Date Introduced: 8 March 1984
House: House of Representatives
Presented by: Hon. Barry O. Jones, M.P., Minister representing the Minister for Resources and Energy

Short Digest of Bill

Purpose

To establish a trust fund for the purpose of making payments to refiners of crude oil.

Background

The Crude Oil Allocation Scheme, which has operated since 1970 allocates indigenous crude oil to Australian refiners in proportion to their market share. The Allocation Scheme complements the Government's crude oil pricing policy. The price payable by refiners is set at the import parity price, which is defined as the notional cost of landing Arabian light crude oil at the refinery port nearest to the producing field. For Bass Strait crude oil, the nearest refinery is at Westernport, Victoria. Westernport cannot absorb the entire production of Bass Strait crude oil. An adjustment is, therefore, made to the import parity price by way of a coastal freight allowance of 36 cents a barrel of crude oil to reflect the notional cost of transporting the overflow to other Victorian refineries and to refineries in Sydney and Brisbane.

The refineries in NSW and Queensland have long argued that they should be compensated above their southern counterparts for the cost of transporting Bass Strait crude to their refineries. The southern refiners have argued that compensation should continue to be calculated equally. At a meeting in July 1983, between the Minister for Resoures and Energy and refiners, the refiners were requested to seek a solution acceptable to industry. No agreement was reached, and on 9 December 1983, the Minister, in a Press Release, announced that legislation would be introduced in order to overcome the transport cost disadvantage facing refiners remote from Westernport.
The Bass Strait Freight Adjustment Levy Bill 1984 will impose a levy of $1.26 a kilolitre (20 cents a barrel) on all crude oil from Bass Strait. The Bass Strait Freight Adjustment Levy Collection Bill 1984 contains the necessary collection machinery for the levy. This Bill provides for funds, equivalent to the proceeds of the levy, to be appropriated from Consolidated Revenue to a Trust Account which will be administered by the Department of Resources and Energy. Under the bill, rebates of the levy will be made to producers for exports and for producers' entitlements to crude oil. The remainder of the amount in the Trust Fund will be divided among the domestic refiners in proportion to their assessed costs of transporting the crude oil from Westernport to the refinery.

The Minister, in his Second Reading Speech, stated that the legislative package would allow 20 cents a barrel of the coastal freight adjustment to be allocated among refiners in proportion to their transport costs from Westernport. The Government decided not to allocate the full coastal freight adjustment (36 cents). Melbourne refiners will still receive some consideration (16 cents a barrel) in recognition of their investment in pipelines and the cost of transport of refined product. This should ensure that Northern refiners pay world parity price plus transport costs from Westernport less the contribution to transport costs from the Trust Account.

Main Provisions

A trust account, known as the Bass Strait Freight Adjustment Trust Fund, will be established by clause 4. Funds equivalent to the proceeds of the adjustment levy will be appropriated from Consolidated Revenue to the Trust Account (clause 5).

Payments from the Trust Fund will be made monthly to producers of Bass Strait crude oil who exported crude oil, to producers under the Crude Oil Allocation Scheme who retained crude oil for their own use or disposed of it outside that scheme, and to refiners who have refined Bass Strait crude oil (clause 6). Eligible producers will receive $1.26 per kilolitre of crude oil which represents a full rebate of the levy (clause 7).

The amount payable at the end of a particular month to a refiner will be calculated by the formula $A(B-C)$

\[ \frac{100}{100} \]
where A represents the percentage of the Freight Adjustment Fund payable to each refiner that applies to that month for oil sent to each refinery, using the freight rates and percentages determined by the Minister (ascertained by clause 9(1)(d)); B represents the amount standing to the credit of the Freight Adjustment Fund at the end of the month and C represents the sum of the amounts payable to eligible producers at the end of that month.

Clause 9 outlines the procedures by which the Minister for Resources and Energy will calculate each refiner's monthly share of the amounts payable from the Trust Fund. In this calculation, the Minister will determine the unit freight rate for transporting oil to each relevant refinery (D), the percentage of the amount of crude oil transported to refineries for refining that is owned by each refiner (E), and the amount per kilolitre that is the weighted average assessed cost of transporting crude oil to refineries (F). The Minister determines the percentage of the Fund payable to each refiner (paragraph 9(1)(d)) using the formula $\frac{D \times E}{F}$.

Determination of distributions from the Trust Fund will be made on 1 January and 1 July each year but the first determination will be made on the first day of the month immediately following the month in which the Act comes into operation (sub-clause 9(2)).

The Minister will determine the unit freight rates for transporting oil by ship using the published Average Freight Rate Assessment and Worldscale rates for large range tankers up to 80,000 tonnes, allowing for insurance and losses at the rate of 0.6 per cent of the sum of the import parity price plus the assessed freight rate, and taking into account other matters the Minister considers appropriate. The freight rate appropriate to movements of oil by pipeline will be based on actual pipeline charges and other matters the Minister considers appropriate.

Clause 11 allows for payments to producers and refiners from the Fund from 1 January 1984.

For further information, if required, contact:

27 March 1984
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