



6 July 2018

National Energy Guarantee
Department of the Environment and Energy
GPO Box 787
CANBERRA ACT 2601

Via email: NationalEnergyGuarantee@environment.gov.au

Dear Sir/Madam

Re: National Energy Guarantee (NEG) Commonwealth Elements

Thank you for the opportunity to respond to the *National Energy Guarantee Draft Detailed Design for Consultation Commonwealth Elements* paper.

The Australian Institute of Petroleum (AIP) presents this submission to the Department on behalf of AIP's core member companies:

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

AIP member companies operate across all or some of the liquid fuels supply chain including crude and petroleum product imports, refinery operations, fuel storage, terminal and distribution networks, marketing and retail.

This submission should be read in conjunction with AIP's submission to the 2017 Climate Change Review. In particular, this submission provided a comprehensive overview of the competitive challenges facing Australia's refinery sector, noting the potential risks associated with the imposition of costs on the domestic sector that are not borne by competitors internationally.

AIP's focus in this submission relates to the importance of ongoing Emission Intensive Trade Exposed Industry (EITE) recognition and assistance, and the proposed implementation elements for the NEG.

Importance of ensuring ongoing recognition of EITE

The Australian oil refining industry is an energy intensive, high technology manufacturing industry converting crude oil to marketable petroleum products that competes head on with international refineries. The industry has been repeatedly recognised as an EITE through multiple Government processes over a decade or more.

The Australian oil refining sector has been under significant commercial pressure over a period of time caused largely by the global over-supply of petroleum products and these pressures led to the conversion of three Australian refineries to import terminals. These competitive pressures remaining and any further costs pose a risk to the viability of the Australian refining sector.

As AIP has previously noted:

- There are significant imports of all petroleum products into the Australian market.

- Most imports into Australia are sourced from the Asia-Pacific region.
- There are no meaningful barriers to entry for imported petroleum products.
- Australian petroleum products are priced locally reflecting import parity price.
- Most refineries in the Asia-Pacific region will not face a cost of carbon in the foreseeable future.
- The profitability of Australian refineries would be substantially reduced and viability threatened if carbon policies were introduced that imposed costs that were not commensurate with international competitors. Given import parity pricing, the local refining industry would not be able to pass on these costs and would have to absorb any additional costs.
- EITE assistance remains a critical policy for maintaining the competitiveness of Australian trade exposed industries.

AIP is therefore pleased to see recognition of these challenges through the Government's intention to implement explicit policies to support EITEs as part of the design of the NEG.

Implementing the exemptions for EITE

On principle, AIP believes that a policy mechanism to assist EITE industries within the NEG should not look to reinvent existing practice. AIP is therefore pleased to see the intention to use the existing approach applied under the Renewable Energy Target.

AIP is strongly of the view that all policies that recognise EITE status should be fully harmonised to ensure consistency and to reduce the red tape burden on both industry and government. This alignment should include what information is required to be reported, and the timing in which it is reported. Audit requirements should also be aligned and AIP is pleased to see the proposal for a single audit approach. AIP agrees that the Clean Energy Regulator appears best equipped to administer exemptions for EITEs.

Removal of EITE assistance

AIP notes that the discussion paper does not address if or when EITE assistance could or should be removed. Australia's international refinery competitors currently have no carbon cost constraint (either direct or indirect) on their activities. While competitor countries may have signalled carbon constraint policies across the economy at a national level (as per their commitments to the Paris agreement), the cost impact on their refining industry may be nullified at the sectoral level, such as the exemptions provided to refineries operating under the Korean ETS.

Assessment of the impacts of any Australian Government policy, including EITE status under the NEG, therefore needs to be undertaken at the sectoral level to ensure the competitiveness of the Australian refining industry is maintained, that Australia continues to enjoy the benefits provided by the local refining industry and that emissions are not simply pushed offshore.

Conclusion

AIP appreciates the opportunity to provide comment on the Commonwealth Elements of the NEG design. AIP broadly supports the intent to streamline EITE implementation under the NEG to ensure consistency with existing practice. AIP welcomes the opportunity to continue to engage with the Department on the issues raised in this submission and the broader NEG consultation process.

Yours sincerely

Peter Gniel

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