AIP Opening Statement

Thank you for the opportunity to appear before the Committee today.

The Australian Institute of Petroleum represents the four leading fuel suppliers in Australia – Ampol, BP Australia, Mobil Oil Australia and Viva Energy.

Our members supply about 85 per cent of the fuels used in Australia and operate Australia's two refineries. Members also own and operate about one in three of the service stations in Australia.

The Committee has been asked to consider if Australia's sanctions against Russia should be extended to ban fuels refined in third countries from Russian crude oil.

This is obviously a decision for the federal government.

Our submission to the inquiry canvasses the practical issues which would have to be addressed <u>if this decision is taken</u>.

AIP identifies these issues to help policymakers understand the nature of the problem and to help ensure that any new sanctions will be effective, with minimal risks to fuel security and prices.

Of course, AIP members comply with Australia's sanctions and will comply with any future changes to sanctions.

The three main points AIP would like to make today are:

- (First) Australia relies on imported fuel. Any changes to our sanctions must be designed to avoid disrupting supply or inflating prices.

- (Second) To be effective, sanctions must be clear, consistent and comprehensive. Australia's sanctions should align with our major trading partners.

- (Third) The EU's latest sanctions are intended to target imports derived from Russian crude oil. At this stage, the EU sanctions are a 'work in progress' and may need tweaks to fit Australia's circumstances.

The industry's first responsibility is to supply high quality, competitively priced fuel to our customers.

We can only do that if we can access a secure supply of competitively priced fuel from overseas refineries.

Since the late 1990s, Australia has become almost entirely dependent on imported fuels.

Australians use about 62 billion litres of fuel each year - about 80 per cent of these fuels are imported.

The rest of our supply is refined here, from local and non-Russian crudes.

To ensure fuel security and the lowest possible local fuel prices, a dozen or so fuel suppliers import fuel from about 20 countries.

Most of this trade occurs under long-term contracts with overseas refineries. Term contracts provide certainty about price and supply for 12 months or more.

Fuel suppliers rely on spot market cargoes to respond to spikes in demand and other short-term pressures. These cargoes are usually traded through Singapore.

Imports can also be drawn from blending hubs - large facilities which receive, store, blend and export refined fuels from multiple sources.

Unfortunately, identifying Russian crude oil in this web of supply chains crossing the Asia-Pacific is not a simple matter.

This is not just because of Russia's shadow fleet and other tactics to conceal the flow of oil – it is a consequence of the scale and integration of the market.

Huge volumes of crude oil and refined fuels are traded every day, by refiners, trading houses and importers.

Cargoes are sold and re-sold, passing through numerous hands.

Crude oils from different sources are routinely combined for refining, storage, shipping and sale. Refined products are also routinely blended, then stored, shipped and sold.

There is no international system to track the flow of molecules from wellheads to refineries to import terminals.

Moreover, under international customs law, the recognised country of origin of these molecules usually changes.

Crude oil from one country which is then refined into fuel in another country is deemed the product of the refining country. In law, fuel refined in India is made in India, regardless of the source of its constituent crudes.

These are some of the market realities which need to be considered when designing and enforcing sanctions.

We all know that economic sanctions can only be effective if applied, consistently, by a critical mass of major countries.

Due to our relatively small market share, Australia acting alone will have little, if any, impact on the decisions of overseas refiners.

An individual Australian importer will have even less impact.

Co-ordination with like-minded countries is essential.

In the last six months or so, we have witnessed a marked change in the approach of the European Union.

Since 2022, Western sanctions have been focused on cutting direct trade with Russia and depressing Russia's revenue from oil and gas sales to non-Western countries.

In our region, Australia, New Zealand, and South Korea have closed their markets to Russian imports. Japan has largely closed its market.

But most countries in the region have not closed their markets to Russian imports.

For regional countries with refining capacity, Russian crude is a cheap option to meet growing local demand for fuel.

That is especially true for fuel-hungry China and India which account for 21 per cent of global demand for fuel.

In net terms, most of the crude oil imported and refined in these countries is consumed in those countries.

However, some exports of refined fuels from these countries are likely to contain Russian crudes.

Until June 2025, Western governments did not regard this as an issue.

It was accepted that the West could not prevent other countries importing Russian crude and that, to some degree, Russian crude is essential to meeting global fuel demand.

No sanctions were placed on products refined in third countries.

That is changing.

In June last year, the EU announced its intention to prohibit imports of fuels refined from Russian crudes, commencing on 21 January 2026.

Since then, AIP members have been testing with overseas suppliers their capacity and willingness to switch to non-Russian feedstocks or to physically segregate Russian and non-Russian feedstocks at their refineries.

In the case of India, which attracts most attention, industry-to-industry discussions have occurred at the same time as discussions between the EU, the Indian and the US governments.

This engagement by governments and industry is yielding results.

The International Energy Agency reports that Indian imports of Russian crude have fallen to their lowest level since November 2022 and that the Jamnagar refinery ceased importing Russian crude in mid-December.

This progress demonstrates that change can only be brought about by the converging advocacy of industry and the governments of India's major trading partners.

AIP trusts that the changes emerging in India will be mirrored in other countries.

To sum up, AIP members recognise the concerns expressed about importing refined fuels which may have been processed from Russian crude oil.

Identifying and banning the import of these fuels into Australia is challenging, given the complex supply chains in our region and the possible risks to fuel security and prices.

That said, if the government decides to extend sanctions to imports from third countries, AIP members are ready to assist.

We reiterate that ad hoc company initiatives will not be effective, given our lack of market power.

Effective sanctions require appropriate regulation which can:

- create consistent rules across the industry, ensuring a level playing field
- give importers a trigger to re-open term contracts
- support industry advocacy for changes to improve the transparency and certification requirements of the regional trading platform for spot cargoes, and
- give the community confidence that Australia has effective sanctions.

Thank you, Senators.