

Australian Manufacturing Workers' Union

Submission

Inquiry into Australia's Oil Refinery
Industry

November 2012



Introduction

1. The Australian Manufacturing Workers Union (AMWU) represents approximately 100,000 members working across major sectors of the Australian economy. AMWU members are primarily based in the manufacturing industries in particular metal and vehicle manufacturing, but also in large numbers in the industries of food processing, mining, building and construction, printing and graphic arts, repair and service, aircraft and airline operations, and laboratory and technical services.
2. The AMWU welcomes the opportunity to make submissions to the Inquiry into Australia's Oil Refinery Industry. The Inquiry presents an opportunity to address a number of issues that are of critical importance to the AMWU and its members. This submission will highlight a number of matters that fall under the Inquiry's terms of reference, but our particular emphasis will be the impact of declining refinery capacity in Australia on direct and indirect employment.

Background

3. In July 2012, Caltex announced that it would be closing its Kurnell refinery in New South Wales in the second half of 2014 and converting it into a transport fuel import facility. This announcement came a year after Shell's announcement that it would wind up refining operations at its Clyde facility in Western Sydney, which will be converted to a storage facility for imported refined product.
4. Once the closures have taken place Australia will have only five remaining refineries, down from eight in 2003. The refineries are owned by four multinational integrated oil companies (IOCs), Shell, Caltex, BP and Exxon-Mobil.

Refinery	State	Permanent employees	Built	Closure
Caltex Kurnell	NSW	330	1956	Late 2014
Shell Clyde	NSW	275	1928	30/09/2012
BP Bulwer Island	QLD	340	1965	
Caltex Lytton	QLD	340	1965	
Exxon-Mobil Port Stanvac	SA	400	1963	April 2003
Exxon-Mobil Altona	VIC	350	1949	
Shell Geelong	VIC	470	1954	
BP Kwinana	WA	387	1955	

Figure 1. Australia's Oil Refineries.

5. In their closure announcements, Shell and Caltex both pointed to a number of pressures facing the domestic oil refining industry as the basis of their decision to close. Many of these have been covered at some length elsewhere, in particular in the federal government's recent *Energy White Paper*. Most particularly, both companies emphasised the difficulties faced by competing with the rapid growth of modern, larger-scale and more efficient refineries in Asia and the Middle East.
6. Australian refineries are small by international standards – the largest Australian refinery, BP's Kwinana refinery in Western Australia, is less than half the size of the smallest of the South Korean facilities. The largest of these 'mega-refineries', the Jamnagar complex in India, has a greater output than the entire Australian industry put together. Moreover, Australian refineries are old – mostly built in the 1950s and '60s - so large investment is required to bring them in line with evolving technological and environmental standards.
7. These pressures compound those faced by many Australian manufacturers, namely the pressure of the high Australian dollar and import costs for raw materials (in this case, crude oil).
8. Despite these competitive pressures, both the efficiency and the financial performance of the refining sector improved in 2010–11.¹ However, IOCs continue to monitor their involvement in refining. The ACCC has suggested that these refiner-marketers are scaling back involvement in downstream activities in order to pursue more attractive returns in crude oil exploration and production.²
9. In this context, it is appropriate to examine the impact of the recent refinery closures and what potential impact a further decline might have. If the market remains uncompetitive there is reason to believe this may be the case.

¹ *Monitoring of the Australian petroleum industry: Report of the ACCC into the prices, costs and profits of unleaded petrol in Australia* (2011), p 368.

² *Ibid*, p 361.

Energy security

10. At its peak, local oil refineries supplied almost 100% of the domestic petroleum market. Today that figure is around 75% and is expected to drop further to around 50% with the closure of the two NSW facilities. Meanwhile, the domestic demand for oil continues to increase at a rate of - on average - 2% per annum over the past 10 years.
11. This loss of domestic refining capacity is resulting in increasing reliance on imported petroleum products. OECD countries are concerned about loss of energy sovereignty and the consequent increased dependence on oil imports. The risks associated with greater dependence on imports include:
 - the potential for upward pressure on raw materials and suppliers resulting in higher prices flowing through the supply chain;
 - less interaction with customers and feedback thus less capacity to adapt quickly to product requirements - there remains a shortfall in Asia of refineries that meet Australian specifications; and perhaps most significantly
 - the concentration of risk of supply disruption in regions subject to natural and geo-political shocks and upheavals.
12. The most recent government *National Energy Security Assessment* and *Liquid Fuels Vulnerability Assessment* reports rated Australia's liquid fuel supply security as very high and indicated this would remain constant as the continued operation of some Australian refineries will still provide a diversity of supply, which is important for reducing the risks associated with a disruption in the global supply chain.³ Further rationalisation of the local industry would potentially lead to a decline in the nation's energy security. Importantly, these reports were written subsequent to the announcement of the closure of the Clyde refinery, but before Caltex's decision regarding Kurnell.
13. A report prepared for the CFMEU and AMWU on the closure of the Clyde refinery in 2011 summarised the issue as follows: 'In an era of increasing supply vulnerability a mix of local refining, crude, intermediate and product storage capabilities and infrastructure

³ Department of Energy, Resources and Tourism, *National Energy Security Assessment* (December 2011); *Liquid Fuels Vulnerability Assessment Report* (October 2011).

to support imported product and inter-refinery product movements provides options to underpin efficiency and security of supply.’⁴

14. The Federal Government needs to determine ways in which we can maintain a local industry and encourage capital investment, including methods of achieving cost reductions and improving technological innovation. In acknowledgment of the economic, social and environmental facets of this issue, the AMWU calls on the government to work with the states and various agencies (including planning, infrastructure, industry and competition policy) as well as industry and unions to determine a ‘whole of government’ approach to increase competition, research, innovation and investment in the downstream petroleum industry.

Direct impacts

15. The AMWU’s most immediate cause for concern over the closure of oil refineries is the resulting impact on employment. Around 4,700 permanent and contract workers are engaged in the oil refinery industry.⁵ The AMWU has many members engaged in work in refineries, particularly in maintenance and repair. Employment in this industry has declined in the last decade since the closure of the Port Stanvac refinery in South Australia. Hundreds more workers are currently facing an uncertain future with the recent closure of the Clyde refinery and the impending termination of operations at Kurnell.
16. However, the immediate impact of closure is not limited to the refineries themselves. A variety of industries located in the vicinity of the refineries rely on the business provided by the refinery to operate. Numerous local enterprises - metal fabricators, machinery manufacturers, as well as transport and service industries - are dependent on the work provided by the refineries. Strategic Economics’ report into the Clyde refinery closure estimated the immediate loss of jobs would be in the range of 1,700 – far more than the 570 permanent and contract positions at the plant itself.⁶

⁴ Strategic Economics and SGS Economics and Planning, *The Future of Clyde Refinery*, July 2011, p 61.

⁵ IBISWorld, *Petroleum Refining in Australia: Market Research Report (ANSIC C2510)*, Sept 2012.

⁶ Strategic Economics and SGS Economics and Planning, *The Future of Clyde Refinery*, p 6.

Indirect impacts

17. Of equal concern is the indirect impact of closures on downstream industries who rely on the by-products of the oil-refining process as feedstock for the manufacture of their own products. The energy sector and the chemical industry are intimately linked, with refineries providing the raw materials for products which support a wide range of industries.

Example: Exxon-Mobil Altona and Qenos

Qenos is Australia's sole producer of polyethylene. Qenos' Victorian facility is co-located with the Exxon-Mobil Refinery. At Qenos' facility in the Altona Petrochemical Complex, feedstock is piped from the refinery nearby and converted into petrochemicals which are used in the production of a broad range of products including polyethylene, polypropylene and synthetic rubber. The output supplies a variety of industries including the extensive plastic manufacturing sector who produce a wide range of goods. These include water storage tanks for domestic, rural and commercial use, industrial pipe production for application in the mining, gas and water sectors and everyday consumer items including milk bottles, food wrapping and packaging products.

Qenos is one of Victoria's biggest industrial operators and one of the largest employers in Melbourne's Western suburbs. They directly employ around 450 people across Melbourne as well as hundreds of contractors at peak times, and many local businesses survive on the business provided by Qenos and other companies who operate in the Complex. Moreover, Qenos feedstock provides the raw material to produce products that supply industries that employ tens of thousands. Qenos are an essential part of numerous manufacturing supply chains and the feedstock cost advantage they receive from their linkage with the nearby refinery is essential to this.

There has been speculation about the future of the Altona refinery for some years. Its closure would create the potential for increased costs associated with Qenos having to import all of their feedstock to be passed on down the supply chain, impacting in particular the SMEs who source exclusively from Qenos. Worse still, if the refinery closure were to make Qenos operations totally unviable, the resulting impact could be disastrous, as domestic manufacturers may be forced to turn to higher-cost imports for their raw

materials, potentially making them uncompetitive and forcing them out of the market altogether.

18. Plastic manufacturing alone employs tens of thousands of Australian workers. While the precise impact of the closures on dependent downstream industries requires more extensive investigation, it is crucial to understand that the impact of refinery closures goes far beyond the confines of the refineries themselves.

Conclusion

19. It is uncertain whether the future of the Australian oil refinery industry is as dire as some analysts predict. Irrespective of this, in its Energy White Paper the federal government acknowledged the need to “improve its understanding” of the critical downstream industries and their dependence on the oil refining industry.⁷ The AMWU calls on the government to ensure that the direct and indirect employment impacts of refinery closures are the central consideration at the forefront of any policy making in this area.

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⁷ *Energy White Paper 2012: Australia’s Energy Transformation*, p 118.