

31 August 2016

Victorian Department of Environment, Land Water and Planning
GPO Box 4509
Melbourne Victoria 3001

Via email: renewable.energy@delwp.vic.gov.au

Re: VICTORIAN RENEWABLE ENERGY AUCTION SCHEME CONSULTATION PAPER

Thank you for the opportunity to provide input to the Victorian Renewable Energy Auction Scheme consultation paper.

The Australian Institute of Petroleum (AIP) is pleased to present this submission on behalf of its core member companies:

- BP Australia Pty Ltd
- Caltex Australia Limited
- Mobil Oil (Australia) Pty Ltd
- Viva Energy Australia Pty Ltd.

AIP's comments are focused on the competitiveness implications for Victorian refineries of the VRET policy. AIP seeks an approach to the Victorian Renewable Energy Target (VRET) that is consistent with the Federal Government's Renewable Energy Target (RET). In particular, AIP seeks full exemption from the operations of the VRET for those businesses who are deemed Emissions Intensive Trade Exposed (EITE) under the RET.

About the downstream petroleum industry

AIP member companies operate across the liquid fuels supply chain including crude and product imports, refinery operations, fuel storage, terminal and distribution networks, marketing and retail. Underpinning this supply chain is considerable industry investment in refining and supply infrastructure, and a requirement for significant ongoing investment in maintaining existing capacity. The key industry assets that could be impacted by costs associated with the VRET are the Mobil refinery at Altona and the Viva Energy Refinery in Geelong.

Over the last decade, AIP member companies have invested over \$10 billion to maintain the reliability and efficiency of fuel supply meeting Australian quality standards. Following the closure of four refineries in Australia over the past eight years, the Australian refinery industry is investing significant capital to ensure the ongoing competitiveness and reliability of the remaining four refineries in Australia.

Australian refineries are an important economic activity in their own right and underpin the competitive advantage of a number of major exporting industries, such as the chemicals and plastics sector. Studies have indicated that the average refinery contributes around \$1 billion of GDP

depending on its size and employs around 1,500 highly skilled personnel which can significantly expand during regular major maintenance periods (“turnarounds”).

Australian refining is a key source of liquid fuel supply for the Australian economy, supports some localised crude and condensate production and adds diversity to the supply mix. Any further reduction of refining capacity, particularly if it were the result of government policy, would need to be carefully considered for the potential impacts on Australian liquid fuel supply security.

Competitiveness and cost issues

Compared to refineries across Asia, Australian refineries suffer from substantial disadvantages in operating and capital costs that virtually preclude Australian refineries from consideration for major new expansion projects. The relatively small Australian refineries offer no economies of scale benefits compared to their competitors in Asia. Australian labour and construction costs for new and expanded refinery investments remain high compared to costs in most countries in Asia.

Refineries seek to manage the challenges they face by improving the efficiency of their operations through enhanced refinery yields, reliability and cost containment. Continued availability of highly trained technical staff and contractors will also contribute to high levels of refinery efficiency. As large energy users, our refineries have a strong commercial interest in ensuring efficient and improving use of energy.

While the cost of crude oil is the major input cost for refineries, other key expenses for refineries include:

- utilities and energy charges
- crude oil shipment and storage
- additives, catalysts and chemicals
- capital costs, financing and depreciation
- wages and salaries
- plant maintenance
- site security and systems
- product shipment and storage
- government taxes and charges
- regulatory measures.

Increasing costs in any of these areas can have a significant impact on the ongoing viability of the refinery. Similarly, competitive distortions may arise when carbon costs are imposed on Australian industry in advance of those costs being on competitors in other countries (or in this case potentially State versus State). This can in turn lead to carbon leakage to less efficient producers.

As both large energy users and emissions intensive operations, AIP members have a strong commercial incentive to identify and implement abatement and energy efficiency opportunities. Some AIP members also have strong networks with worldwide technology support centres and staff with the necessary expertise and resources to identify and drive energy efficiency opportunities.

Energy and Climate Policies

AIP and member companies have been actively engaged with both Federal and State Governments on initiatives and policy discussions related to energy and climate change for many years. Throughout this period, the industry has naturally sought to reduce its emissions and energy consumption as part of business efficiency and cost containment programs to underpin the viability and competitiveness of their operations. Companies are constantly examining all commercial options to pursue these opportunities, in particular refineries, where viable with a view to ensuring their operations remain

globally competitive into the future, regardless of Government intervention. The viability of these options will largely be determined by a range of commercial factors including through an assessment of the long term delivered cost of energy, the technical constraints of refineries, the relevant payback period and the ability to access the required capital.

AIP, and member companies, support greenhouse and energy abatement policies determined at the national level. An approach led by the Federal Government is more likely to avoid duplication or inconsistencies and can provide a more level playing field given our industry operates across borders.

AIP seeks policy settings which ensure that the local refining industry is not competitively disadvantaged, minimises cost imposts versus our regional competitors, and facilitates ongoing required investment through policy certainty and a stable investment environment. Any policy should be appropriately targeted to address those situations where there is clear and demonstrable market failure.

AIP emphasizes the importance of Government providing long lead times when implementing new or expanding policy. This is especially true where the policy change necessitates significant capital investment (such as for energy efficiency measures) as modifications to refineries require extensive planning work, sourcing of capex and corporate approval. Similarly, the required upgrades to equipment are best undertaken during major maintenance events, typically occurring every three to six years, as there may be broader implications for the overall efficient operation of the refinery and reliable supply.

Victorian Renewable Energy Target

AIP recognises that the VRET could play a role in delivering a reduction in greenhouse emissions in Victoria while at the same time encouraging investment in renewable technologies in the State.

However, the inclusion of EITE businesses in the operation of the VRET is likely to impose a significant cost on those businesses without any capacity for those businesses to recoup those costs given their trade exposure.

The Federal Government recognised that these additional costs would impact on the international competitiveness of EITE operations, including refineries, and addressed this concern through initial partial exemption and subsequently full exemption from the RET scheme.

AIP therefore supports the recommendation in the Consultation Paper on page 12 that the VRET adopt the same exemption approach to EITE businesses as the RET. Such an approach is also consistent with the views expressed in the consultation paper that the VRET be 'complementary' to the Commonwealth RET.

As members of the Australian Industry Greenhouse Network (AIGN), AIP also supports the views expressed in their submission to the VRET consultation.

Please do not hesitate to contact me should you wish to discuss anything further. I can be reached on

Yours sincerely



Peter Gniel
General Manager Policy