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May 17, 2021 — **John Hewson**
Columnist and former Liberal opposition leader

A multibillion-dollar rescue package for Australia's two remaining oil refineries will attempt to secure the nation's long-term domestic production of petrol and fast-track a switch to better quality fuel to allow the uptake of lower-emitting cars.

Prime Minister Scott Morrison will on Monday unveil the final details of the plan aimed at retaining self-sufficient refining capability and limiting costs on motorists and businesses, by locking in the long term future of the Viva refinery in Geelong and the Ampol refinery in Lytton, near Brisbane.

The sector has experienced a torrid period, with two of the remaining four domestic refineries announcing their closures in the past six months. The closure of BP's Kwinana oil refinery will wipe out more than one-fifth of Australia's fuel-making capabilities.

In February, ExxonMobil announced the closure of its Altona oil refinery in Melbourne, saying it was no longer economically viable as the embattled sector struggled to compete with the new mega-refineries built across Asia, especially in China and India.

The situation has sparked warnings Australia was exposed to the dangers of serious fuel shortages, particularly if imports were disrupted by a shipping crisis or an armed conflict in the region.

As part of the up to $2.4 billion package, the government will also bring forward an industry-wide review of fuel standards to bring Australia in line with Euro-6 equivalent petrol and diesel standards as early as 2024. It will offer up to $302 million in support for major refinery infrastructure upgrades to help refiners accelerate the production of better-quality fuels.

The government has faced growing calls from motoring groups including the Federal Chamber of Automotive Industries to improve Australia's fuel quality, which is among the worst and has remained a major hurdle in adopting carbon emissions standards and denied consumers the opportunity to purchase fuel-efficient, lower-polluting vehicles from major European carmakers.

The government will also work with both refineries on their plans to consider future fuel technologies and other development opportunities. It will include the refineries' roles in the rollout of future fuels, such as electric vehicle charging and hydrogen transport infrastructure.

Taxpayers will also fund a $50.7 million investment for the implementation and monitoring of the minimum stockholding obligation of 24 days to act as a safety net for petrol and jet fuel stocks while diesel stocks will be increased by eight days, to around 28 days of supply.

Mr Morrison said locking in fuel security would deliver benefits for all Australians, secure recovery from the pandemic and help to prepare against any future crises. He said shoring up fuel security would protect 1250 jobs, give certainty to key industries and bolster national security.
“Earlier investment in Australia’s ability to produce better quality fuels, including ultra-low sulphur levels, will also improve air quality and deliver an estimated $1 billion in lower health costs,” he said.

“Major industries like agriculture, transport and mining, as well as mum and dad motorists, will have more certainty and can look forward to vehicle maintenance savings and greater choice of new vehicle models.”

Refineries play a critical role in fuel security and putting downward pressure on fuel prices for motorists, with modelling showing that a domestic refinery capability is worth about $4.9 billion in value to consumers in the form of price suppression over a decade.

The refinery production payment will be linked to refining margins at the time and to actual production of key transport fuels. Refineries will receive a maximum of 1.8 cents per litre when the marker drops to $7.30 per barrel of oil, with the payment phasing out when the margin marker hits $10.20 a barrel.

The payment scheme could cost taxpayers up to $2.047 billion to 2030 in a worst-case scenario but it is expected to be dramatically less because the figure assumes both refineries are paid at the highest rate over the entire nine years in COVID19-like economic conditions.

The planned bailout for the domestic industry, first flagged last year, has attracted fierce criticism from environmental groups and some economists over effectively subsiding the fossil-fuel industry. But the government argues despite the projected growth in EVs, the petrol and diesel fleet will still take up to 10 to 20 years to be displaced.

Diesel consumption has increased over the last five years and industry expects heavy-duty vehicles will likely take longer to be replaced by alternatives because they will not reach price parity as soon as passenger vehicles.