

# THE STAR

CALTEX'S MAGAZINE FOR EMPLOYEES, FRANCHISEES,  
RESELLERS AND THE WIDER WORLD  
ISSUE 48 / MAY 09 – JUNE 09

## From ship to store: why Australia needs a secure fuel supply chain

Cat-cracker turnaround –  
a challenge well met

Training the next generation  
of Caltex leaders

How prudent management  
keeps the company strong –  
Simon Hepworth



**CALTEX**  
Caltex Australia



## From the Managing Director

In ongoing public debates about such emotive subjects as fuel pricing and carbon trading, little, if any, recognition is given to the refining and marketing companies responsible for ensuring an unbroken supply of fuel to Australian users.

Thanks to companies like Caltex, drivers take for granted that high-quality fuels will be available to them at any time of the day or night and always at a very competitive price.

They should not. Behind that security of supply is a vast and complex supply chain. It is the product of many hundreds of millions of dollars of investment and requires millions more to manage and maintain. It also represents the collective expertise of thousands of Caltex employees and contractors, without whom there would simply be no fuel.

As we discuss in this issue of *The Star*, refineries are a vital component in the fuel supply chain. They provide energy security for consumers and governments, give us the flexibility to access the fuels we want when we want them and support many, many jobs and local communities.

It seems surprising, then, that the very existence of Australian refineries is under threat – from the imposts of soaring taxes, from Australia's proposed carbon trading scheme and growing competition from refineries overseas that face far fewer hurdles.

Australia needs companies like Caltex and its refineries. The time has come for governments and consumers alike to acknowledge that fact and support a proud Australian industry on which so much depends.

Des

Des King

**COVER:** In one of the final steps in supplying refined product to the end user, a Caltex tanker truck driver unloads fuel into a service station's underground storage tank.



## LPS at work

Alerts posted on the Loss Prevention System (LPS) site on Caltex's intranet guarantee lessons learnt are lessons shared. LPS is a system for preventing or reducing losses by using behaviour-based tools and techniques which is used throughout the company.

If a loss, or near loss incident, happens anywhere in the business, the standard procedure is for a detailed investigation to be made into its root cause and, if necessary, actions recommended to prevent recurrences.

As this process improves safety knowledge, where it's likely to be widely applicable the investigation is put online as an alert and LPS supervisors asked to advise their teams that it has been posted. Photographs are used to illustrate the alert, serving as a visual reminder of the correct way to carry out an action or to show the damage the incident caused.

"Alerts are posted about serious losses or near losses," says Kurnell LPS coordinator Alex Mann. "That is, major incidents or high consequence incidents with the potential to occur in other parts of the business."

Recent alerts include an incident involving a driver who injured himself when climbing down from a tanker incorrectly and a near incident when a jacket drawstring was almost sucked into a pump.

Caltex has a huge tanker fleet and the driver incident could happen almost anywhere, says Gary Ingram, Manager Aviation at Cairns airport, where the incident occurred. As part of the investigation, recommendations about the safe way to exit a vehicle were defined, and photographs taken of the correct procedure. "We discussed this with Caltex's National Manager Distribution who suggested we put an alert out about it," he says. "Within the aviation group we also had operational stand downs at all aviation depots to discuss the alert with operators."

A recent near incident at the Kurnell refinery was posted because of its potential for serious consequences. A technician carrying out routine pump checks on a rainy day was wearing a wet weather jacket with dangling drawstring ties which were sucked towards the pump. Fortunately, he noticed what was happening and quickly moved away. Had he not acted promptly, however, the strings could have become entangled in the equipment, pulling him in.

The subsequent investigation recommended that employees should shorten excess drawstrings on any personal issue clothing that could present a similar hazard near rotating equipment. It was also recommended that copies of the alert be provided to the uniform issue/supply department for insertion into the rain jacket packaging.

While the beauty of bringing the attention of the wider Caltex workforce to these incidents reduces the likelihood that they will happen again in a broader sense the alerts are also part of Caltex's ongoing safety journey and its aim of zero incidents.

## Why a flex is vital for

Product shortages,  
price rises, job losses  
– the real costs of  
losing local refineries.

"Somehow I managed to miss the enormous queues at 11.30pm tonight while travelling home. People were queuing to fill up anything available before fuel rationing comes fully on board here. The noise from this place could be heard from a distance as fights broke out . . . police were at hand to calm things down but it didn't seem to help much."

These are the words of an Iranian blogger, writing in June 2007. Although the country is OPEC's second-largest oil exporter, a lack of local refining capacity at the time led to a rationing scheme and continuing fuel shortages.

This demonstrates what can happen when a country has too few refineries and an inadequate supply chain for bringing in sufficient imported products to meet demand. There are lessons in this experience for Australia.

Thanks to years of unrestricted supply, Australian drivers take for granted that quality fuel will be available from their usual sources whenever they choose to buy it. When they go to fill up at the pump, it's impossible, understandably, for them to fully appreciate the complexity of investment and expertise that allows them to make their purchase so easily and freely.

Yet, behind each simple transaction is a massive and complex supply chain made up of thousands of people, facilities and highly specialised refining and logistical processes. It enables a company like Caltex





Ships, pipelines, tanks, terminals and service stations: key links in getting fuel to market

# ible, reliable fuel supply chain our nation and economy

to buy crude oil, transport it to refineries, transform it into Australian-grade fuels and send them, along with imported fuels, to terminals around the country. From there these fuels are supplied to customers at service stations and depots – at a competitive price.

Caltex's roots go back to 1918 when the precursor to what is now Caltex was incorporated in Australia. The 1995 merger with Ampol, the iconic refining and marketing company incorporated by Sir William Walkley as the Australian Motorists Petrol Company in 1936, further strengthened Caltex's Australian heritage. It is the only refiner and marketer listed on the Australian Stock Exchange and managed entirely in Australia.

The Australian oil industry exists to supply quality fuels safely and reliably to customers. However, the existence of Australia's seven refineries is under threat. Many in the industry predict that competition from refineries overseas and costs flowing from local, federal and state government taxes and regulations and the proposed Carbon Pollution Reduction Scheme (CPRS) could make some local refineries unsustainable.

If that happens, Australian-grade fuel could become harder to obtain and more expensive, and jobs in the industry could be lost.

The risks of this happening are real. Sceptical? Here's the evidence:

## Without local refineries, there would be upward pressure on fuel prices

At present, there's no shortage of refining capacity in the region but that will change as it has always done, just as surely as markets move up and down, says Product Trader and Risk Manager, Alan Bartram. "Demand for petroleum products will be around for decades," says Alan.

The closure of local refineries would mean many costs now absorbed by refineries would be added to the price of imported products.

## FACTS

### CALTEX SUPPLY CHAIN

**2 fuel refineries**

**22 terminals**

(12 wholly owned, access to a further 10)

**83 depots**

**748 service stations**

**4158 employees**

(includes Calstore employees and 100% Caltex-owned resellers)

For example, importers would need to maintain more inventory, says John Heike, Manager Supply Planning.

Freight costs would mount as importers would have to place orders with refineries further and further afield, observes Ken James, General Manager Supply and Distribution. They'd start with countries like Singapore, Japan and Korea. Then, once all available Australian-grade product was extracted from the region, it would become increasingly difficult to source them.

"In that context you'd expect that the price of fuel made to Australian standards would, on

average, rise," says Ken. "There'll be times when it's cheaper, like now when there's spare refining capacity, but these times won't last."

Australians could then expect the overseas refiners to pass on to them a portion of *all* the costs associated with running their refineries, including their financing.

Asia may struggle longer term to keep up with demand growth so countries short on refining capacity will be more vulnerable to disruption of overseas supply.

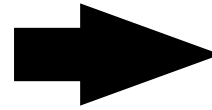
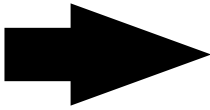
As evidence, Alan Bartram points to Korea where Australia imports some of its refined fuel from. "In their peak season they can't supply us because we're second cab off the rank," Alan says. "So we're already having to extend the supply chain to buy refined product that meets Australian specifications which means higher costs."

## Having to rely entirely on other countries for refined fuel could threaten energy security

Australia is a member of the International Energy Agency, under which it has commitments and entitlements. One of IEA members' responsibilities is to share their crude oil with other nations if there is a global shortage; an entitlement is to access refined product from others.

But Ken James points out those agreements have never really been tested in times of sustained crisis. Will countries that refine fuel see to their own needs first or will they honour their agreements at a cost to their own economies?

Australia has sufficient crude oil to supply roughly 60 per cent of its domestic needs. While it has refineries, it is within the power of the government to ensure that at least >



## SUPPLY CHAIN SECURITY – THE GOVERNMENT’S VIEW

Two important reports released by the government support Caltex’s view that reliable, affordable and secure supplies of energy are critical to Australia’s economic prosperity.

Extracts below from “The National Energy Security Assessment” and “An Assessment of Australia’s Liquid Fuel Vulnerability” show the government agrees it is important that a well functioning supply chain, including local oil refineries, needs to be maintained and that local industry is responding well to the challenges of keeping up with demand.

“The adequacy of domestic liquid fuels supplies is assessed

as high. This is due to robust and flexible supply chains and diversity of supply which includes domestic refineries as well as Australia’s access to well functioning international markets.

“Reliability of domestic liquid fuels is assessed as high. Domestic refining disruptions to date have been managed through effective supply chain management, with supplies sourced from both alternative domestic sources and imports.

“Reliability of liquid fuels is assessed as moderate in 2023. This is expected to stem from an increased reliance on long global supply chains sourcing crude oil from unstable regions

which will more than offset continued effective supply chain management and good access to regional refining capacity. There is also the ongoing risk of domestic refinery closures in the face of strong competition from Asian refineries.” – extracted from *The National Energy Security Assessment 2009*.

“Despite a growing dependence on imported sources of oil and refined petroleum products, adequacy in terms of suppliers being able to keep up with demand has generally been maintained. This is likely to continue, although capacity constraints in global oil infrastructure may see continued upward pressure on prices.

Recent experience suggests refiners have become adept at managing production disruptions with no major supply shortages in any market for which close substitutes were not available ... (While) there remains some pressure in the supply chain from bottlenecks in importing and distribution infrastructure ... industry is responding to this pressure with plans for investment in new and upgraded infrastructure.” – extracted from *An Assessment of Australia’s Liquid Fuel Vulnerability*, November 2008, report for the Ministerial Council on Energy.

some of our fuel requirements can be provided from our own crude oil run in our own refineries if international cooperation breaks down.

“If we’ve got crude oil and no refineries we’d have to send out crude oil and hope to get refined product back,” Ken says. “There’s not much sense in that.”

Another supply security issue relates to imported cargoes that are “off-spec,” Ken refers to cases in recent years where another company imported jet fuel into Sydney that did not meet Australian specifications. Caltex was able to correct the cargo at its Kurnell refinery. If that hadn’t happened, supplies to Sydney airport could have been threatened.

“If a cargo arrives and it’s off-spec a number of things may happen,” says Mike Raleigh, Caltex’s National Distribution Manager.

“One is that the market may run out if it depends on the import. It takes about three weeks to get an emergency cargo, and longer if no product meeting Australian specifications is available for sale in the region. The next

point is the vessel carrying an off-specification product can do nothing with it. It cannot discharge it and the importer will have to try to on-sell it to a regional refiner prepared to buy it. It becomes a big, expensive logistical issue.”

### Domestic refineries give us flexibility to get the fuel we want, when we want it

If all Australia’s fuel had to be imported, it would have to be ordered about two months out, says John Heike. “Many things can change between the time you place an order and the time it arrives,” he says.

Refineries have the flexibility to change production modes in a day or two to meet rapidly changing users’ demands for petrol, diesel and jet fuel. Suppliers relying on a supply chain in which it takes up to two months to get finished product need more inventory to cope with changing demand until product arrives.

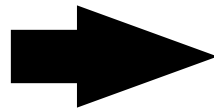
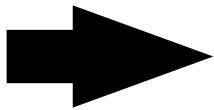
Relying solely on imports would make it more difficult to get fuel with the required specifications, particularly premium fuels, and especially if it’s needed quickly.

“You become more exposed to the whims of other refiners, other countries,” explains Ken James. “Having your own refineries gives you more flexibility to do stuff, make stuff, fix stuff. As such, they represent a key input to economic activity and quality of life.”

### Without our refineries, other industries and local communities would suffer and thousands of jobs and invaluable expertise would be lost

Caltex accounts for around 35 per cent of the nation’s oil refining capacity. Its refineries employ nearly 900 people and around 550 contractors. For major projects the numbers can rise by an extra 1,200.

The simple equation is that, if Australian refineries close, those jobs will be lost or move offshore because new refineries will have to be built elsewhere. “Eventually if you close Australian refineries somebody, somewhere, is going to have to build a new refinery to make that product,” says Ken James.



Refineries' influence extends beyond physical products to suppliers, contractors and the communities that benefit directly from their presence. They support sporting, environmental and other sponsorships. "Refineries are also repositories of expertise in the people who work in them and run the supply chain," says John Heike.

### Refineries give Australian governments greater control

Governments can influence outcomes when they have influence over refineries. For example, if there are fuel quality specifications the government believes that Australia needs and which may not be generally available in the region, it can work with the local refining industry to find ways of making this happen.

This has occurred in Australia over the past decade. The Government gazetted new clean fuel standards which reduced air pollution from our cars and trucks.

"With no local refineries, governments are essentially taken out of play," says Ken James. "They'd have to set the specs and hope other refiners would be interested in producing products that met them. That would be very risky."

### Once refineries have gone, we won't get them back

Is Caltex likely to close its refineries? Will it build a new refinery to replace imported products? Caltex considers both strategic and economic questions in determining the future of its refineries, says Group Manager Strategy, Planning & Development, Mike McMenamin.

"Caltex supplies about one out of every three litres of petrol, diesel and jet fuel consumed in Australia and our refineries are a key part of the supply chain that keeps Australia moving," says Mike. "As cost pressures rise and new mega-refineries with greater capability and scale are built in the region, the viability of our refineries is threatened."

"Looking to 2020, it's difficult to see all refineries in Australia surviving unless we can keep them competitive. I am sure this

is something government will look at in the Energy White Paper currently being prepared."

"Local refiners won't stay in the market if cost and tax burdens become too great," says Caltex Crude Trading Manager Geoff Sharpe.

"When you shut down infrastructure like a refinery, history shows you lose it forever because replacement costs are astronomical."

"At the same time, local refiners won't stay in the market at any expense if cost and tax burdens become too great," adds Geoff.

Mike makes a comparison with the huge new Reliance refinery in India<sup>1</sup>. If Australia had to build a single refinery like this to meet the existing needs of its 21 million people, it would cost over \$10 billion.

"The work we've done indicates it would be more economic to build the refinery offshore and import the production," he says. "Construction and operating costs are less in other countries in the region, and governments in other countries provide incentives for the construction of refineries."

### Why refineries are integral to the supply chain

In fifty years' time, Australia's transport and fuel needs may look very different from today, with renewable electricity and biofuels having a much greater role. But one thing is for certain: we'll still need refined petroleum products for decades to come, says Alan Bartram.

Alan borrows the words of former Saudi Arabian Minister for Oil, Sheik Ahmed Yamani, to illustrate his point. "The Stone Age didn't end because they ran out of stones," he says. "We won't run out of oil in our children's lifetimes, and oil will still be required but it will be harder to find and produce and will be more expensive."

Refineries will also be required as key components in the Caltex fuel supply chain, which is made up of many interlocking and interdependent parts – from crude oil ordering and shipping to refining, storing and handling in terminals, and marketing.

<sup>1</sup> See Star 40, Dec 07-Jan 08.

"Do we need all the pieces?" asks Mike McMenamin. "Can we de-aggregate it and run it all separately? Are we an integrated business or not? What we find, through long experience, is that Caltex is an integrated business. If you were to ask whether you can have a successful sales and marketing business the size of Caltex in this industry without a strong supply chain and refining capability, history will tell you it's very unlikely."

So while Caltex looks for much of its future growth to come from sales and marketing, having readily available quality fuel for customers will always depend on the supply chain, of which local refineries are a crucial part. ●



‘We’re  
financially  
strong’

Simon Hepworth



# Prudent management is the key

He's been Caltex's Chief Financial Officer since 2000 – through two downturns and a period in which the ground rules for the oil refining and marketing industry have been changing profoundly. In an interview with *The Star*, Simon Hepworth discusses the company's ongoing fiscal strength and the company's future.

## How does Caltex embark on prudent planning during lean times?

Many corporate strategies unravelling now were premised on a market and economic environment that would continue to be strong. Short memories are a peculiarly human trait and learning from experience is one key to prudent planning.

I came into this role in 2000 when we were at the bottom of the last down cycle. I learned valuable lessons then about the difficulties involved in servicing high debt and accessing new credit from lenders who saw the company and the industry as high risk.

## Because of where Caltex found itself at that time?

Absolutely. Refiner margins were at a cyclical low and we had inherited a high debt burden from the Caltex-Ampol merger in the mid-90s. We learned quickly that the bottom of the cycle is not a good place to be when you are laden with debt. We determined that we should always be prepared for the next downturn.

In the upturn that followed, our cash flows were strong, but strong cash flows were necessary to fund the large investments we needed to make in our refineries between 2004 and today.

It's interesting, too, that during this up cycle, the Board was under some external pressure to borrow more, pay higher dividends, undertake share buy-backs and take higher risks. There's always a temptation to give in and say we can afford to do all that. But we must always be mindful of the cyclical and volatile nature of the refining industry. We have sought to diversify our cash flows by growing the less-cyclical marketing earnings.

What's been critical to Caltex is our regular capital structure reviews of historical cash flows and future expectations. Also, for a company of our size, with our cash-flow volatility driven by refiner margins, it is vital to retain a strong investment-grade credit rating. Without that you can't access funding.

Nobody foresaw the depth of the current credit crunch. Without that investment-grade credit rating, we'd never have been able to access the funding we have. By having a strong balance sheet and an appropriate level of debt, we've proactively refinanced in excess of a billion dollars of debt over the past 12 months.

### Has overall debt come down?

It's been up and down with movements in the crude oil price and currency movements, but today we are at pretty much the same level as a year ago. When we develop our business plan, it's a balancing act: can we afford to invest sufficient money to fund an appropriate growth strategy, while at the same time managing the risks of volatility and a potential downturn? Do we have an appropriately robust business plan that gives enough money to the marketers and refiners to manage and grow their business, but not so much that we put the company at risk?

Managers usually have a good argument as to why they should get another fifty or hundred million. But when you've made your decision and established your business plan, you must ensure you have flexibility to pull back, or reduce, your cash outflows to address requirements for contingencies.

### Is maintaining a strong credit rating a critical factor in that process?

Absolutely crucial. We recently went to the US to raise money from the US Private Placement Market. This market comprises insurance companies that typically lend money to corporates over long periods, generating interest to match their cash outflows. With the downturn, they're only lending to companies with very strong credit ratings of BBB+ or above – like Caltex.

Remember, about 35 of the ASX Top 50 have had to raise money from their shareholders by issuing more equity. It's not for growth, or for re-investing in the business, it's purely to keep their companies afloat. We're in a good spot because we've retained our credit rating

and have plenty of headroom in terms of available facilities versus level of debt. So we can continue through this down cycle to invest in areas of the business we've said we want to invest in – strategically, and for the long term.

Obviously, we do occasionally need to pull back. I know some employees reading *The Star* magazine will say, "Ha! Every year it feels like we are asked to slow spending down," but when we pull back it's seldom wholesale cancellation. It's tweaking round the edges. Our strategy allows that flexibility and positions us well for the next upturn.

And if you've got a strong balance sheet it's at this time of the cycle that real opportunities arise.

### Like selective acquisitions?

Yes. Around the world, many companies are undertaking portfolio reviews. When times are

**"We can continue through this down cycle to invest in areas of the business we've said we want to invest in"**

tough, some multinationals may say: "Australia is a long way from anywhere, so why are we there?" – (therefore) assets and opportunities could present themselves. When times are good people tend to spend more. Head count rises, you do more things, spend more money. In down cycles, companies reduce head count and cut back on discretionary expenditure. It's often knee-jerk and hence destabilising.

Best-practice companies invest at the bottom of the cycle more than at the top. Caltex is prepared and equipped to do that.

We say, let's look *through* the cycle, establish an appropriate capital structure and not get over-excited during the good times or too conservative during bad times,

Caltex's business plan is monitored monthly. We proactively develop contingency plans. In January 2008, for instance, we developed a cash contingency plan which we activated later in the year, saving \$150 million. Dates are set on which Caltex will activate contingency measures. When a forecast indicates a parameter – like ratings metrics, loan

covenants and cost commitments to market – is likely to be adversely impacted, the next level of the plan kicks in.

### What are the biggest challenges and priorities for Caltex?

One challenge is for refining to operate reliably. 2008 wasn't a great year for us from a reliability perspective. We always put safety first, of course, but refineries have to run as a business. They have to be focused on cost structure as well as reliability. When you have problems with the refinery your cost structure tends to blow out. So that challenge for refining is simple in concept.

For marketing, the priority is to build on the success of 2008, when we had terrific gains in sales values and profitability. We're going into a tougher environment, so it will be a challenge to maintain that growth and those volumes and margins. The key is not to lose heart, or focus, in this tougher environment and to continue servicing the customer base very well.

### To what extent will profitability be affected by margin concerns?

Refineries can only be cash-flow positive and generate revenues if they're able to operate and survive in a margin environment which is relatively low. If you can't, you shouldn't be here. You can't allow a situation where you generate a lot of cash in two to three years at the top of the cycle but bleed cash at the bottom. That's not good enough. We must be cash-flow positive even at the bottom of the cycle.

### How important is managing costs?

It's a constant focus. Costs rise every year. People and suppliers want to be paid more. But you cannot allow costs to rise more than your growth in profitability, otherwise you're on a downward trend. It comes back to whether you have the cost structure and performance to allow you to maintain a positive cash flow through the cycle.

### What are some of the other opportunities for Caltex in the short term?

We're financially strong and being well-positioned at this point in the cycle. Assets may come up for sale. There's also the natural progression in growing market share and taking customers and volume from the competition while they are more concerned about the impact of the downturn and what their parent entities are thinking.

### The Carbon Pollution Reduction Scheme (CPRS) is obviously a challenge

For us, there'll be a significant impact. Emissions from the refineries are about two-and-a-half million tonnes of CO<sub>2</sub> a year. >

It looks like we're going to get 60 per cent and of our carbon permits free, which leaves us exposed to something in the order of a million tonnes of CO<sub>2</sub>. At \$25 per tonne, that's an EBIT impact of \$25 million which goes straight to our bottom line. Given that we're competing against imported product which doesn't bear a carbon cost, we can't pass that on.

The other huge challenge is we have to buy permits for our customers. They emit about 40 million tonnes of CO<sub>2</sub>. 40 million tonnes at \$25 per tonne is in excess of a billion dollars of permits per year! We've been successful, along with others, in lobbying for frequent auctions, so you don't have to fork out \$1 billion at once, but that's a lot of money.

There may also be working capital issues, depending on whether we are required to pay in advance for permits. And there are other issues around the tax treatment of permits. The timing of when you get the tax deduction can have a big impact on cash flow. We will, of course, seek to pass on this cost to our customers. However, this presents a number of challenges for us.

### **The compliance bill for the CPRS must also be big?**

It's very large. I recently met the head of carbon practice for a big international bank, based in Paris. He was bemused by the fact that transport fuels are included in the proposed Australian emissions trading scheme. He thought the administrative burden to be placed on oil companies was ludicrous – to buy permits, collect cash on

The way the CPRS has been designed, Caltex calculates that by 2025, cumulative emissions from petrol will be the same as without the CPRS and fuel suppliers will have purchased \$20 billion in permits and charged them back to customers.

The government is imposing all this administration and cost on oil companies, but it will have no impact on the use of petrol. Even without the excise reduction, petrol prices would rise in the order of 10 cents under a carbon scheme. That won't change driver behaviour or emissions from cars.

### **Where is the industry and company heading in the next 20 to 30 years?**

We can probably draw some general conclusions. The refining sector, globally, will gravitate to large, sophisticated, high-volume, high-throughput systems. We're going to see continuing impositions on refineries globally in terms of clean fuels. Australia has some of the cleanest fuels in the world. Other countries, including developing nations over the next 20 years, will follow suit at different speeds. Many smaller refineries around the world will probably close.

### **Including in Australia?**

Over time, yes. And the price of declining crude oil resources and the types of crude available will have an unknown impact on the refining sector over the next 20 years.

I think there'll be an increasing reluctance by major oil companies to continue operating in Australia. In all likelihood, we'll see ongoing

### **What else do you need to do to underpin Caltex's future growth?**

For any enterprise in the energy sector, liquidity, financial stability and hitting targets are essential. As long as the company is well managed and resourced, and doesn't over-extend itself, it will grow. The question is: will the opportunities arise that allow it to grow faster than it has been?

Caltex has been expanding through organic growth in sales volumes and by gaining market share. Inorganic growth, so far, has occurred in relatively small lots – buying resellers and so on. Opportunities will arise as the competition makes decisions about whether it wants to be in this market or not.

Prudent management will pay off over the long term. China's growth rate will accelerate again and provide the stimulus for further growth. Being prepared for lean times when markets are not growing, but being able to ramp back up again when they recover – that's the key. ●

**“Many smaller refineries around the world will probably close”**



behalf of customers, pay it over and manage the liability. In the European Union, this was seen as too administratively burdensome. They're managing the transport fuels emissions issue by more direct means, seeking ways to increase the use of public transport and setting CO<sub>2</sub> emission targets for vehicles. Caltex proposes taking motorists out of the CPRS and managing emissions through CO<sub>2</sub> targets for vehicles and financial incentives for motorists to buy them.

consolidation of the large, integrated oil companies which means they'll have increasing focus on the upstream – the exploration and production of crude oil with less focus on downstream, particularly where they've got small-scale refineries, such as in Australia.

And a short market will continue in Australia, with growing supply challenges over the long term.





Dawn discussion: Grant West, left, and Alex Mann

## WHY WE'RE SUPPORTING PARAQUAD

As with many Caltex endeavours, the cat cracker maintenance is being linked to social concerns and the wider community. For the duration of the program Caltex and the contractors involved in the turnaround and inspection have been raising money for ParaQuad NSW, a charity that empowers people with spinal-cord injury to achieve their potential.

"It's been a theme in recent years to target our safety efforts towards good causes," explains Kurnell Safety Coordinator Alex Mann. "We chose ParaQuad because in a cracker shutdown people are working on multiple levels. There's a great deal of focus in our safety efforts on preventing falls from heights."

# Cat-cracker turnaround a challenge well met

It's 6.30 on a brisk March morning at Sydney's Kurnell refinery. The hulking shape of the Fluid Catalytic Cracking Unit, shrouded in gantries and scaffolding, is silhouetted against the brightening sky as Grant West strides purposefully along a refinery sidewalk.

Grant, the refinery's Turnaround Superintendent, stops at a patch of tarmac close to the 30-metre-high "cat cracker". He is soon deep in conversation with a group of 20 Caltex workers and contractors clad in overalls, protective helmets and glasses.

This is the daily "toolbox talk," one of the first items on the agenda for Grant as he prepares for another busy 12-hour shift in his six-day week.

He ends the safety-focused session with a reminder. "Have a good day. Remember to do your SPSA and that there's always time to do it right." SPSA stands for Safe Performance Self Assessment and is a brief risk assessment carried out by Caltex employees and contractors before beginning a task or when conditions change.

Today is the fourteenth day of the 32-day "turnaround and inspection" of the towering cylinders in which molecules of feed are "cracked" in preparation for being converted to fuels. The maintenance program is a statutory requirement in which the cracker's components must be inspected, cleaned and repaired approximately every four years.

### A multi-million-dollar exercise

This turnaround, costing Caltex between \$25 million and \$30 million, presents some special challenges for refinery people. Originally planned for May, the Caltex

management team decided to bring it forward to reduce the risks of an unplanned shutdown if some components malfunction.

That means moving quickly while ensuring safety is never compromised. The company has to get non-Caltex people in at short notice and train them to meet its safety standards. About 350 workers are assigned to the turnaround. Between 50 and 60 of them are Caltex employees, the rest are contractors.

Their training includes the basic eight-hour induction program for newcomers, working-at-heights training, "Firewatch" fire-safety training as well as the basics of the Loss Prevention System (LPS) and Incident-and-Injury-Free (IIF).

"We have a number of safety interventions and take them all very seriously," says Safety Coordinator Alex Mann.

### Complex and specialised

The maintenance work on the cat cracker is complex and highly specialised. After the oil-out date when the equipment is switched off and the feedstocks pumped out, it takes a week to bring the unit to safe mode so its manways can be opened up.

One of the first tasks is what's known as "blinding" the vessel to make it safe for people to enter. This involves blocking off flanges to ensure residual product does not enter. "It's a

bit like when you work on your water taps at home," explains Grant West. "You turn off the mains so you can work on them."

An important part of the process is to remove the scale and catalyst that builds up inside. The catalyst is like beach sand and it can work its way through the entire system. It's cleaned out with high-pressure water units and vacuum trucks.

Heat exchangers – machinery that transfers heat between hot and cold products – must also be pulled apart. Exchanger components, known as bundles and covers, are sent to a hydro jet slab for cleaning, says Grant.

From then the work is a series of inspections, reports and repairs until the Inspection Department, Process Engineers and Production are all satisfied.

### "It's like servicing a car"

Though this cat cracker is over 50 years old, it operates more efficiently after maintenance work, like a car that's been serviced, says Grant. The improved performance lasts for a couple of years until renewed deposits gradually begin to slow it down.

How long will the cat cracker last? More or less indefinitely, says Grant, as individual parts are renewed at various times as they wear out beyond repair. ●

# Des King to farewell Caltex: 'I've loved the people, and the country'

As announced at the end of last month, Incitec Pivot CEO, Julian Segal, will succeed Des King as Managing Director and CEO when Des' secondment from Chevron ends on 30 June 2009.

As Elizabeth Bryan, Caltex's Chairman, said at the Caltex AGM on 23 April 2009: "Des has made a significant contribution to Caltex over the last three years. He has taken the company to the next level of performance and confirmed our position as the leader in the Australian downstream oil industry.

Elizabeth also added, "He has been dedicated to Caltex and I know he will be missed by everyone in the company. I would like to thank him for his contribution to Caltex and, on a personal note, I'd like to add how much I've enjoyed working with him."



Des King

During his secondment, Des has seen Caltex report the company's best ever safety record in 2008. "I feel good about how we've steadily improved safety performance", says Des.

"The great thing is that we've continued this into 2009. The lost time injury frequency rate decreased from 3.0 per million hours worked in 2008, to just 1.2 per million hours worked in the first quarter of 2009."

Des is also proud of his involvement in the development of Caltex's current strategy. The plan to be the number one and growing fuel and convenience marketer in Australia, underpinned by a value creating supply chain that includes manufacturing, has taken shape under his leadership.

As testament to the strength of the Caltex business, the *Australian Financial Review* recently announced that Caltex had enjoyed the highest earnings growth of any Australian company outside the resources sector during the last three years.

"This is why I can leave Australia and remain cautiously optimistic about Caltex's future, despite the current economic climate", says Des.

Another reason why Des remains cautiously optimistic is the first quarter results that were announced at the recent Annual General Meeting. Caltex's replacement cost of sales operating profit for the first quarter was \$97 million, an 11% increase from the first quarter of 2008. There was a slight decline in petrol volumes, but an increase in jet and diesel sales compensated for this. Refinery production was up, reflecting improved reliability and the weaker Australian dollar gave refiner margins a boost.

When his secondment ends, Des will return to the United States to continue his career with Chevron.

When asked if he had enjoyed his time here, Des responded enthusiastically, "Of course. Working for Caltex is like working in an expanded family. This is a wonderful country with wonderful people."

A highlight of his time here was snorkelling off Hayman Island on the Great Barrier Reef with his wife, Georgeann, and 10 year old son, Elliott.

"It was too cold for the Aussies, so we had the area to ourselves, and I must add that we didn't even need wetsuits, because we're British! We were delighted to see the fish and coral first hand", says Des, "It was an absolute highlight and epitomised for us everything that this marvellous country offers". ●



## Gradua

On-the-job training  
for the next generation  
of Caltex leaders.





Laurissa Graham. Putting her resume on a job-seekers' site led to an analyst's job  
OPPOSITE TOP: Mark Kaushal. OPPOSITE BELOW: Tim Burdon

# te grooming

Late last year, like many 20-year-olds fresh out of university, Laurissa Graham was looking for a job.

She had completed her degree in business and commerce at the University of Western Sydney. Having spent most of her late teenage years working part-time in her parent's liquor stores, she was interested in a career in retailing.

Laurissa put her résumé onto a job-seekers' website. A few days later Melissa Ferris from the Caltex Talent Sourcing Department rang her.

"The information you've posted matches a position going at Caltex," Melissa told her. "We'd love to have a chat with you."

Soon after being interviewed, Laurissa, now 21, began work as a Retail Operations Analyst. Along with another young newcomer, Tim Burdon, an economics and social

science graduate, Laurissa represents a new generation of talent to enter Caltex Retail's graduate training program.

**"Graduates tend to progress relatively quickly through the organisation"**

The program is aimed at recruiting young people who have completed tertiary studies in a business-related discipline and are passionate about a career in retail, explains Retail Operations Manager, John Dulgare.

"These graduates learn how Caltex Retail operates from the inside out, through developmental roles at 2Market and in our convenience stores," says John.

## **Benefits are 'a two-way street'**

The benefits for graduates joining the company are substantial and most can look forward to an exciting career progression. Moreover there are a variety of positions to which they can aspire in Retail.

"You get exposure to high-level planning and strategic thinking as well as all elements of convenience retailing," says 22-year-old Tim Burdon. "The program is well set up and everyone has been patient and helpful. That's important when you're new and have lots of questions like I do." >





Shannon Fallis: progressed through increasingly senior roles

## SHANNON'S STERLING EXAMPLE

A fine example of the success that can follow enrolment in a Caltex graduate training program is the career of Shannon Fallis, Business Manager Retail Projects in Queensland.

Having finished a degree in business management at the University of Queensland, Shannon began working for Caltex in 2000 when she secured holiday employment in the HR department at Lytton refinery. While there, she applied for and secured a job in marketing in January 2001.

Soon afterwards she began an 18-month graduate training program in which she got to know "a little bit about a lot of departments," with six-month stints in marketing at Lytton, at the Sydney office working in Brand and again at Lytton with the industrial and commercial team.

Shannon progressed through increasingly senior roles, including Calstores Business Manager, until she was appointed to her current post.

"I got to understand the company strategy and how different parts of the business engage with each other," she says.

"My training didn't include time working in Calstores as graduates do these days. I think that's a fantastic innovation – one of the best ways to learn."

Shannon urges other graduates to consider enrolling, particularly at Lytton where an older workforce may herald many opportunities for newcomers, she says.

Mark cites a passion for retail and growth opportunities in convenience retailing as prime reasons for joining the company.

"Fine-tuning the offer to changing customer needs and delivering on it with consistency is what makes convenience retailing really exciting" he says. "This concept is at the core of retailing strategy. The environment we operate in is ever-changing and our job is to understand and prepare for it."

### New graduate trainees welcome

What about people with degrees who already work for Caltex? John Dulgarno is quick to point out the program is open to them. In fact if you have a passion for retail and the potential to develop as a leader, you should apply for advertised graduate trainee roles with Retail, he suggests.

Retail is leading the way with its graduate program, though similar schemes have been run elsewhere in the organisation in the past. The Organisation Development Group headed by Helen Smirniotis is currently developing a Caltex-wide graduate recruitment program.

Meanwhile Leo Pucar and John Dulgarno believe more companies would benefit from programs to take on tertiary educated, talented people; in fact they believe it's essential, especially in downturns.

"When conditions change, and they will, organisations need to be well resourced with the right people to take advantage of the upturn in the economy," says John. "Retail is about people, and any retail business is only as good as the quality of its people."

Adds Leo: "Organisations don't just need soldiers, they need to groom future generals – leaders who will ensure succession and safeguard the future. These future leaders make a difference and we need to be proactive in recruiting them early." ●

Equally the advantages for Caltex are real. John Dulgarno is especially enthusiastic about what he perceives to be the main benefit: "the ability to recruit talented people who we can develop into future leaders."

Some have walked a path to senior management in the broader Caltex organisation via a graduate program. National Manager Retail Leo Pucar, believes graduates' ability to think broadly and interact meaningfully with others improves cross-functional teamwork. They also tend to have greater job satisfaction and progress relatively quicker through the organisation, says Leo.

Indeed, Laurissa Graham's experience indicates how fresh thinking can make a difference. She and Tim are already questioning the way some of their project work and tasks are done, and senior colleagues have been listening to their ideas. "At the moment I'm working on improving one of the regular reports I do," Laurissa says.

### Whole-of-Caltex experience

Mark Kaushal, who joined Caltex in 2007 as Retail Operations Analyst and made various improvements to reporting, is now on Calstores secondment at Parklea in New South Wales, gaining a whole-of-Caltex experience.

Mark has a Masters of Applied Commerce from the University of Melbourne and is delighted to be gaining "grassroots" understanding of retail operations. Having worked for companies including Telstra, Toyota, Optus and Daimler Chrysler in various roles, he says "it's fantastic to be able to gain strategic and operational understanding of our business."

"I'm undertaking a structured training program with guidance from various people and the learning opportunity is immense."

Performing all the tasks of a customer service attendant and store manager are part of the program which includes serving customers, stocking shelves, safety audits and back-office work.

# Starlight, Caltex celebrate a 'fantastic' ten-year partnership

Back in 1999, when Jill Weekes addressed an Australian Institute of Company Directors lunch on a boat on Sydney harbour, several Caltex people were in the audience.

After the lunch the Caltex team approached Jill, Chief Executive of the Starlight Children's Foundation, and asked what they could do to help.

The seed of an idea was planted that day. Soon afterwards, Caltex's Marketing team began gold-coin collections for Starlight during their Friday drinks. Starlight team members began to attend these informal functions as more and more Caltex people expressed interest in embracing the charity.

Then Caltex people sold Starlight merchandise on Starlight Day each year. All over the country – resellers, retailers, franchisees – organised fundraising events, from simple barbecues to major initiatives like former Caltex CEO Jeet Bindra's CEO dinner a few years ago.

Now, on the tenth anniversary of its partnership with Starlight, Jill pays tribute to Caltex, which has raised millions of dollars for the hard-working charity that brings love, laughter and support to sick children and their families.

"It's been a fantastic partnership that's achieved huge highs in ten years and goes from strength to strength," Jill told *The Star*.

**"It showcased the generosity of Caltex and demonstrated to people around Australia that it is dedicated to making a difference"**

"Caltex support for Starlight Day has been extraordinary and Caltex volunteers have really taken the cause of seriously ill children and their families to heart. This support is born from their genuine love of helping these kids. It's apparent that the Caltex team have a real sense of pride in the amazing things they've achieved on behalf of Starlight. We're proud to be associated with such a passionate team."

The highest point in a decade? For Jill it was probably the anniversary in 2006 of Caltex's fifty years of refining in Australia, when the company backed the "50 towns in 50 weeks" program. A van in Starlight livery, paid for and fuelled by Caltex, travelled around Australia to bring Starlight's superhero, "Captain Starlight," to seriously ill children in regional and remote communities.

"That concept was born from joint brainstorming sessions," says Jill. "It showcased the generosity of Caltex and demonstrated to people around Australia that it is dedicated to making a difference in local communities.

"We look forward to another ten years of the support that's made Caltex one of our premier partners." ●



TOP: the '50 towns' van BELOW LEFT: Starlight board member Steve Johnston and Des King cut a very special cake. RIGHT: Starlight CEO Jill Weekes





## PUTTING ON A GREAT SHOW

Caltex Star Mart made a huge impact at the recent Franchise Expo at Sydney's Darling Harbour with a custom-built, 36 square metres island stand. Featuring Caltex Star Mart livery, 21CC product display pods and four large plasma screens showing convenience store and forecourt images, the stand was designed so Expo visitors could experience an actual Star Mart.

"The decision to adopt a high profile at the Expo was strategic – a way to put the Star Mart brand on the radar of people looking for franchise opportunities with a major retailer," says Ben Galton, Franchise Development Manager. "It was about putting a face to our convenience retail brand, and giving visitors the opportunity to meet us and talk about future possibilities".

Caltex retail personnel from NSW and ACT, including Ben, manned the stand, which also won "best stand over 18 square metres". Ben says the whole experience was positive with numerous enquiries from potential franchisees. He attributes the success of the event to team effort: "key people from Caltex Retail, Brand and Communications and Project Services worked together to deliver an outstanding result."

Ben will now take the Caltex Star Mart stand on the road, featuring at franchise Expos in Perth in May; Victoria in August and Brisbane in September.

"Attracting the right franchisees is critical to the ongoing success of any franchise network and this is no different at Caltex Australia," says Leo Pucar, National Manager Retail. "As we continue our journey from service stations to convenience stores, we are seeking a different type of franchisee, a high calibre retailer seeking a sustainable investment."

## PIPELINE PLANNERS' QUEST FOR NEW CONTROL-ROOM TECHNOLOGY

Caltex's pipeline network for transferring crude oil and refined petroleum products is about 320 kilometres long. But some similar pipelines in the US are up to 15,000 miles (24,000 kilometres) long.

Despite the differences in size and scale, Caltex's pipeline control room technology is more or less equal to that used by oil companies in North America. In fact the most important applications like batch tracking and leak detection in Caltex's current system have not substantially altered in systems delivered in the US as recently as 2008 – a tribute to the architects of 20 years ago.

These were among the interesting findings of a three-man Caltex team who recently completed an 18-day study tour of pipeline control rooms in the US. The purpose of the tour by Supply & Distribution's Peter Tisell, Kossey Petros and Rob Brooks was to review systems and examine the support and service levels provided by vendors.

The tour was a key part of the selection process to update the SCADA (supervisory control and data acquisition) system controlling the six pipelines in the Sydney Basin. The trio visited seven control rooms and two vendor facilities across four states.

"The existing custom-built Foxboro SCADA at Banksmeadow Terminal has served Caltex well for nearly two decades but it's increasingly difficult and costly to maintain," explains Peter.

"A modern replacement is more likely to be a packaged product so it was important for us to understand what direction SCADA products have taken and the system that will best suit our requirements."



Rob Brooks (l), Kossey Petros and Peter Tisell in Billings, Montana during their study tour. They were in the area to visit the control room of the Front Range crude pipeline which runs 300m from Canada down to Billings.

The sites they visited included the large installations at Chevron's pipeline company in Houston; Conoco Phillips in Ponca City, Oklahoma; as well as smaller systems in Louisiana and Montana.

The Louisiana Offshore Oil Port (LOOP) facility was especially interesting. It pumps oil from super-tanker moorings in the Gulf of Mexico into gigantic salt caverns 500 metres under coastal wetlands, each 10 times the size of the largest tank at Kurnell.

Key lessons learned for incorporation into Caltex's SCADA project plans include: the need for design simplicity and for clear and accountable communication lines with equipment vendors and the development, at the out-set, of whole of life support arrangements.



Our stand at the Franchise Expo



## CALTEX COMPASSION SHOWCASED IN VICTORIAN BUSHFIRE CRISIS

The generosity of Caltex and its employees, contractors, franchisees, resellers and other business partners has been evident once again in the aftermath of the catastrophic Victorian bushfires.

Collectively they raised over \$400,000 for the Australian Red Cross Victorian Bushfire Appeal, a sum made up of a corporate contribution of \$313,897 including Caltex's initial pledge, employee matching and a Partners Fund contribution.

An additional \$90,161 was raised through employee and partners donations, and Caltex provided the Red Cross with StarCash.

### Help beyond fundraising

The assistance went beyond fundraising.

"Caltex not only provided fuel and cash to the appeal, we played a major role in ensuring supply was available at all times," says Carmen Prince, Sponsorship and Social Investment Manager.

On the grim weekend in February when hundreds lost their lives, company drivers and depot people across the state gave up their time to make fuel available and refuel Country Fire Association (CFA) vehicles in some of the state's worst hot spots. Many volunteered their time free.

On the Sunday, Mark Dunning, Manager of the Hampton Park depot in Melbourne, was out with his family when he received an urgent call from Joe Ferguson, Caltex South East Operations & Logistics Manager. Joe told him the staff at the Caltex retail site in the central Victorian town of Broadford had been refuelling fire fighting and emergency

services vehicles and was now so short of diesel it would run out within the day. Mark dropped his family off at home and took a tanker load of diesel up to Broadford.

In the regional city of Bendigo the Caltex South East depot received calls on the Saturday from the CFA saying they needed fuel desperately and that Caltex was their only hope of getting it. Depot manager John Dixon and driver Danny Rayner drove to the depot, opened the gates and refuelled all the CFA vehicles, working in shifts.

"We don't have too many contracts with the CFA and local councils, but we're always the first to offer our services," says Joe.

"It's been well noted by local authorities, especially in Gippsland. Our operations team as a whole always put their hand up to help. They're a credit to themselves and to Caltex."

## LYTTON PROVIDES PELICAN HAVEN

A bunch of big-mouths who took up temporary residence at a Lytton refinery warehouse have caused a bit of a flap.

Eight oil-covered pelicans and one crested tern needed a place to stay while they were fed and cleaned up by Environmental Protection Agency (EPA) rangers and other helpers including an expert from Sydney's Taronga Zoo.

The birds were victims of a spill from the cargo vessel Pacific Adventurer which made headlines after being holed in a storm off southern Queensland and leaking 200,000 litres of oil into Moreton Bay on 12 March.

They were all found near Tangelooma Resort on Moreton Island. Because they were used to people they were relatively tame and captured easily, says Lytton refinery's community relations coordinator Toni Dugdale.

Lytton Environment Superintendent Brian Butler offered assistance to the EPA effort when he

heard they were seeking a warehouse in which to look after the birds. Brian thought immediately of the South Street buildings bought by Caltex to accommodate employees away from the refinery's hazardous zones.

The vacant Building B was quickly set up with veterinary areas, washing and rinsing stations, drying pens, recovery cages and plastic-sided pools.

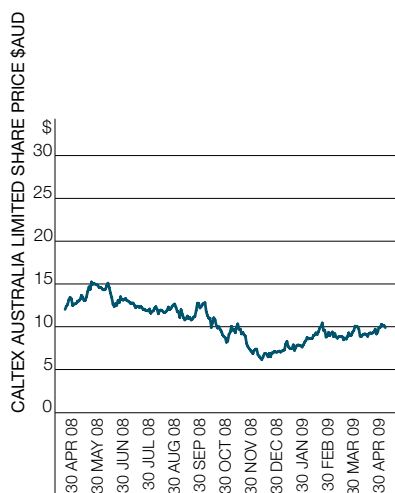
The guests weren't happy when they first arrived. In fact they refused to eat and had to be tube-fed directly into their stomachs. But after a few days they began to eat fish and drink water by themselves.

It took three people up to two hours to wash each pelican with warm water and a mild detergent, according to EPA Chief Advisor for Incident Response, Mike Short. One person washed while the others held the animal to prevent injuries to itself and the washer. One they'd been dried they were left alone to preen their feathers back to a waterproof layer.

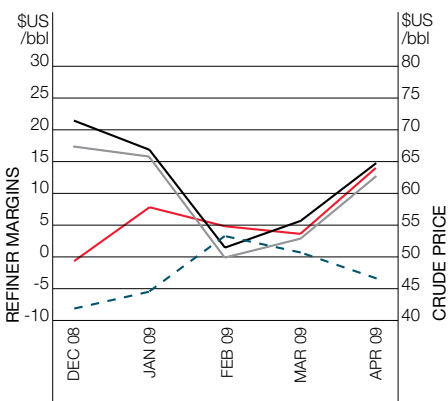


An unhappy guest comes clean

## SHARE PRICE



## CRUDE OIL PRICE & SINGAPORE REFINER MARGINS



*The Star* is a bimonthly magazine produced by Businesswriters & Design for Caltex employees, franchisees and resellers. Story ideas, letters, photographs and other contributions are welcome. For more information or for extra copies of the magazine, contact *The Star*, c/o Caltex Brand & Communications, Level 24, 2 Market Street, Sydney 2000. Tel: (02) 9250 5000 Fax: (02) 9250 5664. Published by Caltex Australia Petroleum Pty Ltd ABN 17 000 032 128.

MARGINS (left axis)  
 — Petrol (MOPS 95 ULP)  
 — Jet  
 — Diesel (10ppm sulfur)  
 CRUDE OIL PRICE (right axis)  
 - - Tapis

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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