



Australian Government

Australian Government response to the
Senate Rural and Regional Affairs and Transport References
Committee report:

Australia's transport energy resilience and sustainability

NOVEMBER 2016

INTRODUCTION

The Australian Government welcomes the opportunity to respond to the Senate Rural and Regional Affairs and Transport References Committee report, *Australia's Transport Energy Resilience and Sustainability* (the report), released in June 2015.

Current Australian Government policy on liquid fuel security

The Australian Government does not own fuel market infrastructure and, apart from fuel quality, provisions for national emergencies, and competition regulation does not regulate the market. Successive governments have instead relied on an efficient and competitive global market to deliver supply at competitive prices to the benefit of Australian fuel consumers.

The rationale behind this approach is to create an environment conducive to encouraging investment in the Australian exploration, extraction, refining, trading and storage industries.

This market approach has, to date, provided a diversity of supply options that has delivered minimal disruption to Australia's fuel supplies and petroleum stocks held by the downstream industry have remained relatively stable over time.

However, this approach does not mean that the Government would leave it to the market to manage the liquid fuel supply chain in the case of a severe supply disruption.

The Government works with state and territory governments and industry to plan for managing disruptions to the liquid fuel supply, under the National Oil Supplies Emergency Committee (NOSEC). The NOSEC's primary role is to provide advice to the Minister responsible for energy on the state of the oil market in the lead up to and after the declaration of a national liquid fuel emergency under the *Liquid Fuel Emergency Act 1984* (the Act). The Act has never been invoked. Under the Act, the Minister responsible for energy can control the industry's stocks of crude oil and liquid fuels, Australia's refinery production and the distribution of fuel stocks in an emergency. Essential users, including Defence, are given priority access to fuel.

The Australian Government's responses to the Senate Committee Report's recommendations, including additional recommendations made by the Australian Greens, are provided below.

RECOMMENDATION 1

The committee recommends that the Australian Government undertake a comprehensive whole-of-government risk assessment of Australia's fuel supply, availability and vulnerability. The assessment should consider the vulnerabilities in Australia's fuel supply to possible disruptions resulting from military actions, acts of terrorism, natural disasters, industrial accidents and financial and other structural dislocation. Any other external or domestic circumstance that could interfere with Australia's fuel supply should also be considered.

Government Response

The Government supports the recommendation. The Government is already undertaking a comprehensive whole-of-government risk assessment of Australia's fuel supply, availability and vulnerability.

The third National Energy Security Assessment (NESA), currently under preparation, is a forward-looking whole-of-government energy security assessment of Australia's liquid fuel,

gas and electricity sectors. It identifies and analyses the main factors associated with the secure delivery of energy in Australia.

The NESAs consider the wider security environment and other influences which shape Australia's energy security, including supply chain vulnerabilities and critical infrastructure resilience in the face of all hazards. This approach builds a picture of how these issues interact with energy market fundamentals which drive the adequate, reliable and competitive supply of energy in and to Australia.

The NESAs are undertaken in close consultation with a range of security agencies across Government to ensure they examine the range of risks and threats to Australian energy supply. The upcoming NESAs largely assess the security of Australia's energy supply in response to the types of supply disruptions that have occurred over the past several decades. They do not examine scenarios of more widespread global conflict. The 2016 Defence White Paper addresses the full range of opportunities and challenges for the Defence force in the period out to 2035.

The upcoming NESAs follow on from two previous energy security assessments undertaken in 2009 and 2011. These previous assessments considered the liquid fuel market and identified a number of watch points which led to subsequent work streams.

The need for analysis of the liquid fuel supply chain was identified in the 2011 NESAs and a [study¹](#) was undertaken in 2012 on Australia's refinery rationalisation, which tested supply capacity in the Asian region and potential implications of further refinery closures. The study found that domestic refinery closures would have no significant impact on Australia's fuel supply in normal market conditions, due to:

- new investment in converting some of our refineries to import terminals;
- reduced crude oil imports being replaced by refined product imports. This can increase supply reliability in instances where unexpected refinery outages occur as refined product is being shipped on a continuous basis;
- the impact of increasing Australian demand on Asia Pacific refining capacity will be small and is not likely to result in a material reduction in security of supply of petroleum products for Australia;
- the global refining outlook, which forecasts an increasing number of refineries in Asia are capable of supplying Australian-specification products; and
- our supply chain diversity and flexibility, which would be retained and provides continued security of supply.

The Government also notes that *the committee strongly encourages the Australian Government to set out its plan to achieve (IEA stockholding obligation) compliance as soon as practical. Where appropriate, the plan should set targets and other measurable indicators of progress towards compliance.*

The International Energy Agency (IEA) is the preeminent global energy governance institution and has played a valuable role in supporting international energy markets since its foundation in 1974.

As a member of the IEA, Australia is required to hold oil stocks equivalent to at least 90 days of our net oil imports in the previous year. These requirements are outlined in the IEA's

¹ http://www.industry.gov.au/Energy/Documents/Energy-Security/nesa/NESA_IdentifiedIssuesCompetitivePressuresRefining.pdf

founding treaty, the International Energy Program and are designed to allow Australia to contribute to a “collective action” if called by the IEA to respond to a severe supply disruption to global oil supplies. Collective actions have been initiated three times since the formation of the IEA – in response to the Iraq invasion of Kuwait in 1991, the damage caused by Hurricane Katrina in the US in 2005 and the political unrest in Libya in 2011.

Australia’s non-compliance with the IEA’s 90 day stockholding obligation since 2012 is due to the combination of increased imports to meet higher economic activity with reduced upstream oil production, rather than a decline in the reported level of stock held by the downstream industry. Australia’s stockholdings in the past 12 months have varied between 50-57 days.

Australia values its membership of the IEA. On 31 May 2016, Australia provided a plan to return to compliance to the IEA’s Governing Board. The plan contains both immediate actions and a forward work programme to enable full compliance to be achieved by 2026.

The Energy Security Office (ESO) in the Department of the Environment and Energy has been established to implement the plan. The ESO will be the primary contact for Australian engagement with the IEA, with a Counsellor (Energy) to be appointed and based in Paris to represent Australia at the IEA.

The Government has allocated \$23.8 million to the first phase of returning to compliance. This funding is largely to be used to purchase 400 kilotonnes of oil “tickets”. Tickets are commercial contracts under which a seller agrees to hold an amount of oil on behalf of a buyer, with the buyer able to buy the stock at market prices or release the ticket to the market in the event of an oil emergency. This will ensure that Australia can effectively contribute to a ‘collective action’, the IEA’s emergency response mechanism, as required while Australia implements longer-term measures. The framework to purchase tickets will be in place by 2018.

A mandatory reporting regime will be established for petroleum statistics. This will improve the coverage and accuracy of the Australian Petroleum Statistics Report (APS) which is the basis of Australia’s monthly reporting to the IEA. Mandatory reporting and continuous improvement in quality assurance procedures will also ensure that Australia’s compliance gap is accurately quantified and stocks not currently reported are captured.

Ticketing and mandatory reporting will address key issues that are critical to returning to full compliance. Mandatory reporting will provide an accurate picture of our existing stockholdings and hence our compliance gap; and our success in ticketing will inform the final mix of measures to return to full compliance. Accurate timeframes for the second phase will depend on the results of these two actions.

The ESO will design the long-term measures necessary to return to compliance. This will include an international engagement effort to expand the global ticket market so that it has the capacity to absorb a greater share of Australia’s compliance requirement. The ESO will also develop proposals for other options to build stockholdings such as physical storage in Australia.

The administrative arrangements necessary to govern the establishment, funding and ongoing management of these compliance efforts will be finalised in consultation with industry during this phase, so that Australia can return to compliance in the most sustainable manner at least-cost. Importantly, the long-term compliance measures can only be finalised once mandatory reporting is fully established and the Government has attained a comprehensive understanding of the international ticket market.

RECOMMENDATION 2

The committee recommends that the Australian Government require all fuel supply companies to report their fuel stocks to the Department of Industry and Science on a monthly basis.

Government Response

The Government agrees with the recommendation.

As noted in the Government's Response to Recommendation 1, the Government announced, as part of the 2016 Budget, that it will implement mandatory reporting for petroleum statistics including oil company fuel stocks from 1 January 2018.

Analysis by ACIL Allen on behalf of the Department of Industry, Innovation and Science determined that the existing voluntary approach to the collection of petroleum statistics is no longer fit for purpose due to increasing non-reporting by oil companies. A particular concern is the under-reporting of fuel stocks, which ACIL Allen determined increased Australia's IEA stockholding compliance gap by approximately three days each month. Obtaining an equivalent amount of oil through the purchase of international oil tickets (the cheapest available form of IEA compliance) would cost around \$6m per annum.

The Government will develop mandatory reporting for petroleum statistics in consultation with the petroleum industry and users of the APS Report.

RECOMMENDATION 3

The committee recommends that the Australian Government develop and publish a comprehensive Transport Energy Plan directed to achieving a secure, affordable and sustainable transport energy supply. The plan should be developed following a public consultation process. Where appropriate, the plan should set targets for the secure supply of Australia's transport energy.

Government Response

The Government does not support the report recommendation.

The Government's 2015 Energy White Paper set out energy policy priorities as being to increase market competition and national energy productivity, and secure investment in the energy sector.

For example, the Government considers that strengthening the alternative transport fuels sector to gain a larger market share will only occur through successful integration into the broader fuels market, and this is a more sustainable way to strengthen consumer acceptance for these fuels.

The Government continues to monitor and identify emerging risks to energy supplies, including relevant non-market security issues, through the NESA. Should the Government identify an emerging energy security concern, the Government will then consider what policy action or options could be taken to address the concern.

AUSTRALIAN GREEN'S [SIC] - ADDITIONAL RECOMMENDATIONS

RECOMMENDATION 1

That the Australian Government develop and publish a comprehensive Transport Energy Plan directed to achieving a secure, affordable and sustainable transport energy supply. The plan should be developed following a public consultation process. The plan should set targets for the secure zero carbon supply of Australia's transport energy, and outline a transition to achieve this supply over the coming two decades.

Government Response

The Government does not support this recommendation.

The Government notes that this recommendation is largely covered by the Government's response to the Senate Committee's Recommendation 3.

RECOMMENDATION 2

That the government encourage and support the development of zero carbon and potential zero carbon transport energy sources and transport systems, including

- *comprehensive public transport systems across all capital and regional cities*
- *investment in infrastructure to support and facilitate greater use of walking and cycling*
- *the rollout of electric vehicles and the production of biodiesel produced from genuine waste products*

Government Response

The Government notes this recommendation. Public transport policy options are a matter for state, territory, and local governments.

The 2015 Energy White Paper outlines a competitive technology neutral preference for all transport fuels. Successful commercial integration of alternative fuels into the broader fuels market is the most sustainable way to strengthen consumer acceptance for these fuels.

The Government is also pursuing complementary policy options related to energy productivity. The Government has released a National Energy Productivity Plan (NEPP) that will support energy consumers to make better decisions on energy use and has committed to a national energy productivity improvement target of 40 per cent between 2015 and 2030.

The NEPP covers all fuel types. There is a wide range of options to improve energy productivity in transport, including options similar to those proposed in these recommendations. Other measures to be considered include better tools to help consumers make informed choices when buying a new car and measures encouraging innovation in the sector.

RECOMMENDATION 3

That the Senate pass the Motor Vehicles (Cheaper Transport) Bill 2014 to reduce fuel demand across the economy by requiring the importation of new motor vehicles complies with global standards.

Government Response

The Government notes this recommendation and that the *Motor Vehicles (Cheaper Transport) Bill 2014* was referred to the Senate Environment and Communications Legislation Committee on 20 August 2015. The Senate committee's report was released on 25 November 2015, with a single recommendation made that the *Motor Vehicles (Cheaper Transport) Bill 2014* not be passed. The Australian Greens submitted a dissenting recommendation that the *Motor Vehicles (Cheaper Transport) Bill 2014* should be passed.

The Government is taking a whole of government approach to addressing vehicle emissions. A Ministerial Forum was established in 2015 to examine vehicle emissions standards in Australia and vehicle testing arrangements. In February 2016 the Forum released a discussion paper for public comment to examine ways to reduce the health and environmental impacts from motor vehicle emissions. The paper received 80 submissions which will inform options to be considered by the Australian Government to address vehicle emissions including examining fuel efficiency measures including CO₂ for light vehicles, implementation of Euro 6 standards, fuel quality standards, as well as emission testing arrangements. These options will be assessed through comprehensive Regulation Impact Statements and public consultation.