



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

ADJOURNMENT

Oil Company Mergers

SPEECH

Wednesday, 16 February 2000

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Questioner
Speaker Cox, David, MP

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Mr COX (Kingston) (7.20 pm)—On 9 December, I spoke in this place expressing concern about the government's recently released oil industry policy. The Downstream Petroleum Products Action Agenda was drawn up in-house with the industry. It proposes mergers and rationalisation amongst the oil majors. The government's decision to support mergers on a case by case basis contradicts the position of the Australian Competition and Consumer Commission that they are not in the public interest.

The ACCC's public interest test requires that mergers encourage economic development and investment. The oil industry's objectives for the mergers are the opposite—to minimise the need for investment, particularly the investment required to produce clean fuels. Events since the government announced the policy change have indicated that my initial concerns were well-founded. During the course of the Christmas-New Year break, Mobil announced that BP and Shell had advised they would no longer take exchange product from Port Stanvac. As a result, Mobil was forced to cut its production there in half. The announcement indicated that 20 jobs had been lost.

BP and Shell are now shipping refined product to Adelaide through their terminal facilities at Birkenhead. This is obviously a response to the government's new oil industry policy. Mobil's competitors want to position themselves for the expected merger process. The brutal reality is that, under the government's new policy, several Australian refineries are likely to close, and one of them could be Port Stanvac.

What would be the implications of that for the local economy? The loss of the jobs of 300 employees and about 100 contractors. The refinery also supports the jobs of 1,200 others, and there would be a drop in the South Australian gross state product of one per cent. There would be a loss of \$30 million to local households; \$2.4 million in direct taxes; \$59 million in value added; and some security of supply. It would be devastating to the economy in Adelaide's southern suburbs yet it is Howard government policy. Not only is it Howard government policy, but it is a policy constructed by the industry minister, who is a South Australian.

Once again, the Liberal Party senators and members of the House of Representatives from South Australia are 'missing in action' on an issue critical to our state. It will cost about \$100 million to convert each Australian refinery to producing clean fuels. With margins severely reduced, the oil companies want to avoid that investment. The paradox is that, because Port Stanvac does not have a 'cracker'—that is, it is not equipped to break down heavier feedstock into lighter fractions—the cost of converting it to clean fuels would only be about \$40 million, but, if there are rationalisation alternatives, Stanvac's owners could seek to avoid even that investment.

It has to be borne in mind that Exxon-Mobil have 12 refineries in the region. Australia's refining industry also has a problem of scale. The largest refinery in Australia is BP at Kwinana, which produces 139,000 barrels per stream day. Mobil at Port Stanvac produces 78 TBSD. Because of excess capacity resulting from the Asian economic crisis, they are competing with single refineries producing 250,000 barrels a day in Singapore and up to 800,000 barrels a day in Korea. It is a tough market, and the industry should have been subjected to a full, open and independent inquiry.

The government has a responsibility to examine the sorts of policies that should be adopted to maximise investment in an internationally competitive refining industry in Australia. Instead, the government is actually encouraging mergers which will replace local refining capacity with dependence on imports. Port Stanvac has the largest lube oil refinery in Australia, with half its product being exported. It has other advantages, like being Australia's deepest port and it can take the largest supertankers. Because of its flexibility, the people who operate Stanvac have a vision for it as an excellent niche refiner. They deserve the best opportunity to make that a reality. The ACCC should subject all arguments by the government that the oil industry mergers are in the public interest to the most critical analysis.