

W EALTH FROM R ESOURCES

POLICIES FOR KEEPING AHEAD



by *STUART MCGILL*

Ensuring a vigorous, competitive future for Australia's resources sector will require significant changes in policy by both government and industry. Productivity and efficiency are paramount.

While we often hear of the need for scientific and technical progress in relation to manufacturing industry, it is no less essential that constant progress be made in relation to resources industries.

Development of agricultural and mineral resources has been at the heart of wealth creation in Australia over the past 200 years. Resources must surely play a major role in wealth creation over the next 200 years, even if manufacturing and service industries become increasingly important.

The debate about the competitiveness of Australia's resource industries and what can be done to improve it has been running now in earnest for more than two years. I certainly don't want to canvas all the significant issues — I am not going to talk about entrepreneurship (Australians have it in abundance), resource availability (by any objective measure we are blessed) nor do I plan to talk about finance (it's important but certainly not a constraint in today's world).

The only other piece of good news that I have for you is that I don't plan to make any predictions or forecasts either. It was Thomas Watson, CEO of IBM, who in 1958 said: "I think there is a world market for about five computers."

I want to focus on those factors that are directly within our control as Australians and which, if we get them right, can make the difference between a vigorous, competitive resources sector

and a struggling, declining one. I am referring to the policy framework for business.

The internationalisation of business and trade requires, if we are to be commercially competitive, that Australia's policies for business generally and for resource industries in particular be competitive with those in other major trading countries.

There are many areas in which policy changes need to occur if we are to be successful in the future. As Thomas Watson discovered, as indeed have many of us, it is unwise to try to predict the future but what we can do is put in place policies which will be flexible enough to cope with a wide range of possibilities.

Australia is in a difficult economic position. Our current account deficit is running around \$13 billion a year (the second biggest in the world) and our net foreign debt is about \$85 billion. It may be feasible to stabilise our net foreign debt at about 40 percent of GDP by 1990, or about \$110 billion in today's terms. But in order to do that, we will need to cut our current account deficit to about \$6 billion a year. In order to reduce our foreign debt we must do better than that.

The only sensible way we can solve our debt problem is to trade our way out of it and I have great confidence that we can do so. Australia's future is very

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much a trading future and resource industries will play a key role in putting the economy back on track.

Last year, mineral resources, including petroleum, comprised 40 per cent of the value of Australian exports and accounted for four out of the top ten export-earners.

We should not allow anyone to gain the impression that resources are a "lost cause" because of the apparently declining trend in markets and prices. The Bureau of Resource Economics estimates that the value of net resource exports will increase from \$16 billion at present to more than \$20 billion by the year 2000.

Markets and prices for particular resources may or may not improve in the future but if we take action to stay competitive, we should be able to retain international market share and participate in the growth opportunities which occur.

However, to achieve this we need to improve productivity and efficiency in all wealth-generating business activities. I want to address four key areas where changes are required. These areas are taxation, deregulation, industrial relations and education and, understandably, I will use the oil industry to illustrate what I have to say.

Taxation

The oil industry faces marginal tax rates of up to 70 per cent on new oil discoveries and up to 90 per cent on existing oil. In addition, the Government is in the process of legislating for a resource rent tax on new offshore oil discoveries and is set to renew the cash bonus bidding impost on award of exploration leases.

Compare this with the gold industry, which has a marginal tax rate of zero in Victoria and Western Australia. While there may be a case for exempting small-scale prospectors from taxation, politic-

ally inspired exemption of large-scale gold producers seriously distorts the efficient allocation of risk capital in Australia.

There is no doubt that excessive and discriminatory taxation of oil acts very much to Australia's disadvantage. Over the period from 1982 to 1986, net oil imports fell from about \$3 billion to zero. This helped to offset the sharp rise in the current account deficit. However, partly due to excessive taxation, oil exploration has not been occurring at a fast enough rate in view of the decline in production which is under way.

Over the next few years, net oil imports are certain to increase. By 1995, they could be back to \$3 billion at today's prices and more if prices increase, as seems likely. If expected discoveries are not made, imports could be a billion dollars higher.

Whatever the outcome, there is no doubt that discriminatory taxation on crude oil will result in higher imports than necessary at a time when Australia is struggling to improve its balance of trade.

High taxation on petrol, diesel and other petroleum products increases the input costs of Australian industry and reduces its competitiveness. While excise on crude oil raised \$2 billion in 1986/87, taxation on petroleum products accruing to Federal and State Governments raised \$5 billion. Total oil taxation from excise, royalty, company tax and State fees amounted to about \$8.5 billion.

To put that in perspective, few people realise that out of a litre of petrol, which costs about 54 cents on average, the Government takes 35 cents. The net profit component, for producers, refiners and service station owners combined, is about four cents. That's bottom-line profit, not gross margin.

What all this leads to is that we need to maintain pressure on the Government to eliminate discriminatory taxation and

charges and to implement a neutral taxation regime; that is, one which treats all businesses equally. It is also necessary to lower the overall rate of corporate taxation to improve the attractiveness of investment in Australia.

Deregulation

We also need to take steps to reduce the burden of regulation. This will enable efforts to be redirected towards wealth-creating activities. It will also restore control to consumers so that productive resources are allocated in response to their needs, rather than in response to the decrees of third-party regulators.

There is nothing surer than that if you create public servants, many of them will find something to regulate. However, reducing the size of the public sector is not sufficient in itself. The influence of Government over individual choice must also be reduced and we need to be wary of changes which appear to reduce Government control but in fact maintain, or even increase, control in more subtle ways, such as through consultative committees, strategic plans for specific industries and price surveillance bodies. None of these regulates per se, but all have the potential to be used in such a way that independence of business and consumer decision-making is restricted.

Business and universities need to take a proactive role in challenging unnecessary and burdensome regulation, either individually or via associations. In the business area, Esso's Bass Strait oil and gas operations provide one example of what can be achieved.

In 1986, those operations were subject to 728 regulations requiring about 1,400 reports or submissions to the Victorian Government each year. Overall, such reporting required the expenditure of 11 man-years of effort.

In 1986, we started a major campaign with Government and challenged the need for every submission. The Government Ministers involved were very supportive and, to date, we have achieved a 40 per cent reduction from a stack of paper 3.5 metres high to 2 metres high. Obviously we still have some way to go, but we have achieved real progress.

Other forms of deregulation can improve the allocation of resources and have widespread community benefits. For example, the oil industry has been successful in achieving complete deregulation of crude oil marketing from January 1988. For the first time in more than 20 years, the Government will no longer set the price of Australian-

produced crude oil nor compel local refiners to absorb Australian production. The Business Regulation Review Unit has estimated that consumers of petroleum products will be \$300 million a year better off as a result.

Industrial relations

Another important area where we need to achieve deregulation and reform is the labour market.

At present, we have a craft-based union system which works to distance employers from employees. As a result, there is often an "us and them" mentality and an inability to communicate effectively. To help solve this problem, every enterprise should be aiming for a single enterprise-based union as its ultimate industrial relations goal and should have a carefully thought-out plan to achieve this.

In the meantime, we need to increase productivity by eliminating a whole swag of unnecessary work practices which have grown up over the years. The productivity improvements available in almost all industries in this area are immense and ultimately it is in everybody's interest to obtain every improvement available.

In Esso's Bass Strait oil and gas operations, we have employees ready to move rapidly to improve work practices. For example, on offshore platforms we are moving towards members of the maintenance workforce attaining three or four levels of multi-skilling — combining fitting, crane-driving, rigging and, in some cases, electrical and instrument mechanic skills.

There are many other areas where we are rolling back arbitrary restrictions, to everyone's advantage. For example, workers on the giant derrick barge which is constructing the Bream platform have agreed to work until the wind speed reaches 30 knots. The previous limit was 20 knots. This change is likely to save several weeks' hire of the barge, which costs about \$260,000 a day.

The necessary changes are not all in the field. Senior executives need to stop being managers and start being leaders. They need to figure out where they want their enterprises to go, then let the whole workforce have a role in working out how to get there.

A lot more time needs to be spent on building an innovative, motivated workforce which has a real sense of pride in the enterprise and a genuine responsibility for ensuring its success.

Education and training

Education and training is another

area where Australia is falling behind some of its major competitors.

There is a need for substantial restructuring of education and training so as to make its output more responsive to the needs of consumers. To do this, we require a more direct and market-based linkage between the quantity and distribution of skills required by business and the allocation of financial and educational resources to the production of those skills.

The quality and direction of secondary education need to be improved so as to enable students to multi-skill in their future careers and to value and seek out continuing education. The number of places in tertiary education needs to be increased by redirection of funding, structural changes within educational institutions to improve allocation of resources, and removal of barriers to privately-funded universities and colleges. The trade apprenticeship system also needs to be reviewed and a system of adult trade training needs to be established.

Clearly, the process of restructuring education and training is underway and the recently announced review of higher education is a step in the right direction. This is good news for wealth-creating disciplines.

Of course, every business also has a role to play in relation to training its own

workforce. Resource industries require very skilled staff to operate most efficiently and it's in their best interests to invest time, resources and money in ensuring that their staff receive better training than their international competitors.

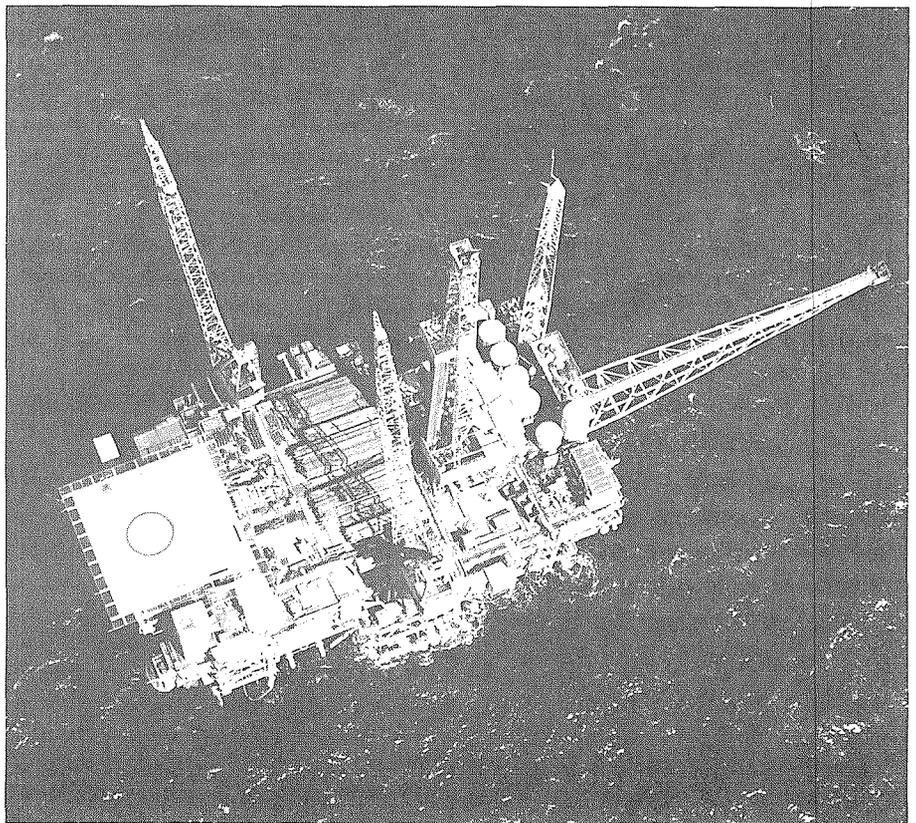
That competitive world out there doesn't owe us a living and certainly won't wait for us to get our house in order.

The other day, I ran into an old colleague who left the company 10 years ago to set up his own business. Now he's about to retire to a life of leisure on the Gold Coast.

I asked him what was the secret of his incredible success. He said: "Five things contributed to my success.

"First, I always treated others the way I wanted to be treated. Second, I always sold at a fair price. Third, I was always honest in my dealings. Fourth, I always treated my workers generously. Fifth, my aunt in Melbourne died and left me ten million dollars."

So for some there is an alternative solution. But for most of us and for Australia, the policy choices of our elected representatives in Canberra are crucial. If you have already joined the debate I encourage you to continue; if you are yet to get involved I urge you to do so soon. □



Esso's Flounder platform in Bass Strait . . . "there is no doubt that discriminatory taxation on crude oil will result in higher imports than necessary. . ."