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PRIME MINISTER

EMBARGOED UNTIL DELIVERY

CHECK AGAINST DELIVERY

ENERGY 2000 CONFERENCE CANBERRA
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At the outset I would like to thank all of you for contributing to, and participating in, this Energy 2000 conference. The conference is the final stage in the review of national economic policy initiated by my friend and colleague, the Minister for Resources and Energy, Gareth Evans. As in everything he tackles, Gareth has brought his vitality and enthusiasm to the Energy 2000 review which will result in Australia having a national energy policy framework to see us through to the turn of the century.

These next few years are certainly destined to be a watershed in Australia's economic development.

The decline in the \$A exchange rate - together with the marked improvement in our relative labour costs over the past three years - have substantially improved Australia's international competitiveness. Indeed, labour costs, our economy has not been as internationally competitive in at least two decades.

That change has been concentrated in the past 18 months and has set up a whole new dynamic for Australia's economic development. It is set to change radically much of Australia's outlook and economic performance. But the potential benefits will not accrue to Australia without effort on our part.

Economic policy is directed to creating the environment most conducive to maximising our chances for success. I have no doubt that the opportunities which are available will be seized upon by the private sector as time passes.

Agriculture and extractive industries have always figured prominently in Australia's export base. Of course we retain our national trading advantage in these commodities. And, of course, a major component of the future expansion of our trade will be found in these areas.

But the shift in the foreign currency equivalent of our labour costs relative to our trading partners has also opened up a whole new vista of opportunity for greater

emphasis on manufacturing and the services industries. Increasingly, we are likely to see these opportunities being taken up.

Indeed the process has already begun. To quote but one example, investment in manufacturing rose 40 per cent in 1985-86, a substantial real increase even if allowance is made for the sharply increased cost of imported capital equipment. This expansion will of itself provide additional opportunities - and additional challenges - for the energy sector in years to come.

In a few moments I would like to address some of those considerations. But first it would be useful to examine how we got to this point - and the policy environment which, nonetheless, enables Australia to face the future with great confidence.

I need hardly tell this audience that world trading conditions are tough and uncompromising at present. Substantially lower oil prices have been a significant component of the unexpectedly sharp deterioration which has occurred in our terms of trade over the past year or so. Of course, the deterioration has been much more broadly based than just the energy sector. It includes most agricultural products and most of our major metals and minerals.

Overall, that deterioration is currently costing Australia about \$6 billion a year. One consequence of this is the fact that we continue to run a large current account deficit - of the order of 6 per cent of GDP in 1985-86, despite strong growth in export volumes and a sharp slowing in imports.

Initially, the cost of the decline in our terms of trade is borne principally by the export sector. But if Australia is to trade out of this situation - and curtail our recourse to other people's money to a level which is more sustainable in the longer run - it will be necessary to spread that burden more widely.

Economic forces will naturally tend to produce just such a result. The task for policy is to manage the adjustment in a way which does least damage to our ultimate objective - achievement of sustained, strong economic and employment growth.

The recent Budget is an essential element of that process. Government spending and the Budget deficit have been cut back in line with our strained economic circumstances. The Budget addresses the fundamental problem now before Australia - the need to bring our level of spending back into line with our earnings. It thus provides an approach which will allow two major problems to be addressed simultaneously, over time.

The first of these is the excessive current account deficit. The second is the level of interest rates. These are, of course, highly interrelated.

As the Budget papers make clear the improvement in our current account position is likely to take some time to reflect in the official statistics. That is not because the necessary changes in our net trading position will not be occurring in 1986-87.

Rather it will reflect the overriding influence of the effect in this year of the expected further fall in our terms of trade, the lagged impact on the current account deficit of the depreciation of mid-1986 and the size of the aircraft re-equipment program of our major carriers.

But there should be no doubting that the changes essential to underpinning an ongoing improvement in our current account position will be occurring. Export volumes, overall, are currently forecast to rise in line with growth in our major trading partners. Import volumes are expected to fall substantially. The external sector will be the major source of growth in the Australian economy in 1986-87.

While the tough approach adopted in the Budget is indispensable, it is not the only level at which Australia's economic difficulties are now being tackled.

For example, action is also in hand to continue to achieve the kinds of modest wages outcomes necessary to preserve Australia's newfound competitiveness. Already there are policies in place to facilitate the kinds of structural adjustment in Australia's industrial make-up which we require if we are to maximise the potential benefits of our new trading stature.

One manifestation of these policies is the range of industry - specific plans adopted, on a tripartite basis, for the steel, motor vehicle and heavy engineering sectors. But the policies have a broader application. They include policies to reduce regulation, reform the financial sector, promote industrial research and development and, naturally, to float the dollar.

They include also the most wide ranging reform of the Australian taxation system ever attempted in Australia - reforms which restore a greater degree of personal incentive and end the double taxation of dividends. The 1986-87 Budget contains the next instalment of these reforms, which will be substantially completed in July 1987 when the top personal tax rate is to be cut finally to 49 cents.

Taken together these policies provide an overall framework in which the business sector can plan with confidence.

CHALLENGES FOR ENERGY POLICY IN THE 1990'S

Let me turn now to some matters specific to the energy sector. It is clear that the energy sector has been and will remain very important to our overall economic performance.

At the simplest level this reflects the sheer size of this sector in Australia's economic make-up. For example, the value of production of the energy supply sector is over \$18 billion and total direct employment around 200,000. About 22 per cent of our total export income comes from the energy sector, a particularly significant contribution in our present economic circumstances.

But the matter goes deeper than this. Australia is a highly efficient producer of energy and, in the case of coal, has abundant economically recoverable reserves. The energy sector will continue to play a significant role in our future economic performance.

Despite depressed world commodity prices, the energy industries represent an area of opportunity. Our large resource base provides a foundation for significant future growth based on export of energy materials. Opportunities for expanded trade include: crude oil and petroleum products, coal and, in the 1990's, Liquefied Natural Gas from the North-West Shelf. This is the first sense in which the energy sector is set to make a strong contribution to our export earnings in coming years, which will help directly reduce our current account deficit.

Equally importantly, an efficient energy sector can contribute to our success in the now more competitive manufacturing and service sectors. Cheap energy supplied to manufacturing industries is the most obvious example. More generally, Australia will benefit from access to energy related technology and services. Australia's expertise in solar technologies is a case that comes readily to mind: a case moreover with significant export potential in its own right.

However, it has to be said that prospects for the energy sector are not uniform. On the other side of the coin, we are facing a substantial reduction in our level of petroleum self-sufficiency at current drilling rates and known reserves. Longer term imports of oil are expected to increase significantly as a consequence.

The base case scenario in the Energy 2000 exercise indicates that there is only a 50 per cent chance of us being 50 per cent self-sufficient in the year 2000. This implies imports of about 145 million barrels a year worth around \$3.6 billion at current price levels.

I know that one of the central issues you will be discussing at this conference is to what lengths Australia should be prepared to go to maintain our level of oil self-sufficiency. The need to strike the correct balance between encouraging greater exploration efforts and adjusting - through greater energy substitution and other measures - to the likelihood of declining domestic oil reserves, will be one of the most important energy policy tasks facing this country in the later years of this century.

However, if our recent economic history has shown us one thing it has been the power of the forces for change unleashed by movements in relative prices. It is worth remembering that it is not all that many years past when the Club of Rome was predicting world-wide shortages of a number of commodities now in chronic oversupply. In the event the supply of commodities has risen faster than expected and demand has risen more slowly because of changes in the resource intensity of production. Both effects owe much to market responses to the signals emitted by higher real prices.

The point of this recollection is not to dismiss the current scenarios produced by this Conference - that is not my intention. Instead the point that I draw is the need to preserve flexibility. And while certain principles have been consistently applied, an approach flexible enough to respond to changing circumstances has been of central importance to this Government's energy policies.

The Government has already demonstrated its commitment to supporting energy production by being prepared to revise resource taxation and pricing arrangements in line with changing circumstances. We have, for example, maintained the import parity pricing policy in the face of rapidly declining oil prices.

We have also recently changed the excise arrangements for "old" oil so as to remove an unintended disincentive to produce. As you know weak world prices had severely squeezed margins at some points on the production scale, which severely hampered the capacity of Australian suppliers to meet world competition.

These changes were designed to lead to free market sales of about 70,000 barrels a day, with consequent foreign exchange earnings of around \$340 million per year. It has been greatly encouraging in recent weeks to see our major oil producers back in the market selling, shipping Australian crude to overseas buyers.

The recent partial recovery in world prices, combined with the Government's decision to leave the excise concessions in place for the time - despite the fact that the IPP has moved above the \$A20 per barrel threshold - should help to rejuvenate exploration and development activity and associated employment.

We recognise, however, that there are many longer term advantages in moving away from traditional production-based taxation regimes to profit-related arrangements. We therefore have introduced a resource rent tax for "greenfields" offshore oilfields. The Government will be introducing the "greenfields" RRT legislation at the earliest possible date. Production has commenced from the first oilfield - at Jabiru - to come under the jurisdiction of the "greenfields" RRT.

The RRT concept has been extended onshore to the Barrow Island oilfield. This was a co-operative arrangement involving the Commonwealth, the Western Australian Government and the Barrow Island operators.

We would hope that the other States will play their part in reviewing resource taxation regimes. The Commonwealth has sought to encourage State Governments to rationalise their systems of taxes, royalties and charges in favour of profit-related regimes.

Over the past few years we have also sought to remove impediments to trade and reduced our involvement in regulatory activities - particularly in relation to export controls and foreign investment policy. The Government has export control arrangements for a number of minerals under active review.

We have already announced a substantial further relaxation of foreign investment policy in recognition of the importance of foreign investment in the development of the Australian economy. For we accept that wherever controls do not serve legitimate ends or involve excessive costs they should be relaxed or abolished as soon as possible.

We call upon the States to take a similar positive approach to their taxation and regulatory regimes for the energy industries so that they can, in the appropriate framework, play a significant part in the regeneration of the Australian economy.

All of these factors combine to affect Australia's capacity to compete on international markets.

But as many of you here will know, our reliability as a supplier is often highly relevant in determining whether Australia wins vital resource export contracts.

Before we came to office there was considerable criticism, some of it justified, of the industrial behaviour of Australian workers.

In the eyes of the Japanese managers, in particular, Australia was seen as plagued by incessant industrial disputation and consequent disruption to supplies.

When we came to Government we ended the confrontation and division that had been the hallmark of our predecessors' industrial relations style.

In addition to our general industrial relations policies, which have produced the lowest level of industrial disputes in this country for 19 years, we also tackled special problem areas.

One of these was the Pilbara.

We set up an iron ore industry consultative council to bring management and Labor together to tackle the damage being done there to Australia's national reputation.

Our joint efforts have been spectacularly successful. One indication of that success is given in the industrial disputation figures for the iron ore industry - working days lost fell from 110,000 in 1983 to 25,000 in 1985. Another is that output per employee in 1982-83 was just 7,273 tonnes. By 1984-85 it had risen to more than 11,000 tonnes.

Now, all this hard and constructive work stands to be destroyed by the actions of Peko Wallsend.

When Australia desperately needs every dollar of export income, Peko Wallsend has chosen instead to provoke a massive, long-term industrial dispute.

In their desire to "prove" some ideological principle or theory, they seem quite content to sacrifice our hard-won reputation for reliability in this region.

Peko's Japanese partners have already made it quite clear that they believe this course is not in the best interests of either the company or its customers.

Significantly, just last week, Peko Wallsend announced a June year profit of \$52 million - an increase of 84 per cent on the previous 12 months.

Reasonable profits, I might add, made under the industrial relations system Mr Copeman and Peko Wallsend now aim to destroy.

At a time when the vast majority of Australians have accepted the need for real sacrifice to meet the national economic challenge this act is grossly unrealistic.

I have made it clear before, and repeat it again here - existing work practices should be capable of re-examination in the light of present and future requirements arising from the economic challenge facing our country. We encourage such re-examination in the spirit of positive co-operation between management and the trade unions. My Government stands ready to facilitate and assist in such processes.

CONCLUDING REMARKS

The Australian economy is currently facing considerable adjustment pressures. The Government believes that the 1986-87 Budget and our wages policy has established an appropriate framework for adjustment and recovery to proceed. The energy sector will play an important part in this process, both in the short and longer term.

The Government is concerned to ensure the maintenance and growth of a strong, viable energy sector. I am sure that the Energy 2000 Policy Review, and the discussions at this Conference, will greatly assist us to achieve these objectives.