



CHECK AGAINST DELIVERY

PRIME MINISTER

FOR MEDIA

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ADDRESS TO THE INTERNATIONAL PETROLEUM CONGRESS SYDNEY

I am grateful to the Australian Institute of Petroleum for the invitation to open this International Petroleum Congress. The distinguished list of speakers and participants, covering a broad range of energy importing and exporting countries, reflects the importance of the subject of energy in today's world. I congratulate the Australian Institute of Petroleum on its initiative.

The energy problems facing the world today concern all countries, whatever their degree of energy endowment. And these problems can only be overcome by mutual acceptance of their existence and a collective determination to confront them.

That is why Congresses of this kind are important. For they provide the opportunity for formal and informal discussions between individuals from different countries; and, in this way, contribute to a better understanding of the total energy problem.

This Congress, with its theme of petroleum in the Pacific, comes at a time when the task of developing and efficiently utilising our energy resources has won increasing recognition as one of the major challenges to be faced by the world in the closing decades of this century. For the energy problem is a global problem. Failure to make appropriate adjustments, or a lack of investment in energy supply, would mean for the industrialised countries, lower growth and productivity, higher unemployment and inflation.

For the poorer developing countries, without access to energy supplies, higher energy prices and associated lower levels of growth in the major economies, can only mean deprivation and starvation. Worse, these circumstances have the potential to put self-sustained growth beyond reach for these countries.

Energy costs are no less serious for newly industrialising countries which are energy deficient. Their economic prospects are threatened by the erosion of potential markets, the weakening of their balance of payments, the accumulation of debt; all of which may deny them access to raw materials and other industrial input.

For these reasons, energy is a key issue which underlines today the interdependence of our countries. And finding a way of reconciling the interests of the oil producing and consuming countries of the developed and developing countries, will be a major challenge in the decade ahead.

It is a challenge that our part of the world, the Pacific region and neighbouring countries, must face in an attitude of co-operation. For the Pacific region contains a diversity of countries, and from the energy point of view could almost be regarded as a microcosm of the world. It represents both highly developed and relatively under-developed countries. It contains energy exporters and energy importers; and, amongst its ranks, is Indonesia, a member of O.P.E.C.

Further, the region contains a range of energy resources including oil, coal, gas, uranium, oil shale and geothermal resources. The availability of some of these is limited, while others are still to be developed. Nonetheless, such a diversity should enhance the value of this Congress as a forum for the discussion of energy. In this regard, I extend a warm welcome to our traditional trade and energy partners and I particularly welcome the representatives of those countries such as Saudi Arabia, China, Kuwait, and the Philippines who are participating for the first time in an Australian Congress.

The Pacific region is playing an increasing role in world economic and political affairs and is developing increased economic interdependence. These developments are reflected both in changing trade patterns and the growing role of organisations such as the Association of South-East Asian Nations, the Asian Development Bank and the Economic and Social Commission for Asia and the Pacific.

But those developments also reflect the fact that this region includes some of the world's best economic performers. Indeed, the effects of the industrial world's economic slow-down has had less impact on the three non-oil members of the ASEAN group of nations which maintained growth rates ranging from 6 to 9% in 1979.

For Australia's part, over 50% of our exports now go to Asian and Middle Eastern countries and these strengthening trade ties necessarily forge our intra-regional links. As evidence of the growing recognition of common interests in our region, we are funding a high level non-governmental seminar on the Pacific community this week at the Australian National University in Canberra. And ASEAN countries have already recognised the need for regional co-operation in energy matters by forming the ASEAN Council of Petroleum.

Until recently, the Pacific region has imported the vast majority of its energy requirements. For example, Japan continues to have a heavy reliance on oil from the Middle East, as does the Philippine, Thailand, and the U.S.A. However, in order to stabilise the source of energy supplies in the future, countries within the region are working to diversify their energy bases. They are investigating further sources of energy; and seeking a wider range of energy supplies. This process is being aided by such developments as Mexico's increasing ability to export oil; the emergence of China as an important energy source; the increased rate of development of the energy resources in Australia and Canada; and the increasing oil exports of Indonesia and Malaysia.

In addition, Singapore's oil refining capacity has now grown to such an extent that it is a significant supplier of petroleum products to the region.

There is a clear awareness in our region of the challenge facing the world over the next 20 years in satisfying energy needs. However, the task ahead of us all will indeed be a great one and will involve rapid and major restructuring of our energy economies. It will require massive investments in the production of oil, coal, uranium and other traditional energy sources; and even more massive investments - often at the edge of our technological abilities - in the production of synthetic fuels from coal, shale, tar sands and the like. Further investment will continue in the development of alternative liquid fuels such as methanol and ethanol and in the development of renewable energy sources such as solar power.

On the demand side, there will be a need for even greater efforts, particularly on the part of industrialised countries and their governments, to contain demand for energy, especially for oil, consistent with maintaining the efficiency of the industrial base of our countries. What is clear, is that sustained economic growth in the remainder of the century will require further major changes in the Western world's energy usage patterns.

It is worth reflecting on how we have arrived at the position which makes these changes imperative. Over the past five decades the world, including Australia, has come to depend on an ever greater use of energy and a dramatically increasing use of oil. Oil was seen to have many advantages over its alternatives; it was cheap, abundant, easy to transport and to store. Therefore, while in the fifty years to 1975 the world's commercial energy consumption expanded five-fold, oil usage increased more than 17 fold. In 1925 coal accounted for 80% of the world's commercial energy consumption but by 1975 this figure had dropped to 30% and the share of oil had risen to 45%.

The single most important reason for the rapid increase in oil demand was the increasing availability of cheap oil, most of which was being produced in the Middle East and North Africa. From 1950 to 1970, crude oil became significantly cheaper in real terms. On 1 November 1950 the price of a barrel of Saudi Arabian light was \$US1.75. Ten years later, in 1960, the price for the same barrel had risen by 3 cents to \$US1.80. Ten years after that, in 1970, the price had not changed one cent. Over that period prices in general rose by 75% resulting in a substantial decrease in the real price of crude oil. Naturally this decreasing real price combined with increasing supply contributed to the very rapid increase in usage witnessed in the 20 years to 1970. It is now clear - with the benefit of hindsight - that the world was living off its energy capital and that the scarce capital stock involved - natural crude oil - was being rapidly depleted at a price which did not reflect its scarcity and without regard for what would take its place or how much it would cost.

Then the energy crisis of 1973 and 1974 brought a new challenge to the management and policies of Government. Oil consuming countries suffered from a quadrupling of prices by oil exporting states at a time of economic difficulty when we might have reasonably hoped for a progressive, less disruptive change in pricing policy. For the world as a whole, the switch from low to high cost energy overnight helped transform a limited downturn in the world economy into a full-scale recession and worsened an already serious inflation position.

Many countries were affected. But in Australia, as in many overseas countries, the response of the Government of the day was, in itself, a transparent crisis of management and policy. There was some disbelief; even a disposition to act as though the days of cheap oil could be resurrected. However, events in Iran in 1979, and a second dramatic rise in oil prices for the decade, have once again highlighted the need for the world to come to grips with the energy reality.

The signs are now clear that energy consumers are determined to reduce their demand for oil to a significant degree. This determination was highlighted in a communique following the Venice Economic Summit in June this year. Summit countries expressed their intention to reduce the role of oil in meeting their energy demands from 53% to 40% by 1990 and to greatly increase the use of coal and uranium. O.P.E.C. countries have of course been calling for reduced oil demand by the industrialised countries for some time.

The reduction in demand, the breaking of the link between oil use and growth in GDP and the development of new energy resources, will all play major roles in the transition away from oil dependence over the next 20 years. Australia recognises and appreciates its responsibility in this area in our present age of increasing world energy shortage.

Our rich resource endowment carries with it an international responsibility to make our resources available on fair terms and conditions to countries who are less well endowed than ourselves. Developed and developing countries alike are vitally dependent on stable and secure supplies of energy resources. In turn, Australia expects consuming countries to provide stable access to their markets for our resources by way of long-term contracts - whether in processed or unprocessed form. This is absolutely essential if companies are to commit the huge amounts of risk capital which are necessary to bring Australia's resource projects on stream in the 1980s.

Undeniably, Australia's energy resources will become an increasingly important source of energy to the rest of the world. Our greatest is coal; comprising over 80% of our total, identified, economically recoverable energy resources. It currently provides 70% to 80% of our electricity and, in addition, is a major and rising export commodity. Since 1960, annual exports of coal have risen from 1.9 million tonnes to over 41 million tonnes in 1979. And these exports are expected to increase significantly.

For example, the I.F.A. recently predicted that Australia's steaming coal exports could be expected to reach 35 to 40 million tonnes annually by 1990, compared with about 6 million tonnes at present. Australia is well placed to meet this increasing demand.

The changing international energy position has brought new significance to the North-West Shelf energy project, involving capital expenditure of \$4 billion to \$5 billion. It will produce natural gas, liquefied natural gas, liquefied petroleum gas and condensate. Plans for the project are firming up and they provide for the joint venturers to commence exports of LNG by 1986.

It is envisaged that 6 million tonnes of LNG a year will be exported for up to 20 years from that time. The Government last year granted long term export permits for the export of LNG and, subject to the requirements of the domestic market, LPG. These permits provide the necessary basis for the negotiation of firm, long-term contracts with overseas customers.

To add to our energy endowment, Australia possesses about 16% of the Western world's low cost reasonably assured uranium reserves. And although anticipated growth of nuclear power programmes in some countries has been reduced in the last few years, there are signs that the contribution which nuclear power can make to energy needs is being reassessed in the light of the overriding priority of reducing reliance on crude oil. Indeed, at the Venice Summit, the leaders of the largest industrialised nations confirmed that they will seek enhanced use of nuclear power in the future.

In meeting the increased demand for our energy resources, one of our main challenges will be in planning for, and coping with, the necessary rail, road and port infrastructure needs, and the associated need for skilled labour. It is the Government's determination that potential development should not be held back by the lack of necessary facilities. To make sure that this does not occur, the Commonwealth Government, together with the States, is, through the Loan Council, making very large sums of money available for energy purposes. But it is the investment in additional electricity generating capacity which represents one of the greatest development opportunities in Australia.

The magnitude of these possibilities is evidenced by the fact that borrowings of nearly \$3 billion have already been provided under our infrastructure programme for electricity generating projects alone; and these are estimated to have a total cost of over \$7 billion. In addition, further electricity generating projects are under examination. And they involve borrowings of over \$4 billion and total outlays of over \$9 billion.

These figures convey the magnitude and importance to Australia of these developments. Indeed, between 1950 and 1960, installed electricity generating capacity in Australia grew by 165%, or 3,500 megawatts. Between 1960 and 1970 it grew by a further 150%, or 8,400 megawatts. Between 1970 and 1980 it grew by a further 70%, or 10,000 megawatts. And on the basis of current plans, installed generating capacity is expected to rise by 21,000 megawatts in the decade ahead, or a further 87%.

Developments such as this will assist materially in enabling us to make the transition away from over-dependence on oil. Because Australian electricity is produced primarily from coal, we have been spared the very large increases in electricity prices being experienced in countries dependent on oil for power generation.

The prospective availability of large quantities of relatively inexpensive coal-based electricity has generated interest overseas in locating energy-intensive industries in Australia. For in addition to our vast energy reserves, Australia has abundant reserves of many raw materials including bauxite, iron ore, zinc, and nickel.

And as the cost of oil continues to rise, it becomes increasingly attractive to process raw materials in Australia, using our low cost electricity, in preference to transporting them to other countries where energy costs are higher or where there is a doubt about the availability of the required energy.

Our energy advantage, together with the plentiful supplies of raw materials, has increased the opportunities for the economic processing of raw materials in Australia. And the most outstanding example of this is aluminium smelting. Annual smelting capacity in Australia is expected to expand from 280,000 tonnes at present to about 1.3 million tonnes over the next five years, requiring investment of almost \$3 billion.

Other aluminium projects under serious consideration could lift the annual capacity to over 2 million tonnes in the second half of the 1980s. We recognise, as a Government, that resource and energy related developments have an immense potential for generating economic growth in this country, and raising the standard of living for all Australians. We recognise also that this potential can only be realised in an economic environment in which the massive investment that will be required can proceed with confidence.

The central issue in achieving this confidence is the knowledge that responsible economic management will continue with absolute priority being given to the fight against inflation. But also of great importance is the implementation of economically sound energy policies, in particular, the pricing of indigenous crude oil at import parity.

The importance of using the pricing mechanism to control energy usage was reinforced in the communique of the Venice Summit in June this year, which said: "We must break the existing link between economic growth and consumption of oil, and we mean to do so this decade. This strategy requires conserving oil and substantially increasing production and use of alternative energy sources. To this end, maximum reliance should be placed on the price mechanism and domestic prices for oil should take into account representative world prices ...". Such an unequivocal statement is confirmation of the stand we have taken on crude oil pricing.

From the outset, we have been aware that such a policy would not be popular. Nobody likes paying more for petrol but we have chosen this course not just because it was necessary, but because we believe it to be absolutely right. Full import parity pricing is vital if we are to conserve our scarce supplies of liquid fuels, to encourage exploration for oil, and to assist development of alternative sources of energy.

The case for oil parity pricing is overwhelming. It is vital that we should price our own supplies of oil at competitive world prices and not allow them to be guzzled at artificially low prices. To allow this to happen would be an act of wanton selfishness, ignoring the needs of our children, and our responsibility to provide for their security.

It would be asking future generations to make adjustments in energy usage far more dramatic and disruptive than are being asked of us today. And above all, it is only by pricing indigenous crude oil in a way which reflects world prices that we can attract the technology, the capital and the expertise required to develop alternative sources of energy such as shale oil and ethanol.

The choice we face is simple. It is the choice between paying realistic prices for petroleum products now or becoming later, beggars for fuel on the international market at prices substantially higher than we are being asked to pay now; locked into an unnecessary dependence on expensive and uncertain supplies of imported oil. And those who protest the need for cheaper petrol in Australia, ignore the fact that the price of Australian petrol is amongst the lowest of O.E.C.D. countries. Prices in Europe range from 55 cents a litre in Germany to 62 cents in the United Kingdom and 78 cents in Italy. In Australia, even with parity pricing, our price is still only 34 cents a litre.

Evidence demonstrates that our energy policy is working. Consumption of major petroleum products in the first seven months of this year was down by more than 4% on the levels in 1979. Petrol sales have fallen by over 2%. The use of heating oil has been reduced by 45%; lighting kerosene by 20%; power kerosene by 17%; and fuel oil by 15%. The increase in cost of crude oil on world markets, coupled with the Government's import parity pricing policy, has generated interest in the exploitation of shale oil deposits. The giant Rundle project is a classic example of this.

Developers of this project made it clear that the Government's pricing policy has been crucial in their decisions to make the very large investments required. The first stage is expected to cost between \$300 million and \$400 million in 1979 values; and should lead to a total project cost of many billions of dollars, eventually producing in the early 1990s about 200,000 barrels of syncrude a day, probably between 25% and 30% of our expected oil requirements at that time.

More importantly for Australia, its output should come on-stream as Bass Strait production declines. Indeed, the Rundle project is likely to be the largest project undertaken in Australia and one of the largest in the world. Yet it is only one of several rich shale oil deposits and if it proves to be viable it will almost certainly lead the way, with its technology, in the development of a great new industry for Australia.

Development work is also being carried out to arrive at processes for the economic conversion of coal to oil. And joint ventures have been set up by Australia with Germany and Japan to investigate these possibilities.

The response by oil explorers in Australia to the Government's policies means that exploration and development are at record levels, and already almost 1 billion barrels of petroleum liquids have been added to Australia's economically recoverable reserves in the last four years. And the Bureau of Mineral Resources estimates that in the 12 months to December 1979, our reserves of crude oil were increased by about 10%.

These successes, and the achievements in other countries, indicate that if we adopt a realistic long-term approach to the pricing and utilisation of our non-renewable energy resources, then dire predictions of an energy-starved world will have no foundation. But the transition to less dependence on oil and a more secure energy future will require co-operation between the developed and the less developed countries.

The oil price increases experienced since December 1978 have threatened the development strategies of non-oil developing countries, and have contributed to an expected increase in those countries' combined balance of trade deficit in 1980 to \$US68 billion - \$US20 billion more than it would have been without the 1979 price increase. Pleasingly, the difficulties have been recognised by both the industrialised and the oil exporting countries.

For instance, the Venice Summit supported increased aid to less developed countries, with an emphasis on helping develop domestic energy resources. And the O.P.E.C. countries have agreed that the O.P.E.C. special fund should be reconstituted as an international aid and lending agency. It is envisaged that this fund take its place beside bodies such as the World Bank and the Asian Development Bank and play an important role in aid to developing countries. Co-operation of this kind is essential in meeting our future energy needs.

This spirit was in evidence at the inaugural regional meeting of the Commonwealth Heads of Government, where renewable energy for rural communities was identified as a major priority. And at the Second Commonwealth Heads of Government Regional Meeting which I recently attended in New Delhi, the need for close co-operation in energy matters was reaffirmed.

In the larger sphere, the United Nations Conference on new and renewable energy resources, to be held in Nairobi in August 1981, provides another example of the international co-operation that will, we hope, continue to be a feature of our search for answers to the energy problem.

Though all our efforts may be expected to improve our ability to win more oil, in the Pacific region and elsewhere, they will not prevent an inevitable decline of crude oil as our major energy source. The answer lies in the conservation of existing energy resources; and in the development, in the longer term, of alternatives to oil-fired energy.

But the proffering of such a solution is not intended to obscure the magnitude of the problems facing the world and the less developed countries in particular. This is why communication of the kind offered by this Congress on the world energy problem is essential. Inevitably there will be points of disagreement, but the greater understanding generated by conferences such as this must help the long-term adjustment process. For they allow countries to come together, in a relatively informal way, for what I am sure will be frank, open and informative discussions. I wish the Institute and its many honoured guests a successful conference. And I have much pleasure in officially opening this 1980 International Petroleum Congress.