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Committee Secretary

House of Representatives Standing Committee on Economics
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GAS ENERGY AUSTRALIA

**SUBMISSION TO THE HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS**

Inquiry into Australia's Oil Refinery Industry

Dear Secretary

Gas Energy Australia is pleased to make a submission to the House of Representatives Standing Committee on Economics - Inquiry into Australia's Oil Refinery Industry. This submission will focus on part 3 of the Inquiry's Terms of Reference and address potential issues for Australia's energy security from possible further closures of oil refinery capacity, noting the findings of the 2011 National Energy Security Assessment (NESA).

From an energy security perspective, the key question that needs to be answered is what policies Australia should adopt to prevent its liquid fuel security from deteriorating from 2016. Gas Energy Australia is concerned the Final Energy White Paper (FEWP) fails to do this.

Gas Energy Australia believes that increasing the uptake of alternative fuels, especially gaseous fuels, offers Australia the best prospect of preventing its liquid fuel security from deteriorating from 2016, particularly in the face of possible further closures of domestic oil refineries.

Gas Energy Australia, until recently LPG Australia, is the national peak body which represents the bulk of the downstream alternative gaseous fuels industry which covers Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG). The industry comprises major companies and small to medium businesses in the alternative gaseous fuels supply chain; refiners, fuel marketers, equipment manufacturers, LPG vehicle converters, and the providers of services to the industry.

Oil refinery closures and Australia's energy security

This Inquiry is timely given widespread community concerns about the impact of the recently announced oil refinery closures - on Australia's liquid fuel security.

Gas Energy Australia notes that the Commonwealth Government's recently released FEWP, which draws on the 2011 NESAs, concluded:

- a. the decline in Australia's domestic refining capacity that will follow the Clyde and Kurnell refinery closures will not impair Australia's liquid fuel security; and
- b. in particular, the substitution of imports of crude oil for imports of refined fuel as a result of the Clyde and Kurnell refinery closures does not pose any additional risk to market security.

That said, the FEWP concedes that retention of a domestic refining presence does offer Australia some liquid fuel security benefits which need to be assessed against the associated costs.

This Submission will not attempt to estimate what is the critical level of domestic refining capacity at which further closures would imperil Australia's liquid fuel security. Instead, its principal focus is on how Australia should respond to the 2011 NESAs' conclusion that our liquid fuel security will deteriorate from 2016 as a result of continued rising oil prices as well as increased import reliance combined with decreased non-OPEC and conventional oil supplies, leading to a greater reliance on international supply chains and geopolitically and geologically difficult locations.

While Gas Energy Australia agrees these factors will reduce Australia's liquid fuel security, it considers the NESAs do not place sufficient weight on the significant downside risk to global oil supplies posed by the potential for a major global oil supply shock (e.g., as a result of increased military action in the Middle East) or a shortfall in global investment over the medium or long term of the sort assessed by the International Energy Agency (IEA) in its 2011 World Energy Outlook (WEO).

Consequently, from an energy security perspective, the key question that needs to be answered is what policies Australia should adopt to prevent its liquid fuel security from deteriorating from 2016. Gas Energy Australia is concerned the FEWP fails to do this.

One option is for the Commonwealth Government to try to prevent any more oil refinery closures through some form of industry assistance. Apart from noting the likely high cost, Gas Energy Australia considers that governments are best placed to judge the merits of such a policy from the perspective of the overall impact of oil refinery closures on Australia's economy. However, as alluded to in the FEWP, until the critical level of domestic refining capacity at which further closures would imperil Australia's liquid fuel security - is reached, ensuring imports of refined fuel do not replace imports of crude oil is unlikely to improve energy security.

Another option is for the Commonwealth Government to encourage the private sector to increase its stockholdings of refined fuel or establish its own oil stockpile similar to the Strategic Petroleum Reserve in the United States. In this context, it is worth noting the statement in the FEWP that the Commonwealth Government is currently considering possible options to respond to the issue of Australia's non-compliance with its obligation as member of the IEA to hold oil stocks equivalent to no fewer than 90 days of the previous year's average daily net imports. At the same time, the FEWP observes that "the 2011 NESAs did not find any evidence that breaches of Australia's IEA stockholding obligation were an indication of a decline in domestic energy security".

Consequently, Gas Energy Australia urges the Commonwealth Government to consider any options to increase Australia's oil stocks on the basis of their cost and effectiveness in improving Australia's liquid fuel security compared to other options, rather than just meeting its obligation to the IEA as an end in itself. Establishing and maintaining a national strategic petroleum reserve is not cheap. A 2005 study conservatively estimated that as at 2004, establishing and maintaining the Strategic Petroleum Reserve had cost US taxpayers between \$US41.2 to \$US50.8 billion (in 2004 dollars), or \$US65 to \$US80 per barrel of oil deposited in it.¹ Moreover, in terms of

¹ Taylor and Van Doren, The Case Against the Strategic Petroleum Reserve, Policy Analysis, November 21, 2005, Cato Institute.

effectiveness, while releases from a stockpile can ameliorate temporary supply disruptions, they cannot offset long-term market disruptions.

The only way to minimise the impact on Australia's economy of a long-term disruption to the global oil market and resulting sustained high oil prices is to reduce our dependence on, increasingly imported, oil.

When Australia joined the IEA shortly after its establishment in November 1974 in response to the 1973 Arab oil embargo, there were no widely available alternatives to oil-based fuels. That situation has changed and the current situation is reflected in the findings of the Strategic Framework for Alternative Transport Fuels (SFfATF) released by the Commonwealth Government in December last year.

Gas Energy Australia welcomes the acknowledgement in the 2011 NESAs and the SFfATF that it is prudent to maintain a diverse energy supply and encourage the development of commercially viable alternative liquid fuels and technologies. It also agrees with the 2011 NESAs' conclusion that diversity of supply, including access to alternative fuels, helped Australia maintain its liquid fuel security in the face of a spate of unhelpful events, including a return to high global oil prices, the political crisis in Libya, as well as oil spills and natural disasters.

Alternative gaseous fuels and Australia's energy security

At present, LPG is the main alternative fuel used in Australia. LPG makes a significant contribution to meeting our energy needs in the following two ways:

- a. As a stationary energy source, LPG is used by households and businesses for a variety of uses:
 - 1) LPG has given Australians access to gas for cooking, space and hot water heating since the 1950s and has provided a pathway for consumer acceptance and take-up of natural gas. Today, it is the gaseous fuel used by around one million households for these purposes. LPG is also used by around seven million households for recreational activities (BBQs and outdoor heating).
 - 2) LPG also supplies around 100,000 commercial and industrial enterprises and is used in a variety of industrial processes, including power generation and heating.
 - 3) LPG's use is most prevalent in areas not connected to the natural gas network, especially regional Australia.
- b. As an automotive fuel, Autogas is Australia's most significant alternative transport fuel accounting for the bulk of the sector's share of the overall transport fuel market. It fuels over 500,000 vehicles, the majority being owned by private motorists, and is the predominant fuel used by the taxi industry and is heavily used by fleet and trade vehicles, including light commercial vehicles.
 - 1) A recent survey of Autogas and other fuel vehicle users commissioned by ABMARC² found that 95 per cent of LPG vehicle owners live in outer suburbs or country areas.
 - 2) The Survey also found that more LPG users than other respondents were in lower weekly household income brackets (less than \$700/week).
 - 3) Moreover, 72 per cent of Autogas users considered they would not be able to afford their current range of activities if they had to use petrol.

² ABMARC, a specialist Powertrain Research Company is the authoritative source for completely unbiased and comprehensive analysis of conventional and alternative Powertrains and fuels.

Not only is Australia completely self-sufficient in LPG but it is also a net exporter of LPG. In 2011, Australia produced 2,580 kilotonnes of LPG, satisfying a local demand of 1,803 kilotonnes with net exports of 716 kilotonnes. Of particular relevance to this Inquiry is the fact that 1,998 kilotonnes (77%) of Australia's LPG production in 2011 was sourced from natural gas field processing, compared to 582 kilotonnes (23%) from local oil refineries.

Gas Energy Australia acknowledges the findings of the 2011 NESAs that self-sufficiency or adequacy alone does not guarantee energy security. Nevertheless, it wishes to highlight the fact that Australia's LPG industry has the infrastructure and product affordability to also make a significant contribution to Australia's energy security in terms of reliability and competitiveness. This infrastructure is extensive and includes seven natural gas processing plants, nine coastal terminals, 170 regional depots, 1,000 local small business distributors and over 3,700 Autogas refueling stations across Australia.

Importantly, because LPG is so portable and can be readily transported virtually anywhere by sea, rail, road or pipeline to cylinder filling plants and bulk storage facilities, LPG's diverse well established supply, storage and distribution infrastructure is extremely resilient. As such, while not as visible as some critical energy infrastructure such as major power lines or natural gas pipelines, it nonetheless represents a valuable and unique national asset in terms of its resilience and ability to fuel a wide range of energy applications anywhere across Australia. Indeed, LPG's portability and the resilience of its supply chain make it especially well suited to support areas affected by emergencies and natural disasters.

Moreover, the integrated nature of its supply chain, whereby LPG used in the stationary energy and Autogas markets can be stored and distributed together, allow it to capture economies of scale that enhances its affordability, bearing in mind that on average over time, Autogas costs up to 50 per cent less at the bowser than petrol. In addition, these benefits spill over to other industries and the broader community as increased use of stationary energy LPG can delay or postpone indefinitely the significant costs of upgrading the electricity grid as well as reduce the strain on it during peak load periods. This can be especially critical in remote areas where electricity supply is restricted.

While not as well established as LPG, on the back of recent substantial infrastructure investments and Australia's vast and expanding natural gas resources, the use of LNG and CNG has the potential to expand in a variety of both domestic stationary energy and transport applications, particularly power generation, trucks and buses. Similar to LPG, the portability of LNG and CNG enable these alternative gaseous fuels to be used in many different locations, including remote rural areas. Again, similar to LPG, the stationary energy use of LNG and CNG can reduce the costs of running the electricity network.

Increasing the uptake of alternative fuels and improving Australia's energy security

Gas Energy Australia considers increasing the uptake of alternative fuels, including gaseous fuels, would improve Australia's liquid fuel security, particularly in the face of possible further closures of domestic oil refineries.

Gas Energy Australia welcomes the Commonwealth Government's commitment to continue to work with industry through the SFfATF Implementation Advisory Group (IAG) to reduce the barriers to the uptake of alternative transport fuels identified in the SFfATF. The range of policies which influence the uptake of alternative fuels (e.g., fuel quality standards, vehicle emissions standards, carbon dioxide emission standards, fuel taxation and carbon pricing) and are handled by a range of different Commonwealth portfolios, highlights the importance of this commitment and the need for policy coordination and coherence in this area.

Conclusion

As outlined above, Australia could respond to the recently announced domestic oil refinery closures in a variety of ways with differing likely costs and effectiveness.

Increasing the uptake of alternative fuels, especially gaseous fuels, offers Australia the best prospect of preventing its liquid fuel security from deteriorating from 2016, particularly in the face of possible further closures of domestic oil refineries. However, for this to happen, governments and industry must work together to reduce barriers to the uptake of alternative transport fuels and adopt an overarching aspirational target for the take-up of such fuels to which they would commit - along with actions to help achieve the target.

Recommendations

Gas Energy Australia is concerned that minimal progress - in terms of concrete actions to reduce barriers - has been achieved to date, and that Commonwealth Government resources allocated to this work have been significantly reduced.

In an effort to give this exercise more focus so that it facilitates greater uptake of alternative fuels, Gas Energy Australia reiterates its previous recommendations to the Commonwealth Government - that it should:

- a. outline a process to quantify what is a prudent take-up of alternative transport fuels, particularly in relation to preventing the decline in Australia's liquid fuel security the 2011 NESA expects to occur from 2016; and
- b. use the quantification of what is a prudent take-up of alternative transport fuels to develop an overarching aspirational target for the take-up of such fuels to which Australian governments would commit, along with actions to help achieve the target

For your consideration.

Yours sincerely

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Chief Executive Officer

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