



**REVIEW OF
THE LIQUID FUEL EMERGENCY ACT 1984**

**Submission by
AUSTRALIAN INSTITUTE OF PETROLEUM**

September 2004

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INTRODUCTION

The Australian Institute of Petroleum (AIP) was established in 1976 as a non-profit 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.

This submission is in response to the Discussion Paper released by ACIL Tasman on behalf of the Federal Department of Industry, Tourism and Resources, outlining the key issues to be considered in reviewing the Liquid Fuel Emergency legislation and its operational arrangements.

AIP and its member companies support the process of public consultation on the effectiveness of the LFE legislation and its operation. AIP is pleased to make this submission on behalf of the following member companies.

BP Australia Pty Ltd
Caltex Australia Ltd
Mobil Oil Australia Pty Ltd
The Shell Company of Australia Ltd

This submission focuses on key issues raised in the Discussion Paper and how those issues might best be managed to facilitate the efficient operations of the industry in Australia in the event of a supply disruption.

FACTORS INFLUENCING SUPPLY RELIABILITY AND THE MANAGEMENT OF SUPPLY DISRUPTIONS

AIP members believe that the most appropriate action for dealing with all but the most serious supply disruptions is for the market to be allowed to operate with minimal government intervention.

Australia's diesel and petrol markets have many supply points with numerous competing companies including significant independent players vying for market share. The extensively dispersed supply and logistics infrastructure operated by competing companies is also characterised by the additional flexibility of inter-company purchase arrangements.

Since 2000, the industry has experienced a number of major refinery outages, on occasion for months at a time, and in every instance it has managed to arrange supply through established inter-company processes and imports without any significant, extended shortfalls in the market. The success of these processes suggests there is no need to introduce additional arrangements for the management of diesel and petrol supply, except under extreme circumstances.

Changes to the Australian Fuel Supply Chain

The financial underperformance of the downstream petroleum sector during the 1990s led to a rationalisation of the supply chain to improve efficiency and as a consequence lowered aggregate stocks. At the same time, excess production capacity in Asia meant that spot cargoes, particularly of petrol, were readily available at low cost to importers.

This situation has changed since 2002, with growing demand for products across the Asian region and with the mothballing of the Port Stanvac refinery in South Australia in July 2003. As a consequence, the Australian liquid fuels market has entrenched its status as a structural importer with any additional demand, such as normal growth in the demand and demand spikes, being met from increased levels of imports.

Within this aggregate picture of the Australian liquid fuels market, the breadth and diversity of the supply chain across Australia means that different impacts will be experienced throughout the country

- South Australia will now rely almost exclusively on ship cargoes with the mothballing of Port Stanvac.
- Northern Australia, which has traditionally been supplied by imported fuel, will operate in the same manner.
- Western Australia which has had special fuel standards to meet local environmental concerns will benefit from improved supply options as the rest of Australia and the region also move towards those standards.

There are divergent opinions about whether the increase in the level of imports will impact on supply reliability

- On the one hand it is argued that the greater length of supply lines and the time required for imported cargoes to reach Australia place the market at greater risk of supply disruptions and constrain the options for responding to such disruptions.
- On the other hand, there is a view that increased frequency and volume of shipping around the coast means greater supply reliability because there is greater flexibility in the supply chain.
 - More regular shipping and stable supply sources based on term contracts rather than spot cargoes are expected to increase the potential sources of supply and thereby improve supply reliability.

- A related argument is that a regular supply of product to Australia will cause an Asian refinery to strategically position itself to be a niche producer to the Australian market. The additional alternative source of supply would improve the supply options.

Community expectations about supply reliability have formed over the last decade through an unusual combination of events that have seen structural Australian over-capacity and Asian capacity growth ahead of demand which maintained downward pressure on price growth.

- The demand characteristics in Asia (centred on diesel consumption) meant there were large quantities of surplus petrol.
- The ability to purchase spot cargoes from China meant plentiful supplies of cheap petrol being available to the Australian market.

However, the combination of improved quality requirements in Australia and a reduction in the over-capacity in the Asia-Pacific region has meant that cheap, lower quality petrol is no longer a supply option for the Australian market.

Consumers have become accustomed to an oversupplied domestic market. As a consequence, bulk users and some essential users, as well as many individuals, have assumed that supplies will always be readily available, and that there is no need for users to develop their own risk management arrangements to avoid the impacts of a supply disruption. At the same time, a community perception has developed that any disruption in supply, however minor, is viewed as indicative of a crisis.

Demand Patterns

The Australian Petroleum Statistics monthly data indicate that the demand for petroleum products does not display any appreciable seasonality on a national basis with sales being fairly constant throughout the year. This aggregate result does not reflect the large demand spikes (particularly at the end of each year) as a result of harvest time, holidays and defence department requirements. The intensity of these demand spikes varies across fuel types and areas.

Large and unanticipated surges in demand by customers will always present a supply challenge because of the commercial imperative not to hold excess stocks in any part of the supply chain, and physical limitations in the supply chain. These include constraints on product load-out capacity and on the availability of trucks/drivers. During periods of known or anticipated demand surges, it is expected that consumers would take anticipatory action to build up their own stocks and to ensure that the supply system was well aware of their expected additional fuel needs.

Oil Company Incentives for Supply Reliability

Each AIP member company has the incentive to keep all geographical areas adequately stocked as a 'stock-out' will force customers to source product from a competitor, leading to a loss of revenue and profits. 'Stock-outs' also have the potential to adversely affect customer confidence in the supply reliability of the company concerned. Companies, therefore, have a strong incentive to avoid supply disruptions and the perception of supply vulnerability.

- In remote areas with limited supply options, oil companies and their distributors encourage the active management of stocks with the customers.

A supply problem will usually begin with a single company, and then potentially spread to other companies as customers seek to meet their demand elsewhere. Understanding

this transmission mechanism is important to understanding the implications of the disruption for other suppliers and its likelihood to spread to other areas.

The Liquid Fuel Supply Chain

AIP member companies seek to ensure continuous supply to all areas, which involves simultaneously managing all aspects of the supply chain from crude and/or product shipments, refinery throughput, and terminal and distribution capabilities. Different points in the supply chain will be subject to different constraints, such as pipeline capacity or the availability of transport.

Normally AIP members would expect to meet all requests for fuel purchases at the terminals. However, circumstances may arise where demand exceeds supply when, either actual demand exceeds forecast demand or there is a supply disruption. When a potential supply problem is emerging AIP members will attempt to meet demand using all available supply alternatives.

If it transpires that the ability of AIP members to ensure continuous supplies is at risk, the chief mechanism for managing supply is allocations at the terminal. When allocations are imposed, customers receive a proportion of their usual demand profile which is usually determined by their term contracts. When supply is subject to allocations, spot sales are not conducted and may result in an uncontracted purchaser being declined supply by a particular company at a particular time and location. Supplies may be available from other suppliers in the area. Spot sales account for approximately 5% of sales in the normal course of business.

Many customers remain uncontracted as a competitive strategy as it allows them to purchase fuels at lower prices by timing their purchases. Customers who benefit from remaining uncontracted also implicitly indicate that they accept the consequences of potential non-supply when supplies are tight.

Allocations are used where the actual demand exceeds supply and oil company stock levels are expected to be drawn down at an unacceptable rate. Allocations falling much below 100% of contracted volumes are a potential indication of a supply problem and the impact on customers would depend on the expected duration of the event and customers' stock levels.

The use of allocations can be characterised as a precautionary measure which largely ensures an equitable distribution of available supplies over the duration of the event. In more severe supply events, allocations also ensure that sufficient stocks are maintained for the use of emergency services and other essential users.

Supply Disruptions and How Industry Responds

There are a variety of potential supply problems which may or may not prove to be an issue for certain types of customers.

Normal 'technical' supply problems (eg shipping delays, refinery problems, road rail transport disruptions, pipeline leaks, compressor break downs) are capable of being managed by the market and are not expected to require intervention through the LFE legislation. (A list of potential events in the supply chain which may lead to problems in supply is outlined in the box below.)

Significant supply disruptions (eg catastrophic equipment or pipeline failure/fire, shipping accidents, natural disasters, and strikes) would trigger normal commercial safety management response mechanisms. But the market would be the normal mechanism

for handling the supply response. The LFE legislation should only be considered for activation in an extreme situation where rationing will be over an extended period and be beyond the capability of the industry to manage on its own.

In the event of a terrorist attack on an offshore or onshore facility, established risk assessment, risk mitigation and crisis management mechanisms are in place outside the coverage of the LFE legislation. Management of supply consequences would be handled through market based mechanisms. The LFE legislation should only be considered for activation in an extreme situation where rationing will be over an extended period and be beyond the capability of the industry to manage.

Typical events with the potential to impact on supply reliability

- Refinery production disruptions
 - Off-spec production
 - Inability of units to operate at optimum/maximum output
 - Technical failure of production unit resulting in shut-down of unit
 - Unit shut-down for planned maintenance
 - Unit shutdown for unplanned maintenance
- Delay in supply of product from another location
 - Delay in arrival of import shipment
 - Delay in arrival of inter/intra state shipment
 - Lack of availability of road tankers
 - Malfunction of unloading transfer facilities
 - Malfunction in pipeline transfer facilities
 - Physical limitation of pipeline transfer system
 - Third party supplier unable to meet orders
- Actual demand exceeding identified supply requirements
 - Changed timing of supply requests
 - Unplanned events increasing demand
 - Deficiencies in supply planning processes
 - Inability to fully capture demand requirements
 - System failure
- Stocks insufficient to meet short-term supply/demand shortfall
 - Refiners stocks depleted from previous event
 - Refiners stocks insufficient to meet shortfall
 - Consumers stocks depleted through recent activity
 - Consumers stocks insufficient to meet shortfall

Response options available to refiners to meet a supply/demand shortfall

- Draw down refiners stocks
- Source stocks from other refiners in Australia (availability depends on location and time to relocate stocks)
- Source stocks from overseas
- Repair production unit or handling facility
- Truncate maintenance program
- Utilise other transport means to move product
- Increase production throughput of facility
- Constrain supply to consumers in order to encourage draw-down of consumer s tocks

Each supply problem involves a series of events which develops in its own way. The actions taken by oil refiners and marketers to address the situation will also unfold in a dynamic manner with different impacts at different points in the supply chain. A corollary of these observations is that because of the unpredictable and localised nature of these problems then national strategic reserves of petroleum product stocks may only be useful in very specific circumstances, that is, strategic reserves are a blunt and very expensive instrument.

In the first instance, AIP member companies establish whether steps can be taken to ensure a seamless supply from other sources and then determine whether there is really a significant issue for consumers. In classifying supply problems there are two related criteria:

- The magnitude of the undersupply (represented by the level of the allocation); and
- The length of the disruption (dependant on the circumstance of the disruption, the opportunities for overcoming the supply disruption and the magnitude of the draw down of stocks in the supply chain).

Based on the potential for impact on customers' operations there are three broad categories of supply disruption events.

The Constrained Case: The vast majority of perceived supply problems which are localised and are addressed by the companies quickly with minimal impact on consumers.

The Moderate Case: A disruption to supply which leads to a significant impact on consumers (eg a major failure of a local refinery or serious delays of imported product). This type of disruption would be characterised by a dramatic shortfall in supplies in one region which may over time, depending on the response strategies, lead to shortages in other parts of Australia.

The Extended Case: A large scale national supply disruption that is beyond the capabilities of the oil industry to handle on its own using market mechanisms. This would involve circumstances where major retail rationing and selective allocation of supplies was required.

Improving the Effectiveness of Market Based Mechanisms

AIP member companies believe that consumers are able to make decisions about their need for liquid fuels and the way they use those fuels based on information about price and availability. Consumers are also able to make decisions about how they will manage the risks of a supply disruption so that their economic and social interests are handled in the way that best suits their interests. Some consumers may invest in extra stockholdings while others may change the way they do things to avoid possible disruptions.

Based on knowledge of consumers needs for various petroleum products in locations across Australia, the petroleum industry is able to develop and operate an optimally efficient refining and supply chain.

The effectiveness of this market based approach will of course improve through removal of barriers and constraints to its operation. From the petroleum industry perspective, these currently include

- The level of dialogue between consumers and suppliers about unusual levels of demand for particular products
- Perceptions that consumers need only hold very limited stocks on the basis that stocks will be held by suppliers, or governments will intervene to protect consumers' interests if supplies are not forthcoming
- Perceptions that all consumers are essential users and will get preferential supplies during a supply disruption
- The existence of price control legislation in some jurisdictions, which will constrain the functioning of the price mechanism in rationing available supplies during an emergency, and which discourage consumers from considering the potential impacts on business and lifestyle of high fuel prices during a supply disruption.

These issues are discussed in the following sections of this submission.

It is the AIP's view that there is a role for government in an extended event which necessitates retail rationing for non-essential users and the selective allocation of supplies to other users, including essential users. In all other cases direct government intervention will exacerbate the supply disruption (eg through actions which encourage panic buying or limit the effectiveness of price adjustments as a demand management tool).

HIGH PRIORITY USERS

The LFE legislation makes specific provision for the identification of essential users of liquid fuels whose access to fuel supplies is given priority under any response mechanism to manage a supply disruption. Recent industry consultations with user groups has highlighted a perception that almost all users believe they are in the category of essential users, whereas discussions with state and territory officials point to a much reduced, but still not clearly defined group of essential users. Fuel requirements for essential and priority economic and community activities need to be identified in addition to requirements for emergency services.

It is AIP's strong view that a priority task for all jurisdictions is to define explicitly which groups and individuals are regarded as essential users in the event of a supply disruption in each jurisdiction and for those decisions to be communicated to all sectors of the community.

This will then enable a coherent national approach to be developed on the issue of essential users, so that trans-border conflicts can be resolved, and general eligibility issues discussed and agreed. Resolution of these issues before an emergency arises will ensure that all parties have had time to consider and adopt alternative response strategies and time to make the necessary investments. Resolution of these issues will also ensure that allocation/rationing mechanisms can be implemented smoothly without potential law and order problems.

Once essential users have been identified, it will then be possible to model the supply requirements in each region and more effectively identify any other measures which might be necessary to manage supplies during disruptions. Of particular concern to refiners will be changes needed to product slates, regional demand requirements, and circumstances where flexibility can be introduced into the supply chain.

Compensation Issues in the Event of a Direction under the LFE Legislation

Where an oil company is directed to undertake actions under the LFE legislation there must be a clear policy for compensation to be paid (by governments or users) to the company if market prices and pricing mechanisms do not apply. There will be additional costs for compliance and security in implementing the rationing system and in some instances there may be direction by jurisdictions to produce certain quantities of fuels or to supply particular areas. It is essential that this issue is explicitly covered in the intergovernmental agreement.

STOCKPILES

From time to time views are expressed by some parties that Australia's security of liquid fuels supply will be improved through an increase in the level of stocks in the supply chain. This issue is raised in the Discussion Paper.

It is AIP's view that consideration of this option requires very careful examination of the costs of stockpiling against the risk-weighted benefits of such action.

The current levels of commercial stockholdings reflect a considered assessment of the operating conditions throughout the supply chain and the risks more likely to be encountered by refiners and others in operating the supply chain. An increase in stock levels will place additional costs on the supply system that would ultimately be passed on to the consumer unless government underwrote the significant costs.

For the purpose of this review, AIP believes it is useful to consider what some of the objectives of stockpiling might be and the extent to which those objectives might be realised through stockpiling action.

Crude Oil Stocks

Some countries, notably the USA, have chosen to maintain substantial stockpiles of crude oil. This approach has not been pursued in Australia because of the substantial volumes of crude oil produced at numerous sites around the country. The risk of disruption to all of these production facilities at the same time remains very low.

While it may be argued that the current projections of rapidly declining levels of crude oil production in Australia justify the introduction of crude stockpiles, the objective of such action is not clear

- Strategic stocks would presumably only be used to supply fuels to essential users (a group of consumers possibly requiring somewhat less than 30% of current petroleum product demand); Australian crude oil production could meet these needs well into the future according to latest government forecasts.
- A stockpile of heavier, imported crudes might address deficiencies in the product slate if Australian refineries only had access to Australian crude oils, but it is far from clear that this would be a lower cost option than stockpiles of these products.
- Unless these stockpiles were very substantial, the additional supplies available for essential users would be limited (eg crude oil requirements for essential users for 1 month would be in excess of 2 months production from Bass St facilities alone). This increment to emergency supplies would not match the duration of the supply disruption envisaged under the extreme scenarios in the Discussion Paper that would impact on imported crude oil supplies.

Assuming suitable natural storage facilities can be found, the costs of acquiring, holding and managing the stockpile would be substantial. Storage of such volumes of crude oil in tank farms would involve even greater costs.

Petroleum Product Stocks

The case for increasing stocks of petroleum products is also far from straightforward. In the extreme circumstance that neither imported or domestic crude oil is available, product stocks would need to be very substantial to provide supplies to essential users for an extended period. There are also issues around turnover of stock, seasonal

changes to product specifications, and potential quality degradation over extended storage periods.

If only Australian crude oil supplies were available, the role of 'strategic' stocks will be much diminished and will depend on the product slate and volumes that can be derived from Australian crudes.

Consumer Actions

An equally relevant consideration is how the existence of 'strategic' stockpiles is likely to impact on the operation of the market and on decisions of various market players.

The existence of stockpiles, particularly those under government control, regularly leads to calls for use of the stocks to alleviate short-term disruptions in supply reliability, and to attempt to suppress price spikes in the market. Whether 'stock-controllers' respond to these calls or not, suppliers and consumers in the market take this potential into account in setting their own stock holdings. It is AIP's view that consumers are best placed to assess their needs for liquid fuels and the best ways to manage the risks to their own activities that might arise in the event of a supply disruption. Experience in other countries indicates that the distinctions between options for management of short term and more extreme risks are increasingly blurred by any national stocks measures that sit outside the day-to-day operations of the market.

TRIGGERS FOR A MAJOR SUPPLY CRISIS

AIP is of the view that it is not feasible to define a generic trigger for the activation of the emergency response mechanisms in the LFE legislation. The market based response mechanism which will apply to the vast majority of supply disruptions does not require the LFE provisions to be triggered. The extreme scenarios discussed in the ACIL Tasman paper in most cases do not envisage the legislation being triggered. Even a dramatic, global constraint on crude oil supplies may not warrant action to trigger the LFE legislation, if the right signals are in place to encourage consumers to actively manage the risks of a supply disruption.

It would therefore appear that the most effective way of managing the issue of triggers, and one which would ensure that consumers receive the appropriate signals about circumstances they will have to manage themselves in the market place, would be for governments in consultation with industry to clearly indicate how they expect supply disruptions to be managed by the market, and for there to be explicit intergovernmental agreements that a wide variety of types of supply disruptions will specifically not be grounds to trigger the response mechanisms in the legislation.

Once these circumstances are agreed, and the needs of essential users identified, it may be possible to identify and agree on specific situations which would be logical trigger points for retail rationing.

This information, coupled with detailed and specific knowledge about eligibility for essential user access to fuels in a supply disruption, will optimise the ability of the market to operate effectively in responding to a supply disruption.

CONSUMER RESPONSES

AIP supports the views outlined in the ACIL Tasman paper that consumers, particularly bulk users and those that consider themselves to be essential users, should bear a responsibility for

- Identifying adequate levels of fuel demand in a timely manner which enables the supply chain to respond accordingly
- Assessing the costs to their businesses and activities of supply disruptions of varying extent and degree
- Assessing the risks of those circumstances arising, and
- Taking action to insure against some or all of those costs impacting on their activities.

Actions by governments to remove constraints to the effective operation of the fuels market outlined in earlier sections of this submission will be necessary if these outcomes are to be realised. The repeal of price control legislation will be essential to drive this process in all jurisdictions.

In addition to increasing stockholdings at the enterprise level, some users may find it attractive to negotiate some form of 'interruptible' contract with fuel suppliers. However, as the Discussion Paper acknowledges, these are not usual in the liquid fuels market and may take some time to emerge.

DIVERTING AUSTRALIAN CRUDE OIL INTO AUSTRALIAN REFINERIES

One option which is often raised as a response to a significant disruption is to divert Australian crude oil production into Australian refineries. This could arise under one of the extreme scenarios identified in the Discussion Paper.

A key aspect of the option of diverting Australian crude oil production from export destinations into Australian refineries is the issue of compensation to the producers for breach of supply contracts. This issue is addressed in detail in the submission to the review from the Australian Petroleum Production & Exploration Association APPEA.

Australian crude oils currently attract premiums in the international oil market because of their higher proportions of light fractions and their lower sulfur content. Because of this, and the geographic realities of where these crudes are currently produced, a significant proportion of Australian crude production is exported. If all Australian production were to be directed to Australian refineries, there would be a significant impact on the product slate from each refinery. Currently Australian refineries use an average of 35% Australian crude, but this figure can range up to 50-60% for some refineries.

Each of the Australian refineries has a different configuration, and this will change over the next 2-3 years as major investment programs are implemented to enable the production of cleaner fuels with lower sulfur, benzene and aromatics content. At the same time refineries are making investments in improving plant efficiency and throughput. Against this background, it is not possible to provide a meaningful assessment of the impact of a diversion of all Australian crude into Australian refineries, in the time available for this review.

At a macro level, it is clear that production of lubricants and fuel oil would be severely constrained. While supplies of other products (LPG, jet fuel, petrol and diesel) would be available for essential users, the extent to which other consumers' needs could be met would be dependent on a number of factors

- Australian crude production is currently equivalent to about 86% of liquid fuel demand, so some reduction in output of products might be expected, but this may be offset by the higher proportion of light fractions in the Australian crude
- Some units of the refineries are constrained in terms of throughput, so normal product slates may not be achievable if other components (eg cat crackers and reformers) do not have the necessary feedstock
- Refinery changes needed to produce the cleaner fuels have increased the processing complexity, and may impact on throughput/output in some refineries
- Refinery optimisation models are dependent on both input and output parameters, as a consequence operating conditions are dynamic in order to respond to changing market conditions at the least cost.

However, before such a detailed assessment of Australian refinery capabilities could be undertaken, it would be essential to define what scenarios might lead to such a situation, the likelihood of such scenarios occurring, and most importantly the national and global economic and political circumstances that would accompany such a scenario. These considerations will define the likely duration and extent of the supply emergency, the essential user groups and their liquid fuel requirements, the liquid fuel requirements of other consumers across the country, and any 'new' fuel requirements. This knowledge will be needed to ensure that key demand assumptions can be tested and that basic 'market' principles can be applied to refinery operating scenarios to achieve least cost outcomes.

LEGISLATION

AIP believes it is essential that there be a consistent, national approach to liquid fuels emergencies across Australia. The liquid fuels supply chain operates on a national basis and it makes no sense for governments to seek to apply different objectives and seek to achieve different outcomes during an emergency. The costs and complexities of handling a supply emergency will only be increased if there are competing and conflicting government objectives imposed on the fuel supply industry.

Consequently AIP strongly supports the adoption of the intergovernmental agreement and the adoption of mirror legislation on all aspects of the liquid fuels emergency supply response in all jurisdictions.

Price Controls

Of particular concern to AIP member companies is the continuing belief by some governments that it is still necessary to retain legislation to impose price controls in a supply emergency. The very existence of these provisions encourages consumers to avoid taking actions and decisions which would minimise the risks to their own activities from spikes in product prices.

The existence of price controls legislation also influences the range of options available to fuel suppliers during a significant supply disruption, if there is no ability to recover such costs (eg increased crude oil costs).

During a declared emergency, the existence of price controls in one jurisdiction and not in another could create arbitrage opportunities and in the extreme could move product out of a price-controlled region into a neighbouring region (or indeed distant region if the arbitrage was sufficient). Meanwhile, in border areas of the price-controlled region could

experience elevated demand due to cross border purchases by business or private consumers.

As the ACIL Tasman discussion papers notes, governments in Australia and in other countries have recognised the deficiencies of price control mechanisms, and have also set out to clarify the basis on which governments would act to protect the interests of disadvantaged segments of the community and essential users with currently limited financial resources. AIP would encourage those governments with price control legislation still in place to introduce measures which are more market based in approach, and which send more relevant risk management signals to all consumers, but particularly essential users.

AIP believes that the issue of pricing and price controls must be dealt with in the IGA so that Commonwealth and State Ministers can collectively and supportively make public statements. It is AIP member companies' view that once a supply disruption has been declared under the LFE legislation, normal fuel pricing policies would apply, with wholesale and retail prices continuing to reflect import parity prices for those fuels in the Asian region and local costs associated with getting fuels to consumers. In such a circumstance, physical rationing of the limited fuel supplies (eg through odds/evens type mechanisms) would be applied under the LFE arrangements. The ACCC would be expected to be monitoring prices during a supply crisis to ensure that there are not excessive price increases or price gouging. This should give Ministers comfort in making such statements.

Trade Practices Considerations

AIP notes that the LFE legislation provides for exemption from the provisions of the Trade Practices legislation once a liquid fuel emergency has been declared. This provision is essential if the oil industry is to participate effectively in national and regional co-ordination bodies with governments to manage the production and distribution of liquid fuels to essential users and others during an emergency.

However, AIP believes consideration must be given to how industry and government can more effectively co-operate on essential preparations prior to an emergency being declared. The scenarios being considered as possible bases for an emergency declaration appear to involve considerable forewarning of an extreme emergency. This period of days and possibly weeks will be a time when preparatory action will be considered and possibly set in train.

Industry believes there is a case for development of guidelines and appropriate legislated powers for handling matters during this period that might otherwise raise trade practices concerns. The key concern is to remove uncertainty about what can be discussed so that pro-active rather than cautious preparatory work can be undertaken. This could include co-ordinated release of stocks around the country, co-ordinated refinery outputs to minimise the need for movement of products between regions, co-ordinated approaches to supplying essential users whether as bulk supplies or through designated service stations.