



LIQUID FUEL SECURITY

Background

The NFF considers that the current level of liquid fuel security in Australia is inadequate. The current arrangements for the sourcing and distribution of liquid fuel in Australia leave the agricultural industry vulnerable to a range of supply risks. The NFF considers that the Australian Government should take action to reduce this vulnerability.

Issue

As an industry that relies on diesel for the majority of its energy use, agriculture requires a secure supply of liquid fuel to ensure its operations can proceed uninterrupted. With approximately 89% of Australia's food supply being sourced from Australian farms, a shortage of liquid fuels will hinder the industry in its efforts to produce and distribute this food (and fibre).

Australia is highly dependent on international supply chains for its fuel supply. Approximately 90% of the country's liquid fuel is sourced from overseas. This has significant cost advantages but creates vulnerabilities should a disruption to these supply chains occur.

The considerations relevant to Australia's liquid fuel security are:

- The Australian Government has committed to establishing an Australian strategic fuel reserve, which will improve Australia's liquid fuel security. However, the strategic reserve will not achieve its purpose unless Australia has the capacity to refine this oil onshore. With the Australian Government committed to reducing the sulphur content of diesel fuel in 2027, the ability of Australia's four refineries to continue operating beyond 2027 is contingent on them receiving significant upgrades. The investment required to undertake these upgrades – and the continuation of Australia's onshore refining capacity – is not guaranteed;
- In the event of a fuel supply crisis, fuel is requisitioned and rationed by the Australian Government in accordance with the *Liquid Fuels Emergency Act 1984* (The Act). The Act lists several classes of 'essential user' and confers on the Minister for Energy and Emissions Reduction the discretion to allocate fuel to other classes of user deemed to be 'essential for the preservation of the health, safety or welfare of the community'. While farmers – as providers of food and fibre to the Australian community – would possibly be captured by this definition, explicitly identifying farm businesses in the legislation would provide the industry with certainty that

it would have access to liquid fuel in the event of a fuel supply crisis. Government action during the COVID-19 crisis sets a precedent for farmers being categorised as ‘essential users’;

- The development of alternative fuels – including hydrogen, liquified natural gas and biodiesel – is well underway in Australia. Making these fuels accessible to Australian farmers would reduce the industry’s dependence on diesel fuel and mitigate the attendant risks;
- Localised supply shortages pose a risk to the fuel security of the industry. In 2012, Victoria experienced widespread diesel shortages when two refineries temporarily ceased production;
- A strategic reserve stored in numerous locations throughout the country has the advantage of reaching users more quickly if localised disruptions occur. Ideally, fuel in the reserve should be readily available to the end user at the point of use;
- Given that the fuel security of Australia is partly a function on the amount of fuel held privately and publicly within Australia's borders, Government incentives that encourage an increase in the quantity of privately stored fuel would improve the fuel security of the nation;
- The *Petroleum and Other Fuels Reporting Act 2017* requires the fuels industry to report on fuel stocks regularly. While these reporting mechanisms as they exist in other countries often provide real-time data which allow localised shortages to be immediately remedied, Australia’s data is reported too infrequently and with too much of a delay to be of any use in preventing localised shortages; and
- Fuel supply contracts commonly contain clauses which absolve the fuel supplier of any responsibility to pay indemnities to a customer when a supply shortage causes that customer financial detriment. These clauses make it difficult for farm businesses to manage the risk of localised supply shortages.

What the industry needs

- Australia’s strategic fuel reserve must be located within Australia’s borders. This reserve should be as decentralised as possible.
- The construction of on-farm fuel storage infrastructure must remain eligible for the expanded instant-asset write off and accelerated depreciation provisions. Should this eligibility or these provisions be withdrawn, the NFF will consider advocating for the Australian Government to introduce a new financial incentive for the construction of on-farm fuel storage infrastructure¹.

¹ Fuel stored on-farm will remain privately owned. It will not constitute part of the public reserve or be publicly accessible.

- The *Liquid Fuels Emergency Act 1984* must be amended to specify that farm businesses – as providers of goods which are essential to the preservation of the health, safety and general wellbeing of the community – are essential users.
- The Australian Government must commit to maintaining whatever level of domestic refining capacity is necessary to service the liquid fuel needs of Australian industry.
- The Australian Competition and Consumer Commission must investigate fuel supply contracts to determine whether clauses which absolve fuel suppliers of responsibility for supply shortages constitute unfair contract terms.
- The *Petroleum and Other Fuels Reporting Act 2017* must be amended so that it provides industry with real-time data which can be used to address short-term disruptions.
- The development of alternative fuels must be encouraged wherever possible and practical, including a roadmap for this transition on-farm.