

Business
Council of
Australia



submission

Submission to the
House of Representatives
Standing Committee on Economics
Inquiry into Australia's Oil Refining
Industry

NOVEMBER 2012

*Working to achieve
economic, social
and environmental
goals that will benefit
Australians now and
into the future*

About the BCA

The Business Council of Australia (BCA) brings together the chief executives of 100 of Australia's leading companies.

For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole.

Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.

High-level principles

Access to cheap energy has historically underpinned the competitiveness of the Australian economy. Ongoing access to affordable and secure energy remains of critical importance to the Australian economy today. This is particularly relevant to Australia in the context of access to petroleum products.

The recently released Energy White Paper provides a solid framework for energy policy, including our oil refining industry.

The BCA supports the use and promotion of market principles as the best means of promoting efficient and effective outcomes in relation to resource allocation. In general, markets will function best when there is:

- private ownership of assets
- effective competition
- market-based prices
- supply and demand side participation
- technology neutrality.

The BCA principles also highlight that government intervention to support unprofitable businesses that operate in the presence of effective competition should not be undertaken.

As highlighted in the Energy White Paper, Australia's supply of petroleum products comes from both domestic and international sources. In addition to the principles outlined above, from an energy security perspective, we should be indifferent between the source (whether domestic or international) of the products, so long as our supply is secure and we have access to those products at the most affordable prices.

Current circumstances

Australia is a small open economy that operates in a large number of dynamic and integrated international markets.

Australian refineries face a number of ongoing challenges including the ongoing excess supply in the Asian region, the strong Australian dollar and increased competition from large-scale Asian refineries.

The last National Energy Security Assessment (NESA), released in December 2011, demonstrates that Australia has a "high" level of energy security in relation to continued access to adequate and reliable supplies of liquid fuels at price levels that are manageable within the broader economy in the short to medium term. In the longer term the level of security is assessed as "medium" based on the increased reliance on imports of petroleum products in the future and the greater reliance on

international supply chains and need for appropriate investment in domestic import and storage infrastructure.

The market for petroleum products is a transparent and competitive market with both domestic and international participants. There is access to a diverse range of sources of supply which should be capable of meeting Australia's demand for petroleum products.

However, a concern of the BCA is the trend of 'regulatory creep' in the industry. While appropriate regulation is important to support the effective functioning of the market, regulation that unnecessarily intervenes in the market imposes additional costs that could be avoided. An example of such regulation is the NSW Government's biofuels mandate.

Role of government policy

Adjustment issues created by the closure of domestic refining capacity are not a sufficient condition for government intervention to maintain the status quo through subsidies or other actions. Indeed, government intervention and/or price regulation are likely to result in an increased cost of petroleum products in Australia. Intervention may also reduce competition and undermine incentives for future investment.

Government should seek to ensure that it puts in place policies and regulations that support a stable long-term investment climate and minimises costs to business. It is essential that governments do not undermine the competitiveness of domestic liquid fuel refining and supply through regulatory decisions and other imposts. Governments also have an important role in removing any barriers to the effective operation of the market.

The government also has a strong role in monitoring the security of supply of our energy resources. The NESA fulfils this role.

Given the expectation in the NESA that Australia is likely to see an increase in imported petroleum products in the future, appropriate investment in port and transport infrastructure will be an ongoing requirement. The BCA has highlighted in a number of its reports on infrastructure the need for planning and development and environmental approval processes and regulations that are timely and efficient. Overlapping and inconsistent approaches across different levels of government should be removed. The same is true for infrastructure related to the importation, storage and distribution of liquid fuels.

BUSINESS COUNCIL OF AUSTRALIA

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