



**CONSULTATION ON
DRAFT ENERGY WHITE PAPER 2011:
*Strengthening the Foundations for
Australia's Energy Future***

Submission to:

The Department of Resources, Energy and Tourism

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KEY MESSAGES

- There is a challenging market environment currently for the downstream petroleum industry – globally, regionally and domestically – and this environment is expected to endure for some years.
- This is particularly so for Australian refineries, given ongoing excess supply in the Asian region and the strong Australian dollar impacting on domestic refining margins, and Australian refineries facing continued competitive pressure from Asian refineries which enjoy significant cost and scale advantages.
- In this market environment, the industry requires a supportive policy framework and stable investment environment to enable it to continue to make significant infrastructure investments, as well as seek further efficiencies in refining and supply, to ensure ongoing supply security and reliability.
- As a result of industry investments and efforts to date, and Australia’s efficient access to the global market for liquid fuels, the industry expects to continue to deliver secure, reliable and competitively priced fuels to the domestic market longer term, as confirmed in the Government’s ‘National Energy Security Assessment’ (NESA), ‘Liquid Fuel Vulnerability Assessment’ (LFVA) and ‘Draft Energy White Paper’ (DEWP).
- These Government reports confirm that Australia has a high level of supply security for liquid fuels and has been very well served by proven, mature and diverse supply chains and supply sources, as well as an efficient domestic refining sector. Importantly, these reports forecast this performance to continue in future, even if a higher level of imports is needed to meet the expected growth in fuel demand.
 - These reports also underscore the need for energy policy frameworks to recognise that an ongoing refining industry presence is needed in Australia to provide an appropriate mix of domestically produced and imported fuel products to underpin supply security longer term. As a technologically advanced industry, the domestic refining sector is also a significant contributor to the economy providing many direct and indirect economic benefits (including the transfer of technical skills, expertise and technology to other sectors) and the sector underpins the competitiveness of key Australian export industries.
- However, apart from difficult market conditions, there are other challenges impacting on the industry.
 - The increasing cost of doing business in Australia (labour and capital costs), and the cumulative cost impact of a wide range of complex and overlapping government regulation is impacting on the domestic refining industry’s ability to compete in the region and remain viable longer term.
 - The future industry investment task is significant to ensure ongoing supply security and this can be best supported by a favourable investment environment, as well as soundly-based, harmonised and streamlined regulation across all levels of government. For example, any further changes to fuel quality standards must be based on sound science and provide a net economic benefit to the community as well as a return to the refiner to justify the significant investment required to produce these fuels locally.
 - A major obstacle to liquid fuel supply reliability is the absence of a level playing field for competing transport fuels (eg. no commercial access to imported ethanol, which is also hampering the development of an efficient and competitive domestic biofuels market).
 - Any future requirement for industry to fund and hold additional stockholdings to meet Australia’s international compliance obligations could impose further (unjustified) cost on industry and lead to higher fuel prices for consumers and major fuel using industries.
- To better monitor these challenges and their impacts, AIP supports ongoing and regular NESA and LFVA assessments (as the DEWP recommends), but these must adopt and consistently apply a common assessment approach and methodology across all energy sectors, transport fuels and technologies.
- While a market based policy framework will help respond to these ongoing industry challenges, governments have an important role in ensuring that regulatory decisions and imposts do not undermine the competitiveness of liquid fuel refining and supply. For example, if domestic refineries are to remain competitive, the costs of carbon permits and other climate change response measures must continue to be recognised and offset when the manufacturing of fuel imported from other countries is not subject to similar imposts.
- Governments also have an important role in addressing market (not commercial) barriers to effective market operation and in ensuring that ongoing liquid fuels supply security is a priority consideration not just across all levels of government, but also across government agencies. All new policy and regulatory decisions by all levels of government should explicitly take account of the energy security implications of the proposed action or policy.
- Fundamentally, policy stability, a level playing field for competing transport fuels, and efficient and well targeted government regulation will help support the industry’s future investment task as well as the development of robust, efficient and commercial markets for all transport fuels.
- **AIP supports the clear commitment to a strong market based framework in the DEWP and its core principle that a market-based approach provides a flexible and robust framework that is capable of adjustment in response to rapidly changing market or technology circumstances. In this Submission, AIP provides information, assessments and recommendations to help strengthen this framework.**

INTRODUCTION

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 wider community in understanding the key market, industry and other factors influencing the downstream petroleum sector in Australia. AIP is represented on key statutory advisory bodies including the National Oil Supplies Emergency Committee (NOSEC), the Fuel Standards Consultative Committee (FSCC) and the Oil Stewardship Advisory Council (OSAC). AIP sponsors or manages important industry health and environmental programs. The Australian Marine Oil Spill Centre (AMOSC) is a wholly owned subsidiary of AIP.

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

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About AIP Member Companies

AIP is pleased to present this Submission on the Draft Energy White Paper (DEWP) to the Department of Resources, Energy & Tourism on behalf of AIP's core member companies:

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

AIP member companies operate across the liquid fuels supply chain including crude and product imports, refinery operations, fuel storage, terminal and distribution networks, and retail outlets.

- Underpinning this supply chain is considerable industry investment in supply infrastructure, and a requirement for significant ongoing investment in maintaining existing capacity. AIP member companies have total assets valued at over \$16 billion dollars, and typically invest around \$1 billion each year 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 with bulk petroleum fuels.
- 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 blended fuels and blended biodiesel to the Australian market.

The Australian petroleum industry is a significant contributor to the Australian economy providing direct and indirect economic benefits from its own activities and underpinning the competitiveness of key Australian export industries.

- Independent economic modelling has found the downstream petroleum industry directly contributes 0.5 per cent of GDP or \$6.2 billion per annum and each refinery is a significant economic contributor to their local region directly and indirectly providing significant employment and investment.
- A significant proportion of petroleum products by value are used in the agriculture, forestry and fishing, manufacturing, mining and transport industries and make up a significant portion of the intermediate input costs of these key industries.
- As a technologically advanced industry, refineries employ and train many highly skilled, technical staff and international expertise flows readily into the Australian workforce. There are also many 'spill-over' effects into other industries through the transfer of technical skills and expertise to other businesses.

AIP member companies are also very significant tax collectors for the Government.

- Payments to the Australian Government in 2010 (from fuel excise, GST on fuels and income tax) by AIP member companies were over \$19 billion. Fuel excise (over \$14 billion) provided around 5 per cent of taxation revenue to the Australian Government in 2010.

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 energy policy development and any proposed changes to policy or market settings for the Downstream Petroleum industry.

About AIP's Submission

The release of the DEWP in December 2011 follows a period of extensive consultation and detailed analysis and policy review over much of 2010 and 2011 which has helped shape and guide the DEWP. AIP has supported and actively participated in this process, and this Submission is set against this background and the information and advice already provided by AIP and member companies in this consultation process.

AIP's Submission comments on the Government's overarching objective, framework and priorities outlined in the DEWP (see 'Overview' comments), and it focuses on the assessment and recommendations contained in those chapters of particular relevance to the Downstream Petroleum Market and Industry. AIP's Submission follows the structure of the DEWP and focuses on five chapters in turn:

Chapter 2: Energy in Australia

Chapter 3: Future Energy Trends, Priorities and Challenges

Chapter 4: Australia's Energy Security

Chapter 6A: Liquid Fuels

Chapter 9: International Engagement and Energy Analysis

Supporting this Submission is AIP's recently released biennial publication '*Downstream Petroleum 2011*' (DP2011) on the state of the Australian downstream petroleum industry and its financial performance. DP2011 provides an overview of the significant changes that have recently occurred in petroleum refining and marketing in Australia and the Asia-Pacific region, the challenges and competitive pressures facing the domestic industry, and the importance of the industry to Australia's economic prosperity and energy security. DP2011 is available from http://www.aip.com.au/pdf/Downstream_Petroleum_2011_Report.pdf. There is also a range of additional industry and energy policy information relevant to DEWP considerations available on AIP's website at www.aip.com.au.

AIP member companies may also make submissions to this consultation process, addressing specific matters raised in the DEWP dealing with commercial and other issues related to those companies.

OVERVIEW

The Draft EWP Objectives, Framework, Challenges & Priorities

AIP supports the strong market-based policy framework underpinning the DEWP, including the **core objective** of building a secure, resilient and efficient energy system which delivers accessible, reliable and competitively priced energy for all Australians in a clean and sustainable manner so as to enhance Australia's growth potential. AIP also supports the thrust of the DEWP's overarching **core principles** which guide and support this policy framework:

- *"Australians have the right to clean, secure, reliable and competitively priced energy.*
- *Energy is most efficiently delivered through well-functioning markets supported by effective and efficient policy and regulation.*
- *Energy policy and actions should promote economic efficiency and enhance national wellbeing.*
- *Energy frameworks and markets should provide appropriate consumer protection and provide a commercially attractive, stable and predictable investment environment.*
- *Government energy policy interventions should be transparent, cost-effective, justifiable against objectives and targeted to address identified market gaps or failures.*
- *Energy policy development and application should have regard to the full range of economic, social and environmental considerations.*
- *The Australian Government will work cooperatively with other Australian jurisdictions to develop and implement national energy policy and engage internationally with relevant governments and organisations to promote Australia's energy interests.*
- *Australia will meet its international commitments."*

Consistent with these principles and the market based policy framework, AIP acknowledges and endorses the following DEWP highest level conclusions and policy directions:

- *"Energy is fundamental to our modern economy and society, and access to secure, reliable and competitively priced energy has been a cornerstone of Australia's economic and social development."*
- *"Ensuring that our energy markets deliver efficiency to minimise costs for consumers while also providing a commercially attractive environment for investment remains the core challenge"*
- *"The outlook for Australia's energy security to 2030 is considered to be generally robust and positive. However, there are possible risks and the energy sector faces an unprecedented set of challenges."*
- *"Governments cannot artificially hold energy costs below costs of supply. If we are to maintain investment and promote the efficient use of energy, then prices must reflect the cost of supply in a competitive market."*
- *"Interventions to manipulate or suppress efficient pricing outcomes will have detrimental investment and supply consequences that are not in the long-term interests of consumers."*
- *"Demand for petroleum fuels will continue to be strong, although this will be increasingly met by a growing level of imported product through well-established and proven supply chains.*
- *"Australian refineries will face continued pressure from international competitors and there may be further reductions in Australia's domestic refining capacity."*
- *"All levels of government must seize the opportunity to set a clearer path for better-functioning energy markets by addressing a set of critical reform issues."*
- *"Ensuring that our markets and settings are resilient and robust to both foreseeable and unforeseeable events is an important role for government, and establishing a predictable timeline for delivering future reviews of national energy policy strategy and national energy security is important in this respect."*
- *"Our principal energy markets (liquid fuels, electricity and gas) are different, and the role of government in shaping future developments in each market varies."*
- *"A market-based approach provides a flexible and robust framework that is capable of adjustment in response to rapidly changing market or technology circumstances."*
- *"The Australian Government continues to support the fundamental role of the market in delivering our energy future."*

Fundamentally, AIP considers that Australia's longer-term liquid fuel supply security and transport energy needs will best be met through the market and market measures including:

- open crude oil and fuel product markets
- competitive, market determined prices
- clear investment and market signals
- flexible and resilient supply chains and efficient supply management
- diversity of crude oil and liquid fuel sources
- competitive and viable domestic refineries
- policy and competitive neutrality between transport fuels
- improved vehicle technologies
- reliable, clean and high quality fuels acceptable to consumers.

AIP's assessment is that these conditions largely exist now for the liquid fuels market, with the exception of biofuels, and therefore the future imperative for governments is to maintain or further strengthen these market features. Australia's market based approach has delivered secure, reliable and affordable fuel supplies which meet the operational requirements of consumers and major fuel users and this position is not expected to change in the coming years. In this regard, AIP shares the DEWP view that *"Australia's access to well-established and diverse international supply chains suggests that (future) risks are more likely to affect energy prices rather than compromise in a sustained way Australia's physical energy supply."*

This AIP assessment is consistent with the Government's recent and comprehensive assessments of liquid fuel supply security released in late 2011, including the National Energy Security Assessment (NESA) and the ACIL Tasman Liquid Fuel Vulnerability Assessment (LFVA). **AIP considers that these recent assessments (see Box 3 & 4 below) provide a current, comprehensive and robust analytical basis for the DEWP, and AIP supports these regular Government liquid fuels security reviews in consultation with industry on an established timeline.**

However, the downstream petroleum industry, and the refining sector in particular, faces some **significant challenges** currently and in the future, as clearly acknowledged by the DEWP and the recent NESA and LFVA reviews. The major industry challenges focus on the following two market drivers.

- The costs of doing business in Australia as well as the costs of meeting tighter regulatory requirements are increasing. Labour and capital costs for refinery construction, operation and maintenance are also increasing faster than in competitor countries. This means Australian refineries face increasing competitive pressure from mega-refineries in Asia which have large and increasing cost advantages.
- In recent years the surplus refining capacity in the Asian region has forced refiner margins to very low levels which are exacerbated by high Australian dollar exchange rates. While all refineries will face low margins for some years to come, many Asian refineries are supported by national governments that are pursuing refining self-sufficiency objectives rather than commercial imperatives.

These challenges emphasise that governments in Australia have an important role in ensuring that regulatory decisions and imposts do not undermine the competitiveness of liquid fuel production and supply. For example:

- the costs of carbon permits and other climate change responses in Australia must be recognised and offset when the manufacturing of fuel imported from other nations is not subject to similar imposts
- any changes to fuel quality standards must be based on sound science and provide a net economic benefit to the community to justify the significant investment required to produce these fuels
- the current complex and overlapping array of environmental and other regulatory measures must be carefully reviewed and streamlined to ensure that current and future measures are soundly based, cost effective and harmonised
- there must be consistency in the excise treatment of competing liquid fuels, for example taking account of energy content.

Notwithstanding these challenges, Australia's well functioning liquid fuels market is still forecast to continue to deliver secure and reliable fuels supplies to the Australian market at competitive market prices. As a result, AIP agrees with the broad thrust of the DEWP that the downstream petroleum sector is not a priority area for major market intervention or action by the Government to address market failures or inefficiencies. That is, AIP shares the DEWP view that *"Australia's liquid fuel markets are different to other energy markets in that they are part of a globally integrated supply chain with mature and well-functioning structures. In this sense, there is less of a role for government in the further development of these markets."*

However, to support the industry in meeting future challenges and competitive pressure from Asia there are still key areas of Government activity and reform that could strengthen the operation of the fuels market and better support and facilitate the significant infrastructure investment required in the future to meet Australia's growing liquid fuel needs.

Specifically, AIP supports the broad 'collective government actions' identified in the DEWP to:

- actively monitor energy policy settings on a predictable timetable and refine them as necessary to ensure that our frameworks are delivering necessary efficient investment and meeting the demands and requirements of the community
- ensure that our energy resources are developed in accordance with best practice, including safe and effective environmental conditions and local community engagement
- actively work with industry and the skills and education sectors to develop the necessary skilled workforce and infrastructure to meet Australia's future energy needs and export opportunities
- continue to actively work with industry and the research community given the critical role technology will have in the transformation of our energy sector
- promote the deepening of knowledge and understanding of our energy resource base, energy resource sector developments and technology developments to improve policy-making and leverage private sector activity.

In addition to these actions, AIP also supports future government reforms focusing on ensuring that planning, approval and regulatory processes are efficient, timely and nationally consistent, to support longer term investment in supply chain infrastructure. AIP notes for all levels of government that the key policy influences on the competitiveness and efficiency of the Australian refining and downstream petroleum industry are:

- fuel quality regulation
- liquid fuel supply reliability and security
- alternative fuels policies
- fuel and corporate taxation
- labour productivity and skilled labour availability and training
- climate change policy
- environmental and OHS regulation and competition regulation.

In these areas, AIP and member companies advocate policies that apply equally to all industry participants and are based on comprehensive economic analysis and sound science where applicable.

AIP also supports many of the specific DEWP actions to strengthen the resilience of the energy policy framework applying to liquid fuels. These include:

- the biennial publication from 2014 of the Australian Energy Resource Assessment and the Australian Energy Technology Assessment
- undertaking biennial NESAs from 2014 with a revised analytical and quantitative methodology to provide for a more systematic and integrated understanding of key relationships between the energy sector and other areas of the economy
- as part of the NESA process, undertaking a National Energy Risk Preparedness Audit across the energy sector to test the appropriateness and effectiveness of response mechanisms to manage critical risks
- as part of the NESA process, assessing Australia's liquid fuel vulnerabilities covering the liquid fuel supply chain including import and refining infrastructure

- leading work, in consultation with industry, to improve the quality of the Australian Petroleum Statistics; and undertaking a road-mapping exercise to improve the scope and alignment of Australian energy data collection.

AIP's support for these future security, vulnerability and technology assessments, as well as improvements to assessment metrics and energy data, is conditional on a common approach and methodology being applied across all energy sectors, all relevant technologies, and all transport fuels in the fuels mix and any imposts or requirements on industry as a result of these activities applying to all market participants.

Overall, AIP agrees with the core underlying message in the DEWP that a reliable and secure transport fuels system is best achieved through a stable policy framework which allows the market to work effectively and encourages efficient ongoing investment. Consistent with this, and as the Government pursues the above priorities and any proposed changes to policy or market settings in the coming years, AIP considers that an appropriate Government decision making framework is presented in **Box 1**.

BOX 1 – A SOUND GOVERNMENT POLICY FRAMEWORK FOR THE FUELS MARKET

Any future Government actions to strengthen liquid fuels security should meet the following policy principles.

- First, Government policy should be:
 - based on sound science and rigorous economic analysis which indicate a clear net public benefit
 - consistent and transparent
 - aimed at strengthening linkages to international energy markets
 - aimed at maintaining a level playing field for transport fuels
- Second, 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
- Third, 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
 - be allowed to lapse when their objectives have been met
- Fourth, if governments implement energy security policies, the impacts on Australia's international competitiveness and, thereby, on domestic prices, should be well understood by the community

Consistent with these principles, Government policy for liquid fuels should:

- maintain a strongly market based approach to liquid fuels with minimal regulatory intervention
- recognise the competitive pressures from regional refineries and the impact on the economy of any loss of our competitive advantage created by government policies
- facilitate the development of the liquid fuels infrastructure, including streamlining approvals for new infrastructure developments such as new storage facilities, port deepening etc
- maintain a strong commitment to technical skills formation in the education system
- not place additional and unjustified compliance, regulatory and cost burdens on industry that reduce the industry's ability to compete effectively in the region
- ensure R&D policy settings are appropriate and encourage the commercial development of transport fuels which can contribute to liquid fuel security in Australia
- seek to identify and address any government policy and regulatory impediments to Australia maintaining a high level of liquid fuel security over the longer term.

These policy principles and recommendations recognise key industry drivers and market realities which are also relevant for any future Government policy including:

- the long lead times required for industry investment
- the significant capital employed by the industry
- the risks to supply security associated with any policy changes that make Australian refineries uncompetitive/unviable in future.

CHAPTER 2: ENERGY IN AUSTRALIA

Australian Energy Market Facts

This chapter of the DEWP presents an overview of energy resources, production and infrastructure in Australia across all energy sectors drawing data from official data agencies including ABARE, BREE and the ABS. AIP notes the following DEWP facts and conclusions of particular relevance to the fuels market:

- *“fossil fuels currently account for around 95 per cent of Australia’s primary energy consumption”*
- *“oil comprises 35 per cent of Australia’s primary energy supply, although its share has been declining steadily from a high of almost 50 per cent in the late 1970s”*
- *“retail petrol prices, while displaying significant variations, remain at around the same level as they were in 2007, largely due to the moderating effects of a strong Australian dollar”.*

The strong theme in Chapters 2 & 3 of the DEWP and its supporting analysis is that fossil fuels, including conventional petroleum products, are currently meeting the vast majority of Australia’s energy demand and this position is not expected to change significantly over the longer term. Importantly, while alternative fuels have a role to play in a diverse energy mix by helping to meet future demand growth for fuels, their ability to ameliorate any global supply risks or market price increases for conventional petroleum fuels in the future is limited, and this assessment is highlighted in Government assessments.

AIP’s ‘*Downstream Petroleum 2011*’ (DP2011) publication provides a more detailed overview of Australian liquid fuels supply and petroleum refining in Australia, including the Australian supply chain, supply and demand data and refinery production and capacity. It also provides details on the supply and pricing of petroleum products at the international, wholesale and retail level.

Energy Market Governance

The DEWP also notes that there is *“a range of government agencies involved with energy governance, policy development and research and analysis”* and this is the case for the liquid fuels market. There is an extensive range of Federal, State/Territory and Local government regulations and legislation applying to refineries and businesses operating in the downstream petroleum industry. Specifically, some of the key government regulations include:

- **Regulation of fuel quality** – the Federal Government’s *Fuel Quality Standards Act 2000* provides a legislative framework for setting national fuel quality and fuel quality information standards for Australia and fuel quality standards have been made for Petrol, Diesel, Biodiesel and Autogas
- **Oil Code regulation** – a mandatory code of conduct to regulate the conduct of fuel suppliers, distributors and retailers
- **Formal price monitoring** - the ACCC formally monitors fuel prices in Australia, and the prices paid, costs and profits of major fuel suppliers, under the *Competition and Consumer Act 2010*
- **Other government regulations** - there are also a array of Federal, State/Territory and local government regulations applying to the downstream petroleum industry including: a range of environmental regulations related to infrastructure, equipment and activities throughout the entire fuels supply chain; a range of Worksafe and OH&S regulations; major hazard facility and dangerous goods regulations; waste management and recycling regulations; and planning, approval and license requirements for new and expanded facilities and infrastructure.

The AIP website provides additional information of the key areas of government regulation and monitoring (see <http://www.aip.com.au/industry/pricemonitoring.htm>).

As highlighted in Chapter 8 of the DEWP (‘Cross-cutting Policy Issues’), AIP considers that governments in Australia have an important role in ensuring that such regulatory imposts do not undermine the competitiveness of liquid fuel production and supply in Australia (and thereby our liquid fuels supply security). In this regard, the current complex and overlapping array of environmental and other regulatory measures must be carefully reviewed and streamlined to ensure that current and future measures are soundly based, cost effective and harmonised.

CHAPTER 3: FUTURE ENERGY TRENDS, PRIORITIES & CHALLENGES

Australian Energy Trends & Long Term Energy Future

This DEWP chapter presents an overview across all energy sectors of the expected longer term trends and factors that will help shape the energy landscape and Australia's energy security, and draws from the latest data and modelling from official data agencies including the IEA, ABARE, BREE and the ABS.

AIP supports the overall DEWP conclusions in this Chapter for petroleum products, on the basis of recent IEA modelling, that *“global oil production from conventional and unconventional sources will continue to grow”* and *“despite the increased uptake of alternative fuels, oil will remain the primary energy source for the transport sector to 2035.”*

AIP member companies also publish detailed reports on long term energy sector trends and outlooks taking account of potential developments in the global economy, demographic trends, government policy, and technology. These reports are available to contribute to a wider understanding and debate on global energy issues. In particular, see:

BP *'Energy Outlook 2030'*, available from:

<http://www.bp.com/sectiongenericarticle800.do?categoryId=9037134&contentId=7068677>

ExxonMobil *'The Outlook for Energy: A View to 2040'*, available from:

http://www.exxonmobil.com/Corporate/energy_outlook.aspx

Shell *'Energy Scenarios to 2050'*, available from:

http://www.shell.com/home/content/aboutshell/our_strategy/shell_global_scenarios/shell_energy_scenarios_2050/

A more detailed discussion of crude oil and petroleum product market trends is also contained in AIP's *'Downstream Petroleum 2011'* publication, which provides an overview of current and future trends and challenges for crude oil and petroleum markets, both globally and also for the trading and refining region of most relevance to Australia – the Asia-Pacific market.

As noted in the DEWP, LFVA and NESAs, spare refining capacity in the Asia-Pacific region has a significant influence over many aspects of the Australian fuels market and there has been a significant expansion in crude oil distillation capacity in the Asia-Pacific region in recent years and more in prospect over the medium term. This is discussed further below.

Trends in Refined Petroleum Products: Asian Excess Supply Capacity

Following a shortfall in supply of refined products in 2005–06, the advent of new refinery capacity saw the Asian products market return to balance around 2008. International forecasters expected a continuing excess of supply, peaking around 2015. As a result of the slow recovery in product demand following the 2008 global financial crisis, the degree of excess supply is now expected to be greater in the shorter term, with the subsequent duration and extent of ongoing excess supply uncertain. This market situation over recent years, and outlook for regional refiners, has led to some recent rationalisation of the refining industry in the major producing countries in the region as well as delays in addition of new capacity in the region, as identified in the NESAs. This rationalisation includes the announcements on the conversion of the Shell Clyde Refinery to a major import terminal.

Reflecting this market environment and outlook, the NESAs and LFVA clearly highlights the *“significant surplus regional refining capacity expected over the medium term”*, based on the best available market forecasts at the time. Apart from impacting on capacity investment decisions in the region, there are two additional impacts of excess regional supply, as highlighted by the NESAs, namely:

- *“this excess refining capacity helps provide a buffer against unexpected demand or supply shocks”*
- *“surplus capacity does, however, place competitive pressures on refineries globally, and there will remain a risk of further rationalisation in the Australian refining industry as Australia's relatively small refineries continue to struggle to compete against mega-refineries in Asia.”*

Key factors influencing the regional excess supply outlook continue to be economic growth (particularly in China and India), decisions made about construction of planned new refining capacity, and ongoing rationalisation of existing, less efficient, refining capacity.

Economic growth is the key driver of liquid fuels demand, and growth in China and India has remained strong despite the global financial crisis. However, there is still significant uncertainty regarding the course of world economic growth. It appears at this stage that economic growth in the Asian region will continue to be relatively strong in the short term, although there will be flow-on effects to product demand from lower economic performance in other regions.

Nonetheless, the majority of additions to global refining capacity continue to be in the Asian region and informed industry commentators are still forecasting significant additions to capacity and excess supply over the medium term and beyond. The NESAs find that *“significant expansions are also expected in the Middle East, with an additional 2.3 mb/d of crude distillation capacity likely to be added by 2016, and this will help provide additional supply alternatives if required”*, as a proportion of Middle Eastern product demand is currently being met by Asian refinery production.

Strategic Challenges & Risks

AIP agrees with the DEWP that while Australia’s energy security outlook appears positive and robust, there are challenges in the coming decades for the overall energy sector, including the downstream petroleum market.

These challenges include the regional supply balance outlook for petroleum fuels noted above, as well as those identified in the DEWP; for example, the nature and timeframe of the international response to climate change, attracting the timely investment needed to meet future demand, the rising costs of energy globally, and unforeseen geopolitical or economic developments that reshape or disrupt international energy or capital markets.

However, AIP considers that the market, and a market based policy framework by Government, remains best placed to manage these challenges and future risks. This view is shared by the DEWP (ie. *“government policy should recognise that markets and businesses are generally well equipped and effective in dealing with a broad range of market and price risks”*).

- In relation to the future investment task, the DEWP, NESAs and LFVA all confirm that current market settings have resulted in significant recent investments by the downstream petroleum industry in the infrastructure needed to meet future fuels demand, and more is underway or planned.
- In relation to climate change policies, the Government’s carbon market and pricing will drive market changes to help achieve Australia’s abatement goals, as acknowledged by the DEWP. However, AIP is of the strong view that if Australian refineries are to remain competitive, the costs of carbon permits and other climate change response measures in Australia must be recognised and offset when the manufacturing of fuel imported from other countries is not subject to similar imposts. This fact is currently recognised in the Government’s transitional industry assistance provided under the Clean Energy Future package.
- On geopolitical risks, AIP notes that international events that impact on crude oil and product markets will be felt by all countries, so Australia is not likely to be placed at a relative disadvantage, including competitively. In addition, and as noted in LFVA reviews and the DEWP, past instances of geopolitical instability, civil unrest and war have had a relatively small impact on world crude oil flows and have not had a major impact on the reliability of crude oil and product supplies to Australia.
- In relation to the rising costs of energy, AIP notes that with sustained price rises in conventional energy supplies, the market will respond efficiently to this price signal through greater investment in increased supply (including alternatives to conventional supplies), reductions in demand and changes in consumer behaviour, as has occurred in recent years. That said, governments have adopted a role in addressing energy affordability for lower-income households and disadvantaged people.

AIP also agrees with the DEWP that adaption to new and evolving market dynamics is also important. These include:

- *“the growing dominance of the Asia–Pacific region in global energy and financial markets and trade*
- *shifting patterns in energy generation and trade, driven largely by economic expansion and energy security and climate change responses*
- *the likely emergence of international or national and regional carbon markets, which may create new linking dynamics to energy and associated financial markets given the close relationship between energy (use) and carbon emissions.”*

The downstream petroleum market has already responded to these broad market dynamics and will continue to do so as further market changes and opportunities emerge. The DEWP notes that *“Australia’s domestic liquid fuel market has been fully exposed to international markets for several decades following the move in 1977 to import parity pricing”* and exposure to global and regional markets has led to mature and proven supply chains delivering supply reliability and security for liquid fuels now and into the future.

In this regard, AIP strongly supports the clear statements made in the DEWP that:

- *“a market-based approach provides a flexible and robust framework that is capable of adjustment in response to rapidly changing market or technology circumstances”*
- *“the government believes that markets should be allowed to adjust with free-forming competitive prices being a natural, necessary and efficient balancing mechanism*
- *“While the government recognises the need to monitor market outcomes, interventions designed to force non-commercial domestic supply outcomes or to moderate prices could lead to suboptimal outcomes and should be contemplated only where a clear need has been established.”*

Overall, AIP considers that the critical issue for the longer term is ensuring that the market framework provides the right signals for ongoing investment in resource identification, extraction, processing and distribution. These signals will also be the drivers for the development of alternative liquid fuel supplies and for changes in consumer choices about how liquid fuels are used, including at lowest cost for consumers.

Finally, the DEWP briefly notes that one market challenge or risk is *“continued access to competitively priced and reliable sources of feedstock gas will also be important for industries such as plastics and chemicals”*. Without further assessment and elaboration in the DEWP, AIP is not convinced that this represents a ‘market’ challenge or risk, since no market failure has been clearly identified and there is an established domestic and international market for sources of feedstocks. Consistent with the DEWP principles and energy security framework, whether feedstocks are sourced from refineries or from domestic or international markets, is fundamentally a commercial decision for operators in the petrochemicals industry.

CHAPTER 4: AUSTRALIA'S ENERGY SECURITY

The DEWP Energy Security Framework & Principles

AIP considers that all major fuel users seek secure and reliable fuel supplies, which meet their operational requirements (or are adequate) and are competitively priced (affordable). According to most experts, like the International Energy Agency (IEA), these are the accepted parameters which define energy security and security of supply and are appropriately adopted by the DEWP and NESAs.

AIP supports the DEWP's 'energy security framework' including the objective of ensuring adequate, reliable and competitively priced supply of energy to support our ongoing economic and social needs. AIP also strongly supports this framework being guided by the stated principles including:

- *“Energy security policies should be implemented where they are rigorously assessed as delivering net positive benefits to the economy and consumers*
- *Energy security does not equate to energy independence or self-sufficiency in any energy source*
- *Energy security is generally enhanced through a diverse set of fuel options and multiple points of supply*
- *Efficient, transparent and open domestic, regional and global markets that create clear incentives for timely investment and efficient operation and end use are the best means for ensuring energy security at least cost*
- *Government intervention to manage disruptions should be as a last resort. Decisions to intervene should be based on an agreed transparent and objective emergency framework that ensures cooperation between industry and government to minimise market distortion*
- *In the event of a disruption, energy market participants should be able to make independent decisions in response to price signals and existing or revised contractual arrangements. These decisions are likely to provide the most effective, flexible and timely responses to minimise impacts of disruption at least cost*
- *Australia should continue to promote energy supply chains and market efficiencies, reduce barriers and improve regulatory transparency and consistency across jurisdictions.”*

AIP welcomes the clear acceptance by the Government that *“central to the delivery of this framework and energy security outcomes is the provision of stable policy. Without this fundamental underpinning, it will be difficult or more costly to attract the necessary investments to meet our energy needs”*.

Fundamentally, AIP considers there are four critical dimensions of any strategy to deliver secure and reliable fuel supply and meet adequacy and competitiveness conditions:

- (1) open international markets for crude oil, petroleum products and biocomponent feedstocks and efficient integration into these markets**
- (2) a diversity of supply options – namely a portfolio of domestic and international supply sources**
- (3) flexible, resilient and efficient supply chains and associated infrastructure**
- (4) efficient supply management strategies, including in the event of a supply disruptions.**

Importantly, this framework and key market dimensions apply equally to all fuels in the transport fuels mix (including conventional, gaseous and alternative fuels) if supply reliability and security is to be achieved.

For example, reliable ethanol supply to the Australian market was seriously compromised in 2011 during ethanol supply disruptions (related to floods, crop destruction and plant reliability) largely because the current domestic ethanol market and government policy settings have failed to develop a robust supply chain and alternative ethanol supplies, including through ethanol imports – see Box 2.

BOX 2: ETHANOL SUPPLY IN 2011

The Australian Government has recently committed to ethanol, biodiesel and methanol (so called 'renewable fuels') being excise free for a period of 10 years. However, this commitment does not apply to imported ethanol which will continue to pay the full rate of excise of 38.143 cents per litre with no entitlement to an excise offset for this period.

AIP does not support this approach to imported ethanol as it is likely to undermine the reliable and economic supply of ethanol blend biofuels to the Australia retail fuel market, and also because the long term growth in the uptake of biofuels in the Australian transport sector will be limited to the growth potential of 'domestic' ethanol production.

The reliable supply of conventional liquid fuels (petrol, diesel and jet fuel) to the Australian market has been underpinned by a diversity of supply options for petroleum products from domestic refiners and imports, and ready access to the global market for petroleum products in the event that domestic production is either disrupted or insufficient to meet Australian demand.

In 2011, Australian fuel suppliers (including AIP member companies and independents) encountered significant problems in sourcing reliable and quality supplies of ethanol from domestic producers. This was due to natural disasters in Australia affecting ethanol feedstocks, plant reliability issues, and also due to the closure of ethanol plants for financial reasons (despite the current 'excise-free' regime). Access to commercially viable imported ethanol during these times would have filled the void left by domestic producers. Instead some suppliers of ethanol blended fuel to the retail market were forced to withdraw this fuel from their product offerings to consumers. The lack of reliable domestic supply of ethanol (and the inability to import economically viable supplies) causes production/manufacturing disruptions and places additional costs on biofuel blend suppliers to implement supply chain management changes. These additional costs and supply disruptions reduce the cost advantages for biofuels, and their acceptability to consumers, adversely affecting the achievement of a long term sustainable biofuels market.

For these reasons, AIP strongly opposes the differential fiscal treatment of domestic and imported ethanol and considers that this fundamentally undermines supply reliability and competitive market pricing for ethanol. AIP proposes that government equalises the fiscal treatment of imported and domestically produced ethanol so that an efficient and stable ethanol market can be created with significantly improved options for supply.

It is well accepted in the international energy community that security of supply is not about self sufficiency or independence, it is about robust risk management and a flexible and efficient supply chain.

In this regard, AIP strongly supports the clear conclusions in relation to 'self sufficiency' in the DEWP:

- *"The findings of the Australian Government's 2011 National Energy Security Assessment show that energy security does not depend on energy independence or the ability to be self-sufficient.*
- *Ensuring energy security requires consideration of the growing interconnectedness of global energy trade, supply chain vulnerabilities and geopolitics and the ability of domestic markets to attract investment and efficiently allocate resources.*
- *Countries with large endowments of energy resources (like Australia) can supply global markets with adequate energy supplies to benefit countries with higher costs or poorer domestic energy resources.*
- *Energy is like other commodities, where benefits of international trade have increased development options and national and global wealth. Australia benefits from selling energy resources to others and buying resources where it is cheaper to do so.*
- *While disruptions can increase short-term liquid fuel costs, global markets have historically demonstrated that they can maintain supply and meet market demand even when the balance is tight.*
- *Pursuing self-sufficiency in energy resources such as liquid fuels can impose unnecessary higher costs on consumers without necessarily providing a material economic or strategic benefit.*
- *In addition, removing or reducing international competition or incentives to utilise alternative reliable energy supplies can have the effect of reducing market efficiency and increasing critical dependency and therefore vulnerability. This reduces overall energy security.*
- *These considerations suggest that it is prudent to maintain a diverse energy supply and encourage development of commercially viable alternative liquid fuels and technologies – but this does not justify the pursuit of self-sufficiency as a goal in itself.*
- *For a major global energy exporter like Australia, pursuing a goal of national energy self-sufficiency is counterintuitive."*

For AIP member companies, this means there is an overriding strategy to reduce to an acceptable level the risks and consequences of supply disruptions, including over the longer term. This involves balancing supply reliability with cost to consumers.

The DEWP, the NESAs and the LFVA confirm that AIP member companies have been highly successful in achieving this balance and delivering highly secure and reliable fuel supply at internationally competitive prices through the active pursuit and maintenance of these supply security preconditions.

Importantly, this industry performance is expected to continue in future, as confirmed by the Government's LFVA (see [Box 3](#)) and the NESAs (see [Box 4](#)).

The key conclusions from these assessments reflected in the DEWP, include:

- *“Australia’s energy systems (electricity, gas and liquid fuels) are currently meeting the economic and social needs of Australians, and are expected to continue to do so into the future”*
- *“A growing reliance on liquid fuel imports (both refined and crude product) is not considered to impair long-term liquid fuel security due to our ability to access an adequate and reliable supply of liquid fuels through well-established and diverse international supply chains”*
- *“Energy security risks are more likely to manifest themselves in higher prices, rather than in restrictions to physical supply.”*

BOX 3: THE LIQUID FUELS VULNERABILITY ASSESSMENT (LFVA) 2011

- The LFVA provides detailed supporting analysis and modelling which underpins the NESAs.
- The LFVA comprehensively explores the current issues and challenges facing the Australian downstream industry, including the competitive pressure that new large scale refineries in Asia are placing on our domestic industry; the assessment comprehensively explores issues like global and regional supply-demand balance for crude oil and petroleum products, supply security, and supply chain reliability and flexibility.
- AIP supports the underlying conclusions from the LFVA that:
 - diversity of crude oil and petroleum product supply is important to energy security
 - growing dependency on crude oil and petroleum product imports will have limited implications for liquid fuels supply
 - imports can lead to an increase in the diversity of sources of potential supply in the event of disruptions to domestic production
 - the continuing presence of domestic refineries contributes to Australia’s ongoing energy security as it increases the number of supply options available
 - the probability of a major disruption to global oil supplies is considered to be low, the market would respond and readjust the supply lines to replace supplies lost in the event of a disruption, and the disruption would have manageable impacts on the Australian economy.
- As highlighted in the NESAs, the LFVA also indicates that if supply capacity constraints emerge this could impact on Australia’s vulnerability through international market prices and volatility, but excess supply capacity in the Asian region, and significant recent and planned industry investment in capacity in the domestic market, is mitigating this risk.
- AIP also supports the recommendations in the LFVA as they are consistent with longstanding AIP positions including:
 - to review Asian supply capacity as part of each NESAs update every two years
 - measures to improve decision-making and monitoring of liquid fuels supply, including mandatory provision of stocks data by industry to official statistics
 - the Australian Government pursuing with the IEA changes to their methodologies underpinning international obligations which are more market reflective and recognise Australian and Asian market realities.

BOX 4: NATIONAL ENERGY SECURITY ASSESSMENT (NESA) 2011

- The NESA and its supporting analysis contained in the LFVA are comprehensive and timely assessments, underpinned by detailed independent analysis and modelling and drawing from authoritative sources.
- The key conclusion from these reports is that Australia currently enjoys a high level of liquid fuel security and this position is not expected to change in the coming years.
- The reports clearly demonstrate that Australia's market based approach and ready access to the global market have delivered secure, reliable and adequate liquid fuel supplies which meet the operational requirements of consumers and major fuel users at internationally competitive prices.
- The industry considers that Australia's longer term fuel supply security and transport energy needs will be met through the existing open market approach and measures, and Australia will continue to be able to access crude oil to meet its refining needs as well as imported petroleum products for customers as long as we pay international market prices.
- On the basis of the NESA and LFVA findings, the industry considers there is no case for a significant change in overall government policy settings for the liquid fuels market.
- AIP concurs with the 'highly secure' rating for liquid fuels and the industry expects this performance to continue for the foreseeable future.
 - There has been no change to the security rating for liquid fuels since the last NESA update in 2008, despite the challenging international market conditions for crude oil and petroleum products and other domestic market developments.
 - The fuel security and supply reliability provided by the downstream petroleum industry has also been superior to other domestic energy sectors (eg. electricity and gas), reflecting the diversity of alternative liquid fuel supply sources available to Australia in the event of a supply disruption and the efficient integration of Australia into the regional petroleum market and reliable international supply chains.
 - The more moderate security ratings across all energy sectors for the longer term to 2030, simply reflects the normal market uncertainties and unknowns over such an extended time period and the ongoing competitive pressures on the industry.
- AIP also supports the main high level conclusions from the NESA that:
 - Australia has secure liquid fuels supplies and diverse domestic and international supply sources and this is expected to continue, particularly given the outlook for excess supply capacity in the Asian region.
 - Australia's growing dependency on crude oil and product imports will have limited affordability, reliability and supply security implications for liquid fuels, and this includes in the context of the Clyde refinery conversion in 2013.
 - The industry's investment in infrastructure and stockholdings has kept pace with increasing liquid fuels consumption since the last NESA update.
- The NESA also notes that there is clear evidence of significant recent investments by industry in the infrastructure needed to meet future demand but also recognises that ongoing investment in adequate importing capacity and storage will be important in the future. In relation to ongoing infrastructure investment:
 - AIP supports reforms to ensure that planning, approval and regulatory processes are efficient, timely and nationally consistent, to support longer term investment in import and storage facilities
 - AIP notes that there is significant spare storage and importing capacity available in the Australian market, particularly in independently owned and operated facilities, and that spare capacity is usually available to third parties on well established commercial terms (eg. leasing, hosting etc).
- While AIP considers the 2011 NESA methodology and conclusions to be robust, we welcome the Government's commitment to ongoing review and analysis to improve the NESA framework and assessment approach.

Energy Security Challenges

AIP agrees with the DEWP that over the medium to longer term the **key challenges** to maintaining Australia's energy security, including for liquid fuels, include:

- *“long-term policy investment certainty around carbon pricing*
- *continuing market (supply- and demand-side) reforms to maximise appropriate investment and improve the flexibility and resilience of energy markets*
- *encouraging diversity of supply, infrastructure reliability and supply chain resilience*
- *attracting the necessary investment required to meet future energy demand (including attracting capital and having skilled labour to deliver projects)*
- *promoting the importance of continuing well-functioning international energy markets.”*

AIP also agrees with the DEWP that in meeting these challenges, **global economic conditions** will have a strong influence on energy markets, including crude oil and petroleum product markets (see 'regional refining supply balance' discussion above), by impacting on energy demand and supply investment and financing.

AIP also supports the DEWP views in relation to the perceived risks of **geopolitical instability** including:

- *while geopolitical instability presents challenges for normal market and industry operation, it has long been a feature of the global oil market and “market mechanisms have historically proven an efficient and effective way of ensuring that Australia continues to have adequate supplies of fuel.”*
- *“Australia's access to well-functioning global markets has helped create highly diversified supply chains for crude oil and refined petroleum products, with international sources supplementing Australia's domestic production.”*
- *“This diversity of supply prevents over-reliance on any single supply source and helps mitigate risks from potential supply disruptions.”*
- *“In addition, the history of oil supply shocks over many decades suggests that global crude oil and refined product markets have the capacity to swiftly respond to a supply disruption by eliciting some alternative or additional supply, reallocating supply efficiently among users, and reducing the quantity demanded through temporarily higher prices.”*

In the face of these challenges, Australia's well functioning liquid fuels market is still forecast to continue to deliver secure and reliable fuels supplies according to the NESAs and LFVA. Industry has this expectation as long as the Government remains committed to the market based 'energy security framework' and principles noted above. As the DEWP emphasises, “a market-based approach provides a flexible and robust framework that is capable of adjustment in response to rapidly changing market or technology circumstances”.

Government Action

Within a market based framework, AIP and its members companies support multilateral government efforts to ensure that world markets remain open and that effective response mechanisms are in place to mitigate the impact of short term supply disruptions and global oil supply emergencies.

Australia's Emergency Response Framework for Liquid Fuels

As noted by the DEWP, *“Australia has emergency response frameworks covering our major energy markets as well as measures to improve the resilience of critical energy infrastructure.”* In the case of the liquid fuels market, industry and governments recognise the potential risks and impacts of a disruption to liquid fuel supplies. AIP and its member companies actively participate in government sponsored management committees like the National Oil Supplies Emergency Committee (NOSEC), a committee of the COAG Standing Council on Energy and Resources.

While every effort is made by industry to ensure continuing reliable supply, NOSEC and the International Energy Agency (IEA) have established emergency response plans that would help ensure a coordinated response to any liquid fuel supply or oil emergency at a national or international level.

AIP considers that Australia has a robust ‘Emergency Response’ framework and emergency management plans for liquid fuels which are consistent with Australian market characteristics, utilises established and tested industry commercial practices, and adopts those best practice IEA practices that will be effective in our specific market circumstances.

The main features of Australia’s emergency response framework include the following:

- A tightly integrated industry-government response strategy, with stakeholders focused on their core areas of responsibility and competency.
 - At the government level, wide-ranging and flexible Ministerial powers to address any emergency situation as well as effective government communication procedures.
 - At the industry level, existing and proven commercial practices to allocate and distribute supply efficiently and equitably under government direction.
 - At the consumer level, voluntary demand restraint measures consistent with IEA best practice.
- Robust legislation (the *Liquid Fuels Emergency Act 1984*), legal instruments and emergency plans to deal with the specific/different circumstances of any liquid fuel emergency or IEA collective action.
 - As noted by the DEWP, these plans and legislation are appropriately focused on supply restraint and the priority needs of ‘essential users’ defined in the legislation.
 - Importantly, there have been major improvements recently to the emergency management framework and associated plans, following extensive reviews and close consultation with industry and all levels of government.
- Industry has an enshrined and active role in the NOSEC and a close day-to-day relationship with key managers and advisors across all levels of government on liquid fuel supply matters.

Importantly, this AIP assessment is shared by relevant authorities. For example, according to detailed IEA reviews of Australia’s emergency response capability, the security of supply in Australia is well served by an industry which operates a resilient and diversified supply chain. It is also supported by a regime of policy and regulatory emergency measures, regular in-depth vulnerability assessments, and international advocacy of open global energy markets.

Against this background, AIP reiterates our support for the two high level DEWP conclusions that:

- *“Government intervention to manage disruptions should be as a last resort. Decisions to intervene should be based on an agreed transparent and objective emergency framework that ensures cooperation between industry and government to minimise market distortion.”*
- *“In the event of a disruption, energy market participants should be able to make independent decisions in response to price signals and existing or revised contractual arrangements. These decisions are likely to provide the most effective, flexible and timely responses to minimise the impact of disruptions at least cost.”*

Importantly, the above framework and principles for liquid fuels have been proven to be robust in the context of major supply disruptions and incidents that have occurred in Australia in recent years, including across energy sectors (eg. the 2011 Queensland floods and the Varanus Island gas explosion).

AIP therefore considers that major changes to Australia’s emergency response framework and operation for liquid fuels are not required, but the framework should be periodically reviewed to ensure it continues to align with the Government’s principles noted above as well as current market realities and commercial practices.

'Improving the resilience of Australia's energy frameworks'

AIP supports the identified government actions for ongoing market monitoring and energy security activities as part of the implementation of the framework defined in the DEWP, including:

- *committing to a regular four-year strategic review of national energy policy (i.e. the Energy White Paper process) from 2016, including the alignment of critical analytical inputs*
- *reviewing the National Energy Security Assessment framework with a view to improving its analytical and quantitative methodology, and to provide a more systematic and integrated understanding of key relationships with other critical areas of the economy*
- *committing to a biennial National Energy Security Assessment from 2014*
- *undertaking, as part of the 2014 National Energy Security Assessment, a risk preparedness audit of Australia's energy sector in collaboration with states and territories, industry, and market bodies, with a view to mapping existing response mechanisms, and identifying whether there are any critical gaps.*

AIP support for these activities is naturally subject to other AIP views and positions expressed in this submission, including that:

- **policy stability is key to the delivery of ongoing energy security and attracting the necessary investments to meet future energy needs**
- **the government assessments noted above will apply a common approach and methodology across all energy sectors, all relevant technologies, and all transport fuels in the fuels mix and any imposts or requirements on industry as a result of these activities will apply to all market participants**
- **following extensive reviews in recent years, Australia's emergency response framework for liquid fuels is robust and proven, and there are no obvious gaps currently in this framework from an industry perspective**
- **there are priority areas for improvement in assessment methodologies and data outlined in AIP's comments on Chapter 9, which should occur to better inform and underpin these future government assessments.**

International Engagement & Obligations

As outlined in the DEWP, and supported by AIP, Australia is a member of several multilateral energy forums that cooperate on energy information, policy and trade and is also a member of a wide range of energy technology groups that cooperate on low-emissions technologies and practices.

Australia is a member of the International Energy Agency (IEA) and a signatory to the 1974 Agreement on an 'International Energy Program' (IEP). Under the IEP, participating countries are obligated to meet an 'emergency reserve commitment', which requires each country to hold oil stocks equivalent to no fewer than 90 days of the previous year's average daily net imports. The agreement also includes coordinated emergency response measures that allow IEA members to act collectively in the event of a major global oil disruption. The response measures include: drawdown of oil stocks; demand restraint measures; fuel-switching from oil to alternative energy sources; surge oil production; and sharing available supplies.

The DEWP indicates that:

- *"As a result of increased daily net imports in recent years, the level of oil stocks in Australia has regularly fallen below the 90-day requirement since mid-2010.*
- *The National Energy Security Assessment found that this does not indicate an emerging domestic energy security problem.*
- *However, Australia's stockholding obligation is an important compliance issue under an international treaty that is intended to be a credible response mechanism to a major global oil supply disruption.*
- *The Australian Government is currently considering possible options to respond to this issue."*

Australia does not hold government-controlled or regulated industry stocks for drawdown in an emergency, and as a result Australia's contribution to any IEA-coordinated emergency response, or 'collective action', is through a combination of market and industry mechanisms and voluntary demand restraint, consistent with the Government's market based framework. As the DEWP notes, *"Australia does not hold government-owned strategic stock to manage supply during a short-term shortage, preferring to rely on the flexibilities markets offer to manage liquid fuel supply constraints without government intervention and to allow price increases to dampen or reduce demand."*

AIP considers this approach remains appropriate, efficient and cost effective in the context of Australia's:

- **open market operation and market realities**
- **robust emergency response framework (noted above)**
- **high level of liquid fuels security and efficient commercial stockholdings confirmed in the NESAs and LFVA reviews**
- **market and commercial approach which has delivered supply reliability at a competitive cost to consumers and end-users, with no widespread customer shortages being experienced.**

Accordingly, AIP considers that any emergency stockholdings for Australia over and above normal commercial requirements (see Box 5 below) is not justified on energy security grounds, as confirmed by the NESAs and LFVA reviews and the DEWP itself.

Any Government decision to mandate increased industry stock levels for 'international compliance reasons' would need to apply proportionally to all fuel suppliers (refiners, manufacturers and importers). If the likely significant cost of 'mandatory' industry-wide stockholdings could not be passed through to consumers, or the Government did not underwrite these costs, there would likely be an adverse impact on refining competitiveness and ongoing viability, significantly reducing Australia's energy security. Alternatively, the Government could purchase stocks from the open market and hold stocks to meet international compliance obligations.

It is AIP's view that any consideration of emergency stockholdings requires very careful examination of the costs of stockpiling against the risk-weighted benefits of such action and how Australian emergency stockholdings will contribute to an IEA collective action in the event of a global supply disruption.

There are also a range of practical, logistical and market factors making such considerations impracticable in an Australian market context. For example, the costs of acquiring, holding and managing stockpiles above commercial levels would be significant and such stocks would need to be very substantial to provide petroleum products to the domestic market for an extended period. In addition, increasing stocks of petroleum products is also far from straightforward. There are issues around turnover of stock, seasonal changes to product specifications, and potential quality degradation over extended storage periods.

Moreover, to establish whether additional emergency stocks are required to meet IEA obligations, the Government will need full confidence that Australian stockholding data is comprehensive and robust to clearly demonstrate a risk to, or breach of, their IEA obligation – see AIP comments on Chapter 9.

BOX 5 : CURRENT INDUSTRY COMMERCIAL STOCKHOLDINGS IN AUSTRALIA

AIP member companies regularly undertake extensive reviews of their supply chain operations and commercial levels of stockholdings. AIP member companies review their commercial stock levels on an ongoing basis to determine whether demand characteristics have altered sufficiently to warrant an increase in stock levels at certain locations.

The current levels of commercial stocks reflect a considered assessment of the operating conditions throughout the supply chain and the risks more likely to be encountered by refiners and others operating the supply chain.

As found in the NESAs and LFVAs, the current level of commercial stockholdings and industry judgements around stockholdings and their management, have been fundamentally sound. Importantly, these reports confirm that Australia has sufficient stocks on a commercial basis currently in the Australian supply chain for security of supply and this will continue into the future with recent and planned increases in storage capacity.

However, the effectiveness of current market based mechanisms and the commercial response strategies of major fuel suppliers can always be improved through an ongoing dialogue between major fuel suppliers and users – particularly in relation to unusual levels of demand for particular products. This is why AIP member companies encourage the active review and management of supply chains, demand and stocks with their customers, particularly in markets with limited supply options – for example, in remote areas.

Fundamentally, AIP does not see it as role for major fuel suppliers (AIP member companies) to hold ‘buffer’ stocks to guarantee the ongoing business operation of major fuel users and distributors in the event of a major disruption.

AIP member companies believe that fuel users are best able to make decisions about their need for liquid fuels, and the way they use those fuels, based on information about price and availability and also fuel use within their own business operations. They can also make better decisions about how they will manage the risks of a disruption so that their commercial and community interests are maintained. Some fuel users may invest in extra stockholdings, while others may change the way they do things to avoid or minimise the impact of possible disruptions.

For an AIP perspective, the **main barriers** to even more efficient supply chain operation are:

- many fuel users only holding very limited stocks on the basis of their perception that stocks will be held by suppliers, or governments will intervene to protect consumers’ interests if supplies are not forthcoming; and
- business and industry fuel users believing they are ‘essential users’ and will get preferential supplies during a supply emergency in the same way as police and emergency services (which are defined as essential users under the Liquid Fuels Emergency Act and are the only parties guaranteed fuel supply in an emergency).

AIP supports any government efforts to address these barriers, and notes that NOSEC is seeking to address these through liaison and education efforts focused on critical energy infrastructure and major user groups.

CHAPTER 6A: LIQUID FUELS

The Liquid Fuels Market

This DEWP section provides an overview of the liquid fuels market in Australia including liquid fuels supply and demand, future trends, the wholesale and retail markets, and liquid fuels distribution and pricing. These subject areas are also canvassed, with the latest available data, in AIP's *Downstream Petroleum 2011*' publication (see http://www.aip.com.au/pdf/Downstream_Petroleum_2011_Report.pdf).

AIP supports the following DEWP high level conclusions in this Chapter:

- *"Australian liquid fuel markets are functioning efficiently and effectively and are well placed to meet Australia's future needs.*
 - *Wholesale, distribution and retail markets are competitive and supply chains are robust.*
 - *Pricing is responsive to market conditions."*
- *"While Australian refineries currently produce around three-quarters of Australia's petroleum needs, planned reductions in domestic refining capacity will see additional reliance on imports for refined product."*
- *"The prospect of rising oil prices will provide economic incentive for the development of alternative fuels to complement conventional petroleum products."*

Liquid fuels Policy Framework & Strategic Challenges

AIP has commented earlier (see AIP's 'Overview' comments) on an appropriate policy framework for liquid fuels and supports the Government's framework and principles in the DEWP.

AIP also agrees with the DEWP that in relation to the liquid fuels sector *"there are a number of developments that may emerge in coming years. These include:*

- *increasing domestic production costs and the ongoing costs of upgrading refinery infrastructure, which will place further competitive pressures on Australian refineries from newer regional 'mega-refineries'*
- *the need for timely development of additional import infrastructure*
- *the promotion of more environmentally sustainable production, supply and use practices, including reducing the sector's greenhouse gas emissions, while maintaining its competitiveness*
- *managing Australia's ongoing 90-day stockholding obligation to the International Energy Agency."*

AIP considers the market, together with a market based policy framework and approaches by Government, remains best placed to manage these challenges. This view is shared by the DEWP.

Indeed, the market and industry are already managing some of these challenges, as confirmed in the NESA and LFVA. For example, these reviews identify the significant recent and planned industry investment in import infrastructure capacity in the domestic market and conclude that this is sufficient to meet demand.

Infrastructure Investment

AIP endorses the DEWP conclusion that *"currently, the market is delivering adequate terminal and importing infrastructure to meet Australia's liquid fuel needs. This is demonstrated by recent planned investment in new or expanded terminal facilities; a reliable fuel supply that appears to be reasonably competitively priced; a well-functioning wholesale market; negotiation (on commercial terms) of the use of spare capacity; and access to a range of supply options. Commercial barriers to importing fuel to Australia are not prohibitive. However, as demand increases, it will be important for the Australian and State and Territory governments to maintain an attractive investment environment through efficient, timely and consistent national planning, approval and regulatory processes to support future investment in import fuel terminals and storage facilities as well as related distribution infrastructure"* – see **Box 6** below.

BOX 6: THE INVESTMENT TASK - IMPORT INFRASTRUCTURE ADEQUACY AND COMPETITION ISSUES

As Australia's demand for fuel grows, ongoing investment in petroleum import infrastructure becomes more important in ensuring supply security – particularly investment in bulk fuel terminal infrastructure which enables safe and efficient fuel imports. Bulk fuel terminals play an important role in the domestic liquid fuels supply chain as the primary distribution point for domestic refineries as well as being the link between the international and domestic fuels market (through import terminals at Australian ports); they also play a critical role in any industry and government response strategy to manage a major disruption to liquid fuels supply.

Given the important role of terminals in the supply chain and the wholesale fuels market, as well as Australia's reliance on liquid fuel imports as the marginal source of supply, a focus for policy makers is on whether free market operation is delivering adequate terminal and importing infrastructure to reliably meet Australia's liquid fuels needs at competitive market prices (thereby, supporting Australia's international competitiveness).

Major independent and government reviews of Australia's petroleum import infrastructure and investment (including the NESAs and LFVAs and ACCC analysis) have concluded that:

- significant investment in new or expanded facilities has been occurring and more is under construction or planned
- there is significant spare capacity to meet future demand and import growth for fuels
- there are a range of economic options in Asia to efficiently import fuel meeting Australian quality standards
- current terminal operations and access arrangements do not impose a constraint to import competition nor to investment.

This market and investment environment will ensure ongoing fuel supply security and competitive fuel prices to consumers and major fuel users.

Given the above, there is no need for regulated access for third parties to bulk fuel terminals and distribution infrastructure as significant spare capacity exists in the market. Access is also readily available on commercial terms (through leasing, hosting and usage charges). Applying access regulation to this privately owned infrastructure would seriously reduce incentives to invest in new infrastructure, and would increase the costs of fuel supply to business and consumers. Australia's future supply security would be impacted because more investment in terminals is needed to meet future demand and importing capability.

AIP supports reforms to ensure that planning, approval and regulatory processes are efficient, timely and nationally consistent, to support longer term investment in import, storage and distribution architecture.

Fuel Standards & Environmental Performance

AIP notes the DEWP comment that *“there are a range of measures underway aimed at improving the environmental performance of liquid fuel production and use, including carbon pricing, the implementation of fuel quality standards for petrol, diesel and biodiesel, and the development of carbon dioxide emissions standards for light vehicles from 2015.”* These processes must naturally run their course whilst also being cognisant of each other as well as overall fuel supply reliability and security.

AIP also notes and strongly supports the Government's DEWP commitment that “any changes to fuel specification standards will be subject to rigorous economic analysis of the costs and benefits to industry, consumers, and society more broadly, including consideration of domestic refining capacity, environmental and public health outcomes.” This is against the background that when refiners are faced with a significant investment requirement, whether for clean fuels or other reasons outside strictly commercial considerations, it creates a decision point around the future viability of their operations.

In this light, AIP notes the DEWP assessment that “the introduction of Euro 5 and 6 design rule standards for light vehicles may create flow-on issues for the refining sector, such as potentially significant investment from the refining sector to meet the standards.” AIP expects that the rigorous economic analysis committed to by the Government will be conducted on these specific issues, particularly in light of market environment related to the current fuel standards.

Specifically, in relation to current Australian fuel standards, AIP highlights the following market facts:

- **Premium unleaded petrol (PULP) which is expected to be the base grade petrol for new vehicles in Australia is at an equivalent Euro 4 standard, and diesel is at an equivalent Euro 5 standard.**
- **These current petrol and diesel fuel standards when combined with complementary engine technologies will address virtually all national air quality issues that can be controlled by regulating fuel quality.**
- **No further major adjustments to Australian fuel quality standards are required to meet identified technology facilitation, urban air quality or climate change emission reduction objectives (as there are currently no barriers to the introduction of new, lower emission engine technologies).**

All prospective major gasoline vehicle technologies, except for lean burn gasoline direct injection (GDI) can operate on fuels already available in the Australian market. Some lean burn GDI engines require 10 ppm sulfur (Euro 5) PULP to operate. However, this technology is only used in the very small, high performance, segment of the vehicle market, so production and distribution of a boutique fuel for such a small market segment is not commercially viable. Lean burn technologies are no longer produced in Japan and are unlikely to be produced in Europe beyond 2015. New engine technologies, such as homogeneous charge compression ignition (HCCI) are expected to enable further improvements in fuel economy and lower emissions to be achieved without requiring tighter fuel quality standards than those met by fuels already available in the Australian market.

Government Regulation

AIP agrees that there is an important role for governments in:

- carefully reviewing and streamlining the current complex and overlapping array of environmental and other regulatory measures to ensure that current measures are soundly based, cost effective and harmonised
- multilateral efforts to ensure that world markets remain open and that effective response mechanisms are in place to mitigate the impact of short term supply disruptions and global oil supply emergencies
- ensuring that future regulatory decisions and imposts do not undermine the competitiveness of liquid fuel production and supply.

AIP has discussed earlier in this submission the other government activities identified in this Chapter related to industry regulation and monitoring. This includes the regulation of fuel quality, Oil Code regulation, Formal Price Monitoring by the ACCC and a array of Federal, State/Territory and local government regulations applying to the downstream petroleum industry including:

- a range of environmental regulations related to supply chain facilities, equipment and activities
- Worksafe and OH&S regulations
- major hazard facility and dangerous goods regulations
- waste management and recycling regulations
- planning, approval and license requirements for new and expanded facilities and infrastructure.

AIP reiterates that governments in Australia have an important role in ensuring that such regulatory imposts do not undermine the competitiveness and security of liquid fuel production and supply in Australia. In this regard, the current complex and overlapping array of environmental and other regulatory measures must be carefully reviewed and streamlined to ensure that current and future measures are soundly based, cost effective and harmonised.

Government Coordination: Energy Security is a 'Whole Of Government' Responsibility

A focus of the DEWP is on better harmonisation and streamlining of the regulations noted above 'across' levels of Government. For example, *"all levels of government must seize the opportunity to set a clearer path for better-functioning energy markets by addressing a set of critical reform issues."*

This focus is strongly supported by industry as it will be critical to the future viability of the domestic refining industry and to ongoing competitive fuel prices for consumers. However, the DEWP also notes that ‘within’ each level of government, there is “*a range of government agencies involved with energy governance, policy development and research and analysis*” and this is particularly the case for the liquid fuels market.

AIP member companies are becoming increasingly concerned that while governments as well as energy and central agencies have placed a very high priority on open market operation and market based frameworks to ensure longer term energy security and supply reliability for Australia, this priority and market framework is not necessarily reflected in the directions, priorities and practice in other agencies ‘within’ each level of government, nor in many of the day-to-day decisions, activities or commentary of those other agencies.

AIP members consider that any disconnect between the DEWP’s high level energy policy framework and operation/practice/decisions on the ground across government agencies, will seriously undermine the intent, robustness and longer term benefits of the framework, and thereby the ongoing strength of Australia’s energy security position. As a result, we consider that this issue needs to be an additional focus in the Government’s final Energy White Paper, together with clear guidance on how this risk will be managed and mitigated (including through relevant activities of the Ministerial Council on Energy).

BOX 7: ENERGY SECURITY IS A ‘WHOLE OF GOVERNMENT’ RESPONSIBILITY & PRIORITY

The DEWP clearly confirms that the domestic liquid fuels market is well functioning and competitive, and that a viable and competitive domestic refining industry together with adequate import infrastructure will be essential to delivering supply security for liquid fuels for Australia into the future. As a result, the DEWP proposes an ‘energy policy’ framework to maintain/strengthen market settings for liquid fuels whilst emphasising the need to reduce regulatory and cost imposts on the sector so it can remain competitive domestically and globally.

AIP strongly supports this assessment, but notes it is not applied universally in practice in many other areas of government activity that directly impact on energy sector activities.

Across government agencies there are a range of regulatory measures in existence, underway or in prospect related to the liquid fuels market, production, use and pricing as well as related markets. These measures have the potential to significantly compromise the DEWP framework and the energy security objectives noted above, as well as the competitiveness of fuel prices to consumers and the sector more broadly. For example:

- the extensive range of existing government regulation and imposts (noted on page 10)
- new government measures underway related to liquid fuel production and use (including carbon pricing, fuel quality standards, and emissions standards for light vehicles)
- the potential extension of the government’s ‘Price Signalling’ legislation to the liquid fuels sector (under the *Competition and Consumer Act*) which could impose costs and risks on efficient/competitive industry operation
- competition authorities, in administering the law, creating potential barriers to open and efficient market operation/structure as well as risks to the current and future infrastructure investments needed for ongoing supply security (eg. through access regulation on privately owned non-monopoly infrastructure or through restrictions on facility ownership that would otherwise improve industry and commercial operation or the longer term viability of the industry and does not have anti-competitive implications)
- any reforms proposed for related segments or services in the liquid fuels market (eg. petrochemicals, shipping).

Therefore, AIP member companies recommend that energy security and compliance with a market based policy framework for liquid fuels should be:

- a ‘whole of government’ responsibility, including within each level of government, with energy portfolios having responsibility for ensuring meaningful impact assessments are undertaken
- a key consideration of all policy, decision-making and regulatory frameworks
- enshrined in regulation and policy impact assessments (including in relation to the range of current regulations, and also for any proposed new policy or regulation in future)
- referenced by decision makers when announcing relevant energy policy or regulatory decisions (eg. ‘how a decision or policy change will impact on supply security for liquid fuels’).

Alternative Transport Fuels

Alternative fuels that are used or have been proposed for use in Australian motor vehicles include:

- biodiesel and biodiesel blends
- ethanol blends in petrol up to 10 per cent
- high ethanol content fuel (up to 85 per cent)
- liquefied petroleum gas (LPG)
- compressed natural gas (CNG)
- liquefied natural gas (LNG).

AIP strongly supports market based approaches to the supply of fuels in Australia.

Biofuels and alternative fuels will have a place in the Australian fuels market as long as they are:

- available at a competitive price
- reliably supplied
- acceptable to consumers
- produced sustainably.

Government policy in support of biofuels and alternative fuels needs to be:

- transparent, with clear and credible objectives
- based on sound science
- cognisant of other policy settings.

AIP does not support mandates requiring the use of any particular type of fuel because mandates imply higher cost fuels, may reduce market transparency to suppliers or consumers, do not engender market and price competition for the supply of the fuel to wholesalers and retailers, and fail to encourage the development of robust and reliable fuel supplies. All of these features are evident in the Australian biofuels market.

AIP is concerned that while mandates for biofuels, through restricting consumer choice, may help to create increased demand:

- interactions between biofuels policies and other policies relating to fuel excise and customs duty have created market distortions that have impeded the establishment of a properly functioning biofuels market and supply chain
- there is ongoing uncertainty surrounding biofuels supply reliability
- there is not effective competition involving a diverse number of ethanol producers in the wholesale biofuels markets
- a compliance regime has developed that lacks predictable and equitable outcomes for all suppliers.

As noted on Page 15, AIP also opposes differential fiscal treatment of domestic and imported ethanol and considers that this fundamentally undermines supply reliability and competitive market pricing for ethanol.

Overall, AIP considers that the lack of a coherent policy framework across all jurisdictions and limited supplies or uncompetitively priced biofuels are hampering the development of a commercially viable biofuels industry.

To respond to this, the petroleum industry is working with governments and other stakeholders to address these and other barriers to greater use of biofuels in the retail and commercial fuels markets. As part of this process, the Government has released the *Strategic Framework for Alternative Transport Fuels*, to be guided by the 'Alternative Transport Fuels Implementation Advisory Group'. AIP's views on this framework and implementation process are outlined in [Box 8](#).

AIP supports a long term market-based framework for the development of alternative fuels and the coordination of industry and government efforts where there is recognised market failure. However, many of the factors identified in the ‘Strategic Framework for Alternative Fuels’ - such as investment uncertainty and labour market and technology constraints – are typically commercial barriers and we consider that governments should generally avoid intervention in commercial issues for a particular fuel because of the high potential for creating significant and ongoing market distortions. In addition, we do not believe that the ‘Strategic Framework for Alternative Fuels’ has adequately addressed the supply security issues associated with alternative fuels and we strongly recommend that all fuels are assessed for their supply security performance on a common basis in future NESAs reviews.

BOX 8: THE STRATEGIC FRAMEWORK FOR ALTERNATIVE FUELS 2011

The Strategic Framework for Alternative Fuels establishes a long term approach for the market development of alternative fuels in the context of maintaining Australia’s transport fuel security while moving towards a lower carbon economy by 2030.

AIP supports the market based development of any fuel, which implies it is competitively priced, reliably supplied, acceptable to consumers and produced in a sustainable manner.

The DEWP and NESAs correctly identify that alternative fuels will only make a marginal contribution to Australia’s transport task and are subject to considerable supply risks. For example, the 2010 Queensland floods caused a significant disruption to the domestic production of ethanol for an extended period of time. Without a deep, interconnected global market for any fuel type, any fuel sources will continue to be subject to ongoing supply risks.

AIP supports the ongoing assessment of Australia’s fuel security by the NESAs and looks forward to the development of common metrics of supply security being applied to each fuel type. The development of such metrics can allow policy makers to accurately assess the claimed supply security benefits of alternative fuels.

The Strategic Framework identifies many barriers to the development of alternative fuels including investment uncertainty, infrastructure barriers, technology constraints, performance uncertainty, labour force skill constraints and high adjustment costs. AIP considers that these are examples of commercial barriers that can be overcome with business acumen and associated development strategies. Moreover, commercial barriers should not be the concern of policy makers, particularly in a market based framework, such as the Strategic Framework for Alternative Fuels.

AIP considers that the central concern for policy makers in implementing the Strategic Framework should be the existence of barriers to entry in the fuels market, national standards and information asymmetry. The Australian Competition and Consumer Commission (ACCC) is responsible for assessing whether there is any anti-competitive behaviour in the fuels market. Information asymmetry and national standards are key areas where the Strategic Framework can positively assist alternative fuels in a market based framework by developing consistent national approaches to regulation. A further major area that could assist the market based approach is an assessment of the relative environmental claims made by different fuel and technology types.

The Strategic Framework for Alternative Fuels advocates principles for market driven support measures, namely that such measures should:

- be transparent, accessible and readily understood by investors and consumers
- be feedstock and technology-neutral, subject to technical and modal applicability
- ensure government outlays have clear rationales and limits.

The application of these principles within a market driven framework should ensure that the Strategic Framework will optimise the benefits to the Australian economy and community. However, for AIP to support these key principles, they must be accompanied by the establishment of a clear and robust definition of market failure as opposed to commercial barriers, and the application of energy security metrics in the NESAs to all fuel types in future Government energy security reviews.

Fuel Taxation

From a tax policy principles perspective, AIP supports a fuel tax system that:

- is efficient (causes minimum distortions), equitable (fair) and simple (easily understood)
- is practical and minimises compliance/administration costs for business and government
- supports clarity, consistency and stability in the policy settings relevant to the petroleum industry.

AIP's long held view is that, if road transport fuels are to be taxed, this should be on a comprehensive and neutral basis, so that consumers can make informed decisions about fuel choice. AIP supports energy content as an appropriate and neutral basis for taxing all transport fuels and relief from the burden of excise being provided for 'business inputs' to production.

AIP acknowledges that government may consider there is a case for transitional financial assistance for alternative fuels, in order to overcome demonstrated market barriers to development or to address government environmental or regional development objectives. However, in the context of AIP's comments on Alternative Fuels above, any barriers need to be clearly demonstrated and be genuine market (not commercial) barriers. Other significant issues for future government consideration include whether the long term 50% excise concession for alternative fuels on environmental grounds remains relevant in the context of the Government's carbon pricing arrangements not applying to biofuels use and also the claimed regional development benefits of biofuels. For example, a recent Parliamentary Research paper has strongly questioned the regional development benefits flowing from the hundreds of millions of dollars in government assistance provided to the domestic ethanol industry over the last decade, including in the context that this assistance is not facilitating the establishment of a diverse and robust ethanol market.

As noted on Page 15, AIP strongly opposes the differential fiscal treatment of domestic and imported ethanol and considers that this fundamentally undermines supply reliability and competitive market pricing for ethanol. AIP proposes that government equalises the fiscal treatment of imported and domestically produced ethanol so that an efficient and stable ethanol market can be created with significantly improved options for supply.

Where government assistance is provided to alternative fuels (eg. subsidies, grants or tax relief), AIP believes that such government assistance:

- should be transparent
- should be regularly reviewed to ensure the objectives of assistance are still relevant
- should allow for a sufficient transition period prior to an appropriate expiry date
- could also address any adverse consequences for existing or committed projects arising from any fuel tax changes.

In the context of these positions and concerns, AIP welcomes the Australian Government's announcement that the Productivity Commission will review fuel excise arrangements, including examining the merits of a regime that is based explicitly and precisely on the carbon and energy content of fuels.

CHAPTER 9: INTERNATIONAL ENGAGEMENT & ENERGY ANALYSIS

International Engagement

AIP and its members companies support multilateral efforts to ensure that world markets remain open, Australia continues to be well integrated into global commodity markets, and that effective response mechanisms are in place to mitigate the impact of short term supply disruptions and global oil supply emergencies.

AIP shares the DEWP assessment that *“the importance of international engagement is heightened in the wake of global energy diversification, shifting energy demand–supply patterns, increasing international adoption of new clean energy policies, accelerated development of clean energy technology, and the need to attract foreign investment in a highly competitive capital market.”*

Consistent with this position and assessment, AIP supports the broad objectives of Australia’s international engagement outlined in the DEWP including:

- *“To promote energy trade and investment, including through:*
 - *building and maintaining strong trade partnerships and developing new export trade opportunities*
 - *promoting development of robust supply chains for exports and imports*
 - *attracting investment in energy resources, technologies and systems.*
- *To enhance understanding of energy policies, programs and directions, and accelerate energy innovation, including through:*
 - *enhancing cooperation on technology research, development, deployment and commercialisation*
 - *exchanging knowledge and building capacity and expertise*
 - *improving understanding of global energy trends, markets and policies.*
- *To shape international policy and processes, including through:*
 - *promoting open, transparent and competitive global energy markets and investment frameworks*
 - *utilising established forums and institutions (such as the International Energy Agency) as an efficient means to convene parties and harness opportunities to collaborate and pursue common energy goals such as energy security, resilient markets and accelerated commercialisation of clean energy technology*
- *contributing to global and regional energy security and response frameworks.”*

AIP also supports the Australian Government continuing to pursue these objectives, working in close partnership with industry and other key stakeholders, through active engagement in the variety of mechanisms and forums identified in the DEWP.

Energy Metrics & Challenges

AIP shares the DEWP assessment that energy data, information and analysis is constantly evolving with energy market developments and *“access to high-quality and transparent energy data and analysis is crucial for government, business and households in being able to make efficient and well-informed decisions”*.

AIP also supports the identified focus areas for improving the Australian Government’s analytical capacity:

- strengthening the depth and scope of energy research, analysis and forecasting within government
- providing a comprehensive understanding of energy use, particularly household energy use
- better aligning energy data collections across the Australian Government.

AIP agrees that *“while our energy data collection and analysis is relatively robust and comprehensive, there are areas where it could be improved”* and supports coordinated Government efforts to:

- consolidate energy data and activity analysis across the Australian Government
- develop higher-quality and broader coverage of the Australian Petroleum Statistics
- the development and application to all energy sectors of robust and accepted ‘quantitative indicators’ that can inform future security assessments (NESA).

These three actions are discussed in more detail below.

Another action identified in the DWEF is for *“a deeper assessment of Australia’s liquid fuel vulnerabilities across the liquid fuel supply chain, including import infrastructure and critical supply linkages”*. In the context of the comprehensive and robust LFVA reviews released by the Minister since 2009, AIP questions the scope to achieve this given these matters were reviewed and addressed in detail in the previous two LFVA reviews. AIP is also concerned that the objectives, focus and directions of this future work have not been clearly specified to help ensure they are robust, well targeted and will contribute to improved market monitoring and decision making.

In relation to the above future data activities and reforms, AIP strongly supports the DEWP statements that *“while collecting additional information is always desirable, the government is mindful of the need not to impose unnecessary reporting burdens on consumers or industry. Additional data collection and analytical effort will be evaluated against the costs and benefits of collection of information, and prioritised against the need to ensure value for money. This assessment will also take into account the appropriate role for government, independent institutions, and industry.”*

In fact, AIP would not support future data collection activities that increased the compliance burden on business without a clear public benefit, and has an expectation that data consolidation and streamlining would not only lead to a single definitive and robust dataset for liquid fuels, but a lower collection and reporting burden on both government and industry.

Australian Petroleum Statistics

AIP agrees that *“the data in Australian petroleum statistics, which is provided on a voluntary basis, requires review to improve its completeness, consistency and accuracy to enable better assessment of our liquid fuel vulnerability and meet our international energy obligations.”* As noted in the Government’s LFVA, the coverage of Australian Petroleum Statistics (APS) does not include all major operators in the domestic market who hold significant stocks and the LFVA therefore recommends:

- *“In the light of the importance of industry statistics to ongoing assessment of vulnerability the government should mandate the provision of stocks data through the Australian Petroleum Statistics portal.”*
- *“Responsibility for reporting stocks should remain with the owners of those stocks. Terminal owners should be required to advise importers of their responsibility to report and an annual survey of port authorities should be undertaken to ensure that all new storage is identified by the Department.”*
- *“The Government should communicate its concerns over the calculation methodology to the IEA and seek a review of market arrangements in the Asian region and their impact on the calculation of stocks for Australia.”*

AIP supports these recommendations. Given the importance of robust petroleum and stocks data, including to future government security assessments and to meeting Australia’s international obligations, AIP member companies support all major fuel suppliers and importers supplying data to the Australian Petroleum Statistics. If this cannot be universally achieved across industry through voluntarily action (our preference), or if some market participants choose not to supply data, then AIP member companies would support the Minister imposing a mandatory data provision requirement under the *Liquid Fuels Emergency Act*. AIP member companies have supplied data voluntarily for many years.

AIP agrees with the LFVA that the Government should also pursue all avenues with the IEA to recognise Australia's specific market characteristics, as well as the established dynamics of supply and trade in the Asian region, in the IEA's stockholding calculations.

- It is well accepted, including in the LFVA, that the current IEA methodology unjustifiably penalises Australia and other members of the IEA, as it has not adapted over the last decade or two to the significant global changes in crude and products markets as well as changes in supply and trade flows.
- The IEA last conducted a review of its 90 day calculation methodology in 2002, and there appears a strong case for the Government to seek a review of the IEA's core methodology supported by other relevant IEA members sharing similar market characteristics.

Once stockholding data and methodology issues are resolved, including with the IEA, if it is clear that Australia may be in 'structural breach' of its IEA obligations, or is very likely to be in future, then Government should commence a public process (informed by clear policy principles) to identify the most operationally feasible and lowest cost emergency stock arrangements for Australia to meet its IEA obligations.

NESA Quantitative Metrics

AIP supports attempts by Government to provide further robust analytical and quantitative support to government review processes, including the NESA reviews. However, AIP expects that any new or revised quantitative indicators that are developed in consultation with industry will lead to a common approach and methodology being applied across all energy sectors and to all transport fuels. AIP also notes that there are existing international approaches for using quantitative metrics to assess energy security (eg. the IEA Moses Model) which provide relevant guidance to this exercise, but this methodology would need to be reviewed in detail to ensure it is reflective of, and responsive to, Australia's specific market and supply circumstances.

Data Road Map

AIP agrees "further review of the spectrum of Australian Government energy data and statistics is needed to align the various data sources, data collection and analysis and identify gaps or further opportunities through a whole-of-government energy roadmap exercise. This roadmap would assess the current data collection and analysis, identify any gaps in information, and better coordinate energy data and analysis across the Australian Government."

AIP considers that there is significant scope currently to achieve these objectives in relation to crude and petroleum product data and looks for industry to be appropriately consulted in this area given industry knowledge of prime data sources within industry operations and the specific nature of data provided to various government data collections. AIP expects such a 'data map' to lead to rationalisation of data collections, better quality of data and associated understanding of the data collected, an improved basis for policy review and analysis, and reduced costs of data collection and maintenance.