

# DOWNSTREAM PETROLEUM



# MESSAGE FROM THE AIP CHAIRMAN

Downstream Petroleum outlines the key facts and issues impacting Australia's downstream petroleum industry.

Australia's downstream petroleum industry is a critical component of the Australian economy, safely and reliably providing high quality competitively priced liquid fuels to support a range of other sectors including mining, agriculture and transport.

The industry is currently confronted with a sustained period of uncertainty and global and domestic structural change. Global megatrends, geopolitical forces and dynamic markets require Australian refiners, wholesalers and retailers to be nimble and creative to remain competitive. While the Australian industry has a long, demonstrated track record of responding to uncertainty, decisions by governments can have a profound impact on operations and viability.

Internationally, geopolitical factors including trade wars and unrest in the Middle East, is driving significant market volatility, which reverberate through to price volatility at the pump. As OPEC attempts to manage the volume of supply provided by its members, this is being offset by ever increasing new supplies of crude oil, notably from the US. Notwithstanding the challenges associated with this volatility, this has in part provided a benefit to Australian refiners through access to an increasingly diverse source of crude oil refinery feedstock to better manage risk.

Challenging global economic conditions have also weakened crude and product demand. Despite closure of refineries in mature markets in Europe and Japan (and four in Australia since 2003), there has been a recent large-scale expansion of refining capacity particularly in the Middle East and Asia. These new mega-refineries, often built with direct government financial support, have both scale and cost advantages over Australian refineries.







This additional refinery capacity, coupled with lower than anticipated demand, has resulted in an oversupply of petroleum products in the region, leading to extremely low refiner margins in the first half of 2019, which continue to remain unsustainably low.

The Australian refining industry has in recent years responded to these cyclical market pressures through stringent cost control, operational efficiencies, and integration into the Asian fuels market. Complementing the critical role played by domestic refineries, Asian integration provides additional diversity and flexibility of supply arrangements that underpin secure supply into Australia, as confirmed over many years by numerous Government and independent reviews.

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**SIGNIFICANT INVESTMENT IN DOMESTIC STORAGE, REFINERY RELIABILITY AND PRODUCTIVITY AND PIPELINE INFRASTRUCTURE HAS FURTHER ENHANCED SUPPLY SECURITY.**

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The industry also plays its role in responding to community expectations in relation to the environment and climate change. Along with a program of continuous improvement to



reduce the impacts from its own operations, the industry is developing cleaner traditional fuels and alternative fuels such as biofuels and hydrogen, while assessing the implications and opportunities of vehicle electrification in the coming decades. The petroleum industry also supports other sectors' efforts to reduce emissions, such as the shipping industry's compliance with IMO regulations around lower sulfur bunker fuels in 2020. Each of these activities require substantial investment by the industry at all levels of the supply chain and must be underpinned by robust technology, market and risk assessment.

Structural change is also occurring at the retail level, including through considerable changes in retail site ownership. Although major brands are highly prominent in the

Australian market, fuel majors directly operate and set the price for less than fifteen percent of sites. Government intervention, including mandates on forecourt fuel offerings, can impact site viability.

Despite these challenges, actions by Australia's petroleum companies support consumers paying some of the lowest retail prices in the OECD.

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**THE ACCC CONTINUES TO CONFIRM THAT AROUND 85 PERCENT OF RETAIL PRICES ARE DETERMINED BY INTERNATIONAL REFINED FUEL PRICES, THE EXCHANGE RATE AND GOVERNMENT TAXES.**

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Australia will continue to be a high cost operating environment. The key role for governments therefore is to ensure a competitive open market and a level playing field for local market operators, whilst ensuring that the domestic industry is not competitively disadvantaged to our regional counterparts and that innovation continues to be fostered.

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**ULTIMATELY, INDUSTRY SUCCESS IS ACHIEVED THROUGH CLEAR AND STABLE LONGER-TERM POLICY FRAMEWORKS BASED ON SOUND MARKET-BASED PRINCIPLES.**

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Government and industry can achieve mutually beneficial outcomes, evidenced by the agreement to transition to low sulfur gasoline. The announced timeline for implementation provides the best balance between delivering environmental improvements and minimising any impacts on consumers, whilst also providing long term policy certainty to the local refining industry to facilitate potential investment and business decisions.

The Australian petroleum industry remains fully committed to ensuring ongoing reliable supply of affordable and quality fuels to the Australian market, through continued investments and tough decisions to improve productivity and ensure economic viability.

**Andy Holmes**  
Chairman, AIP





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