

# Chapter 5

## Technical Issues

5.1 The manufacture, distribution and use of low aromatic fuel raises issues that, though not relevant to the construction of the bill's clauses, are relevant to how legislation could be implemented, and whether legislation is a good idea.

### Safety of Opal fuel

5.2 The issue of the safety of low aromatic fuel arose again at the hearings. The committee expressed its frustration with the fact that the same reasons for not switching to low aromatic fuel that were refuted several years ago are still being given today as a reason not to use low aromatic fuel.<sup>1</sup>

5.3 Mr Craig Catchlove provided evidence on the safety of low aromatic fuel for engines from the perspective of both his current employment at the Alice Springs Town Council and his former employment in the Central Australian Tourism Industry Association.<sup>2</sup> Mr Catchlove made the point that having an independent organisation conducting an investigation is crucial in establishing credibility for the results. The Royal Automobile Association of South Australia (RAA SA) conducted an in-depth investigation of the impact of low aromatic fuel on engines. The RAA SA attended a range of public forums to discuss their findings. It found absolutely no evidence of harm arising from the use of low aromatic fuel and that these findings were seen as credible because the organisation was perceived as authoritative and independent.<sup>3</sup>

5.4 Mr Catchlove also stated that fear about the potential impact of low aromatic fuel on engines disappeared in Alice Springs within 6 to 12 months after the introduction of Opal (which occurred in 2006) because there was no evidence for harm. It is now a non-issue in Alice Springs.<sup>4</sup>

5.5 Mr Coffey stated that in January 2006, he switched his vehicle to low aromatic fuel and it is now available on every bowser in every Ngaanyatjarra

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1 Senator Claire Moore, *Committee Hansard*, 24 June 2012, p. 15.

2 Mr Craig Catchlove, Director, Corporate and Community Services, Alice Springs Town Council, *Committee Hansard*, 24 July 2012, p. 11.

3 Mr Craig Catchlove, Director, Corporate and Community Services, Alice Springs Town Council, *Committee Hansard*, 24 July 2012, pp. 11–13.

4 Mr Craig Catchlove, Director, Corporate and Community Services, Alice Springs Town Council, *Committee Hansard*, 24 July 2012, p. 16.

community, and that in the six years since then, Mr Coffey has not received a single complaint about the quality of the fuel.<sup>5</sup>

5.6 A different perspective was presented by the Northern Territory Chamber of Commerce. Ms Kay Eade stated that with low aromatic fuel, 'most mechanics ... say, "Don't use it in your car"'. As a consequence, she believed that most businesses ended up using premium and therefore paying more for fuel.<sup>6</sup>

5.7 Evidence from one fuel retailer in remote central Australia typifies the nature of second-hand claims that the fuel may not be safe:

While your studies say that "Opal fuel" will not damage your engine, I'm not convinced, long term use may in fact have a detrimental effect on an engine, we have heard of many people in Alice Springs requiring fuel system repairs after using Opal fuel.<sup>7</sup>

5.8 The committee also received evidence suggesting that some motorists persist with the mistaken view that the fuel may present a problem for engines. Wiluna Traders, a retail outlet in South Australia, commented:

Yes the other store in Town does have Opal fuel, but because most travelling people and some locals think that Opal is inferior, we secure a lot of Unleaded sales and none of that is for Sniffers.<sup>8</sup>

5.9 Representatives of CAYLUS made two points about the view that low aromatic fuel could damage car engines. The first point was that the evidence from the Northern Territory Chamber of Commerce demonstrated that there are limits to an education campaign because there still appeared to be a widespread belief in engine damage within important sectors of the community despite evidence from motoring organisations, Alice Springs Town Council, Caltex Indervon, and Indigenous communities saying that they are unaware of a single substantiated example of engine damage from using low aromatic fuel. The second point was that the fear about the effects of low aromatic fuel upon engines is an indication of how fragile the current voluntary agreement could be.<sup>9</sup> If Wiluna Traders' competitor, for example, accepted their rival's evidence that they were gaining fuel sales because the competitor was stocking low aromatic fuel, it would be a simple business decision to decide to reject low aromatic fuel in order to regain that market share.

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5 Mr Gerard Coffey, CEO, Ngaanyatjarra Council, *Committee Hansard*, 25 June 2012, pp. 17–18.

6 Ms Kay Eade, Executive Officer, Northern Territory Chamber of Commerce, *Committee Hansard*, 25 June 2012, p. 31.

7 Mr David Cox and Mrs Melissa Cox, Mt Dare Hotel, Correspondence received 13 July 2012, Senate Standing Committee on Community Affairs, Low Aromatic Fuel Bill 2012.

8 Mr Bryce Boxall, Wiluna Traders, Correspondence received 10 September 2012, Senate Standing Committee on Community Affairs, Low Aromatic Fuel Bill 2012.

9 Mr Blair McFarland and Mr Tristan Ray, CAYLUS, *Committee Hansard*, Wednesday 25 July 2012, pp. 40–41.

5.10 In this regard, the committee was concerned to hear that there are cases in which a retailer has ceased stocking low aromatic fuel, and the government has had only limited success in addressing these incidents.<sup>10</sup> There are three sites where this remains an outstanding issue. DoHA explained what, to their knowledge, had happened in each case:

Name	Reason for moving from stocking low aromatic fuel
Marla Roadhouse, South Australia	This site received their last delivery of low aromatic fuel in December 2009. The General Manager has concerns regarding the suitability of low aromatic fuel in small engines stating that he has had to dispose of small engines in the past and believes this is a result of low aromatic fuel. The General Manager has recently agreed to a teleconference with BP Australia (BP) technical support to discuss his concerns. The Department of Health and Ageing is also working with BP to develop a small engines fact sheet in an effort to address some of the perceived issues associated with low aromatic fuel in small engines.
Kings Canyon Resort, Northern Territory	This site received their last delivery of low aromatic fuel in August 2011. The Resort Manager has concerns regarding the technical qualities of low aromatic fuel and its reliability and effectiveness. The Department arranged a teleconference between the site and BP technical support to discuss concerns. Despite this conversation the site decided to stop stocking low aromatic fuel. The Department attempted to meet with the Resort Manager in July 2012 to discuss his concerns further, however he was unavailable. The Department instead met with the Shell Australia (Shell) Regional Manager for the Northern Territory in Kings Canyon. As the Resort is a Shell branded site, the Shell representative is going to discuss the supply of low aromatic fuel further with the Resort Manager.
Jervois Roadhouse, Northern Territory	This site received their last delivery of low aromatic fuel in August 2009. This Roadhouse has decided to stock PULP.

Source: Answer to question on notice from Department of Health and Ageing, received 14 September 2012.

5.11 The committee notes that in both cases where there is a claimed reason for discontinuing the sale of fuel, it relates to its fitness for use in engines.

### **Production capacity constraints for regular low aromatic fuel**

5.12 BP Australia pointed out that the production of low aromatic fuel impacts on the production of other fuels such as PULP and diesel. In light of these considerations, BP Australia considered that:

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<sup>10</sup> Answer to question on notice #17 from Department of Health and Ageing, received 14 September 2012.

Any mandated decision to rollout Opal fuel will need to be mindful of production and supply chain constraints (which may be considerable). Increases will need to be incremental, forecast well in advance and leverage existing supply envelopes.

The Kwinana Refinery currently produces some 20 million litres per annum of Opal fuel, and could produce up to 40 million litres per annum at the current production subsidy. Production up to 100 million litres per annum is possible but would require review of the production subsidy.

5.13 The committee notes that the SACES report to government found that a legislative scheme that prohibited the retail of RULP throughout relevant areas would require the production of almost 100 million litres of low aromatic fuel per annum.<sup>11</sup> This figure represents a limit in existing infrastructure capacity. The committee accepts that there will need to be clear communication by Government regarding future production targets and subsidy levels.

### **Recommendation 7**

**5.14 The committee recommends that the Australian government conclude as soon as practical a subsidy review that covers production of up to 100 million litres per annum of low aromatic fuel**

### **Distribution, storage and current subsidy schemes**

5.15 The committee received evidence about the nature and extent of current subsidies for low aromatic fuel. Subsidies 'are paid to fuel producers to address the higher costs of production of fuel given that it is more highly refined and produced in smaller quantities'. The government also pays subsidies 'to distributors to reflect the additional costs of transporting the fuel, because the only storage places currently are in southern Australia.'<sup>12</sup>

5.16 Indervon Pty Ltd is a Caltex franchise owned by Ngaanyatjarra Council that distributes low aromatic fuel through the Northern Territory and Western Australia. Indervon's view was that a storage facility at Port Hedland would be useful for supplying communities in Western Australia.<sup>13</sup>

5.17 Indervon's business manager, Ben Clifton, noted that converting existing RULP bowsers to low aromatic fuel involved minimal cost, but that start-up costs for a new outlet were substantial. Mr Clifton estimated that a new 20,000 litre commercial

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11 South Australian Centre for Economic Studies, *Cost Benefit Analysis of Legislation to Mandate the Supply of Opal Fuel in Regions of Australia*, Adelaide and Flinders Universities, January 2010, *Cost Benefit Analysis*, p. vii.

12 Ms Sue Campion, Acting First Assistant Secretary, Mental Health and Drug Treatment Division, DoHA, *Committee Hansard*, 16 August 2012, pp. 10–11.

13 Mr Ben Clifton, Business Manager, Indervon Pty Ltd, *Committee Hansard*, 25 June 2012, p. 17.

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tank for the Tanami would cost \$150,000, with the purchase of the fuel being an additional cost.<sup>14</sup>

5.18 Tilmouth Well Roadhouse alluded to the costs of storage at retail sites:

However, with monthly fuel deliveries only, the roadhouse has limited storage capacity and fuel tanks and therefore cannot facilitate another fuel type.

We have always maintained that we would be willing to sell Opal fuel if the Government was prepared to supply and install a bowser and tank to accommodate it.<sup>15</sup>

5.19 The committee notes that the intention behind low aromatic fuel roll-out is to replace current aromatic fuel, not to be added as an additional option. Additional bowsers or tanks should not therefore be needed at existing sites.

5.20 Issues were also raised about the level of subsidy available to remote locations, particularly in Western Australia. Concern was expressed that, given the absence of a storage depot in Western Australia, the freight subsidies are not covering cost of transporting fuel to remote communities in central Western Australia and the Kimberley.<sup>16</sup>

## **Recommendation 8**

**5.21 The committee recommends that the Australian government review distribution subsidies and their calculation for remote regions, particularly in Western Australia.**

### **Commercial disadvantage**

5.22 Another reason sometimes given by retailers for not converting to low aromatic fuel is that it may put them at a commercial disadvantage. Wiluna Traders, cited above, referred to their belief that they were gaining fuel sales because a local competitor was stocking low aromatic fuel. They also expressed concern about the risks to changing, if their rivals did not:

In our discussions about changing to Opal fuel we are quite willing to change and all we asked is that the Towns around us, also only had Opal fuel. Meekatharra is our main concern and as a Business decision, after all

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14 Mr Ben Clifton, Business Manager, Indervon Pty Ltd, *Committee Hansard*, 25 June 2012, p. 19.

15 Mr Roy Chisholm, Tilmouth Roadhouse Pty Ltd, Correspondence received 18 July 2012, Senate Standing Committee on Community Affairs, Low Aromatic Fuel Bill 2012.

16 Mr Ben Clifton, Business Manager, Indervon Pty Ltd, *Committee Hansard*, 25 June 2012, p. 17.

1/3 of our Aboriginal population either live or go there every week to purchase Alcohol or food or do Banking business & possibly get Fuel.<sup>17</sup>

5.23 Mr Catchlove made the point that to the best of his knowledge, no fuel retailer had suffered any commercial loss as a result of the switch to Opal fuel within Alice Springs.<sup>18</sup> The committee notes that the situation in Alice Springs demonstrates that no commercial disadvantage is incurred when a whole community or region switches to Opal. The committee acknowledges that the Commonwealth rollout of Opal is being done on a regional basis.

### **Concerns about substitution by sniffers**

5.24 Ms Eade said that members of the business community were hesitant about the bill because they had concerns that if RULP was prohibited, sniffers would simply substitute RULP with other volatile substances.<sup>19</sup>

5.25 Dr Boffa, accepted that some level of substitution occurs. However, he noted that organisations such as CAYLUS had a positive impact on reducing the substitution of deodorants and paints.<sup>20</sup> Furthermore, Dr Boffa pointed out that even if some substitution does occur, the effects of other volatile substances are much less harmful than petrol:

Substitution will happen. The point I was making before is that I would not want government or anyone to think that, because substitution could happen, it is not worth mandating Opal, because it clearly is. Even without CAYLUS addressing substitution, and even if some of these young people went from petrol to paint or other things, it is nowhere near as harmful.<sup>21</sup>

### **Premium low aromatic fuel**

5.26 Some retail outlets that were mentioned during the course of the inquiry stock premium unleaded petrol (PULP) either in addition to RULP, or as the only fuel they keep onsite. Like RULP, PULP is sniffable. However, unlike RULP, it cannot be substituted using existing low aromatic fuel.

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17 Mr Bryce Boxall, Wiluna Traders, Correspondence received 10 September 2012, Senate Standing Committee on Community Affairs, Low Aromatic Fuel Bill 2012.

18 Mr Craig Catchlove, Director, Corporate and Community Services, Alice Springs Town Council, *Committee Hansard*, 24 July 2012, p. 16.

19 Ms Kay Eade, Executive Officer, Northern Territory Chamber of Commerce, *Committee Hansard*, 25 June 2012, p. 31.

20 Dr John Boffa, Public Health Medical Officer, Central Australian Aboriginal Congress, *Committee Hansard*, 24 July 2012, pp. 26, 29.

21 Dr John Boffa, Public Health Medical Officer, Central Australian Aboriginal Congress, *Committee Hansard*, 24 July 2012, p. 31.

5.27 The general view heard by the committee is that sniffing of PULP is not a significant problem. This is at least in part because the overwhelming majority of vehicles used in central Australia run on either regular fuel or diesel, rather than PULP:

I think another factor there is that, to date, there have not been substantial issues with sniffing premium because, largely, people who sniff petrol are not buying it—they are stealing it; and because, largely, the cars that are around them are cars that use standard unleaded.<sup>22</sup>

5.28 The committee is aware of some evidence that RULP fuel consumption may be on the decline in general, in favour of PULP or diesel. Ben Clifton commented on what he was hearing in industry circles:

Unleaded is on the decline in general in the rest of the country and it is all heading towards premium fuels. A lot of that has got to do with the car manufacturers saying, 'You can only put premium 95 or premium 98 in our car,' let alone Opal being not up to the specification but regular unleaded. The biggest emerging market in the next 10 to 15 years is biofuels. If anything was to come out of this BP would look to make a bio-blended low aromatic fuel. It seems regular unleaded is on the decline, as are unleaded car sales on the decline. It has been documented that diesel has taken over as the preferred choice of vehicle based around fuel economy.<sup>23</sup>

5.29 The committee asked DoHA about trends in the use of the fuel production subsidy. Noting a small decline in the number of litres for which a subsidy has been claimed, the Department commented:

The fuel industry has reported that in recent years there is a national trend towards the use of diesel and premium fuels rather than the 91 octane unleaded grade of petrol. In addition, the Department of Health and Ageing is also aware that anecdotally there has been a decrease in self-drive tourism which may also affect demand for Opal fuel.<sup>24</sup>

5.30 CAYLUS representatives indicated that they are aware that the rise of premium fuel could present an issue in future, though it is not yet doing so:

[A]s forecast, there is that discussion about there being less use of standard unleaded down the track. We have not yet seen any evidence of that and, as mentioned, we tend to focus our efforts on where the sniffing is now. Should that start to rear its head—and it sounds like it will, down the track—accepting that there may never be an Opal premium and we have this window of time where all the cars around that generation are standard unleaded cars, to us that is all the more reason we cannot spend five

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22 Mr Tristan Ray, CAYLUS, *Committee Hansard*, Wednesday 25 July 2012, p. 44.

23 Mr Ben Clifton, Business Manager, Indervon Pty Ltd, *Committee Hansard*, 25 June 2012, p. 19.

24 Answer to question on notice #3 from Department of Health and Ageing, received 17 September 2012.

years—or 30 years, as someone mentioned yesterday—or even two negotiating this. We need to do this in a hurry and grab this window of opportunity, and we think mandating legislation is going to give us the best chance of grabbing the window.<sup>25</sup>

5.31 In some locations, premium fuel is managed through locking of the bowsers, so that motorists have to get a key, to ensure it is being used only in car fuel tanks.<sup>26</sup> The committee understands that a low aromatic fuel of equivalent octane to PULP already exists, though not for use in cars; it has no information on the costs or other factors involved.

### *Committee view*

5.32 The committee was disappointed at the persistence of misinformation about the performance of low aromatic fuel in engines. It remains the case that no first-hand evidence has been provided of engine damage or failure that can be attributed to the use of this fuel, rather than to other factors such as fuel contamination, vehicle age and unrelated mechanical failures.

5.33 The persistence of such myths indicates that there may be limits to what can be achieved through education and awareness campaigns. It also suggests that the voluntary roll-out of low aromatic fuel may never be fully complete: there may always be a number of stakeholders who, for whatever reason, decline to stock the product even if its safety can be assured, and no economic disadvantage to the retailer arises from its adoption.

5.34 Given that certain retailers have consistently opposed Opal, and that potential commercial disadvantage has been one of the reasons cited for opposing Opal, the committee considers that an approach based on the declaration of low aromatic fuel regions, as envisaged in the bill, may be the best way to ensure consistency of supply within the market for regular fuel and thereby prevent any potential commercial disadvantage.

5.35 More generally, the evidence received by the committee endorses a regional approach to roll-out, attempting to ensure all retail outlets in an area switch over to the new fuel. The bill is not necessary in order to adopt the regional approach. On the contrary, that has been the tactic for the voluntary program, and as chapter three showed, it has achieved considerable success. The bill would however make it easier to ensure regional adoption of low aromatic fuel in those known cases where individual outlets refuse to cooperate in the longer term.

5.36 RULP still accounts for the majority of the petrol market in remote regions of Australia. However, the increase in the numbers of cars that require premium fuel

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25 Mr Tristan Ray, CAYLUS, *Committee Hansard*, Wednesday 25 July 2012, p. 44.

26 Answer to question on notice from Voyages Indigenous Tourism Australia, received 25 July 2012; *Committee Hansard*, 25 June 2012, p. 43.

means that the current opportunity to tackle petrol sniffing based primarily on substituting Opal for RULP and having some restrictions on the sale of PULP may change if the current growth in premium fuel use continues.

5.37 If the complete substitution of RULP with low aromatic fuel in affected areas does not take place soon, governments risk firstly allowing the petrol sniffing culture to persist, and secondly, being faced with a larger problem in the foreseeable future when low aromatic alternatives to premium fuel might need to be developed in order to try and contain the problem of petrol sniffing.

5.38 Proceeding with a legislative approach would, as the report to government by SACES pointed out, provide significant benefits including reduced harm to individuals, families and communities, lower health costs and increased productivity, over and above the costs of implementing the legislation. If the use of premium fuel increases significantly in affected communities, the cost and complexity of the policy could increase. For this reason, the committee believes that timing is critical and that an opportunity to finish the job should be grasped.