SUBMISSION 15

NRMA Motoring & Services

Australia's Oil Refinery Industry

A Submission to the House Standing Committee on Economics

November 2012

About NRMA Motoring & Services

NRMA Motoring & Services (NRMA) comprises almost 2.4 million Members in NSW and the ACT, and as such is Australia's largest mutual organisation. For more than 90 years, NRMA has represented the interests of motorists in relation to road funding, road safety and other relevant public policy issues.

NRMA began in 1920 when there were 20,000 motor vehicles on the road and the conditions of roads in NSW were dreadful.

Throughout the years, NRMA has fought for improved road safety, including seatbelts in cars, drink driving education programs, better road funding and fairer petrol prices.

Today NRMA has grown, and in addition to our advocacy activities, we have diversified to offer a range of motoring, travel, and lifestyle and services, including our legendary roadside assistance.

NRMA remains a Membership organisation with a focus on Member benefits and roadside assistance.

Comments and Queries

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Why is NRMA Interested in this Inquiry?

Australia is a large country with a dispersed population that relies on transport networks almost exclusively powered by fossil fuels. Australia is not self-sufficient in transport fuels. NRMA is concerned that a major disruption in transport fuel supply to Australia would have significant economic and social consequences.

Accordingly, this submission will focus on the following terms of reference:

2) a) current supply chains and their effectiveness in meeting Australia’s liquid fuel requirements;
2) b) import price outcomes for consumers from the current arrangements; and
3) Identify any potential issues for Australia's energy security from possible further closures of oil refinery capacity, noting the findings of the National Energy Security Assessment (December 2011).

NRMA would be pleased to attend a public hearing in relation to this Inquiry in order to provide further information on the issues raised in this submission.

Supply

As the world's ninth-largest energy producer, Australia has abundant renewable and non-renewable energy resources. Despite these resources, we are heavily dependent on imports of refined petroleum products and crude oil to meet our liquid fuel demand and our import dependency has increased over recent years.

Australia has three weeks' worth of transport fuels held by industry in refineries and within the distribution network with a further two weeks on route by sea. With increasing reliance on imported oil and uncertainty about future local refining capacity there is inadequate consideration of security of liquid fuel supplies by Government.

Transport alone consumes approximately 35 per cent of Australia's energy use and some 70 per cent of all liquid fuel supplies. Australian refineries currently produce around 75 per cent of Australia's petroleum needs; however, planned reductions in domestic refining capacity in the order of 10 per cent in 2013 with the closure of the Clyde Refinery in Sydney and a further 18 per cent per cent reduction in 2014 with the closure of the Kurnell refinery in Sydney will result in greater reliance on imports for refined product. Recent comments made by a Shell spokesman suggest that their Geelong refinery may also not be financially viable. The loss of this refinery would then leave only four in Australia.

Beyond 2014 it is likely that increasing domestic production costs and the cost of upgrading ageing refinery infrastructure will result in further reductions in Australian refining capacity given the option of lower cost refined product imports.

NRMA believes that this over reliance on liquid fuel imports poses a significant risk to the social and economic stability of the Australian community.

In 1979 Australia became a member country of the International Energy Agency (IEA).

Before becoming a member country of the IEA, a candidate country must demonstrate (amongst other conditions) that it has as a net oil importer, reserves of crude oil and/ or product equivalent to 90 days of the prior year's average net oil imports to which the government has immediate access should the IEA's Coordinated Emergency Response Measures be implemented. As noted above Australia has only about five weeks (35 days) of reserves. Well below the IEA requirement.

The Government's recently released Energy White Paper suggests that in the event of a international supply disruption Australia would call on the IEA Coordinated Emergency Response Measures and that this, along with market forces that would come into play would be sufficient for Australia to secure necessary fuel supplies.

NRMA believes that this approach is blasé at best. A major disruption caused by strategic or political factors – while somewhat unlikely at this stage – would not be resolved by market forces or the Coordinated Emergency Response Measures.

Price

At present Australia has been shielded by higher fuel prices by the high Australian dollar. In the event of a serious global crisis this convenient financial safety net may not be available. There is a presumption that the market will resolve any short term interruption to supply but does not consider the impact on consumers in any detail.

As the Graph below clearly illustrates, there is a clear relationship between rising crude oil and pump prices associated with more frequent international events.

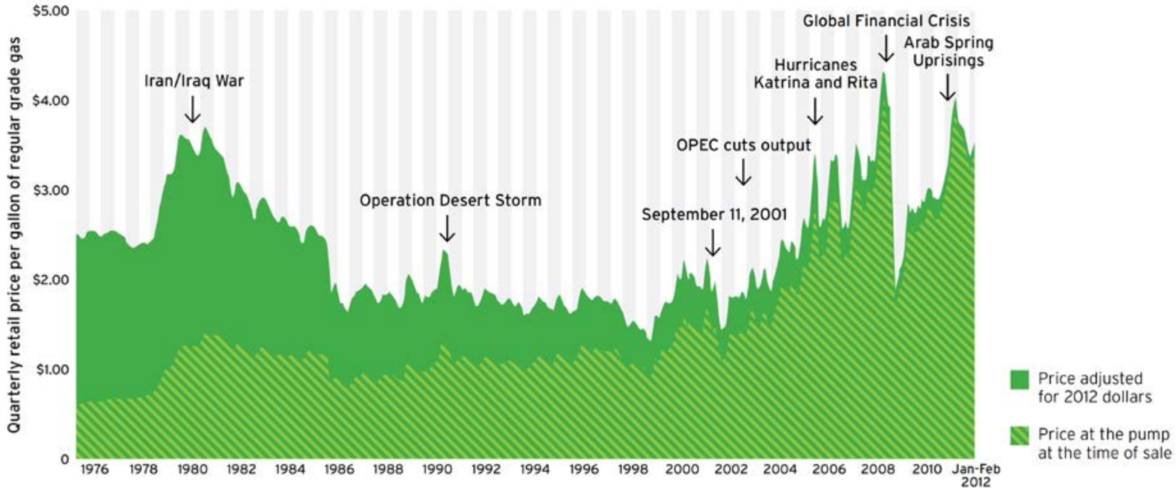

Figure 1: Global Instability Causes Unpredictable Prices Spikes
(Source: United States Energy Information Administration, Www.Whitehouse.Gov/Energy/Gasprices)

The history of petrol prices movements in Australia since the 1970s shows that crude oil price spikes are translated into higher prices at the pump. These price spikes have normally been reversed after a short period lasting a few weeks to several months.

However, the 1978 to 1982 (the second oil crisis), associated with the Iranian Revolution and the subsequent Iran-Iraq War, showed huge price spikes that have not been reversed. The average price of petrol in Australia rose from 19.7 cents per litre in 1978 to 39 cents per litre in 1982.

This doubling of the average price was not reversed. Historical evidence shows that average prices have continued to be upward trending excluding the period during the second half of 2008 associated with the Global Financial Crisis.

The initial price surge of the second oil crisis was driven by disruptions to oil supply associated with the Iran revolution in late 1978 and early 1978. However, the second and third spikes in this period were attributed to resurgence of global economic activity combined with speculative demand driven by fears of military conflict in the Persian Gulf and consequential oil supply interruptions, in the context of high oil production capacity utilisation rates in OPEC countries and worldwide. A period of continued supply interruptions and production cuts through 1980 and 1981 maintained significant upward fuel price movements for Australian motorists.

This period demonstrates that ongoing tensions associated with initial supply disruptions can lead to significant price increases that are not reversed. This example shows how delicate the liquid fuel vulnerability issue can become when a chain of events that can manifest itself into a doubling of the average fuel prices to motorists.

This example highlights the affect that an initial supply disruption can have on petrol prices, and the subsequent follow on impacts. Fuel vulnerability in the current global environment can be easily heightened by a similar chain of events.

NRMA research shows that volatile petrol price movements can have severe impact on family budgets not to mention the cost of delivering critical supplies such as medicines should a significant supply disruption occur.

The 2011 study analysed the impact of increased fuel running costs of four of the nation's most popular fleet vehicles – the Holden Commodore, Ford Falcon, Toyota Hilux and VW Transporter across a number of locations across Sydney and regional NSW. Two of the vehicles are also popular Australian family cars.

Increased costs were calculated from a base of $1.45/L, studying 15c/L and 55c/L increases in unleaded fuel prices.

At $2.00 per litre a driver travelling in a Toyota Hilux from Penrith to the CBD each day would see their annual fuel bill increase by about $2,500 and a the driver of a Ford Falcon by almost $1,600.

The tables below provide further examples of the potential impacts of petrol price rises:

Annual additional cost of unleaded petrol for a return trip to Sydney's CBD five times a week in a Ford Falcon (4L) rated at 9.9L/100km by the Australian Green Vehicle Guide:

FROM:	$1.60/L	$2.00/L
Windsor	$433.98	$1,591.26
Parramatta	$183.01	$671.04
Penrith	$435.52	$1,596.91
Katoomba	$787.64	$2,888.01
Campbelltown	$444.79	$1,630.90
Liverpool	$315.06	$1,155.22
Sutherland	$249.42	$914.54
Mittagong	$872.59	$3,199.50
Wollongong	$654.05	$2,398.18
Manly	$115.83	$424.71
Mona Vale	$238.61	$874.90
Epping	$169.11	$620.07
Hornsby	$209.27	$767.32
Gosford	$582.24	$2,134.88
Newcastle	$1,258.69	$4,615.20
Bathurst	$1,575.29	$5,776.06

Annual increase in cost of unleaded petrol for a return trip to Sydney's CBD five times a week in a Toyota Hilux 4x4 (4L) rated at 13L/100km by the Australian Green Vehicle Guide:

FROM:	**$1.60/L**	**$2.00/L**
Windsor	$569.87	$2,089.52
Parramatta	$240.32	$881.17
Penrith	$571.90	$2,096.97
Katoomba	$1,034.28	$3,792.36
Campbelltown	$584.06	$2,141.55
Liverpool	$413.71	$1,516.94
Sutherland	$327.52	$1,200.91
Mittagong	$1,145.82	$4,201.34
Wollongong	$858.86	$3,149.15
Manly	$152.10	$557.70
Mona Vale	$313.33	$1,148.88
Epping	$222.07	$814.26
Hornsby	$274.79	$1,007.56
Gosford	$764.56	$2,803.39
Newcastle	$1,652.82	$6,060.34
Bathurst	$2,068.56	$7,584.72

Selected monthly average unleaded petrol prices in Sydney since 2000:

January 2000	$0.77.8
February 2001	$0.91.2
January 2002	$0.81.3
March 2003	$1.00.8
February 2004	$0.90.3
January 2005	$0.97.1
September 2005	$1.30.5
June 2006	$1.38.4
January 2007	$1.12.4
July 2007	$1.21.1
February 2008	$1.37.9
July 2008	$1.60.8*
January 2009	$1.09.2
June 2009	$1.24.5
January 2010	$1.26.1
July 2010	$1.25.0
January 2011	$1.35.4
March 2011	$1.42.7
May 2011	$1.44.5
March 2012	$1.46.0
April 2012	$1.49.8
October 2012	$1.44.7

*Highest ever average monthly unleaded price in Sydney

Security

Australia is a large exporter of energy. However the vast majority of the liquid transport fuels used in Australia is imported.

In the event of a major supply disruption, NRMA is particularly concerned that Australia could be considered as ‘free riding’ by not meeting our International Energy Agency’s 90 day net imports stockholdings. Australia has regularly been in breach of this obligation since 2009-2010. The implications of this need to be considered immediately as it may seriously impact on Australia’s access to global emergency stocks. Australia’s ability to pay the resulting market prices for access to fuel should not be overestimated. Other considerations will come into play.

Relying on the market to solve some of these issues/problems is unrealistic. Political and strategic disruptions – cannot be resolved purely using market mechanisms. The White Paper’s assumption that market forces will come to the rescue is seriously deficient and blasé.

Additionally, without a clearly defined minimal level of refining capacity, necessary for national resilience and security, it is conceivable that Australia could eventually become wholly reliant on imported processed fuels, sourced largely from the Asian refineries to our north. Despite espousing national self-reliance in our Defence policies, we would in effect be outsourcing our self-reliance to the Asian refineries to our north. That eventuality is not one that makes good sense for our nation's security.

Next Steps

NRMA is calling for the Government to take immediate action to consider:

- Implications of a serious global supply crisis in which more than just Australia's supply channels are impacted upon;
- Implications for consumers and supply chains should serious supply constraints arise;
- The effect of losing further refining capacity in Australia and the future availability of suitable quality crude;
- The implications of not meeting the International Energy Agency's 90 day net imports stockholdings. Further, we expect the Australia Government to develop strategies to remediate this situation urgently; and
- A joint strategy be developed using both government and the market to ensure Australia has an adequate and financially appropriate transport energy security policy.