17. 'National Resources'

The impossibility of covering the wide and divergent ramifications of the subject represented by the above title in a single chapter will be obvious to anyone with even a modicum of knowledge of the subject. The intent, therefore, in approaching the matter is to endeavour to cut through the fog and confusion surrounding it in the public mind in order to arrive at an understanding of the basic principles which ought to be observed if justice and commonsense are ever to replace the anarchy of exploitation, and political mendacity arising from present policies.

No attempt will be made to describe the diversity of materials covered by the term 'mineral resources', still less to offer a survey of their distribution around the world. All such infomation is readily available to the student in innumerable books and publications, both officially and privately published. Neither will consideration be given to the varying methods in use in those countries where the extraction and processing of mineral deposits is an important aspect of the national life, except where an example is capable of illuminating the general theme — which is that the principles of justice and commonsense here enunciated are capable of attainment by the application of a simple formula adaptable to any situation.

In view of the relative importance in the world scale which the natural resources of Australia have assumed in recent years, and of the policies being pursued by its governments, both State and Federal, in relation to them, it has been found convenient to utilise the Australian situation as a basis for argument rather than attempt to embrace the international scene.

The history of the exploration, extraction, and processing of minerals, and of the national wealth increment therefrom in Australia, particularly during the last decade or so, is a calamitous picture of lost opportunities, waste and frustration for the Australian economy.

This sorry situation is the consequence of economic ignorance, on the one hand, and cupidity and parochially-oriented political theory, on the other.

Whereas the established principle of the granting of leases in the public domain and of the payment of 'royalties' for the right of extraction is in universal operation, together with the recognition of national sovereignty over all such minerals — explicit in all State and Federal laws affecting exploitation and mining of minerals — the terms of such leases and royalties reflect not only a remarkable disparity from State to State and as between States and the Commonwealth, but in almost all cases an astonishing generosity in favour of the operators, amounting in most cases to virtually free gifts of the national bounty and unlimited rights of exploitation only limited by the application of an inept and costly policy of taxation of the resultant profits and the involvement of government bureaucracies in expensive and usually unnecessary controls of the operations concerned.

In the case of the exploitation of minerals on land held privately, the holder of such land is the recipient of the prescribed leases and royalties, a fact which has no more justification in terms of social morality than the right to appropriate the economic rent that attaches to land as private income.

The history of the exploration, extraction and processing of oil and natural gas in Australia presents a picture of gross ineptitude, on the one hand, and of the rich rewards of political chicanery, on the other.

In 1968, Professor Alex Hunter, addressing the Canberra Economics Society, had some scathing things to say about the effects of government intervention in the field of oil exploration and extraction. He referred to "the scandalous and inept policy" which, he claimed, would be "adding more than $100 million a year to the cost of oil production by 1970." As an illustration, he stated the cost to the oil companies then operating in Bass Strait at 80 cents a barrel, giving them a 15 percent return on invested capital. After payment of State Government royalty (37.5 cents) and transport costs (12.5 cents), the company could, he said, sell oil at the Westernport refinery for $1.30 a barrel. Yet, by the Federal Government's pricing policy, they would in fact receive $3.50 a barrel, giving them a profit of $2.20 a barrel. By 1970, he estimated, this could amount, on a production of 240,000 barrels a day, to $200 million a year. He concluded that, if their return was based on the 'import parity price' of $2.40 it would still have given them $100 million a year. Professor Hunter described the extra $100 million a year as a "sheer give-away at the expense of consumers and industry."

In the same speech, he criticised the policy of forcing the refineries to buy all the Australian crude produced, involving, he said, "extensive modifications to most refineries costing from $10-$15 million each." There was also, he said, a substantial loss to the industry of bitumen because Australian crude was too light.

Because of known government policies of control and restrictions, and the system of penal taxation of profits, the natural incentive to oil exploration was so minimised that it was considered necessary to offer subsidies to encourage it! The Petroleum Search Act of 1959/69 provided a subsidy of 50 percent of the cost of exploration. In the years 1968-72 alone these subsidies amounted to a total of $56.84 million.[1]

In 1971 the Australian public was made aware of some of the ways in which they were being denied the benefits of cheap petrol by the struggles of two companies to stay in the business of importing crude from sources that were not approved by either the Government or the giants of the oil industry. In an article in *The National Times*, in January, 1974, Alan Wood described the 'persecution' of these companies by the Australian Customs Department which accused them of importing petrol at 'dumped' prices, a charge which, after three years' delay, was virtually disproved by a Tariff Board inquiry. The companies concerned had, in the meantime been forced to take up an allocation of Australian crude oil "at a time when this involved a price penalty" and were penalised in other ways. One of them had had to provide up to $300,000 of 'dumping cash securities', although, as Alan Wood records, "there was no justificiation for this imposition on the company."[2]

In 1973 it was already being reported in the press that oil companies were pulling out of exploration areas allotted them in Australia because of the Government's policies, which offered insufficient incentive compared with opportunities elsewhere. It was later discovered that under the, then, Minister for Minerals and Energy, the socialist policy of nationalisation was being applied to mineral exploration, his own Department staff being used for the purpose.

Later the same month, *The National Times* ran an article showing the extraordinarily low return to the Australian economy from oil production as compared with countries elsewhere. It published a table re-printed from *Petroleum Times*, London, which showed that while Libya, Indonesia and Middle-East countries took royalties and taxes ranging from (Libya) $10.90 down to (Indonesia) $5.99 a barrel, Australia's 'take' was a miserable 20 cents a barrel before the application of company income tax.[3]

The following month, the (Sydney) *Bulletin* discussed the effects of government policy in respect of crude oil prices, claiming that locally extracted oil was being sold far too cheaply in the face of the steeply increased prices of imported oil ($2 a barrel compared with $7 imported).[4] *Newsweek*, the same month, published a table showing the enormous profits made by the oil companies of America alone in 1973, ranging from $143 million at the bottom of the scale to $2,440 million at the top. (Some of it admittedly arose from the fortuitous devaluation of the U.S. dollar. Though in view of the power such industrial giants exert in U.S. Government policies, the devaluation might not have been quite so fortuitous).[5]

The U.S. Journal, *The Gargoyle*,[6] at the close of 1973, had an article by Oscar B. Johannson on the 'Oil Crisis', in which he claimed that the 'crisis' was not the fault of the Arab oil producers but of the policies adopted by the United States Government, Federal and State, under pressure by the American oil producers aimed at protecting their own profits. And in February, 1974 *Newsweek*,[7] in an article 'Spotlight on Big Oil', described the situation in the U.S. oil refining industry which produced an Anti-Trust Inquiry into the way independent refiners and smaller retailers were being forced out of business by collusion among the big producers. Questions were being asked such as "Were the companies circumventing the U.S. Treasury with a wide range of inequitable tax breaks?" "Did they help shape U.S. foreign policy to their own ends?"[8] They were even being accused of using the 'oil crisis', resulting from the Arab oil embargo to "line their own pockets."

An admirable summing-up of the situation in respect of oil, and reflecting the consequences of government intervention in general, was set out in an article by Peter Samuel, in *The Bulleton,* in September, 1975, [9] in which he discussed the repercussions of the arrangement by which the ACTU-SOLO (the Australian Trade Union Movement's own petrol retailer) got cheap oil at $2.00 a barrel, price-fixed by the Government, when the imported price was $8.00 a barrel. "When a government sets out to try to legislate and regulate commercial transactions" says Samuel "there are bound to be enormous rackets." And he refers to "the powerful system this creates of incentives for bureaucratic and political patronage."

Obviously, a just and sensible policy in respect of the exploitation of national resources in the best interests of the national economy is to secure the highest royalties and/or rent obtainable by the method of *publicly auctioning the leases to be granted,* as is done elsewhere — as was done in Alaska in 1969 in respect of the fabulous Prudhoe Bay oil-field, by which the State of Alaska benefited to the tune of $900 million (still only ten percent of the estimated yield of the field) and royalties of a billion dollars a year — then to let the market operate in freedom at all levels of production and sale; and to cease the criminal madness of political interference with the normal business of commerce (e.g., in the processing of raw materials) in the alleged interests of 'the public good' — which inevitably becomes the 'public ill' through the process of bureaucratic controls and skullduggery of every kind.[11]

NOTES TO CHAPTER 17

1. *Commonwealth Year Book* No. 59, 1973/4, p.923.
2. *The National Times* 14/1/74
3. Ibid. 28/1/74.
4. *The Bulletin* (Sydney) 2/2/74.
5. *Newsweek* 4/2/74.
6. Re-printed in *Good Government* (Australia) June 1974.
7. *Newsweek* 11/2/74.
8. A devastating expose of the part played by the colossi of the oil industry in shaping American foreign policy is to be found in *Oil Imperialism in East Asia,* by Malcolm Caldwell, published in 1971 by the Association for International Co-operation and Disarmament.
9. *The Bulletin* 13/9/75.
10. See article 'Winning the North' in *Petroleum Gazette,* July, 1975, also *The Oil and Gas Journal* for June, 1975.
11. The question of a suitable reward for the discovering of national resources through prospecting must not be overlooked. Where the prospecting is done by a government agency no problem arises; the cost of prospecting is recoverable by the sale of leases and royalties. Where a private individual or group is concerned, the prospector should have the right to elect either to take his reward through the process of tendering for a lease to extract the resource in question, or accept a scale fee based on agreed estimates of the resource, irrespective of his right to tender for a lease also.