

Seismic window



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Pricing, gas, oil and governments

Why have gas prices risen on the east coast?

Without simplifying a complex situation too much, here are some reasons for the current situation.

- competition between LNG exporters,
- limited volumes of developed gas resources,
- a moratorium on onshore exploration
- bans on reservoir stimulation

No one is solely responsible for the current situation, but all interested parties have contributed to create a gas shortage.

As I write this article the Australian Government has announced that it will act to ensure access to cheap gas for domestic users. This is not a new idea.

It was done fifty years ago when crude oil prices were manipulated to ensure the population had access to cheap petroleum products - as described below.

Most of this account relates to events that happened before I became involved in oil exploration, so I have used Australian Year Books as my principal source of information on the history of oil pricing in this country (summarised in Table 1).

In 1957, to encourage exploration, the 'Petroleum Search Subsidy Act 1957' was introduced and gave explorers a 50% subsidy on the cost of stratigraphic drilling. This was amended in 1959 to include all types of geophysical surveys and off structure drilling. Various amendments were made to alter the subsidy rate and types of applicable operations from 1968 to 1972. Onshore drilling received a 30% subsidy of approved costs, and onshore geophysical surveys received 50%. Offshore operations were subsidised at a rate dependent on the Australian financial contribution with a maximum rate of 30% for 100% financed Australian companies. In May 1973 it was announced that the subsidy scheme would terminate on 30 June 1974 and operations after this date would not be eligible for subsidy. It appears the subsidy scheme had done its job.

Early in 1965, following the discovery of oil at Moonie (1961) and Barrow Island (1964), the Tariff Board conducted a public enquiry to determine an appropriate price for Australian crude oil. There were conflicting aims for the Government at the time – they needed to encourage the search for oil

and to provide an incentive, but were anxious to minimise cost increases on petroleum products supplied to Australian consumers and to ensure refineries using Australian crude were not detrimentally affected. The Tariff Board recommended that Moonie crude should be valued at \$2.69/barrel, which included a variable quality differential and a 22.4c incentive. The Government agreed but raised the incentive to 67c/barrel. They also imposed import duties of 0.8c/gallon (28c/barrel) on crude and 2.4c/gallon (84c/barrel) on petrol to be paid by companies that did not take their fair share of local crude (based on the amount of imported crude they used). As a result the cost of Moonie oil delivered in Brisbane was \$3.14, and Barrow Island oil was \$3.24/barrel when delivered to Kwinana (started in April 1967). This pricing was to remain until 1970.

The discovery of large oil reserves in the Gippsland Basin revealed that under this pricing structure the Australian consumer could be paying more for indigenous petroleum products than for similar products refined from overseas crude oil. To rectify this the Commonwealth Government held discussions with the Gippsland producers who agreed to forgo the 67c/barrel incentive. They also agreed to forgo a further 5c/barrel. So, on the commencement of production in October 1969, Gippsland crude was priced at \$1.80. (I wonder if the oil producers really 'agreed').

From September 1970 the price of all Australian crude oil has been 'based on import parity' pricing, which was fine until the oil price shock of 1973 when international prices quadrupled to \$12/barrel.

From September 1975 the Government policy changed by differentiating between oil produced from future discoveries (new oil) and oil produced from already discovered fields (old oil). Under this policy, new oil would attract a price at the nearest refinery equivalent to the landed cost of imported crude. At the time this meant a return of about \$6.90/barrel. Prices for already discovered oil were set at \$2.33 for all Gippsland production after 18 September 1975, while Barrow Island oil prices increased yearly starting at \$2.73 in 1975 up to \$3.17 in September 1977. Similarly Moonie crude oil prices increased each

Table 1. Brief outline of events affecting Australian crude oil pricing 1960–1980

Year	Event
1957	Subsidies introduced on stratigraphic drilling
1959	Subsidies amended to include geophysical surveys
1961	Moonie oil discovery
1964	Barrow Island oil discovery
1965	Public enquiry to determine appropriate price for domestic crude oil
1969	Gippsland production commences
1968–72	Various amendments to subsidy scheme
1970	Move to import parity based pricing
1973	Announcement that the subsidy scheme would end in 1974
1975	'Old oil' vs 'new oil' concept introduced
1978	Full import parity pricing introduced (providing a windfall for government)



September from \$3 in 1975 to \$4.35 in 1976 and \$5.25 in 1977.

The Government had our interests in mind and this policy aimed to provide 'maximum practical incentive' for exploration for new fields while looking after producers of known oil fields by giving them a fair return on their investment so that all economically recoverable oil could be produced.

The policy changed again in August 1978 in response to another sharp rise in the international oil price and it was decided to raise the price of domestically produced oil to full import parity. This was complemented by an extension to the excise arrangements that provided for 'appropriate sharing of the import parity price' between producers and Government. This was implemented by the addition of a crude oil levy on local production from fields discovered before August 1976. New oil fields were not subject to any levy and received full import parity price. It seems the Gippsland producers were being ripped off in this 'framework within which conservation, new fuel substitution, exploration and development as well as research into alternative fuels could flourish'.

Can you spot the trend in this brief history of crude oil pricing? Firstly, the Government encourages an industry with subsidies and then, over time, reduces the subsidies and increases taxes while fixing prices to protect the consumer and finally, the industry pays 'its fair share' and the general public gets used to paying the world parity price.

The current gas situation is not quite the same but price management by the Government is again being used to ensure the domestic consumer is not paying too much for gas (for now).

Sources

Most of the information in this article was obtained from the Australian Bureau of Statistics Year Book Australia (various issues between 1960 and 1980).

Webwaves



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Continuing work on the ASEG website

Much of the work on the website over the past two months has been administrative and evolutionary. Two of the state branches have asked for more detail to be added to the appropriate pages. Currently Members who are travelling interstate can check general details of upcoming Branch meetings in NSW and Western Australia. WA's current Branch page offers a guide to other branches interested in acknowledging sponsors or committee members.

One issue that continues to cause concern is access to *Exploration Geophysics*. Currently, this is provided to Members from a page that can only be accessed after they have logged in. In rare circumstances Member's details have not been passed on to CSIRO Publishing, where the journal is hosted, and the result is that legitimate Members are charged to access articles. Adding to the confusion, some Members have tried to log in to CSIRO Publishing's website. The intermittent issue appears to be unrelated to browser or platform. The Web Committee has found that rightful access can be restored through the following steps:

- log off aseg.org.au (click on 'Logout' at the top right of the screen or through the hamburger on a mobile device)
- clear your browser's cache
- clear cookies related to ASEG and CSIROP
- login to aseg.org.au

Needless to say, methods of accessing *Exploration Geophysics* that maintain security and are easier than current methods are under active investigation by the Web Committee, and we expect to be able to implement these in the next few months.

One addition to the website in the past month has been details of collected papers (<http://www.aseg.org.au/collected-papers>). This page is an initiative of the History Committee (and Kim Frankcombe) and is designed to put interested parties in touch with those who have agreed to act the custodians of the libraries of notable non-practising or deceased Members. The History Committee will be responsible for determining whether a collection is notable, therefore Members seeking to make their libraries available to the wider community are urged to contact the History Committee at history@aseg.org.au.

Following the publication of this column in the April issue of *Preview* (PV 187), and the reference therein to making conference workshops and seminars available online, some Members contacted the Webmaster (webmaster@aseg.org.au) with more material. Currently, material from two workshops is available to interested parties.

Other web-related developments over the next few months are the provision of various documents to appropriate parties. Currently, these documents are stored on an FTP server graciously provided by Kim Frankcombe. One factor contributing to the design of the new website was making these documents more easily available.