

3 May 2019



Mr Tim Wyndham
Energy Security
Department of the Environment and Energy
John Gorton Building
King Edward Terrace
Parkes ACT 2600 Australia

Submitted via consultation hub

GEA RESPONSE TO THE LIQUID FUEL SECURITY REVIEW INTERIM REPORT

Dear Mr Wyndham

Gas Energy Australia (GEA) welcomes the opportunity to provide comments in response to the Department of the Environment and Energy's *Liquid Fuel Security Review Interim Report*.

By way of background, GEA is the national peak body, which represents the bulk of the downstream alternative gaseous fuels industry, which covers Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG). The industry comprises major companies and small to medium businesses in the gaseous fuels supply chain including producers, refiners, distributors, transporters, retailers, vehicle manufacturers, equipment manufacturers and suppliers, installers, educators and consultants.

GEA considers Australia's liquid fuel security to be a critical issue and supports initiatives to increase fuel security through fuel diversity. Australia's growing dependence on imported oil for major industries like transport and manufacturing is not sustainable in the long term as disruptions to vital shipping routes due to natural disasters or regional conflict could quickly impact on major services. A diversification of Australia's fuel profile to make greater use of domestically produced fuels such as LPG, LNG and CNG would improve our liquid fuel security.

The Liquid Fuel Security Interim Report (the Interim Report) identifies a number of issues with Australia's liquid fuel market, namely an increasing dependence on imported liquid fuel, Australia's lack of self-sufficiency and the slow rate of transition to alternate energy sources. The Interim Report highlights concerns with Australia's liquid fuel market and the importance of diversifying Australia's fuel profile to include more Australian alternative fuels.

Australia's liquid fuel market

As highlighted in the Interim Report, Australia, like other net oil importing members of the International Energy Agency (IEA), is obligated to maintain oil stocks equivalent to 90 days of the previous year's daily net oil imports. In September of 2018, Australia only had an aggregated fuel reserve of roughly 48 days. GEA considers that using more Australian fuels such as LPG and LNG would reduce the quantity of the oil stocks we need to hold and the resulting cost which is estimated by the

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Commonwealth Government to be \$6.8 billion¹. The cost of building a stockpile sufficient to meet our IEA requirement is unaffordable, and in addition, shifting more domestic users from higher polluting, imported oil to cleaner, Australian gaseous fuels means lower carbon emissions and virtually none of the harmful particulate pollutants of oil-based fuels.

The findings in the Interim Report echo the concerns raised by GEA in previous submissions into the Liquid Fuel Security Review, which outline Australia's growing dependence on imported liquid fuels and lack of fuel diversity.

Key risks to fuel security

Liquid fuels are important for Australia's economy and as highlighted in the Interim Report, Australia is increasingly dependent on imported liquid fuels. This reliance leaves Australia increasingly susceptible to economic and strategic vulnerability due to disruptions in supply chains.

GEA considers Australia should seek to achieve greater fuel security in the face of growing dependence on oil imports and seek to mitigate its reliance on oil imports through fuel diversification.

Australia has abundant supplies of gaseous fuels like LPG, LNG and CNG. These fuels can help to diversify Australia's fuel profile particularly for transport energy and power generation, to reduce reliance on imported liquid fuels.

LPG

There are multiple uses for LPG in Australia, which can be categorised into three distinct markets, traditional, autogas and petrochemical use. Australia is a net exporter of LPG, in 2017 Australia produced 1,835 kilotonnes (kT) of LPG while LPG demand for autogas and traditional uses only totalled 1,174 kT, and around 81 percent of LPG produced in Australia comes from Australian oil and gas fields².

Total LPG sales in Australia have fluctuated over time, in 2017 sales in the Traditional market increased from 744kT to 762kT and has remained reasonably stable for all states over the last decade³.

In the same year, the volume of autogas consumed in Australia decreased by 22.7 per cent⁴. The decline in autogas sales can be attributed to the introduction of and progressive increase in excise tax on autogas, removal of incentives to purchase autogas vehicles, and declining availability of autogas vehicles in Australia. This is in stark contrast to many other countries, where autogas use demand is increasing as governments seek low emission transport energy sources for on and off road vehicles.

Despite this, there are still over 360,000 light vehicles using autogas in Australia. And the gaseous fuels industry is working to increase the uptake of autogas through the development of new initiatives like the establishment of the Autogas Centre of Excellence (COE) facility to convert new vehicles to

¹ Australian Government Department of Industry, Energy White Paper Issues Paper, December 2013

² Gas Energy Australia, LPG Supply and Demand Study 2017

³ Gas Energy Australia, LPG Supply and Demand Study 2017

⁴ Gas Energy Australia, LPG Supply and Demand Study 2017

run on autogas using low cost, high quality production processes, the LPG dual fuel heavy truck trial, and the 'Autogas Near Me' App - a joint project between ACAPMA and Unigas which helps consumers find the closest autogas dealer.

Government policy settings that recognise the contribution LPG makes to better environmental outcomes, as well as liquid fuel security, would increase the uptake of LPG for transport energy and power generation, decreasing Australia's reliance on imported oil in a cost-effective manner.

GEA considers that Australia needs a more sustainable, diverse fuel mix to protect our economy against world oil price and supply shocks. As the world transitions to lower emission transport, gaseous fuels are currently the only feasible and commercially viable alternative particularly for heavy transport.

Commonwealth Government role in managing fuel security

As stated above, GEA considers that Australia needs a more sustainable, diverse fuel mix. GEA considers that the Commonwealth Government should play a greater role in encouraging the uptake of different fuels for transport and power generation. Internationally, we see governments supporting the alternative fuels industry through the introduction of incentives, which help to increase uptake of these fuels. GEA considers there are three areas where the Commonwealth Government can play a greater role in promoting the uptake of Australian gaseous fuels and reducing our reliance on imported liquid fuels.

1. Excise

The Commonwealth Government should honour the bipartisan commitment by the major parties that the tax on gaseous transport fuels should be no more than 50% of that on diesel/petrol on an energy equivalent basis. The tax on LNG and CNG (and prospectively LPG) used in heavy transport, is still currently well over 70 percent and must be reduced. Government inaction on this issue has had the unintended consequence of contributing to the decline of natural gas-powered heavy transport.

2. Encouraging substitution of imported diesel

GEA considers that the Commonwealth Government should encourage domestic users to shift from higher polluting, imported oil to cleaner, Australian gaseous fuels as a means to reduce our dependence on imported liquid fuels and lower carbon emissions. Recently we have seen increasing use of gaseous fuels for power generation in regional and rural areas, which has helped to reduce our reliance on imported liquid fuels. In 2018, LNG enabled the Carosue Dam, Daisy Milano, Dalgara, Darlot, Deflector and Mt Marion mines in Western Australia, which employ hundreds of workers, to reduce their combined diesel fuel consumption by 55 million litres. Substituting Australian gaseous fuels for imported diesel helps to reduce Australia's dependence on imported liquid fuels and improve our liquid fuel security. And every 10% substitution of imported diesel by Australian gaseous fuels, saves \$820 million in imports costs⁵.

⁵Department of the Environment and Energy, Australian Petroleum Statistics 2018, Issue 269

3. Promoting the greater use of Australian LNG as a marine fuel

With the IMO's announcement that it would introduce a global marine fuel sulphur limit of 0.5 per cent from 2020, there has been an increased global interest in LNG as a marine fuel. However, the adoption of clean marine fuels in Australia is currently lagging well behind other advanced nations. Most ships and vessels in Australian waters are running on imported diesel and bunker oil which weakens our fuel security. GEA considers the Commonwealth Government needs to play a greater role in promoting the use of LNG as a marine fuel and remove obstacles to improve fuel security and decrease reliance on imported liquid fuels.

There are already examples of Australian shippers and shipping companies who are seeking to utilise LNG as a marine fuel. In 2017, EVOL LNG and Woodside completed the first commercial bunkering of Australian LNG at a domestic port. EVOL LNG successfully refuelled Woodside's state of the art offshore platform supply vessel, Siem Thiima, at King Bay. Since its inception EVOL LNG has been bunkering LNG on a fortnightly basis at King Bay for almost two years. With continued investment from companies like EVOL LNG and increased government support, Australia can use its abundant natural gas resources to lead the world in LNG marine fuel technology. An increased use of Australian fuels for shipping allows Australia to be less dependent on imported fuels and less vulnerable to international supply disruptions.

Conclusion

In conclusion, GEA supports the findings of the Interim Report which highlight issues with Australia's liquid fuel market and the increasing need to diversify our fuel profile. GEA considers Australia's increasing reliance on imported oil for a substantial portion of our liquid fuel needs leaves Australia vulnerable to supply disruptions which would have significant economic impacts and is not a viable long-term strategy.

Australia is heading towards being fully dependent on imported, dirtier and more expensive oil-based fuels (ie, petrol and diesel) particularly for transport energy and off-grid power generation. Australia's abundant supply of gaseous fuels such as LPG, LNG and CNG can help mitigate these risks and improve Australia's liquid fuel security.

For your consideration

A handwritten signature in black ink, appearing to read "John Griffiths", with a long horizontal stroke extending to the right.

John Griffiths
Chief Executive Officer
Gas Energy Australia