Mobil Oil Australia Pty Ltd

Submission to the House of Representatives Standing Committee on Economics Inquiry into Australia’s oil refinery industry

November 2012

INTRODUCTION

Mobil Oil Australia Pty Ltd ("**Mobil**") is pleased to have the opportunity to provide input to the House of Representatives Standing Committee on Economics Inquiry into Australia's oil refinery industry. The terms of reference for the Inquiry cover matters which are important to Mobil and to the Australian economy and have been the subject of much discussion with and input from Mobil and other parties in the development of the Government's recent Energy White Paper ("**EWP**") and related reports such as the 2011 National Energy Security Assessment ("**NESA**") and Liquid Fuels Vulnerability Assessment ""**LFVA**")..

Mobil's wholly owned subsidiary, Mobil Refining Australia Pty Ltd ("**MRA**"), owns and operates the Altona refinery in Melbourne, which is a key part of Victoria's energy supply chain, providing around 50% of the State's petroleum fuel needs. Mobil is a major supplier of petroleum fuels to resellers, other wholesalers and end users, including aviation customers, around Australia. Mobil has operated in Australia for over 115 years, including through predecessor companies. In addition to the Altona refinery, Mobil operates major bulk petroleum terminals in Melbourne (Yarraville), Sydney (Silverwater) and Adelaide (Birkenhead) and aviation fuel facilities at Melbourne (Tullamarine) and Adelaide airports, and has ownership interests in or long term throughput arrangements at other fuel terminals around the country.

Mobil also regularly ships product into Australia, primarily sourced from Singapore, and is one of the largest importers of petroleum fuels into this country. Products sourced from our Altona refinery are mostly distributed inland within Victoria and into parts of NSW and South Australia, but some of Altona's production is shipped around the coast, primarily to Adelaide, Port Lincoln or Albany.

Mobil and MRA are subsidiaries of ExxonMobil Australia Pty Ltd, which in turn is a subsidiary of Exxon Mobil Corporation. Exxon Mobil Corporation has many subsidiaries and affiliates and for convenience and simplicity the terms ExxonMobil, Esso, Mobil, Corporation, company, our, we and its may be used throughout this document to refer to the Corporation or to any or all of its affiliates and subsidiaries.

In Australia, ExxonMobil primarily operates its business through two subsidiaries, Esso Australia Pty Ltd and Mobil Oil Australia Pty Ltd. ExxonMobil employs around 1700 people in Australia, with the majority of these engaged in oil and gas exploration and production operations in Bass Strait and Gippsland.

COMMENTS ON THE TERMS OF REFERENCE OF THE INQUIRY

Current international and domestic trends and pressures impacting on the competitiveness of Australia's oil refineries

Australia's six operating oil refineries are small by regional and global standards and suffer economies of scale disadvantages versus many large regional refineries which either currently supply or are capable of supplying petroleum products which meet our local fuel standards. Many of these large regional refineries are newer and more fuel efficient and have more sophisticated processing facilities than Australia's domestic refineries. Regional refining capacity is increasing (expansions or new builds) at a rate which currently exceeds product demand growth and this is depressing refinery margins. This trend is not expected to change before the latter part of this decade.

Australia's refineries are structured to provide a product slate which is heavily gasoline (petrol) oriented, as that is the product which was in greatest demand at the time the refineries were built. However, gasoline demand in Australia (while still substantial) has plateaued due to a combination of improved fuel efficiency in the motor vehicle fleet and growth in the use alternative fuels (LPG, ethanol, diesel) for private vehicles. Asian refineries are generally structured to produce diesel, which is the product now in greatest (and continually increasing) demand in this region

Some Australian refineries used to derive additional value from the production of lubricating oils. However, changes in lubricating oil technology and market demand have rendered local production unviable.

Australia is a high labour cost and high energy cost country for manufacturing industry. This has been exacerbated by the strengthening of the A$ versus the US$ (and most other currencies), due in large part to our continuing resources-led economic growth. The recent introduction of a carbon cost has further increased manufacturing costs in Australia. Australian refineries are also subject to a generally higher (and growing) level of environmental and OH&S regulation than competing refineries in the Region, and (certainly in the case of Altona) may face additional pressures from continuing encroachment of residential and other higher value land use close to the site of their operations.

A further potential impact on the viability of Australian refineries arises in the area of coastal shipping. Recent changes resulting from the *Coastal Trading (Revitalising Australian Shipping)* legislation raise the possibility that Mobil may incur a significant increase in costs associated with the coastal movement of fuel sourced from Altona refinery. It is vital for Altona to have the flexibility to optimise production rates and, when necessary, ship product around the coast at a competitive cost. Were this to be precluded by the above-mentioned legislation, the alternative would be to see additional volumes of petroleum fuel imported into Australia, which will not preserve jobs either in the refining or maritime industry.

The impact of declining domestic refinery capacity on the Australian economy

The Australian petroleum industry has adequate fuel supply infrastructure and robust supply chain processes in place to ensure that it can continue to reliably meet local fuel demands, as it has done over many decades. The closure of a further one or more local refineries should not, of itself, pose a threat to reliable domestic fuel supply in the long term.

Since the closure of Mobil's Adelaide oil refinery in 2003 Australia has imported an increasing proportion of its petroleum fuel requirements with little, if any, adverse marketplace impact. In particular, reliable supply into South Australia has been sustained through imports from overseas or interstate shipping, plus small amounts trucked into the State from Melbourne. *Downstream Petroleum 2011* published by the Australian Institute of Petroleum ("AIP") indicates that net imports of petroleum fuel in 2010-11 accounted for 27% of domestic consumption.

However, in Mobil's view, some level of domestic refining capacity is highly desirable to provide additional flexibility to cope with the short term product supply interruptions or imbalances which can occur.

For many decades, Australian consumers and industry have benefitted from a high level of petroleum fuel supply security thanks to the effective management of robust and flexible supply chains by Mobil and other major oil companies. The ability to make timely changes to coastal shipping programs, when necessary, has been critical to the maintenance of such a high level of fuel supply flexibility and security and it is important that this not be jeopardized by regulatory changes such as those reflected in the recent *Coastal Trading (Revitalising Australian Shipping)* legislation.

Today, the price of fuel sourced from Australian refineries reflects the alternative cost of supplying fuel purchased on the Singapore spot market as that is the option available to all fuel suppliers into Australia. This has been confirmed by the ACCC through the reviews and regular annual monitoring of the industry it has done since 2007, and will continue to be the case if further Australian refineries close.

The closure of any significant manufacturing operation is regrettable, with the loss of direct jobs and wider indirect impact on the local suppliers of goods and services to that operation. Manufacturing facilities such as refineries also pay substantial rates and taxes and make many other valuable contributions in the communities in which they operate.

Petroleum refining is a complex and specialized field which requires a highly skilled workforce and creates many well-paid jobs. The existence of a domestic refining industry has a number of flow-on benefits:

- it provides employment in contract engineering and maintenance services, encouraging the development of skills that are readily transferable to support resource developments in the upstream oil and gas industry;
- it establishes a base load of work for engineering and maintenance services which are then available to support the more variable project load associated with Australia's large, resource-based developments; and
- it provides good job opportunities for university science and engineering graduates and helps underpin the demand for those disciplines

Australia's refineries also supply raw materials to the petrochemical industry and help underpin a range of petrochemical, chemical and related industry operations.

Once refinery facilities are shut and demolished they are essentially gone for good as it is extremely difficult to envision a business case for the establishment of a new refinery in Australia in the foreseeable future, particularly with the value of the A$ and labour costs as they are today.

Potential issues for Australia's energy supply security from possible further closures of oil refinery capacity

Mobil endorses the broad position taken in the EWP that Australia does not face an increased long term energy supply security risk as a consequence of the recent and planned domestic refinery closures. However, as noted above, we believe that some level of domestic refining capacity is highly desirable to provide additional flexibility to cope with the short term product supply interruptions or imbalances which can occur.

We endorse the conclusion from the LFVA that the continuing presence of domestic refineries contributes to Australia's ongoing energy security as it increases the number of supply options available. We consider that it would be unwise for the Government to allow the economic environment to continue to develop to an extent that would threaten the viability of all Australia's remaining refineries, e.g. through an increased carbon price burden, or allowing excessive wage inflation, or imposing fuel quality or environmental standards that are not based on sound science and a rigorous cost/benefit analysis.

Australia's refineries all face serious commercial challenges and we consider that Governments at both the national and State level should ensure that policy settings impacting this industry strike the right balance in addressing environmental and community needs, without adding unnecessary costs that threaten the long term viability of the industry.

The implication of refinery closures for the associated workforce

As indicated above, Mobil considers the closure of any significant manufacturing operation to be regrettable, not least because of its impact on the site's workforce. Our business has undergone a number of restructurings over the years and in many of these we have had to deal with significant impacts on the affected workforce. We do not take the decision to close terminals or refineries lightly and look long and hard at the options available to us before doing so.

Our refinery operation at Adelaide had been under review for several years before we finally came to the position that we could no longer see a viable future for it and took the decision to shut it down. We sought to redeploy as many as possible of those impacted elsewhere within the ExxonMobil organization and we provided substantial assistance for others whose positions became redundant to transition to alternative employment. Our employees at Adelaide refinery were highly skilled and we were pleased to see that most of those who sought new employment were successful in finding it within a fairly short period.

CONCLUSION

In conclusion, Mobil would like to make the following points.

Mobil's Altona refinery operates within a very challenging business environment, facing substantial competition from overseas refineries which have cost and scale advantages not available to Australian operators. Some of the additional business challenges facing Altona include:

1. The recent introduction of a carbon tax (although free permits covering a substantial portion of industry average carbon emissions are available to Australian petroleum refiners under the Jobs and Competitiveness Program of the Government's Clean Energy Future scheme, local refiners will still incur some cost, increasing over time, for their carbon emissions – similar costs are not applicable to competing overseas refineries)
2. Higher costs to comply with increasing regulatory requirements, particularly around environmental impacts and OH&S
3. Higher general level of costs for utilities and infrastructure – power, water, ports
4. Relatively high state and local government taxes and charges – land tax, payroll taxes, council rates
5. Increasing labour costs
6. The high value of the Australian $

Similar challenges are faced by other manufacturing industry in Australia.

If we are to maintain a viable petroleum refining industry in Australia, and the potential fuel supply security, technological and employment benefits that flow from that, it is important that Government seek to ease the increasing cost and regulatory burden on domestic refiners, especially where similar costs are not faced by overseas competitors. Governments have a responsibility to set policy and regulate for broad economic and environmental improvement, but the policy and regulatory settings need to be based on sound science and rigorous cost/benefit analysis.

Beyond the question of fuel supply security, we suggest that the Government needs to consider the strategic implications of having (or potentially not having) domestic refining capability and factor that fully into its broad industry policies.

Notwithstanding the significant challenges outlined above, Mobil believes that there can and should continue to be a place for a petroleum refining industry in Australia.

At Altona refinery we have successfully addressed the challenges we have faced over recent years through:

- A strong focus on safe and reliable operations
- Continued focus on opportunities to improve efficiency and competitiveness
- The selection and ongoing training and development of a skilled workforce that is aligned with and supports our business strategies
- Disciplined investment
- Restructuring our business as necessary to remain competitive
- Maintaining strong relationships with the community in which we operate and with the contractors and suppliers that support our business

We have a responsibility to manage our operations reliably, in a manner which is sensitive to the environment and responsive to customer and community needs. To help us in this we look to Government to balance policy and regulatory settings so that these needs can be met effectively without making the challenges faced by the refining industry greater than they need be.