



AUSTRALIAN INSTITUTE OF PETROLEUM

26 September 2008

Senator Mathias Cormann
Chair
Senate Select Committee on Fuel and Energy
PO Box 6100
Parliament House
CANBERRA ACT 6100

Dear Senator Cormann

AIP INPUT TO FUEL & ENERGY INQUIRY

Thank you for your recent letter seeking input from the Australian Institute of Petroleum (AIP) to this Senate Inquiry. AIP would be pleased to assist the Senate Select Committee in its Inquiry into Fuel and Energy.

AIP was established in 1976 as a non-profit making industry association. AIP's mission is to promote and assist in the development of a sustainable, internationally competitive petroleum products industry, operating efficiently, economically and safely, and in harmony with the environment and community standards.

AIP member companies play various roles in the fuel supply chain. They operate all of the petroleum refineries in Australia and handle a large proportion of the wholesale fuel market. However, AIP member companies directly operate and control only a relatively limited part of the retail market. AIP's four core member companies are BP Australia Pty Ltd, Caltex Australia Ltd, Mobil Oil Australia Pty Ltd and The Shell Company of Australia Ltd.

In order to assist the Senate Select Committee in its consideration of the significant range of issues identified in the Inquiry's terms of reference, we have outlined below some overarching fuel and energy policy principles from AIP's perspective as well as important information sources to assist the Committee in its initial considerations.

Policy Principles

Overall, we consider that the reliable ongoing supply of high quality fuel in Australia is dependent on the well developed and highly competitive international and Australian fuel markets working effectively within a stable policy framework. This will ensure a flexible and competitive fuels industry into the future based on diversity of sources of liquid fuel supplies. The competitive Australian fuels market has delivered low petrol and diesel prices by international standards, and will continue to do so in AIP's view.

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More specifically, AIP considers that to help “ensure secure, reliable and affordable fuel and energy supplies” as your letter indicates, Government policy is best orientated towards the following objectives over the next decade and beyond:

- Government policy should be:
 - based on sound science and rigorous economic analysis (demonstrating a clear net public benefit)
 - consistent and transparent
 - aimed at strengthening linkages to international energy markets.
- Changes in government policy should:
 - allow for a sufficient transition period
 - recognise the considerable investment that will be required over the next ten years to maintain the reliability and capacity of the downstream petroleum industry.
- Regulatory regimes should:
 - clearly define their objectives
 - be regularly reviewed to ensure the objectives are still relevant
 - be harmonised across jurisdictions
 - be enforced, and applied, consistently to all market participants.
- Where governments implement policies for domestic purposes, the impacts on Australia's international competitiveness and, thereby, on domestic fuel and energy prices, should be well understood by the community.

We consider that these are key principles that should guide this Inquiry.

Information Sources

Recently, AIP has released its key publication, *Downstream Petroleum 2007*, on the state of the Australian downstream petroleum industry. This latest report provides a concise overview of the significant changes that have occurred in petroleum refining and marketing, the challenges and competitive pressures facing the domestic industry, and the importance of the industry to Australia's economic prosperity and security. The report outlines AIP positions on key policy issues and addresses a number of the Inquiry's terms of reference, particularly:

- the domestic refining industry
- the operation of the domestic petrol and diesel markets
- the role of alternative fuels
- the impact of an ETS on the fuel industry.

I have enclosed copies of *Downstream Petroleum 2007* for the information of the Committee. It is also available from: www.aip.com.au/pdf/Downstream_Petroleum_2007_Report.pdf.

AIP has also recently made comprehensive public submissions to Government and to Parliamentary Inquiries on related matters. These submissions provide substantial factual information and data on the structure and operation of the fuel industry in Australia and on the international and domestic factors influencing fuel prices across the entire crude oil and petroleum products supply chain. The details of these submissions, including identification of the Inquiry terms they relate to, are outlined in the Attachment. A key theme in all these submissions is the influence of competitive pressure on pricing outcomes in Australia.

AIP strongly advocates a competitive market for fuel and publishes daily petrol and diesel pricing data and other information on its website to assist the community to understand the many factors influencing pricing at all levels in the industry (see www.aip.com.au).

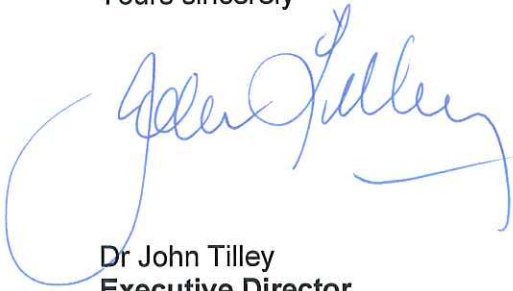
3.

AIP member companies may also be contributing to this Inquiry, particularly on commercial and other issues related to the specific operation of those companies in Australia.

I would be happy to discuss with you any of the issues raised in this letter and supporting material or any other issue related to the downstream petroleum industry. If you would like to arrange a more detailed briefing, please do not hesitate to contact me or Nathan Dickens on (02) 6247 3044.

Thank you for the opportunity to participate in this Inquiry. AIP is happy for our submission to be made publicly available on the Committee's website.

Yours sincerely



Dr John Tilley
Executive Director

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cc: Committee Secretary, Senate Select Committee on Fuel & Energy

ATTACHMENT

RELEVANT AIP SUBMISSIONS TO GOVERNMENT & PARLIAMENTARY INQUIRIES

Response to CPRS Green Paper (September 2008)

Available from:

<http://www.aip.com.au/pdf/submissions/AIP%20Response%20to%20CPRS%20Green%20Paper%2010%20Sept.pdf>

Relevant Inquiry Terms of Reference: 1(d)

Submission to the Senate Inquiry into National Fuelwatch Bills 2008 (July 2008)

Available from:

<http://www.aip.com.au/pdf/submissions/AIP%20Submission%20%20-%20Senate%20Inquiry%20into%20National%20Fuelwatch%20Bills.pdf>

Relevant Inquiry Terms of Reference: 1(a), (b), (c) and (h)

Submission to the Garnaut Climate Change Review (April 2008)

Available from:

<http://www.aip.com.au/pdf/submissions/Submission%20to%20the%20Garnaut%20Inquiry%20-%20Emissions%20Trading%20Scheme%20Design.pdf>

Relevant Inquiry Terms of Reference: 1(d)

Submission to the Inquiry into the Price of Petrol in Australia - Federal Parliament, Senate Economics Committee (August 2006)

Available from:

<http://www.aip.com.au/pdf/submissions/Submission%20to%20the%20Senate%20Petrol%20Price%20Inquiry.pdf>

Relevant Inquiry Terms of Reference: 1 (c), (g) and (h)

Submission to the Inquiry into Future Oil Supply and Alternative Transport Fuels - Federal Parliament, Rural & Regional Affairs and Transport References Committee (May 2006)

Available from:

<http://www.aip.com.au/pdf/submissions/Submission%20to%20the%20RARATRC.pdf>

Relevant Inquiry Terms of Reference: 1 (a), (c), (e), (g), (h) and (i)

Submission to the Inquiry into the Provisions of the Petroleum Retail Legislation Repeal Bill 2006 - Federal Parliament, Senate Economics Legislation Committee (April 2006)

Available from:

<http://www.aip.com.au/pdf/submissions/Submission%20to%20Senate%20Economics%20Cttee.pdf> and supplementary submission from:

<http://www.aip.com.au/pdf/submissions/Submission%20to%20Senate%20Cttee%20Supplementary.pdf>

Relevant Inquiry Terms of Reference: 1(c) and (e)

Submission to the Bracks Review of Australia's Automotive Industry 2008

Available from:

<http://www.aip.com.au/pdf/submissions/Automotive%20Industry%20Review.pdf>

Relevant Inquiry Terms of Reference: 1(c), (h) and (i)