

## Overview

Mobil Oil Australia Pty Ltd ("Mobil") is pleased to make this submission to the Senate Select Committee on Fuel and Energy. ExxonMobil Australia has also previously made a submission and appeared before the Committee in December 2008 in relation to its inquiry into the impacts of a greenhouse gas emissions trading scheme on Australian industry. In this current submission Mobil has confined itself to matters concerning the supply of liquid transport fuels to the Australian market.

In general, Mobil has responded in relation to its own operations as it is not in a position to comment on what competitors have done or plan to do.

Mobil is a major refiner and marketer of petroleum products in Australia. Mobil and predecessor companies have marketed petroleum products in Australia for over 110 years, commencing operations in Melbourne in 1895. Mobil's wholly owned subsidiary, Mobil Refining Australia Pty Ltd, owns and operates the Altona refinery in Melbourne and also owns the Port Stanvac refinery in Adelaide which ceased operations in 2003 and is to be demolished. Through Standard Vacuum Refining Company (Stanvac), Mobil commenced refining operations in Australia at Altona in 1949 and subsequently built the Port Stanvac refinery which commenced operations in 1963. Mobil operates bulk fuel terminals in Adelaide, Melbourne and Sydney and draws fuel from facilities operated by others in Brisbane, Darwin, Perth, Sydney and other seaboard locations.

Mobil owns or leases approximately 270 service stations, principally in major metropolitan markets around the southeast and east coast of Australia, which are operated by a single multi-site franchisee, Strasburger Enterprises (Properties) Pty Ltd (SEP), which is 50% owned by Mobil. SEP owns or leases a further 30 service stations which it also operates under the Mobil brand. Mobil supplies fuel to a large number of independent branded distributors in regional areas of Australia who in aggregate supply an independently owned and operated network of over 400 Mobil-branded and unbranded service stations around the country. Mobil also supplies fuel to independent resellers and major industrial and commercial customers.

In this submission, where applicable, references to "Mobil" may mean Mobil Oil Australia Pty Ltd or Mobil Refining Australia Pty Ltd or both of these companies.

Recent studies commissioned by the Commonwealth, such as the May 2009 ACIL Tasman report into Australia's Petroleum Terminal Infrastructure, the 2008 National Energy Security Assessment and the December 2009 ACCC report on its monitoring of the Australian petroleum industry, have all concluded that Australia is well placed with regard to the continuing competitive and reliable supply of petroleum fuels and Mobil would commend these reports to the Committee.

## **The Supply of Petroleum Fuels in Australia (Refining and Importing)**

There are four principal suppliers of petroleum fuels in Australia - Mobil, BP, Caltex and Shell. Each of these companies owns and operates refineries and bulk fuel terminals in various parts of Australia and most of them also import fuel into Australia. There are also a number of other companies which import petroleum fuels for resale or wholesale within Australia from time to time. There are major non-oil company operated fuel terminals in Melbourne, Sydney, Brisbane, Darwin and Perth. In Mobil's view, there are relatively low barriers to entry for companies wishing to supply petroleum fuels into Australia.

While the barriers to entry are low, the refining business environment has been and remains challenging.

In 2003, after several years of poor results from its refining operations at Port Stanvac, Mobil made the decision to cease operations at the refinery. For several years Mobil maintained the facilities at Port Stanvac in a condition which would enable a restart of refining operations (so called "mothballing") should future business conditions indicate that such operations could be viable and sustainable in the long term. In June 2009 Mobil announced that it would not restart operations at Port Stanvac and would proceed to demolish the refinery and remediate the site.

In late 2004 Mobil commenced a major restructuring of operations at Altona to enable the refinery to remain competitive into the future and support necessary investment in facilities to deliver higher specification products to meet the Commonwealth's post 2005 fuel standards. This restructuring entailed shutting down parts of the refinery and putting some existing equipment into new service. While this reduced the capacity of the refinery from around 130 to 80 KBD (4.6 billion litres per annum), the most likely alternative outcome would have been to shutdown the refinery altogether. The new and refurbished facilities at Altona were brought on stream successfully in late 2005 in time to meet the 1 January 2006 cleaner fuels requirements.

Australian refineries are small and have a higher cost base in comparison with many other refineries in the Asian region (e.g. in Singapore, Thailand, South Korea and Taiwan) which compete for the supply of petroleum products into Australia. For example, a refinery in Singapore that is owned and operated by Mobil's affiliated company ExxonMobil Asia Pacific Pte Ltd has the capacity to process around 600 KBD of crude oil (35 billion litres per annum), which is equivalent to around 80% of the total capacity of Australia's seven operating refineries. The Altona refinery has been upgraded to produce high quality fuels, which are typically traded at a premium price relative to fuels meeting the lower standards which apply in many other Asian countries. However, this local product price premium may diminish over time as product specifications tighten generally around the region and more of the production from regional refineries meets Australian standards. The ability to compete with product sourced from overseas markets was clearly established as the benchmark for

Altona when Mobil made the decision in 2004 to restructure the refinery and proceed with the Clean Fuels Project.

The tightening of Commonwealth and State fuel standards in recent years has led to significant investment in cleaner fuels by Australian refiners. Data collated by the Australian Institute of Petroleum (AIP) indicates that over \$3 billion has been spent by the Australian industry over the last decade in order to meet increasingly stringent product quality requirements.

As indicated above, the fact that product specifications generally in Asian countries are not as stringent as those in Australia has meant that not all refineries around the region can currently supply product meeting Australian standards. However, there are large refineries in Singapore, South Korea, Taiwan and Japan which are capable of supplying fuel to Australian standards. The Australian Petroleum Statistics (APS) published every month by the Department of Resources, Energy and Tourism (DRET) show regular imports from these countries and the latest ACCC report into petrol pricing in Australia concludes that there is increasing availability of Australian standard fuel within the Asia Pacific region.

Mobil is among the largest importers of petroleum fuel into Australia, sourcing products from refineries within the Asia Pacific region, including ExxonMobil Asia Pacific P/L's refinery in Singapore. Mobil's imports are primarily supplied into Adelaide, with smaller amounts going into Sydney and Melbourne. Mobil has imported fuel into Perth when it has been commercially attractive for it to do so versus local purchase options. Mobil is a net supplier of fuel to the industry (both to other major oil companies and independents) and currently about half of the fuel Mobil imports is supplied to other companies. Mobil plans its product imports on a long term basis and has not experienced difficulty sourcing product imports which meet the Australian quality standards.

Mobil also buys petroleum fuels from other refiners in Australia to maintain efficient supply to meet its market requirements around the country. For example, in Sydney, Brisbane, Darwin and Perth Mobil currently purchases products from Caltex, BP and Shell. Similarly, Mobil sells products to other companies, mainly in Adelaide and Melbourne but also in other locations from time to time. Mobil's fuel purchase and sale arrangements with other companies are negotiated independently on commercial terms off a transparent "import parity pricing" (IPP) basis which represents the true alternative available to buyers/sellers in Australia. Pricing reflects the cost involved in purchasing product on the Singapore spot market, plus a quality premium for local standards and freight, wharfage and other charges to deliver that product to Australia.

Mobil operates jointly owned fuel distribution terminals at Yarraville in Melbourne, Silverwater in Sydney and Birkenhead in Adelaide. Mobil also lifts significant volumes of fuel products through its joint ownership or other long term throughput arrangements (separately negotiated by location) from the following distribution terminals operated by other companies - Whinstanes in Brisbane (operated by BP); Botany in Sydney (operated by Vopak); Darwin

(operated by Vopak); Kwinana in Perth (operated by Coogee Chemicals); Newcastle (operated by Shell); Cairns, Townsville and Mackay (operated by BP); Gladstone (operated by Caltex); Port Lincoln (operated by Shell); and Hobart (operated by BP). The products supplied by Mobil via terminals which are operated by others are either purchased from other refiners or imported by Mobil.

Mobil has sufficient terminalling capacity, both through the facilities it operates as well as through those operated by others, to meet its Australian product demand. Mobil assesses its terminal storage capacity for the major product grades on an ongoing basis to ensure capability to handle appropriate size and frequency of product delivery and maintain sufficient stock at each terminal to meet its customers' needs. Mobil is proud of its reputation for reliable supply of high quality products to the market at competitive prices. We take our responsibilities to our customers very seriously and continually review our supply arrangements to maintain a high level of service to them.

In Mobil's view there is a high level of competition for product supply at the refinery/terminal level in Australia. There are two refineries in each of the three largest states (NSW, Victoria and Queensland) as well as a multiplicity of product terminals able to receive product imports in all states, including many which are not operated by any of the four major oil companies. Independent fuel resellers and wholesalers can and do import fuel into Australia as well as purchase product from local refiners.

Mobil competes actively with Shell (Geelong refinery) and with imports to supply fuel ex Altona refinery into the Victorian market. In both NSW and Queensland Mobil has a choice of two local suppliers, as well as the ability to import, and negotiates its fuel supply arrangements on a competitive basis. The South Australian market is wholly supplied by imports from overseas (Mobil) or interstate (BP and Shell). Currently Mobil is a major supplier to Caltex in South Australia and also supplies some product to Shell. In Western Australia Mobil currently sources product from local refiner, BP, but it has imported product from Singapore in the past. In Darwin all fuel is supplied via imports through the Vopak terminal. Mobil's product requirements in Tasmania are currently supplied by Shell ex its Geelong refinery through a terminal operated by BP.

With its spread of refineries and coastal bulk fuel terminals around the country, coupled with the fact that a substantial portion (25-30%) of local demand for petroleum products is now supplied from overseas, with import cargoes continually on the water, Australia has access to a range of fuel supply sources and, as a result, generally enjoys a high level of fuel supply reliability.

## **The Structure of the Wholesale and Retail Market for Petroleum Products in Australia**

Mobil markets petroleum fuels at the wholesale level throughout Australia via the following principal channels:

- A single multi-site franchisee (SEP; 50% Mobil equity) which operates a network of approximately 300 owned or leased service stations, principally in the major metropolitan markets of Adelaide, Melbourne, Sydney and Brisbane
- A large number of independent Mobil-branded distributors covering regional areas of Australia (excluding Tasmania and WA) who in aggregate supply an independently owned and operated network of over 400 Mobil-branded and unbranded service stations, as well as selling fuel directly to farmers and other small rural and regional businesses
- Large independent resellers, such as United, Liberty, APCO, etc, who supply non Mobil-branded service stations in both metropolitan and rural/regional areas of Australia
- Large commercial and industrial customers throughout Australia

Sales through the latter three channels are all made on a contractual basis with varying terms as negotiated with each customer. Mobil rarely, if ever, makes spot marketing sales of petroleum fuels, as the majority of its customers prefer to contract with Mobil for their fuel needs for a set period of time to provide greater security of their supply.

Competition at the wholesale and retail level continues to be vigorous. In addition to the entry of the two major supermarket chains (Coles and Woolworths/Safeway), the last decade or so has seen the growth across most parts of the Australian market of a significant number of large, independent resellers which are not linked to any of the major oil companies. This includes companies such as United, Liberty, Neumanns, Freedom, Gull, 7/11, APCO, Australian Farmers' Fuel, Peak Petroleum, Gascorp/Budget, Ausfuel, Choice Petroleum, etc, who in aggregate provide a strong independent presence in the retail market in all states.

Sales to distributors, independent resellers and other commercial and industrial customers are fully contestable and renegotiated on contract expiry, hence there can be regular changes in fuel supplier for pricing or other reasons. Mobil's contracts with its branded distributors have generally been longer term in duration, because of the investment both parties have in the brand; such customers tend to choose not to change suppliers as frequently.

Competition in the retail petrol market is also intense and Australian motorists enjoy petrol prices which are among the lowest in the developed world (refer to OECD quarterly fuel price summary provided by DRET).

In this tough business environment, Mobil has completely restructured its retail operations, in consultation with its franchisees and dealers, to improve the viability of the Mobil-branded retail network. Over 250 service stations

(almost 50% of the network) have been closed during the last 8-9 years and the core Mobil retail network (operated by SEP) now comprises around 300 sites, primarily located in the four East Coast metropolitan markets.

Over the last five years Mobil has also divested its ownership interest in all of its branded distributors and has also sold most of the rural and regional service stations it owned, either to those (now) independent distributors or to other parties.

Mobil has exited the retail market in WA, NT and Tasmania, while in rural and regional areas of SA, Victoria, Queensland and NSW, the Mobil-branded retail network is supplied entirely via independent distributors.

Based on industry data reported by DRET, Mobil's share of the wholesale petrol market in Australia is currently around 15%, reduced from over 20% several years ago, while Mobil's branded share of the retail market (covering both the SEP-operated core retail network of 300 sites and distributor outlets) has reduced from 15% five years ago to approximately 10% today.

In May 2009, Mobil and Caltex announced that agreement had been reached on the sale of Mobil's retail business in Australia to Caltex. In December 2009 the ACCC advised that it intended to oppose the sale and Mobil and Caltex are currently considering their position in the light of this.

### **Alternative Transport Fuels**

The principal alternatives to conventional petroleum fuels currently available are biofuels (ethanol and biodiesel) and liquified petroleum gas (LPG). LPG sold in Australia is either sourced from local refineries or in association with domestic oil and gas production, or is imported.

LPG is currently not subject to fuel excise and domestically produced biofuels are also currently effectively excise-free (ethanol used as fuel incurs excise but there is a rebate equal to the excise amount for domestic production), whereas conventional petrol and diesel for on-road use incur fuel excise of over 38 cpl. In Mobil's view, alternative transport fuels should bear excise at an equitable rate.

Mobil has marketed LPG generally around the country for many years. Over recent years Mobil has commenced marketing ethanol-blend petrol in Queensland, in response to localised customer demand, and also in NSW in response to the mandate introduced by the State Government from October 2007. Mobil is also exploring opportunities to market biodiesel, however, there are often significant product quality and commercial issues to be overcome with biodiesel.

Mobil believes that biofuels do have a place in the future energy supply mix, whether as transport fuels or for use in stationary applications, provided that

they are commercially and environmentally sustainable and are used in conjunction with engine manufacturers' recommendations. Biofuels may not be suitable for many vehicles currently on Australian roads or for non-road use such as boating, lawnmowers/chainsaws, etc.

Mobil does not support mandates for biofuels, or for any other types of fuel. Mobil considers that the current ethanol mandate in NSW, and the one proposed for Queensland, are likely to work against achieving greater acceptance of ethanol-blend fuels as they unreasonably restrict consumer choice. In our view, alternative fuels should be allowed to find their own place in the market on a competitive commercial basis in line with consumer demand.

## **Conclusion**

In conclusion Mobil would like to make the following points:

- Crude oil and refined petroleum products are freely traded in a global market and Australia has strong links into that market both through major international oil companies such as Mobil and smaller "independent" fuel suppliers.
- Government policy settings should focus on ensuring that there are sufficient alternative sources of energy supply available to Australian markets on a commercial basis and recognise that sensible "interdependence" rather than "independence" in fuel supply is the most effective and reliable approach to meeting future energy needs
- Given the small scale and large geographic spread of its market Australia has been well served in terms of liquid fuel supply reliability over many decades, and appropriate government policy formulation, within a free market setting, should assist in ensuring this continues
- The Australian fuel market is highly competitive at all levels and, as a result, Australian motorists pay among the lowest prices in the developed world for their fuel.
- There are a large number of participants in the wholesale and retail fuel market in Australia and new entrants such as the major supermarkets have gained a significant share of the retail fuel market in recent years, which reflects the relatively low barriers to market entry in Australia