

# THE STAR

CALTEX'S MAGAZINE FOR EMPLOYEES, FRANCHISEES,  
RESELLERS AND THE WIDER WORLD  
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**CALTEX**  
Caltex Australia



## From the Managing Director

Over the past year, prices of crude oil and refined petroleum products have experienced big swings upwards and downwards, showing volatility quite unlike anything we've seen in recent history.

As the cost of petrol and diesel soared to record highs, then plunged, it became clear many people were confused about why it was happening. They seemed uncertain about the relationship between pump prices, the cost of crude oil and the Australian dollar-US dollar exchange rates. When the cost of crude oil fell nearly 50 per cent, why didn't the cost of petrol decrease by the same amount? As is often the case, oil companies were singled out for criticism.

As Caltex has said many times, and as many ACCC and other public enquiries have found, Caltex has never engaged in "profiteering" and never will. Our average profit over all the fuel we sell is typically between one and two cents per litre – and is currently less.

We would like people to understand how fuel pricing really works. To that end, in this issue of *The Star* we explain in detail the forces that drive pump prices in Australia and how they respond to internal prices. We hope readers find the insights informative and that the article will help dispel some of the persistent myths about how oil companies like Caltex actually operate.

I would also like to wish everyone a happy and safe holiday season and prosperous new year – and to thank all Caltex employees, franchisees and resellers for their hard work and support. Your contributions have made a big difference and have helped to position us for a year of substantial progress.

*Des*

COVER: The two line graphs show how Australian petrol prices have moved relative to the cost of petrol from Singapore refineries in the 11 months to the end of November 2008. The red line indicates pump prices in Australian cents per litre, the black line is US dollars per barrel.



## LPS at work

A moment's carelessness by a contractor working at Lytton refinery resulted in itchy and inflamed hands and a Lost Time Injury (LTI). This happened when his hands were exposed to chemical residues still present in a bin liner that had been used for storing spent absorbent material.

However, it wouldn't have happened if the contractor had remembered to put his protective gloves back on. He'd briefly removed them to pull a knife out of his pocket to cut plastic sheeting.

The lesson here is that performing the Loss Prevention System's safe performance self assessment (SPSA) to check risks as he worked would have made a difference. And that SPSAs should not just be carried out at the beginning of a task, but at any time a new situation arises.

This incident also illustrates how easy it is to get contact dermatitis, a common skin condition caused by exposure to something that irritates the skin or causes an allergic reaction. It usually occurs where the irritant touches the skin, but not always. Many employees throughout Caltex, whether in a retail or reseller operation, working in a refinery or at a terminal may find themselves working with substances that can cause the condition.

And while the contractor mentioned above would have probably avoided his injury if he'd been following safety protocols, pulling on gloves is not the final solution.

The supplier that Caltex gets its industrial gloves from says as much, noting in fine print that glove wearers should do their own self assessment of glove performance. This is because a protective glove that remains impermeable against one type of substance for a given period of time might not have the same longevity when exposed to something stronger. Each glove-wearing situation needs to be judged on its merits.

Similarly, a pair of gloves doesn't need to have holes in it to have lost its ability to protect. Gloves worn more than once may have weakened and chemicals may have permeated the rubber. Over-used or damaged gloves might offer as little protection as no gloves at all.

World oil prices soared this year – then crashed. Did petrol and diesel prices rise and fall in Australia in line with these? If not, why not? And how does fuel pricing really work? *The Star* reveals the truth.

# The tall and the true story

**It's Tuesday** at 5.30pm in Hamilton, a suburb of Brisbane. Motorists line up on the forecourt of a Caltex service station.

Inside the store, one man waiting to pay for his tankful is visibly agitated. When he reaches the console, he tells the customer service attendant what he feels: "You people are doing it again. Oil prices have gone through the floor, so how come you're still charging so much for petrol? Your company's making a killing – you must think we're stupid!"

Though the vast majority of retail customers are polite, Caltex site operators are accustomed to such complaints, which usually stem from a misunderstanding of how fuel prices work.

This is unfortunate because the basics are not that hard, according to Caltex's National Manager Product Marketing and Pricing Michael Ridley-Smith. "It's like riding a bike. It seems difficult at first – but you soon get the hang of it."

Exactly how *does* fuel pricing work? The first factor to consider is the price that competitors of local refiners could land petrol or diesel for in Australia. This benchmark is based on a formula using international data and is known as the import parity price.

Local refiners and marketers like Caltex then add on excise tax and a margin to calculate a wholesale price. The wholesale price is often discounted depending on the level of competition in a particular area. For franchised service stations in city areas, for example, the wholesale price less discounts can vary every day. Retailers then add a retail margin and GST to work out the pump price.





LEFT: Motorists need a clearer view of the fuel pricing picture. RIGHT: Manager Government Affairs & Media Frank Topham

# tale that won't go away nobody wants to hear

## How the exchange rate affects prices

But what about exchange rates? Many people are confused about petrol pricing and its relationship with exchange rates and international oil prices.

"They remember when oil was US\$140 a barrel and yet pump prices didn't seem to fall much when oil prices fell sharply," explains Michael. "Understandably, they see oil prices on TV listed in US dollars and find it difficult to convert changes in US dollar prices to Australian cents per litre."

To get a clearer picture, you should first look at the international prices of petrol and diesel, not crude oil, Michael suggests. You can find these prices on the Australian Institute of Petroleum website. Then convert the US dollar petrol and diesel prices to Australian dollars. "To understand pricing the first step is not to look at crude oil prices," he says. "You can't put crude oil in your car or truck."

Like crude oil, petrol and diesel are traded around the world in US dollars. When the Australian dollar was strong recently, we could exchange an Australian dollar for about 95 US cents. But by late November the exchange rate was only 65 US cents. So it costs more Australian dollars to buy a barrel of petrol or diesel (that's 159 litres) that's priced in US dollars.

"A strong exchange rate makes fuel relatively cheap. When an Australian dollar could buy almost one US dollar last July, the exchange rate protected Australia from record high international prices to the tune of about 40 cents a litre," says Michael.

## Other factors in the Australian price

That's the big picture. For people who want to understand the detail, there are some other factors to consider.

Singapore is the source of almost all our imported petroleum products. To work out the import parity price Caltex must add in what it would cost to ship fuel from Singapore to Australia. The recent drop in value of the Australian dollar has increased this cost to about five cents a litre, says Michael.

Then there is quality. Overseas refineries charge a premium to supply Australia with fuel to the tough Australian standards required to reduce air pollution.

To get the import parity price we must add up the Singapore price of petrol and diesel, add shipping and quality costs, then convert to Australian dollars. Cargo insurance and local port costs are also included.

## Business realities

Why import parity? People should consider that an oil refinery is a factory like any other. It turns a raw material – crude oil – into useful products, says Caltex's Manager Government Affairs & Media Frank Topham. "And like any other factory it must work out how much it costs competitors to get their products to market in Australia. Then that's what it will charge."

If a refinery can make product cheaper than imports it is profitable. Typically an Australian refinery may move in and out of profitability over the year depending on the price of imports.

Like many other factories in Australia, Caltex's oil refineries are high-volume, low-margin businesses, as are its wholesaling and retailing operations. Caltex is expected to average less than one cent a litre profit across all products sold this year.

Despite these simple realities, media commentators routinely accuse oil companies of "greed" and "profiteering". The tall tales of conspiracies, collusion and exploitation make for easy stories, but it seems only a few people want to hear the truth. Myths are much more interesting!

## The "percentage fall" myth

Between July and October crude oil dropped in price by over 50 per cent while the pump price of petrol only fell by around 20 per cent. The fall in the value of the Australian dollar against the US dollar did "not fully account for the difference," according to a leading newspaper in October. Therefore, refiners were "deliberately keeping prices high".

The key fact is that pump prices include a fixed excise tax of 38 cents per litre but the Singapore refinery price doesn't. So if both petrol and the Singapore refinery price for petrol fall by the same number of cents per litre, the percentage fall in the Singapore price is greater than the percentage fall in the pump price (try this out on a sheet of paper or in Excel). >

## The “slow to fall” myth

Another allegation often made is that fuel prices are quick to rise and slow to fall. And most commentators claim the price increases faster than it decreases. In fact, marketing margins in Australia typically fall for a period when Singapore petrol prices increase sharply, then increase for a period when Singapore prices fall sharply.

In its 2007 report on petrol prices, the Australian Competition and Consumer Commission (ACCC) said: “The effect of price lags can work in both directions with consumers benefiting when international prices are rising as domestic price increases are delayed.”

The chart on this page shows the difference between the average Australian retail price and the price of landing petrol from Singapore.

Despite large increases and decreases in prices, the difference shows no trend up or down, which means retail prices track Singapore refinery prices.

## The “profiteering” myth

Another persistent accusation is that oil companies manipulate weekly price cycles.

The ACCC also reported: “The existence of price cycles does not provide any evidence of a lack of retail competition.” However, many

city motorists don’t understand just how low prices are at the bottom of the marketing cycle, typically on Tuesdays or Wednesdays, or that petrol companies frequently sell at a loss.

Prices have to go up after a week or more of discounting, the reason why fuel is often dearer towards the end of a week.

Many large petrol wholesalers and retailers including Caltex use the independent Queensland company Informed Sources to collect data from electronic transactions and supply information on the prices that have been set by competitors. This helps ensure prices are competitive and encourages discounting.

The government has described this is “as close to collusion as you can get with it still being legal”. Caltex rejects this assertion. Informed Sources data greatly increases price transparency. Caltex agrees that motorists could receive the same pricing information as we do, provided the government paid for the scheme (so everyone receives the information free of charge) and all competitors had to participate by supplying their price data. ●

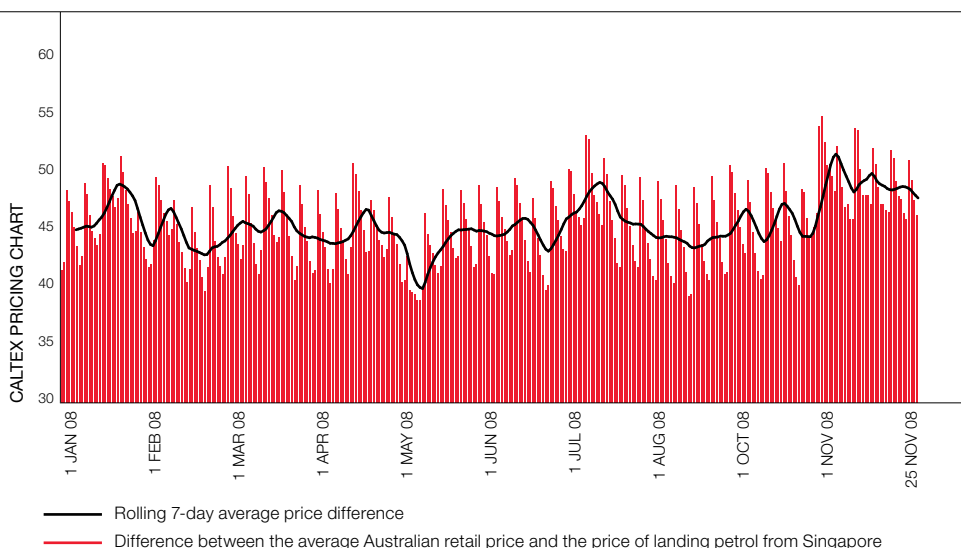
## FINANCIAL CRISIS CRASHES OIL PRICES

Crude oil prices have crashed and prices for petroleum products made from that crude oil have also crashed. Slower economic growth means less growth in demand for fuel, even in Asia. In fact, petrol sold for less than crude oil in July, August and November so refiners were losing money on petrol. Only diesel and jet fuel kept refiners in the black.

“Oil prices earlier this year tended to follow resources and stock prices which went up and down like a yoyo,” says Caltex Pricing Services Manager Ian Raskall. “The petrol price from Singapore refineries has shown similar volatility to crude oil prices.

“Oil traders are telling us the price is no longer following oil market supply-and-demand fundamentals as it used to. It’s following equity markets. If someone said a few months ago the oil price would go to \$US50 or less, it would have seemed highly unlikely but that’s what we’ve been seeing.”

With the outlook for the global economy uncertain, Ian sees demand for oil reducing further, which should result in lower prices at the pump, at least for a while. However, over time there will almost certainly be upwards pressure on prices.



## WHAT’S HAPPENED TO FUELWATCH?

The federal government proposed a Fuelwatch scheme, which would require service stations to notify prices at 2pm each day for the next day then maintain the notified price for 24 hours. The scheme was similar to an existing regime in WA. Legislation for the scheme was defeated in the Senate on 12 November.

Caltex did not have a position for or against Fuelwatch. However, we did not believe a national rollout of FuelWatch would have reduced prices. While some motorists would have welcomed greater price certainty during a day, motorists who filled up weekly on Tuesdays at the bottom of the typical discount cycles could have been disadvantaged if price cycles become “flattened” with lower peaks and shallower troughs.

Caltex supports greater transparency and would be interested in discussing alternatives to Fuelwatch proposed by the government or consumer organisations.

### Where facts can be found

Want to know more? These web sites offer further insights and explanations of how fuel prices work:

[http://www.caltex.com.au/pricing\\_faq.asp](http://www.caltex.com.au/pricing_faq.asp)

<http://www.fuelwatch.wa.gov.au>

<http://www.aip.com.au/pricing/>

30%

Australian fuel imported

Under 1cpl

Caltex average profit across all products

\$14.7billion

Fuel excise collected by government

# Caltex climbs the safety ladder

The figures are impressive. Truck and tanker accidents have nearly halved. Major fuel spills are down by two thirds. And it's happening at a time when the Caltex Petroleum Services (CPS) vehicle fleet has doubled in size.



Winners in the war against accidents. LEFT: CPS Logistics and Compliance Manager Paul Rogan. RIGHT: Group Manager OE and Risk Peter Wilkinson with Lytton refinery's Safety Case Lead Engineer Jeff Moo (background)



**The reason is simple.** CPS has been aggressively tackling the safety issues that had made it statistically responsible for half of all incidents in the non-refining side of the business.

The good news about the improvements came from Paul Rogan, CPS Logistics and Compliance Manager, presenting at a two-day Operational Excellence (OE) forum, attended by around 30 people from across the company.

Drivers in the CPS reseller network work long hours, drive enormous distances in tough conditions and "their work is fraught with danger," says Paul. It's been necessary to make a radical shift to reduce incident rates, including turning the old notion of the customer comes first on its head.

It's also meant investing time and money, changing mindsets and devising new processes that minimise risk.

Around 65,000 tanks on the CPS delivery map were inspected as part of a safety audit. Drivers were asked to name their top 10 dangerous sites - places where power lines hang low over a fuel tank, for example, and were told to refuse deliveries if a site was unsafe.

CPS management faced scepticism from drivers who'd always operated on the principle that the customer takes priority over working

conditions. Turning that round took leadership from the top. Ian Ross, National Manager, Reseller, personally met all drivers, got them thinking about the ripple effect an accident would have on their families. He told them that now they'd be expected NOT to make deliveries to unsafe sites.

To reduce system errors, driver knowledge was employed in preparing detailed work instructions for forty high risk operational tasks defined by a task analysis group. "Drivers gave us feedback on the draft instructions," says Paul. "This is standing in the shoes of the person doing the work because our drivers are our subject matter experts."

Peter Wilkinson, Caltex's Group Manager OE & Risk, told the forum that the steps taken to bring safety changes into the reseller group followed the classic principles of building organisational capability while taking into account the human factor. "It's remembering the need to work on all elements that contribute to accidents, human behaviour, management systems and procedures as well as the hardware and equipment."

Although the petrochemical industry has been slow to incorporate formal human factor methodology - the system elements which influence human reliability - its tenets are being observed throughout Caltex, observes Martin

O'Neill, Manager Operational Excellence - Marketing, "it's just not shared around."

Guest speaker Nick Coleman from Human Engineering Australia told the forum that it's time to get away from the concept of focusing solely on human behaviour as causing accidents, especially that of front line workers.

Accidents are the result of badly designed or implemented processes and equipment as well as human behaviour, he says. "It's important to identify the latent system errors and make sure they're designed out."

Asked why the petrochemical industry is lagging industries such as aviation in taking human factors seriously Nick says it could be to do with the frontier-like mentality of the oil business and also to do with cost.

But, as he notes, there's nothing like a disaster to make people want to prevent something similar happening again. "After the Waterfall train accident in NSW, Railcorp employed several human factors experts."

Belinda Patterson, Environmental Protection Supervisor at Kurnell Refinery has proof of the benefits of empowering people in minimising risk. The refinery is highly visible in its local community and the nearest house is only four and a half metres from the boundary fence.

A spate of bad odour incidents in late 2006 could have affected the refinery's "licence to operate" in the local community. The problem Kurnell staff had was in defining and isolating the odours which were drawing complaints such as "stop the pong" and "can't stand the smell."

"We needed to know what the odours were and where they were coming from," says Belinda. "Our best resource was our refinery noses and community noses - out of that our odour audit program was spawned."

Community volunteers chosen to participate were given odour recognition training at an off-site laboratory and then exposed to a variety of refinery environments. Five odour audits were completed - results collated and problem areas exposed. The major culprit was a waste water treatment plant - and funds have been earmarked for a cover to be built over this by the end of 2009.

The outcome has been a success for Caltex. Complaint calls to the refinery about odours have fallen from 178 in 2006 to 44 this year. Best of all, says Belinda, residents have become aware of how hard Caltex works to minimise negative effects the refinery might have on the community.

The overall message from the forum is that although our Operational Excellence Management System journey is relatively young, there are examples of really good work being done across the company. The challenge now is to maintain the momentum. ●





Proud retailers Kevin Essen (left), store manager, and Ben Elliott, assistant store manager, at the recent opening of the 21CC Taree site



# Convenience stores and the 21st century

As convenience retailing undergoes changes around the world, Australia's number one convenience retailer Caltex is introducing a different look, layout and product range with its new-style '21CC' Star Marts.

**After being successfully** trialled for the past year in six stores in NSW, the 21CC concept will now be introduced around Australia as new Star Marts are built. In time, it will be rolled out across the 600-strong Caltex Star Mart convenience store network.

"We're evolving our convenience stores to meet our customers' changing needs and lifestyles," says Caltex National Manager Retail Leo Pucar "People are time-poor, under pressure with long work hours and both partners working – they value convenience more than ever."

Leo says that the trend here and overseas is for convenience stores to become more of a destination for fresh food and ready to heat meals. This is reflected in Caltex's 21CC Healthier Options offer with its expanded range of chilled goods and products such as pre-packaged meals, yoghurts, fruit juices and vitamin enhanced waters, dried fruit, nuts and salads.

There is an emphasis on convenience in the 21CC store layout, too. "We've moved away from traditional aisles to display carousels, removed advertising displays from the roof and included video screens, installed separate male and female toilets and widened the queuing area in front of the checkout," says Leo.

The 21CC stores will all have the same basic core components, but it will have a tiered offer, with the quantity and mix of products widened or reduced to match local customer demographics.

New 21CC Star Marts being rolled out by the end of December include sites in Abbotsford and Hillside in Melbourne, Luddenham in Sydney and Taree and Port Macquarie on the NSW north coast with plans to open 21CC stores in Queensland and Western Australia next year. ●

# ‘We can mix it with the best,’ says Caltex Retail’s award-winning Naomi

When Caltex New Product Development Executive Naomi Jackson visited the USA in October she was right in the heart of the convenience retail industry – both as an award winning ambassador for Australia and a keen observer.

**Naomi was in** the USA to compete in the Convenience Industry Global Achievement Awards and was declared winner of the Retail category – an Australian first.

She won the prestigious international award with a 4,000 word essay on a tool to measure how well new convenience store offers will deliver what our customers are looking for.

Naomi’s trip to the US gave her the opportunity to attend the NACS (National Association of Convenience Stores) show in Chicago, where judging for the Global Achievement Award took place. The sheer size of the American convenience business impressed her, with the show attracting an amazing 22,000 delegates and 1,300 exhibitors covering 35,000 square metres.

**“One of the first things you see when you go in are fridges of beer. They also have a much bigger fast food offer”**

Naomi was pleased to see how well the Caltex offer compares with those of international competitors. “Markets and customer bases are obviously different,” she says, “but it was evident that Caltex’s offer is literally world class.”

While in the USA she also spent time in California, visiting the headquarters of Caltex shareholder Chevron and touring convenience store sites in the Los Angeles region. LA is generally viewed as the epitome of American convenience retailing and is the biggest market for Chevron’s convenience network.

Here she observed some major differences between our industry and that of the States. US convenience stores sell alcohol, for example. “One of the first things you see when you go in are fridges of beer. They also have a much bigger fast food offer. They haven’t really pursued the Healthy Options route like we are.”

Many service station stores have behind-the-counter food preparations areas - some with their own pizza ovens. The American consumers also love their fountain soft drinks (like those seen in Australian fast food restaurants) and filter coffee. “The fact that filter coffee is the standard in the States is a sign of how different customers are there versus the Australian c-store customer,” she says.

Naomi has worked in convenience retailing for the past eight years and joined Caltex at the beginning of 2008. She won the right to

represent Caltex and the Australian retail industry after receiving the prestigious Australasian Association of Convenience Stores (AACS) Peter Jowett Award in September. This local award recognises the best rising talent in Australian convenience retailing – with Naomi the first Caltex employee to win this accolade. She is delighted with the support she has received from the Caltex Retail team.

Asked what appeals to her about convenience retailing, Naomi mentions the speed of the industry and the ability to be more reactive than supermarkets. “I also like the fact that convenience stores are part of everyday life, where you can influence and contribute to meeting shoppers’ needs. ●

Triumphant traveller Naomi Jackson, recently returned from her hugely successful trip to the USA



“High costs for carbon emission permits would threaten the viability of the Australian refining industry”

# Oil and business

## the coming challenges

Climate change policy and oil supply and demand will profoundly impact the business environment in years ahead, Managing Director Des King told a Committee for Economic Development of Australia (CEDA) lunch in Sydney recently. In this edited version of his presentation, Des outlines the associated risks and opportunities for Australian companies.

**Energy affects everyone.** Its use is so pervasive we barely think about it until we pull up at the pump or pay the electricity bill. But energy consumption in the form of fossil fuels is a large part of the climate change problem.

We all face threats from climate change with scenarios that vary from serious to disastrous. We must all be part of a global solution that reduces emissions while maximising economic growth.

Another major factor affects our future – limited oil supply. We are likely to experience a shortfall in conventional crude oil supply versus the trend in oil demand some time in the next two decades. Carbon pricing and other regulatory interventions to address climate change will also fundamentally reshape energy supply and demand.

See chart 1 – Oil prices. As this chart reminds us, we recently experienced unprecedented high oil prices. The data is from a few months ago and there has been a large drop in prices since then. However we can't ignore what the market has been telling us: to reduce our reliance on crude oil.

See chart 2 – Energy by source. The world is heavily dependent on fossil fuels for energy supply in the form of coal, oil and gas. This dependence will be difficult to change because of rapid growth in the developing world and the current cost of switching to alternative energy sources such as nuclear and renewables.

Growth in developing countries has serious consequences for greenhouse emissions, which makes global agreement on reducing them imperative.

World oil consumption is changing. Oil use per unit of GDP in the US, Australia and Japan has flattened off. China and India have much lower incomes and lower oil use per unit of GDP.

If these countries tried to increase their use of oil to the level of developed countries, the supply would not be available.

It seems likely there will be global agreement by 2010 on reducing growth in greenhouse emissions, even though imperfect and differentiated between countries. Australia and other developed countries will commit to substantive action.

This raises the question: should Australia be planning an emission trading scheme in a global economic crisis and possible recession? Our view is a scheme should be put in place as soon as it can be properly designed, but implementation should take account of economic conditions and international climate change negotiations.

Australia can take an international leadership position in policies to reduce emissions but until there is global commitment to emission reduction our trajectory should be modest and ensure a low carbon price initially.

A scheme with a fixed price could be an alternative to a market-determined price while an international agreement is negotiated, then implemented, to provide a level playing field.

Australia can't go it alone. Even if we massively reduced our greenhouse emissions there would be no discernable change in global concentrations of emissions, global warming or rising sea levels. All the world's major emitters need to take substantial action to reduce emissions or reduce their growth in them.

If Australia is to meet its target of a 60 per cent reduction in emissions by 2050 relative to year 2000, radical changes in energy supply and demand will be necessary. A 60 per cent reduction relative to year 2000 is a 77 per cent reduction relative to business-as-usual emissions in 2050.

That's the good news. The bad news is Professor Garnaut has advised we need a 90 per cent reduction of greenhouse emissions in 2050 relative to business as usual.

### Australian energy supply and greenhouse emissions

Leaving aside nuclear power, the only way Australia can meet its 2050 target is through heavy reliance on low-carbon electricity and biofuels. Both climate change and the oil market are driving us in the same direction: greater efficiency in use of liquid fuels and diversification of supply.

Caltex recently participated in the Future Fuels Forum led by CSIRO, which generated a number of scenarios of fuel supply through to 2050. There are many sources of low carbon electricity including solar thermal, wind, geothermal, wave, biomass, photovoltaic and hydro that should be allowed to compete for market position. Coal and natural gas with carbon capture and storage will play an important transitional role until stringent targets and high carbon costs reduce their viability.

See chart 3 – Distance travelled by engine type. However, internal combustion engines will be around for a long time yet. They may use petrol or diesel with some proportion of biofuels, and may become more efficient through use of hybrid technology. Pure electric vehicles or plug-in hybrids will remain relatively expensive over the next few decades.

See chart 4 – Australian transport fuel consumption. Beyond fuel for transport, there is fuel growth in other sectors, notably diesel for mining. Biofuels like ethanol and biodiesel will be important in transport applications where electricity is impractical.

As an oil company Caltex has a focus on the future of liquid fuels, the core of our business. But Caltex is also the largest convenience store



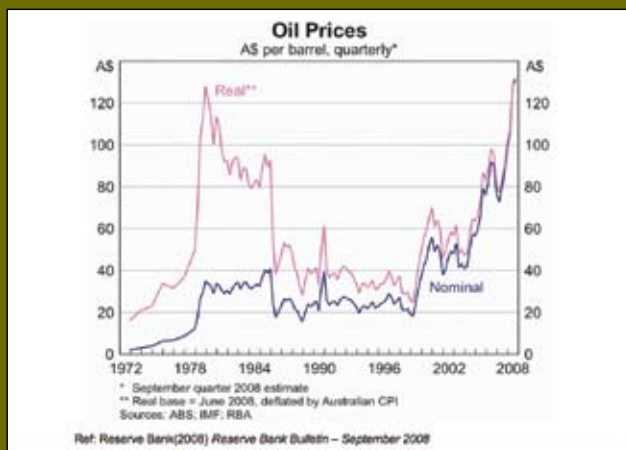


CHART 1 – Oil prices

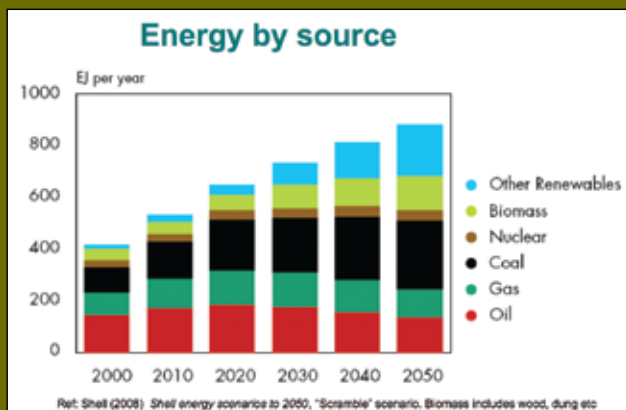


CHART 2 – Energy by source

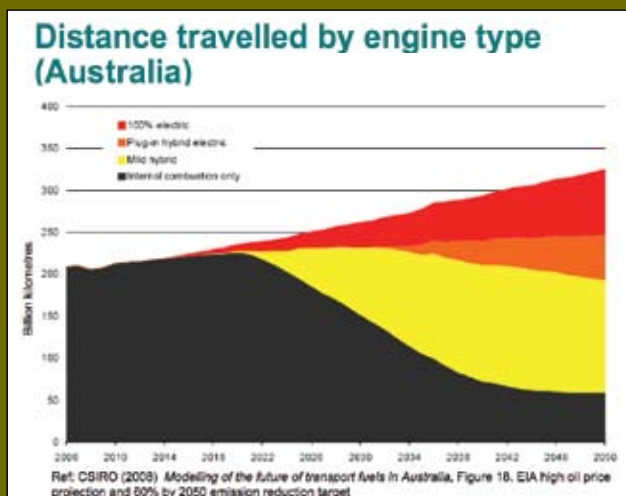


CHART 3 – Distance travelled by engine type

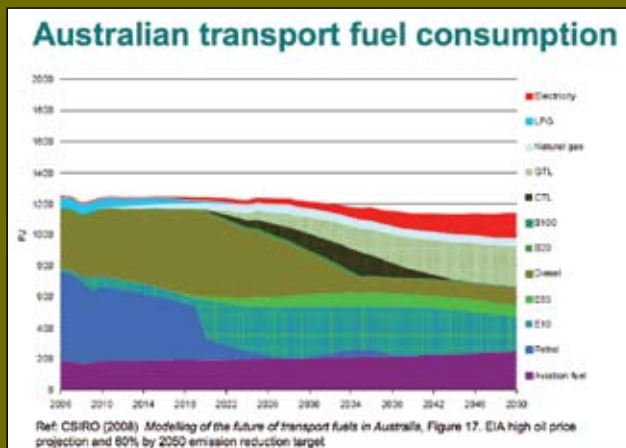


CHART 4 – Australian transport fuel consumption

Slides from presentation not high resolution

retailer in Australia. This is a growing part of our operations which will continue to evolve. To retain our position as the leading fuel marketer we will likely be greatly increasing the amount of biofuels we sell.

Oil refineries will continue to provide substantial volumes of conventional liquid fuels, even in 2050. In the CSIRO scenarios, these fuels are blended with ethanol and biodiesel and net petrol and diesel consumption remains high.

The long-term outlook for fuels is consistent with Caltex's outlook for Australian demand growth through 2020. While petrol demand will be flat, we see diesel increasing at about four per cent per year and jet fuel at three to four per cent per year.

Alternative liquid fuels with a smaller carbon footprint will play a role, and will include biofuels from sustainable feedstocks, synthetic petrol and diesel and hydrogen. Natural gas and LPG are already used as transport fuels.

The key to success is the ability to adapt. Refining is a tough business. Competitive pressures could mean some Australian refineries will close but many, perhaps all, could be competitive in the long run.

We have been building our marketing operations for a number of years now. The marketing-focused model is part of our business evolution. It keeps us aligned with a world in which carbon prices, oil prices and demand-side technologies are all changing within the timeframes of current investments. Caltex is investing in new and upgraded terminals around Australia to increase flexibility and meet increased diesel demand from Australia's resource industries and other customers. We have also acquired wholesale operations that fit our marketing objectives.

Caltex is also diversifying its fuels portfolio with investments in terminals and service stations to sell biofuels blends to retail and commercial customers. Biofuels can have much lower life-cycle greenhouse gas emissions than petrol or diesel but the challenge is to produce them sustainably from non-food crops.

Because Caltex's refinery production is significantly less than its sales of petroleum products, a reduction in demand for refined petroleum products translates into lower imports, not lower refinery production for Caltex.

## Climate change policy issues

No discussion on climate change can be complete without mentioning Australia's Carbon Pollution Reduction Scheme (CPRS). Its potential impacts on emissions-intensive, trade-exposed industries like oil refining are significant.

Oil refining operates on small margins on average over the business cycle and, given the capital-intensive nature of the business, faces very high carbon mitigation costs expressed as dollars per tonne of emissions abated. High costs for carbon emission permits would threaten the viability of the Australian refining industry.

A scenario based on gross refiner margins since 2000 shows carbon costs would reduce refining earnings before interest and tax (EBIT) by one third. In the bottom half of a business cycle, carbon costs for refining could consume 100 per cent of EBIT. That would be a formula for shutting down operations. Many industries face similar outcomes.

We believe all revenue from the sale of permits should be recycled to households and businesses, not diverted to other uses.

Emissions-intensive trade-exposed (EITE) industries, will contribute about 40 per cent of permit revenue, excluding agriculture. By their nature, as trade exposed, EITE industries can't pass on price increases due to carbon costs so they don't have an impact on households or other businesses.

However, the green paper proposes only 20 per cent of permits would be allocated free to EITE industries – that's just half of the permits they're required to hold for their emissions.

This shortfall in EITE assistance appears to constitute a \$2-billion per annum redistribution from EITE industries to the rest of the economy.

In conclusion:

- Climate change and oil supply and demand will fundamentally change the long-term business environment.
- Caltex's business continues to evolve.
- Sound climate change policy decisions are critical for the viability of Australian industries.

Australia can't solve the global climate change problem alone. However, climate change is a good example where, with the right scheme, we can help lead the world to a better future without disadvantaging the economy. ●

## OUR LEGAL TEAM IS THE BEST

The Caltex legal team has been named the Australian In-house Legal Team of the Year 2008 by the Australian Corporate Lawyers Association.

The 15-strong team was praised by the judges for their high rating with internal clients, their role in the development and implementation of major business initiatives and projects, their fostering of good relationships and understanding of Caltex's values and business objectives with key regulators such as the ACCC.

They were also commended for their leadership in providing workable compliance programs and training for employees in areas such as Trade Practices.

In a letter in support of their nomination, Caltex CEO and MD Des King gave examples of the team's contribution to Caltex and reasons why they are so highly valued and respected within the business.

"Advice is delivered in a manner which is clear, concise, to the point and commercial. The lawyers have a very good knowledge of Caltex's business and an excellent rapport with Caltex personnel," wrote Des.

He also said the team demonstrated a high commitment to finding out and delivering what clients expected of a lawyer. As a result they were regarded as an integral part of the business team and a valuable resource beyond providing legal advice.

## VETERAN RETIREE STILL PREFERS PENCIL AND PAPER

When Cliff Horsley joined Caltex in September 1939 at the start of World War II he was thrilled to land a job as an office boy. He did not expect then that, except for a hiatus for his army service during which Caltex kept a job open for him, he would only quit the company 44 years later.

The biggest change Cliff witnessed in those four decades has been the introduction of IT. "The commercial world and people's brains work differently these days," he says. "Even in my later years at Caltex when computers had been introduced, I never really needed them. I'm not saying computers aren't good, it's just that we did things manually well and used different skills."

Caltex didn't operate a refinery in the earliest days and product was imported through its ocean terminals. One of Cliff's first jobs was to plan the supply of tanker cargoes from Bahrain. He would sit down with a sheet of paper half the size of a desk, a pencil and an eraser and program the delivery and unloading of 15,000 tonnes of refined oil without any problems.

"That was all you needed – and of course your brain box," says the former refined oil supply planner and store manager, who at 86 is one of Caltex's oldest and proudest retirees.

"Terminals would provide their stock position and estimated requirements by mail and I'd calculate how much each port should receive," says Cliff. "I'd then order the tanker load taking into consideration variables including a ship's draft requirements. I also applied for import licences for refined and lubricating oils for Caltex."



Cliff Horsley today. He still meets up monthly with a group of other former employees

This experience allowed Cliff to be among the first six people assigned to the Kurnell refinery planning group in 1952. He managed the store house for 20 years, then for his last eight years with the company he was coordinator for environmental conservation.

A resident of Caringbah, Sydney, Cliff retired in 1983. He still prefers to read newspapers and doesn't need a computer. He meets with a group of eight or nine retired Caltex people every month to drink "two schooners of beer" and chat.

"Caltex has been a big part of my life," he says. "I've met some wonderful people and made lifelong friendships. Looking back, if I could, I'd do it all over again."

When *The Star* asked Cliff whether he'd like this story emailed or posted to him, he replied: "What do you think? Post it!"



The delighted Caltex legal team at the lawyers' award night



## NEW FACE FOR OLD CLOCK

It was built in 1770, the year Captain James Cook arrived in Australia, is the oldest public clock in Australia and has now had a facelift.

Caltex donated the clock in the Cronulla mall clock tower to the people of Sutherland Shire as a bicentenary gift in 1988. The gift recognises Caltex's significant role in the local community through our refinery on the Kurnell peninsula, site of Cook's first landing in Australia.

The turret clock has large time and starter weight mechanisms that require weekly rewinding, carried out mechanically using electric power. It was made by English master clockmaker John Jullion and was originally installed in Stanwell Place, near Heathrow, before being brought to Australia.

Since its installation in the Cronulla mall the clock has been cared for by clockmaker and restoration expert Douglas Minty, who also carried out the recent restoration. This involved removing the clock from the tower, repairing its workings and replacing the faded gold leaf on the clock face.

The restoration work was part of a larger upgrade of the Cronulla CBD, carried out by the local council. Lighting on the clock tower has also been upgraded so that it can be seen at night.

"The clock, gifted to the community by Caltex in 1988 is a monument to Sutherland Shire's history as Cook's landing place so it is befitting that we take care to preserve and restore it to its original condition," says Councillor Lorraine Kelly, the Mayor of Sutherland Shire.



Cronulla's rejuvenated clock, a gift from Caltex. INSET: the intricate innards of the 1770 timepiece

## BIOFUELS AT HOME ON THE WEB

Is my car compatible with biofuel? Where can I buy biofuels? What effect do they have on emissions and carbon? What are biodiesels?

These are just some of the questions that car-drivers are asking and that are answered on the content-rich, dedicated biofuels section now on Caltex's public website.

The site was created due to public interest – and concern – in our unleaded petrol (ULP) displacement program which is replacing regular unleaded petrol at selected NSW service stations with Bio E10 Unleaded. Twelve sites went E10-only in September with more scheduled for conversion between now and Christmas.

"It's important to respond to the public's curiosity," says Mabelle Reyes, Biofuels Marketing Manager. "I don't believe there's enough advice out there for consumers wanting to understand why we're moving towards biofuels.

"What's required is accessible information to allow the public to make educated decisions and to understand the reasons why, for example, we are putting in Bio E10 at the bowser and, in some instances, removing unleaded.

"A misconception is that we are marketing a destructive fuel. Another is that our displacement program is forcing people to buy premium fuels.

"That's not true. We're doing it because we believe it to be a suitable alternative for the vast majority of cars and to meet our

volume requirements under NSW's ethanol mandate."

The new Caltex sub-site clearly and simply explains all the facts and figures around biofuels: why they are being brought in, what they are made from; where they can be used and their cost when compared to traditional fuel.

It contains links to external websites; a glossary of terms and hyperlinks from content sections.

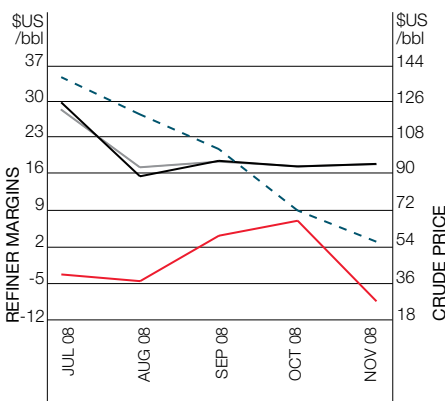
Mabelle believes that once people are intelligently informed about biofuels they are likely to embrace them. "With the right information, the public are fast learners and adapters to change," she says.

Go online and check for yourself. See how Caltex is helping the public understand and embrace these 21st century fuels. The address is [www.caltex.com.au/biofuels](http://www.caltex.com.au/biofuels).

## SHARE PRICE



## CRUDE OIL PRICE & SINGAPORE REFINER MARGINS



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### MARGINS

- Petrol (95 ULP) (left axis)
- Jet (left axis)
- Diesel (0.005%) (left axis)
- - - Tapis – crude oil price (right axis)

Tapis is the crude oil produced in Malaysia. The Tapis price is the benchmark for crudes in the region. The refiner margins for petrol, diesel and jet fuel are the differences between the Tapis crude oil price and the ex-refinery price in Singapore for the products.



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