

## Introduction

### Referral of the inquiry

- 1.1 On 1 November 2012 the Minister for Resources and Energy, the Hon Martin Ferguson AM MP, referred to the House of Representatives Standing Committee on Economics (the committee) an inquiry into Australia's oil refinery industry.

### Background

- 1.2 In June 2012 Shell announced that oil refining operations at its Clyde refinery would cease on 30 September 2012, and the refinery and Gore Bay terminal would be converted into fuel import facilities by mid-2013. Similarly, in July 2012 Caltex announced that it would close its Kurnell oil refinery and convert it into a major oil import terminal. These changes will leave Australia with five domestic oil refineries.
- 1.3 Australia's maximum refining capacity will reduce by around 28 per cent to 32 620 ML. It is forecast that domestic refiners will produce just over 50 per cent of the fuel consumed in Australia with the remainder being imported.
- 1.4 Some groups are concerned that a reduction in refining capacity could be detrimental to Australia's energy security. However, the *Energy White Paper 2012* (EWP), while noting the importance of energy security to Australia's prosperity, does not see major challenges from a reduction in domestic refining capacity.
- 1.5 The EWP has cautioned that self-sufficiency as an energy policy is misplaced and could be extremely costly to the community. One of the keys to energy security is having diverse supply chains. The EWP is confident that the diversity of international supply chains will meet

Australia's refined fuel needs and cover reductions in domestic refining capacity.

- 1.6 Some groups have raised concerns that the refinery closures could lead to adverse price outcomes for consumers. Again, the EWP discounts this prospect commenting that 'the closure of existing Australian refineries is unlikely to have any major impact on consumer fuel prices, as import parity pricing is the basis for wholesale and retail fuel pricing in Australia'.<sup>1</sup>

## Objectives and scope of the inquiry

- 1.7 The committee's role is to examine Australia's oil refinery industry as set out in the terms of reference. In conducting the inquiry the committee has taken evidence and taken into account the findings in the *Energy White Paper 2012* and the *National Energy Security Assessment*. The purpose of the inquiry is not to determine what a minimum level of domestic refining capacity should be.

## Conduct of the inquiry

- 1.8 Details about the inquiry were placed on the committee's website. A media release announcing the inquiry and seeking submissions was issued on 5 November 2012. In addition, the inquiry was advertised in *The Australian* on 7 November 2012.
- 1.9 Twenty submissions were received, which are listed at Appendix A. On 30 November 2012 the committee conducted a roundtable public hearing. This format is highly effective for gathering and scrutinising information in a short time frame.
- 1.10 The submissions and transcript of the roundtable are available on the committee's website at: [www.aph.gov.au/economics](http://www.aph.gov.au/economics).

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1 Australian Government, *Energy White Paper 2012, Australia's energy transformation*, p. 126.

## Structure of the report

- 1.11 The report has been structured in an easy-to-read format. In discussing each issue, evidence and other relevant material is provided, followed by the committee's conclusions.
- 1.12 Chapter 2 provides an overview of Australia's oil refinery industry relative to international industry trends.
- 1.13 Chapter 3 examines the economic impacts of declining refining capacity. The chapter examines a range of factors including the advantages of having diverse international supply chains and import parity pricing.
- 1.14 Chapter 4 discusses the importance of energy security, the level of risk and the measures in place to ensure Australia's energy security needs. The impact of reduced refining capacity on Australia's energy security is examined.
- 1.15 The final chapter examines the direct and indirect impact of refinery closures on employment.