

AUSTRALIA

PRIME MINISTER

FOR MEDIA TUESDAY, 26 AUGUST, 1980

STATEMENT TO PARLIAMENT: ENERGY POLICY AND RELATED RESOURCE DEVELOPMENT

I would like to review the Government's energy policy and to outline the quite exciting prospects ahead for Australia in the area of resource development.

Our energy policies are firmly in place and recent events serve to illustrate their correctness. Successes in this area are already evident; but in view of the uncertainties about future oil prices and supplies we cannot relax our efforts. Associated with the rapid increases in crude oil prices, there has been a dramatic increase in the demand for the energy resources with which Australia is richly endowed. It has provided Australia with great opportunities. Australia's objective must be to make the most of those opportunities, while continuing to reduce our vulnerability to disruptions of world oil supplies, and to further increases in world oil prices. The energy problem is a global problem. Failure to make appropriate adjustments will mean lower world economic growth, higher unemployment and inflation.

Sustained economic growth in the remainder of the century will require further major changes in the Western world's energy usage patterns. Australia is participating in discussions on energy with our industrialised partners within the International Energy Agency. The IEA has emphasised the need for measures to reduce levels of imports, to use oil more effectively, and to develop alternative energy sources. There is over-whelming agreement within the IEA that domestic oil prices must reflect fully, movements in internationally traded oil prices.

The Venice Economic Summit in June agreed on the need to place maximum reliance on realistic pricing to reduce dependence on crude oil. These strategies represent a full endorsement of Australia's energy policies especially our crude oil pricing policy.

Australia's position is one of considerable opportunity, but at the same time, of some risk to which I shall refer later. Our energy resources, combined with abundant supplies of many raw materials, create the opportunity for a large expansion in energy exports and in energy intensive resource developments.

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These developments will add greatly to our national product, to incomes and to wealth, and all Australians stand to benefit from being members of a wealthier society. The benefits of economic growth will, as always, extend far beyond those directly involved: they will extend to all sections of our society.

Our potential is illustrated by increased interest in, and demand for, direct exports of energy sources from Australia - primarily coal, but also L.N.G.: increased desire to process raw materials in Australia: accelerated plans to increase coal-based electricity generating capacity in Australia.

The developments in prospect will, of course, need to comply with Government requirements in areas such as the environment, foreign ownership, and taxation. We are determined that all companies, both domestic and foreign owned, shall operate in the interests of all Australians. Australia recognises its responsibilities in an increasingly energy hungry world. Our rich resource endowment carries with it an international responsibility to make our resources available on fair terms and conditions to countries who are less well endowed than ourselves. Developed and developing countries alike are vitally dependent on stable and secure supplies of resources for their economic advancement and well-being. In turn, Australia expects consuming countries to provide stable access for our resources by way of long term contracts. This is absolutely essential if companies are to commit the huge amounts of risk capital which are necessary to bring Australia's resource projects on stream in the 1980s.

Australia's greatest energy resource is coal, which comprises over eighty per cent of our identified energy resources. As well as providing seventy to eighty per cent of the country's electricity, coal is a major and rising export product, with total exports reaching 38 million tonnes in 1978-79. With increasing emphasis on coal-generated electricity throughout the world, Australian exports of steaming coal are expected to increase greatly in the future. The Government is determined that potential developments should not be held back by lack of necessary infrastructure.

To this end, projects involving borrowings amounting to around $228 million to provide coal export facilities have already been approved by the Loan Council under the infrastructure program. In addition, the Loan Council has approved borrowings of $182 million for up-grading and electrification of the Waterfall-Port Kembla railway, primarily to facilitate haulage of coal to the new loader at Port Kembla. Possible infrastructure borrowings to finance electrification of other coal railways are under consideration.

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Plans for the North-West Shelf project are firming up, with arrangements for the joint venturers to supply natural gas to Western Australia in 1984 and to commence exports of L.N.G. in 1986. The joint venturers have demonstrated their confidence in the project by letting contracts for construction of some of the major facilities, and arranging the borrowings to finance development of the project.

Australia contains around 16 per cent of the Western world's low cost reasonably assured uranium reserves. Although anticipated growth of nuclear power programs in some countries has been reduced in the last few years, there are signs that the contribution which nuclear power can make to energy needs is being reassessed in the light of the over-riding priority of reducing reliance on oil.

As the cost of oil continues to rise, it is becoming increasingly attractive to process raw materials in Australia in preference to transporting them to other countries where energy costs are higher or where there is a doubt about the availability of the required energy. The availability in Australia of low cost coal-based electricity is of prime importance. The combination of low cost energy and plentiful supplies of raw materials has increased the opportunities for economic raw materials processing in Australia.

The most outstanding example here is aluminium smelting. Annual smelting capacity is expected to expand from 280,000 tonnes at present to about 1.3 million tonnes over the next five years, requiring the investment of around $2.9 billion. Further aluminium projects under serious consideration could lift annual capacity to over two million tonnes in the second half of the 1980s, bringing total potential investment in the industry to around $4.5 billion. In addition, substantial new facilities are planned for the petrochemical industry, based primarily on hydrocarbon feedstock material from Bass Strait and the Cooper Basin.

Investment in additional electricity generating capacity represents one of the greatest development challenges in Australia. Recognising the very high cost of, and long lead times asociated with the construction of electricity generating stations, the Commonwealth has taken a series of initiatives to encourage and assist the State authorities concerned.

The Commonwealth has encouraged the States to bring forward proposals for coal-based electricity projects to be financed under the infrastructure program which it initiated specifically to facilitate the provision of public sector infrastructure required to complement the big prospective increase in private sector investment in development projects.

Borrowings of $3 billion have been approved under this program for electricity generating projects with an estimated total cost of $7.4 billion. In addition, there are under examination further electricity generating projects proposed, including those by New South Wales and Queensland for which total borrowings of about $4.4 billion are being sought towards outlays of $9.1 billion, and further proposals from other States have also been foreshadowed.

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It is difficult to convey the magnitude and importance to Australia of these developments. Projects already approved will add 40 per cent to Australian electricity generating capacity by about 1990. The proposals from New South Wales and Queensland currently being examined by officials involve almost half as much again.

Installed generating capacity in Australia has grown dramatically since 1950: between 1950 and 1960 it grew by 165% or 3,500 megawatts; between 1960 and 1970 it grew by 160% or 8,400 megawatts; between 1970 and 1980 it grew by 71% or 10,000 megawatts.

On the basis of current plans, installed generating capacity is expected to rise by a further 9,000 megawatts by 1985 and a further 12,000 megawatts in the second half of the decade to reach about 45,000 megawatts by 1990. In this decade the increase in generating capacity is expected to be greater than in any previous decade, or even two decades. In 1979, the Commonwealth in conjunction with New South Wales, Victoria, South Australia, and Tasmania, set up a committee of inquiry into electricity generation and sharing of power resources in South-East Australia.

The main function of the inquiry is to examine the feasibility of a strongly integrated electricity supply grid in South-East Australia.

Resources and energy related developments have an immense potential for generating economic growth in this country and raising the standard of living of all Australians, but the realisation of this potential could be imperilled if appropriate policies are not pursued.

I refer particularly to: our vulnerability to disruptions to supplies of crude oil and the need for appropriate energy policies to minimise the risk; the need for sound economic policies which will provide an economic environment in which the massive investments which will be required can be made with confidence; and the need for unions to play a positive role in this development, and to avoid the industrial unrest which might put at risk major investments by adding to costs and uncertainties and might prejudice Australia's image as a reliable supplier.The Commonwealth will continue to consult with the trade union movement in every effort to improve the industrial relations climate.

The National Energy Advisory Committee has estimated that if we do not find more oil our self-sufficiency in naturally occurring crude oil is expected to fall from about 67 per cent today, to about 40 per cent in 1990, and to ten per cent by the year 2,000.

In order to avoid increasing reliance on potentially unreliable overseas supplies of oil, Government policies need to be directed at reducing our dependence on crude oil and towards cushioning the effect in Australia of any external oil shock.

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The cornerstone of our policy is the pricing of indigenous crude oil at import parity. When we introduced import parity pricing policy, we knew that it would not be popular; but we believed that it was right, and necessary, for the future well-being of Australia.

Import parity pricing is vital to conserve our scarce supplies of liquid fuels, to encourage exploration for oil and to assist the development of alternative sources of energy - this policy is clearly working.

The case for the policy is overwhelming. It is vital that we should price our own supplies of oil at the value placed on them in world markets and not allow them to be used at artificially low prices. If we were to allow our irreplaceable indigenous oil reserves to be squandered - used up - at unrealistically low prices, it would be an act of extreme selfishness towards our children.

Only by pricing indigenous crude oil to reflect world prices can alternative sources of energy, such as shale oil, ethanol, become viable and thus contribute towards reducing our dependence on imported oil. Because these developments will take time toh have their full effect we must begin to make the necessary adjustments on a wide scale now. The choice we face is between paying realistic prices for petroleum products now or paying even higher prices later to producers in other countries when we may be unnecessarily dependent on expensive and uncertain supplies of imported oil. The crude oil levy recovers for taxpayers generally a substantial part of the windfall profits which would otherwise accrue to domestic oil producers as oil prices rise. It has assisted the Government to meet defence obligations which could not be postponed, to help reduce the deficit, and to finance cuts in taxation applying from 1 July 1980.

Notwithstanding our adherence to import parity pricing for indigenous crude, the price of Australian petrol is amongst the lowest of OECD countries - for example, prices in Europe range from 55¢ a litre in the F.R.G., to 62¢in the United Kingdom and to 78¢ a litre in Italy.

Australia's import parity pricing is based on the price set for "Arabian light", the lowest price at which a major part of the world's oil is traded. In addition, the Government has backed up its pricing policy with supplementary measures to achieve its desired objectives to which I should now like to refer.

Conservation offers the most effective means of reducing our reliance on oil in the short term, and has the potential for further gains as investments are made in energy efficient capital equipment, vehicles and buildings. Pricing of crude oil at import parity encourages conservation by ensuring that consumers make decisions based on realistic prices.

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To encourage conservation, the Government launched last November a national energy conservation campaign; introduced a national industrial energy management scheme to promote and foster efficient energy consumption patterns in industry; will be seeking a commitment from industry to establish and maintain energy management programs, under which companies will monitor energy use, establish goals for reducing energy use, and report this information through their industry association.

The available evidence suggests that despite strong economic growth consumption of petroleum products is slowing in Australia.

Whenever possible the Government wishes to replace the use of petroleum products by other, more readily available substitutes. Again, of course, the prime incentive for such substitution is provided by realistic pricing of petroleum products arising from import parity pricing.

Natural gas, which is already available in all mainland capital cities, and in many other centres, provides an attractive alternative to crude oil products for many users. The Government is committed to extending natural gas pipelines to provide wider access to this energy source. Construction has commenced on a Sydney-Newcastle pipeline and will shortly commence on a line from Young to Wagga Wagga and Cootamundra. Plans have been approved for a spur line to Canberra and consultations are being held with New South Wales, Victoria, and South Australia on the possible extension of the Southern lateral from Wagga Wagga to Albury. Such a line would link the Victorian and New South Wales gas distribution networks, and the Cooper Basin and Bass Strait gas fields.

In June last year, I announced a number of initiatives to encourage the automotive use of LPG. When it became evident that massive increases in the world price of LPG threatened this policy the Minister for National Development and Energy announced last April measures designed to restore an element of certainty to potential automotive users of LPG by tying the price of LPG to that of indigenous crude oil. These measures also recognised the position of household consumers of LPG by providing a temporary subsidy of $80 a tonne. This will give households the opportunity to switch gradually to more suitable indigenous fuels such as natural gas and electricity.

The Government's import parity pricing policy provides a basic framework within which alternative fuels can be developed. The Rundle Shale oil project is a classic example of the effectiveness of the Government's import parity pricing policy. The developers of this project have made it clear that the Government's import parity pricing has been crucial in their decisions to make the very large investments required in this project.

This emphasises that if we are to compete internationally for capital, expertise and skills, we will only attract these to Australia with rewards which are internationally competitive.

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The first stage of Rundle is expected to cost between $300 million and $400 million in 1979 values, and if it is successful to lead to a project costing many billions of dollars, and producing about 200,000 barrels of syncrude a day - probably between 25 and 30 percent of our expected requirements at that time. Its output should come on stream as Bass Strait oil production declines in the early 1990s. Indeed, it is likely to be the largest project ever undertaken in Australia, and one of the largest in the world. Rundle is only one of several rich oil shale deposits. If it proves to be viable it will almost certainly lead the way with its technology in the development of a great new industry for Australia.

Development work is being carried out to arrive at processes for the economic conversion of coal to oil. Joint ventures have been set up by Australia with Germany and Japan to investigate these possibilities. Another promising alternative to crude oil is ethanol, which can be produced from a number of vegetable products, such as grain, sugar cane, sugar beet. It has potential for use primarily as a petrol extender in blends containing 10-20 per cent ethanol.

The Commonwealth Government is providing funding to assist in an economic and technical evaluation of the potential contribution of fuel ethanol to Australia's liquid fuel needs. Ethanol for use as an on-farm or transport fuel has been exempted from excise whether produced on the farm or commercially.

Research into alternative energy sources and other aspects of energy use is necessary to develop viable techniques to reduce our dependence on oil. The Commonwealth is providing increased funding for a substantial research and development program.

The response by oil explorers to the Government's policies has been very pleasing. Confidence of investors has been restored and exploration activity has increased dramatically. Import parity pricing has, of course, provided the certainty as to future returns which has underpinned this recent expansion in oil search activity.

For instance, the Australian Petroleum Exploration Association now expects that expenditure on petroleum exploration and development will exceed $715 million in 1980, compared with $150 million in 1975. Last year 108 exploration and development wells were drilled in Australia and in 1980 it is expected that 121 such wells will be drilled - only 29 wells were drilled in 1975.

The Government has been concerned to provide greater security of supply of petroelum products to Australian consumers. In the event of a major interruption to oil supplies we would need to have adequate stocks of both crude oil and petroleum products.

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Our greatest protection against disruption in international oil markets is continued production from Bass Strait. The Government considers that a prudent objective for stock holdings in Australia is the equivalent of about 75 days of total consumption of crude oil and petroleum products. To put this objective into perspective, at the beginning of 1979 stocks of crude oil and petroleum products in Australia were equivalent to about 52 days consumption. They have now risen to about 67 days, and discussions are being held with the oil industry to increase these stocks to the target level.

Member countries of the IEA are required to hold a minimum level of stocks equivalent to 90 days of net oil imports in the previous year. Australia easily complies with this requirement. Our oil and gas production facilities in Bass Strait and the associated onshore facilities in Gippsland mets some 62 per cent of our domestic oil consumption and all Victoria's natural gas requirements. The Government has taken action in consultation with Victoria and with Esso to enhance the security of these installations and to enable more rapid restoration of supply in the event of disruptions. The Government is acting to reduce further the risks of accidental collision by vessels with the offshore installations. On 6 June the Minister for Defence announced that increased surveillance and related activities were being undertaken by units of the Australian Defence Forces, including naval and air units, in the vicinity of the Bass Strait production platforms.

Sound economic management is of fundamental importance to the realisation of Australia's great development potential. Continued downward pressure on inflation and the avoidance of de-stabilising imbalances in the economy are pre-requisites for the very large investments required. The Government's record in this area is good and the recent Budget demonstrates our resolve to continue to pursue anti-inflationary policies.

The Government's foreign investment policy is understood and accepted by foreign investors. It ensures consistency, equity and predictability for investors, while ensuring that Australians get maximum benefits from developments.

Planning, development and operation of major projects involving the investment of very large sums require reasonable certainty about costs and timetables. Delays arising from industrial unrest which could adversely affect both costs and timetables must therefore be avoided. We also need to avoid industrial unrest in the production phase particularly in the mining sector, as disruption to supply can be a source of concern to our trading partners, as well as to prospective investors. An essential component of Australia's image as a reliable trading partner is our ability to meet contracts as scheduled. The Commonwealth will encourage consultation and co-operation between management and workers in an effort to reduce the level of disputation and to provide a constructive industrial relations environment.

Events of the past twelve months confirm that the Government's strategy is working. In 1979-80 consumption of petrol declined by 0.7 per cent, compared with an average annual increase of 4.6 per cent in the five years preceding full import parity pricing.

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In 1979-80 consumption of heating oil and fuel oil fell by 36 percent and 8 percent, respectively, over 1978-79. Introduction of natural gas into Sydney is estimated to have saved the equivalent of 2 million barrels of oil in 1979. Esso and the Rundle partners have announced that they have signed heads of agreement todevelop the huge Rundle oil shale deposit. Exploration for oil has increased dramatically since the mid-1970s. The latest survey by the Department of Industry and Commerce has identified investment of $29 billion either committed or in the final feasibility stage in major resource and manufacturing projects, with some two-thirds being energy related. Investment in electricity generation and transmission exceeding $19 billion over the next decade has been foreshadowed.

The policies being pursued by the Commonwealth will create the conditions which encourage the massive investments necessary to bring the potential resource-based developments to fruition.

The investment of many billions of dollars in resource based development will stimulate economic growth and employment. This investment, the growth of great new industries and the expansion of others will mean increased incomes and higher living standards for all Australians. This exciting prospect has relevance for all of us; we all stand to participate in it.

Our energy policies are firmly established and their success is already evident. The Commonwealth will continue to build on these policies to ensure that Australia is well placed to meet possible upheavals in the international oil markets. The measures I have outlined tonight evidence this determination.

Mr. Speaker, in the statement I have made, I have provided an outline of the Government's energy policy and the prospects for resource development. For the information of Honourable Members, I now table a more comprehensive statement on these matters.

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