



3 May 2019

Liquid Fuel Security Review Team  
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To: Liquid Fuel Security Review Team

**Re: Liquid Fuel Security Review – Interim Report**

**1. Introduction**

1.1 The Motor Trades Association Queensland (MTA – Queensland or the Association) responds to the Department of Environment and Energy's *Liquid Fuel Security Review – Interim Report* (the report) by submitting the following views and issues for consideration.

1.2 The MTA Queensland's comments are confined to those issues of national liquid fuel security that relate to private, commercial and public logistics and land transportation. The Association acknowledges the complex nature of national fuel security and the comments in relation to the supply of energy for land transportation are not intended to be exhaustive. They are submitted for consideration.

1.3 The Association would be pleased to provide a detailed submission when the Department is finalising its report on this matter.

**2. Regulatory Framework**

2.1 Australia's liquid fuel supply chain has limited regulatory government oversight. The report indicates that Australia has chosen to apply minimal regulation or government intervention in pursuit of an efficient market that delivers fuel to Australians as cheaply as possible. The regulatory framework to provide safeguards to protect the community and the environment are:

- *Fuel Quality Standards Act 2000*;
- *Oil Code 2017*; and
- *Australian Consumer and Competition Act 2010*.

The *Petroleum and Other Fuels Reporting Act 2017* provides some mandatory reporting requirements. The *Liquid Fuel Emergency Act 1984* enables the Government to take management action in the event of a national emergency.

**Motor Trades Association Queensland**

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### **3. Overview**

3.1 The Association commends the Department on the interim report as it provides a pragmatic overview of the challenges of national liquid fuel security and highlights issues in managing road transport energy risk. The document is a useful platform in evaluating an Australia's liquid fuel security options.

### **4. The Market**

4.1 Australia is a modest market for liquid fuels for road transportation. The demand is determined by the national vehicle fleet. Annual sales of new motor vehicles total just over one million units per annum. This cohort is made up almost entirely of internal combustion engined (ICE) liquid fuel vehicles, both private and commercial. There are a minor number of gas fueled and electric vehicles operating nationally, but to date these are not significant in policy terms.

4.2 The total number of ICE vehicles sold annually is likely to remain relatively static for the next 3-5 years but will experience a decline with the accelerated take-up of plugin electric (PIE) and hybrid vehicles. This pattern is likely to impact the demand for liquid fuels for road transport vehicles. While demand can be expected to be reasonably static during the first half of the 2020s, there will certainly be a decline in latter 2020s and throughout the 2030s as alternate energy vehicles, particularly PIE vehicles take-up, impacts the national fleet.

4.3 A significant issue in respect of this technological disruption is economic geography. The uptake of PIE vehicles outside the metropolitan areas is likely to be slower than that for urban areas. Commercial interstate transportation is likely to remain dominated by diesel powered vehicles during the 2020s.

4.4 The road transport liquid fuel retail sector has performed well since the second half of the 20<sup>th</sup> century after wartime rationing and deregulation and so far, has serviced Australia's demand in the 21<sup>st</sup> century. The existing market oriented supply chain has handled disruptions remarkably well, from the advent of the Organisation of the Petroleum Exporting Countries' cartel in 1973 with the imposition of a massive resource rent; the Iranian oil shock of 1979 and the resulting price escalations which needed to be managed through to natural disasters e.g. cyclones, floods and fires when fuel supplies needed careful allocation.

### **5. Some issues for road transport fuel security**

5.1 Transparency is an issue in the road transport liquid fuel retail value chain. There has been an ongoing debate about differential terminal gate pricing discriminating against independent fuel retailers. There is a view however, that the market may not be well served by complete transparency; as this may result in a loss of competition and disadvantage to consumers.

5.2 Forecast disruption of the automotive value chain by the penetration of PIE, hybrid and alternate energy vehicles has introduced an element of uncertainty in the liquid fuel retailing sector. The fuel majors have announced significant changes to their business plans with a widening of retail operations to include convenience shopping. The independents are similarly reviewing their business models. In these circumstances, it would be prudent to assume that feasibility studies for major investments in the liquid fuel value chain would be carefully evaluated.

5.3 The issue of liquid fuel security for Australia's motoring public and commercial transport operators may go further than international supply assurances and import inventory contingencies. The economies of scale for an already modest market may be depreciated seriously by the technology disruptions that are being forecast and detrimentally effect the business models on which fuel retail establishments are operated.

5.4 With a static and possible declining market for liquid fuel vehicles, investments in fuel refining distribution and retailing are likely to come under sustained performance pressure.

5.5 In remote and regional areas, fuel security is likely to be a challenge as economies of scale decline to below optimum, and the cost of operating liquid fuel motor vehicles and commercial transport escalates in nominal and real terms. The question then becomes, how can fuel supply be maintained economically for a population of liquid fueled vehicles that declines below optimum?

5.6 Amongst the issues facing the liquid road transport fuel business model will be the issue of fuel excise. With the uptake of electric cars there will be a discrimination between PIE vehicles which are not subject to fuel excise and internal combustion engined vehicles which are. The timing and manner in which excise on fuels for transportation vehicles is repealed will have a significance for investments in the liquid fuel value chain and fuel security.

5.7 The Association notes the suggestion that the public sector could invest in the establishment of a reserve capacity to stockpile liquid fuels. This may be needed in the absence of private sector investment. The Association however is of the view that the government should consider the option of providing appropriate incentives for the private sector to invest in contingency reserves that reflect the real risks that national liquid fuel supply will face in the future.

5.8 The Association counsels, that the risks to liquid fuel security are not all on the supply side. A number of risks are on the demand side: for example, the uptake of PIE vehicles; and some are extraneous - such as the geographic distribution of regional populations, mining and agricultural centres and the changes to economies of scale.

5.9 There are issues of statutory compliance which impact national liquid fuel security. The existing planning regimes at ports often discourage new entrants from investing in facilities for liquid fuels, and therefore liquid fuel contingent inventories remain low. Similarly, local governments impose costly compliance regimes discouraging fuel retailers from installing additional tankage. The Association acknowledges the need for robust safety regulations and suggests that there may be an opportunity for streamlining or cost saving without compromising safety.

5.10 In respect of contingency reserves, the Association notes the report's estimates that Australia carries some 53 International Energy Program days of reserves. We suggest that a merit order calculation which prioritises emergency services and public transport would appear a more appropriate methodology for calculating the nations contingency reserves and align us more closely with our international obligations.

## 6. Conclusion

6.1 In respect of the reliability of supply and price economics, the road transport liquid fuels present market-oriented system has delivered remarkable outcomes for Australia despite international disruptions and its modest sized market.

6.2 The Association acknowledges that the road transport sector can expect to face some major challenges in the latter half of 2020s and throughout the 2030s and that the government should monitor liquid fuel security closely over the next two decades.

6.3 The Association submits that the present market based system has delivered satisfactory outcomes in securing supply and pricing for Australia's demand for liquid fuel supplies, and if the government provides support where severe disruption is experienced the present system has the capability to continue delivering cost effective and secure liquid fuel logistics for the nation as long as the business model is sustainable.

## 7. Background

7.1 The MTA Queensland is the peak organisation in the State representing the specific interests of businesses in the retail, repair and service sector of Queensland's automotive industry located in the State. There are some 15,500 automotive value chain businesses employing approximately 88,500 persons generating in excess of \$20 billion annually. It is an industrial association of employers incorporated pursuant to the *Fair Work Act* 2009. The Association represents and promotes issues of relevance to the automotive industries to all levels of Government and within Queensland's economic structure.

7.2 Australia's first automotive hub, the MTA/Q, has been established in specially prepared space at the corporate office. The hub is an eco-system that supports innovation for the automotive industry.

7.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering technical, retail and the aftermarket phases of the motor trades industry through the MTA Institute - a registered training organisation. It is the largest automotive apprentice trainer in Queensland employing trainers geographically dispersed from Cairns to the Gold Coast and Toowoomba and Emerald. The MTA Institute last financial year accredited courses to in excess of 1,600 apprentices and trainees.

Thank you for your consideration.

Yours sincerely



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