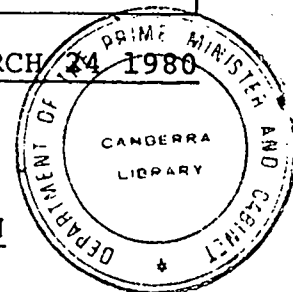




PRIME MINISTER

FOR MEDIA

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ADDRESS TO THE

AUSTRALIAN PETROLEUM EXPLORATION ASSOCIATION

In accepting the invitation to address you today, I am aware of the essential contribution which your association and its members can make to Australia's success in the decade ahead.

Your enterprise and your initiative will be central to ensuring that Australia's development in the 80s makes full use of our resource capacity.

This is a potentially rewarding task.

It involves daunting challenges of course, but then higher rewards always do.

Each decade brings with it challenge and change.

On top of high inflation and slower growth, the world is now caught up in the problems created by unstable oil supplies and the rapid rise in the real cost of liquid fuels.

In this environment, there is a tendency to forget that at the beginning of the last decade, we were about to confront economic difficulties which subsequently challenged the capacity and the will of international leadership.

The post war period brought with it unprecedented economic growth.

It made possible a much wider availability of goods and services.

It was attended by appropriate community attitudes of responsibility and restraint.

All these brought new meaning to the word civilisation.

But by the beginning of the last decade, ever-rising community expectations, unaccompanied by any corresponding commitment to productivity, were met by governments yielding to public spending demands with little regard for economic responsibility.

At the same time, community attitudes were changing dramatically.

The contribution to be made to community life by excellence and achievement gained only limited recognition.

The dedication to economic growth, which is essential if community demands are to be met, was itself under attack.

In these circumstances it is hardly surprising that inflation was with us.

Yet many nations and many leaders were slow to recognise the corroding effects of inflation, though Maynard Keynes had said in 1920:

"There is no surer means of overturning the existing basis of society than to debauch the currency, the process engages all the hidden forces of economic law on the side of destruction and does it in a manner which no one man in a million is able to diagnose."

Fortunately, time has enlarged our understanding of the diagnosis.

Uncontrolled spending by government, fed by high taxation, irresponsible wage increases and big deficits, was at the heart of the inflation problem.

In other words, in the mid 70s, many developed economies suffered from weaknesses in management and from defects in policy.

As if that were not enough to test the international economic will, the energy crisis of 1973 and 1974 brought another challenge for management and for policies.

Oil consuming countries suffered from a trebling of prices by oil exporting states at a time 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 fullscale recession, and greatly worsened the already serious inflation position.

The boom years were well and truly at an end. The spectre of higher unemployment faced many countries. Few nations could escape the onset of lower growth rates with the result that the confidence in and the capacity of our free society was challenged again.

Of course, Australia was affected by these international events but the response of the government of the day was, in itself, a transparent crisis of management and policy.

Because in many ways Australia was in a more fortunate position than most other countries.

Our natural resources, significantly developed at the end of the 60s; our great endowments of energy; our long record of lower inflation; these should have provided the foundation for a relative improvement in Australia's position during these difficult years.

Yet, we lost ground.

Instead of the government working to counteract the effects of the first energy crisis, government policies compounded it so severely that all these years have been needed to recover the position we now enjoy of strong and still rising international competitiveness. .../3
Indeed, the importance of the first energy crisis was not grasped by many countries.

Some were slow to allow domestic fuel prices to reflect international prices. Others did not set in train the necessary action to reduce dependence on petroleum products. Too many governments accepted an air of dangerous complacency.

The result was that many countries were not in a good position to respond to the most recent energy crisis. Severe adjustments have been required by countries in order to cope with the continuing energy problem.

Had the lessons of 1973 and 1974 been properly absorbed, these adjustments could have been more gradual and less disruptive. The lesson of today is that we must avoid the mistakes of the mid-70s.

There appears no reasonable prospect of maintaining long-term balance between oil demand and supply at recent prices. Indeed, as we move towards the end of the century, the prospect is one of even higher real prices for oil.

During 1979, the average official price of O.P.E.C. crude oil rose by more than 100 per cent. Projections for 1980 of lower growth in industrialised countries may give some respite in the early part of the decade from the acute demand pressures on available supplies. However, undoubtedly, a challenge is at hand. But all this only serves to remind us of the real opportunities that exist in Australia, as a result of changes in the world energy and economic order.

What we are facing is not catastrophe but opportunity. And it is an opportunity which Australia is uniquely placed to meet. Already we are one of the few net energy exporters among O.E.C.D. countries. We possess substantial reserves of uranium and black and brown coal. We have significant reserves of liquid petroleum gas and natural gas. And the possibilities for alternative sources of oil from shale and coal liquefaction demonstrate that, in a world increasingly short of energy supplies, Australia occupies a privileged position.

The Government's role in response to this privilege is designed to achieve three objectives: greater exploration and development of all our energy resources; conservation of our scarce energy resources; and greater use of alternatives to our present oil supplies.

It is this total strategy which can only be properly served by aggressive management and forward looking policies which were markedly absent from the approach of the mid-70s.

The key element in the Government's strategy is our oil parity pricing policy, which is the only responsible course to pursue in the light of the current energy dilemma. There is no escaping the reality that price must be used as a barometer of scarcity. To adhere, for short term political purposes, to the principle of cheaper petrol would be to adhere to a policy endorsing the rapid reduction in scarce fuel reserves.

Such a policy makes neither economic nor energy sense. It needs to be remembered that our super grade petrol price of around 34 cents a litre still compares more than favourably with New Zealand 43 cents; Germany 59 cents; Japan 62 cents; Italy 73 cents and France 75 cents a litre.

Even the U.S.A., whose petrol prices in the past have been below Australian prices, will now, as a result of the gasoline conservation fee recently announced by President Carter, have prices broadly comparable with ours.

One of the central challenges of the 80s is to recognise as a nation, that we have no right to sell out our energy future. As a nation, we do have a responsibility for the energy needs of the next generation.

To irresponsibly dismantle parity pricing would be to entice industry to postpone new technologies; defer conservation; and delay replacement. It would mean that Australian liquid fuel reserves would be squandered and Australia would become a defenceless victim of the international oil market - beggars for fuel, not just at parity prices, but even spot prices; prices which cash in on factors of limited supply and unlimited demand.

But above all, our import parity policy recognises that expertise in energy development is international. We have to compete for capital, technology and management with rewards that are internationally competitive. Without parity pricing this cannot be achieved.

Pleasingly, realistic market prices for oil have now increased our reserves, encouraged conservation and the search for alternatives to expensive petroleum products. But when we might have expected the Australian petroleum exploration industry to be responding to the first energy crisis, it was, in fact, in a state of regression. The level of investment in petroleum exploration had fallen from \$109 million in 1972 to \$65 million in 1975.

This was a direct consequence of the energy and economic policies of the government of the day. They dismantled many of the special incentives for the mining and petroleum industries provided through the taxation system. The whole confidence of the industry was shaken. The economic deterioration through which Australia was passing made large scale investment an unattractive commercial proposition.

The last four years have seen a welcome resurgence in investment activity. Expenditure on exploration has gradually risen in response to government incentives and improved economic health. In 1979 it totalled \$228 million and in the first half of 1980 is estimated at \$170 million.

Further, it is estimated that total expenditure on exploration and development will exceed \$500 million in 1980.

The recent announcement by Esso/BHP that development expenditure in the Bass Strait will exceed one billion dollars is a striking illustration of the revived confidence in the industry.

It is the determination of this government that expenditure in the search for oil, in and around Australia, should continue its upward momentum.

We have modified our taxation system to assist this objective, and we welcome the key role being played by major international groups in providing much of the enormous capital resources and fast developing technology that is needed.

The Government encourages the partnership between overseas and Australian companies and entrepreneurs in the exploration for, and development of, oil and other energy reserves.

I congratulate the increasing number of Australian companies who are diversifying their interests into these areas while at the same time building up Australian expertise in energy based projects.

I am particularly pleased that there is still a role for smaller businesses and companies in energy development, both at the exploration stage and in providing service facilities for the mining and exploration industry.

The impact of parity pricing on the Government's second objective, oil conservation, is already evident.

Australians are looking to smaller, and more fuel efficient motor vehicles and the increase in petrol consumption last year was 50 per cent below the average annual increase of the previous five years.

Even though it inevitably takes time for policies to produce the desired effect, these are heartening developments.

The third objective in the Government's energy strategy is the promotion of greater use of alternatives to our present oil supplies.

In the pursuit of this objective, the Commonwealth has acted with the States in a number of areas to ensure the development of projects which help provide for the future energy needs of Australians and reduce our dependence on oil.

The last two Loan Council Meetings approved special State borrowings of:

\$1,358 million for electricity power generation;

\$461 million for the Dampier-Perth pipeline and service facilities associated with the North West Shelf natural gas programme;

\$182 million for rail electrification; \$53 million for conversion away from oil fired power generation.

Of these monies totalling \$2,165 million, \$535 million will have been drawn by the end of 1979-80.

It is clear that substantial progress is being made under this historic borrowing programme.

At the same conference, the Commonwealth proposed the electrification of the Melbourne-Sydney rail link.

In co-operation with Victoria and New South Wales preliminary investigations and planning work are under way.

In addition, agreement was reached that a separate joint study be undertaken on the practicability of electrifying significant parts of the Government railway systems of Australia.

At the same conference, agreement was also reached between the Commonwealth, Queensland and New South Wales Governments that a study be undertaken to determine the requirements which will assist in expanding our exports of steaming coal.

These exports are expected to rise from 6 million tonnes a year to approximately 100 million tonnes by the turn of the century and infrastructure will obviously be needed so that orders can be met.

There is no doubt that such initiatives advance significantly the move towards increased oil substitution.

Many of them ensure the role that electricity will continue to play as a prime source of energy for Australia's development in the decade ahead.

In fact the energy crisis has brought our abundant raw materials and energy reserves closer together primarily through the ready availability of electricity generation based on our abundant coal reserves.

Particularly is this so in relation to bauxite, alumina and aluminium where \$4.5 billion of investment in refineries and smelters is either committed or at the final decision stage.

What is more, of the \$17 billion of mining and manufacturing investment projects about to go in Australia, \$12 billion relate either to investment for energy exports; or investment in energy projects which will provide alternatives to oil use; or investment in industries in which non-oil energy input is a large proportion of total cost.

Yet such figures, if anything, understate the likely exploration and development expenditure in Bass Strait and the North West Shelf and do not include the giant Rundle shale oil project.

This project could involve a total cost of many billions of dollars and has the potential to greatly reduce Australia's dependence on scarce and costly supplies of imported crude oil.

It would have no chance of proceeding without the Government's import parity pricing policy.

It has been deliberate policy of this Government to provide incentives for exploration and development.

Furthermore, the Government has adopted a wide range of initiatives designed to encourage the conversion from oil fired industrial equipment to other energy sources; or, where possible, the replacement of industrial equipment by units using other energy sources.

The Government has also acted to encourage the use of alternative fuels for motor vehicles by removing the road tax on LPG and by removing the sales tax from kits which convert vehicles to LPG or compressed natural gas.

These incentives, designed to reduce our dependence on oil, have been complemented by the significant improvement in Australia's economy which is our greatest incentive to investment.

This improvement has been broad based and has had far reaching effects.

It is the result of deliberate Government policies and concentrated efforts by the Government to provide an economic environment to which private sector forces would respond.

Now, the demand for Australian products overseas, and the increasing interest being shown in Australian investment, indicate a new respect for, and confidence in, the Australian economy.

The most significant factor contributing towards this respect has been the success achieved in absolute and relative terms in the fight against inflation.

It must remain a continuing and unyielding commitment.

At the core of the fight against inflation is the need to continue resisting intervention by Government in the operation of the economy.

In Australia in recent years while the size of the economy has grown in real terms, the share of the total economy taken by Commonwealth budget outlays has fallen.

Such a trend improves economic performance in Australia while enhancing the individual freedom of all Australians.

In the years ahead, the securing of economic growth will very much depend on our success in recognising the proper limits of Government economic power.

Governments should not seek to do what private enterprise can do much better.

Such a view recognises that there are limits to Government influence; that Government intrusion, direct or indirect, into private decision making, will generally not advance the well being of the community.

This belief needs to be increasingly reinforced.

Whatever reasons are used to justify increasing the size of government especially in areas outside its proper function, for practical reasons, and on well-documented evidence, such economic behaviour is doomed to fail.

Governments must acknowledge that if they wish to expand their involvement in the economic affairs of the nation, they will damage the private sector which is the engine of growth and progress.

This view is not shared by our political opponents.

Their promise to establish an Australian hydrocarbon corporation for development by the Government of oil and gas resources has an air of threatening *deja vu* about it.

It represents a recycling of past failures.

The last Australian Labor Party Government had similar grandiose plans unsupported by rational economic analysis.

They brought Australia to an unprecedented level of investment fatigue.

Those companies which had made discoveries and did have viable development plans were stopped in their tracks.

Overseas investors withdrew.

Government intervention of this kind would produce the same effects.

It is doomed to fail because the Government sees its reputation depending on the reputation of its own allegedly commercial corporation.

Its failure would be seen as the Government's failure, to avoid this, the Government would be prompted to give its enterprise preferential treatment; to take decisions that are not based on proper commercial considerations.

In such a sensitive and economically powerful area as energy development, this could lead to preferences for licences or leases secured by an almost unlimited access to taxpayers money.

There is a dangerous tendency for Socialists to be so bemused by ideology that they are unable to understand that there are individuals and businesses capable of operating more profitably and with better regard for the community interest than can be achieved by creatures of Government.

The establishment of such a corporation would give to the Government economic power equal to that provided by the resources it seeks to control.

The grave limitations of this would be reflected in two ways. In the first place the government would regulate and control the industry in marked contrast to our determination to allow price and the commercial market to determine the industry's future. But worse, the hydro-carbon corporation would lock capital and labour into a perpetuation of the inefficiencies that such schemes inevitably bring.

The private sector, on the other hand, must always maintain a close relationship between its borrowing, its costs and the viability of its venture. In other words, it must be commercial to survive.

Such disciplines and restraints do not attend large socialist enterprises. On the contrary the kind of enterprises proposed by the Labor Party abuse government power, in particular its capital raising power, and in so doing reduce the funds, the resources and the scope for development of private business initiatives. And when this happens, more often than not, efficiency, accountability, innovation, flexibility, and market adjustment are also sacrificed.

We cannot afford this or any other impediment to the gathering momentum in energy exploration and development.

Yet other attitudes of the Labor Party, to which all Party members are committed, are as bizarre as they are dangerous. In a somewhat uncharacteristic gesture the Party pledges itself "to regenerate Australian industry". It is the formula for this which is interesting. For amongst its commitments is one to: "... monitor trans national corporations in Australia obtaining information such as ... their investment, marketing and trading policies ... " Why, you may ask. To: "Supply (this information) to the relevant trade unions as well as all relevant international organisations such as the U.N. Centre of Trans National Corporations, the I.L.O. and U.N.C.T.A.D. ... and appropriate international trade union organisations..."

I said that Labor policies in the 70s produced investment fatigue. This would produce investment rigor mortis.

One serious problem which is casting long shadows over Australia's continuing economic growth is industrial disputes. Unchecked union power poses a grave threat to our standard of living and places in jeopardy our hard won reputation as a reliable trading partner.

All members of the Australian community, including Government, increasingly feel that union power is excessive and too often exercised selfishly and irresponsibly. Union leadership is increasingly seen as out of step with the aspirations of union membership. Responsible union leadership must strive to insist on increased productivity if it desires increased benefits, because unearned gains by any members of the community can only be achieved to the eventual detriment of the welfare of all Australians.

This has happened too often in recent times and leads me to a point of fundamental concern - the role of trade unions and the role of the law.

There are those who say that industrial matters must be solved by reconciliation, negotiation, or conciliation; that the law has no part in it. In the ideal world this would be true. But we do not live in an ideal world. People are not always reasonable. When organisations have power, as trade unions do, all experience shows that this power must be exercised within the framework of the law. The community must know that justice and the law can, and will be, upheld.

Some unions have incomes of millions of dollars a year; they have enormous power; in some circumstances more power than any corporation in this nation. Yet nobody suggests that corporations should be allowed to operate outside the law, however much some companies might like it. Penalties for failing to operate in a fair and reasonable manner do exist and they are high.

Why then, when we come to industrial relations which damages the interests of infinitely more people than any company ever could, do some people suggest that there should be no law. That laws only provoke; that we should always negotiate. That is not a credible position for any government, for any people.

We have to have law to establish the framework within which trade unions operate; also we have to have law that can and will be upheld. It is not helpful for some people to say (especially politicians) that there should be no law; that its just a question of reasonableness. What is reasonable to one person is often unreasonable to another.

The community should not be left to expect that what unions regard as reasonable should be the final arbiter of the way the country is to be run. At the moment, there is an unhealthy balance between some people and groups possessing indisputable political, economic and union power and the bulk of Australians to whom these are denied.

If we are to live up to our proud record as a genuinely free society, balance must be restored. In that process of restoration, all Australians, I am sure, would want the spirit of co-operation to prevail rather than the application of law. But if co-operation and reason fail, it is only the rule of law that can protect Australians.

It is essential that this should be so if the great promise of the 80s is to be matched by performance. We have got a lot going for us as a nation. In a difficult world, we are better placed than most. The advantages we enjoy over many of our trading partners point to a decade of opportunity for Australia. Because of our international competitiveness, investment possibilities have dramatically increased. In this investment climate, we are uniquely placed with raw materials and energy reserves the world needs. It is appropriate that the theme of your conference highlights the challenges ahead. But let us not forget the opportunities and rewards. As individuals, as business, as government, working alone or in opposition to one another we cannot properly utilise the nations human and physical resources. Working together, in partnership, our prospects as a nation are unlimited.

I welcome your continuing role in this partnership and wish your association and its members success in the years ahead.