LEGISLATIVE RESEARCH SERVICE
DEPARTMENT OF THE PARLIAMENTARY LIBRARY

OIL COMPANIES (STOCK LOSS REIMBURSEMENT) BILL 1986

Date introduced: 17 April 1986
House: House of Representatives
Presented by: Hon. Barry Jones, M.P.,
Minister Representing the Minister for Resources and Energy

DIGEST OF BILL

Purpose

To compensate oil companies for losses incurred in February 1986 due to the interaction of the Crude Oil Allocation Scheme and the fall in crude oil prices.

Background

The Crude Oil Allocation Scheme (COAS) has operated since 1970 and allocates domestic crude oil to refiners on the basis of their market shares. Refiners are required to take a certain amount of domestic crude before they may import crude oil. The Customs Tariff (Stand-By Duty) Act 1985 provides that the government may impose an additional duty of 3 cents per litre on the importation of oil used by refiners who, for reasons within their control, have failed to take the full amount allocated to them under COAS. The Act provides that the government has a discretion on whether to impose the additional duty on refiners who have failed to take their full allocation.

From mid-January to the end of February 1986 the international price of crude oil fell by approximately 40% or $16 a barrel. However, instead of importing crude, which was available for approximately $27 a barrel, local refiners continued to take their allocations under COAS at the import parity price (IPP) of $43.71 per barrel. The IPP for Bass Strait crude fell to $27.09 on 1 March 1986 and fell a further $6.10 to $20.99. Subsequently, the Prices Surveillance Authority set lower maximum wholesale prices for the refiners' products. As a result, the refiners were facing losses on the crude taken under COAS in February that would enter the market under the lower maximum prices.
The government announced that it would compensate refiners for the additional costs of their February liftings when its decision on the IPP was delivered on 24 February 1986. In the Second Reading Speech for this Bill the Minister stated:

Refiners always bear some commercial risks in holding stocks - and have accepted the normal ups and downs. However, the circumstances they faced in February could certainly not be seen as normal and the payment should not be regarded as setting a precedent. Indeed no similar payment has been made in regard to the 1 April adjustment to the import parity price recently announced.[1]

Main Provisions

The payments to various oil refiners are listed in clause 3. They are:

Ampol Refineries Limited $14,242,866
Australian Oil Refining Pty Limited $21,857,369
BP Australia Limited $26,525,933
Esso Australia Ltd $10,223,407
Mobil Oil Australia Limited $18,374,670
The Shell Company of Australia Limited $33,603,676

Clause 5 provides that payments under clause 3 are not taxable and that any claims for deductions in respect of losses incurred in the purchase of crude oil are to be reduced by the amount of the payment made under clause 3.

For further information, if required, contact the Economics and Commerce Group.

8 May 1986

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Reference