ON TYHE DRY SIDE 169 OIL REVENUES John Hyde

The Bass Strait oil field is half owned by BHP with ESSO. It produces 85% of Australia's oil. A disquieting picture of the field's future impact on government revenues, the foreign account and living standards is emerging as a by-product of the seemingly interminable analysis of BHP's worth to its present share holders and to Mr. Holmes a'Court.

Brisbane stock brokers Wilson & Co have developed a computer model of the field's production and cash flow which demonstrates the utter irresponsibility of the 1978 Federal Government decision to rely so heavily on diminishing oil revenues. As no cabinet since 1978 has bothered its collective addled head beyond the most immediate budget, the crunch comes without adequate preparation; without even an understanding of reality.

The Government has promised income tax cuts and a deficit which is smaller in money terms than last year, yet seven ministers, responsible for most of the big spending departments, abandoned normal cabinet solidarity, and I add responsibility, by demanding that their departments be exempted from cuts. Westminster Government cannot function if individual ministers grant themselves exemption from the collective authority of cabinet and the seven should have tendered resignations with their advice. This would be the case even if the advice had remained private, which I am sure was not intended.

The future price of oil is unknowable except by reference to its present price of about $US16 a barrel. Australian crude is of better quality and is of course better placed for our purposes than most foreign oils. This means that $A30 for Australian crude is about equivalent to $US19 for 'Saudi light' which has been the yard-stick of the Import Parity Pricing policy.

Wilson and Co chose to test three arbitrary but realistic prices - $A25, $A30 and $A35.

Their model shows that if Bass Strait oil sells for $A30 in 1987, government oil revenues fall by a little over $2 billion and BHP's profit by nearly $300 million. ESSO's margin should fall by a similar amount and the government's company income tax take by about $500 million. The Government loses approximately $2.3 billion or 3.25% of its total likely revenues; about half of last year's budgetted deficit. This loss would be manageable, if unwelcome, in the absense of tax cuts and the seven grandstanding ministers but in the event will seriously embarrass Mr. Hawke.

If the price should be $A35 per barrel the revenue loss would be only $1.7 billion or 2.4% of revenue, but if $A25 per barrel then $3.0 billion or 4.3%.

A quarter of this revenue loss will be caused not by collapsed oil prices, which might one day recover, but by failing production. The Bass Strait oil field is running out. From the year ending May 1986 to that ending May 1987 production will fall 10%; from 181 millions of barrels to 162. It goes on falling to 123 millions of barrels in 1990, only 45 in 1995 and almost nothing by the turn of the century.

The situation is somewhat more difficult for the Government because if it were not to reduce its tax take from the marginal fields, Bream, Tuna 4, East Kingfish, Turrum, Perch, Dolphin, Seahorse and Tarwhine "a percentage of these would undoubtedly become sub-economic." Of these only Bream is producing, but by 1990 one quarter of anticipated daily or yearly flow is expected from these so called 'Intermediate' wells which will not be able to withstand current tax rates.

In 1985/1986 the Bass Strait fields produced oil worth $7.7 billion. This either did not have to be imported or was exported - either way it improved the balance of payments. Valued at $A30 a barrel, 1985/6 production would have been worth $5.4 billion. By the year to May 1990, at $30 per barrel, production will have fallen to $3.7 billion. By 1995 it will be only $1.3 billion and by 2000 almost nothing. To what extent the foreign exchange markets have already written down the Australian dollar to allow for the adverse affect of oil on the foreign account, or to what extent they have yet to do so, is an open question. The figures may be given perspective by comparing them with total annual exports of the order of $A40 billion.

Oft-spoken nonsense notwithstanding, lost production of a particular good or service is not necessarily a loss to the standard of living. The loss (or gain) to the community depends not only on the value of the sales foregone but also on the production costs saved. The cost of anything is the cost of doing without the best alternative production by the people and capital involved. It follows that community wants will be more nearly satisfied by more of an activity which is taxed and less well satisfied by activities which are subsidised by taxpayer subvention, enforced monopolies or tariffs.

I can think of no activity which is more heavilly taxed than Bass Strait oil production. In its case lost revenues more nearly equate to welfare losses than in any other.

The profits foregone, plus the taxes, less the subsidies etc, is a rough measure of welfare loss/gain. This measure assumes, perhaps too bravely, either that government expenditure is as efficient as private, or that a lost tax will always be replaced by another, but it gives an answer of the right order.

The profits and the taxes will be $A7.6 billion in the year to May 1986 but if oil had been worth $A30 per barrel all year Bass Strait oil would have added about $A5.3 billion to our collective wellbeing. By 1990 the Wilson & Co model anticipates that Australians will be doing without $A3.4 billion of this $5.3 billion - about $560 per year per family of four. By 1995 only just over $1 billion remains.

Its own revenue losses, the balance of payments losses and an anticipated loss to Australian living standards which should not be allowed to concentrate in unemployment but be shared as widely as possible are real problems which the Government is not facing.