

**Caltex submission to
the House of Representatives Inquiry
into Australian Coastal Shipping**

April 2008

Executive Summary

Caltex Australia Limited is a significant user of quality petroleum shipping both on international voyages to and from Australia and on coastal voyages around the Australian coast.

The cost of coastal shipping has a direct impact on the economic viability of Caltex refineries in Sydney and Brisbane.

Caltex would welcome initiatives by the Rudd Government that contributed to improved efficiency and cost competitiveness of Australian coastal shipping.

Caltex

Caltex is Australia's largest refiner and marketer of petroleum products. On any given day Caltex produces from its refineries located in Brisbane and Sydney over 30 million litres of transport fuels such as petrol, jet fuel and diesel. In 2007 Caltex sold to customers right around Australia over 37 million litres a day approximately one third of all transport fuels used in Australia.

To produce these products and meet this demand for fuel Caltex must deliver crude oil to its refineries and finished product to its terminals. Almost all (>97%) of the crude oil processed in Caltex refineries is delivered by tankships. Similarly imports of products to be sold by Caltex to supplement refinery production and delivery of product from refineries to seaboard terminals outside Sydney and Brisbane are also made using tankships.

Caltex since 1997 is no longer a ship operator and acquires the tonnage it requires to carry its cargoes by chartering vessels from the spot tanker market and by time charter. Caltex has taken the position that it would be inefficient for a company the size of Caltex to maintain those specialised maritime skills and competencies at the level needed to operate petroleum tankers at the high level of safety and operational excellence that we require. Similarly ownership of shipping is something Caltex has stepped back from as the high cost of owning vessels diverts financial resources from our core business.

Caltex shipping load

In 2007 crude tankships delivered a total of 132 cargoes of crude to the Caltex refineries. Caltex imported 46 cargoes of finished transport fuels, other fuel and lubricant products and also undertook some 56 voyages delivering products from its refineries to seaboard terminals primarily along the Queensland coast. Add to that exports of refinery by-products and products that do not have a market in Australia and Caltex total shipping load was in the order of 250 voyages in the year. To accomplish these voyages some 70 different tankships were used ranging in size from small LPG and petrochemical carriers of around 3,000 DWT to large Suezmax crude carriers of 150,000 DWT

The coastal component of that shipping load is primarily the distribution of products from our Brisbane and Sydney refineries to terminals along the Australian east coast where 56 voyages were undertaken. All but 2 of these voyages were carried out by the Australian licensed tankships, the "Barrington" and the "Palmerston". There is expected to be a modest increase in coastal product voyages from late 2009 following expansion of diesel production capability at the Caltex Brisbane refinery. Coastal crude cargoes undertaken for Caltex in 2007 numbered 23 however the long term trend is downward as the production of these crudes is in decline.

Why Caltex has stake in the quality and the cost of coastal shipping

The transport of crude oil and petroleum products by ship in a safe and efficient manner is critical to Caltex business success and reputation. Petroleum is a hazardous product and the consequences of marine collisions, fires, explosions or oil spills can be dire for individuals, communities, businesses and the natural environment.

For this reason Caltex is committed to only using tankships, irrespective of flag, that meet the OCIMF (Oil Companies International Marine Forum) standards of vessel integrity and operating excellence. Similarly Caltex is supportive of the Port State Control (PSC) strategy as enacted by the Australian Maritime Safety Authority (AMSA) All vessels used by Caltex are subject to regular inspection by qualified OCIMF and PSC inspectors and vetted for compatibility with the terminals they will be loading from and discharging to.

While safety and environmental protection are paramount ongoing investment in the Australian refining industry depends on refineries remaining profitable. Caltex refineries operate in a globally competitive environment and in order to survive in that environment must be able to produce and deliver quality petroleum products to Australian customers at costs which are competitive with direct imports from overseas refineries. The price at which Australian refiners can sell their production is effectively set in most seaboard locations around Australia at the cost of importing into that location.

The profitability of a refinery is established by its gross margin less its operating costs. The gross margin the refinery achieves is the value (price times volume) it receives for its products less the delivered cost of the crude oil and any other feedstocks required to manufacture those products.

When product is sold from a refinery directly by pipeline into a local market (eg Sydney and Brisbane) the economic viability of that refinery is supported by the inherent higher cost of transporting clean product to that location compared to the cost of transporting crude oil to the refinery.

However when a market for product from that refinery is remote from the refinery, for example markets between Gladstone and Cairns along the

Queensland coast, the cost of transporting product by coastal tanker to that remote port effectively becomes additive to the operating cost of the refinery to be funded from the price of the product at that port which is set by the cost of direct imports.

The cost of coastal shipping is a mixture of factors, some of which are Caltex controlled and others which are set by the global shipping market and local cost factors.

Factors within Caltex control relate to how efficiently the carrying capacity of the two tankships operating on the coast for Caltex is used. This relates primarily to how well the size of tankage in the discharge ports is matched to the vessel capacity and the voyage pattern needed to support the market in a particular location. Caltex is addressing factors within its control by progressively improving its terminal capability along the Queensland coast. Caltex has built additional tankage at Gladstone and is currently investigating options for a terminal capacity upgrade in Mackay.

The actual cost of the vessel is determined by global market factors and the age and design features of the vessel. As older vessels are replaced the cost of those vessels reflects both the improved design of those vessels and the state of the global ship and ship building market at the time they are sourced. More modern vessels typically are of high capital cost, but offer benefits such as double hull construction, improved fuel efficiency, better cargo handling systems and improved manoeuvrability.

The most significant local cost factor is the higher cost of Australian crewing relative to international crews and the cost of maintaining vessels which spend most of their working life on the coast. The actual cost of crewing a tanker with Australian officers and ratings working to Australian conditions is approximately A\$5 million per year which at current exchange rates is approximately US\$4.5 million per year. Manning that same vessel with an international crew would incur costs of approximately US\$1.8 million per year or some US\$2.7 million less than the Australian crew cost.

Caltex recognises the importance of maintaining an efficient and effective Australian maritime industry to support Australian economic growth, to develop and train Australian seafarers to ensure Australia's national interests are secure for the future. So in Caltex view the key issue is having in place the appropriate policies that minimise the additional cost of maintaining an efficient and effective Australian maritime industry to the users of the services that industry provides.

Recommendations

As a user rather than owner or operator of coastal shipping Caltex has, at this time, no recommendations to make to the Committee regarding any particular initiative or policy other than to look for opportunities which will lead to an improvement in the quality and efficiency of Australian shipping.

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