

Mobil Oil Australia Pty Ltd

**Submission to the Senate Standing Committee on
Economics Inquiry into the Shipping Reform Bills**

April 2012

INTRODUCTION

Mobil Oil Australia Pty Ltd ("Mobil") is pleased to have the opportunity to provide input to the Senate Standing Committee on Economics' Inquiry into the Shipping Reform Bills 2012. Mobil wishes to comment in particular on the Coastal Trading (Revitalising Australian Shipping) Bill 2012 ("the Bill") and the Coastal Trading (Revitalising Australian Shipping) (Consequential Amendments and Transitional Provisions) Bill 2012 ("the Transitional Bill"), which are the parts of this package of legislation which have potential to impact on our operations in Australia.

Mobil is a major supplier of petroleum fuels to resellers, other wholesalers and end users, including aviation customers, around Australia. Mobil has operated in Australia for over 115 years, including through predecessor companies. Mobil operates the Altona refinery in Melbourne as well as major fuel terminals in Melbourne (Yarraville), Sydney (Silverwater) and Adelaide (Birkenhead), and has ownership interests in or long term throughput arrangements at other terminals around the country.

Mobil also regularly ships product into Australia, primarily sourced from Singapore, and is the largest importer of petroleum fuels into this country. Products sourced from our Altona refinery are mostly distributed inland within Victoria and into parts of NSW and South Australia, but some of Altona's production is shipped around the coast, primarily to Adelaide, Port Lincoln or Albany.

Mobil typically ships 3-4 part cargoes of unleaded petrol around the coast monthly under the current permit arrangements, using vessels which have previously delivered imported product into Australia. In general, these vessels will already be on-carrying some imported product to these same ports and it is therefore efficient to include additional locally produced cargo. We note that one of the objectives of the Bill is to enhance the efficiency and reliability of Australian shipping (which we take to cover all shipping operating in Australian waters) and we strongly endorse such an objective in the interests of sustaining the viability of Altona refinery, which is dependent on the availability of efficient and reliable coastal shipping

Mobil acknowledges that the intention behind this new legislation is to enhance the Australian Shipping industry, but we are concerned that implementing the Bills as proposed in relation to the petroleum industry may have the opposite effect to that intended.

COMMENTS ON ASPECTS OF THESE TWO BILLS WHICH HAVE THE POTENTIAL TO AFFECT MOBIL'S OPERATIONS IN AUSTRALIA

The changes proposed in the Bill substantially change vessel permitting arrangements and establish three categories of licences for vessels transporting goods around the Australian coast. These are:

- General Licence – only available to Australian registered/flagged vessels
- Temporary Licence – 12 months' validity and subject to various criteria discussed further below
- Emergency Licence – applicable in the event of a natural disaster or other critical emergency situation

We note that there are currently no Australian registered/flagged bulk liquid tankers, hence no General Licence vessels available to carry petroleum products around the coast. Mobil concurs with the position taken by the Australian Institute of Petroleum ("AIP") in arguing there is a strong case for exempting the shipping of petroleum

products from the provisions of the Bill on the basis that there is little likelihood of an Australian registered vessel being available for such cargo in the foreseeable future. If, however, such an amendment is not acceptable to the Committee then we have a number of concerns in relation to the conditions specified for obtaining a Temporary Licence ("TL") or Emergency Licence ("EL"), as discussed below.

We acknowledge that the Bill as drafted enables a shipper (i.e. the owner of cargo to be carried) to make application for a TL, and that such application may cover the use of one or more vessels. The application, though, must be for a minimum of 5 voyages and the information provided in support of the application must specify, in addition to the number of voyages:

1. Expected loading dates for each voyage
2. The kinds and volume of cargo to be carried
3. The type and size, or capacity, of vessel to be used
4. Loading and discharge ports for each voyage
5. Such other information as may be prescribed by regulation

The Minister then has up to 15 business days (or three working weeks) to determine whether or not to grant the application.

Given the nature of Mobil's coastal shipping operation it is not possible to be definitive about expected loading dates for individual voyages over a 12 month period, nor about the exact volume of cargo to be carried, nor about the size of vessel to be used, nor about discharge ports, other than in very general terms. Greater flexibility or tolerance is needed within the legislation around the likely timing and capacity needs of such voyages.

Specific concerns Mobil has with the Bill as currently drafted are as follows:

- The tolerances provided for loading dates and volumes within a TL before triggering the need to apply for a variation to the Licence are inadequate, given that Mobil is being asked to forecast its shipping requirements up to 12 months in advance. We anticipate that there will be an ongoing need to apply for variations for almost every coastal voyage which is scheduled, thus adding to the administrative burden and negating any value from having secured a TL in the first place
- The legislation does not permit variations to a voyage authorized under a TL (or an approved variation to a TL) once the cargo is on the water. This precludes the opportunity to alter planned deliveries to cope with urgent, unforeseen events, such as a product quality issue or other incident affecting the availability of product, or available capacity, at a planned discharge port
- Provisions around the granting of an EL appear to limit such authorization to situations which occur as a consequence of natural disasters. In the case of the petroleum industry, Mobil considers that it is more likely that emergency fuel supply situations may arise for reasons other than a natural disaster (as defined) and we propose that declaration of a liquid fuel supply emergency or confirmation of a near liquid fuel supply emergency situation (i.e. a situation in which the imposition of fuel rationing or restricted allocations of available product at levels significantly below planned supplies for an extended period is anticipated) should qualify for essentially automatic authorization of an EL, preferably on a "notification" basis, without having to wait for up to 3 days for formal authorization, as is specified in the Bill

In relation to the Transitional Bill, we note that the legislation provides for the continuation of existing permits or licences for up to 4 months or, in respect of April 2012

permits or licences which have been applied for but not yet granted, up to 3 months, in each case at the discretion of the Minister. Given the scope of the changes to current arrangements which are reflected in the Bill, as well as the significant timeframes required within the petroleum industry to develop or amend fuel supply and shipping plans, we submit that a longer transitional period is warranted and suggest that this should be a minimum of 6 months after the commencement of this legislation.

CONCLUSION

In conclusion, Mobil would like to make the following points.

Mobil's Altona refinery operates within a very challenging business environment, facing substantial competition from overseas refineries which have cost and scale advantages not available to Australian operators. Some of the challenges facing Altona include:

1. The imminent introduction of a carbon tax (although free permits covering a substantial portion of industry average carbon emissions are available to Australian petroleum refiners under the Jobs and Competitiveness Program of the Government's Clean Energy Future scheme, local refiners will still incur some cost, increasing over time, for their carbon emissions – similar costs are not applicable to competing overseas refineries)
2. Higher costs to comply with increasing regulatory requirements, particularly around environmental impacts and OH&S
3. Higher general level of costs for utilities and infrastructure – power, water, ports
4. Relatively high state and local government taxes and charges – land tax, payroll taxes, council rates
5. Increasing labour costs/declining productivity
6. The high value of the Australian \$

Similar substantial challenges are faced by other manufacturing industry in Australia.

If we are to maintain a viable petroleum refining industry in Australia, and the enhanced fuel supply security that follows from that, it is important that we do not introduce further unnecessary and costly administrative imposts, such as may occur through the proposed Bill. It is vital for Altona refinery to have the flexibility to maintain throughputs and ship product around the coast when necessary at a competitive cost and we urge the Committee to ensure that is not precluded by this legislation. The alternative would be to see additional volumes of petroleum fuel imported into Australia, which will not preserve jobs either in the refining or maritime industry.

For many decades, Australian consumers and industry have benefitted from a high level of petroleum fuel supply security thanks to the effective management of robust and flexible supply chains by Mobil and other major oil companies. The ability to make timely changes to coastal shipping programs, when necessary, has been critical to the maintenance of such a high level of fuel supply security and it is important that this not be jeopardized by ill-advised regulatory changes such as are currently proposed in the Bill.