

Getting fuel storage right

Submission to Strengthening Australia's Fuel Security and Resilience

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Summary

We welcome the opportunity to submit on Australia's Fuel Security and Resilience Package.

This submission make four recommendations. The federal government should:

1. Not increase the petrol Minimum Stockholding Obligation.
2. Assess the potential to repurpose existing petrol storage to store diesel and jet fuel.
3. Prioritise demand reduction to avoid over-building fuel storage.
4. Adjust the Minimum Stockholding Obligation over time as demand declines.

Lifting the MSO would need a lot more storage

Demand for liquid fuels is rising in Australia. Grattan Institute's estimates of future fuel demand suggest that over the next 25 years jet fuel demand will double and diesel demand will grow by 4 per cent, though petrol demand will fall by 66 per cent.¹

The Minimum Stockholding Obligation (MSO) is set in days of consumption, not litres. As daily consumption increases (or decreases), the volume of storage required grows (or shrinks). Ten days of jet fuel consumption is 271 megalitres today but estimated to be 528 megalitres in 2050.²

There is no public (or private) data on excess capacity of Australia's existing fuel storage facilities, but the consultation paper says that while there is sufficient excess petrol storage capacity to support a 10-day increase in the MSO, there is 'little to no spare capacity for jet fuel storage, and limited spare capacity for diesel storage'.

This suggests that any increase in the volume of diesel and jet fuel that must be stored will require investment in new infrastructure.³

Our analysis suggests that the government's proposed increase in the MSO will require nearly 4,000 megalitres of new storage to be built by 2050 – a 70 per cent increase in diesel capacity, and a 239 per cent increase in jet fuel capacity (see Figure 1).

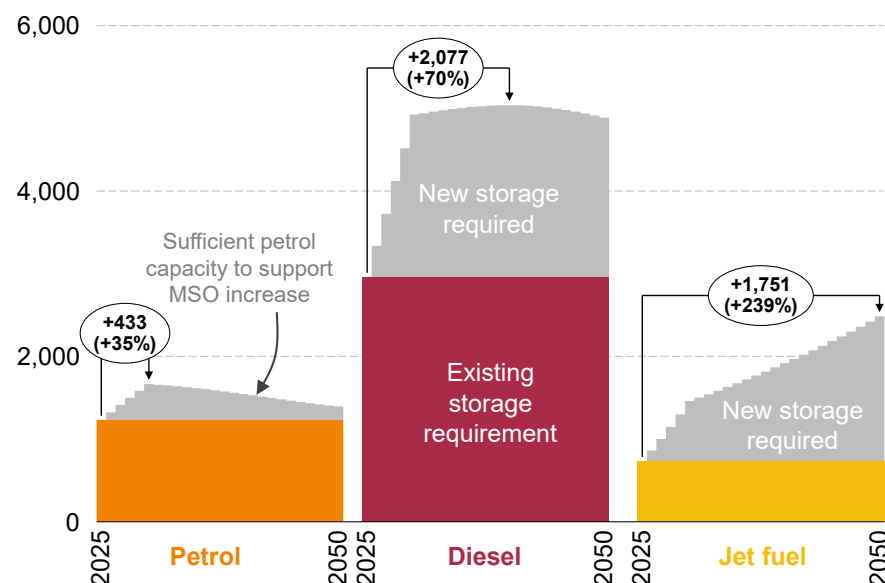
Leave the petrol MSO where it is

Storing fuel costs money – consumers pay for it through higher fuel prices, and taxpayers pay when government subsidises new storage

1. Grattan Institute analysis of DCCEE (2026) Table F and Table 0, and BITRE (2020). This scenario assumes no new policies are implemented.
2. Grattan analysis.
3. In the absence of data on excess existing storage capacity, our analysis assumes all new diesel and jet fuel storage required must be built.

Figure 1: Lifting the MSO as the government proposes would require nearly 4,000 ML of new fuel storage to be built

Fuel storage requirements by fuel, under proposed policy, (ML)



Note: The government proposes to lift the MSO by 10 days for diesel and jet fuel and to establish a government-owned store with an additional 10 days of each fuel. Our chart shows the combined fuel storage requirements of both proposals. Increased petrol storage requirements can be met from existing petrol storage, so do not require new storage to be built.

Source: Grattan Institute analysis.

(as the government is proposing to do). The government should not increase the required volume of stored fuel unless necessary.

Because petrol demand is declining rapidly, Australia does not need to build more storage for petrol to achieve high levels of fuel security. The government should freeze the petrol MSO where it is.

In our forecast, petrol use declines rapidly because EVs take off. EVs are now cheaper to run and increasingly cheaper to buy: an electric car costs less than half as much to fuel as a petrol equivalent and about 40 per cent less to service, and the cheapest electric car sold in Australia now undercuts a hybrid Suzuki Swift on price.⁴

The shift can already be seen in the showroom: in August 2026, battery electric vehicles outsold petrol cars in Australia for the first time.⁵

Under the government's policy, petrol would reach 37 days of consumption storage by 2030. But by just holding constant the existing volume of petrol that must be stored under the MSO, as petrol demand declines, Australia would reach 37 days' by 2039 (see Figure 2).

And our forecast of petrol consumption probably underestimates the pace of demand decline. The New Vehicles Emissions Standard, which regulates emissions from passenger vehicles, will need to be tightened to meet climate targets, further accelerating the uptake of EVs and hybrids. If petrol demand declines even faster, existing storage will stretch further, sooner.

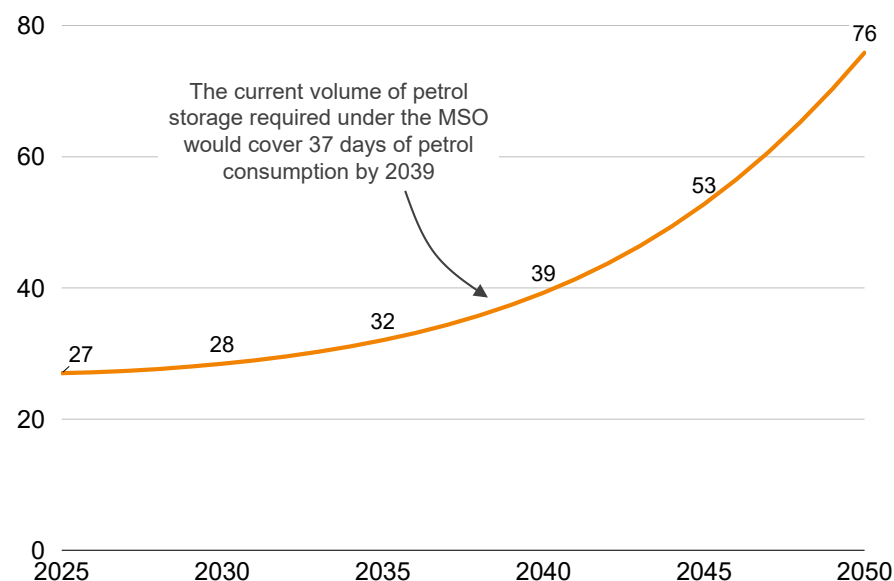
Because electricity supply is entirely domestic, the rollout of EVs largely solves the problem that fuel storage is designed to solve – it buffers consumers from supply shocks and price shocks. Our modeling forecasts that the share of fuel required for Australia's cars that is

4. Schmidt (2026); Baker (2025).

5. Federal Chamber of Automotive Industries (2026); Electric Vehicle Council (2026). Conventional hybrids, which burn substantially less petrol than combustion-only cars, are counted separately but have also been growing rapidly.

Figure 2: As petrol demand declines, Australia's existing volumes of petrol storage will provide more consumption cover

Consumption cover provided by existing level of petrol stored in Australia, (days)



Note: Current petrol storage volume required estimated to be 1232 ML. Actual volumes of stored petrol are currently higher than this, at 1870 ML and peak storage in 2025-26 was 2066 ML. This suggests Australia already has sufficient petrol storage capacity.

Source: Grattan Institute analysis.

produced in Australia will increase from 8 per cent now to 34 per cent by 2035 and 81 per cent by 2050.⁶ In a world where half our fuel is domestic, the case for more stored fuel evaporates.⁷

There is a better use for existing petrol storage tanks. As petrol demand falls, existing petrol storage will free up. That is likely to be the cheapest available source of capacity for the fuels that genuinely lack it. The consultation should test the scope to repurpose petrol capacity for diesel and jet fuel, before committing to new build.

Demand reduction can reduce storage requirements

The same logic that applies to petrol applies to every fuel: reducing demand reduces the task and the cost of storing fuel. Fuel security and emissions reduction objectives will both cause Australia to consume less imported liquid fuel. By reducing the need to build and operate fuel storage, these demand-reduction policies also deliver a dividend in reduced fuel storage costs.

To assess the opportunity to right-size fuel storage build requirements, we modeled three policies:

- faster deployment of electric road trucks,
- faster deployment of electric haul trucks in mining, and
- substituting sustainable aviation fuel for conventional jet fuel.

These outcomes could be achieved through a range of policy mechanisms, some of which the federal government is already considering.

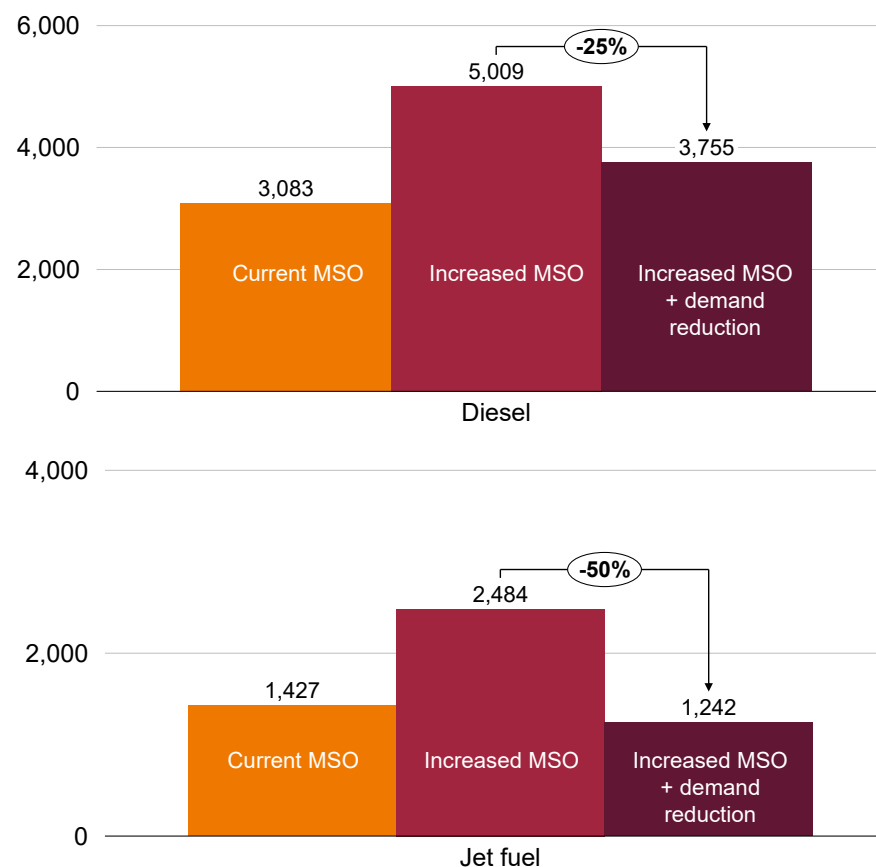
For instance, the government could accelerate the rollout of electric trucks by regulating truck emissions or investing in public charging infrastructure. The government could accelerate the electrification of

6. Grattan Institute analysis.

7. Grattan Institute analysis of DCCEEW (2026).

Figure 3: Lifting the MSO will require much more fuel storage, but demand reduction can reduce the build requirement

Total volume of fuel storage required in 2050, by scenario (megalitres)



Note: Demand reduction refers to electrification of mining and heavy transport, and development of low-carbon liquid fuels for aviation.

Source: Grattan Institute analysis.

mining by removing subsidies for diesel consumption through the diesel fuel tax credit. And the government is consulting on a policy to drive the replacement of conventional jet fuel with low-carbon liquid fuels.

In this submission, our goal is not to advocate for any particular demand-reduction policy, but to demonstrate that demand-reduction policies reduces the build task and cost of meeting an increased MSO. Targeted policies across trucking, mining, and aviation, could reduce fuel storage requirements by 25 per cent for diesel and 50 per cent for jet fuel (see Figure 3 on the preceding page) More ambitious policies would further reduce storage requirements.

Building less storage could save consumers \$4 billion

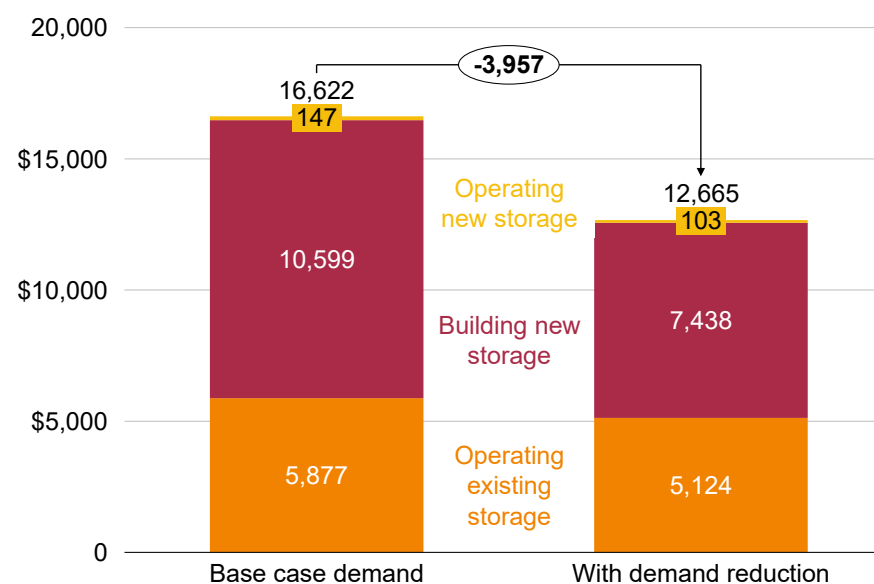
Less storage means less cost. Our analysis suggests that the total cost of building the additional fuel storage required under the government's proposed increase to the MSO is nearly \$17 billion (see Figure 4).⁸.

Targeted demand-reduction could save consumers and taxpayers nearly \$4 billion, mostly through avoided capital costs. Faster demand-reduction would save even more.

Before committing to billions of dollars of additional expenditure, the federal government should consider demand-reduction policies to reduce the need for fuel storage in the first place.

Figure 4: Avoided fuel storage build could save \$4 billion

Total cost to 2050 of lifting the MSO, and with targeted-demand reduction policies, (\$ millions, undiscounted)



Note: Based on estimates of about \$2.20 per litre capex and \$30,000 per megalitre per year of opex for fuel storage from industry consultation.

Source: Grattan Institute analysis.

8. Undiscounted spend to 2050 in real 2026 dollars. Estimate is highly sensitive to the availability of existing capacity, and whether new storage is in greenfield or brownfield locations

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