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PRIME MINISTER

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ADDRESS AT THE OPENING OF THE ANNUAL CONFERENCE OF THE
AUSTRALIAN PETROLEUM EXPLORATION ASSOCIATION, SYDNEY OPERA HOUSE

It is a great pleasure to address this conference of the Australian Petroleum Exploration Association. When I first saw the title of this conference - "Risk and Reward" - it struck me how much politicians and petroleum explorers have in common. In both cases it often seems the risks are legion, and the rewards all too infrequent. But so far no one has found an adequate substitute for either of us. The main advantage of our product over yours is that our ideas are capable of being constantly recycled.

The question of "risk and reward" has great relevance to the problems that have beset the Australian economy in recent years, and to the policy strategy the Government has been pursuing to overcome those problems. The Australian economy's ability to function effectively depends on investors' willingness to take business risks, and on the existence of an economic environment that provides rewards to the successful risk takers. Between 1972 and 1975, the economy suffered from a combination of high inflation, frequent shifts of Government policy, and psychological discouragement of the private sector by Government. The result was that profitability declined, while uncertainty and instability reigned. Economic activity and business investment was drastically affected.

This Government's policies are designed to reduce inflation, and by reducing inflation ensure a return to profitability and sustained economic growth, and an improvement in the employment situation. To do this, we have brought Government spending under control. We have pursued a responsible monetary policy. We now have an appropriate external policy, and we have consistently argued for wage restraint before the Arbitration Commission. There can be no doubt that we have had considerable success in pursuing our goals. The most reliable indicators show that there has been a steady reduction in the rate of inflation. Taking the deflator for major components of G.N.E. - over the year to the December quarter, the rise was 10.7%, much more modest than the rise of 15.6% recorded in 1975 and 20.7% in 1974.

This has been a more accurate reflection of general price increases in recent times than the Consumer Price Index which has been distorted by changes in health insurance, and which only applies to prices for a limited basket of goods. The national accounts published a month ago show that in 1976 there was a return to economic growth. There were significant increases in: gross non-farm

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product, personal consumption, dwelling investment, business investment in plant and equipment, and exports. While unemployment is still too high, the broadest measure of employment we have, the Labour Force Survey conducted by the Commonwealth Statistician, shows that the number of employed persons has increased by 62,600 in the twelve months to February 1977.

To sustain the economic recovery and build on this progress, we must further reduce inflation, and all the arms of economic policy under the Government's control are being brought to bear on this task. This Government is acting to establish an economic environment in which the rewards offered to business are fully commensurate with the risks they take.

Last week, a major contribution was made to the fight against inflation and unemployment. At the Premiers Conference, the heads of the Commonwealth and State Governments unanimously called for a three month halt in price and income increases. This is one of those rare times in our history when all seven governments representing all major political parties, have reached a consensus that a major initiative is required. This is a genuinely workable plan to achieve the vital goals of reducing inflation and providing employment for all those who want to work. I welcome the many public statements by retailers and major companies that they will hold their prices for the three month period.

There is a commitment amongst Australians to defeating the twin problems of inflation and unemployment. The agreement of Government leaders at the Premiers Conference that there should be a three month halt in price and income increase was a concrete expression of that commitment. If the commitment is carried through - and all Government leaders are resolved to use all their moral force and authority to support it - we have a unique opportunity to break the back of inflation. All the other arms of economic policy are in position to sustain the beneficial effects of a prices-incomes halt, and economic circumstances are such that excess demand is not a problem. Tax indexation and the wage increase which wage earners have just received from the Arbitration Commission make it reasonable to ask for an incomes halt, and if we are to ask for an incomes pause, it is essential that we ask for a prices halt.

All Australians have much to gain from breaking expectations of continuing inflation. The more rapidly inflation is reduced, the faster will be the recovery in consumer demand, the greater will be the prospects of productivity increases, the sooner profit ratios will be restored to normal levels, unemployment will be reduced more rapidly. Everyone will be better off if we can halt the incessant spiral of wage and price rises.

The mining industry has an important part to play in economic recovery, and this seems an opportune moment for me to make one point quite clear. The Government utterly rejects the views expressed recently by certain prominent members of the Opposition that the growth of the mining industry should be deliberately retarded. The Deputy Leader of the Opposition for instance argues that rapid development of mining is undesirable because it is highly capital intensive and drains capital away from other sectors.

The reality is, as most members of this audience will be well aware, that large scale mining ventures in Australia bring much of their capital from overseas. This is capital that would not otherwise be available to Australia. The Labor Government deliberately held back mineral

exploration and development. By the time they went out of office, investment in the industry had practically stopped. This Government is determined to revive it. We will not penalise the mineral industries in which Australia has a comparative advantage.

Since coming to office, we have removed unnecessary barriers hindering exploration companies, and where necessary, we have provided positive incentives to encourage exploration and mining activity. We have actively co-operated with the states to ensure that further exploration permits are granted over vacant prospective areas. During 1976 applications were considered in respect of extensive areas in offshore Western Australia. Six new permits have been granted and applications in respect of three areas are currently under consideration. The Government has adopted a new approach to export controls which respects the role of private enterprise.

The investment allowance introduced in the last budget has significantly encouraged new investment in the mining industry. Following the IAC report on the petroleum and mining industries, the whole taxation structure of the industry was reviewed. As a result, in recognition of the special circumstances of the minerals industry provision has been made to allow petroleum exploration expenditure to be immediately deductible against income from any source; allowable capital expenditure on development is now deductible by a reference to a life of a mine of not more than five years, instead of twenty five years, and all such expenditure on a petroleum field is deductible from any income. Allowable capital expenditure on transportation facilities is deductible over either twenty years or ten years at the taxpayers option. Allowable capital expenditure now includes port development not previously deductible. Crude oil from new discoveries has been freed from the \$2 per barrel production excise, thus removing a deterrent to petroleum exploration.

I understand that your industry wishes to make further submissions to the Government in relation to some of these matters. The coal export duty is to be phased out within three years, and as a first step duty on non-coking coal has been removed and rates on coking coal reduced.

The Government welcomes foreign investment because it contributes significantly to Australia's development and prosperity, and we have significantly revised the guidelines for foreign investment. Our Foreign Investment Review Board examines each foreign investment proposal to ensure that it is not contrary to the national interest.

The guidelines relating to exploration are designed to give explorers maximum freedom without unnecessary Government restrictions. At the exploration stage, foreign companies are not required to obtain Australian participation. We recognise that Australian risk capital is limited, and that requiring foreign investors to obtain Australian participation at the exploration stage could needlessly inhibit exploration. At the development stage of new mineral projects (except uranium) involving investment of one million dollars or more, our objective is 50% Australian equity, and 50% Australian voting strength on the board. If 50% Australian equity cannot be obtained immediately, the Government may seek to increase the Australian equity to 50% within an agreed period of time.

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The guidelines are designed to encourage working partnerships between Australian and overseas investors, with all the benefits this brings from the pooling of knowledge, capital and technology. The guidelines are being administered in a flexible manner to meet the circumstances of individual cases. Proposals which do not meet our objectives may still proceed if appropriate levels of Australian equity are simply not available. No foreign investor should feel inhibited from proceeding forthwith with the evaluation of investment projects.

I believe that the Foreign Investment Review Board has now set a favourable climate for increased investment in Australia. I have heard no complaints from investors about the Board's activities, and given Sir Bede Callaghan's knowledge and expertise, this is not surprising.

This Government programme of reducing inflation, adopting a more liberal approach to export controls, providing taxation incentives, and welcoming foreign investment, is designed to encourage mineral exploration and development in this country, and clearly petroleum exploration needed encouragement and incentive. There are forty six offshore and seventy one onshore permits presently in force, but exploration activity remains far below that experienced prior to 1973. There are however signs of improvement, and clear indications that the Government's policies are having an impact. I believe a new spirit of confidence and renewed interest in the Australian mining industry is developing. I understand your association has predicted that exploration activity will increase sharply in the near future.

From public statements made by companies, firm intentions to invest nearly \$2,000 million in the mining and oil field have resulted from the decisions of the past fifteen months or so. The Government is keen to see other projects such as the north-west shelf proceed, and these could well lead to the sum being more than trebled.

No one knows better than yourselves the risks of petroleum exploration. No significant oil discoveries have been made since 1970, during which time 335 exploration wells have been drilled. No commercial oil discoveries have been made in the last 450 wells drilled; and the costs of drilling, seismic studies and related activity are very great indeed.

Explorers also have to cope with the problems of very long lead times between exploration and receipt of income; risks in estimating reserves at the time when large capital commitments must be made; and exploration areas which are often in isolated locations, distant from both support services and potential markets. Investors and mining companies naturally look for higher than normal returns on their capital - and an early return of funds invested - to offset the great risks which they undertake. Those people who think that this is unreasonable should look at the facts and the figures on the risks involved in exploration.

The Government recognises, and I believe the community in general realises, that when petroleum exploration is successful, the rewards must be higher than normal. The incentives the Government has provided to your industry in part reflect this recognition. They also reflect the high priority we attach to finding further significant reserves of oil and gas.

Australia has greatly benefitted from a 70% self sufficiency in petroleum products. But our position will soon deteriorate unless further discoveries are quickly made. I am advised that in the absence of further discoveries, the ratio of indigenous to imported crude oil supplies will be completely reversed. Some estimates indicate that the ratio will be 30:70 by around 1985.

There is a clear need considerably to increase our petroleum resources to protect our balance of payments, and I would add, on strategic grounds. Unless further significant discoveries are made, our import bill for petroleum products could, at last year's prices, be in excess of two billion dollars by 1985.

The rewards for successful exploration are greatly influenced by Government taxation policy and the other measures to which I have referred. But of course, the prime factor is the price received for the product. Even without any price increases for indigenous crude oil production, as we increasingly come to depend on imported supplies, the price paid by Australian refinery companies for crude oil will inevitably approach world parity over the next decade. This fact has been very much in our minds in considering the IAC report on crude oil pricing, presented on 30 September 1976. That report examined the current situation under which the prices of crude oil produced from fields discovered before 14 September 1975 are substantially below import parity prices. These prices were determined by past Governments on economic and technical considerations applying to each field. An excise levy of \$2.00 per barrel currently applies to all crude oil produced from these fields.

Crude oil produced from fields discovered after 17 September 1975 (which was not under reference to the IAC) attracts import parity prices. Crude oil produced from fields discovered after August 1976 is not subject to the excise levy. The IAC report recommended that the price for existing oil from Gippsland fields currently producing or being developed, be progressively increased towards import parity by 1980. And it recommended that oil from the Barrow Island and Moonie Fields, expansions and extensions and most known fields not yet in production - be at import parity less the \$2.00 per barrel levy.

The IAC recommendations were generally in accord with industry submissions. The major Gippsland producers had requested that their prices be phased upward in a manner similar to that recommended by the Commission, and the Barrow Island and Moonie producers had requested an immediate and substantial price increase.

The Government has considered the IAC report with the benefit of consultation with the Australian oil producers. As yet, no final decision has been made.

The Government must have full regard for all the ramifications of its decisions on crude oil pricing. This has necessarily involved a more wide ranging analysis than was requested of the IAC, and the consideration of issues outside the IAC's charter.

Broadly, we see the principal objectives of new pricing arrangements as: ensuring the economic exploitation of known reserves; encouraging new exploration; minimising inflationary consequences; providing

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reasonable certainty to the industry; and minimising Government interventions in the petroleum industry. This is a substantial undertaking.

Underlying it is the need to promote a vigorous exploration effort in the hope of achieving new discoveries.

There will be no decision on crude oil pricing before the effects of the three month halt on wage and price increases announced on 13 April have been reviewed. When the decision is made, it will be with full regard for the impact on the consumer and on the economy generally.

The risks and rewards of Australian petroleum exploration are great. They involve not just your industry, they concern the whole country. Petroleum exploration companies have every reason to face the future confident in the knowledge that, if discoveries are made, proper rewards will not be denied to them.
