COMMONWEALTH OF AUSTRALIA

SPEECH

BY

The Rt Hon. J. G. GORTON, M.P.

ON

OIL PRICING POLICY

Ministerial Statement

[From the 'Parliamentary Debates,' 10 *October* 1968]

Mr GORTON (Higgins—Prime Minister) —by leave—In September 1965 the Government announced certain policy decisions regarding the use of Australian indigenous crude oil. Those decisions were a reaffirmation of the policy that the Government was determined that local refineries use all the crude oil produced in Australia, and an announcement that the price to be paid by refineries for Australian crude would be $A3.14 a barrel at the customs port at the refining centre nearest to the producing field. Any amounts of money that I shall mention during this speech will be in Australian dollars and cents. Included in this price was 67c a barrel as an incentive payment. This arrangement was to finish on 17th September 1970, and no decisions were announced as to what would happen after that date.

At that time the Moonie field was the only one in operation. The production of the Moonie and Barrow fields was and is comparatively small and the extra cost resulting from the crude oil they sell at $3.14 a barrel, together with freight costs paid by them around the Australian coast or through the pipeline is already included in petrol prices in Australia. Subsequently, very extensive oil fields were discovered in Bass Strait by Esso-BHP. Oil from these fields should begin to flow in March 1969 and by September 1970 it is expected that the fields will be producing at over 250,000 barrels of crude oil a day. During that period the fields may well produce in the vicinity of sixty million barrels of crude oil. The prospect of such large quantities of oil which refineries had to buy at a price so much higher than the price of imported oil obviously created a new problem and led to forecasts of considerable rises in prices of petrol and other petroleum products to the Australian consumer. Because of the effects that this would have throughout the economy generally the Government has most carefully studied the various problems raised and I have for some time been engaged in a series of negotiations with Australian oil producers and refiners.

I now wish to inform the House that the Government reaffirms its policy that for a period of 10 years beginning on 18th September 1970, refineries in Australia are to be required to process Australian crude oil in order to provide the full requirements of the Australian market for petroleum products. This is, of course, subject to the need for sufficient imports to meet the requirements in Australia for bitumen, lubricants and fuel oil in excess of quantities that can be realised from the Australian crude, which is deficient in these quantities but which is so rich in the lighter distillates—petroleum, kerosene, dieselene and so on.

23801/68

Secondly, the Government announces as policy that for a period of 5 years after 17th September 1970, when the present policy arrangements terminate, the price that refineries will be required to pay Australian producers will be import parity. Import parity is defined as the posted prices of overseas oil as of today, less the discounts allowed off those posted prices as of today, plus overseas freights at the most efficient and economic rates prevailing today plus wharfage where applicable. To this price will be added a sum for quality differential worked out by the modified Nelson method, this quality differential being added because of the richness of Australian crude in the lighter distillates. From the import parity price so arrived at there will be deducted a sum representing the average freight cost of delivering Australian oil to the refineries from the port of delivery by the most economical means possible. This will mean that as from September 1970 for a period of 5 years the price payable for Australian crude oil should generally be neither higher nor lower than the price now payable today for overseas oil, except for the effect of Australian coastal freights, if any. This in turn should mean that as from that date the price of petrol products produced from Australian crude oil should not be higher than the price payable today for products produced today.

I now come to the period between March 1969 and September 1970, during which the present arrangement operates, during which the presently applying high prices for Australian crudes were agreed to be paid, and during which, as a result of that, significant increases in the cost of petroleum products have been suggested. I have already said that the cost of oil from Moonie and Barrow at those high prices has been absorbed in existing petrol prices, and no alteration is to be made to the prices payable for oil from those fields until after September 1970, when the import parity prices which I have described will apply. In the case of the oilfields discovered by Esso-BHP we have agreed by negotiation that there will be a reduction in the prices Australian refineries are required to pay up to September 1970. Our agreement is that Esso-BHP will altogether forgo the 67c a barrel known as the incentive allowance. In addition, Esso-BHP will allow refineries a further discount of 5c a barrel. The result is that between March 1969 and September 1970 the price to be paid for oil from this field will be reduced from $3.14 a barrel to $2.42 a barrel at the customs port at the refining centre nearest to the producing field. After September 1970 the price payable for this oil to Esso-BHP will be import parity as already explained, and this, of course, will reduce the price still further.

To sum up, the new arrangements made will mean that the large newly discovered quantities of Australian oil to be used between March 1969 and September 1970 will cost 72c a barrel or a little over 2c a gallon less than was previously anticipated. After September 1970 the price payable for Australian crudes will be, as I have said, no more than the price of imported overseas crudes today except for any extra costs involved in coastal transportation, and will be still less than the price payable between March 1969 and September 1970. This will not, between March 1969 and September 1970, in itself prevent any increase in the price of petrol for other products but it will undoubtedly very materially reduce the size of any rise that might take place or that would have taken place had this agreement not been reached.

I have so far spoken only of the pricing policy for Australian crudes and of the Government's requirement that the Australian market should be supplied from such crudes. But we need to discover more oil in Australia and the Government is therefore currently studying the separate question of the need for incentives for oil exploration in the period after 17th September 1970. Various proposals are under examination and we will in due course announce the form of incentive, if any, which we will adopt. In the meantime the arrangements I have just announced will provide a firm basis upon which the refining industry can plan ahead for the use of Australian crudes and will materially reduce any possible future rise in the price of petroleum products. I present the following paper:

Oil Pricing Policy—Ministerial Statement—10 October 1968

and move:

That the House take note of the paper.

BY AUTHORITY: A. J. ARTHUR, COMMONWEALTH GOVERNMENT PRINTER, CANBERRA, A.C.T.