially in Japan and the European Community. Although Australian producers had achieved a significant share of the Japanese import market, beef had been excluded from the products specified in the Australia-Japan Trade Agreement, so that Japan was not bound to remove quota restrictions or other forms of import control and Australia had no special privileges in terms of market access. Access to Japan's market for agricultural products was improved by the Kennedy Round, in discussions under GATT and in the Tokyo Round of multilateral trade negotiations which together rewrote much of the postwar trade rules. The major participants, the United States and the EEC, with Japan as a important but secondary partner, largely determined the outcomes of these negotiations. Australia's policies, like those of other small powers, could only reflect the international situation and political attitude of the major participants. Nonetheless, the Australian government could and did seek improved access and conditions which protected existing markets, in beef for example, especially where other countries were seeking to negotiate changes to Australia's disadvantage.

At the same time there was a domestic policy dimension in Australia resulting from problems of Japanese market access. This related to the nature and size of assistance to the beef industry and the need for new structures to provide an organisational framework that would help the industry adjust to continual and fundamental changes in economic circumstances. In the late 60s and early 70s there had been a substantial growth in beef production from good seasons in southern States as well as in Queensland, a switch to beef when wool prices fell, improved pastures, techniques and transport and optimism about markets in the US and Japan. In the 1960s and 1970s the beef industry had prospered, largely because of increased sales to Japan, but by 1974, Japan's quotas were uncertain, prices at home and abroad declined to around 60 per cent of their 1971-2 levels and the industry was facing a problem of overexpansion for what was now a doubtful market. Rising costs and interest rates, together with high levels of debt, provoked fears of an industry crisis.[85] The problem was worse in Queensland, as well as the Kimberleys and the Northern Territory, where basically 100 per cent monoculture beef enterprises depended on export markets with no wool, wheat, dairying or coarse grain industries to supplement their income.

The response of the State and Federal Governments was thus on two fronts - the general problems of the industry which were addressed by the Commonwealth and the States both jointly and individually, and the specific problem of access to the Japanese market which was clearly a Federal matter on a Government-to-Government basis or as part of Australia's effort in the Multilateral Trade Negotiations and in its relationship with international organisations. The initial problem related to the beef embargo in 1974, but, in the longer term, friction centred on Japan's discrimination in favour of the USA which effectively diminished Australia's ability to compete for the limited quotas available.

Beef is a politically very sensitive issue in Japan and has caused the Japanese more problems internationally and domestically than any other product.[86] Japan's beef import policies reflect a complex of factors including objectives of protecting incomes of domestic producers, encouraging domestic production to achieve 80 per cent self-sufficiency, and curbing domestic prices. The need to secure essential food supplies was always a consideration, and this intensified after 1973 because of the rising prices for basic commodities such as cereals and sugar and the short-lived US embargo on the export of soybeans.

Protectionist policies for beef were also an acknowledgment of the importance of the farmer vote to the Liberal Democratic Party, especially to members seeking to maintain their seats in more remote parts of Japan where households raising cattle are concentrated and where income from "side-line" industries such as beef production is more significant than in areas closer to other sources of employment.[87] Farmer co-operatives (Nokyo) form an extremely influential lobby group through their political arm, Zenchu, and their organisation at local, prefectural and national level, which is a useful power base for politicians in multimember constituencies with a weak grass-roots party system.[88] In addition, within the factional policies of the ruling Liberal Democratic Party, beef producers had powerful allies, such as Mr. Yamanaka, a representative from Kagoshima, one of Japan's main beef producing areas, and President of the All-Japan Beef Cattle Association, and Mr. Eto, representative from the important beef-producing region of Miyazaki, and Vice-Minister for Agriculture and Forestry - both members of the important Nakasone faction. Domestic economic and political factors outweighed international pressures for import liberalisation deriving from Japan's position as a major trading nation through the 1970s and 80s. Only powerful pressures from the United States were able in the 1970s to alter attitudes to beef imports, but the change was not towards liberalisation but towards advantaging the United States at Australia's expense.

Australia's response to the 1974 embargo was a sustained and vigorous protest at the peremptory treatment of an industry which had been encouraged, even urged, by the Japanese to expand and to develop a product with characteristics uniquely tailored to the Japanese market. Yet the beef embargo did not seem to engender the intensity of bitterness, resentment and hostility which, as we shall see, was evident in the sugar industry during the dispute over the Long-term contract. Beef was a national industry, although the principal exporters to Japan were in Queensland, and in southern States the effect of the embargo was cushioned by income from other forms of production or exports to other markets. The good relationships developed by exporters and the AMB with the Japanese industry assisted the parties to ride out the difficulty which at both industry and political level was expected to be only a temporary disruption to long-term growth. The Federal Treasurer, Mr. Crean, said the position was not regarded as "grim"; the government believed that what was needed was the development of some form of agreement which gave stability of quantity, with the flexibility to negotiate regarding prices from time to time.[89]

Despite the desire to look to long-term relations rather than short-term bitterness, the Federal government ensured that Australia's view was put forcefully to Japan. At Federal level, the embargo was strongly attacked by Ministers such as Dr. Cairns, (Overseas Trade) and Dr. Patterson (Northern Development) whose electorate included some of the principal beef producing areas of Queensland. The Minister for Agriculture, Senator Wriedt, went to Japan to confer with MITI Minister Nakasone and the Japanese Minister for Agriculture to try to bring some stability to the meat trade. There were repeated discussions in Cabinet prior to the visit of the Japanese Prime Minister with whom Prime Minister Whitlam raised the issue,[90] and it remained one of the principal items of contention at the Australia-Japan Ministerial Meeting in Canberra in May 1975. The feelings of the industry were made plain by the Chairman of the AMB in a speech to the Australia-Japan Business Cooperation Committee meeting in May 1974, when the Japanese were reported to have been "somewhat taken aback" by his emphasis on the need for continuity and the preference of the industry for customers who dealt on the basis of steady demand rather than continually varying their requirements without considering the disruption and uncertainty they engendered.[91] A number of delegations from the Department of Overseas Trade, the Australian Meat Board and the Australian National Cattlemen's Council supported the political efforts and met with Government and trade representatives to develop longer-term arrangements for trade.

Australia also sought international support, arguing that the Japanese action was contrary to the terms of GATT, and indicating that Australia would propose a working party of GATT members to consider the meat problem. Despite opposition from Japan and the EEC, a Consultative Group on Meat was established to provide an international forum for the interchange of views and information and to try to avoid disruption of the world market by unilateral imposition of import restrictions. Meanwhile, consultations were held under Article 22 of GATT between Australia, New Zealand, Japan and the United States, but they proved fruitless and were adjourned indefinitely.

In Queensland, the government was urged to take a more active role in attending to the interests of the State's industries in Japan by having its own representative in Tokyo as did Western Australia, South Australia and New South Wales. The ALP member for Mackay (Mr. Casey) argued that the Australian Embassy lacked appropriate staff, the AMB market intelligence was deficient, and that a Queensland representative could have warned the State's producers of the impending market closure well in advance.[92] The National Party also wanted direct Queensland representation in Japan[93] and at the Party's State Conference in 1977 an urgency motion by the Cattle Committee called for the establishment of a Queensland Agent-General in Tokyo, with the position filled by a senior Government politician who would safeguard the interests of the State's exporters.[94] The Cattlemen's Union regarded "high level intergovernment exchanges" as "irrelevant" and pressed for the appointment of a Queensland representative or for a Commonwealth agricultural attache to Tokyo because "an intelligent attache with a finger on the pulse would have warned us of the LIPC rip-off and the shut-off of beef quotas".[95] Mr. Bjelke-Petersen was "reluctant to rely on a Trade Commissioner or a trade agency" and thought that it was "better that ... Ministers of the Government should deal directly" with the Japanese. He thought the "close liaison" between Japanese business interests and himself, the Treasurer and the Minister for Mines and Main Roads had "more than met the present situation",[96] though this was a view not shared by either his own National Party or beef interests.

The Queensland Premier refused to follow the Commonwealth's conciliatory tone or to concentrate on working towards a better system for the future. Instead he engaged in "resources bargaining" by declaring that no new mineral leases would be granted for projects to supply Japan until the Japanese purchased more of Queensland's agricultural products. This was echoed by his Federal colleague, Mr.Sinclair (Deputy Leader of the National Party) who urged Prime Minister Whitlam to ensure that any discussions considered "the availability of one commodity being balanced by the preparedness to accept others".[97] Although Dr. Paterson also had suggested that "a multibasket approach" might be considered,[98] Prime Minister Whitlam regarded Mr. Bjelke-Petersen's idea as both "dishonourable" and "foolish", implied that the Premier was being bombastic and grandstanding, and made much of Mr. Bjelke-Petersen's statement that he "wanted Japan to buy beef from Queensland, not from Tasmania or New Zealand or any other foreign country".[99]

Aside from the Prime Minister's a personal antipathy to the Premier's style and a certain amount of political partisanship, Mr. Whitlam's opposition to Queensland's intervention into the dispute reflected the belief of all federal governments, of whatever political persuasion, that the Commonwealth alone could deal with foreign nations. Certainly, to Mr. Whitlam, the Constitution clearly provided that it was the Australian Government that was vested with power over trade and commerce with other countries and the States could play no role in international diplomacy.[100] But, in reality, issues relating to the beef trade with Japan impinged so closely on the domestic wellbeing of a State such as Queensland that they became a matter for internal politics as well as foreign relations. In practical rather than theoretical terms there was a climate of uncertainty about the boundaries of State and Federal interest in issues such as this. Disagreement over the respective roles of State and Federal governments in international issues affecting industries vital to the State's economy lay at the basis of the bitter disputes between the Queensland Premier and the Whitlam government, and indeed were the cause of differences between State and Federal governments of all persuasions at various times.

Mr. Whitlam attempted to denigrate Mr. Bjelke-Petersen and portray him as a figure of fun, but the Queensland Premier's attempt at resources bargaining raised serious questions. Did a regional State such as Queensland have powers which enabled it to exercise a policy towards a foreign country which differed from that of the national government? How would a foreign country such as Japan react to an attempt by a State to implement such a policy? At a time when international and domestic issues were so entwined, where were the limits of State powers on matters involving foreign countries? Whether the Queensland Premier would have carried out his threat and whether the Japanese took it seriously into account are both debateable, but, given the State's control over mining leases, Mr. Bjelke-Petersen certainly had the power to disrupt any planned expansion in coal and minerals if he chose to do so. According to newspaper reports, the Japanese Deputy Prime Minister took the trouble to tell the Premier personally by phone of the decision to relax the embargo by an allocation of a small quota for Okinawa in March 1975. Mr. Bjelke-Petersen regarded this as indicative of the importance of his threat in securing the re-opening of the Japanese market.[101] It is not, however, implausible to argue that Mr. Fukuda's action was one of courtesy, designed to maintain a harmonious relationship with the somewhat irascible Premier, rather than evidence of the power of Queensland politicians to influence Japan's international trade policy.

Apart from the general principle of Federal responsibility for external matters, Mr. Whitlam was opposed to the idea of resources bargaining. He argued that it would be foolish to disregard the fact that exclusion from markets and resources had been a contributing cause of Japanese hostilities towards Australia in 1941.[102] Whitlam was also anxious to move towards the signing with Japan of a treaty of friendship, commerce and navigation [103] which he considered had been far too long delayed. Discussions with Japanese Prime Minister Tanaka in late 1974 were to concentrate on "general terms of trade between Australia and Japan", from the starting point that each country needed the other and should understand that internal pressures made it inevitable that there should be greater scrutiny of particular imports "than would otherwise be the case in terms of dispassionate logic".[104] Whitlam argued that resources bargaining, or some quid pro quo attitude would be counter-productive in arriving at an agreement designed to ensure that Australian and Japanese producers could in the future look with reasonable certainty to the market that each had in the other country.

The re-opening of the beef market in 1975 did not enable beef exports to continue the growth they had enjoyed before the embargo. Changes to the purchase system and concessions to United States producers reduced opportunities for Australian exporters. Market difficulties, coupled with a drought, precipitated a crisis in the beef industry. The Bureau of Agricultural Economics estimated that, even if cattle prices doubled, fifty per cent of beef producers would have an income less than $5000 per year and 7,000 of them would still be earning a negative income. Every third beef producer had debts exceeding 15 per cent of capital invested and cost/price pressure placed individual properties at risk.[105] Mr. Bjelke-Petersen had not abandoned the idea of a beef-coal tradeoff, though publicly at least he did not press this approach, and concentrated rather on short-term and immediate action to relieve the worst effects of the beef crisis.[106] In the Queensland Parliament a relatively large amount of time was devoted to the beef industry and the effect of Japan's import policies. In the Meat Industry Act Amendment Bill, the Rural Adjustment Agreement Bill and a Matter of Public Interest - the Beef Industry, speakers from rural electorates, such as Mr. Katter and Mr. Cory (National Party), Mr. Wright and Mr. Casey (ALP), outlined the concerns of their constituents and largely reflected the frustrations of Mr. Tomkins that "as a State government we have very little control in the export field".[107] Practical suggestions centred on taxation, carry-on finance, and adjustments of leases. The government formed a beef industry committee which submitted a beef stabilisation plan based on a minimum price paid to the producer, though this ultimately came to nothing. The ALP member for Lytton (which included the major Brisbane abattoirs and meatworks), Mr. Burns, advocated that we should "start telling the Japanese consumer that he is being robbed" and should "insert a few advertisements in Japanese newspapers and see if we can stir up a little trouble for those who are robbing our beef producers".[108] This particular suggestion might have been impractical, but the basis of the idea was taken up by industry associations - to seek a way of working to increase pressure within Japan, from meat importers, retailers and consumers, to induce a change of government policy.

By the late 1970s, the Queensland government had ceased to be so vociferous in its criticism of Japan and concentrated on the basic problem of assisting the industry to survive. Federally, however, the problems of Japanese market access became highly politicised. Prime Minister Fraser and his government came under intense pressure from producer interests and the rural community generally to take action to recover the share of the Japanese market and to undertake domestic economic policies that would assist the industry to be internationally competitive. The Cattlemen's Union accused Mr. Fraser of an "ostrich approach" [109] and Mr. Sinclair, the National Party Deputy Leader, was booed and abused at a Cattlemen's Union Convention in Toowoomba, where a vote of no confidence was passed in the government's policies.[110] Cattlemen urged a hard line with Japan, with meat access considered in conjunction with Japanese rights in Australian fishing grounds.[111] The frustration of the industry with the efforts of the Federal government was echoed by Mr. Bjelke-Petersen who played up traditional Queensland-southern mistrust in complaining that he had been "telling Mr. Fraser for years about the problems being faced by cattlemen", but "neither Mr. Fraser nor his Sydney and Melbourne ... Liberals showed the slightest interest", until "electoral reality" set in.[112]

Unlike Mr. Whitlam, Mr. Fraser had no objection to the use of resources bargaining and at the PostASEAN Conference talks in Kuala Lumpur in 1977, he pointed out that Australia's ability to make its market an open one depended "very considerably upon the reciprocal treatment that Australian exports get in major countries around the world".[113] More specifically, Mr. Sinclair suggested that the Australia-Japan Fisheries Agreement due for renegotiation in November 1976 might not be extended and

Japan would thus lose port access for its estimated 350 ships fishing in Australian waters. Should Australia also declare a 200 mile instead of 12 mile fishing zone, Japan would be excluded from the 10 percent of its tuna catch previously obtained from these waters. Mr. Fraser escalated the dispute still further politically by sending a letter to Prime Minister Fukuda calling into question the whole fabric of Australia-Japan relations and releasing its text to the Press before it could have been received in Tokyo.[114]

At the Australia-Japan Ministerial Committee meeting in January 1977 a tradeoff was agreed, with Australia extending port access for 2 years while Japan increased its beef quota by 15,000 tonnes (general) and 5000 tonnes (special), effectively doubling Australia's allocation for the 6 months to March 31 1977.[115] Japan also agreed not to close its market completely again and to hold annual talks so that changes to quotas or policies would not come so suddenly and unexpectedly. Mr. Fraser had foreshadowed some effort to set a "base quota" and Japan announced in advance a minimum beef import quota of 40,000 tonnes for the first half of FY 1977-8, which maintained the size of the general quota and went some way to providing more stability.

The establishment of the Australian Meat and Livestock Corporation was part of the effort to give the industry an organisational structure better equipped to meet the changing conditions of the international marketplace. Though the new structure was not solely a response to problems with Japan, the hiatus caused by the transition from the AMB to the AMLC helped to dampen the bitterness of the past and make a fresh start. The new Corporation had a more interventionist philosophy and greater powers than the former AMB.[116] One of its first acts was to introduce export controls in November 1977, just after Japan announced the quota for the second half of FY 1977. Its objective was to overcome the problems caused by the Japanese tender system under which Australian exporters were forced to compete against one another for the right to supply a quantity of beef, thus reducing prices paid to exporters and increasing the profits in the hands of Japanese importers. In practice, a supplier would often not know the price to be received until long after his tender had been accepted, and a great degree of mutual trust was essential between exporter and importer that a fair price would be paid. A secondary consideration was that the tender system worked against the hard-won reputation of Australian brands for quality since minimal returns were a disincentive to producers to incur the costs of providing high quality meat. The AMLC indicated that the possibility of a single marketing authority had been considered and the Australian Exporters' Federal Council asked to examine the idea which might be implemented if export controls were not successful.[117] This proposal was strongly supported by a senior Queensland Minister, Mr. Tomkins, who had been a member of the UGA and its representative on the Queensland Meat Industry Authority, and by "repeated calls from the Cattlemen's Council of Australia and the Cattlemen's Union".[118] It was, however, opposed by the National Party in Queensland which called for an immediate review of export controls and more urgent action by the Federal Government to instigate negotiations with Japanese importers to persuade them to exert pressure on their government.[119]

An agreement with Japan in April 1979 was the outcome of the Multilateral Trade Negotiations which began in 1973. Japan anticipated a steady increase in its global quota to 1982 and gave an "understanding" the quota would rise again thereafter. The two countries agreed to cooperate in examining the market in Japan for manufactured beef and in making efforts to exploit the demand for high quality beef with a view to increasing global imports by FY 1983. However, there remained some hesitancy about Japan's longer term reliability as an importer and the AMLC emphasised the need to diversify to other markets.[120]

The role of a regional State such as Queensland in dealing with the complex question of access to Japanese markets was extremely limited. The State could, and did, exert pressure on the Federal government to take steps to solve the problem, contribute to the establishment of new structures better able to handle the vagaries of international markets, and assist the industry to survive in crisis situations. But, despite Mr. Bjelke-Petersen's efforts at resources bargaining, the long-term solution lay in agreements reached in international forums where only national governments could take a part.

CONCLUSION

Initial opportunities for the meat trade with Japan lay in the provision of quantities of processing beef which was cheap by Japanese standards. Subsequently, increasing affluence and changing lifestyles in Japan expanded the market for quality table beef which provided the impetus for the growth in both the volume and value of Queensland's beef exports.

The extent to which demand was translated into export opportunities was, however, limited by the policies of governments. The strict adherence of Britain and Australia to the 15-Year Meat Agreement initially prevented firms from taking advantage of the potential market in Japan, though the trade was delayed only slightly before the Agreement was relaxed and eventually lapsed. The inevitability of British entry to the European Community, together with the need, for political and economic reasons, to impose voluntary restraints on exports to the very attractive United States market gave impetus to the search for alternative customers for Australian beef. The Japanese market offered an opportunity to supply high quality beef at reasonable prices, but the extent to which it provided the stable and long-term custom sought by the industry was severely limited by protectionist policies and by the apparent bilateralism of her relations with the United States.

Private individuals and companies provided the impetus for trade development by recognising the nature of the market and the changes in stock management, processing methods and transport which would be needed to tap the opportunities it presented. Broad-acre producers improved herd breeding and management, feedlotters attempted to produce to specific consumer requirements and processors altered cutting and packing techniques. Entrepreneurial individuals such as Beaver, Bridgeford, Cameron and Palfreyman, and companies such as Borthwicks initiated contacts with Japanese importers, identified market niches and their relationship to production and processing methods, and took the risks associated with organising resources to develop a product suited to Japanese requirements.

Their efforts were supported by technical developments involving State and Federal agencies such as the CSIRO and State Departments of Primary Industries and by joint State/Federal expenditure on better roads and the opening up of Brigalow lands. State and business worked together to provide infrastructure, capital investment and the technical basis which enabled the industry to produce the quantity and quality of output necessary to take advantage of the opportunities presented by the Japanese market. The State was interested in the growth of a traditional industry, concentrated in central and northern Queensland and in areas which offered little opportunity for other forms of rural development. Beef exports, initially to Britain and the United States, were a welcome diversification from heavy dependence on wool and on exports of dairy products and sugar to the guaranteed, but rapidly declining, markets in the Commonwealth. Technical advice from government agencies, research into breeds, pastures and diseases and relaxation of lease conditions were urged by the industry and accepted by government as essential prerequisites for the expansion of production to allow large-scale, year-round and long-term export. Encouragement of foreign investment and the opening up of the Brigalow lands were opposed by sectors of the industry and by some members of the government and the National Party. In hindsight, both contributed to industry development, and the Brigalow scheme in particular was ultimately the basis for the production of much of the high-quality grassfed beef exported to Japan. The determination of the Queensland government to press ahead despite the risks involved and the need to assist farmers unable to cope with the heavy costs of establishment in the Brigalow opened the way for long-term development for export. Both the Brigalow and Beef Roads schemes were beyond the capacity of the State alone to provide and the urgings of the Queensland government were important in obtaining Federal commitment to these two projects. The cooperation of the industry and the State and Federal governments established the basic production conditions on which export could be built.

Development of the export market was largely in the hands of private enterprise, the Australian Meat Board and its successor, the AMLC, who developed relationships with the Japanese meat industry and were instrumental in persuading importers, wholesalers, retailers and consumers that Australia could supply quality beef which met market needs. The issues which arose in the beef trade were not confined to Australia and Japan alone, but involved larger international questions of market access for primary products and the wider relationship between Japan and other countries, particularly the United States. The resolution of these questions involved bilateral and multilateral agreements in which the Commonwealth was the negotiator on behalf of Australia, although the Queensland Premier was vociferous in his demands for the interests of one of the State's major industries to be vigorously protected.

Both the Queensland government and beef producers and processors were interested in the growth of trade with Japan which they hoped would provide part of the stable and long-term foundation for a profitable industry and a means of developing central and northern regions of the State. For this reason, the State adapted its policies and engaged in projects designed to develop the beef cattle industry, assist it to overcome its frontier status, support it in times of stress, and encourage types of investment and production likely lead to success on the international market. The industry itself provided the impetus and initiative for market development and improvements in production and processing, supported by the AMB's promotion of a distinctively Australian product. The meat industry reflected the Constitutional division of powers over agriculture between the State and Federal governments, with the State concerning itself largely with "bread-and-butter" issues, State and Commonwealth cooperating in large infrastructure projects, and coordination, especially with respect to export marketing, left largely in the hands of the Australian Meat Board and its successor the AMLC.

The role of the regional State was supportive. It was not directly involved in marketing or in the settlement of major marketing issues, though its activities were important in establishing the ability of the industry to take advantage of market opportunities. The different location, structure and framework of the sugar industry gave the State a much more direct role in market-related decisions and an established place in the negotiations of international questions, as we shall see in the following chapter.

CHAPTER FOUR

PARTNERS IN ENTERPRISE

JAPAN AND THE SUGAR INDUSTRY

INTRODUCTION

The export of sugar to Japan was, like the sale of beef, part of the realignment of Queensland exports away from the protection of the Commonwealth towards the wider world market. The industry, however, continued to seek stability through long-term international and bilateral arrangements as it had in the past and the unsuccessful search for a suitable institutional framework to provide security in the trade with Japan provoked one of the most bitter disputes in the Australia-Japan relationship.

Queensland had a unique relationship with the industry since almost all of Australia's sugar is grown the State, legislation supports State ownership of the crop and responsibility for its disposal, and the industry is tightly controlled. Under these arrangements the regional State was an official partner in the sugar industry and played a major role in the management of its international dimensions. We are therefore concerned in this chapter with the dynamics of the partnership between State and business and the way in which the government exercised its role as owner and regulator, at the same time sharing its authority and the decision-making and entrepreneurial functions of leadership with other sectors of the industry.

SUGAR AND THE QUEENSLAND ECONOMY

The sugar industry is concentrated into a few localities along the coastal strip from Grafton in New South Wales to

Mossman in north Queensland, and is the foundation of the economic viability of many of the major towns and ports in Queensland.

The industry has strong regional influences on income, output and employment. The Savage Committee identified it as the largest rural employer in Queensland, with more than 15,000 people employed in the industry in 1983, and another 45,000-60,000 directly or indirectly dependent on it.[1] Berezovsky estimated that in the Queensland Statistical Divisions of Mackay, Townsville and Cairns in 1963-4, the gross value of sugar cane ($123.5m) was 72 per cent of the gross value of recorded production and 48 per cent of the combined gross value of primary production and the net value of manufacturing.[2] Additional value could be attributed to significant by-products and to the flow-on effects to other industries such as the production and maintenance of farm and mill machinery and activities at the ports for which sugar provided 40 per cent of the tonnage. Powell and McGovern concluded that, in 1978-9, the industry contributed 3.5 per cent of State production, 2.7 per cent of household income and 3.3 per cent of employment. Although no studies are available for the 1950s and 60s, it is reasonable to assume that before the growth of other industries such as coal the importance of the sugar industry in the economy would have been even greater.[3]

Because of the significance of the industry in the State's economy, the government strongly supported domestic and international arrangements designed to promote its well-being and provide it with a high degree of predictability in quantities and prices.

ORGANISATIONAL FRAMEWORK

The relationship between the government on the one hand and the sugar industry - its members, its sectors and its associations - on the other has been one of close and constant cooperation as partners in a joint enterprise. As owners of the sugar output, the State was the major partner, responsible for overall policies and ultimately for strategic decision-making. Management and coordination of the industry was in the hands of the Sugar Board, and CSR acted as marketing agents on behalf of the government and the Board. Millers and growers were responsible for business decisions determining the efficiency and profitability of their enterprises and for the quantity and quality of sugar production on which success in the Japanese market was ultimately based.

The relationship between the members of the industry was formalised in a legislative framework which remained virtually unchanged from 1923 to 1990, reflecting the mutual interest of the partners in security and stability. It was originally intended to provide secure supplies at stable prices to the domestic market, protect the home industry against imports from countries growing sugar with cheap non-white labour, and provide an adequate and stable return to small growers. The central feature of the arrangement was that Queensland, under the Sugar Acquisition Act of 1915, acquired all sugar produced in Queensland and NSW, and thus became a partner in the industry, together with cane growers and sugar millers. Queensland undertook to make sugar and sugar products available to the domestic market at prices and conditions fixed under the Commonwealth Sugar Agreement, and the Federal government agreed to enforce an embargo on sugar imports.

Queensland also had responsibility for the control of cane production which it exercised through a system based on the sugar mill. Each year the Sugar Board determined the mill's "peak" or share of the available and anticipated market and its output was restricted to this amount, plus an extra percentage determined by the Board. The local Sugar Cane

Prices Board determined the share of the mill's needs to be provided by each grower who could produce sugar only on land "assigned" for the production of cane which he was required to deliver to a particular mill. Production from the mills was purchased by Millaquin Sugar Co. and CSR Co. Ltd. for refining for the domestic market or for sale abroad by CSR. The net proceeds of both Australian and foreign sales were "pooled" and a uniform price per ton paid to mills up to a quota, with lesser sums for additional amounts. These controls contributed to the stability of prices by relating supply as closely as possible to anticipated demand, and obviously meant that expansion or contraction of output was a matter for the entire industry. Likewise, the pooling of receipts meant that disruptions to the market caused, for example, by the dispute with Japan, affected the entire industry and not sections of it as the beef dispute had done. This tended to focus and solidify industry feeling and contributed to the intense bitterness in the conflict with Japan over long-term contracts.

The unity of interest created by production and marketing arrangements was further encouraged by the requirement that growers and millers be members of industry associations and be represented on the various bodies which controlled the industry and implemented the Government and Sugar Board policies. This ensured continual interaction between millers, growers and their organisations, local and Central Cane Prices Boards and the Sugar Board. The arrangements established regularly-used consultative processes and decision-making mechanisms which enabled the industry to arrive by internal discussion at a united viewpoint and a commitment to agreed policies, for example on expansion, quality control and negotiating positions which were central issues in the development of the sugar trade with Japan.[4]

Under this legislative framework, policy was the outcome of negotiations between economically defined groups in government and business who had a sense of common interest and the ability to secure the compliance of members to agreed courses of action. The arrangements formally established the position of the Queensland government as a partner in the sugar enterprise, delineated the extent of its control over production and marketing and laid the basic mechanism for consultation between the partners. The sense of shared decision-making and responsibility were important in obtaining the commitment of the industry to expansion to take advantage of the opportunities in Japan, while government controls were vital in the improvements in quality essential to the maintenance of the sugar industry's standing in the Japanese market.

INTERNATIONAL FRAMEWORK

The development of sugar sales to Japan took place within a framework of international arrangements concerned with access to particular markets and the sharing of available markets among suppliers. These arrangements provided the basis for industry stability and growth and helped to determine the timing, direction and maximum quantity of exports.

The British Commonwealth Sugar Agreement

The first of these was the British Commonwealth Sugar Agreement (BCSA), a multilateral agreement which stemmed from a conference in 1949 to dismantle the wartime arrangements for bulk purchase of all Australia's exportable sugar and at the same time provide adequate supplies for United Kingdom and other Commonwealth importers and equitable market access for Commonwealth exporters.

Premier Hanlon undertook on behalf of the industry and the Commonwealth to have available for export 600,000 tons tel quel per year by the 1953 season.[5] The United Kingdom guaranteed to take 314,000 tons at a negotiated prices fixed annually and to assist with the sale of the remainder at world prices, but with the advantage of Commonwealth preferences.[6] Expansion of the industry from 1950-1954 was designed to meet the firm commitment to the domestic market and to the BCSA quota. There was virtually no prospect of sales to anyone else and, until 1953, there was considerable doubt whether the target quantity would be reached. Growers were extremely cautious and output did not increase sufficiently until the Queensland government agreed to a more liberal assignment policy and the Commonwealth and State governments increased the price paid for sugar consumed on the domestic market.

TABLE 4.1

AUSTRALIAN SUGAR EXPORTS

Season	Tons 94 n.t
1945	209956
1946	88393
1947	106503
1948	443072
1949	439635
1950	402680
1951	157346
1952	471008
1953	732208
1954	784449
1955	626202

Source: Australian Sugar Journal vol.52,no.11, February 1961, p.851.

The industry was conscious that there were guarantees for only 314,000 tons, and after Canadian Agreements with Cuba there was no alternative but to compete on the open market. Over time the importance of sales under the BCSA declined relative to those to the free market, but the Agreement remained the basis of the sugar export trade and a valuable and effective safeguard of industry stability until it ceased with United Kingdom entry to the EEC in 1974.

The International Sugar Agreement

Sales of "free market" sugar were regulated by the operation of the International Sugar Agreement (ISA) which began in 1954 and aimed to provide stability in world markets through the limitation of total exports to a level approximating estimated demand. Floor and ceiling prices were established and the International Sugar Council was authorised to adjust export quotas so as to keep prices within this range.

ISA quotas effectively placed an upper limit on what Australia could export to Japan or to other countries in the free market. Initially, the ISA imposed a limit of 2,375,000 tons for Commonwealth exporters, of which Australia's share was its BCSA quota of 600,000 tons as an irreducible minimum, with other amounts available from time to time as Australia's share of shortfalls elsewhere.[7] Subsequently, in years when quotas were not imposed, or when the ISA was not in force, Australia took advantage of the opportunity to establish a place in the Japanese market. When quotas were reimposed, the expanded limits reflected the growth in sales and in output in the non-quota periods.

After 1954, commitments to the BCSA and adherence to ISA quotas determined the maximum amount of sugar Australia could sell, and the fluctuations in the volume of sales coincided broadly with the conditions imposed by these two Agreements. Growth in the Japanese economy made it an attractive market outlet, but the extent to which Australia took advantage of the opportunities and the terms on which sales were negotiated were dependent on the decisions of the Queensland government taken in conjunction with its partners, the growers and millers, and its managers and agents, the Sugar Board and CSR.

<u>The Australia-Japan Trade Agreement</u>

This Agreement, signed in 1957, added another dimension to the framework within which sugar sales occurred. Prior to 1957 Japan had bilateral agreements with suppliers of sugar, apart from Australia, under which she imported a large percentage of her sugar requirements. Her import system for the remaining portion was unpredictable; at times Australia was prevented from selling and at other times sales could be made. After 1957, despite Japan's bilateral agreements, Australia was free to compete with other suppliers for up to 40 per cent of Japan's total imports, subject to exchange control allocations. This was particularly important in years when Australia was able to export over the BCSA quota, or when ISA quotas were inoperative.

The negotiation of international arrangements was the responsibility of the Commonwealth, and not of the State government. But the partnership structure of the sugar industry was reflected in the recognition of the Queensland Agent-General in London as the permanent delegate to the BCSA and in the composition of negotiating delegations to the ISA and BCSA. These routinely included the Queensland Premier and/or senior Ministers, representatives of the Department of Agriculture, the Sugar Board and industry Associations. In this way, the major industry partners were involved in the negotiation of two of the three Agreements which established the basic international parameters within which Australia was able to export sugar to Japan.

SALES OF SUGAR TO JAPAN

Initial opportunities for sales of sugar to Japan in 1954 arose because of the expansion of Japanese demand, the first surplus since World War II of Australian production over commitments to domestic and BCSA requirements, and because of requests from the British Government to help alleviate their storage problem with the large quantity of sugar purchased in anticipation of high levels of demand after the abolition of rationing.[8] Subsequent opportunities for sales and the prices which could be obtained were largely dependent on conditions in the world sugar market as reflected in the ISA quotas and in the London Daily Price which formed the basis for price negotiations.

The Japanese themselves had sought to purchase Australian sugar as early as 1950, although shortages of sterling limited the amounts.[9] Neither the industry nor the Queensland government was interested since production was totally committed to the domestic market and the BCSA quota and it had been difficult to reach even this level of output. CSR told the 1950 Royal Commission into the Sugar Industry that export markets were and were likely to be in the future confined to the UK and Canada and that the exportable surplus was likely to be 600,000 tons per annum for the foreseeable future.[10]

By 1954, however, initiatives for sugar sales came from both Japanese importers and CSR on behalf of Australian exporters. Technical improvements and better farm practices had increased productivity so that Australian producers faced for the first time the possibility of a surplus over commitments. Growers and millers urged the Sugar Board to examine every possible market in the hope of future export quotas, since the only alternative was the imposition of restrictions on output.[11] CSR had already made sales to Hong Kong and was attempting to break into the Ceylon market. Its marketing officers felt there might be opportunities in Japan, at least in the short term, although, in the longer term, prospects for continuing sales did not look particularly hopeful.[12] A White Paper by the Japan Economic Council indicated that shortages of foreign currency would limit imports and there was every likelihood that existing levels would be maintained only by barter deals.[13] Even spot sales were welcome in the circumstances and the approach by Daiichi (Mitsui) Bussan through Alliance Industries[14] came at an appropriate time and resulted in sales of 79,000 tons in 1954, 43,500 tons in 1955 and 52,000 tons in 1956, arranged through the London brokers, C. Czarnikow Ltd. Except for 1956, when a shortage of sterling limited Japanese imports, Australia's share of Japan's sugar purchases rose steadily from 0.9 per cent in 1954 to 10.9 per cent in 1955 and 12.4 per cent by 1958. By then Japan had become Australia's second-largest customer for sugar, though her share of 15.4 per cent was small by comparison with that of the United Kingdom.[15]

By the 1960s the industry looked positively to the markets of Asia, including Japan, to supplement, and later to replace, outlets in Britain and the Commonwealth as opportunities for export growth declined in traditional markets and local beet producers and other Commonwealth exporters competed fiercely for sales. The Sugar Board's marketing strategy was directed to establishing a firm foothold in Japan as the basis for future expansion if and when conditions allowed. Japan was experiencing growth in output and incomes which seemed likely to continue given high levels of investment and low inflation. Sugar consumption was low, only about 25 per cent of that in Australia, but had good potential to increase.[16]

The Japanese were interested in expanding trade and approaches were made to Australia by firms such as Taiyo Bussan Kaisha acting for Osaka refiners.[17] CSR estimated that the existing market would double within a short time despite competition from Cuba, the world's largest sugar producer, and Taiwan whose sugar was well known to the Japanese refiners, many of whom had worked there before World War II.[18] However, political instability made Cuba a less attractive supplier to security-conscious Japan and Cuba's emergence as a major supplier to the socialist bloc left a market opportunity for Australia to fill.

From the late 1950s expanded sales to the free market, especially to Japan, in non-quota periods led to significant increases in quantities exported. The Sugar Board was able to accept for marketing the whole of the 1957 crop because of record sales of 768,000 tons of which 15 per cent went to Japan.[19]

TABLE 4.2

AUSTRALIA'S SUGAR EXPORTS 1957

	(tons)
United Kingdom	413,000
Canada	118,000
Japan	118,000
New Zealand	79,000
Hong Kong	22,000
Ceylon	17,000
Malaysia	1,000

Source: CSR Annual Report 1958.

In 1961-69 Australia was well placed to take advantage of free market opportunities, with a quality product, efficiency, especially in bulk handling, and a reputation as a reliable and stable supplier to Japan which provided the biggest potential market. Sales almost trebled in 1961-2, and a contract for 300,000 tons from the 1963 crop was one of the largest single purchases on private account since World War II.[20] This was followed by a long-term contract to supply 350,000-450,000 tons annually for the three seasons, 1964-1966, later extended to 1968,[21] and by a subsequent contract for 3 million long tons over the seasons 1975-9.

TABLE 4.3

EXPORTS FROM SEASONS - TONS ACTUAL SUGAR

	1961	1962	1963	1964	1965
U.K	369890	444593	422755	397421	459147
Canada	133137	148285	109830	111746	111365
N.Z.	73040	50773	54047	46996	67479
U.S.A.	56280	171715	146288	186194	174397
Japan	120974	309399	342746	501566	388181
Malaysia	...	...	...	25930	51496
Other	44037	42879	28441	16159	18904
Total	797358	1167644	1104107	1285012	127096

Source: Australian Sugar Journal vol.59, no.6, September 1967, p.331.

Opportunities for sales of sugar to Japan were created by international factors and by international agreements which determined access to particular markets. Turning opportunities into actual sales was the responsibility of CSR acting as agents for the Queensland Government and the Sugar Board. The marketing strategies were based on information about world conditions supplied by Czarnikow Ltd., by CSR and by observations and discussions at international conferences such as those related to the BCSA and the ISA. Sales negotiations were undertaken by CSR Sugar Division and an ongoing relationship between its officers and refiners in Japan cemented growing goodwill which helped to overcome some of the difficulties which arose, especially relating to quality.

LONG-TERM CONTRACTS

Two of the key points in the development of the sugar trade were the long term contracts of 1964 and 1975, both of which required the agreement and commitment of all the partners in the industry to expansion to meet the contractual obligations. CSR, the Sugar Board and the Japanese themselves recognised the opportunity for the growth of trade presented by increasing demand in Japan and the absence of ISA quotas. It was the State's responsibility to determine the risks, ascertain the views of its partners, decide how extra production would be achieved and ultimately make the decision whether or not to proceed. The decision to undertake the 1964 contract was a major turning-point in the industry and marked what the Economist Intelligence Unit identified as an essential prerequisite for growth - an attitude of looking forward to what might be achieved in the future, rather than the "safety first" concern with what had been in the past.[22]

Such an agreement in 1963-4 was a radical departure from long-standing practice. Stability was so important to the sugar industry it was prepared to accept control over production and marketing, submit to restrictions imposed by the ISA and accept a "pool" price for raw sugar. The bases for stability were the Australian Sugar Agreement for supply to the domestic market and the BCSA, both of which were very long-term arrangements incorporating guarantees not only regarding quantities, but also wholly or partly with respect to price. Expansion in the 1950s had been on the basis of the security of these Agreements, with clearly defined production targets, endorsed as public policy by Queensland and Commonwealth Governments of all parties and which were unlikely to be reduced.[23] There were no such clearly defined targets in 1963, no guarantees of quantity beyond 1967, and no commitment at all to fixed prices. Expansion to meet the opportunities in Japan, as well as in the USA and elsewhere, would expose growers and millers to greater risks than at any time since the Sugar Agreement Act of 1915.[24] Increased production in the 1962 season had already produced 500,000 tons of excess sugar which had to be sold on a catch-as-catch-can basis and the volatility of world prices was well illustrated by the spectacular price rise from 26 pounds stg. per ton in 1962 to 72 pounds in 1963.[25]

When opportunities for very large sales had first arisen in 1961-2, the Queensland government was anxious for them to proceed. The government had been in office only some two years after a long period of Labor rule, rural seats had been traditionally Labor strongholds in which Government members did not yet feel secure, and the backward Queensland economy had been hard hit by the recession of 1961. The Sugar Board, on behalf of the government, sought the commitment of the Associations of growers and millers to ensure the fulfilment of the possibly large contracts by producing the requisite amounts of sugar irrespective of adverse export prices. Their support encouraged the Board to pursue a vigorous marketing strategy which led ultimately to the long-term contract, although at the time neither the growers nor the Board realised the extent of the risk that would be involved. They expected that increased output could be achieved from greater productivity and increased use of existing assignments.

The granting of new assignments, made necessary by the long-term contract for 1964-6, was completely counter to the recommendation of the producers' Associations as late as March 1963 that the positive aim of the industry should be maximum economic production from existing lands.[26] Only the prospects of a contract for the supply of sugar to Japan for some years ahead persuaded the Associations to change their mind. Before the contracts were signed, the Sugar Board again consulted with the Association Presidents and Secretaries in April 1963. They agreed with the Queensland Minister for Agriculture that the contract was a much-needed opportunity to broaden the range of countries with which Australia had long-term, rather than ad hoc arrangements. Their attitude was summed up by the Chairman of the Proprietary Sugar Millers' Association - "How could you possibly knock back the opportunity of firming up the quantity for sale to Japan".[27]

It was then the responsibility of the Queensland government to decide on the extent of expansion and where and to whom the additional assignments would be allocated. The Premier and the sugar Associations agreed that the best method of orderly and equitable planning for long-term production targets and associated infrastructure requirements was to establish a Committee of Inquiry.[28] The inquiry was constituted under Mr. Justice Gibbs, with Mr. O. Wolfensberger (Chairman of the Sugar Board) and Mr. N. King (Director of the Bureau of Sugar Experiment Stations) and advisers from the industry Associations.

The Inquiry brought to light a substantial difference of opinion between the government and its selling agent, CSR, who provided the main body of detailed marketing information to the Inquiry. In part this arose from the different interests of the parties. The government was anxious for northern development, the growth of the industry, and a replacement for the stability of the BCSA. CSR, as a producer and miller in its own right, as well as the government's marketing agent, had a more strictly commercial outlook. Its assessment of likely sales and prices, based on its own experience and the advice of Czarnikow Ltd., led CSR to take a cautious view. The only firm, long term commitments were to the domestic market and the BCSA, and CSR was hesitant about its ability to dispose of a greatly increased output at viable prices on the world market once the Japanese contract expired.[29]

However, other evidence to and investigations abroad by the Members of the Inquiry led them to be more optimistic. They regarded the Japanese market as secured and reasonably assured to the end of 1966-67 and prospects for continuance and steady growth beyond that date as "reasonably good" and reinforced by the signing of the Australia-Japan Commerce Agreement.[30] They therefore recommended production targets for the years 1965-6 to 1970-1 of over 2 million tons, though the viability of the industry at this level depended on world prices which were expected to drop somewhat from the record heights of 1963. The Inquiry identified both the opportunities and the risks and left it to the Queensland government to decide whether to accept the Committee's recommendations rather than CSR's more cautious view.

TABLE 4.4

AUSTRALIAN COMMITMENTS OF SUGAR

(million tons)

Year	Aust.	BCSA	Japan	USA	Other
1965-6	601	600	350/450	35	15
1966-7	609	600	350/450		15
1967-8	618	600			15
1968-9	627	600			15
1969-70	636	600			15
1970-71	645	600			15

Source: Australian Sugar Journal vol.65, no.9, December 1973, p.577.

Experiences after the expansion of 1964-1967 coloured the attitudes of the industry in 1974 to the requirements of the long-term contracts proposed with Japan and to the prospects of expansion to service larger market outlets. The approach to both contracts and expansion plans was markedly different to that in 1963.

After the industry was committed to the 1963 contracts and to the subsequent expansion, world prices declined to uneconomic levels, coinciding with increased exposure of the industry to the free market. The collapse in 1965 of the London Daily Price on which three-quarters of Australia's exports to the free market, including Japan, were based precipitated a major financial crisis in the industry.

TABLE 4.5

LONDON DAILY PRICE OF SUGAR

(pounds stg. per long ton cif UK)

Year	Highest	Lowest	Average
1961	30.5	21.5	25.68
1962	40.0	19.75	25.98
1963	105.0	40.5	71.7
1964	93.75	24.75	51.11
1965	26.75	17.75	21.51
1966	24.25	13.25	17.87
1967	32.00	12.25	19.36
1968	31.00	16.00	21.84

Source: John Oxley Library. ASPA OM.BG/2/417. "A Case for Financial Assistance to the Sugar Industry by the Extension of Credit Facilities" - Submission to Premier Nicklin.

New farmers in particular suffered severe financial hardship and, for the first time, the industry had to approach the State and then the Federal Governments for funds to provide an adequate return to growers from the 1966 crop. Federal Cabinet approved advances from the Reserve Bank to the Sugar Board and a loan from the Commonwealth Government of $19m, with principal and interest to be repaid by the Sugar Board from sales from the seasons 1970-1979. Both individual growers and the industry as a whole had debt repayments extending into the 1970s as a result of the 1960s expansion.

The 1964 contract had provided a secure outlet for part of the now-enlarged sugar crop, but the disastrous effects of fluctuating prices emphasised the need for security of price as well as of quantity. The Sugar Board pursued a strategy of seeking stable prices through the ISA or other arrangements including special agreements such as those under the US Sugar Act or long-term contractual arrangements embodying price provisions designed to ensure the industry of reasonably remunerative returns independent of fluctuations in world prices.[31]

Throughout the 1960s and early 1970s the Sugar Board and the Queensland and Commonwealth Governments worked to influence the environment in which any future negotiations for sugar contracts would occur. High level delegations of State and Federal Ministers, the Sugar Board and industry Associations worked actively for a new ISA, Deputy Prime Minister McEwen in consultation with industry advisers made direct approaches to the Governments of Japan and other sugar importing countries, and the Commonwealth worked in the Kennedy Round of GATT discussions to achieve an arrangement with Japan providing for more satisfactory prices. Despite their efforts, these negotiations came to nothing. The Sugar Board remained optimistic that the difficulties inherent in the complex structure of the Japanese refining industry could be overcome and agreement in principle reached on a range of prices acceptable to both importers and exporters, and throughout the 1960s and 1970s it endeavoured to reach a consensus with Japanese refiners on this point.

The opportunities in 1973-74 were presented in different economic and political circumstances. The Queensland government was firmly established, the State's economy had been broadened through the development of resources in coal, bauxite and copper, and close trading links established with Japan. The new Federal Labor government had a particular interest in the possibility of the sugar contract as part of the high priorities it accorded northern development and the growth of Australia-Japan relations.[32] Prime Minister Whitlam established a Department of Northern Development whose responsibilities included the sugar industry. Its Minister was Dr.R.A. Patterson, the former Director of the Northern Division of the Department of National Development, and Member for Dawson, centred on the sugar-growing area of Mackay. The possibility of a long-term contract was attractive to both Commonwealth and State governments, but did not provoke the unbridled optimism which prevailed in

1973. It might well have been "tempting to advocate expansion" as Minister Patterson indicated, in the belief that there would never be a better time to gain permanent access to expanding markets, but no one, including the Minister, wanted a repeat of the 1960s experience.[33]

The opportunities in 1973-74 arose because of a world sugar shortage precipitated by the entry of socialist economies as large buyers of world sugar, at a time when a shortage of fertilizers and the limited availability and high cost of capital limited the likelihood of expansion of output. Importers, including Japan, expressed interest in long term contractual arrangements as a means of securing future supplies. There were two major obstacles:-

(i) the industry would have to expand and there was a genuine and widespread hesitation about commitment to an increase in productive capacity even if (as industry policy required) it was from the base of assured long-term marketing arrangements

(ii) the State and Federal Governments, the Sugar Board, and all sectors of the industry agreed that contract prices would have to be expressed in terms which did not expose either party to the risk of unpredictable currency fluctuations and which provided some buffer against the rising costs of production.

In the negotiations which led ultimately to the 1974 contract, all sectors of the industry were much more cautious than they had been in 1963. The ASPA urged

> That the Sugar Board be requested to include the strictest provisions for adjustments for inflationary and monetary influences in all future long term Agreements

and that a price should be sought

> equivalent to the home consumption price (in the absence of an international agreement) or, if an international agreement is in operation a price not less than the pivot price of that

> agreement and that a clause be included to cover the increased costs of production, percentage increase of these costs to be applied yearly to the interim agreement price of the contract.[34]

The Queensland government insisted that security of supplies for importers could be obtained only if they provided reasonably remunerative and secure returns for exporters. Anything less than a base price which could be adjusted to compensate for rising costs or currency realignments was unacceptable to the Queensland government and the industry. It would also have been unacceptable to the Commonwealth government which had already criticised coal exporters for failing to obtain adequate protection in long-term contracts with Japan. The Federal Minister (Dr. Patterson) agreed on the need for security because the industry would have to expand and felt that the contract should be reinforced by a formal Understanding at Government level.[35] Queensland and Commonwealth governments were in complete agreement and, although the Commonwealth was not directly responsible for sugar sales, the Sugar Board, CSR and the industry as a whole sought and expected Federal involvement and acknowledgment of the situation.

Working within the guidelines established by the Queensland government through the Sugar Board, CSR entered discussions with Japanese refiners to develop contract terms acceptable to both sides. Negotiations were adjourned indefinitely when the parties could not agree on a base price or a method of adjustment for inflation or currency realignments. CSR and the Sugar Board indicated that, especially in the existing conditions, sellers would prefer to deal on an annual or "spot" basis with Japan and seek long-term contracts elsewhere. To maintain a strong negotiating position, the Sugar Board urged millers to say nothing that might suggest to the Japanese a retreat from the official stance, and decided to take no action towards industry expansion prior to the signing of an Agreement.[36]

Ultimately this decision was reversed, but only after a reassessment of the world market by CSR persuaded extremely reluctant growers that a modest expansion would not affect negotiations or "let Japan off the hook",[37] and that additional production could be absorbed readily by international demand.

Negotiations resumed only after a visit to Japan by Minister Patterson and discussions with MITI Minister Nakasone and the Minister for Agriculture and Forestry, Mr. Kuraishi.[38] Dr. Patterson exerted some pressure on Japan, emphasising the importance of secure supplies and intimating that long-term contracts Australia might sign with other buyers would take priority over spot or annual sales although, in reality, the attempt to sign long-term contracts with other countries had enjoyed only limited success. The Australian and Japanese governments agreed to cooperate to encourage commercial interests to resume negotiations which began again in October 1974.[39] The eventual contract provided for the sale of 600,000 tonnes per year from the five seasons beginning in 1975. According to the Japan Times, half was to be at $A405 per ton and half at $US525 per ton, giving an overall price equivalent to 229 pounds stg per ton at a time when the LDP was approximately 400 pounds stg. per ton.[40] The industry felt that both sides had benefited and that the security of the contract was underpinned by the involvement of both national governments.

The Queensland government determined the basic principles and strategies underlying the negotiations for the long-term contracts of 1963 and 1974 after consultations with its industry partners, the millers and growers. In the 1963 negotiations, the State's economic and political interests promoted a positive approach to investigating and overcoming objections and problems raised by industry partners. In 1974, the State's approach was much more cautious, and successful negotiations required Federal support and encouragement, forthcoming because of the Whitlam government's high priority to northern development and to stronger relationships with Japan. The two long-term contracts were major steps in the development of the sugar trade, but in the course of that development a number of significant issues and problems could have meant that the trade growth did not proceed. The three principal issues centred around the development in Australia and Japan of facilities for bulk handling, the quality of Australian sugar, and the dispute over the 1974 long-term contract.

BULK HANDLING

The sugar industry would not have been able to take advantage of the opening of the United States market or of the opportunities for additional contracts with Japan without the throughput and turnaround capacity provided by bulk handling. This major innovation was initiated, coordinated and funded by the industry itself, supported by the Queensland government and by government instrumentalities such as the Railway Department and Harbour Boards whose cooperation was essential to the success of the venture.

There had been some interest in bulk handling by the Sugar Board and CSR as early as 1945, and at the ASPA Conference in 1947, but the prime incentive for its introduction was the recognition by all sectors of the industry that escalating costs and turbulent conditions on the waterfront were not compatible with the need to sell part of Australia's sugar exports at market rather than at protected prices. Orderly shipping was one of the industry's prime objectives, but despite the efforts of sugar, shipping and port interests, the Queensland Premier, the Federal Minister for Labour and National Service and the Prime Minister, there was little improvement. By 1951 the ASPA and the QCGC members asked the Premier, the Sugar Board and

CSR to take immediate steps to introduce bulk handling and to regard it as an urgent and major priority,[41] a view supported by the Minister for Labour and National Service, Mr. Holt.[42] The Queensland Government appointed the Sugar Board to coordinate the introduction of bulk handling, which involved a complexity of interests including some 9,000 farms, 31 mills, road and rail transport, private tramways, and 11 ports, some controlled by Harbour Boards and some by the State Treasury. The Sugar Board was advised by a Consultative Committee which included representatives of the QCGC and the ASPA, ensuring input into decisions by all sections of the industry.

CSR made a major contribution to the successful planning and implementation of bulk handling. The Company acted as associate consultants to the Sugar Board and reports by both the Company and the Board formed the basis of recommendations approved by the Consultative Committee and by the Queensland Government. CSR enlisted the cooperation of the Queensland Railways in overcoming the major problem of transport from mill to port caused by unreliable service, high cost, and outdated wooden wagons. CSR also surveyed sugar ports and developed a plan for weighing and sampling of sugar, expedited bulk handling installations at domestic refineries and organised testing such as deterioration trials at Hambledon mill. CSR devoted managerial resources to the coordination and implementation of bulk handling, with two senior staff (Mr. Alley and Mr. Hay) working full time, with other specialist personnel involved in negotiating the special Industrial Agreement, training Terminal management and solving technical problems.

Financing the conversion to bulk handling throughout the industry was shared by the industry collectively, refiners and millers individually, and by various Departments and agencies of the Queensland government. CSR established facilities in its own refineries and its NSW mills;

Queensland mill facilities were established by the owners, and conversion costs of railway rolling stock were met by the industry. In the ports, the Government contributed to the construction and maintenance of the port itself, but not to the bulk terminals. They were initially financed and built with Loan funds by the Harbour Boards with the participation of the Department of Harbours and Marine and sometimes other Departments. The Cairns Terminal, for example, was part of a reclamation project undertaken as a partnership between the Department of Lands, the Cairns Harbour Board and the Cairns City Council. Subsequent expansion for the 1964-66 Japanese contract was financed by the Sugar Board out of sales proceeds, authorised by the industry Associations. The Harbour Boards could not have obtained funds without special arrangements to ensure that their receipts were adequate to meet interest payments and capital redemption. These problems were met by increased lending from CSR to the Sugar Board of $3m. for working capital and by the establishment of the Sugar Board Bulk Handling Facilities Special Fund by the Queensland Treasury.[43]

The industry was determined that the operation and control of the port installations would be in its own hands, and in 1955 the Queensland Harbours Act was amended to let the Sugar Board take over the terminals and pay port authorities interest and redemption on loans raised to build the facilities. The terminals were then operated through local organisations set up by the Sugar Board for the purpose.

The first bulk terminal was opened at Mackay in 1957 and the final terminal in the overall plan opened in Cairns in 1964. The economic significance of the change may be gauged from the improvement of throughput at Mackay from 65 tons per hour with an average port-stay of 3 weeks per ship before bulk handling to 600 tons per hour with an average port-stay of 2 days per ship in the 8 months to March 1958.[44]

However, not all customers changed simultaneously to bulk delivery, and the Japanese did not receive bulk sugar until 1962. Cairns was chosen by the sugar industry with State Government and Cairns Harbour Board approval to serve the needs of the substantial, if declining, export demands for sugar in sacks. Mossman, Hambledon and Mulgrave mills, with a combined peak allotment of 126,000 tons 94n.t. supplied sugar, principally for Japan.

As a long-term project, CSR tried in various ways to interest the Japanese refiners in bulk sugar. The company had a team of people in Japan supplying consulting services to assist refiners in converting their facilities. The Japanese themselves indicated that, without this cooperation, bulk handling could not have been introduced so soon.[45] In August 1962, CSR, supported by the Sugar Board, invited a Japanese delegation to inspect bulk handling in operation. The group was led by the President and Vice-President of the Japan Sugar Refiners' Association and included representatives of 16 refining companies responsible for 90 per cent of Japan's sugar imports. They visited a small refinery in Adelaide, as well as bulk installations at ports, mills and farms. Despite qualms by some Japanese refiners about bulk sugar during the Japanese winter, Japanese customers had essentially converted to bulk handling by the end of 1962.

Bulk handling was an essential prerequisite to the expansion of sugar exports to Japan during the 1960s. The Queensland government through its managers, the Sugar Board, coordinated its implementation and supported its introduction by ensuring the cooperation of relevant Departments and by seeking Loan funds and establishing a special capital facility. The success of bulk handling was due to industry initiatives in proposing it, cooperation especially between the Sugar Board, CSR and the Queensland Government in implementing it, and to CSR's efforts in persuading the Japanese to adopt it.

THE QUALITY OF SUGAR

The leadership of the Queensland government through the Sugar Board and the cooperation between the Sugar Board, CSR and growers and millers was also instrumental in overcoming the poor quality of Australian sugar which was a substantial obstacle to the retention or development of the market for sugar in Japan.

In general what was required was a high-standard, good-keeping, well-dried, good filtering sugar with less than 99^0 polarization. Refiners in the United Kingdom and other Commonwealth countries, as well as customers in the free market, complained that Australian sugar did not meet these standards. The need for action became more pressing as competition for markets intensified and other exporters began to concentrate on improving sugar quality in the late 1950s. In the 1955 season the Sugar Board implemented for the first time penalties for sugar with an excess dilution indicator and subsequently for sugar with more than 99^0 polarity. Some mills cooperated fully, but others complained that they were "unjustly saddled" with more than their fair share of the high quality market and its attendant costs.[46] CSR refused customers' requests to exclude certain marks from shipments and decided not to manufacture special sugar for Canada, but to exercise discretion in the selection of brands for particular destinations and greater supervision to meet specifications. The Japanese market had slightly different, but very specific requirements, and greater precision was needed in meeting them.

The Sugar Board took a number of steps to induce millers to produce sugar of acceptable quality, while the Queensland Government and other participants in the industry, especially CSR, tried to improve the industry's technical capacity to solve the problems of sugar quality. The Minister for Agriculture and Stock set up a Committee of officers of the Bureau of Sugar Experiment Stations, the Central Sugar Cane Prices Board and CSR to inquire into the technical aspects of cane analysis. The CSR Central Laboratory and technologists from CSR and other mills worked on the problem of filtrability which had been a concern in the United Kingdom and Canada, but became worse in association with the lower polarization demanded by the Japanese. The Sugar Board arranged to produce a special quality of sugar, known as JA, with a polarisation as close as possible to 97.80^0 and a dilution indicator of 40 or less. After trials in 1956 at Bingera, Fairymead and Isis mills, other producers were asked to volunteer to produce JA sugar and were offered a monetary incentive of 3/- per ton and an allowance of 0.009 tons of 94 n.t. per ton of JA produced.[47] The Sugar Board impressed on mills the need for uniform bag weights as Japanese refiners accepted a quantity of sugar based on the average bag weight multiplied by the number of bags.[48] Some mills found this too onerous at the rate of throughput necessary to maintain the harvest schedule, especially when giving extra attention to adequate drying and cooling after fugalling,[49] and the maintenance of humidity at between 50 and 70 per cent to avoid bags of excessive hardness - referred to by Canadian refiners as "Queensland tombstones".[50] Mills found the production of sugar for Japan "very exacting",[51] and despite the special JA brand, the Queensland government and the Sugar Board had to give the lead towards a totally new attitude to sugar quality before a satisfactory product was achieved.

CSR reported numerous complaints from the Japanese comparing Australian sugar unfavourably with that from Taiwan and Cuba. Daiichi Bussan Kaisha and Mitsubishi Shoji Kaisha reported difficulty in selling Australian sugar whose quality added to refinery costs so that customers would pay a maximum of \$3-\$3.50 per ton less than for the Cuban or San Domingo product.[52] One unnamed customer put the matter succinctly - "once our refineries deem the supplies not reliable, then no further business follow" (sic).[53] By 1959 the filtrability of sugar sold to Japan had declined to such an extent that the Japanese agreed to buy from the 1960 crop only on the strength of promises by CSR that very considerable efforts would be made to improve the situation.[54]

Acutely conscious of the impending loss of the Japanese market, the Sugar Board in 1960 offered financial incentives for good filtrability to producers of JA sugar despite protests from sugar organisations that there was insufficient technical knowledge for the problem to be solved.[55] Three mills - Mossman, Hambledon and Mulgrave - undertook particular studies of the filtrability problem and were eventually successful in achieving "one of the most important technical developments in the marketing of raw sugar for some time". Other mills followed suit, with the four Burdekin mills, for example, deciding to fund a central laboratory servicing the mills supplying the Townsville terminal so as to provide immediate feedback on sugar characteristics. CSR acknowledged that Australia's ability in 1961 to sell successfully to the Japanese in open competition was entirely due to these three mills, although the Japanese gave credit to Mr. Jackson and Mr. Wheen of CSR.[56] In 1961 bonuses for the achievement of quality targets were extended to all sugar producers with corresponding penalties applying from 1962.

The filtrability of sugar improved substantially, with JA brand improving from only 12.2^0 in 1959, the year of most complaints, to 35.9^0 in 1960. The attitude of the Japanese changed completely. They came to regard Australian sugar as of very high quality indeed,[45] and Mr. Fujiyama, President of the Japan Sugar Refiners' Association, indicated that the improvement in quality was the main reason for the expansion of trade.[57] The cooperative effort of the Sugar Board, mills and CSR had led to the development of knowledge and technology to a point where high quality sugar should be produced almost all the time provided sufficient management attention and resources were devoted to it.[58] When the ISA quotas were suspended in 1962 and competition was very fierce, Australia's established reputation for quality was a major factor in increasing or even maintaining exports, especially as a large proportion of any export growth would inevitably come from Japan.

The expansion of the industry from 1962, largely to supply the Japanese market, quality improvements by other exporters, and the fierce competition in the buyers' market after 1962 brought to an abrupt end the complacency engendered by several seasons of steady progress towards consistent and satisfactory quality. Poor weather conditions, the need for sugar for Japan to be produced even by mills unwilling to meet the stringent specifications, and the emergence of new problems all contributed to a decline in quality. The Japanese claimed compensation for poor quality sugar from the 1964 season and one of the Japanese refiners refused to take any more sugar from that season's crop.[59]

In February 1965, as in 1959, CSR negotiators were able to finalise contracts with Japan only after undertakings to major refiners on the steps to be taken to improve quality. The largest single buyer of Australian raws - Taito - bought only on the strength of these assurances and past favourable reputation. Taito was one of the leaders of the sugar industry in Japan and Australia's position as its major supplier had materially assisted in making sales to smaller refineries. The loss of its custom would have serious marketing implications. Strong complaints were also received from Nissin, whose sugar was the market standard in

Japan and who also was a shareholder in the Malayan Sugar Manufacturing Company's new refinery in Prai, Malaysia, to which Australia hoped to be a supplier. Nissin was so dissatisfied it refused to process some of the 1964 sugar and both Taito and Nissin raised the question of being able to select the mills from which their supplies came. The industry realised that unless effective action were taken, it would lose not only the Japanese market, but the opportunity to establish production and sales figures that would be the essential basis for Australian quotas in any eventual International Sugar Agreement.[60]

The Queensland Government and the Sugar Board took the initiative in developing an entirely new attitude to sugar quality. The Sugar Board decided to concern itself formally with the broad issues of quality, rather than simply with a number of specific problems such as filtrability, dilution indicator and polarization as they arose.[61] In 1965 it began to frame a comprehensive set of target standards for recommendation to the Minister for Primary Industry, based on information about those operating overseas and buyers' indicated specifications. The Minister, in making his annual Proclamation under the Sugar Acquisition Act announced added powers for the Sugar Board to control quality, including power to reject sugar not conforming with specific standards. The Sugar Board applied financial incentives based on target standards for major characteristics of sugar, and, from 1966 tightened the procedures for sampling and testing of sugar. Mills were required to provide to the terminals daily certificates of analysis; at the terminal, quality inspectors were to sample deliveries and provide feedback to the mill, while terminals were required to segregate any sugar not meeting standards.

Although the statutory responsibility of the Sugar Board was directly with the mills, achievement of quality sugar required the cooperation of all sections of the industry. Growers addressed aspects of harvest management which affected sugar quality, especially its grain size. CSR researchers investigated the problem of excess starch, and their success placed Australia well ahead of its competitors in dealing with an issue to which refiners gave increasing attention. The mills assisted with the time-consuming process of collecting detailed data for research and made the necessary investment in technology to implement the new procedures. CSR and the Sugar Board provided the leadership which encouraged other sectors of the industry to commit themselves to the achievement of technical superiority over alternative producers, which was an important factor in the maintenance of market share in Japan.

The most serious quality problem in the 1960s was the darkening of sugar held in bulk storage and Japanese buyers made it clear the entire market would be jeopardised if the problem could not be solved immediately.[62] Darkening was first evident in 1964 and was attributed to the increased use of high-speed fugals which raised the temperature of the sugar, increasing quantities of JA brand in store to meet increased sales and the fact that bulk sugar retains its heat more than bagged sugar would do.[63] Initially the problem related to sugar stored at the Cairns terminal, and after a complaint from Japan no further exports were made of the Cairns sugar. The Acting Secretary of the ASPA described the sugar as darker than any he had ever seen and having a smell which indicated some form of deterioration.[64] He was "shocked" at its condition. The problem became acute with the progressive darkening of the 1965-season sugar, some of which was rejected on arrival,and the loss of an appreciable section of the Japanese market was a real possibility.[65]

The problem was dealt with on two levels - CSR worked with

Japanese refiners and the Sugar Board coordinated studies in Australian mills. Mr. Jackson of CSR inspected the sugar in storage in Tokyo and had discussions with refiners. CSR sent the Inspecting Chemist for Refineries and another technical officer to Japan to assist refiners to deal with the problem. Despite the seriousness of the difficulty, there was considerable goodwill by the Japanese towards the Australian industry and Taito, for example, expressed its appreciation for CSR's efforts, acknowledged that the problem was two-sided, and cooperated by providing samples from all stages in the refinery process for research.[66]

A concentrated effort was made to discover some way of arresting the colour formation by reference to overseas research and by testing different hypotheses in a number of mills. Findings confirmed that the temperature of the sugar on delivery from the mill was critical. Mills were asked by the Sugar Board for their own assessments of how this might be improved, some mills experimented with their own ideas, and CSR's Harwood mill used the cool ambient night air in June 1966 to produce a trial quantity of sugar which was monitored for several months.[67]

The initiative which eventually provided the solution to the problem of darkening sugar was taken by the Sugar Board, in consultation with the sugar Associations and CSR, and involved upgrading and airconditioning of drier stations in the mills. This was a difficult decision as there was no previous large-scale practical experience to verify the theoretical conclusions that airconditioning would solve the problem and it was feared that the cooled sugar might present some physical handling difficulties. In addition, it would involve substantial capital outlays at a time of exceptional financial difficulties. Nevertheless, because the Japanese market would otherwise be lost, the Sugar Board proceeded. The Harbour Boards purchased the airconditioning units and leased them to the Sugar Board which arranged with the 11 nominated mills for their installation. The mills paid the costs of bringing the dryer stations to maximum operating efficiency and pool funds were used to repay the Harbour Boards. By October 1966 the average temperature of JA sugar had been reduced very significantly. CSR was able to report "spectacular reduction in colour development" in stored JA Brand sugar from the 1966 season and messages of appreciation from the Japanese for their efforts.[68]

Further problems emerged in 1968 with complaints from Coca Cola in the USA and then in Japan and Australia regarding beverage floc (sediment) in Fanta.[69] Again, marketing implications were serious as bottlers were instructed to obtain sugar elsewhere. Soft drink manufacturers comprised about 20 per cent of the refined sugar consumers in Japan, with Coca Cola accounting for about one-quarter of this market. Intensive investigation by Sugar Research Ltd., Bureau of Sugar Experiment Stations and CSR revealed no practicable process for eliminating or reducing floc levels. As an immediate measure, it was decided not to ship high-floccing sugar to sensitive markets. In addition, investigations in Japan by a senior chemist from CSR showed that the problem was partly due to a component of the Fanta essence. Although Japanese refiners and Coca Cola were well satisfied with the action the sugar industry had taken, they continued to monitor the situation and research continued into a permanent solution to the problem.

In the intensely competitive marketplace of the 1960s and 70s, international sugar standards were continually rising as quality became an integral part of the marketing scene.[70] This was reflected in the growth of quality standards in contracts such as those with the USA and in careful assessment of quality by buyers such as the Japanese. CSR advised the industry that there was no such thing as a seller's market; in the fiercely competitive conditions quality was by far the most important factor determining market success.[71] Australia's willingness to meet or exceed international standards made her a respected long-term supplier to the Japanese, and indeed, the world market.

The key to the industry's success in meeting the challenge of sugar quality was the partnership between its sectors, and the efforts of the whole industry to alter methods of operation, work together and provide assistance to customers. CSR supplied technical advice and research and built on the goodwill generated by its assistance to the Japanese in establishing bulk handling to achieve some tolerance towards quality problems and a willingness to allow time for them to be solved. Individual growers and millers and their Associations undertook their own initiatives towards solving problems and worked to ensure the implementation of policies and new methods. The Sugar Board, as the Queensland government's manager, provided the leadership, coordination, and, when necessary, the ability to enforce regulations which were essential to a change of attitude towards sugar quality. The government itself was supportive, but took little direct role; it was more concerned with major policy issues such as those which arose in the long-term contract disputes with Japan.

THE LONG-TERM CONTRACT DISPUTE

Problems in the implementation of the 1974 long-term contract emerged very quickly and provoked a bitter dispute which imposed exceptional strains on the economic and political relationships. In the crisis situation, the division of roles within the partnership of State and Federal Governments and the industry was clearly evident. The Queensland Government, and through it the Sugar Board, defined policy and strategy for implementation by CSR. The Commonwealth supported them by exercising high-level influence, while industry groups and Associations acted as a sounding board in the development of proposals and a means of ensuring a unified approach.

The immediate cause of the problems was an increase in stocks held by Japanese refiners as consumption fell and the industry cut back. The Japanese exercised an option to defer up to 150,000 tons from 1975 to 1976 and subsequently requested that a further 160,000 tons be deferred and spread over the life of the contract.[72] This request was refused by the Queensland Government and the Sugar Board. Japanese sugar refiners and members of the Japanese Ministry of Agriculture and Forestry visiting Australia during September 1975 discussed the issue with Queensland Agriculture Minister Sullivan, the Sugar Board, CSR, the sugar Associations, and the Federal government. Further discussions took place in Japan in November/December 1975 and in Sydney, Brisbane and Canberra in January 1976 and in Tokyo in February 1976. The Sugar Board and CSR were sympathetic to the problems of the Japanese refining industry, but took the view that the contract had to be honoured. To the "surprise and shock" of the Australian industry the Japanese then sought from CSR a review of the contract, especially its price provisions.[73]

As owners of the sugar the Queensland Government was the principal in the contract and both the Minister for Primary Industry (Mr. Sullivan) and to a lesser extent the Premier (Mr. Bjelke-Petersen) were actively involved in the progress of the dispute. The Premier saw the Queensland Government's responsibility as preserving the interests of the growers and millers who had accepted the long-term contract as security for heavy capital investment.[74] The contract's initial purpose had been to give exporters secure outlets and prices and importers secure supplies at predictable costs.[75] The contract price had not been Australia's preferred minimum price with provision for indexation, but rather a flat figure reflecting the parties' judgement about the likely trends over the relevant period in what was historically a very volatile market.[76] The contract obviously offered no security if its basic premises were renegotiated so close to the outset because world prices had fallen.

The partnership between the Queensland government and the growers and millers was evident in the handling of the dispute. In January 1977 Minister Sullivan led a delegation to Japan to investigate on the spot and exchange views on the continuing course of the contract. The delegation, including Mr. Harris, Chairman of the Sugar Board, and representatives of the Queensland Government, CSR and the sugar Associations, had talks with Japanese Ministers, the Japan Sugar Refiners' Association, trade houses, refiners, the All Japan Wholesalers' Association, unions and financial institutions. Mr. Sullivan made it clear the Australian industry itself had a cashflow problem. It had made a controlled expansion to meet its obligations to Japan and this had to be paid for. In addition, the industry was still repaying the amount it had to borrow from the Commonwealth because of the downturn in prices after the expansion for the Japanese market in 1963.[77]

Structural problems in the Japanese sugar refining industry were at the basis of the dispute. The industry had excess capacity, some refineries were small and old-fashioned, the domestic beet industry was protected, while imports attracted a duty which added to the price consumers paid for sugar.[78] The high domestic price and the tax system favoured sugar substitutes such as fructose glucose syrups and contributed to the falling consumption of sugar. The long-term contract aggravated the problem since Mitsui and Mitsubishi, who had signed the contract and taken the largest proportion of the sugar, were at a disadvantage relative to the Nissho-Iwai group, C. Itoh and the Ensuiko Refinery who took much smaller shares.[79]

The Queensland Government's approach was that the basic problems of the Japanese industry should be addressed prior to any significant review of the contract so that Japan's obligations could continue to be honoured, though with some adjustments. Details of the sugar industry's negotiating position were worked out between CSR, the Sugar Board and industry Associations during 1975-1977 and contributed to the unified approach to the problem and the support of the industry for the Sugar Board's policy. When no agreement could be reached with the Japanese on the proposals, Mr. J. Laurie, CSR's chief negotiator, walked out of the talks, attributing at least part of the delay to the indifference of the Japanese Government.[80] On 30 June 1977 Japan refused to accept further shipments, declaring the contract terminated.

The original commercial Agreement had been reinforced by an exchange of Letters between the Commonwealth and Japanese Governments to provide strong enough backing on the part of Japan to minimise any risk of the agreement's falling through if the market turned sharply in the buyers' favour.[81] In addition, the Commonwealth Government was very concerned that breakdown of the Agreement would have important ramifications, not just for the sugar industry, but for long-term bilateral contracts in general.[82] Both the ALP and later the Liberal/National Federal Governments supported the aims of the Long Term Contract and worked to ensure its continued performance. Deputy Prime Minister Anthony and representatives of the Departments of Overseas Trade, Foreign Affairs, Primary Industry, Treasury and the Prime Minister and Cabinet had discussions with senior officials of the Ministry of Agriculture and Fisheries in July 1977.[83] The dispute was the subject of correspondence between Prime Minister Fraser and the Japanese Prime Minister and discussions between them in Malaysia in August 1977.[84] Some commentators have suggested that Australia's uncompromising stand over sugar and beef were at least partly driven by the Prime Minister's firm belief that allowing the Japanese to break a contract so easily would weaken Australia's trade position at a time when she was trying to exert an influence in world trade negotiations.[85] In the context of a Federal election to be held in December 1977, Mr. Fraser was also concerned with maintaining the 17 out of a possible 18 electorates the Coalition held in Queensland. Public statements by the Prime Minister and the text of a letter to Japanese Prime Minister Fukuda indicated that the disputes over beef and sugar risked the whole Australia-Japan relationship.

The Queensland government was inflexible in its view that the contract must be fulfilled to the letter, or with only minor modifications at the discretion of the exporter, and adopted a confrontationist attitude typical of the style of Premier Bjelke-Petersen. Japanese proposals were dismissed as not even approaching what might be needed as the basis for an amicable settlement,[86] and the Queensland Government instigated legal action to enforce the terms related to contracted future shipments. The Premier said the Government, departmental officers and industry Associations, the Sugar Board and CSR all agreed they could wait no longer to initiate legal proceedings as provided in the contract, though they still hoped for a negotiated settlement.[87] An English barrister was retained, preliminary notices sent to Japanese buyers as required under the Sugar Association of London Arbitration Rules and a statement of claims lodged.

A number of different factors eventually led to the ending of the dispute. The conflict had brought to the fore the fundamental problems of the Japanese refining industry in much the same way as the international "crisis" of the beef embargo had highlighted the intransigent problems of the Japanese beef distribution system and put pressure on the government to assist in domestic restructuring as part of the process of resolving the international issues. Mr.

Fujiyama, President of Dai Nippon Sugar Manufacturing Co. and chief Japanese negotiator, believed that a compromise could be reached with government help.[88] Further pressure on Japan came from the embarrassment of 12 cargoes of sugar, totalling 200,000 tonnes, in ships in Japanese ports, publicised abroad as evidence of Japan's bad faith. Commercial interests on both sides were anxious for a settlement. Discussions between Mr. Fujiyama and Mr. Laurie of CSR arranged a price for the sugar aboard the ships which was approximately 12.5 per cent less than the contracted price but considerably more than the market price then prevailing.[89] The Queensland Government agreed to delay the scheduled departure of the first of the 1977 season's contracted sugar as a gesture of goodwill and cooperation.

The total settlement package appeared to contain benefits to both parties. The price for the sugar still to be delivered was only 7 per cent lower than the previous effective price compared with Japanese demands that it be cut to world-price levels (i.e. a drop of about 50 per cent).[90] The remaining 1.8m tonnes would be shipped over 4 years instead of 3, and a new contract at lower tonnage rates was signed to run parallel with the original agreement with prices moving within a range and denominated in a mix of $A, $US and yen. The Japanese government acted to stabilise domestic sugar prices and to rationalise the refining industry. Part of the settlement was a loan of $15m. for the Sugar Board for storage facilities, organised by the Bank of Tokyo in yen, but protected against currency fluctuations by the yen payments from sugar sales. The loan had the full approval of the Loan Council under new arrangements and marked the first time since 1920 that the State had organised a loan for itself. According to Treasurer Knox, the State government saw the loan as security that the Japanese would not renege on the sugar contract lest Queensland discontinue loan repayments.[91]

The Queensland government and industry leaders felt their stand on the obligations imposed by a contract had been vindicated and that they had won a moral and practical victory. The dispute had generated great hostility towards Japanese industry on the part of the Queensland government, and the sugar millers and growers who had jointly agreed to the contract and who felt they had taken great pains to see that both buyers and sellers benefited from its provisions. There was a degree of self-congratulation that they had outsmarted the Japanese, and no real understanding of the long-term implications of the dispute. The industry expected that good relations would be restored and further contracts would be signed. But sales to Japan, and to other customers such as Korea, Singapore, Malaysia and New Zealand, reverted to the type of annual purchase that had been the norm in the early 1960s.

The unsuccessful attempt to find an institutional framework providing longterm stability in volumes and prices called into question the potential and the limitations of such contracts with Japan for agricultural products. It focussed attention on the degree of fixity that contracts could or should provide, the effect of Japanese demand patterns and economic structures, and the role of governments in long-term contracting. The Industry Review Project initiated by the sugar Associations and an Industries Assistance Inquiry in the mid-1980s indicated that the dispute acted as a catalyst for a wide-ranging debate about industry structures and marketing strategies and a renewed search for stability through the targets embodied in the International Sugar Agreement.

CONCLUSION

The development of the sugar trade with Japan was part of the process of realignment of Australia's foreign trade away from the United Kingdom and the Commonwealth towards Asia and the Pacific. It was also part of the process in which Queensland came to realize that a robust and viable trade could be built with Japan based on products in which Queensland had a particular interest and which complemented the pattern of Japanese economic growth. Sugar's position as a uniquely Queensland industry, the Queensland government's ownership of the crop and its responsibilities under the Commonwealth Sugar Agreement gave the regional State a role in the development of the trade markedly different to its role with respect to any other commodity.

Sugar was the principal agricultural crop of northern Queensland and had been a significant export earner since the 1920s. The commitment of successive Queensland Governments, both Labor and Liberal/National, to decentralised development based largely on agriculture reinforced the sugar industry's position as part of the "grand vision" for Queensland progress through the development of its as-yet scarcely tapped potential. At the same time its importance for northern development and its ability to generate export income ensured Commonwealth support for its continued growth. The aims and priorities of Governments promoted a unity of interest between state and industry which underpinned the formal relationship provided for by State and Federal legislation.

Changes in the international political and economic environment and Japanese economic growth provided both the opportunity and the motive for considering exports to Japan an important part of sugar industry development, and helped to determine the pace and pattern of its growth. Australia's political stability and her ability to deliver large quantities of suitable sugar at internationally competitive prices made her an attractive supplier to Japanese refiners. The actual volume of trade was determined by the economic situation in Japan, the level of Australian production and the windows of opportunity provided by the suspension of ISA quotas in periods of excess world demand.

The policy responses to the opportunities offered and the management of the relationship which developed illustrated the partnerships within the sugar industry. The partnership between the Queensland and Federal governments was expressed in the Commonwealth Sugar Agreement, in the joint participation with industry Associations in the negotiations for international agreements directly affecting the industry, and in the joint management of major international issues such as the dispute over the 1974 long-term contract.

The entrepreneurial functions of business were shared among the sectors of the industry. The coordinating role was exercised by the Sugar Board as the delegated authority of the Queensland Government. It developed policy positions on major issues and obtained industry consensus and commitment to the strategies adopted. It organised and implemented major projects such as the introduction of bulk handling, the development of special JA brand sugar, and the bonus/penalty system for the maintenance of quality standards. It was able to give and guarantee undertakings to the Japanese about quality and to speak authoritatively on policy issues which arose in negotiations. Commercial initiatives were taken by the Sugar Board's agents, CSR Ltd. and their broker, Czarnikow Ltd. In the early years, CSR's success in persuading and assisting the Japanese to adopt bulk handling was a crucial step in the ability of the trade to handle large volumes and to respond to the opportunities for sales to Japan. In addition, the goodwill and trust built up between CSR and the Japanese refiners helped to achieve an understanding approach to problems which might otherwise have outweighed Australia's advantages as a supplier. Both the industry collectively and the growers and millers individually were willing to take risks and innovate, to look ahead rather than cling to past achievements, and to make substantial outlays in anticipation of market prospects.

The interrelationships and processes evident in the development of the sugar trade with Japan show many similarities to both Lindblom's "duality of leadership" and to corporatism. The sugar industry seemed to have a privileged position stemming from its dominant role in the economy of northern Queensland and its major contribution to the State's agricultural production and exports. It was actively supported by the State and Federal governments in their efforts to negotiate agreements governing access to international markets and by the special legislation governing its domestic operations. The mechanisms for frequent consultation between sectors of the industry and the institutions of the State, and the sharing of authority through agencies such as the Sugar Board were consistent with Lindblom's model. Consultations involved more than the mere expression of opinion or statement of requirements; rather, they were negotiations between economically defined groups in government and business resulting in the development of policy in the corporatist style. But neither of these models takes account of the singular features of the State's role in the sugar industry. It was the owner of the crop and the regulator of the industry. Ultimately, decisions about expansion for the Japanese market, negotiating or marketing strategies, or the settlement of disputes rested with the Queensland government. The role of the State was one of a senior partner, with its own interests to consider and the authority to carry out its decisions.

The respective roles of business and the State in the growth of agricultural exports such as beef and sugar to Japan depended on long-established understandings and arrangements. The trade in mining products, including coal and bauxite, required the development of new relationships involving business and State and Federal governments.

CHAPTER FIVE

DEVELOPMENTAL NATIONALISTS

THE BAUXITE INDUSTRY AND JAPAN

INTRODUCTION

The trade in rural products had provided the foundation of the relationship between Queensland and Japan, but it was the trade in minerals and energy which altered the pattern of Queensland's economic growth, affected her relations within the federal system profoundly and led to a reappraisal by politicians and political economists of the role regional state authorities could play in economic affairs.

The first of the major new mining developments which would be tied to export to Japan followed the discovery in 1955 of bauxite at Weipa. Plans for its development had been placed before the Labor Government early in 1956, but little progress had been made before the ALP was defeated in 1957. Tsokhas argues that projects such as Weipa went ahead because entrepreneurial mining executives - "developmental nationalists" - were determined that Australian-controlled companies would contribute to the diversification of the national economy by the location and development of new minerals and metals, new technologies and new markets.[1] This chapter suggests that the term could be extended to include the Queensland government whose interest in secondary industries and in State development led it to take considerable risks in its innovative and flexible approach in supporting the Weipa venture and in ensuring an integrated bauxite/alumina/aluminium industry was situated in Queensland.

Weipa was important in the development of the Queensland-Japan relationship. Its bauxite provided one of the early "new" exports of the postwar period, but more importantly, along with Mt. Isa Mines, the development of alumina and aluminium industries showed that Queensland did not have to be merely a quarry, extracting and exporting raw materials. Queensland resources could be the basis for processing industries supplying higher-value-added products with sufficient comparative advantage to allow them to respond to international market opportunities, especially in Japan. To do so required good timing, and a commitment by both company and government to innovation and flexibility.

THE DISCOVERY OF BAUXITE

The search for bauxite was encouraged by the Federal Government because of its concern for defence reasons to achieve self-sufficiency in important resources such as bauxite, oil and iron ore. The strategic importance of aluminium, the rapid increase in demand and the difficulties of obtaining imports during World War II led to measures initiated by the Commonwealth government to process imported bauxite and to encourage the search for domestic supplies.

The first step was the formation by the Commonwealth and Tasmanian Governments in 1945 of the Australian Aluminium Production Commission (AAPC) and the construction of a smelter at Bell Bay using cheap hydro-electric power to process imported bauxite from Malaya, India and Indonesia.[2] The Commission also undertook with the Bureau of Mineral Resources, Geology and Geophysics a reconnaissance survey of known bauxite areas of Australia. A deposit was located at Gove in the Northern Territory in 1952, and the Bureau concluded that "on geological and climatical grounds" further deposits were likely in north Queensland as well.[3]

Encouraged by the Commonwealth, the Queensland government decided to make a statewide search, and to exempt any area to be tested from occupation by holders of Miners' Rights. Only the South Queensland region was actually completed, and some deposits were found. In 1947 officers of the AAPC investigated a deposit at Kingaroy but found it not economically viable, although early optimism had led to discussions with the Co-Ordinator General about the supply to a possible smelter of coal and electricity.[4] Both were limited, though there were suggestions of providing power from hydro-electric works on the Barron River or the Tully Falls.[5] The State Mining Engineer urged the AAPC to organise a search in north Queensland as soon as possible since he considered it a more likely area for bauxite. The Queensland Government was very interested in the prospects of mining and processing and the Minister for Labour and Industry (V.C. Gair) promised Reynolds Metals, a major American producer, "every encouragement" of their interest in the State's bauxite deposits. At the same time he outlined his vision for processing based on electricity produced in coal-fired power stations which would thus provide a market for the State's under-utilized coal resources.[6]

The discovery of the vast bauxite deposit at Weipa was to some extent a matter of luck and a by-product of the search for oil, but it would not have occurred without the expertise and foresight of Maurice Mawby, Chairman of Consolidated Zinc P/L who had been one of the mining experts whose report led to the establishment of the AAPC.[7] He played a key role in committing his company and its subsidiaries to searching out new metals and minerals such as tungsten, oil and uranium, and instructed that all Field Geologists be told that "apart from the search for base metals" they should "keep an eye open for non-metallic minerals, particularly phosphate rock and bauxite". He suspected that there might be bauxite in the Gulf region because of the monsoonal variations in the water table and geologists searching there for oil were especially vigilant for deposits that could be "cheaply worked and reasonably convenient to the coast for shipment."[8]

The red cliffs of Weipa had been described by Matthew Flinders in 1802 and "brown pisolitic ironstone" reported by the Assistant Government Geologist, C.F.V.Jackson in 1902, though his report was not followed up.[9] In 1947 Dr.F.W. Whitehouse collected good grade bauxite samples to the south of Weipa. Geological survey was considered, but abandoned when further samples sought from the Mission Stations happened to be low grade, and the AAPC concluded that "the expense of a geological investigation of this area would not be justified".[10] In 1955, Harry Evans, one of a team from a Consolidated Zinc subsidiary searching for oil in the Gulf, recognised the potential of the miles of bauxite cliffs and at his suggestion an Authority to Prospect was sought for bauxite in August 1955 and granted in February 1956.[11] The deposit was found to be more than 1 million tonnes averaging over 50 per cent alumina, with overburden of 1 metre and bauxite between 1 and 9 metres thick. The ore was loose and able to be mined with front-end loaders or hydraulic shovels, making it one of the largest, high-grade and lowest-cost bauxite deposits in the world. Sir H. Raggatt, Director of the Bureau of Mineral Resources, regarded it as "in many ways the most momentous discovery in its ultimate implications for the attitude to prospecting in Queensland.[12]

Exploiting the discovery raised four key problems:- establishing a mine in a remote and undeveloped location, financing the development, breaking into the oligopolistic world market, and deciding the location and extent of processing. There were a number of obvious difficulties. Weipa is on Cape York, about 12^{0} south of the equator and 580 km northwest of Cairns. The area is monsoonal, with an average rainfall of 1650mm. Overland access was by dirt road useable only in the dry; year-round transport had to be by sea or air. In addition, Australia was remote from world markets, the cost of labour substantially higher than in other bauxite-producing areas and major aluminium companies were already interested if not committed elsewhere.[13] But Mawby was enthusiastic and a new Queensland-registered company - Commonwealth Aluminium Corporation (Comalco) - was formed by Consolidated Zinc and British Aluminium to develop the mine. The Company's Chief Executive was D.J.Hibberd, then First Assistant Secretary, Banking, Trade and Industry in the Commonwealth Treasury and a member of the AAPC. The combination of Mawby and Hibberd was to be vital to the development of Weipa and the decision to seek markets in Japan.

ESTABLISHING THE MINE

The development of the Weipa mine necessitated comprehensive government involvement on a scale not previously, or even at the time, envisaged in Queensland. Weipa's remoteness and lack of infrastructure, and its size and special needs meant it could not be accommodated within existing legislative arrangements. The Country-Liberal Party government in Queensland brought enabling legislation before the Parliament within a few months of the defeat of the ALP in 1957. There was not even sufficient time for all the terms of the Agreement worked out between the company and officers of the Mines and other Departments to be dealt with at a more senior level before presentation to Cabinet.[14] The speed with which the Comalco Agreement Bill was prepared indicated the importance the new government placed on the development and its preparedness to share with the company the risks of a rapid start to production before markets had been assured. For the company the risks were financial, for the government political, as the Weipa project was closely associated with key components of its policies for northern development and the growth of secondary industries. The failure of one of the biggest ventures undertaken in Australia at that time would have been a major setback to the first non-Labor State government in Queensland for 25 years.

The negotiations involved in designing the legislation and a division of responsibilities between governments and the company were complex, with no established precedent to serve as a guide. A huge surface area was needed, which was new in Australian mining history. The original discovery was of two ore bodies, each of 100 square miles, and they required extensive drilling, sampling and analysing as a preliminary to mining since the processes involved in bauxite treatment depend on the silica content and on whether the bauxite is monohydrate or trihydrate. For this reason, and because of the capital outlay on the proposed town, plant and port, a lease over an extensive area with more than the usual security of tenure was essential.

The proposal broke new ground for relations between the Queensland Government and private enterprise since the State's experience was with small mines and firms, rural industries, and projects such as Mt. Isa which expanded gradually over a period of time. There were no mechanisms in place to deal with a project which would of necessity be large from the outset, to assess and coordinate the demands it created in such areas as infrastructure provision and environmental protection. It is doubtful that there was any appreciation of the extent to which the project would impact on the state: for example, in the Co-Ordinator-General's Report on the Development of East North Queensland,[15] the Agreement with Comalco is dismissed as calling for little assistance on the part of the Government.

The project had already been delayed by the preoccupation of the Labor Government with other concerns, although it had ascertained that the AAPC was willing to free Queensland from the undertaking given many years earlier not to grant bauxite leases to private companies unless the deposit was not required by the Commission.[16] The application for a franchise had been made in early 1956 when the ALP was embroiled in arguments between the Australian Workers' Union, the Trades and Labour Council, the Queensland Central Executive of the ALP and the Parliamentary Labor Party. There was a series of issues - 3 weeks' leave, the shearers' strike, a scandal concerning maladministration in the Lands Department involving its Minister, T.A. Foley, and contentious pieces of legislation such as the Motor Spirits Distribution Bill. In the background was the problem of industrial groups and the split in the Party at Federal level, in Victoria and ultimately in Queensland itself. The Labor Treasurer, E.(Ted) Walsh, thought the Weipa proposal had "nothing in it for Queensland", while others were fearful of its size and the idea of "giving away all these assets" to one company.[17] Little progress towards the Franchise was made before the Gair Government fell in June 1957. Its conservatism, its preoccupation with internal strife and the complexity of the proposal held it back. The Nicklin Government was anxious to give the impression of new verve and energy, especially in the development of the north and the promotion of industrial growth. The Franchise over the Weipa bauxite deposit was seen as the first step towards an integrated bauxite, alumina, aluminium industry and was ready for debate in Parliament within three months of the Government's election.

The new government continued the traditional commitment to development and the frontier mentality that the project would transform the "cinderella state" and be the basis for secondary industry through linkages and externalities leading to the growth of other sectors of the economy. It was also seen as the impetus for other important mining enterprises which would result in "wealth ... that will not be measured in pounds, shillings and pence ... but in increased growth and development and the prosperity of the working man".[18] The rhetoric was reminiscent of earlier Premiers such as Theodore, Forgan Smith or Hanlon as they announced large projects on which hopes for future development were pinned. Everyone supposedly would benefit from the mine's development and the main interest of the State was to ensure that production began as quickly as possible so that plans could go ahead for processing.

Fitzgerald[19] argues that the interests of developers took precedence over those of all other groups. Virtually the whole of the local Aboriginal reserve was alienated for mining and it was with great reluctance that Department of Native Affairs and Comalco allowed the community to remain in the area, after a claim for royalties was withdrawn. The Government and Minister Evans assumed the local people would automatically benefit from better housing, transport and communications and from additional employment opportunities, without taking any specific steps to ensure that potential benefits were realised. Neither were there any provisions to minimise environmental damage on land or in the surrounding waters and, as Fitzgerald points out, concerns were expressed subsequently at the mine's effect on the fishing grounds and at the choice of inappropriate plants for revegetation of mined areas. At the time there were no effective and organised groups to speak on behalf of the aboriginal people or conservation of the environment and to provide a counterbalance to government and company interests in rapid development. The ALP leadership raised concerns about living conditions and conservation and said it was "morally wrong" to just accept the company's word about the welfare of the aboriginal people.[20] But the Opposition was in no state to be effective even if it had not believed that "as such great national resources have lain untapped for so many years it is only right that every opportunity should be taken to support a Bill that will mean their exploitation."[21]

The Government, however, was not so completely carried away by enthusiasm for the mine that it forgot its principal aim - the promotion of industrial development through the building of an alumina plant and ultimately a smelter. Its determination to secure these was heightened by mistrust of the Federal Government. The Queensland Government was firmly opposed to the Commonwealth's support for international attempts to arrive at a system of production controls and export quotas to stabilise a range of products including aluminium which, it believed, would seriously delay the Weipa mine. In addition, there was a suspicion that the Commonwealth would not support a refinery or smelter in Queensland. Consolidated Zinc had bought the Commonwealth's share in the New Guinea Resources Prospecting Company, established an oil exploration subsidiary, purchased plant in New Guinea, and promoted the idea of a partnership with British Aluminium for joint development of the Weipa and Gove (Northern Territory) deposits using New Guinea hydroelectricity.[22] In the Federal Parliament, the Minister for National Development had agreed that development at Weipa was likely to be affected to some extent by the Commonwealth's sale of its New Guinea interests.[23] Queensland was suspicious that the State would be left with just the mine, with processing located in New Guinea where hydroelectric power could be provided cheaply. The question involved also the Federal attitude to the smelter at Bell Bay which might become a white elephant if a plant were to be built in Queensland. Les Wood (Leader of the Opposition) summed up the suspicions: "we would be superoptimists if we expected the Commonwealth Government to assist in the development of the resources of the State in any way".[24]

Parallel with the negotiations with the State Government, Comalco set about proving the size and scope of its deposit and making detailed preparations for access by sea. The State and Federal Governments assisted in various ways. In

June 1956, after Evans' discovery, investigations began with the preparation of maps to control surveying, drilling and sampling of mineral areas. Aerial surveys and sea mapping also had to be undertaken because maps available were still fundamentally Flinders' work of 1802. Navigational surveys of the sea and the Embley River/Hay River estuary were required to determine accessibility from seaward approaches. The company employed as a consultant the Royal Netherlands Harbour Works Ltd. for the port site, construction and dredging. The hydrographic survey was done with the assistance of the Royal Australian Navy and the Queensland Department of Harbours and Marine, and the government launch "Ferret" was sent to survey the Gulf of Carpentaria for a bauxite port in the Weipa, Pera Head and Port Musgrave areas.

By the end of 1957 the State government had reached an agreement with the company which was fundamental to the direction of Weipa's development and to the way in which the company was later able to take advantage of the Japanese market for bauxite. Because of the new government's high priority to secondary industry as the means of economic growth, its interest lay in the development of the mine and subsequent processing of bauxite to alumina rather than in exports of the raw product. Because of the project's likely impact on State development, the government was willing to take risks and be innovative and flexible in drawing up special legislation to meet the needs of the project and to achieve its own objectives. Later, the Government was criticised for excessive generosity, but Evans felt he had a "tough fight"[25] to ensure the alumina plant and the promise to investigate a smelter in Queensland.

THE AGREEMENT - ATTRACTIVE CONDITIONS

The Commonwealth Aluminium Corporation Pty. Ltd. Agreement Bill set out the major provisions under which Weipa would be developed. As Galligan points out, once an Agreement is promulgated, the Act gives its provisions legal force and any variation, except for some limited discretions reserved to the Minister, requires agreement between the Premier and the companies and subsequent endorsement by parliamentary resolution.[26] This gave the company a prestigious guarantee to the conditions under which it would operate, though at the same time binding the company to its undertakings.

The Agreement[27] was indicative of the State's concern to maximise development through very attractive conditions, low royalties and long lease which, Evans acknowledged, "assisted materially in reaching agreement".[28] The company was granted a lease for an extremely long period - 84 years from 1 January, 1958 - with the right of 21 years' renewal, over an area of 2270 square miles within the Authority to Prospect with the option for 3 years to include an extra 500 square miles. Rent on the area of the treatment plant was to be 10/- per acre, as prescribed in the Mining Acts. But for the mine area, the rental was "in wide divergence to the provisions of the Mining Acts"[29] - only $4 per square mile, rising to $30 after 10 years, rather than the $640 per square mile legally imposable. Minister Evans argued that to charge the full prescribed rent for a large area was extortionate as the rate had been set in relation to traditional mines such as Mt. Isa which were deep rather than wide. Bauxite was a low-priced ore, and to ensure sufficient reserves to warrant amortisation of the large capital outlay required an immense area. To impose the full rates would "kill them before they start".[30] Ensuring the development went ahead was more important than the amounts received in rent and royalties.

Royalties were among the lowest in the world, and could be regarded as a contribution by the State to the company's ability to be competitive in finding markets and as compensation for the high costs of development in a remote region. The importance of this concession to the industry became clear in 1974 when the government attempted to increase the royalties to $1 per tonne from the 10c per tonne to which they had been raised in 1965. Comalco threatened to relocate its smelter and challenged the impost in the Supreme Court as a breach of the Agreement with the Queensland government. The Supreme Court found against the company, but the High Court granted an injunction preventing the collection of the higher royalties. Eventually the Government agreed to a much smaller increase in royalties, and the company agreed to contribute to the running costs of Weipa harbour. The company's bitterness is clearly seen in its 1974 Annual Report:

> notwithstanding the express undertakings included in the Agreement related to the development of the Weipa deposit, the Queensland Government by regulations made under new legislation, has imposed royalties which greatly exceed the royalties imposed on other mining ventures in the State and the rates applicable to bauxite mining elsewhere in Australia[31]

The Company felt its ability to finance operations and expansion was greatly reduced by Government action. While this was undoubtedly true, the Company's high-risk establishment phase was already over, the Government's initial objective of the processing plant had been achieved and its confidence in negotiating with large companies had grown with the increased prosperity from expanding minerals trade. Increased royalties also reflected the growing importance of Treasury compared with Mines in dealing with an industry so central to the State's economy and the aim of its new Head, Leo Hielscher, to maximise revenues as well as downstream processing.[32]

The willingness of the State to offer attractive conditions in the Agreement with Comalco was crucial to ensuring the development of Queensland bauxite and supported the efforts of Mawby and the company to enable the Australian product to compete on world markets. The government was willing in the short term to do what appeared necessary to allow the Weipa project to become established in order to gain the long term benefits from downstream processing as well as from increased royalties once the company was profitable.

FINANCING THE PROJECT

Despite the government's enthusiasm, it was cautious, and the Company had to win the confidence of the politicians and bureaucrats in its ability to obtain finance and make a success of the project. Queensland history provided many examples of mining projects which had foundered for lack of capital to allow for adequate prospecting, research, and market development and whose bankruptcy had contributed to the downfall of public servants, politicians and Governments. The State's only previous postwar attempt to attract and develop a mine on a large scale was Hanlon's ill-fated venture with Blair Athol and the British Electric (Overseas) Supply Co.[33] No one wished to repeat that fiasco. Consequently the government "told them definitely the capital they must have to convince us before we would negotiate".[34] Evans realised that outside capital would be essential, and most likely to come from the United Kingdom or possibly the United States.[35] The backing of a known, substantial company was crucial in the process of coming to agreement with the government.

The nature of the industry, with its large capital requirements, closely guarded technology and tied markets, indicated that Comalco's associate should be a major overseas firm with an established position in the world market.[36] The best known of the international aluminium companies in Australia was British Aluminium, technical adviser to the Bell Bay plant, partner with the Commonwealth in New Guinea Resources Prospecting, and part-owner of Australuco, which had produced semi-fabricated material since 1936, and was Comalco's original partner.

The project almost foundered when British Aluminium refused to move toward rapid development at Weipa because of its interests and financial commitments elsewhere in the world. The combined efforts of the Company leadership and the Commonwealth Government were needed to ensure progress. Mawby, Hibberd and Robinson considered finding another partner such as Kaiser Aluminium and Chemical Corporation of the United States. The company was known through its involvement with the Snowy Mountains Authority and the Australian executives thought it probable that Kaiser would support local equity in the project and the production and international marketing of alumina and possibly aluminium. The partnership with British Aluminium was dissolved after the company was taken over by Tube International and Reynolds Metals who wanted "to put Australian resources on ice"[37] as it doubted whether any markets could be found for Comalco alumina. Reynolds itself did not need supplies from Weipa as its smelters on the American West Coast drew their raw material more cheaply from the Caribbean. In any case Reynolds was moving independently in Australia to search for bauxite near areas already discovered at Gove. The idea of mothballing Weipa was completely unacceptable to Mawby and Hibberd and to the Queensland and Federal Governments.

Mawby was one of a small group including G.R. Fisher, W.S. and L.R. Robinson who were characterised by Tsokhas as "developmental nationalists".[38] Their experiences in World War II convinced them of the commercial potential of metals and minerals such as tungsten and bauxite as well as their importance as new industries for Australia's postwar economic growth and defence. Mawby opposed the conservative policies of companies which clung to traditional products and markets and was committed to diversification through the discovery of new metals and minerals, the development of new markets, technologies and sources of finance, even of whole new industries. He would not allow the opportunity at Weipa to be wasted.

Mawby's determination to develop the Weipa deposit and not to hold it in reserve at the whim of a foreign producer was supported by the Queensland and Commonwealth governments. The Queensland Government was anxious that concrete proposals for Weipa be well advanced before the next election due in mid-1960.[39] The Prime Minister and the Minister for Trade (McEwen) forcefully expressed the Commonwealth's interest in the foreign exchange earnings from exports of alumina and aluminium and their strong disapproval of Reynolds' intentions. Both the Minister for Supply (Howard Beale) and Prime Minister Menzies visited Weipa and issued statements supporting its rapid development. Menzies was a consistent proponent of the importance of Weipa and reportedly agreed with Mawby that it should proceed ahead of the Gove deposits and promised to take up with US President Kennedy the possibility that Australia could be an alternative supplier to African or Central American mines.[40] In 1960 Kaiser and Consolidated Zinc formed an equal partnership incorporating Weipa and Bell Bay, ensuring the project would proceed.

Despite its partnership with Kaiser, Comalco continued to have difficulty financing the size of development required for financial viability and appealed to Queensland Treasurer Hiley for assistance. On the first occasion Hiley was "completely discouraging", refusing to provide funds at such an early stage, though indicating he might help with the last few millions after "massive performance" by the Company.[41] The Company made a second approach in July 1961 and received a more positive, though not particularly generous response. The Treasurer was influenced by the increase in the scale of the development from the original proposal. But, more importantly, bauxite had been discovered elsewhere in Australia and Comalco's brokers advised that international investors were unlikely to fund both the Comalco project and the planned Alcoa plant in Western Australia. Hiley felt that if the Government decided to be "over purists" in insisting on the fulfilment of the technical obligations of the Agreement, Queensland might lose out to Alcoa and Western Australia. He recognised that relaxing the provisions of the Agreement to provide government financial support raised "a most important principle" which Cabinet would have to decide. What was to be the relationship between government and mining developers? Was development more important than the principle that the government provided community services, but private enterprise funded all other expenditures, including infrastructure, occasioned by a business project?

His Under-Treasurer, Alan Sewell, agreed that the State could not afford to "see this developmental opportunity lapse for the sake of the last few million" and that with "Alcoa breathing down Comalco's neck", some flexibility was justified.[42] Hiley, however, did not consider investment in the mine or its infrastructure directly, but suggested using the Government's good offices to encourage commercial interests to build the shopping centre and Building Societies to fund the housing which could be re-sold to Company employees. Under-Treasurer Sewell and Hiley agreed that community infrastructure such as suburban roads and sewerage, normally provided by Local Authorities, could be built by the Company with loan funds obtained with the backing of a Government guarantee of repayment by a future Town Commission, though the Government had a moral responsibility to pay for facilities such as the school and police station which would be provided in any other town of comparable size. Hiley was anxious to avoid any drain on the State's debenture allocation because of the "pressure of electrical need" and was therefore unwilling to constitute a public authority to build the port, though he was willing to guarantee a loan obtained by the Company. The flexibility of the Minister and of Cabinet in 1961 was a clear indication to the company of commitment to the development and helped to prevent delay and consequent erosion of Weipa's competitive position which was to prove very dependent on good timing.

The Queensland government was as determined to secure the bauxite-alumina project for Queensland as Mawby and the Federal government were to ensure it went ahead for the benefit of Australia as a whole. The possibility that the Weipa project would be foregone in favour of Alcoa in Western Australia was a powerful incentive motivating the Queensland government to assist Comalco with infrastructure provision, though without compromising the government's basic position that it did not make a direct financial contribution to commercial ventures. Major funding was organised by Mawby and the company through the partnership with Kaiser which enabled the project to become operational. For Kaiser, the main attraction was a new source of bauxite and alumina in a much more politically stable area than suppliers in Africa and the Caribbean. For Comalco, Kaiser provided a market for alumina and "contributed generously to (the company's) development" by letting Comalco "draw heavily on its people and its experience" until able to stand on its own two feet.[43] Equally important was its marketing know-how and its contacts in the international bauxite and alumina markets.

DEVELOPING EXPORT MARKETS

A major difficulty in developing Weipa was that world supplies of bauxite were plentiful and all major aluminium producers already had firm sources of bauxite and alumina. Australia had a relatively small domestic market for aluminium. At the time it amounted to approximately 25,000 tons p.a., and even after consumption rose in the 1970s, it was insufficient to absorb the output of the rich bauxite deposits. Consequently export markets were vital to the fulfilment of the potential of bauxite and subsequently of alumina and aluminium.

TABLE 5.1

AUSTRALIAN BAUXITE PRODUCTION/CONSUMPTION

(million tonnes)

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978
Prod.	9.3	12.7	14.4	17	20.0	21	24.1	26.7	24.3
Cons.	1.0	7.5	8.1	11	13.6	14	17.4	18.4	19.0

Source: Australia, Bureau of Mineral Resources, Geology and Geophysics, Department of Trade, Australian Aluminium Industry: Supply Potential (Canberra: AGPS, 1979), p.17.

Comalco had to break into a world market dominated by five very large, vertically integrated firms - Alcan, Alcoa and Reynolds in North America, Alusuisse and Pechiney in Europe - all jealously guarding their technology and with no immediate need for additional raw materials.[44] Between them they controlled over 80 per cent of the western world's productive capacity for bauxite, alumina and aluminium. Getting bauxite or alumina into the mainstream of world consumption was an extremely difficult task. The main potential customers were in Europe and North America and, until the introduction of bulk carriers, it was unlikely that Comalco could land its product profitably in either of those locations. Australia's natural markets were in Asia and the Pacific, already supplied by a number of Asian and South East Asian producers, mainly in India and Indonesia.

It was D.J.Hibberd's "early conviction about the importance of the Japanese relationship" that encouraged efforts to secure a market there with the large and strong aluminium industry and Japan was to have a major role in justifying the rapid growth of bauxite output from Weipa.[45] Demand in the Japanese market was increasing, partly because new technologies made aluminium a viable replacement in a number of industries for copper of which there was a world shortage. There had been inquiries from the Japanese regarding the export of bauxite as early as 1950, but export was banned as a conservation measure until after the major discoveries at Gove. Consolidated Zinc had been trying since 1956 to interest the Japanese in buying from Weipa. In 1958 Mr. Takata of Nippon Light Metals sought an interview with Minister Evans as part of a trip "investigating and observing the general situation of bauxite mining and related matters".[46] In 1959 a team of representatives from Japanese aluminium smelters visited Australia as part of a search for long-term supplies. Japan feared a possible shortage of bauxite, and intervention in the market by the Indonesian government made that country a less attractive supplier than it had been.[47] However, the Queensland industry was competing with supplies from the Darling Ranges in Western Australia, from which Western Mining Corporation made three shipments to Nippon Light Metals, Sumitomo Chemical and Showa Denko through Mitsubishi (Australia) Pty. Ltd.

Hibberd was supported by Evans who made time available at Hibberd's request to meet with representatives of Japanese firms Mitsui and Nippon Light Metals and help smooth negotiations.[48] Evans made his own inquiries in Japan to satisfy himself there was a market for alumina as well as the large demand for bauxite. He was firmly committed to the export of alumina and "of the opinion that under no circumstances should (the) Government agree to the exportation of raw bauxite".[49] Originally he expected that the participation of one of the aluminium majors would guarantee markets,[50] but he also thought it was the duty of himself and the Government and "the job of anyone with any sense" to try to "hold" the Japanese market since it was unlikely that sales could be made in Europe or the United States.[51] Sales would give the Company some financial return for the 5 years' expenditure so far undertaken, and Evans recommended to Cabinet that permission be given for the export of raw bauxite to Japan for a 3-year period although the Agreement between the company and the Queensland government specified that no exports of raw bauxite were permitted.

The first agreement with the Japanese was concluded in 1960 by Hibberd and S. Christie after discussions with the President of Showa Denko.[52] The first trial shipments to Showa Denko, Sumitomo Chemical and Nippon Light Metal, totalling 30,000 tons, were shipped on a small vessel to overseas freighters standing off the coast in the Gulf of Carpentaria in 1961. Although the shipments were made at considerable financial loss, the company hoped that when Japanese firms had determined the processing behaviour of the ore, there would be substantial future sales. The ore was shown to be not quite suitable, but the Japanese agreed to modify their plants to take the Weipa ore because of their desire to diversify sources of supply.[53]

After long negotiations and trial shipments under difficult conditions, Hibberd's vision, Japan's interest in stable supplies, and Evans' willingness to allow exports to secure a long-term position for alumina combined to achieve a 3-year contract with the Light Metal Smelters' Association of Japan for 600,000 tons to start in April 1963, when Weipa began permanent, full-scale operations.[54]

These shipments would not have been possible without the company's decision two years earlier to go ahead with the dredging of a 10-mile shipping channel and a permanent port at the mouth of the Embley River at a cost estimated at $4-6 million. At the time it was "an act of faith, undertaken on prospects alone, but made in the belief that it was completely necessary if the company was to break into the world trade in bauxite".[55] The decision was reinforced by the condition imposed by State Cabinet in return for permission to export bauxite that the Company begin immediately on the construction of the harbour and deepening of the channel, as well as on an alumina plant if and when a market for 240,000 tons of bauxite had been secured.[56] The Queensland Government supported the building with an expenditure of $40,000 on surveys and supervision of dredging and began discussions for the later lengthening and deepening of the facilities to accommodate ships up to 40,000 Dwt which would enable large ore carriers to use the port and substantially reduce the cost of bulk shipping.[57]

Weipa began full-scale operations in 1963 and in the next 12 months up to 35 ships were expected to take 350,000 tons of bauxite to Japan and Bell Bay. In 1965 the company announced a $14m extension and expansion of production to 5 times its initial output, reaching 2.5m tons by 1967. Half of this would go to the alumina plant and half would be exported to Japan, Germany and France.

The increasing demand in Japan for bauxite, and that country's search for diversification to ensure security of supplies provided the initial market for Weipa bauxite and the major influence on the mine's expansion. Minister Evans had originally expected that the involvement of one of the major aluminium companies in the project would assure it a market for its output, but the company leadership recognised that entry to the European and United States markets would be very difficult and that in the early 1960s Japan offered virtually the only prospect of immediate sales. Initiatives in the development of the Japanese market were taken by the company, though the willingness of the Minister to accept the practicalities of exporting bauxite before the alumina refinery was built was an important factor in the progress of the mine.

THE ALUMINA REFINERY

Although the State government permitted the sale of bauxite overseas, its principal interest remained the industrial development and multiplier effects from the processing into alumina and aluminium. Provisions in the special legislation covering the project sought to ensure that a refinery and smelter would be built.

Clauses 4,7 and 16 of the Bill[58] provided that the company would erect a refinery to convert bauxite to alumina as soon as practicable and make periodic investigations into the economic possibility of an aluminium smelter of a capacity of 30,000 tons or more p.a. in Queensland.[59] If the refinery had not been built by 1977, the Government could require the company to do so on penalty of forfeiture of one-third of the lease. Though these undertakings were legally enforceable, the government imposed another restriction under Clause 18 to try to guarantee the construction of a treatment plant by prohibiting the removal from Queensland of the bauxite except to Bell Bay without the consent of the Governor-in-Council. The Company had been very anxious to have absolute freedom to export raw bauxite, but the Government saw its ability to control the right of sale as an additional way of ensuring the plant went ahead. Although it could not have been foreseen, this turned out to be a very wise decision when, in the 1970s, the oil shocks led to cutbacks of Japanese smelting and the consequent reduction in the market for bauxite in favour of supplies of the primary metal. Queensland found itself well placed to take advantage of the situation.

The Company also was anxious to proceed and initially intended to build an alumina plant at Weipa, fulfilling a condition of the Agreement. A plant of the size proposed was too small to be viable, it needed to be much closer to a centre with established infrastructure if capital costs were to be manageable, and the riskiness of a new venture outweighed the potential return if the company relied on open-market sales. "Lenders had shaken their heads over financing a Weipa refinery" so that Comalco had to "create a strategy with more appeal to the capital market for the alumina project".[60] The Company proposed a refinery of 600,000 long tons capacity p.a., more than twice the originally-intended size, giving it substantial economies of scale. The difficulty of finding markets for this level of output was the basis for the innovative financing arrangement which saw a consortium of world aluminium producers guaranteeing to take individual shares of output in proportion to their shareholdings. The consortium of customers with high credit ratings in world finance thus became the security on which debt was raised. The customers gained the benefit of low production costs from the large refinery, while for Comalco it was "the first big breakthrough in phasing Weipa into the world pattern".[61]

After considering a number of possible sites, and considerable lobbying by Local Government and business in potential locations, Comalco decided to place the alumina refinery at Gladstone because of its deepwater port, the town, power, road and rail links. This triggered a boom in population and activity in what had been a sleepy country town and imposed major costs on the community in terms of infrastructure and social welfare.[62] The problem was exacerbated by other developments such as Bowen Basin coal and associated facilities, cement works, wheat and sorghum silos and an 1800 mw power station, but the relationship between the public and private sectors in establishing the refinery became the focus of criticism that Gladstone was synonymous with failure to manage the impact on the community of rapid development.

Provision of essential infrastructure was a contentious issue as there was no clear dividing line in responsibility between the company and the public authorities. The attitude of the government to the provision of urban infrastructure had changed only marginally from that outlined by Hiley in 1961. Managing the impact of the development on Gladstone and surrounding areas fell largely on Local Government which had only very limited financial resources and no experience of co-ordinating such extensive and rapid growth. The State Government eventually accepted more responsibility than it had originally intended because of its commitment to the refinery and because of the investment and expansion by the company.[63] Even so, its contribution was largely confined to public utility services at Weipa and Gladstone such as harbour facilities, housing, sewerage, water, schools and other social services and roads. But there was little appreciation of the magnitude of the funds that would be required to provide a reasonable level of housing and community services at Gladstone, given the strict limitation on the resources of local government. The enormous increase in population, the widespread use of temporary housing at grossly inflated rents, the shortage of urban infrastructure all contributed to what McQueen called "corporate affluence and private squalor".[64]

The Queensland government's interest was, and always had been, the building of the alumina plant as soon as possible. The government was neither able nor prepared to invest the capital sums needed to provide adequate social infrastructure, but at the same it would not delay the project by the imposition of demands for adequate housing or for satisfactory arrangements with local authorities. The government's attitude in the 1960s can be contrasted with the Impact Assessment requirements for a smelter and refinery proposed for Bowen in 1982.[65] In the 1980s, detailed information was required in the planning stage for the Planning and Development Units of the Departments of Education and Health, and by the Departments of Primary Industry, Police, Main Roads, Harbours and Marine, Mines and

Electricity. This included plans for towns, community services, manpower recruitment and training, water supply and drainage, demographic projections, an archaeological survey, options for and impacts of alternative forms of transport, and an assessment of the broader effects of the project on the society, economy and environment of the region. Such planning takes time and money, and in the 1960s the Government's main interest was to hasten the establishment of the refinery. It is arguable that had there been similar requirements in the 1960s, the refinery might well have been delayed or at least taken much longer to build so that Queensland would not have been ready to supply alumina when the opportunity arose.

The Queensland government's determination and its legislative requirement that an alumina plant be built in Queensland focussed the attention of the company on possible sites within the State. The high priority accorded to development as a State objective allowed the refinery project to proceed at a rapid pace, unimpeded by demands for environmental controls or the provision of urban and social infrastructure. The timing of the alumina plant proved to be of considerable importance in placing the company in a good position to take advantage of demand engendered by changes in the world economic environment.

THE ALUMINIUM SMELTER

Because the Weipa project was seen as the beginnings of large-scale secondary industry in the State, the 1957 Agreement between Queensland and Comalco required the company to investigate the possibility of an aluminium smelter in addition to the establishment of an alumina refinery. However, it would be twenty years before changes in the world economy created opportunities for the sale of aluminium and the provision of electricity infrastructure as an integral part of development planning by the State allowed the refinery to proceed.

The key ingredient in its location was the provision of large quantities of cheap electricity as smelting one tonne of metal needs approximately 17,000 kw hours of power, or about one-third of the cost of aluminium at the primary ingot stage.[66] Comalco explored for coal on Cape York Peninsula with a view to a plant at Weipa and the Queensland government studied the economics of providing power using coal from Blair Athol and Collinsville. They concluded that a smelter could have been built in Queensland at a cost of $250m but it would have taken twice the current production of electricity in the State.[67] There were great difficulties in providing for both the smelter's needs and those of the general community, which was already underserviced, within the guidelines for semi-government authority financing. The Company therefore considered building and operating its own powerhouse which the Electricity Commissioner saw as possibly the basis for providing cheap power which could be purchased for the public system.[68] Comalco also studied the possibility of an integrated industry at Weipa using a nuclear reactor for power, but it was not practicable. It was agreed by the Company and by the advisers to the Queensland Government that the power requirement could not be met at less than 0.5d per unit for a large smelter and up to 0.75d for a smaller one, whereas hydro-electricity in New Zealand cost only half that amount.[69] The Government agreed that the company had complied with Clause 4(2)(c) of the Agreement in investigating the smelter, but it was not viable at that time.[70] Comalco purchased the Commonwealth's share in Bell Bay as a small production venue for the time being, with its main smelter at Manapouri in New Zealand. This facility had a strong orientation to the Japanese market, with Sumitomo Chemical and Showa Denko taking 25 per cent each of the equity. This was the first overseas investment for Japanese aluminium companies and, as a new venture well in advance of

OPEC price rises, reflected their considerable foresight.

The provision of electricity infrastructure was to be an important form of State assistance and cheap electricity was a part of a number of incentives offered by Queensland to ensure future building of the smelter in the State. Under the terms of the 1972 Gladstone Power Agreement, Comalco had the right to opt for blocks of power at 0.6c/unit Kwhr, the cheapest rate in Australia.[71] The Federal Treasury expressed its concern that such suboptimal pricing led to strains on the State's ability to meet the demands of other users, as well as on the nation's ability to accommodate "a balanced public sector investment program within a non-inflationary economic context".[72] Queensland's view, however, was that satisfactory bulk supply/purchase arrangements were so important to the decision on the location of the smelter, and the smelter was so important to Queensland that every consideration should be given to aiding the Company, even to the extent of the Company and the public electricity supply authorities forming a joint enterprise for the purpose of power production.[73] Alternatively, the Commissioner for Electricity Supply suggested that an approach be made to the Commonwealth that the use of Queensland open-cut coal for power generation be regarded as a national project similar to that which utilised the water of the Snowy River for hydro-electricity. The State Government commissioned the British consultants, Merz McLellan, to survey power needs for the next 20 years and in particular to consider the source of power for an aluminium industry.[74] The consultants recommended a $96m power house on or near the Callide coalfields. In 1963 contracts were let to build the Callide Dam to provide water for the proposed Calcap Power Station due for completion in 1965. Despite Commonwealth policy of expecting developers to pay for infrastructure, the Commonwealth agreed to finance that part of the station supplying electricity for major export-oriented industries, especially aluminium.[75]

This would allow the development of an integrated operation and at the same time provide a demand for steaming coal.

Evidence to the Senate Standing Committee on National Resources in 1981 suggested that Australia's comparative advantage in the production of aluminium was very slight, based primarily on blocks of cheap electric power, providing rather tenuous opportunities that might well be lost in the longer term.[76] Queensland was determined not to let the opportunity pass it by.

In the 1970s a number of external developments helped to shift the focus from the supply of raw materials to the supply of aluminium. Between 1972 and 1976 Guinea in West Africa expanded its bauxite output and became a major competitor with the advantage of closer proximity to European smelters. The rising price of bunker fuel caused Australian freight costs to rise more rapidly than those of its competitors closer to United States and European markets. Even so, the high cost of Australian coastal shipping meant it was cheaper to ship raw metal abroad than to transport it from Weipa to Gladstone for processing. Australian efficiency in bauxite and alumina production remained, but its competitive position was eroded in key markets. The increasing price of energy caused a restructuring of the world aluminium industry which until then had broadly reflected the marketing strategies of the major international aluminium companies. Countries such as Australia had been seen largely as suppliers of raw materials for smelters close to major markets in the United States and Europe where established infrastructure and tariffs favoured the import of bauxite and alumina rather than aluminium.

TABLE 5.2

ALUMINIUM SMELTING COSTS IN THE EARLY 1980S

(c. per Kilowatt hour)

	Japan	Canada	USA	Aust	Germ.
Lower range	15.5	1.0	3.5	3.0	5.5
Higher range	17.0	1.5	6.0	5.0	

Source: Kimura Hidehiro,"Arumi seirengyoo no tesshu to kongo no kadai," choogen choosa geppo quoted in P.Sheard, How Japanese Firms Manage Industrial Adjustment: A Case Study of Aluminium Pacific Economic Papers No.15 (Canberra: Research School of Pacific Studies, ANU, 1987), p.10.

The increasing cost of oil-based electricity, rising prices and the opportunity cost of steaming coal and the setback to nuclear power combined to give a comparative advantage to areas such as Queensland with extensive bauxite resources and competitively-priced coal-fired electricity. The consensus in the aluminium industry was that extra capacity would be needed by the 1980s to meet increased demand, projected to grow at 5 per cent p.a. in the long-term, and because of minimal investment during the late 1970s.

Aluminium exports became increasingly important in both volume and value by the 1980s, with the principal market being in Japan. There the price of electricity to aluminium smelters had risen by 4 times the world average rate, and comprised 45 per cent of primary aluminium costs.[77] There were severe cutbacks in smelter capacity and thus in imports of bauxite and alumina as the Japanese aluminium industry began to restructure, officially in 1978, though a number of corporate rationalisations had begun in 1976. An integral part of Japan's adjustment policy was for overseas smelting projects to be accelerated and expanded to take advantage of the cheaper supplies. Between 1977 and 1980 Japanese aluminium production was over 1 million tonnes p.a.; by 1983 it was only 300,000 tonnes. Japan therefore represented a substantial market opportunity for aluminium with a strong position in downstream processing, new product development and the development of technology at all levels.

By 1978 Comalco had effectively committed itself to the construction of the Boyne smelter in Gladstone, recognising that the shifts in world energy sources for smelting would increasingly favour countries such as Australia. This opened the way for aluminium exports at a sufficiently high level for a smelter to be potentially viable. Markets were again vital - guaranteed sales in sufficient quantities in the long-term were needed before finance would be available, as had been the case with the alumina refinery. An assessment commissioned from a group of economists - Prof. G. McColl and Dr. D. Gallagher of the University of New South Wales and Mr. K. McDonald and Mr. M. Copeland of the New Zealand Institute of Economic Resources - found that under the most likely conditions over 30 years the project would give a real rate of return of 12-15 per cent on all resources invested.[78] Other companies such as Alcoa, CSR, Pechiney, Amax, and BHP also agreed that market prospects were good and announced smelter developments in the late 1970s and early 1980s. Comalco again used the consortium approach with partners being Sumitomo Light Metal Industries (17 per cent) Kobe Steel, Mitsubishi Corp., Yoshida Kogyo (9.5 per cent each) and Sumitomo Smelting 4.5 per cent. Shareholders were required to take the whole of the production in proportion to their holdings - which meant that the plant could operate at full capacity from the outset. Comalco itself had a 30 per cent shareholding and negotiated sales to Toyo Sash, Kobe Steel, Yoshida Kogyo and Mitsubishi Aluminium, distinct from supplies which they took as equity participants.

In the 1980s Comalco again adjusted its priorities in response to changing market conditions at home and abroad. The company moved to increase efficiency, cutting costs and emphasising new markets for primary aluminium and aluminium products, reflecting changing market structures in Japan and elsewhere in South East Asia. The company diversified by purchasing a 50 per cent interest in Showa Denko, taking over negotiations begun by CRA. This was seen as providing a foothold in the Japanese aluminium market and an interest in a group producing rolled, extruded and finished products, specialty alumina products and alumina for smelting.

Changes in the international economy were the major determinant of markets for Comalco aluminium. Taking advantage of the market potential required innovation by the company, and complex changes in State planning and budgeting and in the financial arrangements between State and Federal governments.

CONCLUSION

The discovery of bauxite at Weipa was stimulated by the interest of the Australian and Queensland Governments, the foresight of Maurice Mawby, and the desire of international and local companies to find additional reserves.

Entrepreneurial executives made the decisions that underlay the development of the deposit and the growth of Comalco into an integrated bauxite-alumina-aluminium producer. They acquired the new technology, planned the innovative financing, developed the markets, and accepted many of the risks. During the late 1950s their persistence and commitment to Australian production overcame the opposition and pessimism of large aluminium producers and the conservatism of the ALP Government in Queensland.

During the 1960s the rapid increase in world demand for aluminium created a market for bauxite, and subsequently for alumina. Queensland had world-class deposits and the technology for successful exploitation. Though initial exploration was for Australia's national benefit and for the diversification of the companies concerned, the Japanese market was the major factor determining the viability of the project and its rate of expansion. Because of the structure of the world aluminium industry, Japan in the early 1960s provided the only large potential market for bauxite. Restructuring of the Japanese aluminium industry subsequently provided a major market for alumina and aluminium, though the financial arrangements for the refinery and the smelter reduced the company's dependence on a single customer. That Queensland was well placed to satisfy these markets as they arose was a function of the timing of the projects as well as of the State's comparative advantage over competitors.

The Queensland government's interest in Weipa was motivated by a desire for the establishment of secondary industries in the State, and for decentralisation and northern development. The project was to be one of the vehicles through which the political legitimacy of the Nicklin government would be demonstrated and could thus be said to occupy, in Lindblom's terms, "a privileged position". To support the project in the face of difficulties inherent in the area and the pessimism of some of the world's leading aluminium producers, the Government took considerable political risks. Approval was given before markets were assured in Japan or elsewhere although it was realised that the small domestic demand would provide no basis for a mine of viable size. The mine facilities would be a remote and expensive white elephant if the enterprise failed.

At crucial decision points the attitude of the Queensland Government was important in allowing the project to proceed and ensuring that it was located in Queensland. The cooperation of Ministers and Department Heads in drawing up special legislation, assisting with initial development costs at Weipa, and providing cheap electricity were important determinants of the pace of the industry's growth.

Evans' decision to allow the export of bauxite once he was convinced of the long-term potential of the Japanese market supported the efforts of Hibberd to negotiate contracts and assisted in gaining a foothold in that market. But the interests of the State and the company were not identical. Hence the government insisted on legislative provisions binding the company to the building of a refinery and controlling the export of bauxite, and subsequent concessions by the government were traded-off against expanded production targets or additional undertakings by the company.

The development of the Weipa bauxite raised important questions of principle regarding the proper role of the State in supporting such a project, and focussed on practical issues not previously encountered by State authorities and agencies. The Nicklin government intended to continue the long-accepted role of ad-hoc and arm's length support and did not envisage participation in planning or in providing infrastructure required solely for purposes of mining or processing developments. But the high capital costs, complex infrastructure and the demands placed on Local Authorities required direct involvement of Ministers and their Departments. The potential benefits of development to Queensland and competition from other States added impetus to a change in attitude. The government did not intervene directly in commercial negotiations or in the search for markets, but the decisions they made impacted on the company's competitiveness in the international marketplace and on the placement of the refinery and smelter in Queensland.

The bauxite/alumina/aluminium industry was important in Queensland-Japan relations as the first new resources project in the State which found a market in Japan, and for which the changes in the Japanese market were the principal catalyst for mine expansion. The industry's development proceeded because of the insistence and perseverance of executives such as Mawby and Hibberd and the determination of the Queensland government to secure both the mine and the downstream processing for the State. The needs of the large-scale bauxite/aluminium industry called into question long-standing assumptions about the largely distant, but generally supportive, role of the State in the mining industry which would be further challenged by the development of coal mines producing specifically for the Japanese market.

The development of the export coal trade which followed shortly after the start of bauxite mining at Weipa illustrates how the State's role became more interventionist as the importance of mining increased.

CHAPTER SIX

PARTIAL COOPERATION

JAPAN AND THE QUEENSLAND COAL INDUSTRY

INTRODUCTION

Interest in the possibility of a coal trade between Australia and Japan dated from the late 19th century, but in Queensland the first inquiries came in 1921 from a representative of a Japanese firm visiting Blair Athol during an Australian tour to investigate the prospects for the sale of cement. He was impressed with the thickness of the Blair Athol coal seams and with the price at the pit mouth which was much less than in Japan, and he considered the prospects of exports to be excellent.[1] However, no trade developed, and by 1934 a mission to investigate Eastern markets for Queensland coal saw so little prospect in sales to Japan that the members elected not to include it in their schedule.[2] The foundations for the development of the coal trade which began in the 1960s were not laid until the 1940s and 50s when Australian Governments and sections of private enterprise began to recognise the possibility of a market in Japan, and Japanese steelmakers began to see Australia as a potential supplier.

Changing United States policies in the late 1940s stimulated interest in the possible opportunities for sales of coal and other products to Japan. Up to that time, neither the Department of Postwar Reconstruction nor the Department of External Affairs considered Japan would be a likely market for large quantities of coal or minerals even if some heavy industry were permitted to redevelop.[3] But by the early 1950s a number of different sources identified the opportunities for the sale of coal to Japan. These sources included H.P. Reinbach in his report to the Joint Coal Board, the first Japanese Ambassador to Australia,[4] and the Minister for National Development (Senator Spooner). The Senator thought there was a "rich prize" to be won in the very large Japanese coal market and hoped strategic considerations might persuade the United States to invest in the development of Blair Athol and Nebo which could be the basis for the long-promised development of Central Queensland.[5] Some sales were made from mines in New South Wales, arranged by the Japanese with the assistance of the Australian Ambassador.[6] Although, as Rix indicates, the Department of National Development gave only a lukewarm response to enquiries from Japan about coal purchases, they helped to put in place a foundation of understanding on which private enterprise would later build.[7]

In Queensland by the mid-1950s there was increasing recognition at Government and business level of the need to develop markets outside the State rather than depend on local demand which had governed production in the past. Throughout the 1950s coal production increased, wartime shortages gave way to surpluses and there was no longer a need for preoccupation with conservation of coal for railways and electricity. Premier Hanlon and Mines Minister Gair were anxious for large markets to be found so that coal production could continue to grow. The Premier actively sought out foreign investment, but he rejected direct government involvement in market development because of the ineffective and costly State ventures after World War I.[8] Colin Clark, Director of the Bureau of Industry, suggested that Asian and Pacific countries such as India, Java and Japan would provide longterm markets and justify the capital outlays required for large-scale mining.[9] A number of private traders investigated the possibilities. Les Thiess' company, Austradus, made two shipments of steaming coal to Japan, though demand was limited and no further orders resulted.[10] The Brisbane office of Scott and English negotiated the sale of Collinsville coal to the Japanese Procurement Agency, but only portion of the order had been filled before a strike closed the mine.[11] In the 1950s, the beginnings of a production surplus and recognition of the need for export markets if output growth were to be sustained led to a tentative interest in finding those markets in Japan.

Openings in the Japanese market were created by the growth of the Japanese steel industry, and initial steps to develop the export potential were taken by entrepreneurs in Australia and by Japanese steel companies. Japanese firms sought reliable supplies of large quantities of coal in the long term. Australian exporters initially sought outlets for surplus production from existing mines, and subsequently markets for the vast resources discovered in the search for coal of the right quality for Japanese steel mills. The Queensland government was cautious at first, but once convinced that its interests also could be secured by coal exports, the government was supportive and flexible in reaching agreements, in fostering a business climate conducive to investment, and in seeking to ensure that Federal policies were not detrimental to the Queensland-Japan coal trade. The nature of government support reflected its own interests as well as those of exporters and influenced the direction of coal industry development in ways which ultimately led to conflict between State and national interests over contract pricing and foreign investment. As the Queensland coal industry matured, the State's interests moved beyond concessions to encourage the establishment of mines and addressed the problems of acquiring for the wider community a share of the benefits from the growth of the mining industry.

Both State and business were anxious for the development of the coal trade with Japan, and the industry looked to the State to support and foster exploration, investment and trade. On the other hand, business argued that policies towards rail freights, demands for infrastructure provision and increasing controls on the nature of mining hindered the ability of business to respond to changing world economic conditions. The relationship was one of both conflict and support for which Rix's term "partial cooperation" seems particularly apt.[12]

DISCOVERIES OF COAL

All Governments in Queensland regarded themselves as supportive of the mining industry through the establishment of rules for exploration and prospecting, and by mapping, surveying and recording the nature and extent of coal and mineral resources. These functions had been key recommendations of the 1930 Royal Commission into Mining which marked the end of direct State participation in favour of support for private investment. Thus, the risks and initiatives in finding suitable coal deposits for the Japanese market were taken by private enterprise, especially by Thiess and Utah who pioneered the exploration for and marketing of coal to Japan "at a time when Australian investors were reluctant to risk their funds in coal projects" which were not perceived as attractive or profitable ventures.[13] Their success raised the expectations of potential entrepreneurs and encouraged the interest of integrated international mining groups with technical expertise, financial resources and the willingness to risk funds in exploration.

The first discoveries were made on the initiative of Les Thiess who had investigated Asian markets in 1956 and become convinced that sales could be made if a different quality of coal could be found to mix with the output of his Callide mines to make a blend suitable for steelmaking.[14] Thiess took the risks of initial exploration for suitable coal in the Callide and Dawson Valleys where deposits had been known and worked since the 19th century but where, as in all Queensland coal fields, prospecting development was inadequate to "admit of even an approximate estimation of reserves".[15] Powell Duffryn had pointed out that many deposits were known only in individual outcrops or fortuitously revealed in the search for oil or underground water.[16] Since then there had been a systematic drilling programme, as recommended by Powell Duffryn and urged by G. Clark, the Under-Secretary for Mines, so that by 1962 the Geological Survey could point to Queensland's reserves of black coal as a "major national asset" which had been delineated by drilling in a number of areas but whose size even then could not be validly estimated.[17] Concern about the adequacy of reserves did not disappear until after a stocktake by the Bureau of Mineral Resources with the cooperation of the States and after the exploration programmes of private firms proved the assertion of the Priorities Review Staff that "reserves appear to respond to export opportunities".[18] For Thiess in the 1950s knowledge was very sketchy and much work needed to be done.

Thiess' exploration work, led by Dr. F.W.Whitehouse, used as its basis earlier documentation by the Government Geologist, J. Reid, in 1945 and by Powell Duffryn in 1949, and resulted in the location of soft coking coal at Kianga in 1957. On a trade mission to Japan to investigate the purchase of equipment for the Snowy Mountains Scheme, Thiess found a tentative interest in good quality coking coal by Japanese steel mills and accepted the offer from Mr. K. Ejiri of Mitsui Coal Development to assist with a geological survey in conjunction with Dr. Whitehouse of the University of Queensland and the State Government Geologist.[19] As Kianga coal was not suitable for Japan's immediate needs,[20] a search was made for hard coking coal which was discovered at Moura in 1959. Sampling under the supervision of the Queensland Coal Board Fuel Technologist and testing by the CSIRO showed it suitable for steel-making. Systematic gridboring necessary to prove the field was done under the direction of Mitsui's chief geologist, Dr. Whitehouse having withdrawn after making "a major and significant contribution to the development of the mining industry in Central Queensland".[21] Subsequent investigations with Mitsui were directed towards proving reserves as quickly as possible as an obvious prerequisite to a decision to establish a mine and to successful export. In this, the enthusiasm and imagination of Thiess in driving the project forward was complemented by the practicality of K. Ejiri in defining what was suitable for Japan's needs, and demonstrating these qualities in Queensland coals to Japanese steelmakers. Their collaboration was of major importance in turning tentative Japanese interest into definite orders.

Utah began exploration in Australia as a result of its "perception of an expanding global steel requirement"[22] and more specifically to find iron ore and coking coal to supply to the Japanese steel industry as part of what Galligan calls the company's "Pacific Rim strategy".[23] The company came to Queensland because coals were known to exist, but the extent of the deposits was uncertain and the areas were not already substantially exploited as they were in New South Wales. Queensland was a riskier venture, but offered more opportunities for the company to develop large-scale open-cut mines. Like Thiess, Utah began on the basis of earlier work by the Mines Department, Powell Duffryn, and the Government Geologist, but with the additional advantage of being able to take prospecting leases around Thiess' discoveries at Kianga and Moura. Steaming and soft coking coal were found, and then prime coking coal adjacent to a "vast anthracite coal seam near Blackwater" which had been worked before World War I and drawn to the Government's attention in 1947.[24] Testing in the United States and by the Mines Department confirmed a rich coal seam which justified further intensive drilling necessary for mine planning. By the end of 1963, Utah had taken out

Prospecting Authorities over all vacant areas of possible coal deposits in the region.[25]

Both Thiess and Utah began exploration specifically to locate suitable coal for export to the Japanese market. The risks and initiatives were almost entirely theirs, in an investment climate where there was minimal interest in speculative mining ventures. In this initial phase, there was little government support, save the assistance of the Geological Survey and background information from the Mines Department and the limited studies undertaken in earlier years to locate and plan the development of Queensland coal resources. Once some discoveries had been made, the negotiations for franchises and special leases were critical points in the development of the mines and indicate the changing relationship between business and government as Queensland priorities altered and Ministers became more confident in asserting the State's interests.

ACCESS TO RESOURCES

Access to resources is regulated by the State Government through the Mining and Coal Mining Acts which were initially an impediment to the search for coal. The proving and development of the large-scale mines that were to be the basis for export to Japan required special concessions to allow projects to go ahead speedily, with secure access to much larger areas than had previously been permitted. The government had to change completely its attitude to the scale and conditions of mining and, at least initially, run the risks of a very public failure before it had been in office long enough to prove its credentials by economic success.

Like Comalco at Weipa, Thiess and Utah could not have proceeded with exploration and mine development under the existing regulations and provisions of the Mining and Coal

Mining Acts. These Acts provided that prospectors had to apply to the Mining Warden for separate Authorities to Prospect for each individual property. This may have been appropriate for isolated mineral deposits or small-scale operations, but it was far too cumbersome and time-consuming a way of determining the size and extent of a large coalfield and planning its future utilisation. Comalco was able to obtain a large area, secured from potential competitors, because its activities were controlled by the Mining Acts. These empowered the Minister to grant Authorities to Prospect over areas of any size at his discretion for the purpose of encouraging large-scale, expensive prospecting. The Coal Mining Acts contained no such provisions until they were revised in 1965, but allowed for Coal Prospecting Licenses over areas not exceeding 2560 acres (4 sq. miles) at a rental of 1d/acre to be held for 1 year, with possible extension for a further year. Thiess had held 26 licenses, conditioned for sale for export only, over 42,819 acres, which expired between February and May 1959. On 7 of these he had sought an extension, 11 licenses over 15,997 acres were current, 34 applications over 63,141 acres were under Departmental consideration and another 39 were about to be lodged.[26] To avoid the interminable administrative delays, Thiess sought a franchise similar to that granted the Electric Supply Corporation (Overseas) Ltd. in 1947, covering approximately 700 sq.miles (448,000 acres) with provision for gradual release.[27]

Thiess' application was rejected by the Minister and Cabinet after advice from the Coal Board. The government was not convinced that Thiess' deposit could be the basis for a viable mining operation, given previous abortive attempts to develop Callide and Blair Athol and a contemporary report that handling costs were likely to price Queensland coal out of keenly competitive world markets.[28] The government was reluctant to allow new mines until the industry was more stable and existing mines were reasonably assured of profitability. The Coal Board and the government also doubted whether Thiess' project, if successful, was in the interests of the State. The Coal Board advised that "it would not be in the public interest to grant one Company what would amount to a monopoly on coalfields of this size, particularly if prospecting were generally successful".[29]

The government's priority was the development of secondary industries, preferably with overseas involvement to gain international acceptance. The Weipa bauxite mine fitted into this strategy because of the participation of international business and the real prospect of its leading to substantial industrial development in refining, processing and fabricating. Coal could be used as the basis for a steelworks, as Hanlon and Theodore had hoped, if the sketchily-known iron ore deposits were proven to be sufficiently large. Powell Duffryn had mentioned the possibility, an Interdepartmental Committee in 1953 had recommended Mines Department assessment of known iron-ore occurrences,[30] and in 1958 P.Turnbull and Mitsubishi inquired about a steelworks using Queensland coal and iron ore from Papua.[31] But at the time Thiess made his application for a franchise, a steelworks was not a realistic possibility. The Minister had "no objection to a large export trade",[32] but the government was not prepared to take risks to encourage further exploration since Thiess' plans did not complement the State's priorities and were not seen as the vehicle for future economic growth.

The franchise would require a special Act of Parliament, providing the opportunity for public debate and discussion. It would also afford the new Government's opponents ample scope for equally public criticism if the venture failed. With high political stakes, the Government was unwilling to take the risk when reserves were unproven, markets not assured, and there was no backing from a large and well-respected international company. Thiess' assurance that the market potential in Japan for suitable Queensland coal was unlimited and that delay would lose a market worth millions to Queensland in favour of New South Wales went unheeded.[33] There was certainly no grand vision in the attitude of the Queensland Coal Board and the Government. It was the conjunction of his own entrepreneurship and the development of the Japanese steel industry which allowed the project to go ahead, not for a steelworks, but for the export of coal.

Despite the rejection of his first application, Thiess persisted, presenting his proposal again in January 1960. His mines had still produced only soft coking coal of which there had been "spot purchases due to strikes and lockouts in the Japanese coalfields".[34] Evans still regarded the proposals as "in a rather nebulous state", but the obvious impossibility of keeping the Kianga mine operating in a "stop-start" manner, "the importance of this major development in Queensland", and the anxiety of the Japanese and Thiess to proceed quickly meant that Thiess' application was not rejected.[35] A Committee consisting of the Co-ordinator-General, the Under Secretary Dept. of Development and Mines, Mr. G. Clark, and Mr. A.G. Lee, Assistant Secretary, Commissioner's Office, Department of Railways, was more sympathetic than the Coal Board had been and recommended that:

> if and when the Company obtains a firm contract for the export of coal in such quantities as would necessitate the construction and operation of a privately owned railway from the coalfield to Gladstone, the Government would be prepared to discuss an Agreement ... broadly along the lines of the Agreement which was reached by the Government with the Electric Supply Corporation (Overseas) Ltd. in 1947.[36]

But first the Company would have to "provide clear proof of the existence of a contract and of the bonafides of the other party".

The interest of Mitsui and the company's size and stature in Japanese industry were important in developing Ministerial enthusiasm for the venture. Thiess had been introduced to Mitsui by the Australian Commercial Counsellor in Tokyo, Neville Stuart, who had been with the Joint Coal Board and was keen to develop the coal trade.[37] Mitsui was interested in the possibility of coal imports, and company executives, together with those of other trading houses and steel mills inspected the site at Kianga and the loading facilities at Gladstone. Estimates by Mitsui and by the President of Fuji Iron and Steel that purchases could be in the range of 1 to 5 million tons within three years convinced Thiess that contracts would be available.[38] Thiess then persuaded Mines Minister Evans and his Under Secretary, George Clark, to go to Japan, meet executives of Mitsui and visit the steel mills of Yawata and Fuji Iron and Steel Companies. Evans was convinced by steel industry executives and by MITI of the enormous potential markets for export coal and returned to persuade his Cabinet colleagues of their value to Queensland development. Kevin Healy, later the Deputy Under-Secretary of the Mines Department, regarded this as a crucial point in the development of the central Queensland coal mines.[39] It was Thiess' persistence and his success in persuading Evans to go to Japan which began to change the view of the Government about the potential of export coal, paved the way for other companies, and brought Queensland coal to Australian and international attention.

By 1961 economic and political factors created a greater sense of urgency within the government. The credit squeeze imposed by the Commonwealth had affected Queensland more severely than the southern States. Unemployment rose and in the Rockhampton area was 13 per cent of the workforce.[40] Politically there was a swing to the ALP. Labor's win in the Brisbane City Council elections, though partly attributable to its campaign policy of sewering the city, was part of this swing, as was the result in the Federal election of 1961 when two Ministers lost their seats and the Menzies Government came within a few votes of defeat. The Queensland Government recognised the necessity of promoting economic recovery and that Central Queensland presented one of its greatest challenges. The Coordinator-General and the Director of Secondary Industry were sent to review the area's problems and recommend actions, Federal help was sought through the CSIRO for pasture research to assist with the development of the beef industry. Cabinet asked Evans to expedite negotiations with Thiess and with any other firms interested in coal development "in view of the present political situation"[41] and to investigate the possibility of a steelworks at Bowen using Constance Range iron ore[42].

Political necessity, and the demonstrably large market opportunities in Japan combined to bring the development of export coal mines to the forefront of State priorities and made politicians and bureaucrats more responsive to Utah's proposals than they had been earlier. Utah's initial application for a franchise had been rejected on the grounds that they had "not prospected enough to prove sufficient quantities of coal to warrant it".[43] The Minister demanded more expenditure and effort and expected firm sales agreements to be put in place to convince him of the project's viability, despite Utah's experience as an international mining company. By 1961, the Minister and his Department were more willing to take risks. The Mines Department suggested that the start of operations could be expedited by Utah's applying for a Special Coal Mining Lease over the Proclaimed Area it had been granted in 1961 at Blackwater since this could be granted quickly by executive decision because it would involve upgrading of existing infrastructure rather than totally new construction.[44] Meanwhile, negotiations proceeded for the extension of Utah's allocated areas and for the franchise required. The government was generous, perhaps, as Galligan suggests, over-generous in granting Utah, in December 1964, an

Authority to Prospect over approximately 2500 sq. miles of the best part of the Bowen Basin between Blackwater and Goonyella, covering areas previously included in proclamations.[45] The government had temporarily set aside the emphasis on secondary industry; its interests now lay in attracting large capital investment and in the commencement of projects which would overcome the lethargy of the Queensland economy and spur a take-off to sustained economic growth.

During the course of negotiations for the franchise covering Utah's larger areas, it became evident that further franchise applications were likely to follow from other companies. This led to a conflict between the desire of politicians to expedite mine development and concern, particularly at bureaucratic level, about the adequacy of Queensland's reserves. Therefore, in discussions with Utah and within the bureaucracy leading up to the franchise, an effort was made to establish a formula relating the quantity a company was allowed to extract to the size of its reserves. It was also necessary to specify whether the "reserves" should be only those classed as "known", as recommended by QERAC and the Geological Survey, or whether they should include those merely "indicated" and "reasonably definitive", as suggested by Utah.[46] The State Mining Engineer was concerned to establish a quantity large enough to justify the franchise, but consistent with prudent resource management. Having obtained information from the Electricity Commission and the Department of National Development on the likely future needs for coal, QERAC advised against overcommitment and recommended that to ensure the State's future needs were not jeopardised, exports should be a percentage of the known reserves and that Utah therefore be permitted to export 100m tons, subject to review in 5 years' time.[47] At a political level there was more optimism and less caution, exemplified in Ron Camm's view -"the quality is good, the price is right, let's sell it while we can".[48] The agreement reached with Utah allowed for exports of 457.2m. tonnes, with special provisions regarding the quantity mined by open-cut - more cautious than the developmentalist Camm, but not so conservative as the bureaucrats and QERAC. The ready availability of such large quantities coincided with the needs of the Japanese and helped encourage interest in Queensland as a major supplier.

The success of Thiess and Utah in finding suitable coal and the work in surveying and prospecting encouraged other Japanese and Australian companies to join the search. These included Mines Administration Pty. Ltd. (Minad) near Bluff and Dingo in conjunction with Marubeni Iida, CRA and BHP southeast of Blackwater, Dacon Colliery at Collinsville, Clutha and Associated Mining at Bluff, Mt. Isa Mines and Mt. Morgan. The plethora of exploration companies, the uncontrolled selection of lease areas and the use of open-cut rather than underground mining all posed long-term threats to the security of resources. As the urgency to commence development passed and the prosperous market was itself an incentive for companies to explore and invest, the concern for resource management began to outweigh the need to offer attractive concessions in the size and selection of areas. In 1971 the Mines Department reserved large coal-bearing areas for the future and laid down guidelines for orderly development, both to protect reserves and to ensure that only companies with sound financial backing and technical and marketing skills would be granted leases. It is interesting to speculate whether Thiess would have qualified under the guidelines had they existed in 1959, though he headed a consortium granted the lease on one of these areas (Winchester South) in 1981.

The key decisions regarding whether and on what terms mining companies would have access to Queensland coal resources clearly lay in the hands of the State and were the basis for the pattern of mine development and hence of the coal trade with Japan. In making these decisions, politicians and their bureaucratic advisers were conscious from the outset of the need to protect Queensland's wider interests and to implement the Government's policy of steady growth based on promotion of secondary industry. Economic and political circumstances, together with the persistence of Thiess and the Japanese steelmakers, combined to change government attitudes to proposals for mining development. But, as we shall see, even the most generous Agreements with mining companies still sought to protect the State and its economy against the possible failure of what were still considered highly speculative and uncertain ventures.

AGREEMENTS WITH THE GOVERNMENT

Control over coal industry development and operations is vested almost entirely in the State Government which is able to influence the timing and competitiveness of mines through its control of access to resources and the provisions it negotiates in the Agreements with development companies. Given the Japanese interest in long-term stability, the willingness of the State Government to offer long leases on conditions formalised in legal agreements helped to make Queensland mines an attractive source of supply.

The basic structure for all agreements with the coal development companies was outlined in the Thiess Peabody Coal Pty. Ltd Agreement Bill introduced into Parliament in 1962,[49] and this in turn followed closely the arrangements which Hanlon had made in the Electric Supply Corporation (Overseas) Ltd. Agreement Bill in 1947, as Thiess had requested. The attitude of the Nicklin government was very similar to Hanlon's view that the extraction, transport and marketing of the coal was a commercial operation to be co-ordinated and financed solely by the company. The 1947 Bill encouraged the company with a special long-term (50-year) lease and a promise that the government would expedite aerial surveying and mapping of Central Queensland, but required the company to build and operate the railway, construct the housing, and provide and other infrastructure. made necessary by the venture. Both Hanlon and Nicklin intended to be supportive and encouraging, but not to become directly involved in planning or in financing mining development.

After the potential of the Japanese market became clearer, and the scale of Queensland's coal resources became evident, the government was concerned to ensure the rapid, but secure development of what had always been a highly speculative industry, liable to periods of rapid boom followed by deep and prolonged recessions. Agreements protected the exclusive rights of the discoverer of a field over defined areas, typically very large - 350 sq. mls for Kianga-Moura, 80 sq.mls.for Blackwater and over 1300 sq. mls. for the CQCA mines.[50] When coupled with long, renewable leases, and the right to select the best sites for the mine itself, these concessions gave the companies every opportunity to prove and establish the mine, service long-term contracts, keep costs down and generate a reasonable return on investment. At the same time, provision was made for rearrangements if projects stagnated, speculation discouraged by requirements for minimum annual expenditures and continuous exploration, originally developed by Hanlon,[51] and over-dependence on one company reduced by periodic surrender of part of the lease area. This provision served to encourage a variety of different investors and to promote the development of the maximum number of promising sites, although it had the unforeseen effect of creating excessive production by a number of mines in competition with one another for limited Japanese demand once market growth slowed in the mid-1970s.

State interest in secondary industry and in development elsewhere in Queensland had not been forgotten. Provisions in the Agreements with Thiess and Utah allowed coal to be reserved for possible domestic needs, and Utah was required to stockpile any steaming coal overburden for future government use. At the time this was not regarded as a significant benefit, as there was no market for the coal, but later, when the Gladstone power house was built and energy prices soared in the 1970s, it emerged as a major bonus. Utah estimated that in 1980 it had supplied at incremental cost around 9m. tonnes of steaming coal to the Gladstone power station and it would continue to supply coal at the rate of 2m tonnes p.a. for the foreseeable future.[52] Cabinet was interested in a possible steelworks using BHP's Constance Range iron ore deposit, and in the adequacy of reserves for the future needs of Mt. Isa Mines.[53] The Thiess Agreement therefore contained the proviso that the company could be directed by the Governor in Council to supply any customer in Queensland who was unable to obtain coal elsewhere. Though this provision never needed to be exercised, it is indicative of the government's high priority at the time to the development of secondary industry compared with the anticipated benefits from the coal trade with Japan.

Nevertheless, the anxiety of the government for mining development to go ahead was reflected in the very low levels of rent and royalties which were modelled on the provisions of the Electric Supply Corporation (Overseas) Act of 1947 which Hanlon had devised to attract and assist the developers of Blair Athol. For Thiess-Peabody rent was just over $5 per sq ml for the coalfield and $20 per sq ml, increasing gradually to $64 under the Special Coal Mining Lease (Blackwater), while for the CQCA mines, rent was between $6 and $8 per sq. ml. Royalties of a mere 5c per ton (reducing to 1.5c over 1m tons for Thiess) were justified for Kianga-Moura on the grounds that the coal had proved hard to work because of the sandstone overburden, and high royalties would have made Thiess uncompetitive against

New South Wales mines which were closer to ports and did not have the expense of building a railway. A Committee of the Coordinator-General, the Under-Treasurer and the Under Secretary for Mines recommended the same royalties for the Utah mines although the deposits were much easier to work.[54] Although the low royalties attracted criticism from the outset, Evans was "more worried about getting coking coal, getting steel works, getting coal exports and providing employment" than in the amount of royalties Queensland would receive.[55]

The low royalty rate was criticised from the time of the Thiess franchise and throughout the 1960s and 1970s. The Commonwealth Treasury, for example, pointed out that, in NSW, royalties were 15c per ton for older mines and 25c per ton for newer, amounting to 3.5 per cent of the value of output, compared with 4.6 per cent in Western Australia and only 1.1 per cent in Queensland.[56] In 1974, a combination of public and political pressure, the apparent profitability of coal mining during the boom period and the influence of the new Under-Treasurer, Leo Heilscher, led to the Mining Royalties Act which abrogated the provisions of earlier Agreements and established royalties at 5 per cent of the f.o.r. value of the total tonnage of coking coal sold from open-cut mines and 4 per cent on underground mines. The result was a increase in royalties from 5c to $2 per tonne and a rise in royalties as a percentage of f.o.b. revenue by a factor of 6 between 1968 and 1981. By 1974 the most risky phase of coal mining development was over, markets in Japan were established and major companies had demonstrated that the export coal trade could be profitable. The market itself created the incentive for development and generous treatment by the government was no longer necessary.

The Mines Department had begun to provide for this situation as early as the mid 1960s as it considered policies to be adopted in the longer term for the coal industry as a whole, rather than policies developed on a case-by-case basis to meet the requirements of the first developers. It was evident in the Uniform Proposals for Franchises to Export Coal, considered in 1967, that the Department recommended a bargaining approach in which the government gave corporations the opportunity to engage in mining development, but insisted on conditions that provided for the controlled explitation of resources and for the State to acquire capital assets with minimum outlay. The State Mining Engineer recommended the policy should provide for

- proving of adequate resources of which not more than 50 per cent should be exported
- large scale
- contribution to capital costs of the railway, port, power and water
- railways and ports operated by the State, perhaps with long-term contracts to the company
- company contribution to capital and service costs
- housing provided by the company.

He suggested that on fulfilment of these conditions, a company be allowed to export 100 million tons, as long as this did not exceed 50 per cent of reserves, with another 100 million tons on the establishment of an approved industry with a capital expenditure of $100m.[57] These provisions were the basis for the new Mining Act of 1968 which established uniform conditions for access to resources which remained substantially unchanged throughout the period under review.

The agreements reached in the 1960s reflected the common interest of the government and the companies for mines to be established as quickly as possible to take advantage of the emerging Japanese market. Concessions were generous, with income from rent and royalties and concerns about resource management partially traded off against the speed of development. Some State interests were too important to be bargained away. Both the conditions of access to resources and the terms of agreements governing the establishment of mines attempted to guard against over-dependence on one firm and to make provisions favourable to the eventual establishment of resource-based secondary industries in the State. The State was cooperative in response to the needs of the mine developers, but that cooperation was only partial and was reduced over time as mining companies were seen to be profitable and well established.

PROVISION OF INFRASTRUCTURE

Provision of infrastructure, especially in transport, was one of the most crucial elements in the development of the coal trade. Government and semi-government bodies and private enterprise worked together to provide efficient facilities with provision for future growth. At the same time, the government developed a unique system which provided immediate inducements to the companies, but long-term advantages to the State, and which had substantial effects on trade when the boom conditions of the early 1960s subsided and a buyers' market emerged.

The industrial and community infrastructure required for the establishment of the mines was very expensive indeed, often as much as the cost of the basic project itself.[58] The arrangements for its provision had a direct impact on the profitability of the mine and on the decision whether or not to proceed, as well as on the ability to obtain contracts and finance. Customers needed to be confident that infrastructure was adequate to handle the required quantities before entering into an agreement to purchase, and financial institutions sought evidence of secured markets before funds were provided. Problems of coordinating contract negotiations, infrastructure provision and mine finance posed major challenges for coal producers and the attitude of governments was a significant factor in the speed and cost of project establishment.

Under the Constitution, the State has the prime responsibility for physical and social infrastructure and exerts a significant influence on the provision of urban facilities by Local Government. In practice, the ability of a regional State to service infrastructure needs was heavily dependent on Commonwealth recurrent and capital grants and specific purpose payments, as well as on the Loan Council borrowing program. The availability of these funds depended on their implications for fiscal and monetary policy, Australian economic policy objectives, and the need to accommodate the borrowing requirements of other States. Both State and Federal governments believed that developers should pay for infrastructure made necessary by virtue of their projects, and this approach was refined by the Queensland government through its "bargaining" in the Agreements with companies. The State Government recognised that some infrastructure was clearly beyond the capacity of industry and the necessity of providing it could, as a Japanese Energy Mission suggested, discourage the development of new mines in remote areas.[59] The State Government also knew that some infrastructure could be more appropriately or, in the long term, profitably provided by the State and contribute to the pace or the attractiveness of development. Queensland therefore welcomed the new Loan Council guidelines introduced in 1978, allowing additional or overseas borrowings for exceptional projects, and planned to use this facility to fund power stations and the upgrading of two of the items of infrastructure most vital to resource development - railways and ports.[60]

Arrangements for the funding and construction of new rail and port facilities for the coal trade illustrate the way in which the State sought to secure its own interests while at the same time facilitating trade by helping to overcome transport problems which had long been identified as a major impediment to Queensland's growth.

(i) Railways

Provision of adequate rail transport was one of the adjustments necessary in Queensland before business could take advantage of the opportunities for trade with Japan. Traditionally, railways in Queensland had been provided by the State government, but shortages of railway rolling stock and locomotives, inefficiency, narrow-gauge lines of insufficient strength to haul very heavy loads, and the unwillingness of governments to construct lines to service mining projects had been in the past a major impediment to the development of Queensland mining even when markets were available. In 1947, for example, rail problems prevented Queensland from supplying coal shipments for Noumea,[61] and in 1950 the Chairman of Blair Athol had been forced to turn away southern and New Zealand inquiries. As he put it - "markets were hungry, plant capacity available. Transport sets the limit".[62] Two American companies, Nevin Pacific Co. and Raymond Concrete Pile Co., withdrew their interest in Blair Athol when the Commonwealth government would not guarantee a loan of US$60m from the World Bank for a railway.[63] The refusal of the Menzies government to honour an election promise to contribute to a Callide rail link as part of national development projects was bitterly resented by the Hanlon and Gair governments.[64]

In discussions with Japanese steel mills, Evans came to realise that the volumes the transport system was able to deliver would once again be a major factor inhibiting the scale of development of the coal export trade. A Committee of the Coordinator-General and representatives of the Departments of Mines and Railways, in consultation with the Land Administration Commission, the State Electricity Commission and the Department of Harbours and Marine, developed recommendations on the part to be played by the government in the provision of railway facilities. The Coordinator General confirmed the bottleneck that would be created by the existing railway once shipments from Thiess' mines exceeded 200,000-300,000 tons p.a. and before a new line could be justified.[65] So serious was the difficulty that Mr. Shimizu of Nippon Kokan, leader of a mission in June 1961, indicated the Japanese might "even consider providing finance to speed up and improve links between the coalfields and the ports"[66] and a Kianga-Moura-Gladstone link was discussed by Treasurer Chalk and the Managing Director of Mitsui Bussan Kaisha[67] who regarded the cost as well as the capacity of transport as "of paramount importance" in the coal trade.[68] The railway capacity problem was raised again by a delegation of Japanese technical experts visiting Kianga-Moura in August 1961, since the development of the field was virtually controlled by the railways' ability to shift coal over the old line with steam engines and small wagons.[69] Unless some reasonable solution could be found, the mines would be quite unable to provide the quantities of coal the Japanese needed.

In his attitude to the provision of railways Evans was motivated by a number of factors. He did not want rail transport to remain a stumbling block to central Queensland mine development and to the growth of export markets for coal. But railways policy was that lines served new and expanding industries and were not built "on a developmental basis".[70] In view of the impact of railway operations on the finances of the State, the government was already taking action to reduce continuing railway deficits. In 1958 a Committee of Accountants from the Departments of the Auditor General, Treasury and Railways was established to investigate financial operations,[71] and the 1960 State Transport Act had sought to make railways efficient by allowing more competition from road transport. Evans did not want to add further to the burden. As he explained to Parliament: "We have had enough to do with building railway lines. We are losing too much on existing lines. We believe it is much better to leave that to private enterprise".[72]

The government therefore agreed with Thiess' original proposal, following the example of the Electric Supply Corporation (Overseas) Ltd., that he would construct a railway from the coalfield to the port of Gladstone. The railway was to be built to government standards, but to be operated by the company solely for transport of coal and of the company's employees and goods, with a government option to purchase after forty-two years. In the interim the Government assisted by upgrading the old line and negotiating the building of new wagons by Mitsui, their use to be at no cost to the State though they remained the property of the mining interests and were to be repaired at the Railway workshops at a cost related to the freight charge per ton.

When the Agreement was renegotiated after Mitsui joined the Company (in 1965), the Minister for Transport, Gordon Chalk, argued forcefully that State ownership of the railway would retain an integrated system, provide a facility for general use, and generate an income stream which could be applied to other projects or regions. Infrastructure for mining could thus be provided without curtailing other development works. Chalk, Hiley, and senior public servants from Mines and Treasury persuaded the company to forego the potential haulage profits in return for "the same haulage of coal, with less responsibility for organization and a smaller initial outlay".[73] To counteract the risk of the project's being aborted after the railway had been built, the Company had to make a security deposit of approximately half the cost of the new line. The sum was repayable in annual instalments subject to the shipment of a minimum tonnage. Freight rates were on a sliding scale, reducing for larger quantities, and subject to an escalation clause to compensate for inflation. This was the prototype for all subsequent arrangements for railways and marked a much closer involvement by the State in planning for mine and market development and a major break with the policies of Hanlon and the early years of the Nicklin government. Rail transport was an integral part of planning, critical to the movement of large tonnages and to the timing of the commencement and expansion of exports. In electing to provide coal railways, the State government involved itself directly in the developing of mines and the costs and revenues associated with the rail lines became an integral part of State budgets and economic planning.

In the CQCA Agreements the Government outlined the future arrangements for the provision of rail facilities, based on the security deposit system it had introduced in the Thiess Peabody Mitsui Agreement in 1965. The Company had to provide the whole of the capital needed for the 142 miles of track from Goonyella to the port, but the State built, owned and operated the line.[74] The company provided the $36m. cost as a security deposit for the due performance of its obligations and the sum was repaid in instalments with interest over 12.5 years with funds earned from freight charges. If the income from freight fell short of the sum required, the Company forfeited a proportion of the repayments. Freight charges had three components - amortisation of capital, operating cost and profit - though it was not known in what proportions. The Premier said the profit component was "many times the royalty rate" and would increase substantially when the capital cost was liquidated.[75] Utah estimated it at $3.37 per tonne in 1979, $4.33 over 16.4m tonnes in 1980 and $4.47 per tonne over 20.1m tonnes in 1981,[76] and both Utah and the Chamber of Mines regarded the charges as excessive. As coal prices boomed, the profit component was increased and the escalation formula broadened to provide very substantial revenues for the State which had not provided any of the capital and had taken no financial risk. Both the State and the coal companies regarded this profit component as a form of taxation which the government at least thought was "fair and equitable as between the various companies ... commercially realistic, and which provided an adequate return to the State".[78] It also served to reinforce the close interest of the State in the success of mining developments which provided substantial additions to State funds which could then be used to promote other developments or to meet other calls on government expenditures.

According to CRA, Australian internal transport posed the most serious and persistent disadvantage and cost to Australian mining.[79] The Queensland government through the security deposit system attempted to ensure that export developments would be provided with adequate and timely transport to meet their contractual obligations. This could have been achieved, as in Western Australia, by private enterprise, but the Queensland government seized the opportunity to strike a "bargain" which locked the companies into the production of large tonnages and gave the State windfall gains in boom periods. However, it also caused difficulties for the companies in adjusting output when Japanese demand slackened off, so that the relationship on which so much hope was pinned was more vulnerable to factors outside its control than it would have been under other arrangements.

(ii) Ports

Port facilities were provided by both private enterprise and semi-government authorities, and their vision and willingness to take risks in expanding beyond immediate need were important factors in supporting the pace of development and the competitiveness of Queensland coal. Large scale expansion of port facilities in line with or in anticipation of new export contracts poses major problems of coordination. Long lead times are involved in planning and construction and contracts for coal are unlikely to be firmed without adequate assurance that loading facilities are available. Both Kianga-Moura and Blackwater coal were shipped through the established port of Gladstone and the determination of the Gladstone Harbour Board to secure coal shipments and its willingness to take risks in providing facilities was to be a key factor in moving large volumes of coal required by the Japanese.

The Harbour Board had to overcome a history of failure and the pessimism of a report by a government-appointed committee in 1959 on the potential for Gladstone's development.[80] Gladstone had an excellent natural harbour, but pre- and post-war attempts to attract business by very low charges and approaches to potential customers such as Vacuum Oil and Blair Athol Coal were unsuccessful.[81] In the late 1940s and 50s the Harbour Board had modernised facilities for bulk handling, installing a coal loading plant and conveyor belt and facilities for unloading, stockpiling and storage in an attempt to attract emerging trade and forestall the decline of Gladstone in favour of Port Alma. Although it had never run at anything like full capacity, the equipment provided the port with good facilities for the handling of the early shipments of Kianga-Moura coal was instrumental in securing the coal trade at Gladstone rather than Port Alma.

The Harbour Board was determined that Gladstone would become the major Central Queensland coal port. Despite advice that possible coal exports were insufficient justification for expansion,[82] the Harbour Board was prepared to take the significant risk of further modernising and expanding facilities even before guaranteed coal contracts were signed. The Coordinator General confirmed that it would be some time before Moura-Kianga coal shipments exceeded port capacity, but the Harbour Board realised that the port would eventually need to be deepened and the capacity of the coal loading facilities increased.[83] The Board therefore responded positively to the request by Mitsui Bussan Kaisha that immediate steps be taken to allow large coal carriers being built by Mitsui Shipping to berth, and to speed up loading from 400 to more than 500 tons per hour.[83]

Firm orders for coal from Mitsui for the following seven years and the financial support of the Queensland and Commonwealth governments gave the Harbour Board confidence in its future and helped overcome the problems of establishing facilities adequate for the early years of trade. Initial difficulties arose over financing a concrete platform for the coal stockpile and an increased berthing depth at the loading jetty. Although these appear relatively small expenditures in the overall project, delays caused concern to Mitsui and could have reduced its orders. Evans indicated to Cabinet that Thiess felt a "growing sense of lack of confidence as a result of which the whole trade might be lost". Evans suggested that Thiess Bros. be allowed to construct and finance the platform, with the Coordinator-General's agreement that the Harbour Board would be guaranteed funds from the 1961-62 program.[84] Because of the benefit to the nation, as well as the urgency of the need, the Commonwealth agreed to pay 50 per cent of the cost, half as a 15-year loan and half as a grant. The Harbour Board borrowed the remainder under its debenture programme and was recompensed by the State for interest and redemption payments for the Federal advance. The combined efforts of the Commonwealth and State governments and the Gladstone Harbour Board allowed the first exports to go ahead as planned.

The Harbour Board recognised that this was a short-term approach and that eventually the coal export trade would require a totally new facility. Planning began to establish this at South Trees at an estimated cost of $6m.[85] As international economic conditions became tighter, there was increasing pressure to keep transport costs down and in 1963

Cabinet was asked to help improve facilities still further to accommodate larger ships. Approaches had been made to Evans and Chalk by the Gladstone Harbour Board and by the Executive Vice President of Mitsui and Co., who outlined the need to handle larger ships to meet planned annual production of 2 million tons and to minimise costs. He further argued that with the increased living standards in Japan, and the likely liberalisation of trade, imports of sugar and other foodstuffs could be expected which would provide additional justification for the expense.[87] It was essentially the prospect of the coal export trade which spurred the development of the port of Gladstone which subsequently became the hub of shipping for sorghum, wheat and beef as well as for alumina and coal to Japan.

Arrangements for the CQCA mines involved much less State participation. Coal was to be shipped through a new port built by Utah at Hay Point, It was a large, efficient, world-class facility, serving the company's program of international market development through its mines at Goonyella, Peak Downs, Saraji and Norwich Park and much later its steaming coal mine at Daunia. The new port was the type of facility which the Economist Intelligence Unit had suggested was essential for the State's economic growth[88] - large-scale, developed well ahead of the time when it would be fully utilized, and therefore extremely risky, no matter how definite future prospects might seem. The company was supported by the government in the surveying and construction of the harbour and associated works, and through a financial contribution to the costs. This investment in highly efficient facilities, provided on the company's initiative, was an important element in its ability to market its coal not just in Japan but in more distant locations as well.

The extent to which economies of scale can be achieved is the principal determinant of handling costs at ports and

Queensland's early development of ports capable of handling large ships, with appropriate stockpile facilities and loading rates gave an advantage over the smaller and more dated ports in NSW and thus over alternative mines which did not have such high infrastructure costs associated with isolation. The arrangements for port facilities for the Thiess and CQCA mines illustrate two quite different sets of relationships between State and business, with different levels of State-business cooperation, largely derived from the different needs of the companies involved.

Even after the new Mining Act in 1968 removed the necessity for the separate negotiation and ratification of conditions of access to resources, the special arrangements for the provision of infrastructure were negotiated separately for each venture, using the Utah Agreements as a basis. The process of infrastructure provision thus became the focus of the evolving relationship between the State and mining companies. The system of separate negotiation is also a partial explanation of why mining capital cannot be regarded as a single homogeneous unit, since each company, and, indeed each project of particular company, was treated individually. The outcome of each negotiation depended on the relative bargaining strengths of the State and the company, the economic and political circumstances at the time, and the negotiating skills of the participants, especially Ministers Camm and Chalk and, particularly after 1974, Under-Treasurer Hielscher.[89] Seen from the perspective of the 1990s it is evident that State representatives were extremely successful in capturing substantial benefits from the companies, though at the same time the system was devised with the objective of breaking the bottleneck to development caused by backward and inadequate infrastructure facilities.

FINDING MARKETS

The opportunities for the sale of coal to Japan arose when developments in the Japanese economy and in the steel industry in particular created an interest in diversifying sources of supply and in suppliers who could reliably provide very large quantities over long periods of time. Turning the opportunities into sales required the cooperation of miners, governments and the Japanese themselves.

The coal mines in the 1960s and 70s were developed specifically for the Japanese market, first for coking and much later for steaming coal. There were some suggestions that Thiess would find markets in the Argentine where a steel industry was being established with Japanese capital,[89] and Utah held out the prospect of sales in the USA and Western Europe, though these did not eventuate in any substantial quantity until the late 1970s.[90] The size and rate of growth of the Japanese market provided the basis for establishment and expansion of the mines. The first sales were made and the first contracts obtained on the initiative of Les Thiess and he and officials of Mitsui Bussan Kaisha persuaded Mines Minister Evans and, through him the Cabinet, of the potential of the Japanese market. Government and business worked together to translate this potential into specific sales and contracts.

Government assistance had to be sought right from the outset when the accidental mixing of a trial shipment of Kianga coking coal with Callide steaming coal threatened a premature end to any possibility of a coal trade. Mines Minister Evans reported to Parliament that he had gone to Japan at the request of the Premier and after "strong representations from the Gladstone Harbour Board" to try to sort out the problem and overcome Japanese mistrust.[91] Thiess was fined $18,000 for breach of contract, later reduced to $1800, and Evans gave a written undertaking that the Government Fuel Technologist would in future inspect coal being loaded. Thiess was also assisted in the resolution of this problem by Roy Duncan[93] whose long experience in Japanese trade and personal contacts with Mitsui helped to convince the Japanese to give Thiess a second chance. However, it was Evans' view that, despite this assistance, "the position would have been most difficult" if he had not gone to Japan with the Premier's authority and "Les Thiess would agree that they may not have got the contract" without Government help.[94]

The key to the market was the Japanese steel industry which had begun to recover its production levels when Cold War tensions in the late 1940s changed American attitudes to the reconstruction of Japan's industrial base. The United States provided assistance to build a strong Asian ally and special procurements during the Korean War, coupled with rising domestic and world demand, generated the financial and commercial basis for modernisation of the steel industry. During the First Modernisation Plan, 1951-55, costs were reduced and production capacity increased through renovation and extension of existing facilities. The Second Modernisation Plan, 1956-60, expanded capacity through construction of integrated iron-steel works with new giant blast and basic-oxygen furnaces which reduced the dependence on inputs of scrap-iron whose supplies were unreliable and prices unpredictable. The Japanese domestic market which absorbed around 75 per cent of production expanded rapidly to meet demand generated by heavy investment in manufacturing, public utilities and infrastructure and rising consumption of durables such as autos and refrigerators. The consumption of steel per capita rose from 242 kg in 1962, the lowest in the industrialised world, to 500 kg in 1968, the third highest.[95]

Queensland's export coal industry developed in response to the increased demand for coking coal which resulted from the Japanese business boom and the implementation of plans for expansion of the steel industry. Trade was facilitated by the siting of new Japanese steel plants near the coast and by the construction of new ore/coal carriers built through cooperation between steel and shipbuilding industries and the Japanese government. Simultaneously, Japan's reserves of soft coking coal were being depleted, American supplies of best quality hard coking coal became more difficult and expensive to obtain to the levels Japan required, and the steel industry pressed a reluctant Government to permit an increase in cheaper imports. The Japanese steel industry began to seek long-term stable supplies of raw materials through investment in new mines in Malaya, India, the Philippines and Australia, so that Thiess expected that both hard and soft coking coal would be able to be sold by the time a new railway line was built. As the 1970s progressed, the expansion of Japanese requirements beyond expectations made it possible to sell coals from both obviously viable deposits and from mines which would have been of doubtful economic value in other circumstances.[95] Long-term contracts rather than spot sales became the basis of planning as the enormous impact of rising US coal prices on the Japanese steel industry led to a search for security of pricing as well as of supplies.[96]

The developing trade between Japanese steel interests and Thiess Peabody broke new ground on both sides. Consequently, numbers of Japanese delegations representing steel and coal interests, financiers, trading houses and government visited Queensland during the 1960s inspecting mines, ports, railways and other facilities. The first major mission in August 1958 comprised representatives of Fuji Iron and Steel, Nippon Kokan Kaisha, Sumitomo Metals Industries Ltd., Amagasaki Steel Co. Ltd., Yawata Iron and Steel Co., and Mitsui Bussan Kaisha, including Mr. K. Ejiri. They had discussions with the Premier, Treasurer Hiley, Mines

Minister Evans and Mr. G. Clark, the Under-Secretary for Mines, the Coordinator-General, Railways Commissioner and the Chief Engineer of Harbours and Marine. Such visits helped to build up a network of contacts between importers, exporters, Ministers and public officials and lay the basis of mutual trust and understanding which was important in securing further sales and in handling difficulties such as the downturn in the Japanese steel industry in 1971 and the inability of Thiess Peabody to meet its initial contracts because of water, electricity and mechanical problems.

Minister Evans and his Departmental Head, G. Clark, were particularly active in helping to smooth the way for contracts for Moura-Kianga coal. They made several trips to Japan with Thiess, for example in late 1961 for discussions with iron and steel industries and to assure them of government support and that Thiess would be granted a franchise. The importance of this guarantee was underlined by a major breakthrough in the trade shortly afterwards - the awarding of the first contract even before confirmation that Peabody would enter the partnership.[98]

Utah's first sales from Blackwater were facilitated by Mr. George Ishiyama, a Japanese-American from San Francisco, who had been hired as a consultant to set up initial contacts with Japanese steel interests and the Japanese government.[99] The process was assisted by Utah's partnership in Mt. Goldsworthy Mining Associates which was exporting iron ore to Japan and by its earlier experience selling to the Japanese from its mines in Canada and Peru. By 1963 negotiations had advanced sufficiently for samples from Blackwater to be sent for testing, and a major contract was obtained with Mitsubishi Shoji Kaisha for 13.5m tonnes over 10 years, subsequently expanded to 21.2m. tonnes and then to 28.2 m. tonnes, plus spot sales. Regular shipments began in January 1968 and "generated substantial cash flows while the more expensive CQCA mines were being built".[100]

Negotiations for the Blackwater coal and the formation of the CQCA joint venture with Mitsubishi in 1965 gave Utah even greater confidence in the Japanese market and in prospects for long term sales.[101] QERAC members considering the quantity of coal Utah would be permitted to export were asked to consider contracts" not for 10,15 or 20 years" but "of long life ... with attendant stability which should be advantageous to the State".[102] Contracts of this length had not previously been obtained by Queensland coal producers and, together with commitments from government, were a fundamental prerequisite for the raising of long-term finance based on predictable costs and revenues. To the new Premier, Bjelke-Petersen, the length and magnitude of these sales contracts seemed to herald "an era of unparalleled development"[103] that would "unlock the industrial potential of central Queensland"[104] and give the State the international status it had once sought through foreign investment in secondary industry at the start of Coalition Government in the late 1950s.

Thiess and Utah played different roles in the development of the export coal industry. Thiess was the pathfinder - the local businessman who first saw the opportunities and took the initial steps to take advantage of them, but who needed the close cooperation of the State in making the major adjustments required by market development. Utah was the model of an experienced international company, with access to substantial capital and with established connections in Japan who demonstrated the capacity of a large and efficient operation to be competitive in any marketplace.

STATE-FEDERAL CONFLICT

Just when the State's future seemed assured by coal exports to Japan, it appeared to be threatened by Federal concern over the prices at which those contracts had been negotiated. Early in the 1970s, public disquiet about the balance between open-cut and underground mining and the relatively low prices for Australian compared with American coal led the Commonwealth government to consider the possibility of export controls. Groups such as unions and conservationists, whose views went largely unheeded in States such as Queensland, and interests in traditional mining areas, were able to exert concerted pressure at federal level. The Federal Minister (Mr. Swartz) told the Japanese that the cost-plus method of pricing did not seem to him "the best arrangement for the long term association between two countries". He indicated the Commonwealth was considering withholding export permits, as it had done for iron ore and wood chips, until fairer prices were negotiated.[105]

Open conflict developed between the Queensland and Commonwealth Governments after the election of the ALP in 1972 and continued, though less bitterly, with the Fraser Government after 1975. Though the conflict with the Whitlam government was ideologically based, its proximate cause was the downturn in the Japanese steel industry in 1971 which exposed the vulnerability of the coal-based trade links and provided an important test of the relationship between Japan and Queensland in particular, and Japan and Australia in general. One of the bases of dispute was the divergence between Commonwealth concern for appropriate pricing for the benefit of Australia as a whole and State interest in maximising output and mine development. Throughout the 1970s mining products, including coal, made a significant contribution to Australian exports and National Income. When both volumes and prices seemed undermined by cutbacks in Japanese steel production and by rising inflation and international monetary instability, the Commonwealth moved to develop a national resources policy. Among other considerations, it questioned whether contracts used as the basis of trade in the 1960s were appropriate to the changed economic conditions of the 1970s and provided an environment in which rational decisions could be made regarding the pattern of trade specialisation. Driven by community and internal pressures, Party policy and by international events it could not control, Commonwealth attempts to lead and coordinate the response to changing circumstances brought it into conflict with States determined to pursue their own interests and control development within their own borders.

Queensland mines were a focus of criticism because the concessional terms on which the State granted access to resources allowed mines to be profitable even at low prices. In addition, Queensland's interest in maximising mine development made it possible for coordinated Japanese purchasers to stimulate excess capacity and then act together to time their now-reduced purchases in such a way as to put pressure on the separate and competing Australian suppliers to accept lower prices. Utah's prices were of particular concern since, because of its size, the company dominated the Australian market, forcing other miners in Queensland and elsewhere to follow its lead. It was alleged that Utah's coal was underpriced relative to comparable coals imported by Japan from elsewhere because its mines were open-cut only, its port at Hay Point was the largest and most economical in Australia, it needed "massive tonnage contracts to offset high initial mechanisation of open cut mining" [106] and it had been so generously treated by the Queensland Government in its rents and royalties.[107]

Federal Minister Connor shared with the Queensland Premier a view that a future Australia would "ride not on the sheep's back but in the coal truck,"[108] but they disagreed vehemently on whether the Commonwealth should try to improve Australia's bargaining position in price negotiations between individual Australian sellers and Japanese buyers combined in a monopsonistic cartel. The Labor Government's policy of "benevolent surveillance"[109] involved export controls on all minerals and energy resources and all contract details had to be approved by the Department of Minerals and Energy prior to the granting of export permits. Mr. Connor tried to organise coal exporters into a common front against the Japanese steel mills, intervened directly in 1973 and 1975 to demand renegotiation of contract prices, and refused to permit exports from Norwich Park because he said the company should increase production by going deeper in its existing mines. Nor would he allow Utah to raise the output of the CQCA mines to 30 per cent of the newly-established reserves of 6.1 billion tons and indicated that when the agreed 300 million tons had been extracted, the mine could be sold to an Australian consortium.[109] To capture some of the windfall profits from the resources boom, the Commonwealth introduced a Coal Export Levy which was so structured that Queensland mines, especially Utah projects, carried the bulk of its burden.

TABLE 6.1

SUMMARY OF CHANGES TO COAL EXPORT DUTY

Date	High Quality Coking per tonne	Other Coking per tonne	Non Coking pertonne
	$	$	$
10 Aug 1975	6.0	2.0	2.0
9 Oct 1975	6.0	2.0	2*
17 Aug 1976	4.50	1.50	Exempt
16 Aug 1977	3.50	1.00	Exempt
16 Nov 1979	3.50	1.00	Exempt
18 Aug 1981	3.50	1.00	1.0
29 July 1982	3.50	Exempt	Exempt

* Exempt if ash content is less than 14%

Source: Utah Development Co. Submission to the Australian Senate Standing Committee on Trade and Commerce, Inquiry into Australia's Coal Export Industry July, 1982, p.34.

In addition, following the Fitzgerald Report,[110] the

Commonwealth acted to at least reduce the extent to which the mining industry was a net beneficiary of tax concessions, particularly those related to accelerated depreciation and the special investment allowance. In addition, a branch profits tax was imposed to eliminate tax advantages to companies such as Utah which operated in Australia via a branch office rather than by an Australian-registered subsidiary. Queensland resented the Commonwealth's use of its controls over foreign trade to override the State's intentions with respect to mineral development within its own borders, and to remove the competitive advantage of Queensland mines resulting from their efficiency and the nature of the State's mineral policies.

The Queensland Government and the coal companies, especially Utah, were united in opposition to the Commonwealth's resources policy. The companies generally sought to reach an accommodation within the Federal Government's policy boundaries so that development could proceed, although Utah threatened not to continue with its plans for Norwich Park.[111] The Australian Coal Association (formed by the Queensland Coal Owners' Association and the NSW Colliery Proprietors' Association) sought talks with leaders of the Japanese steel industry such as Mr. Tanabe of Nippon Steel to develop acceptable guidelines for future contracts.[112] A delegation from members of the Association - Clutha, Coalex, Utah and Thiess - approached Minister Connor and his Department Head, Sir Lennox Hewitt, reportedly with little result. Queensland, together with NSW and Western Australia, considered a legal challenge to the export levy. Premier Bjelke-Petersen campaigned vigorously against the Labor Government, drawing on long-held suspicions of anti-Queensland bias to argue that Federal resources policies were motivated more by Whitlam and Connor's power base in the NSW Labor Party than from genuine, though misguided, concern for Australian mining as a whole.

Despite the defeat of the Whitlam government, the Queensland Premier was not able to ignore the fact that the international market situation and the climate of public opinion had changed since the 1960s. Towards the end of the 1970s, ruling market prices began to re-emerge as the basis for coal sales and the period of apparent security of contracts with escalating prices drew to a close. This was associated with international economic changes, the beginnings of a restructuring in the Japanese economy and the oversupply of coal as many of the developments planned on the basis of earlier demand forecasts and encouraged by leasing policy came on stream. Some new developments were aimed at other than Japanese markets to obviate direct competition with existing mines, to try to end the monopsony position of Japanese steel mills and because some projects such as Nebo and Hail Creek experienced difficulty in obtaining contracts. As early as 1973-74 Utah had sold 400,000 tons from its Peak Downs mine to Italian steel companies and the viability of its Norwich Park mine was based on the sale of about one-third of its output in Europe. In some sections of the mining industry, growing confidence and maturity were reflected in a wider view of prospective markets, and of the possibility of resource-based secondary industries rather than simply the export of unprocessed resources.

As Queensland's economic prosperity became increasingly dependent on the development of the coal industry, the State had a vested interest in supporting the commercial relationship between exporters and the Japanese steel industry. When the mining industry and therefore the relationship with Japan appeared threatened by Federal attitudes to contract prices, mining practices and foreign investment, Queensland's staunch defence of its interests raised important questions about the boundaries of State and Commonwealth powers, especially in relation to the terms of foreign trade and investment where the domestic economy of a

State was largely dependent on international trade.

FINANCING PROJECTS

In the dispute between the Queensland and Federal governments, issues of resource extraction, pricing and marketing were inextricably linked with policies towards foreign investment. The large amounts of investment capital, the technical expertise in large-scale open-cut mining and bulk transport, and the international outlook needed for major mining developments were predominantly available offshore. McKern[114] estimated that at the time perhaps as few as three Australian companies had the expertise to even consider financing a development such as Kianga-Moura. In the 1960s both State and Federal governments expended considerable effort to develop an attractive environment to encourage such investment. Although investment by the Japanese themselves was a relatively small proportion of total funds, the importance of Queensland resources to Japanese industry made attitudes to foreign investment an important aspect of the trading relationship.

Both Thiess and the Queensland government recognised that development of the immense reserves of coal which had been discovered was beyond the Thiess Group's resources, despite its size and substance in Australian terms, and that finance would not be easy to arrange for such a risky venture.[115] Because of the involvement of Mitsui in the development of the field and as a customer for the coal, Les Thiess tried to arrange a joint venture with Mitsui taking 40 per cent equity.[116] The Japanese Ministry of Finance would not consent while tight monetary policy and strict controls on overseas investment were still in force, and it was not until later in the 1960s that a recommendation by the Japan Mining Council was accepted by the Finance Ministry and Mitsui joined the venture.[117] Mitsui, however, was insistent that a partnership with an experienced American company was necessary to provide "know-how" for the extraction and handling of the tonnages involved. Peabody, the second-largest coal company in the USA, was eminently suitable. Peabody was interested in working with Mitsui in Australia and took 50 per cent equity in the project, at the same time making available the world's most modern and powerful equipment for moving earth and coal, and arranging "considerable loan funds".[117]

To some extent the ability of Thiess to obtain finance from overseas and the form which it took reflected State and Commonwealth attitudes to foreign investment generally and the desire of the Queensland government for rapid development. McKern argues that in the 60s foreign investment was not an issue on which Australians placed any significance.[118] The States' main concern was to get projects under way as soon as possible, subject to satisfactory agreements on royalties and infrastructure. In Queensland, just as Premier Hanlon in 1947 was more concerned with the development of Blair Athol than with the fact that the proposed developer was a foreign investor,[119] Treasurer Hiley in 1963 discounted the risks of relying on foreign capital and was "not prepared to confine the pace of Australia's development within the level of the day-to-day savings capacity of our own people".[120] Hiley and Hanlon would probably have agreed that foreign investment might be preferable to Australian investment from the south, turning Queensland into a "branch office State" in mining, as it was in industry and commerce. Queensland welcomed the Commonwealth's "open door" policy towards foreign investment in the 1960s since it allowed the Queensland mining industry to develop independently of the centres of Australian capital in Sydney and Melbourne and at the same time gain the benefit of international expertise.

Senior State politicians and bureaucrats engaged in an active programme of visits and contacts with existing and potential investors to maintain the impetus for foreign capital inflow, especially into mining. For example in 1968, Hiley, Chalk and Evans visited Peabody in the United States and Camm and Healy went to Canada, Japan and the US to visit firms who had invested in Queensland mining "and those we hope will continue to support our mineral exploration and development with hard cash investment".[122] A Parliamentary Mission to Japan in May and the Premier in June 1968 met representatives of Mitsubishi and other firms involved in Queensland minerals and agriculture. The visits were designed to reassure investors of continuing government support, to project a progressive image of the State and to maintain a high level of interest overseas in Queensland projects. The Government indicated it would leave no stone unturned in the pursuit of maximum mining development because of the industrial projects established or projected which were based on mining including the Townsville copper refinery, salt processing, mineral sands beneficiation and the alumina refinery.

With the election of the federal Labor Government in 1972, the climate for investment in minerals changed dramatically. Mr. Connor intended that existing levels of foreign ownership should not rise, but should be progressively reduced with the objective of promoting Australian ownership of energy resources (coal, oil, uranium, and gas) and Australian control of all other mines. The Commonwealth indicated that it would be opposed to the extension of Utah's leases, and when Kennecott Copper was forced by the United States courts to sell its Peabody interests, Commonwealth action ensured they were sold to Australian shareholders. The Queensland Premier pointed to a sharp drop in foreign investment in mining exploration and development as evidence of the ruinous effect of Labor policies, ignoring the importance of the collapse of the international commodity boom, the emergence of stagflation, and the reported willingness of the Japanese to invest via the AIDC rather than taking equity positions.[123] The Premier's response to the ALP's resources and foreign investment policy was to utilise the Senate to promote the interests of the State and its mining industry allies, to outsmart the Government in order to ensure the Opposition retained control of the Upper House and to challenge the constitutional security of the Whitlam Government. The opposition of the States, particularly Queensland and Western Australia, was able to frustrate many key features of Labor's resources policy and lead indirectly to the actions which precipitated Labor's dismissal.

But the Whitlam government's policies had been a reflection of changed community attitudes to foreign ownership of Australian resources and were retained, though somewhat modified, by the Fraser government. Mr. Bjelke-Petersen continued to criticise policies which he felt were delaying the expansion of Queensland mines,[124] and the National Party at both State and Federal levels objected to the rejection of attempts by the Japan Electric Power Development Company to buy 20 per cent interest in Blair Athol. But foreign investment was clearly a Federal responsibility and, particularly when policy appeared to have public support, there was little the regional State could do but accept it.

CONCLUSION

Opportunities for the Queensland-Japan coal trade were made possible by changes in the international market for resources, especially by the increase in demand for coking coal by the Japanese steel industry. This coincided with the first postwar surplus of coal in Queensland and a recognition by business and government that overseas markets would have to be found or production curtailed.

The initial impetus to take advantage of the opportunities in Japan was provided by private enterprise, especially Les Thiess and Utah, encouraged by the Japanese themselves. Thiess took the risks of exploration, involved the Japanese in exploration and planning, and obtained the first sales contracts. Importantly, he was instrumental in persuading the Mines Minister of the possibilities in sales to Japan and through him begin a change in the government's attitude to the nature of mining and the conditions under which it should be controlled. Utah's ability to access substantial financial resources and the company's international experience enabled it to organise exploration and mining on a scale previously unknown in Queensland and reinforce the growing view that the coal export trade could be the stimulus for Queensland's economic growth.

At the outset only Thiess' persistence and the encouragement of the Japanese moved the project forward in the face of government indifference. The government's priority was the development of secondary industry to broaden the State's economic base and it was unwilling to take the risk of supporting such a speculative venture which seemed of marginal relevance to the State's economic future. It was the success of Thiess and Utah in finding extensive coal deposits and the involvement of companies of the size and stature of Mitsui and Mitsubishi which led the government to identify a complementarity of interest in the companies' desire to develop coal exports and the government's aims of economic growth and the establishment of its own status as progressive and stable.

From that time, the efforts of individuals and companies were supplemented by State activities to attract further investors and to enhance the competitiveness and profitability of mining companies through generous conditions of access to resources and work by the Mines Department to delineate more accurately the extent of Queensland's reserves. The State became involved in securing early sales, and guarantees of government support were an important prerequisite for convincing customers of the long-term viability of mines, obtaining long-term contracts and putting together large-scale financial arrangements. The concerted effort of private enterprise and government was essential in establishing the trade.

Mining, especially coal mining, became the dominant sector of capital in Queensland, and the State government assumed the role of defending the industry against efforts of the Commonwealth to control foreign ownership of resources, capture through special taxes some of the profits of mining and insist on world-market prices for coal contracts. The resulting conflict between State and Federal governments was exaggerated by the styles of the participants and the appeal by the Premier to regional loyalties and to Queensland's long-standing mistrust of the south. More significantly, the conflict related to the boundaries of the respective powers of the States and the Commonwealth in dealing with an area of vital interest both regionally and nationally. The resolution of the conflict reinforced the understanding that State powers were severely curtailed by the Commonwealth's ability to use its Constitutional authority over foreign investment and external trade to override State policies, but also pointed to the need for a workable consensus on policy goals and the methods of achieving them.

Despite the State's staunch defence of miners and the importance of mining for Queensland's economic growth, the interests of the companies and the State were neither identical nor static. Once the export coal industry became successful, the State's desire for development was overlaid by a recognition that it could bargain with the companies from a position of strength to obtain both capital assets and an income stream with a minimum of risk. Innovative politicians and bureaucrats such as Chalk and Hielscher developed the system of infrastructure financing which carried initial benefits for the companies, but locked them into large tonnages and provided significant profit components to the State which could then be used to fund other priorities. When market conditions became more competitive, these arrangements reduced the flexibility of the companies to respond to changing circumstances.

The State was not able to control the forces which provided the opportunity for the export of coal to Japan, but could and did decide for itself how to respond to the desire of the companies to take advantage of the prospects as they arose. In the growth of the trade, private enterprise recognised and responded to the opportunities presented by the international market, but the pace and pattern of development was determined by commercial considerations, modified by the policies of State and Federal governments and by the changing priorities of the community towards resource development.

Galligan [125] argues that the Queensland-Japan coal trade was driven by internationally determined market opportunities which companies such as Utah exploited and to which governments responded. The complementarity between business and government resulted in a partnership which was able to overcome the obstacles to the development of trade. This chapter takes a slightly different view, contending that, from Queensland's perspective, the central dynamic was provided by the companies and individual entrepreneurs who chose the pace and extent to which they wished to respond to a market, admittedly one established by forces beyond their control. The cooperation of the State apparatus was a crucial factor in allowing business to develop the coal trade, in influencing the direction of industry growth, and in modifying commercial decisions. But the partnership of State and business, enhanced in Queensland by a traditional commitment to decentralised development, was only partial. State interests in the security of future resources, in capturing some of the profits of the coal trade, and in maximum development caused difficulties for firms as they tried to adapt to changing conditions.

A central theme of this thesis is that many opportunities for trade existed and were identified in the prewar years. However, they were not developed for a variety of reasons including the lack of pathfinders to take risks and lead the way, and because business acting on its own was not able to take full advantage of trade prospects without the cooperation of government in providing infrastructure, an attractive investment climate and the legislative basis for the State's industries to become competitive internationally. When opportunities arose in the postwar years many of them were able to be successfully exploited, especially in beef, sugar, coal and minerals, because this time State and business worked together to overcome obstacles and to change the size and orientation of those industries. This cooperation, however, was only partial, as this chapter has illustrated with respect to the coal trade.

CONCLUSION

This thesis set out to examine how government and business interacted in the development of Queensland's relations with Japan and how the State dealt with this major area of economic policy which formed the backbone of Queensland's postwar economic development, tied the State in to the international economic environment and became the focus for many of the most contentious trade and political issues between Australia and Japan. The analysis developed in the case studies of four of Queensland's major export industries examined the patterns evident in the key political and economic decisions and the major issues and turning points of trade growth in the context of the traditions of state-business relations in Queensland and the general theories of the role of the state in a modern capitalist economy. The studies show that the development of the relationship was not a simple process of producing, mining and selling primary products and raw materials. It was a far more human and personalised outcome of interactions between individuals, business interests, local, State and national governments and the Japanese themselves over more than 50 years.

In general, the argument has been that changing international political and economic circumstances created opportunities for Queensland-Japan trade which private enterprise identified and was able to exploit with the cooperation of an active and interventionist State apparatus. The interactions of State and business followed a pattern consistent with Queensland traditions, but expanded and made more complex as the growth of trade changed the nature of the State's economic structure and the vision of its future. State and business acted both separately and together, within Queensland itself, within the wider context of the federal system, and in relationships with Japanese firms and officials, forming an intricate network of relationships which changed over time according to the interests and needs of the participants and the changing realities of the economic and political environment.

Although the focus of this thesis is on the roles of business and State in promoting the growth of trade with Japan, it is evident from the case studies that Queensland, like the small states analysed by Katzenstein[1], could not create the opportunities for trade, and had little impact on the international environment in which trade was conducted. Rather, the State and its businesses responded to market prospects established by forces beyond Queensland's or indeed Australia's boundaries. The principal determinants of potential markets were the growth of the Japanese economy and the changes in bilateral arrangements and in multilateral and regional developments, pressures and obligations which provided the framework for trade and allowed the State to capitalize on its strong comparative advantage in the production of agricultural goods and raw materials.

In the 1960s and early 1970s the expansion of the Japanese steel industry created markets for coking coal and for a range of other mining products such as copper, zinc and bauxite. Restructuring of the Japanese aluminium industry transferred demand from bauxite to alumina for which Queensland was well positioned. Similarly, structural recession and industrial contraction were fundamental causes of the problems which emerged in the late 1970s and 80s as sections of Queensland's mining sector found themselves tied to industries such as steel-making which were depressed and had begun to decline in Japan's overall economic pattern. Rising levels of disposable income and changes in lifestyle which accompanied Japan's industrial growth underpinned the demand for Queensland's rural products, although opportunities created by economic complementarity were restricted by political factors in Japan and elsewhere.

Rural exports in particular were held back in the 1950s by arrangements with Britain and the Commonwealth which reflected the prewar dependence of Australian agriculture on those markets and the desire of the parties in both pre- and post-war periods for security of supplies, sales and prices. The 15-year Meat Agreement prevented Amagraze from making sales to Japan, while the British Commonwealth Sugar Agreement, as well as the ISA, limited the sales of sugar. The negotiation with Britain in 1956 of more flexible arrangements for trade with non-Commonwealth countries, the reduction in Commonwealth preference, and the decline in the political and economic importance of the United Kingdom for Australia were important factors allowing and giving impetus to trade with Japan. These changes were complemented by the improvement of official Australia-Japan relations which underpinned the establishment of commercial contacts. The Peace Treaty in 1951 was an essential prerequisite for the development of the relationship, as was the recognition by the Federal government and Australian business of the need to accept Japan into the trading arrangements under the auspices of GATT. The Commerce Agreement of 1957 confirmed the political commitment to the development of the Australia-Japan relationship, clarified the right of access for some products such as sugar, and helped to reduce protectionist and anti-Japanese sentiments which impeded the two-way flow of goods and were a legacy of the war and of prewar trading experiences.

Even after changes in international arrangements removed the formal barriers to trade, the strength of Japanese demand for rural products was controlled by political factors. Traditional protection of Japan's domestic rural producers imposed barriers to trade, especially in beef, and created uncertainties in the levels of demand for beef imports which were a severe handicap to production management. The problem was exacerbated in the mid-1970s by Japanese concerns for the security of food supplies and their consequent efforts at self-sufficiency, and in the 1980s by the growing bilateralism between Japan and the United States as Japan responded to US pressure to reduce the trade imbalance between them. The political economy of US-Japan trade relations became increasingly important to Australia's (and Queensland's) position in the Japanese market, with questions going beyond the restrictive and unstable conditions of market access which had dogged the Australia-Japan trade in rural products.

Queensland producers, like those of Australia generally, came to realise in the mid-1970s that security could not be provided by long-term contracts with Japan as it had been through agreements with Britain in the 1940s and 1950s. The beef and sugar disputes and difficulties over coal contract prices dispelled the optimistic belief which had developed during the years of strong market growth that Japan would continue to provide a profitable and ever-larger outlet for Australian farm and mining products into the indefinite future. The vulnerability of export-oriented industry to external market and political forces was not a new discovery. On the contrary, it had been well known in the prewar period, especially to the wool and cotton interests adversely affected by the trade diversion dispute, the mining and pearling industries caught up in Japan's southward advance, and the sugar industry which accepted tight controls in an effort to achieve stability. Fear of the volatility of international markets underlay the reluctance of the sugar industry to expand in 1963, the insistence on an Exchange of Letters between Governments as part of the 1974 long-term sugar contract, and the advice of the Australian Meat Board to beef producers not to concentrate exclusively on the production of types of beef suited only for the Japanese market. The importance of market security had been set aside or downgraded during the resources and commodities boom of the 1960s and early 1970s, and it came as something of a shock to Queensland government and business to be reminded that the Japanese market could not be taken for granted and that there were substantial problems of management for an export-oriented economy, especially for a small State such as Queensland where market opportunities were created by international and political changes beyond its control.

Taking advantage of market opportunities in Japan, at least up to the mid-1960s, required such extensive and far-reaching adaptations that trade and industry development was very much a pioneering enterprise in a State which could be regarded, and indeed regarded itself, as being at the frontier. Queensland's population was sparse, its climatic conditions often inhospitable, especially in the northern and western areas which were important centres of beef production and the site of major mineral discoveries. Its social and industrial infrastructure was largely undeveloped and inadequate even for domestic demand; resources such as coal were barely tapped and only sketchily delineated; industries were small, under-capitalized and inward-looking, and even those such as beef and sugar which were accustomed to exporting relied on political protection as much as economic advantage to overcome a lack of competitiveness and maintain market position.

Exploiting the market openings in Japan required the provision of electricity, water, and particularly transport infrastructure whose deficiencies were identified by the Economist Intelligence Unit in the 1950s, and again by Japanese steelmakers in the 1960s as a major impediment to development. Established exporters had to change their attitude to risk-taking and to the need for responsiveness to market requirements, and some, such as the sugar and beef industries, had to make significant alterations to their production systems. Whole new industries had to be developed, often in harsh and remote locations lacking even the most basic urban and communication facilities. The Japanese market itself was regarded as harsh and uncertain. The characteristics of the postwar marketplace were largely unknown, but the unhappy experiences of the prewar years suggested that the Japanese were tough traders, willing to use every opportunity to further Japan's political or economic objectives without regard to the interests of trading partners. In such circumstances only the state had the authority and the access to financial and administrative resources needed to coordinate and support the funding of infrastructure on a large scale, to provide the economic climate conducive to risk-taking and adaptability, and to ameliorate some of the effects of the harsh conditions of international competition.

In Queensland, the active involvement of the State in developing businesses of international standard which could compete in the Japanese market was nurtured by the high priority accorded the goals of decentralised economic development and relief from the economic domination of business interests in southern States, and by the tradition of willing support by governments of all persuasions for enterprises, including large speculative ventures, which gave promise of propelling the State or a particular region into rapid economic growth. The needs of the frontier and the commitment to economic growth provided a basis for close collaboration between State and business. It was this alliance which mobilized the forces necessary to change the Queensland economy and foster trade with Japan while still maintaining many continuities with the role of the State in economic life over the broad sweep of Queensland history.

State actions and decisions such as its initiatives in the Brigalow and Beef Roads schemes, support for the upgrading and expansion of the Port of Gladstone, and its insistence on downstream processing of bauxite in Queensland were consistent with Fitzgerald's argument that, at least to the end of the 1950s, the state was a "developmental agency". In this role it supported and encouraged projects of particular kinds in particular locations through a selective pattern of government expenditure, but at the same time attempted to ensure an equitable distribution of benefits between business and the community as a whole.[2] Through the 1960s - the period when new mining ventures began and agricultural trade with Japan expanded - concerns about the distribution of benefits appeared to wane. Over-generous terms of access to resources, the encouragement of unrestricted foreign investment, especially in rural industries, and the minimal requirements for environmental protection and the provision of urban and social infrastructure suggested a belief that any development would automatically be of benefit to the community. The State was accused of "developmentalism" - acting to maximise the rate and scale of development and enhance the profitability of private enterprise,[3] regardless of the size and distribution of net benefits or of long-term considerations.

Fitzgerald sees this change in the role of the State essentially in Marxist terms - the State acting in the interests of capital, especially foreign capital, allowing unrestricted exploitation of resources and "deliberately making choices in favour of trans-national companies".[4] While this thesis takes a different view, the Marxist perspective serves to focus attention on the way in which key State decisions were crucial to the success of trade with Japan. State actions cleared the way for projects to begin, enhanced the ability of business to be competitive, and sought to "defend" business against the efforts of the Federal government to alter the balance between benefits accruing to the community and those enjoyed by capital, especially that sector of capital which came to occupy the superstructure of the dual economy. The marxist argument, however, neglects other decisions and actions which demonstrate a more independent stance by the State, which were opposed by and inimical to the interests of capital, or which demonstrated different interests by sectors of business or branches of the State in particular issues. The different attitudes of rural producers and mining interests to the benefits of foreign investment, the hostility of mining companies to increased royalties and to the profit component of rail freights are good examples. In the mining industry in particular, the practice of negotiating separately for each project served to enhance the natural differences between companies arising from their size, experience and financial resources and ensure that mining capital was not a homogeneous unit whose interests could easily be determined. The case studies rather support the conclusion of Tsokhas in his analysis of Australian business[5] that State action was not a simple response to the economic interests of a dominant and unified capitalist class. In the alliance of State and business there were occasions when the State acted in ways which served the interests of capital, but the State could also act to serve its own interests, at least some of which could be achieved through business growth.

The State-business relationship is closer to Lindblom's duality of leadership[6] in which the parties had separate, but interdependent roles. The sections of business engaged in trade with Japan led the State's take-off to economic growth after years of stagnation. This growth underscored the legitimacy of the Country (National)-Liberal Party government in a State where development and the rapid exploitation of resources were the principal criteria by which the success of governments was judged and where the desire to enhance Queensland's status within the federation had traditionally added a political motive to the economic arguments for diversification and industrial growth. The pressure for growth, based on long-standing economic and political motivations, became more urgent when the recession of 1961 emphasised that the Nicklin government, elected in 1957 after twenty-five years of Labor rule, had promised but had failed to achieve rapid development based on secondary industry. Government support for and involvement in managing the growth of Queensland-Japan trade was part of a continuing tradition of State attempts to stimulate the development of Queensland's latent potential. Economic and political imperatives in the late 1950s and early 1960s set the scene for these attempts to become part of a coordinated policy of integrating trade into Queensland's expansion and for the much closer cooperation of State and business.

Within this cooperative effort, entrepreneurial functions were undertaken almost exclusively by business. Business initiatives identified the opportunities provided by Japan's economic growth, changes in its economic structure and in incomes and lifestyles. Companies such as Utah, CSR and MIM, and individuals like Beaver (Amagraze), Palfreyman (Borthwicks) and Thiess took the first steps in seeking out potential markets and developing the means to satisfy them, while "developmental nationalists" such as Mawby and Hibberd worked to ensure that the interests of foreign competitors did not keep Australian resources in the ground. Pathfinders were important in showing what could be done by Queensland firms, in developing the tentative Japanese interest, in convincing a sceptical government that exports to Japan could form the basis of Queensland's economic growth, and in inspiring other firms and individuals to follow suit. As Hielscher put it:

> They send the train off down the tracks
> with all the signals apparently green -
> and then everyone else climbs aboard
> to join in the success journey they
> have started [7]

Timing, quality and technical superiority over competitors were key factors encouraging the rapid growth of Queensland exports, and were largely the result of business initiatives. Timing was partly fortuitous as in the discovery of bauxite, and partly the result of a deliberate policy of positioning the industry or firm to take advantage of expected market growth. The sugar industry expansion of 1963, initiated by the Sugar Board and CSR and supported by growers and millers, was undertaken to meet anticipated sales in the Japanese market. Utah came to Queensland as part of a strategy to use Australian resources and US capital to develop exports to the expanding Japanese steel industry. The grain-fed beef industry began in order to respond to increased consumption of quality beef in Japan as incomes rose and lifestyles began to alter and as part of a deliberate attempt to improve the reputation of the Australian product on the developing Japanese market.

Agricultural success in particular hinged critically on innovation, increased productivity associated with larger farm size, improvements in breeding and management and the adoption of new technology, and on increasing attention to the establishment and maintenance of quality standards to meet Japan's demanding requirements. Many of these improvements depended on the initiative of rural entrepreneurs who pioneered innovative approaches to marketing and production problems. The development of feedlotting, changes in cutting and processing techniques, the invention of chilling technology and improvements in herd management were basic factors in the penetration of the Japanese beef market and represented decisions taken by many different producers and processors, supported by agencies of both State and Federal governments, especially the CSIRO. Innovation by sugar growers, millers and the CSR, backed by the authority of the Sugar Board, overcame problems of sugar quality by a total change in attitude and major modifications to methods of production, handling and processing. Investment by the industry in bulk handling enabled the rapid movement of large quantities of sugar in response to sales opportunities and reduced the costs and delays in handling and shipping. The assistance provided by CSR to Japanese refiners in modernising their plants for bulk handling helped to establish a close relationship essential to the smoothing out of many of the problems which arose in the course of trade.

The State recognised that the sections of business opening up trade with Japan were leading the way to economic growth, breaking through the established patterns of business and increasing the tempo of economic activity, and it accorded these sections a privileged position. Mining industry development was the most visible and remarkable sign of economic progress and its special requirements were met by a flexible approach to accepted practice and to the application of policies and legislation related to land leases, foreign ownership and the access to coal and mineral resources. Ministers and public officials nurtured the tentative Japanese interest in coal and bauxite, going to Japan, helping to sort out problems, being involved in the planning stages with Japanese importers and Australian suppliers, developing relationships with and an understanding of Japanese business interests. State officials were active in promoting a climate conducive to investment through understanding attitudes and visits with potential investors abroad, and in seeking the resolution of disputes in ways which attempted to ensure the continuation of trade and business growth. Branches of the State accepted some of the risks, costs and tasks of development, especially in the coordination and provision of urban and social infrastructure, electricity and water supply, and rail, road and port facilities which were essential prerequisites for financing, obtaining contracts and maintaining an export trade. Japan provided for Queensland business the market which it had tried unsuccessfully to find in the southern States and a replacement for markets lost with the decline of British Commonwealth preference. For the government, the growth of Queensland-Japan trade stimulated the long-awaited development of the State, particularly the northern and eastern regions, and removed its "Cinderella" status within the Commonwealth. In a broad sense, State and business were partners, joint leaders in fostering trade growth and in making the political and economic adaptations necessary to stimulate and expand the relationship with Japan.

However, neither Marxist approaches nor Lindblom's argument provide an adequate explanation for the diversity of interactions revealed in the case studies. Both are too restrictive in suggesting that the interests of capital or business are pervasive and ever-present determinants of State action. If, however, we turn, as Galligan suggests,[8] to a "state centred" perspective from which to view key decisions in the development of Queensland-Japan trade, we see that branches of the State and public officials had real, though limited, power to pursue the State's interests in autonomous ways not explained by Marxist theories or by the concept of the duality of leadership, and exhibiting greater complexity than a simple classification such as "developmentalist" would suggest. State interests included those traditionally important in Queensland history - decentralised economic growth, encouragement of rural industries, enhancement of Queensland's status within the federation, and independence from domination by southern commercial and financial interests. These were complemented by regional objectives such as the establishment of Gladstone as the major port of Central Queensland and overlaid from time to time by other goals such as the development of secondary industry, the establishment of the credentials of the Coalition government, and, as Queensland industries trading with Japan became increasingly successful in providing a springboard to economic growth, the desire for the expansion of the relationship as an end in itself.

All of these factors impinged on the nature of the key political decisions associated with the development of industries exporting to Japan and the management of the trading relationship.

The limits of State action were established and the characteristics of State-business relations influenced by the federal nature of the Australian state. The financial dependence of the State on the Commonwealth limited Queensland's ability to be entrepreneurial in providing public investment as risk capital. The Constitutional division of responsibilities placed the negotiation of the bilateral and multilateral arrangements, and the settlement of international disputes, regardless of their relevance to State development, firmly in the hands of the Commonwealth, except where the State's partnership in the sugar industry gave its representatives an accepted position as active participants in negotiating delegations. Control over exports and foreign investment was also vested in the Commonwealth, although it was rarely exercised with respect to mining or foreign capital inflow until the Whitlam Government came to power in 1972. After that time, the multiple points of access to the political agenda afforded by the federal system enhanced the power of interests such as conservationists opposed to "developmentalism" and allowed concerns in other States and within the national community about such matters as foreign investment and the pricing of mineral exports to be reflected in Commonwealth policies , setting a limit on the ability of Queensland in the long term to promote its interests over those of the wider community as interpreted by the Commonwealth.

Within these limitations, branches of the State, Ministers and public officials were able to pursue what they saw as Queensland's interests and make choices which had a significant impact the process of change, the direction of industry development and the pace and pattern of trade.

Much depended on the character of the responsible individuals and the influence they were able to exert. Entrepreneurial Ministers such as Evans were active in exploring the possibilities for development and exports, in working with local and Japanese businessmen and officials, and in persuading more conservative and hesitant Cabinet colleagues to take risks and seize the emerging opportunities for trade. Pragmatists such as Hiley and Sewell refused to allow budgetary constraints to cause Queensland to lose the bauxite/alumina project to Western Australia, while innovative financial planners such as Chalk and Hielscher turned a potential fiscal crisis caused by the heavy demands for infrastructure into a distinctively Queensland method of earning long-term profits to finance government priorities elsewhere in the community and acquiring significant capital assets at minimal risk. The dominant and aggressively pro-Queensland character of Premier Bjelke-Petersen contributed to the bitterness of the sugar dispute and made it difficult to reach an amicable solution which would leave both sides committed to arrangements for long-term security of the trade.

Key decisions examined in the case studies show many examples of State actions which can be explained only from a state-centred perspective. The persistence with the Brigalow scheme in the face of financial difficulties and rural opposition and the decision to allow the expansion of the sugar industry in 1963 despite severe reservations about market volatility was part of a vision for the State's future and a determination to achieve economic growth. So, too, was the incorporation into legislation of the requirement for downstream processing of Weipa bauxite which extended the decision of developmental nationalists such as Mawby to develop Australia's resources to a commitment to development within Queensland. In the coal industry, the initial refusal of Thiess' and Utah's Franchise applications, the bias towards a proliferation of mines, the method chosen for infrastructure financing, and the provisions for the reservation of steaming coal all indicate that State interests were important considerations even when Government was most anxious to encourage development projects. The State was responsive to the needs of business, but not subservient to it. Public officials could exercise their discretion as to whether, to what extent and in what way the State would contribute to the needs of a particular industry or project.

Within the broad framework of partnership, the precise nature of State-business interactions was heavily influenced by the structures and traditions of the industry concerned, and by the issues and problems which arose in the development of its trade. The beef and sugar industries are two quite different examples. In the beef industry, the State was supportive, but the location of the industry throughout Australia, the mix of products produced on farms, and the diversity of markets reduced the importance of a single State in influencing the direction of industry growth. In addition, the most significant issues in the Queensland-Japan beef trade related to bilateral and multilateral policies and were thus the preserve of the Commonwealth. The reliance on promotion by the Australian Meat Board, the limited functions of the Queensland Meat Industry Authority and the need for national policies on matters such as grading and disease control reinforced the supportive, but somewhat distant relationship between the beef industry and the State.

In the sugar industry, on the other hand, the official partnership of the State was established in complementary State-Federal legislation, and no major decisions could be taken within State approval and involvement. The administration of the industry was delegated to the Sugar Board which shared power with officially recognised and functionally defined associations of millers and growers.

These were more than merely advisory bodies, in both theory and practice, since they were required to produce consensus views on major issues such as expansion for the Japanese market and had power to make decisions binding on members. The Associations and the Board were the vehicles for close two-way communication between government and industry, reinforced at personal level by the presence in Cabinet and government of members with a history of active participation in the industry and by the movement of politicians such as Mines Minister Camm, and before him Premier Forgan Smith, to the Chairmanship of the Sugar Cane Prices Board. This resulted in a shared commitment to collectively-derived decisions and contributed to the fierce defence of the industry by the government in the long-term contract dispute with Japan.

The varying needs, structures and traditions of the different industries involved in trade with Japan led to a mix of formal and informal relationships between business and State, the interweaving of close, consultative decision-making, and more distant, general support. Each of the four industries demonstrated its own pattern of State-business interaction, varying over time, as priorities altered and business confronted the ever-changing realities of the international marketplace.

The case studies of the thesis suggest that both State and business made particular and positive contributions to the collaborative effort and it was this collaboration which fostered the growth of the Queensland-Japan relationship. Queensland as a regional State was active as a supporter, facilitator and co-ordinator, sometimes as an initiator, and most particularly in creating a climate conducive to business and to the overcoming of obstacles to the growth of trade. The essential dynamic of the process came from business itself, especially from the entrepreneurial individuals and companies who identified opportunities, took risks and organised resources and production, paving the way for others to follow. No one specific role adequately describes the functions performed by the State in the development of the relationship - it fulfilled a number of roles which were different in each of the industries reviewed. What was common to all four industries was that the collaboration of State and business served to concentrate the efforts of the separate parties so that they were able to turn the opportunities presented by international changes into the reality of an expanded trade relationship with Japan.

In summary, Queensland as a small regional State was unable to shape the forces which underlay trade opportunities such as those in the Japanese market. It was, however, able to collaborate with private enterprise in enhancing the State's natural advantages, to influence the nature of private enterprise response to trade opportunities, to pursue its own goals of regional development, and to capture for the State substantial benefits from the growth of trade. The key decisions in the growth of Queensland-Japan trade indicate that the Queensland approach to the issues of trade development involved an intricate and complex pattern of interactions in which the State pursued its own interests within the limitations of the federal system and the opportunities determined by international factors. The State assumed not just a single role, but a series of roles along a continuum from close official partnership, through partial cooperation, to general supportiveness of the entrepreneurial efforts of private enterprise. The common element in all these roles was the way in which the combined efforts of State and business made possible and gave shape to the development of Queensland-Japan trade and distinguished the tentative steps of the prewar period from the successes of the years which followed World War II.

ENDNOTES

NOTES FOR INTRODUCTION

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36. J.N. Pierce, "Comalco was away and running", Aluminium no.28, December 1981, p.4.

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APPENDIX A

NOTES ON ARCHIVAL SOURCES

The principal archival sources used in the preparation of this thesis have been:-

The John Oxley Library - a divison of the State Library of Queensland specialising in Queensland history. The Library collection of personal papers, organisational records, unpublished material such as conference papers, and published pamphlets and other documents from government Departments proved particularly useful in the research for this thesis, especially in relation to the sugar and pearling industries and to economic and political developments in the 1940s and 1950s which are only sketchily recorded in other libraries.

The Fryer Library - University of Queensland, St.Lucia.

This Library contains theses submitted to the University, as well as a collection of personal papers and documents related to Queensland and its history. This collection provided a useful source of information relating to Queensland-Japan relations in the prewar period, and to the deliberations of the Bureau of Industry whose records have otherwise been destroyed.

The Queensland State Archives - the official repository of government documents - presents a challenge to the researcher, in both the content and the arrangements of its records.

In the absence of Archives legislation in Queensland until 1992 the preservation or destruction of records was a decision for individual government Departments. Consequently, some records have been preserved only to a limited extent, and some have not been retained at all. In addition, some documents which were originally preserved have since been recalled to Departments and destroyed. Anecdotal evidence suggests that large-scale destruction of documents was a routine practice if a change of government was felt to be imminent.

Matters dealt with by Cabinet present a particular difficulty as no records of Cabinet decisions or submissions were made prior to the election of the Nicklin Government in 1957. The original copy of submissions was returned to the originating Department and preserved or destroyed according to its policy at the time.

Materials which have been preserved are not easily accessible. The collection is organised around the originating Department, with files arranged chronologically, and sometimes by topic. However, records relating to a particular matter may be scattered through several files or the files of several Departments, and, in the general absence of indexing they are come across largely by chance. A number of references which were of particular interest to this thesis were located by searching an index entitled "Items of Interest", containing a miscellany of unrelated matters, filed alphabetically according to the name of the person involved or the name assigned to the particular matter or topic. The problem is compounded by the focus of the Archives on matters relating to family and local history, and the fact that the interest and expertise of many of its staff lie, not unnaturally, in that field.

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