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**PRIME MINISTER**

FOR MEDIA

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ENERGY POLICY

Most Australians share the world-wide concern about the energy situation, oil shortages and escalating oil prices. Some of the impact of this has already been felt in this country. Oil prices have risen, and shortages have developed in petroleum products, notably aviation gasoline and fuel oil. The effect of the strike that recently shut down the Kurnell Refinery in New South Wales have pointedly brought home Australia's increased vulnerability to disruptions to domestic supplies.

The Government has carefully monitored the world energy situation. With a further increase in OPEC prices imminent, with heightened international and domestic concern, the Government's view is that rather than wait for the next session of Parliament, it should announce its policy response to this situation now.

This statement outlines a series of new Government initiatives. My colleague, the Minister for National Development, will be providing further information on these measures.

The World Energy Situation

The present turmoil in the world oil market has forced on the world an accelerated recognition of the need to adjust energy use patterns away from oil and towards alternative energy sources. That process of adjustment will be protracted and, particularly in the short run, painful for many countries.

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The most pressing problem is to match the demand for oil with its supply. Prospective world oil supplies in 1979 are about two million barrels per day below what was anticipated in 1978.

The present situation was triggered by the Iranian oil crisis earlier this year. It has persisted because Iranian exports are still well below their previous levels. Saudi Arabia, the only producer capable of substantially increasing oil supply in the short term, appears to be less willing than previously to raise production to compensate for shortfalls in production elsewhere. Further interruptions to supplies cannot be ruled out.

In response to the supply shortage, oil prices have been rising sharply. The price of OPEC crude including premiums is already about 30 per cent above 1978 levels. A meeting of the OPEC Ministers is currently taking place. All the indications are that another substantial increase in the OPEC price.

Oil consuming nations are under pressure to reduce their demand for oil, both by restraining energy consumption and by accelerating the substitution of other energy sources for oil. The short term pressure is great because stocks, run down earlier this year, need to be re-built for the northern winter.

International Energy Agency (IEA) Ministers - representing most western oil consuming nations - stressed at their meeting in Paris last month that strong action is urgently required to curb the demand for oil:

"As to the short term, Ministers concluded that the international oil market has evolved rapidly into a situation of overall supply stringency, which has affected different countries in different ways, and that this situation is likely to continue into 1980. They expressed particular concern about the large and rapid increase in crude oil and product prices.

"Ministers therefore confirmed the decision by IEA countries to reduce their demand for oil on the world market in the order of two million barrels per day which would correspond to about five per cent of IEA consumption..."

These conclusions were endorsed two weeks ago by the Ministerial Council of the OECD; which concluded that:

"There is now a real danger that, without responsible policies by oil consumers and producers alike, the energy situation will seriously damage the world economy."

At the moment, the world energy situation is being considered at the Economic Summit in Tokyo by the leaders of seven of the largest non-communist developed countries.

Most countries are acting to reduce their demand for oil and to augment supplies. The severity of the present situation bears very heavily on those countries which have little or no domestic energy resources, particularly Japan and a number of European countries. The world's poorest countries, the non-oil producing developing nations will be the hardest hit.

The oil situation has major implications for the world economy. Disturbances to oil supplies and increases in oil prices depress economic activity, add to inflationary pressures, and produce instability in exchange rates.

Australia cannot ignore the world-wide consequences of what is happening.

### Australia's Situation

Australia is relatively well placed as regards indigenous energy resources.

We have abundant rich coal resources from which most of our electricity is generated.

We have substantial reserves of natural gas which are being used increasingly as a source of industrial and domestic energy.

About 70 per cent of our oil requirements are being met from domestic crude oil, and liquified petroleum gas (LPG) is progressively being used to supplement these resources. Production of crude oil from Bass Strait is estimated to be about 5 per cent higher than this time last year.

Australia is a net exporter of energy, but we have to import about 30 per cent of our crude oil requirements, and our outlook for access to imported crude oil and petroleum products for the rest of 1979 has become more uncertain in recent weeks.

This is due to continued restraint of production by OPEC and to continued high demand in the major consuming countries, including demand for rebuilding of stocks.

We depend on imports of heavier imported crude oil to meet our fuel oil requirements, and we are reliant on imported aviation gasoline. We have already experienced shortages of these products. There will continue to be problems in these areas.

The motor spirit situation continues to be tight. The outlook, particularly in New South Wales, will be difficult to assess until the New South Wales refineries resume full operations but there clearly will be difficulty in rebuilding stocks in that State.

Looking at the overall petroleum product position, information from the industry indicates that the position should be manageable in the third quarter of 1979. However, there is uncertainty about the outlook for the last quarter of 1979 which corresponds with the onset of winter in the northern hemisphere.

Our inability to draw readily on imported supplies of refined products to meet temporary shortages resulting from disruptions to domestic production will pose a continuing problem.

The situation will have to be handled with a great deal of care, common sense and co-operation.

#### Existing Policy

The Government has already introduced a number of measures to ensure secure and stable supplies of energy, reduce dependence on imported oil and, in the longer term, to develop a diversified energy base which minimises our dependence on scarce liquid fuels.

Hard and effective decisions have been taken on pricing and tax policy to encourage exploration and development and support major energy development projects.

A number of incentives were announced in the 1976-77 Budget:

- . Petroleum exploration and development expenditures were made deductible against income from any source;
- . Rapid write-off provisions were introduced for eligible capital expenditures by petroleum mining companies as well as other mining companies on the development of a mine or field and on transport facilities;
- . Oil from discoveries after the 1976-77 Budget were freed from the crude oil levy.

A number of measures were also introduced in the context of the North West Shelf project which have somewhat wider application:

- . The investment allowance was extended by two years;
- . The gas liquefaction plant was included as an allowable capital expenditure under the petroleum mining provisions;
- . And a shareholder rebate scheme for off-shore petroleum exploration was introduced.

We have increased support for energy research and development, promoted energy conservation and inter-fuel substitution, and been active in the area of international co-operation.

Fundamental to the Government's energy policy has been the use of the market framework. As the then Minister for National Resources said in November 1977 in this Government's first major energy statement:

"Quite clearly, the Commonwealth Government's role should not be to attempt to dictate the precise future path along which energy producers and consumers should move ... It is, however, necessary to set the scene ... i.e. given our other objectives, allowing the forces of the market to allocate our available resources of manpower, capital and technology."

It is of the highest importance that the price of petroleum products should be realistic. Allowing the pricing system to work, will:

- . encourage conservation of scarce sources of energy - in particular, liquid fuels other than LPG;
- . promote the use of the available alternative energy sources - mainly natural gas, LPG and coal-based electricity;
- . stimulate commercial development of major new energy projects in areas such as shale oil, coal liquefaction, ethanol and methanol;
- . provide a major incentive to increase oil exploration activity and maximise development of existing fields.

Although the OPEC countries had quadrupled the world price of crude oil in 1973-74, Australian prices for petroleum products remained artificially low, due to the availability of domestic crude oil at less than half the world price.

Recognising this the Government began in the 1977 Budget the move towards import parity pricing for Australian produced crude oil.

The move toward import parity has provided for the return to domestic producers to reach parity - before crude oil levy - on at least 50 per cent of their production by 1980-81.

In the 1978 Budget, the Government decided that all Australian produced crude oil would henceforth be priced to refineries at import parity levels and that consumers of petroleum products would from that time pay prices based on world oil prices.

By means of the crude oil levy arrangements, the bulk of the proceeds of the increased prices resulting from the 1978 Budget decision accrued to the public revenue.

There have been further OPEC price rises since that time and, as announced by the Treasurer on 24 May 1979, the Government decided to increase the proportion of those price rises accruing to the public revenue.

The Minister for National Development will shortly be announcing the prices and rates of levy to apply to domestic crude oil production after 1 July 1979.

It needs to be recognised that import parity prices based on the official OPEC price for crude oil (which was, prior to the current OPEC meeting, U.S. \$14.54 barrel) is the lowest price at which significant quantities of oil are traded internationally.

Since the Iranian crisis many OPEC countries have been adding premiums of several dollars per barrel to that official price. In addition, increasing amounts of oil are being traded in the spot market at prices ranging up to \$30 per barrel and higher.

Notwithstanding import parity pricing, Australians still pay much less for petroleum products than consumers in most other western countries. Most Australians pay about half the price of motor spirit prevailing in European countries and Japan. For example, the price in Australian cents per litre in Japan is 48.9, United Kingdom 46.5, West Germany 41.7, France 49.8 and Italy 51.6. About the only countries with motor spirit prices below Australia's are the United States of America and Canada.



Our energy decisions must be based on realistic prices for petroleum products. Countries which have been slow to face up to the reality of higher prices for oil have experienced shortages as a result of the world oil situation. The most notable example is the U.S. which consumes more than its fair share of the world's finite resources. Furthermore, unrealistic prices in the U.S. encourage a gross misallocation of resources.

The choice is between paying realistic prices for petroleum products or not having access to adequate supplies.

There are no other options. Australia, like all industrial nations, is heavily dependent upon oil as an energy source. It is inevitable that either we pay world parity price for our own domestic crude oil, or we will have to pay it for imported crude oil. In the former case we encourage exploration and development of our own resources; in the latter we become dependent on foreign suppliers. But either way we pay world parity price.

The benefits of Australia's realistic pricing policies are already evident. Under the previous pricing policies oil exploration was dead, development was dead. As a result of our oil pricing policy and exploration incentives, oil search has revived, development has revived. Our policy has already led to an increase in economically recoverable reserves of some 600-700 million barrels. This is equivalent to about three years' consumption.

The recovery in exploration confidence under this Government is reflected in the number of exploration wells drilled. In 1978, 52 wells were drilled, more than double the number drilled in each of the previous three years.

The indications are that the higher level of activity in 1978 will at least be maintained. Offshore, a total of 68 exploration permits are currently in force, 27 of which have been granted in the last two years, including 7 since January 1979.

The improved outlook for petroleum exploration is especially demonstrated by the fact that companies are prepared to face the difficulties and enormous costs of exploring the Exmouth Plateau. This exploration effort is one of the most intensive deep-water undertakings anywhere in the world, with companies operating on the frontiers of current technology. A single well will cost around \$10m. Drilling of the first well there was completed in May 1979 and three further wells are currently drilling on the Exmouth Plateau. Of the world's 12 deep-water drilling rigs, three will be operating off Western Australia this year.

#### New Initiatives

The measures which are being announced today will build further on the foundations which have already been laid down.

- (1) The Government reaffirms its policy of import parity pricing for domestic crude oil based on the official OPEC price. It will adopt a more flexible approach to the timing of price adjustments to take account of OPEC pricing decisions.

- (2) The Government expects oil companies to obtain imported oil supplies, as necessary, to meet Australian requirements. It will ensure that the Prices Justification Tribunal will permit oil companies to pass on to users the higher costs associated with spot purchases, and will provide an assurance to this effect to the companies. The companies will be required to satisfy the Prices Justification Tribunal that spot purchases are bona fide and at arms length. The Government will ask New South Wales and South Australia to take similar action.
- (3) In relation to imported aviation gasoline and fuel oil the Government has already ensured that oil suppliers have full opportunity to pass on costs of necessary purchases.
- (4) The Government will act to ensure that existing price relativities on domestic petroleum products do not inhibit production of products in short supply.
- (5) The Government will ask the oil industry to proceed to vary the octane ratings of motor spirit sold in Australia. The octane rating of supergrade motor spirit will be reduced from 98 to 97 and one major company will introduce a new regular grade of motor spirit of 92 octane. These changes could be implemented within a month and could save up to one per cent of Australian crude oil requirements.
- (6) The Commonwealth will request the New South Wales and South Australian Governments not to proceed with more stringent emission standards until a longer term national emissions strategy is developed. In the meantime, urgent consideration should be given to supplementary energy saving emission control measures. Proceeding with the proposed third stage of the emission controls would result in 3 to 5 per cent more fuel usage.

- (7) The Commonwealth will raise with the States the scope for a revision of lead content rules for motor spirit. This could increase the supply of petrol by about three per cent. Until January 1975 the acceptable maximum lead content in petrol was .84 grams per litre. Following a report by the National Health and Medical Research Council, a number of states legislated to reduce the lead content of motor spirit. The phasing down produced an increase in energy consumption in refineries. The Royal Commission on Petroleum recommended that the phase down should not go beyond a level of 0.64 grams per litre, the National Energy Advisory Committee recommended that it be set at 0.65 grams. A number of states have gone beyond this. The Commonwealth recognises that health considerations have to be taken into account but this measure is one which can be implemented quickly and reversed quickly.
- (8) The Government will explore the scope for special reciprocal trade arrangements under which indigenous crude oil or lighter petroleum products in reasonable supply in Australia might be exchanged for heavier crude oil or heavier petroleum products which are in short supply in Australia. Such arrangements could be made through normal commercial channels. Discussions with companies interested in this possibility have already, been initiated.

- (9) Export controls for petroleum products will be modified. Blanket approvals of exports will be suspended. For the time being prior approval on a ship-by-ship basis will be required for all exports of petroleum products.

The Government policy will be to approve exports where:

- . traditional markets are being supplied and the level of exports to such markets is consistent with any cutbacks applying in the Australian market, or
- . additional quantities of crude oil are provided for processing for export, or
- . acceptable counterpart or exchange arrangements are available, or
- . special technical considerations are demonstrated, or,
- . the exports are excess to Australia's requirements.

- (10) The Government will also ensure that any allocation schemes implemented by companies follow sensible and fair practices across the industry and are co-ordinated with State and Territory Government emergency schemes.
- (11) In order to improve the basis of the Government's monitoring of the oil situation, the Minister for National Development will write to the oil companies formally requesting that they provide complete data on the supply, consumption, stocks and exports of petroleum products.
- (12) The Government will undertake with the oil companies a review of the adequacy of existing oil storage facilities in Australia and possible ways and means of adding to this capacity. The review will have regard to the needs of industry, including primary industry, and to geographical problems and seasonal requirements.

#### Conservation Measures

The highest priority is to conserve liquid fuels used in motor transport.

The Government will proceed immediately with a voluntary program of national fuel economy goals for passenger vehicles. The fuel economy targets require the weighted average fuel consumption of new passenger cars to be reduced from the present 11 litres/100 km to 9 litres/100 km by 1983 and 8 litres/100 km by 1987. This should result in savings of motor spirit of approximately 5 per cent in 1983 and 12 per cent in 1987.

The Government has initiated a study of the scope for saving liquid fuels within Government departments and agencies. State Governments are being invited to undertake similar action in relation to their Departments and agencies.

The Government will proceed with a national energy conservation publicity campaign. Planning for this campaign is well advanced. The estimated cost of the campaign in 1979/80 is \$2 million. The Commonwealth will invite the States to participate in this program on a jointly funded dollar-for-dollar basis.

The Commonwealth has also decided to sponsor a major national conference on energy conservation in October. This conference and the launching of the national publicity campaign will coincide with the International Energy Agency's International Energy Conservation Month.

The Government will authorise the Pipeline Authority to construct a twelve inch gas pipeline from Young to Wagga Wagga and Cootamundra costing approximately \$15 million. A six inch line would be adequate to service Wagga Wagga and Cootamundra but the Government has decided to authorise the construction of a twelve inch line with a view to extending it from Wagga Wagga to Albury in the future and after consultation with the States. That linkage would connect the Bass Strait and Cooper Basin gas fields with the major cities thus establishing an eastern gas pipeline grid.

#### Interfuel Substitution

Natural Gas: There has recently been a strong swing to natural gas in the Sydney market. Savings of fuel oil are estimated at about 2 million barrels of crude oil or 1 per cent of total Australian oil requirements.

Industries in the Sydney area which currently use fuel oil, and which could use natural gas, should consider an early change-over. The proposed early commencement by A.G.L. of the natural gas pipeline to Newcastle will provide further opportunities for significant interfuel substitution.

LPG: LPG has considerable potential for saving motor spirit in both the short and long term. Ultimately 10-15 per cent of Australia's motor vehicles could be powered by LPG.

Last year the Government guaranteed an excise differential in favour of LPG against motor spirit. It has decided now

- . to remove the 2.125 cents per litre tax presently charged on LPG for automotive usage
- . to remove the 15 per cent sales tax presently applicable to kits used in vehicle conversion to LPG
- . to convert Commonwealth vehicles to LPG fuelling wherever feasible; in addition to the 100 already being converted in Melbourne we will proceed with the conversion of:
  - (a) 200 vehicles in Melbourne at an estimated cost of \$200,000, and
  - (b) 250 Vehicles in Canberra at an estimated cost of \$250,000
- . at the completion of existing contracts, tenders for new vehicles for all Commonwealth departments and instrumentalities will wherever possible call for LPG fuel. In the first instance this will apply to Sydney, Melbourne and Canberra. It will apply to other States as adequate LPG outlets become available. The Commonwealth will be inviting the States to adopt a similar approach



- . Our objective is to have LPG fuelled vehicles built on production lines. To this end the Minister for Industry and Commerce will initiate discussions with the motor vehicle industry. He will also consult with industry on solving the present conversion bottleneck;
- . the Minister for Transport will initiate discussions with the State and Territory Ministers to ensure that proper safeguards are instituted and any unnecessary barriers are removed in the specification of requirements for new LPG fuelled vehicles, or for the modification and operation of existing vehicles using LPG fuel;
- . to accelerate the work of the LPG Task Force established earlier this year to provide advice on practical aspects of greater usage of LPG and ways of overcoming constraints on its wider use (e.g. in the Sydney market).

Home Energy Use: A range of domestic space heating appliances consume oil. The Government wants to encourage greater use of heating appliances which do not use oil. All non-oil fuel space heating appliances of a kind ordinarily used for household purposes and solar appliances of all kinds not already exempt from sales tax will therefore be made exempt after today.

The necessary legislation will be introduced in the Budget Session to apply with effect from tomorrow. The cost to revenue is estimated to be \$3m in a full year.

Coal: Australia is already a substantial user of coal, particularly for power generation. Further studies will be made by the National Energy Advisory Committee of the scope for greater usage of coal, particularly as a fuel for industry.

### Petroleum Exploration and Development

The Government has given major encouragement to petroleum exploration, by way of realistic pricing and taxation incentives. The Government is conscious of differences in incentives applying to offshore and onshore petroleum exploration and development and is examining the matter.

The Government will give a new and upgraded role to the Bureau of Mineral Resources. The Bureau is to be made into a geoscientific research organisation with a substantial capacity to undertake the more sophisticated scientific studies required to support the fullest development of our resources. In this regard it will have an enhanced role in relation to the exploration for and assessment of Australian energy resources.

### Alternative Energy Sources

Australia has a significant potential for producing liquid fuels which might be substituted for petroleum products or blended with them. These include shale oil, ethanol, methanol and coal liquefaction products. Some of these prospects are becoming economic as the price of crude oil rises. They have the added advantage that they would make Australia less dependent on imported crude oil, and correspondingly, less vulnerable to fluctuations in supply and price. Some of the prospects are already being explored by commercial interests.

The Commonwealth will commence discussions with the Queensland Government with a view to bringing the Rundle Oil Shale project to the stage of commercial development with a minimum of delay.

Demonstrated reserves of recoverable oil shale at Rundle are 2000 million barrels of crude shale oil and gas. Average grade of the oil shale is 77 litres/tonne.

This compares with demonstrated resources of recoverable conventional crude oil totalling about 2]00 million barrels.

Australia has about 3600 million barrels of in-situ demonstrated resources of shale oil.

The Commonwealth's policies will facilitate projects, accelerate energy research and development, and intensify economic assessments of the possibilities for developing alternative energy sources.

#### Energy Research and Development

The Government has already taken major initiatives to stimulate energy Research and Development in Australia.

In 1978-79 178 projects worth \$16.3m over three years were approved. Projects supported include:

- . \$4.50m for production of synthetic fuels from coal, biomass, oil shale and wastes;
- . \$3.13m for studies aimed at improving the efficiency of coal mining, handling and transportation.

The momentum achieved needs to be maintained.

The Government will make provision in the 1979-80 Budget for expenditure on energy Research and Development of \$9 million, compared with \$4 million in 1978-79.

Expenditure from the Coal Research Trust Account in 1979-80 is estimated to be about \$5 million, making a total of \$14 million for overall expenditure in 1979-80.

The Government will establish an Energy Research Trust Account to complement the Coal Research Trust Account and to provide necessary flexibility in the administration of the National Research Program. In addition, the Government has decided to give approval for total forward commitments of \$6 million for 1980-81 and \$3 million for commitments in 1981-82.

An examination is also being made of the current research programmes of the Atomic Energy Commission with a view to widening its role to encompass non-nuclear energy research.

The Commonwealth through the Australian Minerals and Energy Council, will also invite the States to join with it in establishing a Commonwealth-State Energy Research Liaison Committee to ensure close co-operation and co-ordination of energy research activities.

#### Urban Mass Transit

In the long run, significant savings in the use of energy might be effected by means of improved, more efficient urban mass transit systems.

Investigations are currently underway within the Australian Transport Advisory Council to assess the scope for energy savings in this area. These investigations cover such matters as the scope for greater use of rolling stock and vehicles in high density commuter corridors, additional rail electrification where economically feasible, intercity passenger and freight transport and rationalisation of services generally.

#### Contingency Measures for Emergency Situations

The policies I have outlined are of course designed to prevent emergency situations arising. But if such a situation should arise we have to be prepared to deal with it. There are a range of measures which will be adopted in such circumstances which, depending on the severity and duration of any emergency, range from restrictions on access to service stations and lower speed limits, to formal rationing.

It is sufficient to say here that we have the relevant measures constantly under study. The Commonwealth, especially through Australian Minerals and Energy Council and the Australian Transport Advisory Council, will maintain close consultation with the States to achieve a co-operative and consistent approach to measures that may be required.