Economic Notes

SOME ASPECTS OF ENERGY PRICING

The last set of Economic Notes touched on the important question of the pricing of Australian electricity to be used in the expanded production of aluminium. That issue, and the broader issue of the pricing of Australian energy sources, deserve closer examination.

There is reason to believe that energy for the aluminium industry will be (is being) supplied at prices very close to costs of production, whereas Australian crude oil is being sold at prices far above, and bearing no relation to, the costs of extracting it. The pricing principles being applied in the two cases are quite different — and are quite inconsistent with each other. Both do, however, directly support the profits of some of the world’s largest transnational corporations.

The conversion of alumina into aluminium (the smelting process) requires vast amounts of energy. Australia has the advantage of being able to satisfy the demand for a large amount of electric power from its deposits of low-sulphur steaming coal and at a cost — it is estimated (1) — much less than that at which electric power can be supplied in the US, Europe and Japan.

Generating capacity has to be expanded very rapidly, however, particularly in Victoria and NSW. It is apparently likely that some new smelters will come into operation before the electricity authorities can cope with them comfortably. (2) If all proposals so far made for new aluminium smelters to go ahead, they would increase the demand for electric power by something in the order of 1,900 megawatt hours — a substantial percentage of all Australia’s present generating capacity.

The generation of electric power is, in all states, the responsibility of a statutory authority. What that means, in part, is that state governments can and do determine the rates which are set for various categories of users. Particularly where the statutory generating authority is also the distributor, each state government can, and does, employ the rate set for electric power as an inducement to attract corporations to locate plants within its domain. Competition between states has therefore produced a pressure to minimise the cost to industry in general of its use of electricity.

It is probably significant that the rates charged to aluminium producers at present are not made available to the public. Odd pieces of information gleaned by newspaper reporters suggest that in Victoria and Queensland, anyway, the rates negotiated for smelters soon to be established are
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Gippsland Basin/Esso-BHP


Notes:
(1) The graph depicts calendar year totals.
(2) 1979 and 1980 figures are estimates.
(3) Post-royalty revenue to Esso-BHP is exclusive of company tax and costs of production. The royalties subtracted are for all "oil and other hydrocarbons".

Source: Stuart et al, op. cit. p. 15.
appreciably below the cost of producing the electric power (3). In other words, "it may well be that aluminium producers are being, or are to be, subsidised by other users of electric power. This is not curious in itself, of course, but it is curious in the light of Fraser's oil pricing policy.

There is an argument commonly put about that the domestic prices of commodities that can be internationally traded should reflect international market prices (4). The argument, when applied to fuels, is that international prices for domestic use reflect the value of exporting foregone: the fuels used domestically could have been sold abroad at ruling international market prices. To justify their consumption of fuels, domestic industries must be profitable enough to absorb international prices; and households consuming fuels must be prepared to pay what other households would obtain if the fuels were exported instead.

Now the argument is an absurd one; but, be that as it may, it has been incorporated by the Fraser government into its defence of setting the price of domestic crude oil at the level of international prices. And if the argument applies to the pricing of crude oil, surely it also applies to the pricing of the coal burned to supply the electric power for aluminium producers and hence to the pricing of that energy.

It would be pure sophistry were any federal government spokesperson to argue that there can be no federal control over the pricing of electric power. Regulations with respect to export, foreign investment, taxation, foreign borrowing by state governments and so on can all be used to indirectly effect a particular pricing policy. In fact, it suits the present federal government well to have the states competing with each other to attract aluminium production (or any international producer). Fraser is committed to a restructuring of Australian industry by transnational corporations and he has chosen to rely largely on expanded production and investment in the mining sector for generalised recovery of the economy. (5)

It was earlier claimed that the argument in favor of "world parity pricing" is an absurd one. It is absurd in that it assumes that income accruing to corporations exploiting fuel resources is eventually channelled to workers and corporations put at an initial disadvantage by the pricing policy. As suggested in the last set of Economic Notes this is a highly uncertain event. Many local industries faced with having to meet high energy costs reflecting "world parity pricing" must become unprofitable; yet there may well be bars to the direct investment of any salvageable funds into the exploitation of fuel resources itself.

The corporations in control of the exploitation of fuel resources are large transnationals, in the main, and the latter are most unlikely to want to reinvest in activities within Australia other than the expansion of their mining activities; even the Australian corporations involved (BHP and CSR) seem to be concentrating on their mining projects to the detriment of their manufacturing. The employment available in expanded exploitation of fuel resources will assuredly be much less than has been available in the manufacturing industries rendered unprofitable by high energy costs.

Given this state of affairs, the "world parity pricing" argument is little else than an attempt at legitimising the transfer of surplus plus an increasing proportion of the wages previously achieved by workers to a few enormous corporations owned substantially abroad.

Talk of the windfall taxation revenue (6) accruing to the federal government as a result of the "world parity pricing" of crude oil has tended to obscure the extent to which the details of the policy benefit the oil corporations. "New oil" or oil coming from fields said to have been discovered since September 1975, commands the price of imported crude less a levy of $3.00 per barrel. So does a percentage of "old oil" (from fields discovered before 1975). (7) The rest of the old oil is priced in a complicated manner which reflects rises in the price of imported crude. (8)

The percentage of old oil that would command the full world price (less the levy of $3.00 per barrel) was to have progressively increased under arrangements determined in 1977. However, by mid-1979, the federal government had decided to allow the percentage to increase only to 50 per cent in 1980-81 and thence to maintain the size of the base it then had for petroleum taxation. (9)
Nonetheless, "the producers' increase has been particularly sharp since the policy changes introduced in the LCP government's 1977 budget". (10)

Were the "world parity pricing" argument to be applied to the case of electricity generated from Australian steaming coal, one would expect to see rates very different from those apparently now being negotiated with aluminium producers. Appropriate rates would not only cover the export price of steaming coal but would yield the statutory generating authorities at least an average rate of profit.

In fact, the rates evidently being charged are set at levels which allow the surplus value created by electricity workers to be appropriated by the giant users of electric power. This parallels the behaviour of the state in capitalist countries throughout the world, (11) namely, a growing tendency to underwrite the profits of the largest of the transnational corporations. Such behaviour is likely, however, to exacerbate two problems in particular.

The underwriting of corporate profits by means of setting low rates for state-provided utilities in itself worsens any tendency towards a fiscal crisis of the state. That is to say, it worsens any tendency towards there being a gap between revenue accruing to the state and the expenditure of the state. (12) In the second place, the support of the large transnational corporations is effectively support for a mode of control of critical investment decisions which acts in an essentially arbitrary manner from the point of view of any single country.

The logic of the current international integration of production under the auspices of the large transnational corporations ignores the needs of relatively small-scale capital within a particular, integrated economy and, furthermore, systematically undermines the position of workers in all economies. The most immediate problem for a conservative government is to protect the profitability of relatively small-scale indigenous capital and hence an important part of its electoral base.

The Fraser government's oil-pricing policy and its apparent attitude to Australian aluminium production are somewhat anomalous from a political point of view. In respect of the oil-pricing policy, in particular, there exists the possibility in principle of a federal policy which strongly supports Australian manufacturing. The price of oil (and the prices of LPG and natural gas) can be set at levels which give not only aluminium production, but other, small-scale manufacturing activities, a competitive advantage in energy costs. And it is clear that this can be done while still assuring the oil corporations adequate net returns and while still providing for the financing of further exploration or, more importantly, of research into the substitution of other energy sources for oil.

— Gavan Butler, 20.2.80.

FOOTNOTES

1. In the order of 1.5c/kwh in Australia, as opposed to 3c/kwh in the US, 4c/kwh in Europe and 8c in Japan. See The Age, June 1, 1979.

2. This and other particulars of the implications for energy of expanded aluminium production are drawn from Australian Parliament, Legislative Research Service, Implications for Australia of Rapid Development in the Aluminium Industry, Dec. 5, 1979.


5. Recent large capital inflows are no indication at all that Fraser's strategy for recovery is working. Most commentators agree (as of the time of writing these notes, mid-February) that the inflow results largely from the speculative search for gain from the upward revaluation of the Australian dollar.

6. Estimated by the Hon. W. Hayden to be in the order of $3,000 million in 1978-79, as reported on the ABC News, 18.2.80.


8. Ibid.

9. Ibid.


12. See ibid, for a full analysis of this tendency.