Submission to the Senate Inquiry into Australia's transport energy resilience and sustainability

Submission to:

Parliament of Australia
The Senate Rural and Regional Affairs and Transport References Committee

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KEY MESSAGES

- In recent years the Australian fuels industry has faced considerable international and domestic challenges, with major structural changes and intense competition in global petroleum markets.
- Australian refineries, in particular, have been challenged by ongoing excess supply in the Asian region and the strong Australian dollar impacting on domestic refining margins, and continued competitive pressure from new Asian refineries which enjoy significant advantages in terms of cost, scale and technology, and also government assistance.
- The downstream petroleum industry has responded to these challenges through stringent cost control and enhanced efficiency, and also by further integration into the rapidly expanding Asian fuels market.
    - Two Australian refineries have been converted to import terminals to take advantage of this excess supply in the Asian region. A third refinery is to be closed with a final decision yet to be taken on conversion to an import terminal.
- As a result of industry investments to date, and Australia's efficient access to regional markets for liquid fuels, the industry will continue to deliver secure, reliable and competitively priced fuels to the domestic market longer term, as confirmed in Government assessments over a number of years.
    - These Government reports confirm that Australia has a high level of supply security and reliability for liquid fuels and has been very well served by proven, mature and diverse supply chains and supply sources including domestic refineries, and this performance is expected to continue in the future, even with a higher level of imports to meet growth in fuel demand.
- <u>However, for the industry to remain competitive and make the significant ongoing infrastructure investments needed to maintain supply security and reliability, the industry needs a clear longer term policy framework and a stable investment environment, underpinned by a strong market-based approach by all levels of government</u>.
    - This requirement is underscored by the challenges for the Australian fuels industry in attracting investment in a highly competitive global capital market.
- At the highest level, this market based approach by government should focus on:
    - ensuring a competitive market is maintained in Australia
    - ensuring that the local refining industry is not competitively disadvantaged.
- Under this market based policy framework, governments have an important role in:
    - ensuring existing regulation is soundly based, streamlined and harmonised across all levels of government and, to the extent possible, reducing the burden of new regulatory decisions
    - ensuring any new regulatory decisions or imposts do not undermine the competitiveness of domestic petroleum refining and fuel supply
    - removing non-commercial barriers to effective market operation and competition
    - demonstrating for any proposals for changes to current market-based policy settings that:
        - a real market failure exists within the market or industry
        - new policy measures will produce a net benefit to the community and will not impact adversely on industry competitiveness or liquid fuel supply security and reliability
        - continued reliance on domestic and international markets is unable to deliver a similar outcome or that consumers cannot, or cannot efficiently, do these things.
- As the domestic fuels industry evolves in response to global and local pressures, industry members will continue to strive to increase productivity and efficiency and adapt to changing market conditions so as to continue to deliver secure fuel supplies to meet Australian consumer and business needs.
- **Policy stability, a level playing field for competing transport fuels and market participants, and ensuring any government regulation is justified, efficient and well-targeted, will help support the industry's future investment as well as the development of robust, efficient and commercial markets for all transport fuels.**

SUBMISSION BACKGROUND

About AIP

The Australian Institute of Petroleum (AIP) was established in 1976 as a non-profit making industry association. AIP's mission is to promote and assist in the development of a sustainable, internationally competitive petroleum products industry, operating efficiently, economically and safely, and in harmony with the environment and community standards. AIP provides a wide range of factual information and industry data to assist policy makers, analysts and the community in understanding the key market, industry and other factors influencing Australia's downstream petroleum sector. AIP is represented on key statutory and advisory bodies including the National Oil Supplies Emergency Committee (NOSEC), the Fuel Standards Consultative Committee (FSCC), the Oil Stewardship Advisory Council (OSAC) and the ATO Petroleum Corporate Consultation Forum (PCCF). AIP sponsors or manages important industry health and environmental programs and the Australian Marine Oil Spill Centre (AMOSC) is a wholly owned subsidiary of AIP.

AIP is pleased to present this Submission to the Senate References Committee on Rural and Regional Affairs and Transport on behalf of AIP's core member companies:

BP Australia Pty Ltd
Caltex Australia Limited
Mobil Oil Australia Pty Ltd
Viva Energy Australia Ltd.

About AIP Member Companies

AIP member companies operate across all or some of the liquid fuels supply chain including crude and petroleum product imports, refinery operations, fuel storage, terminal and distribution networks, and wholesale and retail marketing. Underpinning this supply chain is considerable industry investment in supply infrastructure, and a requirement for significant ongoing investment in maintaining existing capacity. Over the last decade, AIP member companies have invested over $10 billion to maintain the reliability and efficiency of fuel supply meeting Australian quality standards.

AIP member companies play a very significant role in delivering the majority of bulk fuel supply to the Australian market.

- In relation to conventional petroleum fuels, AIP member companies operate all major petroleum refineries in Australia and supply around 90% of the transport fuel market with bulk petroleum fuels.
- In relation to gaseous fuels, AIP member companies are the major suppliers of bulk LPG to the domestic market, representing around two thirds of the market.
- In relation to biofuels, AIP member companies are the largest suppliers of ethanol and biodiesel blend fuels to the Australian market.

The Australian petroleum industry is a significant contributor to the domestic economy providing direct and indirect economic benefits from its own activities and underpins the competitiveness of key Australian export industries like the mining, agriculture, forestry, fishing and manufacturing industries. In addition, as a technologically advanced industry, the refining industry employs and trains many highly skilled, technical staff and international expertise flows readily into the Australian workforce.

Given this background and their significant role in the Australian fuels supply chain and broader economy, AIP member companies have a very strong interest in Inquiries and policy settings which can directly impact on the downstream petroleum industry, including the industry's ongoing operation, competitiveness and transparency, and also on the costs of doing business in Australia.

About AIP's Submission

AIP welcomes the opportunity to provide a submission to this Senate Inquiry and looks forward to ongoing consultation with the Committee and Secretariat over the coming months.

AIP's Submission provides some brief market context and background to industry operation and the emergency management arrangements, and then addresses the three terms of reference for this Inquiry. Thus, it outlines AIP views and information in relation to:

(A) The current market environment for fuels and refining
(B) The security and resilience of transport fuels supply
(C) Industry actions to maintain supply reliability
(D) A vulnerability in the transport fuels supply chain: the role of 'major fuel users'
(E) The Emergency Management Framework for liquid fuels
(F) Options for introducing mandatory oil stockholdings (ToR1)
(G) The role of Government in ensuring Australian energy for Australians, including maintaining refinery capability (ToR2)
(H) Australia's role and responsibility regarding energy security, as a member of various multilateral for a (ToR3)

A summary of AIP's 'Key Messages' is provided at the start of this submission.

This submission should also be read alongside:

- **the latest edition of AIP's biennial publication – '*Downstream Petroleum 2013*' - on the state of the Australian downstream petroleum industry and its financial performance**
  - This report provides a concise overview of recent developments in petroleum refining and marketing in Australia and the Asian region. The report highlights the challenges and competitive pressures facing the Australian industry and its importance to Australia's economic performance and energy security.
  - See http://www.aip.com.au/industry/facts.htm.

- **AIP's publication *'Maintaining Supply Security and Reliability for Liquid Fuels in Australia'* (2013)**
  - This report provides a factual overview of international fuels markets and supply chains, as well as the liquid fuels market and supply chain in Australia. It also details the key factors influencing the secure and reliable supply of liquid fuels to industry, business and consumers and explains why Australia is in a strong position to maintain this performance into the future.
  - See http://www.aip.com.au/pdf/Maintaining_Supply_Security_and_Reliability_for_Liquid_Fuels_in_Australia.pdf.

Should you have any questions in relation to this submission, or require additional information from AIP, the relevant contact details are below.

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AIP is happy for our submission to be made publicly available on the Committee's webpage.

AIP member companies may also make submissions to this Inquiry, addressing matters within the terms of reference dealing with commercial and other issues specifically related to those companies.

(A) The Current Market Environment

There is a changing and challenging market environment currently for the downstream petroleum industry – globally, regionally and domestically – and we do not expect this environment to change, although business cycles will vary the intensity of the challenges.

This is particularly so for Australian refineries currently, given ongoing excess supply in the Asian region, the strong Australian dollar impacting on domestic refining margins, and Australian refineries facing continued competitive pressure from Asian refineries which enjoy significant cost, scale and technology advantages.

In this market environment, the industry requires a supportive policy framework and stable investment environment to enable it to continue to make significant infrastructure investments (in new or expanded facilities and in ongoing routine maintenance requirements) as well as seek further efficiencies in refining, supply and distribution, to help ensure ongoing supply security and reliability.

Apart from difficult market conditions, there are also other challenges impacting on the industry's ability to grow and invest efficiently:

- The cost of doing business in Australia (labour and capital costs), and the cumulative cost impact of a wide range of complex and overlapping government regulation is impacting on the domestic refining industry's ability to compete in the region and remain viable longer term
- The future industry investment task is significant to ensure ongoing supply security and this can be best supported by a favourable and stable investment environment, as well as soundly-based, harmonised and streamlined regulation across all levels of government
    - For example, any further changes to fuel quality standards must be based on sound science and provide a net economic benefit to the community as well as a return to the refiner to justify the significant investment required to produce these fuels locally
- One obstacle to liquid fuel supply security is the absence of a level playing field for competing transport fuels (eg. no commercial access to imported ethanol, which is also hampering the development of an efficient and competitive domestic biofuels market)
- Any future requirement for industry to fund and hold additional stockholdings to meet Australia's international compliance obligations would impose further (unjustified) cost on industry and lead to higher fuel prices for consumers and major fuel using industries.

Thus, while a market based policy framework will help respond to these ongoing industry challenges, governments have an important role in ensuring that regulatory decisions and imposts do not undermine the competitiveness of liquid fuel refining and supply (eg. where the manufacturing of fuel imported from other nations may not be subject to similar imposts). Governments also have an important role in addressing non-commercial barriers to effective market operation and in ensuring that ongoing liquid fuels supply security is a priority consideration across and within levels of government.

In this regard, AIP supports government reforms focusing on ensuring that planning, approval and regulatory processes are efficient, timely and nationally consistent, to support longer term investment in liquid fuel import, storage and distribution infrastructure. There is also an ongoing need for state and territory governments (and private port operators) to maintain investment in port facilities and associated fuel handling infrastructure to remove supply bottlenecks and to meet expected growth in fuel imports and demand over time.

Overall, policy stability, a level playing field for competing transport fuels, and ensuring any government regulation is justified, efficient and well-targeted, will help support the industry's future investment task as well as the development and growth of robust, efficient and commercial markets for all transport fuels.

BOX 1: Impact of Australian refinery closures

As an open market, Australia is fully exposed to structural changes occurring in the global petroleum market, including the reshaping of the global refining industry and pattern of trade, and the rise of Asia as a global refining, demand and trading centre.

Structural change has been occurring in the Australian downstream petroleum industry for decades, at the refining, wholesale and retail levels, to ensure ongoing competitive and reliable fuel supply to the domestic market.

As a consequence, the market has a well-developed ability to adjust to these structural changes so there is little discernible impact on supply reliability or market prices for consumers, as confirmed in the 2013 Parliamentary Inquiry Report. The ACCC has also stated that as a result of Australia's import parity pricing, the retail price for petrol is not impacted by refinery closures.

Scale and competitive disadvantages, and excess refining capacity in Asia, mean Australian refineries will face significant challenges over the next decade. Increased competition from Asian refineries, commercial pressures for increased business efficiencies and avoidance of new costs, the general tightening of regulatory requirements in Australia, and competing demand for skilled labour all have the potential to impact refinery viability over time.

Decisions to close Australian refineries reflect business assessments of commercial viability of the refineries based on the competitive pressures faced by those facilities.

However, since Australian refineries that are being closed are located near market centres and have efficient access to existing import and distribution infrastructure, the refineries are generally being converted to import terminals. Consequently these facilities will maintain these important supply connections and continue to play a key role in meeting customer demand.

Reductions in Australian crude oil production and refining capacity will mean that domestic demand growth will be met by product imports from the Asian region. With any Australian refinery closure there will be a substitution of crude oil imports with imports of finished product.

Being on the doorstep of Asia and well integrated into this market means Australia is in a strong position to maintain reliable supply.

In making judgements about the impact of refinery closures on future energy security, any government assessment (as individual companies do in making a decision to cease refining) must:

- identify the specific security risks arising from the refinery closure and the clear costs and benefits of maintaining these crude oil processing capabilities (including implications for supply chain flexibility)
- and weigh these against the security benefits and risks of increased petroleum product imports and relative changes in supply chain flexibility and diversity.

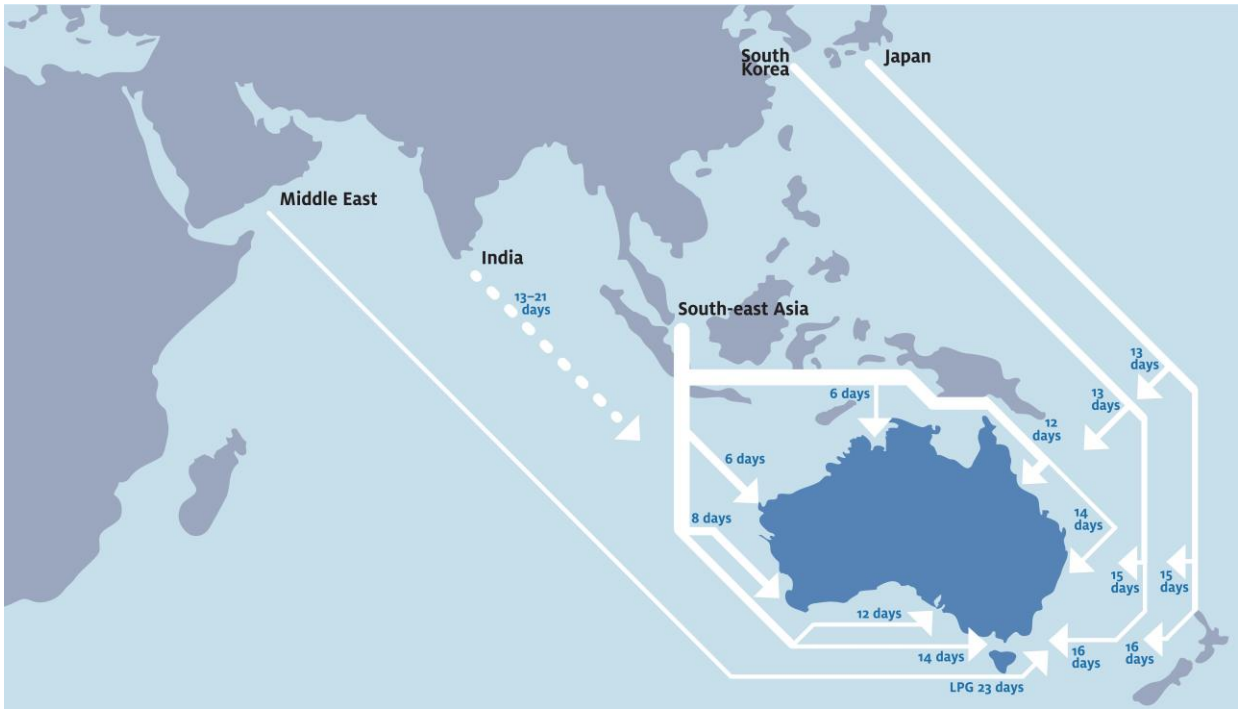
For example, many government reviews and vulnerability assessments have concluded there is no major difference in the inherent risk between a crude oil shipment and a petroleum product shipment. In addition, and as noted on Page 9, as Australian refineries operate largely on imported crudes, there is simply a substitution of 'imported' crudes for 'imported' petroleum products.

(B) Maintaining the Security & Resilience of Transport Fuels Supply

As the Government noted in late 2013 in the Issues Paper for the Energy White Paper process, *"there is a high degree of confidence in Australia's liquid fuels security"*. This confidence is well founded and supported by comprehensive government and independent reviews of liquid fuel supply security over many years. Key reviews include the National Energy Security Assessments (NESA) and Liquid Fuel Vulnerability Assessments since 2008, Australian Government Energy White Papers in 2004 and 2012, and the 2013 Report of the Parliamentary Inquiry into Australia's Oil Refining Industry.

These reviews have confirmed that Australian liquid fuels supply is highly secure, competitively priced and reliable because of:

- a flexible, resilient and reliable supply chain with
    - a diversity of supply sources for crude oil and petroleum products, including domestic and imported sources
    - secure shipping routes and a significant volume of stock on the water owned by local companies
    - a domestic refining capability providing multiple supply options and the ability to convert domestic and imported crude oil into useable products
    - actual and planned import, storage and distribution infrastructure which is able to meet growth in fuel demand
    - efficient domestic distribution using a variety of transport modes and routes
    - a safe and reliable network of service stations
- established and effective integration of this supply chain into the global crude oil and petroleum product markets, including the rapidly growing Asian fuels market
- domestic fuel pricing that relates directly to global market prices (import parity pricing)
- expert and efficient management of the supply chain by industry (demonstrated by a strong record of reliable supply)
- ongoing, substantial investment in new/expanded petroleum storage and handling facilities
- robust risk and emergency management frameworks at industry and government levels.



Because of these fundamental market features and strengths, these reviews have concluded that the Australian petroleum industry is in a strong position to maintain a high quality supply performance well into the future. Provided a competitive market is allowed to operate without unnecessary regulatory constraints, these reviews have confirmed that the industry will continue to adjust to the structural changes occurring in the global oil market which are reshaping the domestic industry, and deliver a higher level of imports needed to meet the expected growth in fuel demand in Australia.

- The Parliamentary Inquiry Report concluded that *"while Australia has both crude oil reserves and a refining capacity it is not self-sufficient"* ... "*and it has and continues to import both crude oil and refined fuels".* This conclusion recognised that domestic crude production has been in decline for some time and also that diesel and jet fuel demand exceeds refinery production capacity.
- AIP notes that much of Australia's crude oil production is of a quality (light sweet) which is very commercially attractive for processing in other countries using heavy crude oils. In addition, most production is located far from Australian refineries. In general, it is commercially more attractive to utilise a majority of imported crude oils in Australian refineries to meet the product balance needed by Australian fuel users, and this crude diet better matches Australian refinery processing capabilities.

AIP considers that Australia's longer-term transport fuel supply security will best be met through policy frameworks and measures that strongly support efficient and flexible market operation (with an ability to quickly respond to market forces and developments) including:

- open and competitive crude oil and fuel product markets that provide supply diversity
- market determined prices
- a stable investment policy environment that provides clear market signals
- avoidance and removal of unnecessary regulation and taxes
- economy and industry-wide policy settings that minimise capital and operating costs
- policy and competitive neutrality between transport fuels
- reliable, clean and high quality fuels acceptable to consumers
- supporting the fundamental strengths of Australian liquid fuels supply and market, particularly:
    - diversity of crude oil and liquid fuel sources
    - competitive and viable domestic refineries
    - flexible and resilient supply chains and efficient supply management.

AIP supports a strong market-based approach to liquid fuel supply and infrastructure development domestically to encourage the ongoing significant investment needed in supply infrastructure to meet growing fuel demand in Australia. A market based approach will also provide a flexible and robust framework that is capable of adjustment in response to changes in markets or technologies.

AIP considers that the critical issue for longer term security is ensuring that the market framework provides the right signals for ongoing investment throughout the liquid fuels supply chain (eg. in resource identification, extraction, processing, storage and distribution, including port and shipping infrastructure). Efficient market-based signals will be the drivers for new infrastructure investment and the development of alternative liquid fuel supplies, and for consumer choices about how liquid fuels are used, particularly at lowest cost for consumers.

AIP's recent publication – '*Maintaining Supply Security and Reliability for Liquid Fuels in Australia'* (2013) – provides a factual overview of international fuels markets and supply chains, as well as the liquid fuels market and supply chain in Australia. It also details the key factors influencing the secure and reliable supply of liquid fuels to industry, business and consumers and explains why Australia is in a strong position to maintain this performance into the future. The publication is available from: http://www.aip.com.au/pdf/Maintaining_Supply_Security_and_Reliability_for_Liquid_Fuels_in_Australia.pdf.

The established government process of National Energy Security Assessments (NESA) provides a valuable insight into factors impacting on future liquid fuels security and any emerging supply chain vulnerabilities.

The 2012 NESA is considered to be robust and credible by industry and market experts and already takes account of the impacts of refinery closures in Australia.

- Circumstances that have changed since the last NESA update (and which all point to an improved energy security outlook for liquid fuels) include the growth of the Asian oil market into the global hub for demand and trade, continued construction of large scale state of the art refineries in Asia, and forecast ongoing supply surpluses in Asia for this decade.

AIP notes that the NESA assessments for each energy sector are focused on 'supply security' and 'energy policy' and consider how Australia is served by current and future market operation and settings for each sector, including how each market operates during periods of market 'disruption' that are more likely to be encountered. Thus, the liquid fuels NESA is not intended to consider 'national security' settings and scenarios in which crude oil or product supply is disrupted for an extended period by broadly based military/civil conflict or warfare. Such 'national security' scenarios should be considered as part of Defence planning and reviews, and are not appropriate for 'supply' security assessments or the Energy White Paper.

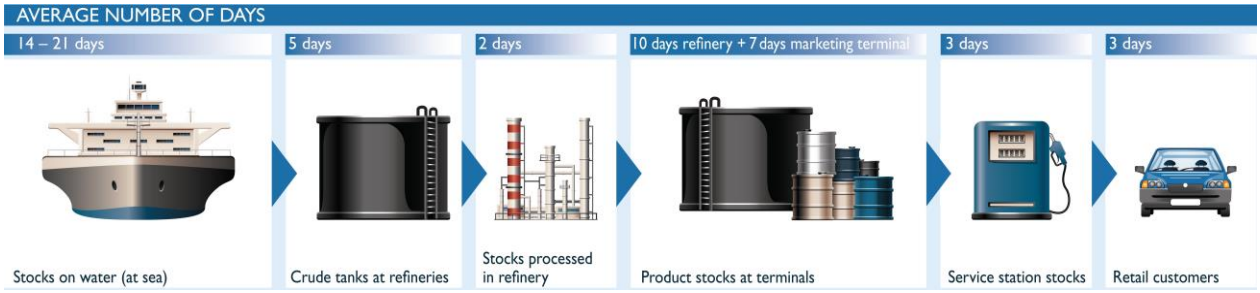
(C) Industry Actions to Maintain Supply Reliability

Day-to-day supply management

AIP members seek to ensure continuous and reliable supply of competitively priced fuel to all customers and areas of Australia. This involves simultaneously managing all aspects of the supply chain — crude oil and petroleum product shipments, refinery production, and pipeline, terminal and distribution capacities and throughput.

Industry considers reliable supply of high quality fuel essential to maintain customer brand loyalty, as well as to maximise business commercial viability. A 'stock-out' will force customers to source fuel from a competitor leading to a loss of revenue and profits. It will also adversely affect customer confidence in the supply reliability of the company concerned. As a result, major fuel suppliers and their distributors encourage the active management of fuel supply and stocks with their customers, particularly in markets with limited supply options (e.g. in remote areas).

The supply chain diagram below highlights the key stockholdings along the Australian supply chain.



***NOTE**: The average 'days cover' estimates in this diagram relate to typical commercial stocks coverage measured against total fuels demand in Australia. This is a benchmark widely used and accepted in the market as a clear reflection of actual stocks coverage in the supply chain. It is a different to the IEA's complex calculation of stocks cover in terms of 'days of previous year net imports' (see Box 4 on Page 17) which is measured against a smaller base (net imports) rather than total demand.*

Commercial stocks of fuel held in the domestic supply chain (e.g. stocks of petrol, diesel, jet fuel) have actually increased in response to demand growth and increasing product imports following refinery closures

AIP member companies undertake regular reviews of demand forecasts, their supply chain operations and commercial levels of stocks. In reviewing demand forecasts, AIP member companies continuously impress on their distributors and customers the importance of providing accurate and detailed demand forecasts which take full account of potential demand spikes.

Large and unanticipated surges in demand by fuel users will always present a supply challenge to major fuel suppliers because of the general commercial and cost imperative not to hold excess stocks and because different points in the supply chain are subject to different constraints (e.g. pipeline capacity or the availability of transport). There are typically demand spikes at the end of each year as a result of crop harvests, holiday driving activity, and Defence requirements. The intensity of these demand spikes can also vary across fuel types and geographical areas.

AIP members normally expect to meet all requests to buy fuel at terminals. However, circumstances may arise where demand exceeds supply when either actual demand exceeds forecast demand (e.g. during unexpected demand spikes) or when there is a supply disruption.

When a potential problem is emerging, AIP members will attempt to meet demand using all available supply alternatives in the market. If the ability of AIP members to ensure continuous supplies is at risk, and stock levels are expected to be drawn down at an unacceptable rate, the chief mechanism for managing supply is bulk allocations at the terminal. Bulk allocations involve the supply of existing contracted customers at a proportion of their usual forecast demand. When supply is subject to allocations, spot sales (normally about 5% of sales) are not conducted at that location. Allocations are usually commenced at 100% of contracted volumes and most customers will not be aware that there is a potential supply problem as contracted supplies are still fully available.

Allocations falling below 100% of contracted volumes are a potential indication of a supply problem and the impact on customers would depend on the expected duration of the event and customers' own stock levels. The use of allocations is a precautionary measure which largely ensures an equitable distribution of available supplies over the duration of the supply disruption or demand spike. In more severe events, allocations also ensure that sufficient stocks are maintained by industry for the use of emergency services.

Most bulk fuel customers prefer to enter into term contracts with fuel suppliers to guarantee supply availability in a fuel supply restriction. Term contracts also provide access to site branding and fuel card operations, and help to manage risks between supplier and customer in relation to future movements in market prices for fuel.

Stockholdings in the Australian Supply Chain

AIP member companies regularly review stock levels to assess whether demand and market characteristics have changed sufficiently to warrant changes in stock levels and storage capacity at individual locations.

The current levels of commercial industry stockholdings reflect a considered assessment of the operating conditions throughout the supply chain and the risks more likely to be encountered by major fuel suppliers.

Industry's objective is to reduce to an acceptable level the risks and consequences of supply disruptions. This involves balancing supply reliability with cost to fuel users and consumers.

Successive Australian Government National Energy Security Assessments (NESA) and Liquid Fuel Vulnerability Assessments have found that current levels of commercial stockholdings and their management by industry are fundamentally sound. They also confirm that Australia has sufficient commercial stocks in the supply chain for supply security and this will continue into the future with recent and planned increases in overall storage capacity in key locations and demand centres.

An increase in stock levels beyond commercial levels would place significant additional costs on the supply system that, unless government-funded, would ultimately be passed on to consumers. There is no evidence that the substantial cost of an emergency stockpile is justified on energy security grounds, given industry's efficient and reliable performance to date with no widespread or prolonged fuel shortages being experienced in Australia for decades. Even during international crude oil and petroleum product supply disruptions, such as in the aftermath of Hurricane Katrina in 2005, Australian fuel supplies have not been disrupted.

Views are expressed by some parties that Australia's security of liquid fuels supply would be improved through the introduction of government funded or mandatory stockholdings in the supply chain for emergency purposes. Such a move would require very careful examination of the costs of stockpiling against the risk-weighted benefits of such action – see **Section F**.

Management of Supply Disruptions

Unplanned events can create fuel supply challenges at short notice including unplanned refinery disruptions, breakdowns in key supply infrastructure or pipelines, delays in ship arrivals, natural disasters, and customer demand exceeding contracted supply requirements.

Each supply disruption develops in its own way and requires dynamic industry management. Almost all supply problems are capable of being managed by industry and the market. However, there are also well established arrangements for relevant Commonwealth and state ministers and departmental officials to be kept fully informed of developments when there are supply disruptions so that governments are well positioned to assist with supply management if needed.

The impact of supply disruptions is rarely felt by consumers, as refiners and major fuel suppliers are adept at managing these issues as part of normal operations and, as highlighted previously, it is in their interests to minimise any impact to customers.

Rapid and comprehensive industry response strategies are in place to address or replace any lost supply, including:

- numerous 'in-refinery' technical options
- utilising alternative supply infrastructure and supply and distribution routes
- sourcing supplies from other Australian refiners and fuel wholesalers
- sourcing supplies from international sources and the spot market
- equitably allocating bulk fuel to customers
- drawing down industry stockholdings.

All fuel consumers, particularly large fuel users supporting the economy, are expected to have plans to manage the impact of a fuel supply disruption on their operations (see **Section D** on the role of 'major fuel users').

(D) A Vulnerability in the Transport Fuels Supply Chain: The Role of 'Major Fuels Users'

Current market based mechanisms and industry commercial response strategies are highly effective, but can be further enhanced by the widespread adoption of robust supply management and continuity planning by major fuel users in Australia.

AIP member companies believe that fuel users are best placed to make decisions about their need for liquid fuels, and the way they use those fuels, based on information about the price and availability of fuels meeting their operational requirements.

Major fuel users can also make the best decisions about how they will manage the risks of a disruption so that their commercial and community interests are maintained.

However, there are some significant challenges for major fuel users in Australia:

- many larger fuel users only hold limited stocks on the expectation that stocks will be held by fuel suppliers, or indeed governments will intervene to protect the interests of fuel users if supplies are limited

- many business and industry fuel users incorrectly believe they are essential users and will get preferential supplies during a supply emergency in the same way as police, ambulance and emergency services.

AIP supports government efforts, particularly through NOSEC, to engage major fuel users in responding to these challenges, including in the ways outlined below.

It is not the role for fuel suppliers to hold buffer stocks to guarantee the ongoing business operations of major fuel users and distributors during a major fuel supply disruption. Therefore, it is in the interests of all fuel users to understand their own fuel use and to consider how best to manage the potential impacts of reduced fuel supply, including:

- identification of current fuel supply management arrangements, the location, capacity and utilisation of supply infrastructure and storage, and demand by fuel type across business operational activities

- categorisation of business activities from highest to lowest priority, with fuel use for each activity clearly quantified and monitored (including differences in fuel use between normal and peak or emergency times)

- assessment of how a significant reduction in fuel supply for a prolonged period would be managed, including the use of different modes of operation during shortages (e.g. cancellation or deferral of non-essential activities).

Following this analysis, a robust business continuity plan should be established with effective response options to deal with the specific (and varying) circumstances of any fuel supply disruption.

Actions should also be taken to address any unacceptable business risks arising from a fuel supply shortage, including investing in extra stockholdings and storage capacity, improving fuel supply management (either on their own or through their major fuel supplier), and changing business operations to avoid or minimise the impact of possible fuel supply disruptions.

(E) Emergency Management Framework for Liquid Fuels

Australia has robust emergency response plans and frameworks for managing a national liquid fuel emergency. These plans reflect Australian market characteristics, utilise proven market and commercial response mechanisms, and adopt IEA approaches that will be effective in our operating environment.

Industry and governments in Australia fully recognise the potential impacts of a severe national shortage of fuel supplies to business, consumers and communities. While every effort is made by industry to ensure continuing reliable fuel supply on a daily basis, the National Oil Supplies Emergency Committee (NOSEC) and the International Energy Agency (IEA) have established management plans to ensure a coordinated response to any liquid fuel or oil supply emergency at a national or international level.

National Oil Supplies Emergency Committee and National Plan

NOSEC is a committee of the COAG Energy Council and provides the main executive channel through which Australian governments jointly formulate their overall response to a national liquid fuel emergency and receive advice on issues relating to the national supply of crude oil and petroleum products. NOSEC comprises representatives from the Commonwealth (chair), all the states and territories, AIP and the major refiners/suppliers of bulk fuel.

NOSEC has developed and manages the National Liquid Fuel Emergency Response Plan (NLFERP) which details how Australian governments, along with industry, would respond effectively to a national fuel supply disruption or emergency. During a national liquid fuel shortage, the NLFERP aims to ensure that available fuel supply is managed and allocated in the most efficient and fair way, so as to help minimise the economic impacts of the shortage on fuel users and customers. The NLFERP reinforces market and industry strategies for returning Australia to normal fuel supply levels and includes a communication plan for the early identification and management of any emergency, whilst also ensuring key decision-makers, the media and consumers are provided with timely information.

NOSEC and the NLFERP are also well supported by flexible ministerial powers under the Liquid Fuel Emergency Act 1984 (the LFE Act) to authorise the Australian Government to prepare for, and manage, a national emergency. These powers include control of stock drawdown, transfer and sale of industry held fuel stocks and the products produced by Australian refineries, as well as management of bulk and retail sales of fuel across Australia. There are also contingency planning powers which may be activated prior to a national emergency including powers to direct fuel suppliers to maintain levels of reserves, develop bulk allocation procedures and to maintain statistical data. These ministerial powers would be invoked in the event of a prolonged and widespread fuel shortage in Australia, but these powers have never been utilised.

Each state and territory has responsibility for ensuring that plans are established under their own legislation to manage liquid fuel emergencies at the local or jurisdictional level and minimise the impact on fuel users. Each state and territory has agreed to harmonise their own emergency plans for liquid fuels with the NLFERP. In the event of a localised supply emergency, the relevant state or territory legislation and emergency plan is activated. However, if an emergency escalates to have national implications, the NLFERP may override the arrangements of the states and territories, under the intergovernmental agreement between the Australian Government and state/territory governments.

BOX2: 'Essential users' of fuel in a national emergency

Governments all agree that emergency services should have 'priority access' to fuel in an emergency. These fuel users are defined as 'Essential Users' in the LFE Act and in the Liquid Fuel Emergency (Essential Users) Determination 2008 and include:

- defence of Australia
- ambulance services
- corrective services
- fire or rescue services
- police services
- public transport services
- state emergency services
- taxi services.

During a national emergency, essential users may be entitled to fuel above and beyond that which is available to other fuel users. It is highly unlikely that fuel supply would ever be restricted to essential users only. All other fuel users will continue to receive a proportion of their normal fuel supply (under a bulk allocation or retail rationing scheme directed by government) depending on the available fuel supply. While all businesses and consumers will receive an equitable share of the available fuel supply, all parties will need to prioritise and conserve fuel use during a national emergency.

This legislated framework for essential users provides operational certainty for industry and fuel users. Importantly, it also ensures that major fuel users understand the need to make contingency plans and take actions to manage the risks of a supply disruption on their own activities (see **Section D** in this submission).

Global supply emergencies and the IEA response system

The International Energy Agency (IEA) is the energy forum for 29 industrialised countries, founded in 1974. IEA member country governments are committed to taking joint measures to meet global oil supply emergencies. They also have agreed to share energy information, coordinate their energy policies and cooperate in the development of rational energy programmes. In Australia, NOSEC fulfils the role of National Emergency Sharing Organisation, which is an ongoing requirement of Australia's IEA membership.

The IEA emergency response mechanisms were established under the 1974 Agreement on an International Energy Program (the IEP Agreement). The IEP Agreement requires IEA member countries — in the event of a global oil supply disruption — to release stocks, restrain demand, switch to other fuels, increase domestic production or share available oil, if necessary. IEA collective response actions are designed to mitigate the negative impacts of sudden oil supply shortages by making additional crude oil available to the global market through a combination of emergency response measures which include both increasing supply and reducing demand.

Although supply shortages may bring about rising prices, the goal of the response action is to offset an actual physical shortage, not react to price movements.

The IEA has undertaken an international collective action three times in its history. These actions were in September 2011 in response to the Libyan supply disruption, in 2005 after Hurricane Katrina damaged offshore oil rigs, pipelines and refineries in the Gulf of Mexico, and in 1990–91 after the Iraqi invasion of Kuwait.

The IEA also conducts regular exercises and disruption simulations across member countries to test emergency response measures and preparedness, and also conducts in-depth reviews of the emergency response capability of individual member countries.

In previous reviews, the IEA has concluded that security of supply in Australia is well served by an industry which operates a resilient and diversified supply chain, supported by a regime of policy and regulatory emergency measures, regular in-depth vulnerability assessments, and international advocacy of open global energy markets.

For more information on the IEA and emergency response mechanisms, see www.iea.org.

BOX 3: How the IEA responds to an oil supply emergency

In the event of an actual or potentially severe oil supply disruption, the IEA Directorate of Energy Markets and Security assesses the market impact and the potential need for an IEA coordinated response.

This market assessment includes an estimate of the additional production oil producers can bring to the market quickly, based on consultation with producer governments.

Based on this assessment, the IEA Executive Director consults with and advises the IEA Governing Board (GB), which is comprised of senior energy officials from member countries who determine the major policy decisions of the IEA. This consultation process to determine the need for an IEA coordinated action can be accomplished within 24 hours if necessary.

Once a coordinated action has been agreed upon, each member country participates by making oil available to the market, according to national circumstances. An individual member country's share of the total (IEA) response is generally proportionate to its share of the IEA member countries' total consumption.

Throughout this decision-making process and the implementation stage of a decision, industry experts, through the IEA Industry Advisory Board (IAB), provide advice and consultation on oil supply/demand and emergency response issues.

To meet emergency coordinated action, member country governments have different options of how best to meet their country's share of additional oil to be made available to the market by implementing a combination of emergency response measures which increase supply and/or reduce demand.

Source: IEA, 'IEA Response System for Oil Supply Emergencies', 2012

BOX 4: IEA calculated stockholdings versus actual commercial stockholdings in Australia

The IEP Agreement requires IEA member countries to hold crude oil stocks equivalent to at least 90 days of net oil imports and, in the event of a global oil supply disruption, to release stocks to the market or reduce demand.

Since joining the IEA, Australia has relied on commercial industry stocks coupled with significant domestic production of crude oil to meet its stockholding obligations, and on market based mechanisms and demand restraint under the NLFERP to respond to emergencies.

The IEA's 90 day stockholding obligation is calculated using a complex methodology developed in 1974 prior to the significant globalisation of the oil market and trade activity. As a result, this IEA methodology is not reflective of the way the Asia–Pacific market works.

In particular, it does not allow 'stock on water' (see **Section F**) to be counted towards a member country's stockholding obligation, despite this stock being integral to supply chain operations in Australia and in our region. In Australia's case this amounts to more than a quarter of total stockholdings directly owned and controlled by Australian companies.

Australia's IEA compliance position has fallen below 90 days in recent years largely due to a decline in domestic crude production and increased demand. Commercial stocks of fuel held in the domestic supply chain (e.g. stocks of petrol, diesel, jet fuel) have actually increased in response to demand growth and increasing product imports following refinery closures. Consequently, the decline in Australia's 90 day stockholding compliance position raises no heightened risk for the domestic fuels market or for fuel users.

(F) Options for Introducing Mandatory Oil Stockholdings (ToR1)

IEA member countries, including Australia, are required to hold oil stocks equivalent to at least 90 days of net oil imports and, in the event of a global oil supply disruption, to release stocks to the global market or reduce demand domestically.

The IEA's 90 day stockholding obligation is calculated using a complex methodology developed in 1974 for the highly regulated European market prior to the significant globalisation of the oil market and trade activity. As a result, this IEA methodology is not reflective of the way the Asia–Pacific market works, and is even becoming less reflective of how the European market operates (ie. with the European market now increasingly relying on petroleum product imports and longer supply chains).

In particular:

- **'stocks on water' are not counted towards a member country's IEA stockholding obligation, despite this stock being integral to supply operations in Australia and in our region and representing more than a quarter of total stockholdings directly owned/controlled by Australian companies**
- **the IEA expectation is that emergency stocks will only be used for international emergencies and will be released into major global markets (not the more remote segments of the global market like Australia). Thus, the focus and mandate of the IEA is balancing 'global supply', not specific supply imbalances or disruptions in individual countries.**

Since joining the IEA, Australia has relied on commercial industry stocks coupled with significant domestic production of crude oil to meet its stockholding obligations, and on market based mechanisms and demand restraint under the National Emergency Plan to respond to emergencies.

Australia's compliance position has fallen below 90 days of net oil imports in recent years largely due to a decline in domestic crude production, and with some impact from increased demand. Commercial stocks of fuel held in the domestic supply chain (e.g. stocks of petrol, diesel, jet fuel) have actually increased in response to demand growth and increasing product imports following refinery closures. Consequently, the decline in Australia's 90 day stockholding compliance position raises no heightened supply risk for the domestic fuels market or for fuel users. Indeed, there is a strong case that significant commercial stocks plus a robust, dynamic supply chain and competitive and efficient market obviate the need for any mandatory stockholding.

This assessment also recognises that Australia has a robust 'Emergency Response' framework and emergency management plans for liquid fuels. These plans are consistent with Australian market operation and characteristics, utilise established and tested industry commercial practices, and adopt those best practice IEA approaches (eg. demand restraint) that will be effective in our specific market circumstances.

In depth Government security reviews have confirmed that Australia's current approach and framework on stockholdings remains appropriate, efficient and cost effective in the context of Australia's:

- open market operation and market realities applying to Australia and our region
- high level of liquid fuels security and reliability
- proven commercial stockholdings and management
- market and commercial approaches which have delivered supply reliability at a competitive cost to consumers and end-users, with no widespread customer shortages being experienced
- robust emergency response framework at government and industry levels to handle extreme circumstances.

Given these market facts and realities, any level of emergency stockholdings for Australia over and above normal commercial requirements **cannot be justified on energy security grounds**, as confirmed by comprehensive government reviews over several years.

Therefore, it is AIP's view that any consideration of emergency stockholdings for Australia for international treaty compliance reasons, requires very careful examination of:

(1) the extremely high costs of stockpiling against the risk-weighted benefits of such action
(2) how emergency stockholdings might contribute to Australia's fuel needs in an emergency
(3) how emergency stockholdings will contribute to an IEA collective action in a global supply disruption
(4) how emergency stockholdings will interact with the current supply operations and investments by industry and their supply management plans (including to deal with supply disruptions on commercial and market terms) and not create market distortions and unintended consequences which will impact on supply reliability and costs to fuel consumers.

In relation to these questions, AIP considers that:

(1) as Australia currently enjoys a highly secure position for liquid fuels, confirmed by detailed government assessments, the high costs of stockholding noted below would be very difficult to justify
(2) emergency stocks held for IEA compliance reasons, by definition/rule, are unlikely to contribute to Australia's fuel needs in a global emergency situation because the IEA stipulates that emergency stocks must be held in locations with ready access and release to the global market and to balance 'global supply'
(3) given distance to the global market and trading centres, small crude consumption by international standards, and decreasing reliance on crude oil refining to meet domestic transport fuel demand, a crude oil stock release from within Australia to the international market would make an insignificant contribution to IEA collective action and would be unlikely to be on a timely basis given shipping times even to major markets around the Asian region
(4) there are a range of logistical, geographical and commercial factors/barriers which suggest an Australian based emergency stockpile would not interact easily with Australia's supply chain operations (see below).

The Government estimates in its 2013 EWP Issues Paper that *"the building of strategic reserve stocks to maintain compliance with the IEA treaty ….. requires an estimated $6.8 billion investment to provide both stocks and storage infrastructure"*.

AIP agrees with the Government that the appropriate options for a program to build such a significant level of stockholding (which is not justified on market, commercial or energy security terms) would need to occur *"via either Government funded stockholding, Government funded ticketing for overseas stocks, or legislated mandatory industry stockholdings funded by passing costs onto consumers"*. Any Government decision to mandate increased industry stock levels for 'international compliance reasons' would need to apply proportionally to all fuel suppliers (refiners, manufacturers and importers). If the significant estimated cost of 'mandatory' industry-wide stockholdings could not be passed through to consumers, or the Government did not underwrite these costs, there would be an adverse impact on business costs, ongoing viability and future investment decisions and plans.

There are also a range of practical, logistical and market factors making the building of strategic reserve stocks impracticable in an Australian market context. For example, the costs of acquiring, holding and managing stockpiles above commercial levels would be significant and such stocks would need to be very substantial to provide petroleum products to the domestic market for an extended period. In addition, increasing stocks of petroleum products is also far from straightforward. There are issues around the location of stocks for ready release to the domestic market, turnover of stock, seasonal and State based product specifications, and potential quality degradation over extended storage periods.

There are also complex commercial issues associated with how any of the stocks released would interact with ongoing market operations, whether those stocks would be available for use in any market disruptions in Australia, whether those stocks would be available for use in other countries or only in Australia, and whether such stock use rules would be consistent with IEA 'rules' on use of emergency stocks.

Finally, to establish whether additional emergency stocks are required to meet IEA obligations, the Government will need full confidence that Australian stockholding data is comprehensive and robust to clearly demonstrate a risk to, or breach of, their IEA obligation (see **Section G** below).

The Government has also noted in its 2013 EWP Issues Paper that *"there are opportunities to grow Australia's liquid fuels supplies with new oil discoveries in both proven areas and in under-explored frontier basins"* and *"liquids from new shale gas developments and light tight oil may add further oil resources in future".*

AIP notes that the discovery and commercialisation of potential future supplies of crudes and condensates from Australian sources, together with the current progression to the production phases of existing resource projects, should amongst other things improve Australia's IEA compliance position. Australian biofuels production also has the potential to contribute to this compliance picture and have a place in a diversified Australian liquid fuels market as long as they are available at a competitive price, reliably supplied, acceptable to consumers, and produced sustainably.

(G) The role of Government in ensuring Australian energy for Australians, including maintaining refinery capability (ToR2)

Overview

Australia's liquid fuel market is different to other domestic energy markets in that it is part of globally and regionally integrated supply chains which are mature, flexible and well-functioning and which deliver internationally competitive fuel prices and reliable supply to consumers and business. Thus, there is much less of a role for government in the development of an efficient, reliable and competitive liquid fuels market as these conditions already exist.

Extensive review and consideration of the day-to-day operations of the Australian fuel supply arrangements by NOSEC has concluded that industry is best placed to manage the complex fuel supply system and to initiate actions for timely resolution of actual and potential supply disruptions. Competitive business tensions and multiple supply pathways and options are recognised by NOSEC as providing the most robust and timely framework for reliably managing supply disruptions at least cost to consumers.

- As noted in **Section C**, in the case of a supply disruption, the Australian industry has a range of options or levers within the supply chain that they can and have used to manage a disruption.
- Companies will look at these options in an orthodox organisation approach to managing risk, and initially will use their own inventory in the supply chain and then, if necessary, purchase from competitors. With the ability to efficiently and quickly move bulk supply around the country by ship (by changing discharge destinations or the quantity discharged), in effect the industry's inventory in various parts of the country can be flexibly used to cover disruption in another location. This also provides additional time to order and ship new product cargoes to restore supply to normal levels.

However, there is still an important role for governments in support of Australian petroleum industry.
Specifically, AIP considers that the role of government is to:

- maintain a clear and stable market based policy framework and investment environment, and a level playing field for market operators
- carefully review and streamline the existing complex and overlapping array of environmental and other regulatory measures to ensure that current measures are soundly based, cost effective and harmonised (including across jurisdictions)
- ensure that future regulatory decisions do not impose burdens on industry or undermine the competitiveness of liquid fuel refining and supply
- maintain multilateral efforts to ensure that world markets remain open and competitive (see **Section H**), and that efficient, effective and market reflective response mechanisms are in place to mitigate the impact of supply disruptions and global oil supply emergencies.

Policy stability is key to the delivery of ongoing energy security and attracting the necessary and significant industry investments to meet Australia's future liquid fuel needs on a reliable basis. An attractive investment environment and more efficient, timely and consistent planning, approval and regulatory processes, would support the ongoing investment in the growth, modification and maintenance of key infrastructure supporting the liquid fuels supply chain.

A strong market-based approach to policy settings by government will also provide a flexible and robust framework capable of responding to the changing global oil market and also to technology developments in the industry. As part of a stable market-based approach, AIP recommends a set of policy principles to guide governments and safeguard liquid fuel supply security in Australia — see **Box 5** on Page 26.
AIP and its members companies also support multilateral government efforts to ensure that world markets remain open and Australia continues to be well integrated into regional oil and commodity markets.
The importance of international engagement is underscored by global supply diversification, shifting demand–supply patterns, and the need to attract investment in a highly competitive capital market.

Where government activity is needed in the market, and a clear market failure has been demonstrated, AIP and its member companies advocate policies and regulation that apply equally to all industry participants and are based on comprehensive economic analysis and sound science.

The downstream petroleum industry operates across Australia and is therefore subject to a range of policies in each jurisdiction that entail significant regulatory and compliance costs. AIP considers that there can be major benefits in pursuing a harmonisation of these regulations across jurisdictions. The benefits of such action would include common and consistent approaches and frameworks that would lower costs for regulators and industry and lead to greater certainty in regulatory outcomes.

Various models could be pursued to harmonise State/Territory regulations on matters impacting the fuels industry – models such as:

- formal intergovernmental agreements with mirror legislation in each jurisdiction, along the lines of the National Environment Protection Measures (NEPM) process (but noting the need to streamline the unwieldy review process)
- Jurisdictional implementation of independently developed national guidelines supported by a practitioner accreditation program
- Commonwealth legislation.

Experience to date has demonstrated the benefits that can be derived through harmonisation of regulations in some of these areas, and highlights the potential for further significant productivity gains that could be realised without any significant loss of environmental or community benefits.

A Government Role: Supporting the significant investment task

Import infrastructure adequacy and access

Australia's petroleum import and distribution infrastructure is a key component of the Australian fuel supply chain. This is underpinned by considerable industry investment in new supply infrastructure, and a requirement for significant ongoing industry investment in existing refinery and infrastructure maintenance.

Over a number of years, major independent and government reviews of industry's petroleum import and supply infrastructure have concluded that:

- significant investment in new or expanded facilities has been occurring and more is under construction or planned
- there is spare capacity to meet future demand and import growth for fuels, particularly in some independently owned import terminals
- there are a range of economic options in Asia to import fuel meeting Australian quality standards
- terminal operations and access arrangements do not impose a constraint to import competition or to investment in supply infrastructure.

The key conclusion from these detailed assessments, including Energy White Papers, is that *"currently, the market is delivering adequate terminal and importing infrastructure to meet Australia's liquid fuel needs, and investment in new import infrastructure and storage is keeping pace with increasing consumption."*

Competitive business strategies have led to construction of new or expanded supply infrastructure and fuel storage in key import and demand centres around Australia, to better meet changes in the customer base and the fuel products they require and in response to refinery closures.

A strong market-based approach in Australia will support continued investment in the supply infrastructure needed to meet growth in fuel demand. AIP therefore supports reforms, as recommended in Energy White Papers, to ensure that planning, approval and regulatory processes are efficient, timely and nationally consistent, so as to facilitate longer term investment in liquid fuel import, storage and distribution infrastructure.

There is also an ongoing need for state and territory governments (and private port operators) to maintain investment in port facilities and associated fuel handling infrastructure to remove supply bottlenecks and to meet expected growth in fuel imports and demand over time.

There is no regulated access for third parties to bulk fuel terminals and distribution infrastructure as there is significant spare capacity in the bulk fuels market. Access is readily available on commercial terms (through leasing, hosting and usage charges).

In relation to terminal access, the Draft Report of the Competition Policy Review (the Harper Review) recently concluded there was no case for regulatory intervention:

- "*The Australasian Convenience and Petroleum Marketers Association has made public comments emphasising the importance of terminal access to facilitate wholesaling competition. In particular it identified a need to ensure that access to fuel terminals did not act as an impediment to the importation of fuel by independent wholesalers. The ACCC's 2013 fuel monitoring work shows that independent imports have increased in recent years."*
    - The ACCC December 2013 fuel monitoring report concluded that independent operators now own the same import storage capacity for petrol as the major oil companies and petrol imports by independent importers have increased five-fold since 2007-08.
- *"The availability of a timely and effective scheme to allow access, where appropriate, to natural monopoly infrastructure, provides a possible avenue should independent wholesalers be frustrated in their attempts to gain access through commercial negotiations. The Panel has not seen evidence that would justify industry-specific intervention to facilitate such access for fuel terminals."*

Applying access regulation to this privately owned infrastructure would seriously distort/reduce incentives to invest in new infrastructure and maintenance. Australia's future supply security would be impacted because more investment in terminals will be needed to meet future demand and a higher level of imports.

Supply Chain Constraints

Notwithstanding infrastructure currently keeping pace with demand, AIP members remain concerned about the future availability of, or encroachment on, appropriately located land for the significant liquid fuels supply infrastructure that will be essential for future supply reliability and security.

Competing land uses are placing limits on options for liquid fuels infrastructure growth, for example:

- existing sites used for liquid fuel supply infrastructure are increasingly being constrained through residential and light industry encroachment into buffer zone areas, and areas traditionally regarded as industrial are now attracting residential developments to make use of inner city and coastal amenities
- expansion or modification of sites to enable increases or improved efficiencies in storage and handling facilities are increasingly being limited by planning authorities
- port handling facilities have limited capacity for further expansion or for improved handling facilities
- road transport access to terminals for handling increasing volumes of fuels is becoming more difficult and options to distribute fuel to consumers are constrained due to the increased use of tunnel infrastructure in larger city road networks.

These competing interests can bring long delays to current and near term development approvals for liquid fuel infrastructure investments.

Given the importance of liquid fuels for Australia's economy, AIP strongly believes there is a need for a cross jurisdiction initiative to consider long term planning for Australia's liquid fuel infrastructure, to ensure that appropriate land is identified for terminals and distribution corridors, and that appropriate planning arrangements are put in place to ensure that future investments in liquid fuel infrastructure can proceed in a timely and cost effective way that meets the variety of community expectations associated with liquid fuels and industrial activity.

Overall, policy stability, a level playing field for competing transport fuels, and efficient, well targeted and harmonised government regulation will help support the industry's future investment task as well as the development and growth of robust, efficient and commercial markets for all transport fuels.

A Government Role: Maintain the current National Emergency Management framework

Following extensive reviews in recent years, Australia's emergency response framework for liquid fuels is robust and proven, and there are no obvious gaps currently. The framework should be periodically reviewed to ensure its ongoing alignment with market-based principles, market operation and conditions, and the best practice commercial strategies of industry to manage supply disruptions.

AIP agrees with government assessments that *"Government intervention to manage disruptions should be as a last resort. Decisions to intervene should be based on an agreed transparent and objective emergency framework that ensures cooperation between industry and government to minimise market distortion. In the event of a disruption, energy market participants should be able to make independent decisions in response to price signals and existing or revised contractual arrangements. These decisions are likely to provide the most effective, flexible and timely responses to minimise the impact of disruptions at least cost."*

In this regard, state and territory governments need to ensure that the liquid fuels Emergency Management Plans operating in each jurisdiction are aligned with the National Emergency Plan (NLFERP), as agreed by NOSEC and the COAG Energy Council, to ensure a harmonised and certain approach to the management of any fuel supply disruption.

A Government Role: Conduct robust market monitoring and regular assessment of liquid fuels security and vulnerabilities

Ensuring that Australia's liquid fuels market and settings are resilient and robust to foreseeable events is an important role for government. In this respect, AIP supports government actions for ongoing market monitoring and energy security (NESA) assessments. This includes conducting regular National Energy Security Assessments using the established assessment approach. It is also important to ensure the NESA assessment framework remains robust and applies a common methodology across all energy sectors, all relevant technologies, and all transport fuels in the fuels mix. Critical to these future government security assessments, and to meeting Australia's international obligations, is robust petroleum and stocks data – see below.

A Government Role: Education of Major Fuel Users about Business Continuity Planning

As outlined in **Section D**, robust and flexible industry commercial response strategies can be further enhanced by the widespread adoption of robust supply management and business continuity planning by major fuel users in Australia. AIP supports government education efforts to address such barriers to more efficient supply chain operation in Australia.

A Government Role: Enhancing market transparency and policy development

High-quality and transparent liquid fuels data and analysis is crucial for government, business and consumers to be able to make efficient and well-informed decisions and perform robust analysis. However, as confirmed in government reviews, there are a number of areas where liquid fuels data collection and analysis can be improved to better support these objectives, including in a more efficient and cost effective way for both government and industry.

For many years AIP has strongly supported coordinated Government efforts to develop higher-quality and broader coverage domestic liquid fuels data and consolidate liquid fuels data collection and analysis across Government agencies. AIP is fully supportive of the current proposals to introduce more robust and streamlined liquid fuels data reporting. AIP believes that a single definitive and robust dataset for liquid fuels through data consolidation and streamlining will lead to a significantly lower collection and reporting burden on both government and industry (noting there are currently 12 different liquid fuels reporting requirements across Commonwealth agencies alone). AIP believes this is readily achievable if the single liquid fuels dataset is based on the wide range and significant volume of high quality liquid fuels data collected for Excise/Customs purposes. This action will deliver significant red-tape reduction.

More robust liquid fuels data will not only contribute to improved market monitoring, decision making and international reporting/compliance, but will also better inform future government security/vulnerability assessments of the liquid fuels market as international factors and market forces reshape the global and domestic market.

Renewables and alternative fuels in the fuels mix: What Role for Government?

AIP believes that renewable and other alternative energy sources have a place in a diversified Australian liquid fuels market as long as they are available at a competitive price, reliably supplied, acceptable to consumers, and produced sustainably.

- Biofuels and gaseous fuels have achieved strong levels of market penetration in the past based on significant financial incentives provided by governments and mandated market shares or volumes.

However, each biofuel and alternative fuel faces particular challenges in progressing to a sustainable market position without substantial government assistance. In considering potential options for government to encourage greater use of these fuels, AIP strongly believes that government's role is to:

- maintain a clear and stable market based policy framework and investment environment, and a level playing field for market operators
- ensure that any regulatory market interventions are essential, and are soundly based, cost effective and harmonised with other policies (and regularly tested to establish that objectives are being met)
- ensure that future regulatory decisions and imposts do not undermine the competitiveness or robustness of liquid fuel supply.

Any proposals for changes to current market-based policy settings need to clearly demonstrate that:

- a real market failure or vulnerability exists within the industry
- new policy measures will produce a net benefit to the community and will not impact adversely on the competitiveness of the fuels industry or liquid fuel supply security and reliability
- continued reliance on domestic and international markets is unable to deliver a similar outcome, or that consumers cannot, or cannot efficiently, do these things.

AIP only supports the use of transparent financial incentives (excise concessions, production grants and technology and market facilitation grants) to facilitate and encourage the use of biofuels and alternative fuels in Australia if those incentives are either:

- short-term and aimed at offsetting some of the up-front capital costs associated with bringing the fuel or the fuel use technology to the market, or
- ongoing but solely aimed at recognising significant and demonstrated environmental benefits of the fuels compared to the current environmental performance of mainstream transport fuels.

In this context, AIP supports the policy of successive governments of fuel excise neutrality based on the relative energy content of the individual fuels. However, AIP sees no case for expanding or extending the current fuel excise concessions for renewable and alternative fuels.

BOX 5: A Policy Framework for Transport Fuels Supply Security and Resilience

Government policies will impact on the ability of Australian refiners and fuel importers to attract further investment funds for refinery and import terminal upgrades (and ultimately for major maintenance programs) and also impact on investments throughout the fuels supply chain.

A sound government policy framework for liquid fuels security should:

- maintain a strongly market based approach to liquid fuels with minimal regulatory intervention
- recognise the competitive pressures from regional refineries and the impact on the economy of any loss of Australia's competitive advantage as a result of government policies
- facilitate the development of liquid fuels supply infrastructure, including streamlining approvals for new or expanded infrastructure developments such as new storage facilities or port deepening
- place no additional and unjustified compliance, regulatory and cost burdens on the fuels supply industry that reduce the industry's ability to compete effectively in the region
- ensure R&D policy settings are appropriate and encourage the commercial development of transport fuels which can contribute to liquid fuel security in Australia
- seek to identify and address any government policy and regulatory impediments to Australia maintaining a high level of liquid fuel security over the longer term.

Within this policy framework, any government proposals for changes to current market-based policy settings, or intervention in the fuels market, need to clearly demonstrate that:

- a real market failure or vulnerability exists within the industry
- continued reliance on domestic and international markets is unable to deliver a similar outcome or that consumers cannot, or cannot efficiently, do these things
- new policy measures will produce a net benefit to the community (based on sound science and rigorous economic analysis) and will not impact adversely on the competitiveness of the industry or liquid fuel supply security and reliability.

Existing or new government regulatory regimes should:

- clearly define their objectives
- be regularly reviewed to ensure the objectives are still relevant
- be harmonised across jurisdictions
- be enforced, and applied, consistently to all market participants
- be allowed to lapse when their objectives have been met.

This policy framework and principles reflects fundamental industry drivers including the significant capital employed by the industry, competing opportunities for capital within companies, and the risk to supply security if any policy changes make an ongoing domestic refining presence unviable in the future.

(H) Australia's role and responsibility regarding energy security as a member of various multilateral for a (ToR3)

With increasing fuel import requirements since 2003, the domestic fuels industry has taken the opportunity to fully integrate into the deep and growing Asian market to meet growth in Australian fuel demand, and has established multiple and reliable sources of supply from the region.

Importantly, additional diversity and flexibility in the Australian supply chain is expected over time with the rapid emergence of Asia as the global hub for the oil market and the emergence and proximity to Australia of major new petroleum export centres (eg. India).

Australia's direct involvement in global trade in crude oil and petroleum products provides security through the diversity of source countries and multiple import terminals and the relative ease with which crude oil and petroleum products can be moved in readily available ships, pipelines, or surface transport.

However, effective international engagement is becoming more important with the shifting global oil map and pattern of trade, greater energy diversification, rapid technology innovation and uptake, and also to attract investment in a highly competitive capital market.

Key issues for all countries are:

- sound knowledge of how the dynamic oil market works in relation to that country and how the market responds to disruptions and changes
- removing all barriers to the efficient operation of markets
- sound and well tested national response mechanisms for handling oil supply disruptions
- a commercial approach to standby physical oil and petroleum product supplies.

AIP and its members companies support multilateral efforts to ensure that world markets remain open, Australia continues to be well integrated into regional and global commodity markets, and that effective and market-reflective response mechanisms are in place to mitigate the impact of short term supply disruptions and global oil supply emergencies (noting AIP's comments on Page 18 that current IEA methodologies/approaches are not market reflective).

AIP therefore supports broad engagement with the IEA, as well as with the G20 and APEC, to support these market orientated goals. Working in close partnership with industry and other key stakeholders, the Government is encouraged to pursue common energy goals such as energy security, flexible and resilient markets, and energy and technology innovation.

However, it is important that these multilateral fora are well informed about market realities, changes in market conditions, and market operations and be willing to adapt to these changes so as to encourage actions that:

- support efficient, transparent and open domestic, regional and global markets that create clear incentives for timely investment and efficient operation and end use
- promote and strengthen energy supply chains and market efficiencies, reduce barriers to trade, and improve market and regulatory transparency.

Any actions on these terms, and which reflect our regional and domestic market realities, will help ensure that energy security is achieved at least cost to Australia and in ways that do not create further market distortions.