

DOWNSTREAM PETROLEUM



MESSAGE FROM THE AIP CHAIRMAN

Downstream Petroleum outlines the key facts on Australia's downstream petroleum industry and the key issues faced by this highly competitive sector.

The Australian petroleum industry plays a key role in the economy, providing major direct and indirect economic benefits from its own activities and underpinning the performance and competitiveness of the transport, mining and agriculture sectors. As a technologically advanced industry, the refining industry employs and trains many highly skilled staff and international expertise flows into the Australian economy and workforce.

The industry has a proud and longstanding record of safely and reliably manufacturing and supplying high quality, competitively priced fuels to industry and consumers. However, for much of the recent decade, the Australian industry has faced considerable international and domestic challenges.

Major structural changes in the global petroleum markets continue to be driven by intense competition and trade in oil markets, new cost competitive sources of refinery feedstocks and liquid hydrocarbons, and the continued construction of mega refineries in Asia and the Middle East to service both the major source of global demand growth from this region and import markets globally, including Australia.

These mega refineries have significant scale and technology advantages, supported by substantial cost advantages and, often,

financial incentives provided by governments. Additionally, ongoing global surplus capacity has depressed the margins available to refineries over the last decade, challenging the commercial viability of many existing refineries in Europe, North America and Japan. In Australia, three refineries have closed since 2008.





The Australian refining industry is responding to these market pressures through stringent cost control, enhanced operational efficiencies, and by fully integrating into the rapidly expanding Asian fuels market. This is necessary to meet the challenges of more recent issues such as rapidly escalating domestic energy prices. Alongside these initiatives, industry has more recently committed to very significant investment programs across their supply chains, in particular in their refineries, to maintain safe and reliable operations, remain competitive, and to strengthen the reliability and flexibility of operations and commercial supply chains.

MAJOR INDUSTRY INVESTMENT, OF \$2 BILLION OVER THE LAST FIVE YEARS, SHOWS A COMMITMENT TO CONTINUE REFINING PETROLEUM IN AUSTRALIA

This is important for Australia's supply security, as refineries provide a key source of liquid fuel supply for the economy, add diversity to the mix of fuel supply and provide a convenient market for the processing of some local crude and condensate production.

Over many years, government and independent reviews of Australia's energy security have endorsed the efficiency, diversity and resilience of our liquid fuel supply chains and the key role of our refineries. These reviews also confirm Australia's effective integration into the Asian fuels market - the global refining and trade centre.

Australian consumers are benefiting from the direct link between domestic fuel prices and competitively priced fuels from the Asian market where there is ready and diverse access to Australian grade fuels.

CONSEQUENTLY, PETROL AND DIESEL PRICES IN AUSTRALIA CONTINUE TO BE AMONGST THE LOWEST IN OECD COUNTRIES



Australian consumers also enjoy access to a diverse range of high quality fuels in the domestic market. Consumer choice and vehicle technologies are driving higher use of premium grade petrol, despite declining overall petrol use and government programs and incentives intended to favour alternative fuels like ethanol blended petrol. Official government assessments confirm that petrol, diesel and jet fuel will remain the major liquid fuels in Australia in the foreseeable future. But we know the market is evolving, including with strong community interest in new technologies such as electric vehicles.

The industry is confident in meeting global market challenges and consumer fuel needs even though the cost of doing business in Australia (including labour and construction costs and tighter regulatory requirements) remains substantially higher than for our Asian competitors.

Further escalation of government and regulatory requirements will have a significant impact on the commercial viability of fuel supply operations, in particular local refineries so government policy has a critical role to play.

The refining industry faces a complex and expensive investment to produce 10ppm sulfur petrol which has the potential to threaten the viability of the industry. While the refining industry recognises the government imperatives, it is absolutely critical that sufficient time is provided to make these investments and that government consider positive incentives. To this end, the industry has proposed 1 July 2027 as an appropriate start date for compliance with this new fuel standard.

The industry already faces a highly complex policy environment regulated by federal, state and local governments, where new unjustified cost imposts on refineries or the broader fuels industry remain a key pressure on ongoing competitiveness and viability. In this regard, the industry is engaged in a number of key policy areas creating potential business cost pressures, including fuel quality regulations, vehicle emission standards, alternative fuels, climate change and retail regulation.

The key role for governments is to ensure a competitive open market and a level playing field for local market operators, whilst ensuring that the local industry is not competitively disadvantaged to our regional counterparts and that innovation continues to be fostered.

To achieve these goals, a clear and stable longer term policy framework based on sound market principles provides the best environment for a competitive Australian refining industry and for the significant ongoing investments needed in refineries and liquid fuels infrastructure. Policy stability and a strong market based approach requires that any new policies or market interventions are based on a demonstrated net community benefit or market failure, are harmonised across jurisdictions, apply equally to all industry participants and are well integrated with other policies applying to industry.

The Australian petroleum industry remains fully committed to ensuring ongoing reliable supply of affordable and quality fuels to the Australian market, through continued investments and tough decisions to improve productivity and economic viability.

There is an equally strong commitment to ongoing safe industry operations meeting community and environmental standards, supported by significant investment in leading health, safety and environmental AIP programs.

Scott Wyatt
Chairman, AIP





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