

AUSTRALIA'S ENERGY PROSPECTS FOR THE 1980s

SPEECH DELIVERED  
ON BEHALF OF  
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BY

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TO

AUSTRALIAN INSTITUTE OF ENERGY/INSTITUTION  
OF ENGINEERS CONFERENCE

"ENERGY '83"

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I AM VERY PLEASED TO BE SPEAKING TO YOU TODAY ON A TOPIC WHICH WE ALL ACKNOWLEDGE TO BE OF TREMENDOUS IMPORTANCE TO AUSTRALIA. THE VERY FACT THAT THIS CONFERENCE, DEVOTED TO ENERGY IN AUSTRALIA IN 1983, IS BEING HELD ATTESTS TO THE SIGNIFICANCE OF ENERGY FOR ALL OF US.

THIS CONFERENCE IS VERY IMPRESSIVE IN BOTH THE SCOPE OF THE SUBJECTS IT IS CONSIDERING AND THE LEVEL OF PARTICIPATION. I NOTE THAT IT HAS LOOKED AT ENERGY POLICY IN THE CONSTITUTIONAL SETTING, ENERGY AND THE ENVIRONMENT, ENERGY AND MANPOWER, AS WELL AS THE MORE FREQUENTLY DISCUSSED TOPICS, ENERGY PLANNING, PRICING AND SUPPLIES.

AND IT IS IMPORTANT THAT WE CONTINUE TO ADDRESS THESE QUESTIONS AND AVOID ANY TENDENCY TO COMPLACENCY WHICH MIGHT BE ENGENDERED BY THE PRESENT EASING OF INTERNATIONAL OIL PRICES.

#### INTERNATIONAL OIL SITUATION

THE CURRENT INTERNATIONAL OIL SITUATION IS CHARACTERISED BY DECLINING DEMAND, EXCESS PRODUCTIVE CAPACITY AND UNCERTAINTY ABOUT THE FUTURE COURSE OF PRICES, PARTICULARLY OVER THE MEDIUM TERM.

THE PRESENT LOW LEVEL OF DEMAND FOR OIL RESULTS LARGELY FROM THE SUBDUED LEVEL OF GLOBAL ECONOMIC ACTIVITY AND THE EFFECTS OF CONTINUING FUEL SUBSTITUTION AND CONSERVATION, INTRODUCED IN RESPONSE TO THE OIL PRICE SURGES OF 1973-74 AND 1979-80.

THE RECENT OPEC AGREEMENT TO CUT THE PRICE OF ARAB LIGHT OIL, ITS REFERENCE PRICE, BY \$US5 A BARREL TO \$US29 A BARREL WAS THE FIRST MAJOR PRICE CUT EVER AGREED TO BY OPEC.

THERE ARE INDICATIONS THAT OPEC'S EFFORTS TO STABILISE THE MARKET IN THE FACE OF DECLINING DEMAND MAY BE SUCCESSFUL.

- OPEC MEMBERS HAVE HELD TO THEIR AGREEMENT SO FAR
- NON-OPEC SUPPLIERS, NOTABLY THE UK, MEXICO AND THE USSR, HAVE ADJUSTED THEIR PRICES IN LINE WITH OPEC PRICES
- PRICES ON THE SPOT MARKET HAVE FIRMED. MANY KEY CRUDE OIL PRICES ARE NOW CLOSE TO OR AT OFFICIAL LEVELS.

NONETHELESS, THE OUTLOOK FOR THE OIL MARKET BEYOND 1983 REMAINS UNCERTAIN. MUCH WILL DEPEND ON FACTORS SUCH AS MAINTENANCE OF DISCIPLINE WITHIN OPEC RANKS; EFFECTS OF A RUN-DOWN IN CONSUMING COUNTRIES' OIL STOCKS WHICH COULD DELAY RECOVERY IN DEMAND FOR OPEC OIL; AND THE EFFECTS ON OIL MARKETS OF RECOVERY IN THE WORLD ECONOMY.

#### AUSTRALIA'S ENERGY RESOURCES AND EXPORTS

AUSTRALIA, OF COURSE, IS WELL ENDOWED WITH MOST ENERGY RESOURCES AND IS ONE OF THE FIVE OECD/DEVELOPED COUNTRIES THAT ARE NET ENERGY EXPORTERS (ALONG WITH THE UK, CANADA, NORWAY AND THE NETHERLANDS).

THIS HAS PLACED US IN A SPECIAL POSITION WITH RESPECT TO ENERGY DEVELOPMENTS IN RECENT YEARS.

IN 1981-82 THE VALUE OF OUR ENERGY EXPORTS WAS \$3.4 BILLION OR 17.5% OF THE TOTAL VALUE OF EXPORTS. HOWEVER, BECAUSE OF INCREASED OIL PRICES, THE VALUE OF OUR NET BALANCE OF TRADE IN ENERGY HAS DECLINED IN RECENT YEARS - IN 1981-82 THERE WAS ONLY A SLIGHT SURPLUS.

BLACK COAL EXPORTS ACCOUNTED FOR 67 PER CENT OF THE VALUE OF OUR ENERGY EXPORTS IN 1981-82, AND OUR STEAMING COAL EXPORTS HAVE RISEN STRONGLY RECENTLY. OUR OTHER MAJOR ENERGY EXPORTS ARE URANIUM AND LPG.

AS A CONSEQUENCE OF THE PRESENT DOWNTURN IN THE WORLD ECONOMY, AND REDUCED OIL PRICES, THE OUTLOOK FOR OUR MAJOR ENERGY EXPORTS IS UNCERTAIN IN THE SHORT TERM.

YOU WILL BE AWARE OF RECENT DEVELOPMENTS IN INTERNATIONAL COAL MARKETS AND THE AUSTRALIAN COAL INDUSTRY. SIMILARLY, PROSPECTS FOR INCREASED EXPORTS OF, FOR EXAMPLE, LNG HAVE BECOME CLOUDIER.

THESE INTERNATIONAL MARKET DEVELOPMENTS HAVE THE EFFECT OF INCREASING THE PRESSURE ON OUR RESOURCE PROJECTS TO MAINTAIN THEIR COMPETITIVENESS.

THE GOVERNMENT, HOWEVER, BELIEVES THAT AUSTRALIA'S RESOURCES INDUSTRIES FACE A VERY BRIGHT LONG TERM FUTURE. AT THE SAME TIME, AS INDICATED IN ITS RESPONSE TO THE PRESENT COAL INDUSTRY SITUATION, IT IS TAKING ACTION TO ASSIST THESE INDUSTRIES IN THE SHORT TERM. THE GOVERNMENT HAS CONSULTED WITH THE PRODUCERS AND UNIONS TO DEVELOP A CO-OPERATIVE APPROACH TO SOLVING PROBLEMS IN THE COAL INDUSTRY. IT IS PUTTING A STRONG EMPHASIS ON DEVELOPING EXPORT MARKETS.

#### AUSTRALIA: LIQUID FUEL PROSPECTS

CRUDE OIL AND PETROLEUM PRODUCTS ARE AUSTRALIA'S ONLY SIGNIFICANT IMPORTS OF ENERGY. WHILE THE QUANTITY OF IMPORTS OF THESE FUELS HAS REMAINED RELATIVELY CONSTANT SINCE THE EARLY 1970S, THEIR COST HAS INCREASED MORE THAN TEN-FOLD OVER THE PERIOD.

NONE THELESS, AUSTRALIA HAS A RELATIVELY HIGH LEVEL OF SELF-SUFFICIENCY IN LIQUID FUELS OF AROUND TWO-THIRDS OF ITS REQUIREMENTS - A POSITION WHICH MANY COUNTRIES ENVY.

LATEST FORECASTS, BASED ON ESTIMATED PRODUCTION FROM KNOWN RESERVES, SUGGEST THAT SELF-SUFFICIENCY SHOULD PEAK AT 75 PER CENT IN 1984-85, AS ADDITIONAL CRUDE OIL AND CONDENSATE SUPPLIES FROM THE COOPER BASIN, BASS STRAIT AND NORTH-WEST SHELF COME ON STREAM, COMBINED WITH FORECAST LOWER LEVELS OF PETROLEUM FUELS DEMAND.

HOWEVER, PRODUCTION COULD DECLINE SIGNIFICANTLY AFTER THE MID 1980S AS BASS STRAIT RESERVES FALL - AND FORECAST DEMAND INCREASES - UNLESS THERE ARE SIGNIFICANT NEW DISCOVERIES.

IT IS INTERESTING TO NOTE THAT AUSTRALIA DOES HAVE REASONABLE PROSPECTS FOR ADDITIONAL OIL DISCOVERIES AND THEIR DEVELOPMENT OVER THE NEXT 10 YEARS. THE BMR HAS ESTIMATED THAT THERE IS A 50 PER CENT PROBABILITY OF FINDING AT LEAST 1 800 MILLION BARRELS OF OIL, IE ALMOST EQUIVALENT TO THE PRESENT LEVEL OF AUSTRALIA'S OIL RESERVES. THE BMR SUGGESTS THAT ABOUT HALF OF THESE RESERVES MAY BE DISCOVERED IN THE NEXT 10 YEARS.

IF THE BMR ESTIMATES ARE REALISED, AUSTRALIA'S LIQUID FUEL SELF-SUFFICIENCY COULD EXCEED 80 PER CENT DURING THE DECADE TO 1991-92.

TURNING BRIEFLY TO NON-CONVENTIONAL LIQUID FUELS, I WOULD JUST LIKE TO SAY THAT THE TIMING OF DEVELOPMENTS IS VERY UNCERTAIN; CURRENT INDICATIONS ARE THAT PRODUCTION OF SYNTHETIC LIQUID FUELS FROM OIL SHALE, COAL AND METHANOL WILL NOT BE OF SIGNIFICANCE IN AUSTRALIA UNTIL THE 1990S OR BEYOND.

#### PETROL PRICES

AUSTRALIA HAS ALSO ENJOYED THE BENEFITS OF THE THIRD CHEAPEST AVERAGE PETROL PRICE AMONG OECD COUNTRIES. ONLY CANADA AND THE USA HAVE LOWER PETROL PRICES. AND AUSTRALIA'S AUTOMOTIVE LPG PRICES ARE THE LOWEST OF ALL IN THESE COUNTRIES. THESE RELATIVELY LOW PRICES CAN LARGELY BE ATTRIBUTED TO THE LOWER LEVEL OF TAXATION APPLIED TO THESE FUELS IN AUSTRALIA

#### ENERGY POLICIES

AUSTRALIA'S RELATIVELY FAVOURED POSITION IN REGARD TO ENERGY RESOURCES SHOULD NOT BE A CAUSE FOR COMPLACENCY. IT DOES NOT DIMINISH THE NEED FOR APPROPRIATE ENERGY POLICIES FROM THE GOVERNMENT.

THE GOVERNMENT RECOGNISES THE IMPORTANCE OF PRICE INCENTIVES TO STIMULATE THE EXPLORATION FOR AND DEVELOPMENT OF ADDITIONAL ENERGY RESOURCES. SO DID THE PREVIOUS LABOUR GOVERNMENT WHICH, IN SEPTEMBER 1975, ESTABLISHED THE POLICY OF IMPORT PARITY PRICING FOR 'NEW' OIL.

PRESENT ARRANGEMENTS FOR TAXING EXTRACTIVE INDUSTRIES, PARTICULARLY ENERGY RESOURCES, ARE FRAGMENTED, COMPLEX AND ARBITRARY. THE GOVERNMENT ATTACHES IMPORTANCE TO IMPROVING THESE TAX ARRANGEMENTS. IT WILL MAKE CHANGES WHICH WILL ENCOURAGE PRODUCTION, INCREASE EFFICIENCY AND ENSURE AN APPROPRIATE CONTRIBUTION TO REVENUE.

MY COLLEAGUES AND I ARE LOOKING AT A NUMBER OF MEASURES TO IMPROVE RESOURCE TAX ARRANGEMENTS, INCLUDING A RESOURCES RENT TAX. ALL INTERESTED PARTIES, INCLUDING PRODUCERS AND THE STATES, WILL BE CONSULTED IN THE DEVELOPMENT OF SUCH MEASURES BEFORE THEY ARE CONSIDERED BY THE GOVERNMENT. IN RESPECT OF A RESOURCE RENT TAX SUCH A TAX WILL NOT BE INTRODUCED WITHOUT ADEQUATE CONSULTATION WITH INDUSTRY AND OTHER INTERESTED PARTIES.

THE GOVERNMENT WILL, THEREFORE, BE GUIDED BY THREE PRINCIPLES IN DEVELOPING ENERGY POLICIES FOR AUSTRALIA. IT WILL SEEK TO:

- ENSURE SUFFICIENT ENERGY SUPPLIES ARE AVAILABLE
- ENCOURAGE THE MOST EFFICIENT RESOURCE PRODUCTION
- ENSURE THAT THE BENEFITS OF RESOURCE DEVELOPMENT ARE SHARED EQUITABLY AMONGST THE WHOLE COMMUNITY.

INCREASING ENERGY PRODUCTION IS IMPORTANT TO ALL OF US, WHETHER WE BE GOVERNMENT, PRODUCERS OR CONSUMERS. IMPROVING ENERGY USAGE, WHETHER IT IS THROUGH TECHNICAL DEVELOPMENTS OR A MORE EFFECTIVE FRAMEWORK FOR ANALYSIS AND DECISION MAKING, IS EQUALLY IMPORTANT. THE GOVERNMENT IS VERY CONSCIOUS OF THE BROAD SCOPE OF ENERGY ISSUES AND WILL MAKE A FIRM CONTRIBUTION TOWARDS EFFECTIVE ENERGY POLICY.

LADIES AND GENTLEMEN. THANK YOU.