

The Energy Policy Framework: A State Bargaining Approach

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"Is Government involvement necessary?" - The real 'regulation debate' is not about the "whether or not" of government involvement, but the "what" and "how". Government involvement is and will remain, fundamental. As regards the energy and resource sectors the question is what will be the pattern of the government role, and crucially - what are the limits to it.

THE INTERNATIONAL ECONOMIC & POLITICAL CONTEXT

Before returning to this question in the context of the current so-called "regulation debate", it is helpful to recall what created the economic and political context of this debate as it applies to energy. The future large-scale exploitation of Australia's energy resources is a development following upon the changed economics of international oil since 1973 and the effects of these rapid changes on the value and economics of the other energy sources with which Australia is well endowed - coal and natural gas. Chart 1 illustrates the movement of nominal and real oil prices since 1973.

The events which affected the price changes and the accompanying changes in the ownership, control, and structure of the international oil industry have often been thought of as extraneous political factors merely reflecting the unfortunate instability of the Middle East. In fact the restructuring of international oil, and the very far-reaching changes in the roles of governments in the producer and consumer states which have accompanied it, were preceded by the most fundamental market failure of them all - the failure of the price of oil prior to 1973 to reflect or respond to the diminishing resource base of world oil (see Chart 2). The production strategies of the international companies controlling the industry were based on the maximisation of sales, not prices. Consequently demand trends and available supplies in the early 1970's threatened a major resource shortage by the end of the decade (Lichtblau 1979, Al-Chalabi 1980).

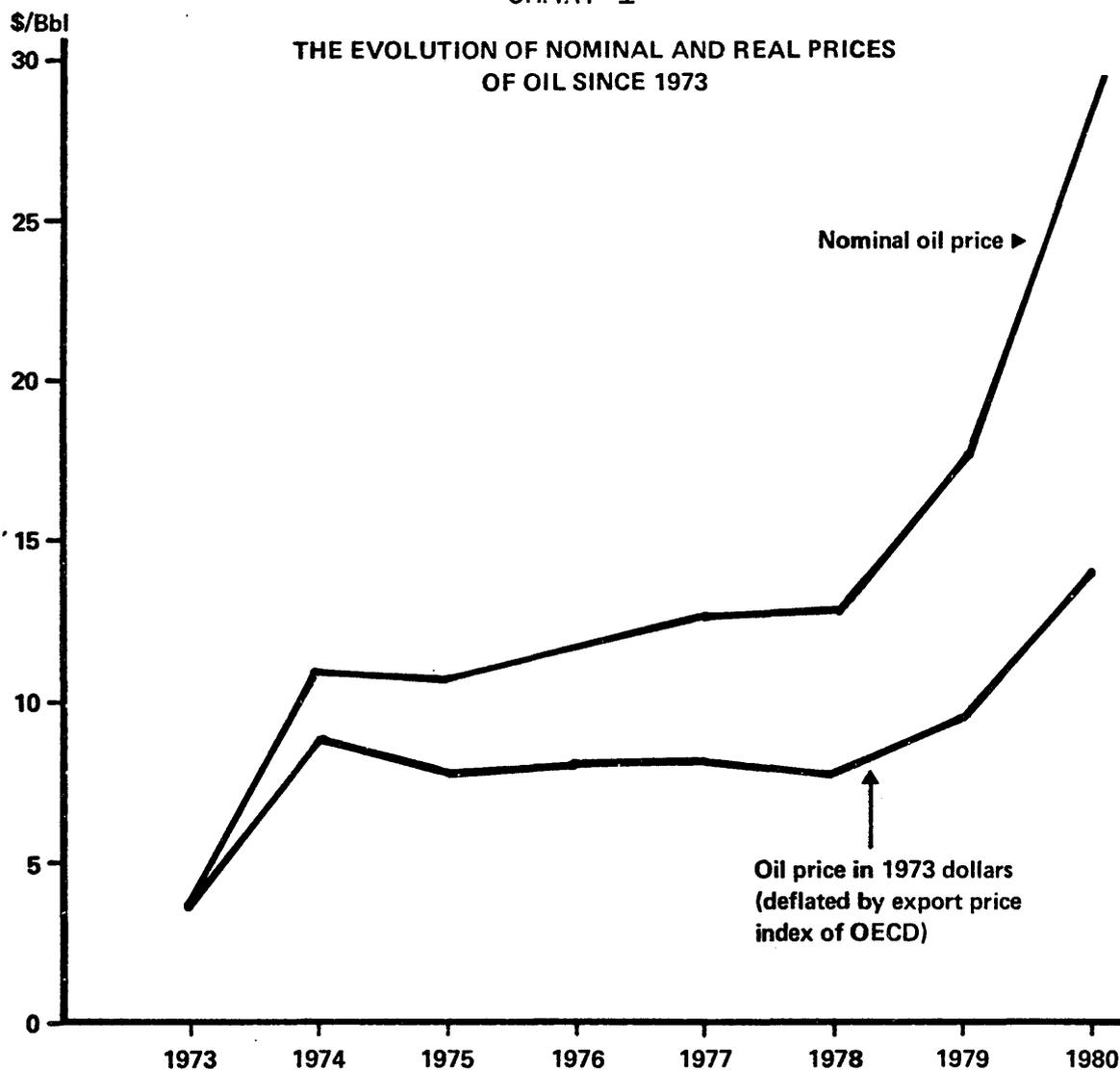
Chart 2 shows the trend of reserve to production ratios for world oil expressed in years of production.

Space does not permit us to analyse here the process of change in the political economy of oil since 1973. (See Al-Chalabi (1980), Blair (1978), Chevalier (1975), and Seymour (1980) among others.) It is sufficient to note here the 'fact' of increasing governmental involvement in energy matters

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CHART 1

THE EVOLUTION OF NOMINAL AND REAL PRICES OF OIL SINCE 1973



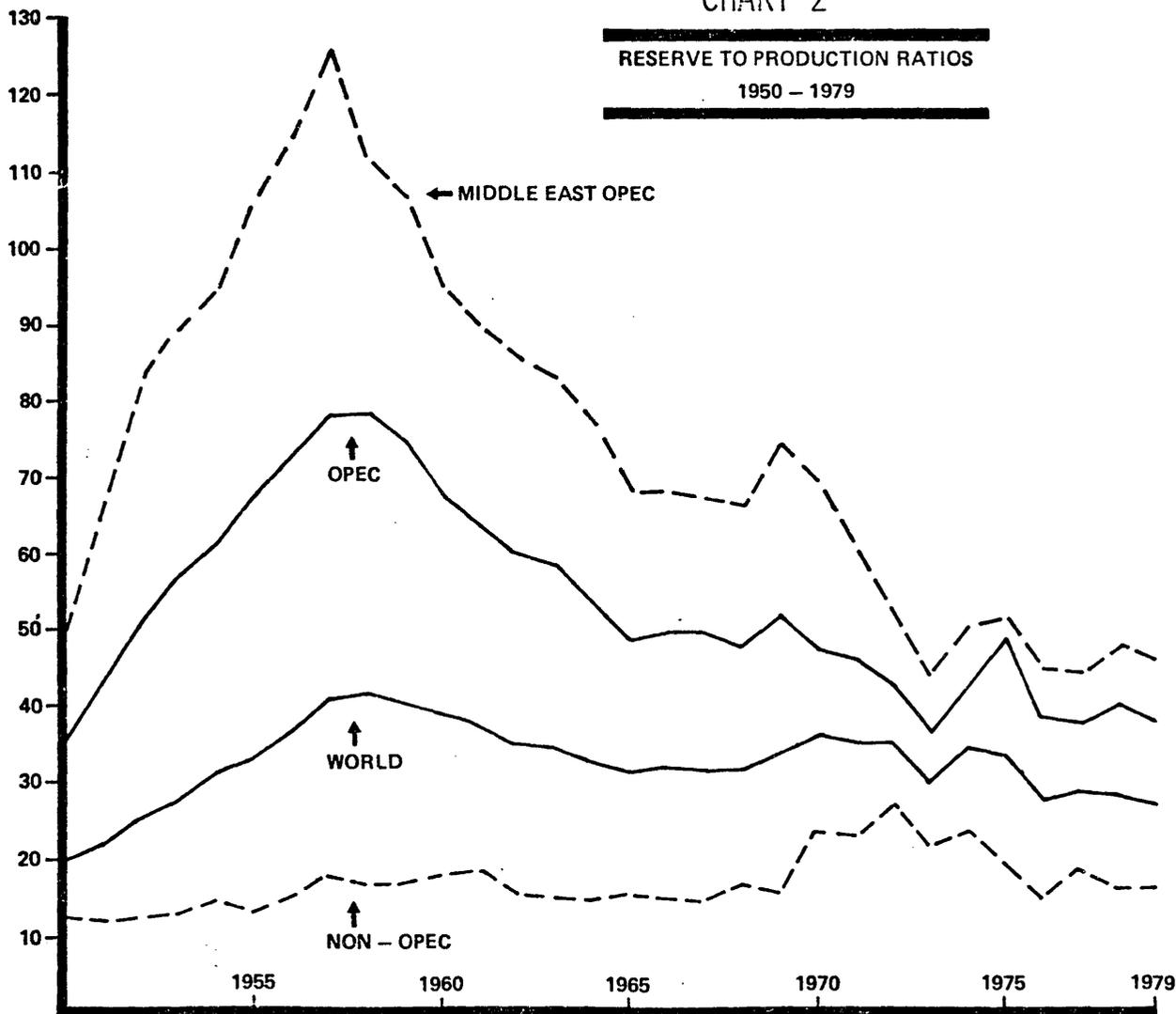
(SOURCE: OPEC REVIEW, Vol 4, No 4 1980, p.13)

everywhere (as noted by Mr Woods, the Secretary of the Department of National Development and Energy (1979) and to indicate the nature of the changes to which governments have responded.

Table 1 shows the remarkably rapid world-wide change in the ownership of oil since 1972-3. A variety of ownership/control arrangements have superseded the former concession arrangements which were operated by the international oil companies.

Table 2 illustrates the distribution of the new arrangements which have meant the extension of the governmental role in the producer states to the financial and technical control of industry operations. The producer states are also now critically concerned with the problem of how the oil sector is to be integrated with the development of the rest of the economy (Nore 1981). This question bears directly on pricing and depletion policies as well as non-

CHART 2



(SOURCE: OPEC REVIEW, Vol 4, No 4 1980, p.10)

oil development programs and, as Yamani frequently comments, underlies many of the differences within OPEC.

It is of course not merely the ownership and control of the industry which has changed. The industry now has a structure with less vertical integration altogether (Nore 1981, Adelman 1980, Mohnfeld 1980, Al-Chalabi 1980). This development has had major implications for the roles of both consumer and producer governments. Consumer governments have sought to respond to the new industry structure and rising energy costs in order to enhance the stability of imported oil supplies, to increase domestic production, and to minimise the disruption to their economies of the prices increases. They have also sought to enhance the achievement of substitution and conservation objectives. The new era of expensive oil which has been consolidated by OPEC becoming an efficient rent-collector, has also created rents to be collected from the production of oil and other energy forms world-wide. This has clearly also motivated governments everywhere. All this is I am sure familiar. I recall it because the current so-called regulation debate being conducted in the anglo-saxon countries frequently loses sight of the economic context in which the roles of governments have been shaped.

TABLE 1
OWNERSHIP OF ANNUAL CRUDE PRODUCTION
(AS PERCENT OF TOTAL EXCLUDING US & CENTRALLY PLANNED
ECONOMIES)

	1963	1968	1972	1974	1976	1977	1978	1979
The Majors	82.1	77.9	73.0	32.3	19.3	19.5	18.6	19.8
National Oil Companies	8.6	9.0	12.0	60.8	71.8	71.0	70.8	69.6
Others, Mainly Independents	9.3	13.1	15.0	6.9	8.9	9.5	10.6	10.6

(Source: A/S Norske Shell, As Reproduced Nore 1981, p.2)

TABLE 2
WORLDWIDE DISTRIBUTION OF CONCESSION SYSTEMS, 1978
(MILL, BARRELS PER DAY)*

Country/Area	COMPANY PARTICIPATION			NON-PARTICIPATION	
	Conces- sions	Production Sharing Contract	National- ized	National- ized	Total Prod.
Middle-East	2.8	-	15.3	2.5	20.6
Africa	2.0	0.4	1.6	1.5	5.5
Far East	0.4	1.7	-	1.9	4.0
Northern America	10.0	-	-	1.2	11.2
Latin America	0.2	-	2.1	0.3	2.6
Western Europe	1.4	-	-	-	1.4
Eastern Europe	-	-	-	11.7	11.7
	16.8 (29.5%)	2.1 (3.7%)	19.0 (33.3%)	19.1 (33.5%)	57.0 (100%)
All Other Production (35 Countries)					2.9

*For countries with a production in excess of 250,000 B/D.

(Source: Arthur D. Little as reproduced in Nore 1981, p.4)

THE DE-REGULATION DEBATE

An under-rated achievement of the proponents of 'de-regulation' has been their success in establishing an ideological format in which the policies they advocate are discussed. This is evident in Australia in discussion of policies appropriate to the (once) so-called 'resources boom', and of course in the language of razor gangs and of other advisers to the Federal Government. It is also manifest in what is known as "Thatcherism" and "Reaganomics". Five themes would seem to predominate in this ideological assault on the public sector: that government is inherently wasteful and unproductive; that big government spending is the cause of inflation and unemployment because it crowds out private sector activity; that tax cuts restore private initiative, create full employment, raise national output, encourage investment and thrift and benefit everybody; that in federations government services are best provided by governments close to the people; and, that government borrowing is inflationary and pushes up interest rates (Groenewegen 1981).

The logical and empirical weakness of the theories underpinning this particular universal panacea, and its anti-historical method of analysis, have been analysed elsewhere (Groenewegen 1981, Kaldor 1980). This ideological format has been directly transposed to the resource policy debate particularly in the 'crowding-out' theme, in the 'inherent inefficiency of public enterprise', in the 'new federalism', and in the restriction of public sector borrowing. An expansive literature has been developed on the regulatory capture theme (see Stigler 1971, Posner 1974, MacAvoy 1970). Harris (1981b), and Groenewegen (1981) have pointed out the comparative neglect of the rent-seeking and re-distributive motives of would-be deregulators.

Of particular importance to the debate on the role of government in energy is the propensity of the normative market theorists to make the unexamined transition from the analytical market model to energy markets as social institutions. Encountering the very obvious slightness of the resemblance between the two the tendency is to seek to correct the latter (energy markets - by removing 'government-induced distortions') rather than the theory itself. While seeking to promote neither the wholesale abandonment of the market as a social institution nor as an analytical tool, it is possible to propose first the rectification of the deficiencies in the theory of markets as social institutions before the market model is applied prescriptively to public policy (on this see Harris 1981a and 1981b).

There are two other observations on the "small government" thesis which are particularly pertinent to governments and energy in Australia. The first is that contrary to the theory, there would seem to be ample historical evidence that the public sector role and government capital formation has been of exceptional importance to economic development in Australia (Butlin 1962, Butlin et al 1982). Secondly, and despite this, the role of government in the sense of the assertion of public planning or of profitable direct commercial participation in the energy and resource sectors is anything but "big". In this sense the role of governments in Australia is arguably less "interventionist" than that of any comparable industrialised country, all major energy exporters (and almost all Third World States) (See Saddler (1981)). From this standpoint in the energy policy context the advocates of "small government" are waging a defensive rather than an offensive battle. They are concerned with what might eventuate rather than with what is in place which is remarkable for its constraints, incoherence and incompetence rather than "interventionism".

THE PATTERN OF GOVERNMENTAL INVOLVEMENT IN AUSTRALIA

The real regulation debate is about the structuring of the role of government and is therefore fundamentally about how and by whom economic and political control is to be exercised. I have argued already that this is quite naturally a profoundly ideological question - it is in fact the stuff that ideologies are made of.

Accepting this our question becomes - is the current pattern of the role of government in Australia appropriate or is something else now required? How are we to characterise what we have already? Kasper and his colleagues from the Shell-sponsored study group (Kasper et al 1980) have characterised the present pattern of economic policy as a "mercantal-ist trend". By this they mean the reliance on pragmatic muddling-through, on short-run 'tacticking' and the endeavour to protect existing structures, rather than on a long-range consistent strategy (Kasper et al, 1980, p.181-2). There is much to support the "pragmatic muddling-through" in the development of the energy policy framework but I would suggest that there is also a long-run consistency in the role of government (see Saddler 1981). Governments have become directly involved in the provision of energy where private companies have been unwilling or unable to do the job because of low profitability, large scale, or organisational complexity. It's interesting to note that government involvement in the development and establishment of liquid fuel processing facilities based upon the alternative technologies, is envisaged by the National Energy Advisory Committee (NEAC) on the basis of considerations of this kind (NEAC 1979).

Governments have also consistently intervened to stimulate the growth and enhance the profitability of private energy enterprises most notably in the form of direct and indirect subsidies in tax and infrastructural policies. A third element in the pattern of the governmental role has been emphasised by Saddler (1981): while governments have played a large and steadily increasing part in determining the pattern of energy extraction, conversion and distribution in Australia, the focus of energy policy has been largely confined to the supply of energy and has largely ignored the wider implications and interactions between energy use and society.

Kasper and his colleagues emphasise attitudes - "the risk-aversion mentality" fostered by the apron strings of mother state. I prefer to explain the pattern of the state role in terms of Australia's economic and political history. Our colonial origins are reflected in the post-colonial state in Australia particularly in the still-potent ideology of developmentalism. 'Developmentalism' is the often crude ideological justification for a 'development' or 'development' in general, exemplified in the utterances of Joh Bjelke Petersen or Charles Court. In the case of energy the expansion of supply has frequently been an end in itself (see Connell & Irving 1980; Fitzgerald 1974; Saddler 1981). We have no time to digress further on this theme but it is important to note where the policy format has come from and where it is going. As is demonstrated below Australian governments by and large applied a formula of 'more of the same thing' to the first shock of the new energy era. There have of course been important decisions taken, but the policy framework has altered very little in response to higher prices and less certain supplies. We are now encountering the second wave - the impact on the economy and its future structure of the rapid transitions as energy exports and embodied energy (aluminium) exports rise.

I'm in full agreement with Kasper and his colleagues that we are in need of a new long-run strategy to address the interdependent facets of national economic policy, in which energy is central, and which have so far received only the inconclusive deliberations of a series of inquiring committees charged with the responsibility to look at bits of the total. I will argue that the historical pattern of the governmental role is now no longer appropriate: we disagree only on appropriate alternatives.

A STATE BARGAINING APPROACH

The policy approach I advocate I have called a "state-bargaining" approach. In essence this approach says that Australia's energy and resource base and the change in relative energy prices, provide us with both a comparative advantage and considerable bargaining power. If the possibilities for Australia's future development are to be realised in a way which will not promote further inequities and conflict between classes, sectors, regions and states, and result in an economy overly dependent on a range of export-oriented mineral, energy and food commodities, then this new bargaining power must be exercised in the national interest by governments. This will require new forms of planning and an extension of public initiatives.

Such an approach to the economic policy framework has been taken by Norway. The experience of Norway in adjusting to become a significant oil exporter as a "semi-peripheral" capitalist economy with a pre-existing industrial base, is very relevant to Australia. Something of the Norwegian approach is summed-up in the title of a government report - "The Norwegian Petroleum Experience: An Endeavour to Maintain National Control and Extend National Competence" (1979). Relevant also to the state-bargaining approach is the experience of other energy exporters. As a federation, the policies of the current Canadian government are of particular interest.¹ I emphasise the inevitable inter-connections between policies, policy instruments and the overall policy framework. So I would like to contrast the state-bargaining approach in this way with what we have in place already, and with what Kasper and his colleagues advocate.

Figure 1 contrasts the energy policy objectives and rationales of the three approaches. As will become clear, I am not suggesting that we have here three different policy pathways: the "market libertarian" (ML) is a variant with some critical differences of what we are being offered already.² Without attempting to establish the interesting differences in theory, practice and rhetoric between the two parts of the name, I've described this as the "Treasury/Government" approach (TG). The market libertarian approach and the state-bargaining approach share, if nothing else, the advantages of being on the drawing board - in Australia at least. The T/G approach is like all theories good and bad, somewhat tainted by practice. Under 'T/G' therefore we have a combination of theory and practice.³

THE SCOPE OF THE POLICY OBJECTIVES

The ML approach has energy as a commodity like any other with very limited and qualified exceptions (Hocking 1975).

The T/G approach would extend the exceptions rather further, principally with tax and price policies. The specifically energy policy objectives

FIGURE 1 ENERGY POLICY OBJECTIVES - RATIONALE

ENERGY POLICY OBJECTIVES

Treasury/Government

- * Supply augmentation (of existing energy forms) & security, "self-sufficiency"
- * To realize the opportunities presented by resource development-jobs, more efficient resource allocation, increased real incomes

Market Libertarian

- * Allow the market to work thereby providing the most efficient allocation of energy resources, and achieving rapid growth

State Bargaining

- * To facilitate the transition to renewable energy resources so as to minimize the risks of disruption & avoid foreclosure of unanticipated future options
- * To exploit Australian resources so as to achieve broader social objectives including a diverse 'balanced' pattern of industrial development, distributional equity, national sovereignty

RATIONALE

- * Government measures supplement the market mechanism

- * Government measures frustrate the market mechanism

- * Dominance of non-market environment in international price & investment decisions, emphasis market failure, externalities, & government role as custodian of community-owned resources

are directed to the augmentation of supplies, taking growth projections and moderated present patterns of energy consumption as givens. "Self-Sufficiency", the centre piece of the government's energy policy, is essentially an extra-economic objective in the sense that the nature of the risks to security of supply at various levels of dependence on imports has never been analysed. And although the costs to the community of the incentives to achieve this objective clearly exceed the direct costs of import parity prices as such (Treasury 1979), the total costs, the benefits, and the efficiency of the policy instruments in advancing self-sufficiency, have never been subjected to any serious economic appraisal (Richards & Saddle 1981).

In the state-bargaining approach the emphasis here includes the concern with how energy is used and with the interactions between energy, public transport, and urban design. It counsels caution on future options: the Norwegians say the recipe is to proceed slowly and plan carefully.

RATIONALE AND ECONOMIC OBJECTIVES

In the TG approach real income gains and sustainable growth flow from the efficiency gained in becoming 'better importers' as John Stone likes to put it.

The market libertarians promise a speedy euthanasia for inefficient labour-intensive manufacturing.

In the SB approach more specific statements of welfare implications are required and distributional concerns are not separated from the 'growth process' of energy development. This does not mean inertia on protection - it means rather that the achievement of structural adjustment needs to be a positive objective with a future profile of the mineral processing and manufacturing industries, which will offer employment, in view as a planned outcome. This is clearly a case where the absence of equity-seeking policies will limit the ability to achieve efficiency.

The real debate is here. The economic logic of the TG approach is very clearly spelt out in a paper by the Secretary of the Treasury (Stone 1979). The quarrel of the SB approach is not so much with the economic logic as the premises on which it rests. These are made explicit: it is "part of the natural course of events" (p.2) that foreign capital will continue to be fundamental to the energy growth process; and, that governments and the degree of regulation imposed by them are merely creators of uncertainty, and inevitably outside of the growth process; economic growth is what happens when "the ball and chain around the leg of the more productive sectors" is struck off (pp.17-18). It is this formulation of the two premises in combination - that has been so unacceptable in Norway and Canada. In contra-distinction the SB approach is premised on a nationally regulated and paced inflow of foreign capital with various forms of public participation and control within the energy sector.

Implicit in that approach is the view that the complexity of the efficiency and equity interactions in energy markets, the non-market nature of the environment, the multiplicity of community objectives, the level of uncertainty and the existence of restrictive practices - all suggest that community objectives are not likely to be achieved in markets freed from public interventions.⁴ This can be demonstrated in the deficiencies of the current policy regime (see Figures 2, 3 and 4).

ADMINISTRATION OF EXPLORATION & DEVELOPMENT

The vagaries of the Australian Federal system serve to negate the potential bargaining power available to an Australian government with the vertical and horizontal fragmentation of the administrative framework. Both 'new federalism' and the market libertarian approach aggravate the problem.

Of course given the preconditions for the exercise of bargaining power, competence is also required: in Norway this is called "controlling expertise".

It means that the government must for example, have full seismic data to be able to bargain effectively with the would-be operators. The Norwegians have found, that bidders for attractive leases are not deterred by quite onerous purchasing and investment requirements which may be bargained into leases.

FIGURE 2 POLICY INSTRUMENTS

ADMINISTRATION OF EXPLORATION & DEVELOPMENT

<u>Treasury/Government</u>	<u>Market Libertarian</u>	<u>State Bargaining</u>
* Federalism - ad hoc arrangements - licencing	* Federalism (?) - states rights - lease auctions	* National administration - 'bargained' licence agreements

REGULATION OF PRODUCTION/DEPLETION

* 'Reserve' Export Controls	* 'Market'	* Social discount rates - economic objectives
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STATE PARTICIPATION

* Inappropriate	* Verboten	* Essential - joint ventures, State as contractor, equity for all public outlays pro rata
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TAXATION

* Economically & administratively inefficient levies <u>ad hoc</u> & mostly very low State royalties, disguised royalties	* Australia-wide resource rent tax!!	* Australia-wide resource rent tax/ revenue-sharing through direct participation
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SUBSIDIES (SEE INFRA STRUCTURE)

* 'Generous', economically indiscriminant, open-ended	* 'A move from adolescence protected by mother State'... in principle	* Equity pro rata for all public outlays
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REGULATION PRODUCTION/DEPLETION

As the International Energy Agency's (IEA) Review noted, (1981) Federal export controls are in the nature of 'reserve' powers. Export controls provide leverage within the Federal system: they are not employed as instru-

ments of depletion policy. The issue is complex but the possible divergence of private from social discount rates is not difficult to establish (see Hudson 1980, pp.30-31) though it appears to have been ruled out in the Treasury government approach, as it is in the ML. It is of course a question of major policy concern and public debate in most large energy-exporting countries.

STATE PARTICIPATION, TAXATION, SUBSIDIES

The principle that appears to apply to public sector involvement is the old adage of state capitalism - the socialisation of losses and the capitalisation of profits. As a note in the budget statements (1981-2, p.245) reminds us we are not even able to quantify the extent of the revenue losses within the Federal system much less rationally weigh the social costs and benefits as a whole.

The economic inefficiency of levies hardly requires elaboration (Richards and Saddler 1981, pp.13-17) nor does the apparent incapacity of state governments to collect royalties (Treasury 1981, p.22, Saddler 1981, pp.132-3). The current Federal 'take' from crude oil production is of course considerable but with the two-tank system and "new oil" attracting no levy, moving against the international tide.⁵ From the industry's standpoint future arrangements are probably literally too good to be true: Subsidies and infrastructure are a very good illustration of the problems of theory in practice. In the Treasury submission to the Senate Standing Committee on National Resources on Aluminium (1981) we find an eminently rational statement of the principles by which electricity (capital and steaming coal) might be efficiently priced. This statement is followed by a discussion of five matters of major concern

- competition among the states and sub-economic pricing;
- implicit subsidies to some consumers;
- transfers of income from Australians to overseas consumers and shareholders through inefficient pricing of embodied energy exports.
- the inefficient allocation of additional units of power;
- the implications to a 'balanced' public sector investment program of the current policies of the states.

The evidence the Treasury offers to the Senate Committee would in all cases appear to find these concerns well-founded though it notes that on critical matters such as the values placed on coal used in electricity generation in Australia, the Australian government is without the relevant information.

The decision of the High Court in the Comalco matter (August 1980), and the recent disclosures of the Icelandic government (AFR 23.7.81; 28.7.81) regarding the transfer pricing policies of Swiss aluminium (which has a 70% interest in the Gove joint venture) have served to highlight the inefficiency of the Australian government's surveillance of transfer pricing arrangements.

DIRECT PARTICIPATION

There are two main reasons for the emphasis on direct participation in the SB approach. The Norwegian authorities considered active commercial

FIGURE 3 POLICY INSTRUMENTS

ENVIRONMENTAL PROTECTION

Treasury/Government

* No constraint to development

Market Libertarian

* Comparative advantage in lower environmental protection costs

State Bargaining

* Social cost-benefit appraisal

PROVISION OF INFRASTRUCTURE

* In principle 'user pays' federalism: substantial unquantified subsidies; reallocation to resource development of States funds

* In principle 'user provides'

* Planning agreement package: Public equity pro rata for all public outlays

FIGURE 4 POLICY INSTRUMENTS

PRICING

Treasury/Government

* In principle opportunity cost-applied only oil & LPG; federalism - uneconomic pricing coal, electricity (steaming coal & capital), & natural

Market Libertarian

* 'Free market'

State Bargaining

* Social opportunity cost

REGULATION INVESTMENT & TRADE

* Reliance foreign investment; flexible (equity) guidelines exhortation domestic fund raising export approval

* Verboten: reliance established multinational companies

* Project specific planning agreements - total package

ENERGY DEMAND MANAGEMENT

* Price mechanism (some consumption subsidies); conservation: public relations, funding R & D

* 'Free market' price

* Opportunity cost pricing with 'direct' measures to provide individual/social choice - emphasis interaction with public transport, urban design, investment planning

involvement through the state company to be crucial in order to gain first-hand experience and knowledge of all aspects of the industry. Direct involvement is held to increase the efficiency of the state in pursuing its other broader policy objectives by giving it the information, experience and competence so clearly lacking in many cases in Australia. NEAC has observed that no single government organisation holds all the basic and interpretative data required for an assessment of Australia's identified and undiscovered oil resources (1978, p.38). With regard to oil: in recent years the deficiencies on the government's information on such matters as the size and location of stocks, and the levels of production in Bass Strait, has been illustrated (see Saddler 1981, p.176). Secondly, direct participation provides a flexible means of securing the public participation in oil and other energy revenues.

The other principle proposed here should have no difficulties for those who, like the Treasury, advocate true tests of profitability for protected industries (see Stone 1979, p.16). In contrast to current arrangements, it is proposed that the community receive equity dollar for dollar for all public outlays by way of direct and indirect subsidies.

Clearly the form of resource rent taxation will depend on the precise tenure/licencing system which is employed. The administrative (and economic) efficiency of the regime will not be independent of the state's competence and bargaining power, particularly in the determination of appropriate rates of return and the associated assessment of risks (See Garnaut 1981).

PRICING, DEPLETION, ENVIRONMENTAL PROTECTION

The approaches differ as to which costs are to be reckoned in full opportunity cost pricing. The implication of the SB approach is a wider definition of costs and of benefits to the community. This would encompass environmental damage, land-use conflicts, and inter-generational equity considerations, each of which will be particularly significant to the future pattern of coal development.

THE REGULATION OF INVESTMENT AND TRADE

The contrast here is in both the scope or limitation of the objectives, and the fragmentation or integration of the policy instruments:

For the Treasury/Government approach Australian private equity per se is a guarantee of the national benefit of a project and relevant to its timing. "Australianisation" (in contrast to "Canadianisation") has been a rather pointedly nominal exercise - witness the case of CRA (nominally Australian), that of Caltex (which increased foreign control of the petroleum marketing industry with the purchase of H C Sleigh with Australian money), and that of Shell, which declined the invitation. The equity guidelines are in the nature of low hurdles: there are no real control objectives. Although there are three levels of export controls (from contract approvals down) the exercise of these controls has also been without clear policy objectives (Bambrick 1980).

In the SB approach the planning agreement is intended as a coherent package specific to the project, with distributional implications both more widely considered and specifically defined. Commercial participation provides the occasion for specific agreements between governments and producers. For example, in awarding licences the Norwegian government has had

regard to the company's technical expertise, its financial strength, its ability to use Norwegian goods and services, its potential and history as a constructive collaborator, and recently, its ability to attract new industries to Norway. (The Norwegian petroleum experience 1979, p.6). Direct state commercial participation and the planning agreements serve both to lower the risks and increase the security of the operator.

ENERGY DEMAND MANAGEMENT

In the TG approach the emphasis is on the price mechanism, advertising, and subsidies for R & D for inter-fuel substitution. In the International Energy Agency's (IEA) recent Review these policies were criticised as being neither sufficiently concrete nor sufficiently comprehensive (1981, p.84).

The SB approach emphasises direct policy instruments and the potential link between the pursuit of them and the attainment of other broad policy objectives: an example is the potential connection between the rehabilitation and extension of public transport and the pursuit of employment objectives in a viable domestic vehicle and rolling stock manufacturing industry in Australia.

IS GOVERNMENT INVOLVEMENT NECESSARY?

Government involvement is, and will remain, fundamental. The pattern of governmental involvement internationally has altered substantially in response to the restructuring of the political economy of energy since 1972-3. To date the pattern of the government role in Australia has been largely exempt from these changes. As Australian resource developments expand the passivity of the Government's role as a 'supplement to market forces' is wholly inappropriate.

The capacity of the policy framework in place in Australia to assert community objectives particularly as regards planning and participation in the energy sector is anything but "big", and wholly inappropriate to Australia's energy future as the economy is significantly restructured to accommodate the rapid growth of energy exports. Whether in the Treasury-Government format or that of the market libertarians, the program of "small government" is moving in entirely the wrong direction.

A probable consequence is the diminution of the capacity of the government to manage the economy. The vagaries of Federalism and the ideological prohibitions which we have discussed, leave the Australian government with a fragmented and incoherent set of policy instruments as well as narrowly defined and limited objectives. In these circumstances what is required is not a harking back to the attractions of the presumed economic rationality of the neo-classical market, but a coming to grips with the political and economic interplay of energy developments in real social markets and with the chaotic institutional arrangements of our policy framework.

Given the political will (which is doubtful) it is certainly within the capacity of the government within the current policy framework to impose on the economy and the community painful adjustments to make room for the resource development. It is much more doubtful that the current format, much less the market libertarian alternative, is able to ensure the realisation of the potential benefits to the community of resource development.

I have argued for a policy framework with different premises regarding the role of government. Starting from Australia's substantial genuine comparative advantage afforded by relative energy prices we have, as the Treasury has noted (1981, p.47) other attractive characteristics which include relative political and economic stability, a skilled work force, and a well-developed social and industrial infra structure. These assets need not be conceived as a mere lure to foreign investors. On the experience of other energy exporters with an appropriate policy framework, these advantages could be set to work to realise a "bargained" insertion of Australia into the new international division of labour which would enable the achievement of broader social objectives.

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FOOTNOTES

1. On the experience of Norway see Norwegian Government Reports, 1973-4, 1975-6, 1979; OECD Economic Surveys 1980, 1981; Nore 1980. For an introduction to the Canadian policy debate see Ministry of Energy, Mines & Resources 1980. Significant contributions to debate within this policy format in Australia have been made by Hayden 1981, and Saddler 1981.
2. The market libertarian policy format has been derived principally from Kasper et al 1980, Hocking 1975, and Porter 1981.
3. Sources include: Carrick 1980a and b, 1981; Fraser 1979; Newman 1979; Treasury 1979, 1981; Stone 1979, 1981; Woods 1978, 1979.
4. See Harris 1981b, Saddler 1981. For variations on the theme of the appropriateness or otherwise of market and non-market decisions in energy see also Gruen & Hillman 1980, Russell 1975, Harris 1981a, and Ironmonger 1981.
5. The crude oil levy is the Fraser Government's principal taxation instrument in relation to oil production. In the 1981-2 Budget the estimated receipts from the excise on crude oil and LPG amounted to \$3440 million or 8.4% of total receipts.

In the second half of 1981, of an import parity price of \$30.79 per barrel for Bass Strait crude, the levy netted an average of \$22.30 per barrel from production in the respective Bass Strait fields (author's calculation).

Under the Fraser Government's oil price and taxation policies 'new oil' (oil discovered since 14 September 1975) attracts no levy - the producer takes all. The Fortescue field in Bass Strait is the first 'new oil' development. It will reach peak production in mid 1985. It is highly improbable that the Government of the day even a conservative government, will be able to withstand the fiscal and political pressures to redress this ill-considered 'incentive'. Should current policy arrangements prevail Fortescue will be, to the author's knowledge, the unique case internationally of tax-free oil.

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