

AUSTRALIAN INDIGENOUS CRUDE OIL

STATEMENT BY THE PRIME MINISTER

In September 1965 the Government announced certain policy decisions regarding the use of Australian indigenous crude oil.

Those decisions were a re-affirmation 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 \$3.14 cents a barrel at the customs port at the refining centre nearest to the producing field. Included in this price was 67 cents a barrel as an "incentive" payment.

This arrangement was to finish on September 17 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 cents a barrel, together with freight costs 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, this field may well produce in the vicinity of 60 million barrels. 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.

Because of the effects that this would have throughout the economy 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 re-affirms its policy that for a period of ten years beginning on September 18 1970 refineries in Australia are 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 Australian crude.

Secondly the Government announces as policy that for a period of five years after September 17 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.

From the import parity price so arrived at will be deducted a sum representation 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 five years, the price payable for Australian oil should generally be neither higher, nor lower, than the price now payable for overseas oil except for the effect of Australian coastal freights.

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 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 these 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 oil fields 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 forego the 67 cents a barrel known as the "incentive" allowance. In addition, Esso/BHP will allow refineries a further discount of 5 cents a barrel.

The result is between March 1969 and September 1970 the price to be paid for this oil will be reduced from \$3.14 cents a barrel to \$2.42 cents a barrel at the customs port at the refining centre nearest to the producing field.

After September 1970 the price payable for this oil will be import parity as already explained. This will reduce the price payable still further.

To sum up, Mr. Speaker, 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 72 cents a barrel, or a little over 2 cents a gallon, less than was previously anticipated.

After September 1970 the price payable for Australian crudes will be no more than the price of imported overseas crudes today except for any extra cost involved in coastal transportation.

This will not - between March 1969 and September 1970 - in itself prevent any increase in the price of petrol. But it will undoubtedly materially reduce the size of any rise that might take place.

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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.

The Government is therefore currently studying the separate question of the need for incentive for oil exploration in the period after September 17 1973.

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 industry can plan ahead for the use of Australian crudes and will reduce any future rise in the price of petroleum products.

CANBERRA

13 October 1968.