



**Submission to the
Department of the Prime Minister and Cabinet**

on the

**Regulation Impact Statement
International Standards and Risk Assessments**

20 February 2015

ABOUT AIP

The Australian Institute of Petroleum (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 provides a wide range of factual information and industry data to assist policy makers, analysts and the community in understanding the key market, industry and other factors influencing Australia's downstream petroleum sector.

AIP is represented on key statutory and advisory bodies including the National Oil Supplies Emergency Committee (NOSEC), the Fuel Standards Consultative Committee (FSCC), the Oil Stewardship Advisory Council (OSAC), the New South Wales Biofuels Expert Panel and the National Remediation Framework Steering Group (NFRSG). AIP sponsors or manages important industry health and environmental programs and the Australian Marine Oil Spill Centre (AMOSC) is a wholly owned subsidiary of AIP.

AIP is pleased to present this Submission to the Department of the Prime Minister and Cabinet on behalf of AIP's core member companies:

BP Australia Pty Ltd
Caltex Australia Limited
Mobil Oil (Australia) Pty Ltd
Viva Energy Australia Limited

About AIP Member Companies

AIP member companies operate across the liquid fuels supply chain including crude and product imports, refinery operations, fuel storage, terminal and distribution networks, marketing and retail. Underpinning this supply chain is considerable industry investment in supply infrastructure, and a requirement for significant ongoing investment in maintaining existing capacity. Over the last decade, AIP member companies have invested over \$10 billion to maintain the reliability and efficiency of fuel supply meeting Australian quality standards.

AIP member companies play a very significant role in delivering the majority of bulk fuel supply to the Australian market.

- In relation to conventional petroleum fuels, AIP member companies operate all major petroleum refineries in Australia and supply around 90% of the transport fuel market.
- In relation to gaseous fuels, AIP member companies are the major suppliers of bulk LPG to the domestic market, representing around two thirds of the market.
- In relation to biofuels, AIP member companies are the largest suppliers of ethanol and biodiesel blended fuels and blended biodiesel to the Australian market.

Given this background and their significant role in the Australian fuels supply chain and broader economy, AIP member companies have a very strong interest in streamlining a broad range of environmental regulations and the efficient discharge of compliance obligations under these regulations. Background information on the downstream petroleum industry is contained in the AIP publication Downstream Petroleum 2013 (<http://www.aip.com.au/topics/new.htm>) and the AIP submission to the Energy White Paper process (<http://www.aip.com.au/topics/submissions.htm>).

Contact Details

Should you have any questions in relation to this submission, or require additional information from AIP, the relevant contact details are outlined below.

Mr Paul Barrett
Deputy Executive Director
Australian Institute of Petroleum Limited
GPO Box 279
CANBERRA ACT 2601
Phone: (02) 6247 3044

AIP and its member companies support Option 2 as detailed in the Regulation Impact Statement that the adoption of international standards should be undertaken on a case-by-case basis following thorough-going review of their applicability to Australian conditions.

AIP and its member companies strongly support any moves to reduce unnecessary regulation and reduce costs to Australian business in order to compete in international markets. AIP acknowledges that the adoption of recognised international standards has the potential to reduce regulatory burden and welcome the proposition that regulators should not impose additional requirements for approval in Australia, unless it can be demonstrated that there is a good reason to do so. The requirement to consider the full ramifications of any decision to adopt international standards is important as there are demonstrably instances in liquid fuel policies where the adoption of international standards will actively work against the goals of the broader deregulation strategy.

AIP canvassed these issues in our submission to the House of Representatives Standing on the Environment (attached) where it was observed that harmonisation of regulation within Australia does not necessarily mean the same standards apply everywhere, as with regulation of petrol volatility. The details of harmonisation therefore, must recognise benefits and costs: there is no point imposing environmental regulation where there is no real problem, the regulatory parameters (as opposed to the administrative framework) may need to vary to address individual circumstances, and benefits should exceed costs.

These considerations are even more relevant when considering environmental standards and policy approaches that apply overseas. For example, air quality in many overseas cities is very poor and drastic measures are required, which may include vehicle design and fuel quality. Policy measures in many countries are driven by their unique conditions whereas Australia has very good and improving air quality by comparison.

It follows that what is appropriate for Australia may vary greatly from what is appropriate overseas. In the case of the *Fuel Quality Standards Act 2000* (FQSA), the guiding principle is that Australian fuel standards will seek to harmonise with European fuel standards **subject to Australian conditions**. The downstream petroleum industry has supported this approach since the commencement of the FQSA because it allows policy makers to consider a broad range of factors that are relevant to the policy decision in Australia including environmental factors and differences, operability of the Australian fleet and the impact on industry and consumers. Nonetheless, AIP emphasises that the deviation from harmonisation of fuel standards with European standards occurs in very few fuel parameters and that those deviations have been fully examined and justified in open, transparent and comprehensive policy development processes.

For example, as discussed in the RIS, the petrol additive MTBE is legal in Europe and Asia but banned in Australia and the United States because of the risk to ground water if petrol leaks or is spilled. The diesel standard in Australia sets a diesel cetane limit that is lower than Europe and higher than the United States reflecting the composition of the Australian diesel vehicle fleet. The Australian diesel standard is one of the cleanest diesel standards in the world and the different cetane standard has no impact on the operability of, or environmental outcomes from, the Australian diesel fleet. Other petrol and diesel parameters vary from overseas jurisdictions for various reasons but this has no impact on trade.

Almost every country has a variation in fuel standards for different reasons. In some cases fuel standards only require very few specified parameters to ensure that the maximum number of supply sources can be accessed. In other cases, fuel parameters are set to allow for utilisation of domestic crude oil. The objects of the FQSA require that primary consideration be given to the operability and environmental consequences of the fuel quality parameters. AIP considers this and rigorous cost benefit analysis is an appropriate approach and notes that if the Australian government were to actively pursue international harmonisation they would be faced with a choice from many international fuel standards based on the national goals of each jurisdiction.

AIP also considers that there further important benefits of maintaining an Australian approach to setting fuel quality standards. The existence of the FQSA ensures there is harmonisation across Australian jurisdictions which assists in improving supply security and avoids unnecessary barriers to trade between Australian States. The national framework and the associated compliance regime were also critical in ceasing fuel substitution and excise fraud that was widespread before the introduction of the FQSA in 2000. The linkages with the excise act also provided a revenue protection measure for government.

A further example of pursuing appropriate international harmonisation is provided by the National Industrial Chemical Notification and Assessment Scheme (NICNAS). NICNAS requires that all fuel additives (dosed at a small volume of the final fuel) are assessed as a “neat” product and included on the Australian Inventory of Chemical Substances database even though the additive will never be supplied to the market in its pure form.

AIP member companies remain concerned that the *Industrial Chemicals (Notification and Assessment) Act 1989* and the subsequent NICNAS as applicable to additives in imported fuel has unintended trade, cost and supply reliability consequences. In particular, the present legislation has already had the consequence of limiting the choice of available fuel cargoes in short fuel market situations due to the presence of fuel additives for which the AICS registration status could not be confirmed.

While the industry has been fortunate to avoid market stock-out(s) in previous instances (sometimes at significant cost penalty) there remains the probability that the current legislation may, at some point in the future, result in a temporary inability to supply fuel to part of the Australian market for one or more member companies.

AIP proposes that alternative methods for the regulation of additives in imported fuels, specifically diesel CAS 68334-30-5 and Gasoline CAS 8006-61-9, be considered that allows for additives already blended into finished fuels imported from international sources to be recognised as a component of fuel and not regulated separately as is currently the case. This approach is consistent with the approach taken by New Zealand for imported diesel and retains adequate regulated controls for fuels.

AIP does not consider that harmonisation with other international chemical notification schemes (that would still require assessment of the additive) is necessary in the case of fuel additives as it would not substantially remove the regulatory burden and is largely unnecessary because the additive is never supplied to the market in its pure form.

Attached is the AIP Submission to Department of Health and Ageing review of NICNAS for further elaboration on this issue.

Australian environmental regulation should therefore look to the national interest and not simply follow overseas regulation. This involves a careful weighing of the costs and benefits of harmonisation for environmental protection, trade, investment, employment, industry costs and competitiveness and consumers prices, among other factors. For these reasons, AIP and member companies support Option 2 as detailed in the RIS that case-by-case review should augment deregulation policy.