SUBMISSION 23

AROC

AUSTRALASIAN REFINERIES OPERATIVES COMMITTEE

8th January 2013

GENERAL

The Australasian Refineries Operative Committee (A.R.O.C.) would belatedly provide a submission to the House of Representatives Standing Committee on Economics relating to Australia's oil refinery industry.

The submission will be in response to the initial Public Inquiry sitting of 30-11-12 and transcript reported on Hansard as well as additional information provided from the vast experience of A.R.O.C.'s membership.

We lodge such submission with an intention to provide information that is from the representatives of the very people (Australia wide) who run the refineries 365 days a year on a 24 hour daily basis – the Operators.

The responses, ex Hansard, contained within this submission will be of a restricted nature as to respond to all issues raised would make this submission too long and cumbersome. The submission was prepared by the two Executive Officers in consultation with the Members and reviewed by the Membership before submission. A.R.O.C. has minimum 36 representatives at each conference.

A.R.O.C.

A.R.O.C. was founded in March 1994. The genesis of its creation was to provide a networking forum for all of Australasia's Refinery Operators to enable a sharing of information based majoritively around industrial conditions (as publicly available on sites such as Fair Work Australia) and safety. Commercially sensitive information, relative to each Company and Site, has always been non discussable.

Within 2 years of its formation A.R.O.C. had Members from every oil refinery in Australia and New Zealand and the major petro chemical sites Australia wide. They meet on a conference basis every 6 months which rotates around each of the refineries in Australia and New Zealand. Each refinery (& petro chemical) site takes a turn in chairing the conference.

It is a “grass roots” Committee only, that from formation, has invited the respective Unions Officials to attend as observers. The relevant unions covering refineries in Australia and New Zealand viz. AWU, CFMEU, NUW, and NDU (now “First Union” N.Z.) have the relevant Organisers attend and the process has worked very effectively for 19 years now.

The conference’s are run very professionally and are controlled by an A.R.OC. Charter with properly constituted minutes created after each conference and which are appropriately distributed. The closure of Clyde refinery, the closure of Port Stanvac in 2000 and the pending closure of Kurnell refinery has and will reduce membership slightly but it will not be cause for dissolving A.R.O.C. in its current form as distribution terminals are within our Charter.

RESPONSES TO SUBMISSIONS AS OUTLINED WITHIN HANSARD

1. The points made by Air Vice Marshall Blackburn (P.6) are in the opinion of A.R.O.C., extremely relevant to the ongoing strategic security of Australia. This is also supported in a strategic security sense by the comments of Mr. Bottrell (BP Aust. P.4) (“But I do think you also provide that degree of security by having some local indigenous production.”)

It is also worth noting that upon the announcement of the Kurnell Refinery closure a Mr. Shiels (ex Kurnell management employee) in a letter to the editor of “The Leader” (Sutherland Shire local Fairfax (?) Paper) stated that all major wars since mechanisation and fuel capability have been won by those countries that had self dependence on refining capability supported by some indigenous crude availability.

2. The National security question is again addressed by Air Vice Marshall Blackburn (P. 13) and A.R.O.C would support those comments and would highlight that reviews based on restricted assumptions lead to too big a void in potentialities for disasters. It is not the complete and thorough package.

3. The Australian Governments in their diplomatic dealings with Asia place significant emphasis on positive dialogue and are very careful not to antagonise or preach to "different" styles of governments.

A.R.O.C. submits that this is (as one component) for the very important reason of national security. Does oil refining not fit into the smaller internal picture of National Security.? The USA and Britain think so.??

4. Throughout the proceedings there are many references to labour costs, productivity and being uncompetitive with their Asian counterparts. As to labour costs A.R.O.C. would submit that operator wages (not the total refineries wages, including all non unionised employees, as this is unknown and commercially sensitive) have, on average, risen in the range 60 – 80 % only in the last 10 years. In a few isolated cases there has been a 90 – 100% increase. There has been no "three fold" increase in operator's wages. This can be verified by comparing the publicly available awards and agreements from 2002 onwards. Reference to labour costs encased within the "fixed costs" in a refinery being 60-70% can be mis - interpreted. "Fixed costs" are the known givens consisting of the reoccurring and regular and consist of a small amount of components. The greatest and by far largest costs in a refinery are the "non fixed costs". Then, depending on the particular departmental make up of a company, the accounting procedures used to offset the same "non fixed costs" are subject to allocation against the refineries accounts or against other departments accounts. So the actual costs of running a refinery can vary significantly.The Shell and Caltex representatives both concurred strongly that Labour costs were not a factor in the decision to close.

As matter of public record Caltex, ASX registered 31/12/1980, in their first or second Annual Report incorporated pie diagrams showing the total income and expenditure for their company Australia wide. The total costs of ALL employees (not just refineries) including wages, bonuses, superannuation, incentive schemes, overheads, etc. was 2% of the income. That diagram has never been repeated since. On a pro rata basis, years later, that is not going to have varied very much. Other company details are unknown as there is no public record.

5. As to Australian refineries being uncompetitive, this is a very easily and often made statement. By globalising the Australian refining industry, (which A.R.O.C. accepts as reality) it is taking a comparison that can be selectively applied. Specifically in relation to the Asian comparison it is a very uneven field upon which to rely. Australian refineries do not have any government ownership, part ownership, subsidies, tax relief, low labour and transport costs, purchasing and maintaining hardware assistance, incentives etc. These or part of these apply in many instances in Asia. At the end of this comparison the "easy" answer is to lower Australia's standards of living to those of Asia and have large Government assistance. That's not about to happen. A matured country in terms of growth like Australia will always be uncompetitive to an emerging growth country based purely on that growth and its inherent rise in living standards and cost of living and the need for emerging Countries Governments to promote the speed of that growth with industry assistance. Singapore as a further example of a matured country is assisted by low taxation rates and again an uneven comparator.

6. Productivity from a purely operators point of view (and on average they are a large % of employees per Company) has been an evolving improvement over the last 25 years in the Australian Refining Industry. A.R.O.C. Members have reported basic productivity movements and innovations on a very regular basis over those years and as recently as 10 weeks ago. Operator manpower alone is under 50% on what it was in the Refineries in the early 1990's. Improved technology and skill level enlargement, revamped job roles, restructured classification systems, multi skilling and accreditation certification are a few examples of major shifts in productivity. If productivity is only compared against Asia and not just best/good practice within Australia then the same answers emerge, we submit, as given in point **5.** above.

7. A.R.O.C. Members being at the coalface of production and existing in an industry that has longevity of employment at its core thus large levels of experience do not accept comments made on a few occassions about Australian crudes being unable to be processed within Australian refineries. Each of the refineries are capable of handling "condensates" either in direct feed form, in some cases, or, in blended form with other crudes. Longford Plant can also handle directly condensate based feedstock. Other Australian crudes, which emerged after most refineries were built and in the main were initially suited to heavier/sour feed and which still can be processed today, can be processed by a variety of retro fits to exisiting plant and the installation of new processing plants that occurred in each of the refineries to accommodate such lighter/sweeter crudes and feedstocks, mainly in the 1970/80's. That ability is still there today. Subsequent to this and as a further improvement on refinery flexibility with the changing Government enforced Clean Fuels program some refineries installed a new plant (known as a Hydrocracker) and others upgraded existing plant to not only reach new mandated specifications but which will enable them to reach more stringent changes should they be introduced.

A.R.O.C. submits the primary reason for not continuously utilising Australian crudes is that foreign crudes are cheaper to buy. It is accepted that if Australian crudes were used extensively they would have to be supplemented for volume reasons by overseas crudes.

8. As submitted by some participants a very high skill level resides with operators in refineries. It is very unusual to see operators with less than 10 years experience being given the opportunity to take up leadership roles. The extensive and skill based training and learning systems are like refining itself, quite complex. The average for leadership roles would likely reside in the 12-15 year range. To undertake leadership of hundreds of millions (billions in total) of dollars worth of plant and equipment needs complex and intensive training and years of accumulated experience. Refineries are in themselves a large training ground for many academically and management qualified people (as already submitted) and if the trend of closures continues then not only will the operator base skills be lost forever but the large training arena for refining (and manufacturing and resource based industries) will be sorely missed within Australia (as already submitted).

9. In the 1970's the "Great Oil Crisis" occurred . This precipitated the closure of many refineries (especially the smaller ones in the USA). Mega refineries which already existed then in the USA (e.g. Port Arthur in Texas) bottlenecked (reduced) their capacity. Many from 600,000 - 700,000 down to 300,000 – 350,000 B.P.D. as happened with Port Arthur (and many other large refineries). These refineries have the capacity, in the main, to return to their large production levels if and when required. It is therefore submitted that “new” mega refineries are not a new phenonemen, although their technology is obviously enhanced. The point is (as already partially submitted) the Oil Industry follows a trend of cycles and to react to each and every one would be a business disaster.

Governments have the sole mandate to “govern”. Obviously companies (oil or otherwise) do not have a role to play directly into such governance so they are always working towards the bottom line which can often be a quick fix at a given point in time at the expense of taking into account known trends that are cyclical. A.R.O.C. submits that this is a very important point for the retention of refining within Australia in many areas e.g. economic, communities, jobs, strategic security, security of fuel etc. As already submitted, the USA and Britain have either enacted legislation or actions to ensure internal fuel and processing security.

10. The evidence of Mr. Warrell, Mobil, (P.30-31) strongly supports the base fact that there is a future for refining in Australia and indicates the business need for such decisions. This is further supported by Mr. Smith, Caltex, (P.31) which A.R.O.C. sees as a real positive for the Lytton refinery, despite it being in conflict with earlier public and media statements made at the time of the Kurnell closure that Lytton had no guarantees and was very much in scope as to potential closure in the not too distant future. A.R.O.C. appreciates Mr. Smith’s comments as to an improved future for Lytton.

11. Where reference is made by Mr. A.Smith (P. 43) to the “average refinery worker” earning between $130,000 – 150,000 P.A. we would expand upon this. We are not sure what constitutes an “average refinery worker” but as to operators in all sites within Australia the wages vary. If they are on an Annualised Salary concept (very little paid overtime) then for approximately 50% of the operator numbers this is incorrect. It would be more in the range $100,000 - $125,000. If they are on a paid ovetime arrangement then those numbers would be reasonably close for approx. 75% of operators on those sites.

12. It is pleasing to see that both Shell and Caltex agree that the Carbon Tax (as well as labour costs) were not a contributing factor to the closure positions.

13. In 2 years time what was once three refineries in NSW will reduced to nil. With the stringent environmental controls on our fuels now and with that aimed to be stricter it will become increasingly difficult to source on specification fuels. It is not uncommon to receive off spec. fuel from overseas but it is overcome now by re-processing at what was our own refining facilities. Thus reducing cost. Who is going to pay for off spec. loads in the future.?

A.R.O.C. submits it will be inevitably passed onto the consumer. Sending it to the other refineries is an option but that would increase costs again. A.R.O.C. accepts that no company would blend off spec. product with on spec. product as that would be an unacceptable practice so the question remains and A.R.O.C. has submitted its position.

ADDITIONAL SUBMISSIONS FROM A.R.O.C.

1. A.R.O.C. has approx. 900 years of experience at every six monthly conference. Building on that experience we would submit that to place our dependence on other countries, exclusive of our own, would be for many reasons, already submitted, a disaster and it would leave us as a nation open to being held hostage as to the price paid for product. That is not an acceptable scenario for the Australian public to accept or digest. It also exports our jobs and high skill levels to an offshore position. It will hit in large dollar numbers the economics around oil refining and thus communities and flow onto Australia's overall accounts.

2. All refineries take their major loads via way of the sea. This always leaves the door open for an environmental disaster of which there has been a few over the years. Gore Bay is in Sydney Harbour, Kurnell is in Botany Bay, Lytton and Bulwer in the Brisbane River, Geelong and Altona via Port Phillip Bay and Kwinana on the Indian Ocean. Sydney especially, due to what is envisaged 100% imports will have dramatically increased ship movements and by ships that will need to be much larger. They will have to be turned around (unloaded) much quicker than they are today and this will increase the potential for environmental disaster. Both receipt wharves will have to be upgraded significantly to increase unloading and berthing abilities in a much quicker way. Bays will have to be bottom dredged etc.

Add to this the very many vagaries of life that can impact the supply chain (and only ONE mishap was considered in the Energy White Paper) which include but are not restricted to: bad weather (ships can't enter bays to unload), mechanical breakdowns, environmental spills, war (any part of the supply chain routes), piracy, ship accidents including mechanical issues, earthquakes (not that uncommon in Asia, tsunami's), receipt pipelines/pumps out of action – failures, industrial disruption etc. etc. and full importation is fraught with potential shortages, which means dollars at the pump.

3. The following comments (Para. 2) are understood to be somewhat subjective but when change occurs within the industry that has been set in its ways for so long it provokes thought. A.R.O.C. will monitor this situation for much longer a period before seeking some answers or understanding.

Two A.R.O.C. Members have been doing visual surveys of the southern suburbs of Sydney (St. George & Sutherland Shire) over the last 2 months. It has been very noticable that one company in particular has started to raise the bar as regards to pricing. Whereas the discount cycle would commence its downward trend on a given day of the week commenced by one company or another, the others would within a couple of hours, meet that same price. This is the nature of the competiveness on holding onto market share and not losing out to another competitor. What is now occuring is that a particular Company is not (for the first time in decades) moving down when the first movement occurs from the cyclical maximum. They are in fact staying 1 to 2 cents dearer for days at a time until the cycle low point is reached and then they stay still 1 -2 cents higher for a few days and only move to match the lowest price for about 1-2 days until it goes back to maximum.

A.R.O.C. does not know if there is some firm logical company/industry answer for this suddenly changed decades old practice or that it is only short term nor do we subscribe to the often Media push as to supposed collusion (which has been found to not exist ex many inquiries) but it is very unusual for the Oil Industry.

4. We are aware of an aspect of the N.U.W. submission that is also being lodged. In their submission, as A.R.O.C. has been informed, they propose the formation of a specialist committee aimed at reviewing the oil refining industry