Chapter 5

Role of Government in fuel security

5.1 As stated previously, the 2011 NESA concluded that Australia's liquid fuel security will deteriorate from 2016 in the absence of a comprehensive liquid fuel security policy.[1] A number of submitters held the view that, to prevent any further deterioration, Australia should develop a liquid fuel security policy which provides for diverse and reliable transport energy sources and increases the uptake of alternative fuels.[2] This chapter considers the role of government and the growing importance of fuel diversity as well as diversity of fuel supply.

Policy approach

5.2 As previously noted, Australia does not have public stocks and does not impose a minimum stockholding requirement on oil companies operating in the country. As submitted by the department, Australia's demand for oil supply is met through full integration into the global market.[3] At the first sign of an oil disruption, market price mechanisms are allowed to operate in order to reduce demand. That is, to allow oil price increases to flow through to consumers. Under such circumstances, the government monitors the effect of price increases that flow from the supply disruption on patterns of demand without intervening in the market.[4]

5.3 The 2011 NESA recognised energy security as comprising three interrelated and largely mutually reinforcing dimensions – adequacy (provision of energy), reliability (minimal disruption), and competitiveness (including affordability and ongoing competiveness of the economy). In terms of Australia's future energy supplies, the NESA identified several watch-points, including:

- Australia’s declining oil refining capacity;
- uncertainties surrounding coal seam gas (CSG) developments;
- liquefied natural gas (LNG) developments on the east coast causing supply shortages;
- energy price pressures; and
- investment uncertainty, due to the carbon tax and related policies.[5]

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1 Department of Resources, Energy and Tourism, *National Energy Security Assessment*, 2011, http://www.industry.gov.au/energy/Documents/Energy-Security/nesa/National-Energy-Security-Assessment-2011.pdf (accessed 9 December 2014).

2 Gas Energy Australia, *Submission 6*, p. 3; University of Queensland, *Submission 12*, p. 7.

3 Department of Industry and Science, *Submission 41*, p. 4.

4 International Energy Agency, *Oil and Gas Security – Australia*, 2011, p. 13.

5 National Energy Security Assessment 2011 cited in Department of Industry, *Energy White Paper – Green Paper*, September 2014, p. 48.

5.4 However, the 2012 Energy White Paper, which draws on the 2011 NESA, concluded that:

- the decline in Australia's domestic refining capacity that will follow the Clyde and Kurnell refinery closures will not impair Australia's liquid fuel security; and
- in particular, the substitution of imports of crude oil for imports of refined fuel as a result of the Clyde and Kurnell refinery closures does not pose any additional risk to market security.[6]

5.5 Furthermore, in an December 2013 issues paper for the Energy White Paper, it was noted that:

> Liquid fuel imports are sourced from a diversity of suppliers under stable market arrangements resulting in a high degree of confidence in Australia's liquid fuel security.[7]

5.6 AIP argued that the government's position was supported by a series of reviews including NESA, Liquid Fuel Vulnerability Assessments since 2008, the 2012 Energy White Paper and more recently the 2013 House of Representatives Standing Committee on Economics Report on Australia's oil refinery industry.[8] It argued that such reviews confirmed that Australia's liquid fuel supply is highly secure, competitively priced and reliable for reasons including a flexible, resilient and dependable supply chain. This supply chain is diverse, encompasses secure shipping routes, a significant volume of stock on the water owned by local companies, and entails a domestic refining capability which provides multiple supply options and the ability to convert domestic and imported crude oil into useable products.[9] According to the AIP, these reviews have also found supply to be reliable for reasons including:

- established and effective integration of the supply chain into the global crude oil and petroleum product market;
- domestic fuel pricing that relates directly to the global market price;
- expert and efficient management of the supply chain by industry;
- ongoing, substantial investment in new/expanding petroleum storage and handling facilities; and
- robust risk and emergency management frameworks at industry and government levels.[10]

5.7 AIP argued in favour of a market-based approach to liquid fuel supply and domestic infrastructure development. It noted in this regard that:

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6 Gas Energy Australia, *Submission 6*, p. 7.

7 Department of Industry, *Energy White Paper – Issues Paper*, December 2013, p. 11.

8 Australian Institute of Petroleum, *Submission 17*, p. 8.

9 Australian Institute of Petroleum, *Submission 17*, p. 8.

10 Australian Institute of Petroleum, *Submission 17*, p. 8.

> 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.[11]

Support for government intervention

5.8 NRMA and others made the point that Australia is now increasingly exposed to potential supply disruption under its market-reliant policy with potentially serious consequences for the economy and national security.[12] In light of this (growing) dependence and the prospect of an interrupted fuel supply, a number of submitters argued in favour of some form of market intervention. In this regard, TIC made the point that, while markets and industry can address many of the issues in the energy supply chain, the issue of supply security is a government responsibility.[13]

5.9 Gas Energy Australia saw a need to focus on the NESA's conclusion that Australia's liquid fuel security will deteriorate from 2016 as a result of continued rising oil prices as well as increased import reliance combined with decreased non-OPEC and conventional oil supplies. Gas Energy Australia noted that these factors were expected to lead to 'greater reliance on international supply chains and geopolitically and geologically difficult locations'.[14] As a first step towards addressing this problem, Gas Energy Australia suggested that the Australian Government seek to prevent any more oil refinery closures through industry assistance.[15]

Risk assessment

5.10 A number of submitters argued that a comprehensive risk assessment should be undertaken in the first instance to inform any possible government intervention or national policy development. Many argued that a risk assessment should be the basis on which to develop a national transport energy plan.

5.11 AAA argued that such a review should consider the risks and implications of current industry trends in the first instance, including Australia's growing dependence on oil imports, on the security and diversity of Australia's fuel mix, economic productivity and environmental outcomes.[16] As part of considering current trends, the review should analyse the country's refining capacity in order to understand the implications of ongoing refinery closures, and the loss of local capacity, on both near-term and longer-term resilience and security.[17]

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11 Australian Institute of Petroleum, *Submission 17*, p. 9.

12 Australian Coal to Liquids Association, *Submission 33*, p. 24.

13 Truck Industry Council, *Submission 23*, p. 2.

14 Gas Energy Australia, *Submission 6*, p. 7.

15 Gas Energy Australia, *Submission 6*, p. 7

16 Australian Automobile Association, *Submission 14*, p. [2].

17 National Roads and Motorists' Association, *Submission 18*, p. 15.

5.12 UQ made the point that any such assessment should consider supply disruption scenarios along the supply chain and not limit itself to the Middle East. It suggested that the review should also examine the impact of system interruptions in Singapore as well as at Australian ports and import terminals.[18]

5.13 Submitters further recommended that such a review should explore options and the feasibility of a range of risk mitigation strategies. The risk assessment should also consider therefore:

- the cost of import fuel-interruption scenarios to inform the value of any intervention to improve supply resistance and sustainability;
- the costs, benefits and timelines for the redirection of currently exported Australian cruel oil to be refined domestically in periods of crisis;
- acceptable levels of emergency self-sufficiency in oil supplies in the context of an international agreement to maintain supplies of at least 90 days and implement the most effective ways to achieve these levels;[19]
- incentives such as a transport energy security levy to maintain a 'minimum strategic' Australian refinery capacity or ramp-up capacity;[20] and
- methods to ensure the sustainability of the domestic refining, storage and distribution industry so that it can supply essential civil and military needs in the event of a crisis.[21]

Transport energy plan

5.14 The Queensland Government argued that, in terms of government intervention, a national approach was required with the Australian Government 'well positioned to undertake specific actions to increase Australia's transport energy security and diversity into the future'.[22]

5.15 NRMA, Gas Energy Australia, AAA and others supported the development of a comprehensive transport energy plan for Australia which would include a strategy to improve Australia's liquid fuel security.[23]

5.16 Submitters in favour of a national transport energy plan argued that it should include the following:

- mitigation strategies which provide for the retention of emergency stock and an emergency fuel distribution system for periods of shortage;[24]

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18 University of Queensland, *Submission 12*, p. 6.

19 Engineers Australia, *Submission 2*, pp 4–5.

20 University of Queensland, *Submission 12*, p. 2.

21 Engineers Australia, *Submission 2*, pp 4–5.

22 University of Queensland, *Submission 22*, p. iv.

23 Mr Graham Blight, National Roads and Motorists' Association, *Committee Hansard*, 9 April 2015, p. 20; Gas Energy Australia, *Submission 6*, p. 5; Australian Automobile Association, *Submission 14*, p. [2].

- methods to encourage diversification of import sources;[25]
- increased strategic reserve/stocking requirements of refined products and the security, spread and diversity of storage sites;
- strategies to provide for a secure and affordable fuel supply to the agricultural sector to ensure Australia's food supply;[26] and
- alternative transport fuels as a means of mitigating exposure to imported fuel supply disruptions.[27]

5.17 A number of submitters emphasised the importance of focusing on alternative transport fuels. APA Group argued for a transport energy roadmap which included a national approach to fuel excise across alternative fuel classes including that of LNG, LPG, compressed natural gas (CNG) and biomass.[28] Towards a comprehensive policy, AGL supported a review of the barriers, along the supply chain, to the development of alternative transport fuel projects in Australia.[29]

5.18 The NRMA's Jamison report of 2010 revealed that, at that time, more than 30 per cent of domestic transport energy demand could be met by secure supplies – secure from source through to delivery – through the use of biofuels, gas, electricity and more efficient vehicles as well as domestic oil production.[30] It noted that the application of such technologies could reduce the country's dependence on imported fuels by at least 30 per cent.[31] It suggested that with 30 per cent of transport supply secured, basic services would be able to function in Australia in the event of a major or sustained liquid fuel supply disruption.[32] Three years later, the NRMA noted that the absence of adequate policy or incentives in this area did not bode well for fuel demand diversity.[33]

Diverse energy sources and energy supply

5.19 According to Gas Energy Australia, when Australia joined the IEA in 1974, there were no widely available alternatives to oil-based fuels. However, it argued that the current situation is different. It drew on the findings of the Australian

24 Fusion Australia, *Submission 19*, p. 5; Engineers Australia, *Submission 2*, p. 1.

25 University of Queensland, *Submission 12*, p. 6.

26 AUSVEG, *Submission 11*, p. 2; National Farmers' Federation, *Submission 9*, p. 2.

27 APA Group, *Submission 10*, p. 2.

28 APA Group, *Submission 10*, p. 4.

29 AGL Energy Limited, *Submission 8*, p. 3.

30 Mr Graham Blight, National Roads and Motorists' Association, *Committee Hansard*, 2 February 2015, p. 68.

31 Mr Graham Blight, National Roads and Motorists' Association, *Committee Hansard*, 9 April 2015, p. 20.

32 National Roads and Motorists' Association, Submission 18, *Attachment 2*, p. 16.

33 National Roads and Motorists' Association, *Submission 18*, Attachment 1, p. 20.

Government's 2011 Strategic Framework for Alternative Transport Fuels which acknowledged that the emergence of a more diverse and layered transport fuels market may improve resilience in Australia's transport sector.[34]

5.20 The 2014 Energy Green Paper acknowledged that increasing cost competitive domestic production of alternative fuels could diversify the country's liquid fuel supply and strengthen fuel security.[35] It noted that alternative transport fuels are niche products in Australia which supply approximately five per cent of demand.[36]

5.21 These views were supported by a number of submitters to the inquiry, who highlighted the increasing importance of energy diversity and energy supply diversity for reasons including the need to reduce demand for and reliance on imported oil, energy security and reduced risks of supply disruptions, productivity gains for businesses and the wider economy, as well as improved environmental outcomes.[37]

5.22 Engineers Australia highlighted that energy security required a link to be forged between new opportunities, innovation, employment, and the engineering profession with that of diverse fuel supplies.[38] As Mr Greet from Engineers Australia, explained:

> You must support all types of energy and the way they are used not only across the transport sector but in the way we generate electricity. Once you get the diversity of fuels and energy techniques and types, you can keep different parts of the country working. You can keep regional Australia going through renewables and different types of energy. You can have jobs created and Australians actually being smart in what they do, taking advantage of a lot of these great technology advancements that are happening in the country. The secret is diversity.[39]

5.23 As a response to concerns regarding domestic production and Australia's liquid fuel security, the 2014 Green Paper stated that:

> Increased domestic production of cost-competitive alternative transport fuels could strengthen Australia's liquid fuel security by diversifying supply. The Government considers such strengthening will only come from alternative transport fuels that successfully integrate into the broader

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34 Department of Industry and Science, *Strategic Framework for Alternative Transport Fuels*, December 2011, p. 21.

35 Department of Industry, *Energy White Paper – Green Paper 2014*, p. 3.

36 Department of Industry, *Energy White Paper – Green Paper 2014*, p. 52.

37 Gas Energy Australia, *Submission 6*, p. 8; Australian Trucking Association, *Submission 7*, p. 3; AGL Energy Limited, *Submission 8*, p. 3; University of Queensland, *Submission 12*, p. 6; Queensland Resources Council, *Submission 15*, p. [2]; Biofuels Association of Australia, *Submission 32*, p. 2; National Roads and Motorists' Association, *Submission 18*, Attachment 1, p. 3; Truck Industry Council, *Submission 23*, p. 4; Qantas Airways Limited, *Submission 25*, p. 2; Mobile LNG, *Submission 31*, p. 11.

38 Mr Neil Greet, Engineers Australia, Committee Hansard, *2 February 2015*, p. 3.

39 Mr Neil Greet, Engineers Australia, Committee Hansard, *2 February 2015*, p. 3.

> transport fuel market by being secure and reliable in supply, meet requisite fuel standards, and deliver on consumer needs.[40]

5.24 According to evidence before the committee, Australian-produced gaseous fuels offer the best prospect of improving Australia's liquid fuel security. A recent BREE study concluded that gaseous fuels offer the lowest production costs now and into the future, remain cost competitive and have lower cost renewable technologies out to 2050.[41] BREE's Energy in Australia 2014 report stated that renewable energy consumption rose by 12 per cent in 2012–13, with growth in all renewable energy sources except for biogas and biofuels.[42]

5.25 Coal-to-liquids (CTL) technology was also highlighted as a viable prospect as it can convert the low-grade portion of Australia's coal reserves. According to the Australian Coal to Liquids Association:

> The CTL solution can fill all of the gap from our conventional oil production, is not constrained by biological inputs, can produce the entire range of fuels and chemicals needed with supply security enhanced by plans distributed around the country. It will back out approximately $40 billion of annual fuel imports.[43]

5.26 Mobile LNG made the point that there is an opportunity to improve the energy resilience and security of Australia by using domestic LNG for domestic purposes.[44] Furthermore, Qantas argued that the commercialisation of a financially and environmentally sustainable advanced aviation biofuel would make an important contribution to the long-term sustainability of Australia's aviation industry.[45] It noted in this regard that:

> The development of an aviation biofuel industry would go some way toward reversing the decline in Australian refining capacity, maintain highly skilled jobs and support energy security by creating diversity of supply in reducing reliance on imported crude oil and finished product.[46]

5.27 Energy Supply Association of Australia (ESSA) argued that while Australia's heavy reliance on liquid fuelled internal combustion engines is likely to continue in the short to medium term, over the longer term, a shift to electric vehicles (EV) or natural gas vehicles (NGV) could reduce reliance on imported fuels and thereby improve Australia's fuel security. It noted in this regard that:

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40 Department of Industry, *Energy White Paper – Green Paper 2014*, p. 54.

41 BREE cited in Gas Energy Australia, *Submission 6*, p. 6.

42 Bureau of Resources and Energy Economics, *Energy in Australia 2014*, p. 27.

43 Australian Coal to Liquids Association, *Supplementary Submission 33*, p. 2.

44 Mr Andrew White, Mobile LNG, *Committee Hansard*, 2 February 2015, p. 79.

45 Qantas Airways Limited, *Submission 25*, p. 1.

46 Qantas Airways Limited, *Submission 25*, p. 2.

> Significant advances in technology have created a new generation of EVs and NGVs that have the potential to surpass traditional petrol and diesel engine vehicles on performance, safety, design and running costs.[47]

5.28 The main alternatives to petrol and diesel for motor vehicles in Australia are LPG and biofuels (ethanol and biodiesel).[48] Unlike petrol and diesel which are made from non-renewable resources like crude oil, biofuels are derived from renewable materials such as vegetable and animal products. The main types of biofuels used as transport fuels in Australia are ethanol and biodiesel.[49] Mr Adam Pegg, Head of Environmental Development at APA Group informed the committee that natural gas in transport was a mature technology. He continued:

> It has many applications—road, rail and sea, and mining applications as well. It has long-term potential cost and environmental benefits. We have a very large gas resource. We have a very sophisticated pipeline and gas network through the country that can form the basis for infrastructure to support natural gas vehicles. And under the right market conditions there is an appetite for the private sector to invest in this area. So, in closing, we think gas in transportation should compete on a level playing field. We think that there are potential government incentives for market failure, such as security of supply.[50]

Liquefied Petroleum Gas

5.29 Liquefied petroleum gas (LPG) is a by-product of natural gas and crude oil refining. It is the most widely used alternative transport fuel in Australia.[51]

5.30 LPG enjoys approximately three per cent market share of transport energy use, mainly in light vehicles.[52] It fuels almost 500,000 mostly privately owned vehicles and is the predominant fuel used by the taxi industry, fleet as well as trade vehicles.[53]

5.31 Australia is not only completely self-sufficient in LPG but is also a net exporter of it with net exports equating to around 41 per cent of total production in 2010–11.[54] In 2013, Australia produced 2,317 kilotonnes of LPG, satisfying a local demand of 1,539 kilotonnes while exporting 815 kilotonnes.[55]

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47 Energy Supply Association of Australia, *Submission 29*, p. 1.

48 Bureau of Resources and Energy Economics, *Energy in Australia 2014*, p. 114.

49 Australian Consumer and

50 Mr Adam Pegg, APA Group, *Committee Hansard*, 2 February 2015, p. 53.

51 Gas Energy Australia, *Submission 6*, p. 4.

52 Department of Industry, *Energy White Paper – Green Paper 2014*, p. 52.

53 Gas Energy Australia, *Submission 6*, p. 4.

54 Bureau of Resources and Energy Economics, *Energy in Australia 2012*, p. 79.

55 Gas Energy Australia, *Submission 6*, p. 8.

5.32 While it was acknowledged that self-sufficiency or adequacy alone does not guarantee energy security, Gas Energy Australia emphasised the extent of Australia's LPG industry. It includes seven natural gas processing plants, nine coastal terminals, 170 regional depots, 1000 local small business distributors. Of the approximate 6400 service stations across Australia, 4300 sell at least one alternative transport fuel with LPG the largest network with over 3700 Autogas refuelling stations across the country.[56]

5.33 The 2012 Energy White Paper estimated that Australia's vast natural gas reserves were equivalent to 184 years of supply at current production rates. Currently, 81 per cent of LPG produced in Australia is derived from processing natural gas from these reserves.[57] Gas Energy Australia concluded that substituting just 30 per cent of Australia's near total dependency on imported fuel would not only deliver improved fuel security but also retain local engineering skills and reduce carbon and other emissions. Moreover, it estimated that every 10 per cent substitution of imported diesel by Australian gaseous fuels saves $870 million in import costs.[58]

Compressed Natural Gas and Liquefied Natural Gas

5.34 Natural gas can be used as a fuel for vehicles when liquefied (LNG) or compressed (CNG). According to the APA Group, when used as a substitute for diesel fuel in transport applications, natural gas produces approximately 30 per cent less full lifecycle emissions and can be up to 50 per cent cheaper than imported diesel fuel on an equivalent per litre basis.[59] In terms of costs, according to Gas Energy Australia, every 10 per cent of imported diesel substituted by natural gas fuels and LPG would save import costs of approximately $80 million per year.[60] Mr Michael Carmody, CEO of Gas Energy Australia continued:

> Greater use of gas-powered vehicles is a low-cost way to improve Australia's fuel security, and there is both plentiful supply and, at least in regard to LPG, substantial infrastructure in place.[61]

5.35 According to Mobile LNG, LNG offers a fuel alternative to diesel which has shown to provide fuel cost savings, improved operational efficiencies and to deliver significant environmental benefits.[62] It argued that the wider use of Australia's own LNG within its own economy would put the country on the same path as the advances

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56 Department of Industry and Science, *Strategic Framework for Alternative Transport Fuels*, December 2011, p. 15; Gas Energy Australia, *Submission 6*, p. 8.

57 Gas Energy Australia, *Submission 6*, p. 8.

58 Gas Energy Australia, *Submission 6*, p. 9.

59 APA Group, *Submission 10*, p. 3; Mr Andrew White, Mobile LNG, *Committee Hansard*, 2 February 2015, p. 84.

60 Mr Michael Carmody, Gas Energy Australia, *Committee Hansard*, 2 February 2015, p. 52.

61 Mr Michael Carmody, Gas Energy Australia, *Committee Hansard*, 2 February 2015, p. 52.

62 Mobile LNG, *Submission 31*, p. 6.

being made by leading international economies including that of China and the United States. It argued that:

> Each of these nations has implemented natural gas/LNG fuel use policy to displace diesel fuels towards an improved socio-economic outlook that is delivered with the associated benefits of significant environmental gains.[63]

5.36 Mobile LNG suggested that the correct policy settings would remedy current supply issues and provide a catalyst for greater use of Australia's own abundant supply of natural gas and LNG through the economy.[64] Instead, Australia continues to import expensive diesel/petroleum products while maintaining policies for a diesel/petroleum dependent economy and exporting the economic advantages of its own natural gas away in LNG form to the benefit of other countries.[65] Mobile LNG argued that, by using Australia's own resources and technology, the development of LNG facilities would provide for energy security by improving energy self-sufficiency for the country with local low-priced fuel supplies.[66]

Challenges and targets

5.37 Australia has rich resources available for the production of conventional and advanced biofuels and the biofuel industry is one of the fastest growing globally, predicted to move towards eight per cent of the global transport requirement. However, according to BAA, the lack of a clear policy framework to encourage its development has stifled the industry.[67] As a case in point, NRMA stated that over 62 countries have mandated biofuel use as part of their energy security policy while in Australia, only NSW has a mandate but said that it is 'weak and constantly undermined'.[68]

5.38 Various submitters saw the challenges to the industry as including lack of investor confidence and lack of incentives to help create demand for alternative fuels, difficulties associated with breaking into an entrenched fuel market, regulatory and taxation issues coupled with the absence of a strong and consistent market signal from government.[69] As a case in point, the absence of regulatory harmonisation across states and territories has made the prospect of driving an LPG truck from one end of the country to another extremely difficult.[70] ESAA made the point that better

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63 Mobile LNG, *Submission 31*, p. 1.

64 Mobile LNG, *Submission 31*, p. 2.

65 Mobile LNG, *Submission 31*, p. 6.

66 Mobile LNG, *Submission 31*, p. 8.

67 Biofuels Association of Australia, *Submission 32*, p. 4.

68 Mr Graham Blight, National Roads and Motorists' Association, *Committee Hansard*, 2 February 2015, p. 69.

69 Biofuels Association of Australia, *Submission 32*, p. 5; Mr Michael Carmody, Gas Energy Australia, *Committee Hansard*, 2 February 2015, p. 53; Mr David Moore, Gas Energy Australia, *Committee Hansard*, 2 February 2015, p. 54; Qantas Airways Ltd, *Submission 25*, p. 2.

70 Mr David Moore, Gas Energy Australia, *Committee Hansard*, 2 February 2015, p. 54.

utilisation of existing gas and electricity infrastructure through alternative-fuel vehicles such as plug-in electric and natural gas powered vehicles was required.[71]

5.39 BAA informed the committee that six (federal and state) policy changes over the past five years, reductions in industry support including the removal of the Ethanol Producers Grant and Cleaner Fuels Scheme and plans to impose excise on biodiesel from 2016 have contributed to destabilising investor confidence. It suggested that policy changes appeared to work against the stated aims of the government to increase the diversity and security of fuels on offer in Australia.[72] BAA argued that the industry needed strong signals from government to demonstrate its commitment to growing renewable fuels in Australia. To this end, it suggested that the government set a target that two billion litres of liquid transport fuels be produced from renewable sources by 2025.[73] This target would represent about five per cent of the total volume of liquid fuels used for transport in today's terms.[74]

5.40 A similar proposition from NRMA that the government set a target for alternative sources was supported by Gas Energy Australia.[75] NRMA recommended that the Australian Government work towards securing 30 per cent of Australia's transport energy from alternative sources by 2030.[76]

5.41 Mobile LNG argued that the greater use of LNG could be expedited by government if it were to offer to industry an accelerated depreciation schedule or similar taxation concession or inducement, on the new capital expenditure investments and on the new training costs that would be needed to make for the transition from diesel use to Australia's own LNG.[77]

5.42 However, in direct contrast, while AIP acknowledged that alternative fuels can play a role in a diversified transport fuels mix, it suggested that competitive market behaviour should determine that role – whereby the market will transition to other fuel types when they are economic.[78] Similarly, while BP Australia supported the market-led development of alternative fuels, it favoured an approach whereby any government assistance to these fuels would be transitional and gradually phased in so as to encourage their commercialisation and competitiveness. It noted in this regard that:

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71 Energy Supply Association of Australia, *Submission 29*, p. 2.

72 Biofuels Association of Australia, *Submission 32*, p.1.

73 Biofuels Association of Australia, *Submission 32*, pp 1 and 5.

74 Biosecurity Association of Australia, *Submission 32*, p. 5.

75 Mr Michael Carmody, Gas Energy Australia, *Committee Hansard*, 2 February 2015, p. 52.

76 National Roads and Motorists' Association, *Submission 18*

77 Mobile LNG, *Submission 31*, p. 6.

78 Mr Andrew Warrell, Australian Institute of Petroleum, *Committee Hansard*, 2 February 2015, p. 20.

> Any national intervention to mandate biofuels under the guise of 'energy security' is misplaced and should be rejected.[79]

5.43 Viva Energy Australia suggested that any decision to promote alternative liquid fuels should be based on sound science and be subjected to rigorous cost benefit analysis. It further noted that alternative fuels can have the unintended consequence of adding complexity and cost to the supply chain, thereby reducing supply security.[80]

5.44 Air Vice Marshal Blackburn (Retired) argued that disruptions and related incidents highlighted the fact that fuel companies have no responsibility to meet any nominated storage level as their focus is on just-in-time, minimum cost fuel delivery rather than fuel security in the broader sense.[81] He continued:

> That secure system is a government job. So in Australia where the government does not mandate any minimum level of stock, unlike so many other regional and global countries, the fuel companies do what makes sense – just in time, keep the cost down…The issue is that we are the only fuel exporting developed country in the world that does not mandate something.[82]

5.45 Mr John Ryan, Associate Secretary of the department, clarified that it was the role of government to assess, from a national viewpoint, what risks may occur and how they can be mitigated.[83] The department further noted that such assessments have 'consistently shown that global markets would continue to supply Australia's requirement during supply disruptions albeit at higher prices'.[84] However, fuel shortages such as that referred to in Perth and at Melbourne Airport indicate possible failings in achieving this objective.

5.46 As AIP noted, the goal and core business of each fuel company is to 'safely and reliably supply high-quality fuel to users who want it when they need it'.[85] It is not, therefore, the role of these commercial companies to ensure that Australia has adequate reserves. That is a matter for government.

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79 BP Australia, *Submission 30*, p. 11.

80 Viva Energy Australia, *Submission 34*, p. 4.

81 Air Vice Marshal Blackburn (Retired), National Roads and Motorists' Association, *Committee Hansard*, 2 February 2015, p. 70.

82 Air Vice Marshal Blackburn (Retired), National Roads and Motorists' Association, *Committee Hansard*, 2 February 2015, p. 70.

83 Mr John Ryan, Department of Industry and Science, *Committee Hansard*, 2 February 2015, p. 94.

84 Department of Industry and Science, Answer to question on notice at 2 February 2015 hearing, Answer provided

85 Mr Andrew Warrell, Australian Institute of Petroleum, *Committee Hansard*, 2 February 2015, p. 19.