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**Robert C. Olsen**

Chairman & Managing Director

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**RE: Inquiry into increasing value-adding to Australia's raw materials**

Esso Australia Ltd. welcomes the invitation from the Minister for Industry, Science and Resources to make a submission to this inquiry. Esso believes that activities capitalising on Australia's competitive advantages arising from its wealth of natural resources are a key factor in the nation's future economic prosperity.

There are a number of positive conditions that already exist that contribute to such activities. Australia is a democratic country with strong free-market and judicial institutions, which foster investment. The education system has proven capable of producing high quality professionals that are the key to innovation, critical to successful value adding activities.

However, there are a number of obvious and well-noted impediments to the development of value adding activities that are within the influence and control of governments in Australia.

A key input to adding value to raw materials is competitively priced energy. Australia is endowed with significant energy resources, particularly gas and coal, which are capable of meeting this requirement. However, government policies often frustrate the efficient development of these energy resources.

The Prime Minister stated that Australia's commitment to the Kyoto Protocol would not result in, *"Australian jobs sacrificed and efficient Australian industries, particularly in the resources sector robbed of their hard-earned competitive advantage."* 20 November 1997. However, those in the Government developing proposals for compliance with the Kyoto Protocol appear to be ignoring this objective by deeming that major increases in the cost of Australian energy via carbon taxes are an acceptable outcome. Since competitive energy supplies are crucial to value adding, this alone will nullify the Government's ambitions for value-adding to Australian resources.

Competitive fiscal regimes are required in order to compete internationally. The Federal Government's Review of Business taxation insists on revenue neutrality, failing to recognise the need for lower effective taxation in order to compete. More specifically, the Government largely ignored the fact that a competitive fiscal regime is required to develop large but marginally economic gas resources in remote areas, despite a comprehensive and well argued case put by this industry. Even in domestic projects, offshore gas fields pay an onerous 40 percent Resources Rent Tax whereas onshore coal suppliers pay very little secondary tax.

While many aspects of competition policy are commendable, its application has shown the potential to impede development of Australian resources.

- Vertical integration that is often necessary for efficient resource development and value adding is effectively discouraged by the ideology of disintegrating supply chains into as many pieces as possible.
- Infrastructure, such as pipelines, constructed as part of a resource development project can be subject to third party access on terms ultimately decided by a regulator.

- The oil refining industry participants adding value to our petroleum resources are prevented by regulators from improving their own efficiency through rationalisation while simultaneously competing with regulator-supported importers sourcing their refined product at marginal prices.
- State Governments frustrate implementation of competition policy that may damage their own interests; for example, Victoria's Significant Producer legislation which prevents a fully competitive gas retail market.

Despite the achievement of the Native Title Amendment Act, there continues to be significant uncertainty concerning procedures for gaining access to resources, particularly arising from the delays in finalising effective State-based regimes.

The current workplace relations system and supporting legislation contributes to significant uncertainty in managing the cost of developing and operating projects, both new and existing.

I look forward to the Inquiry's deliberations on these issues and the subsequent development and effective implementation of policies that facilitate, rather than impede, activities to add value to Australia's resources. If Australia is to enjoy economic prosperity in the future, it must develop in those areas where it holds a competitive advantage.