



**DEPUTY PRIME MINISTER
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The Hon John Murphy MP
Chair
Standing Committee on Petitions
Parliament House
CANBERRA ACT 2600

25 MAY 2011

Dear Mr Murphy

Thank you for your letter of 16 March 2011 forwarding to me a petition regarding petrol prices in Colac and District, submitted for the consideration of the Standing Committee on Petitions. I apologise for the delay in responding to you.

The Government appreciates that petrol is an essential purchase for many Australians and changes in petrol prices can have a direct impact on the daily cost of living.

As you would know, Australian petrol prices are not regulated by the Government and companies are free to set prices in the market. Analysis by the Australian Competition and Consumer Commission (ACCC) indicates that the major influences on retail petrol prices in Australia are:

- the price of Singapore Mogas 95, which is the benchmark for unleaded petrol in the Asia-Pacific region, including Australia;
- the Australian dollar exchange rate against the US dollar, as Mogas 95 is priced in US dollars; and
- the established weekly retail price cycles that operate in the largest capital cities.

The price of Mogas 95 is largely driven by the price for Malaysian Tapis crude oil, rather than the price of WTI (West Texas Intermediate) crude oil, which is the relevant crude oil for the North American region and the crude oil price generally quoted by the media. Australian petrol prices generally move in line with international prices because Australian oil refiners and petroleum importers buy and sell fuel on the global market.

Given that oil is an internationally traded commodity, the price is determined by world demand and supply. At the peak of the global financial crisis, when demand for crude oil was very low, the price of Malaysian Tapis was only US\$35 per barrel. As the global economy recovered and demand improved, oil prices rebounded, and we have recently seen the price of Malaysian Tapis rise above US\$100 per barrel. International factors, including recent instability in the Middle East, have also put upward pressure on prices. However, the high value of the Australian dollar has helped to restrain increases in petrol prices in recent months.

In addition to reflecting changes in international prices and the exchange rate, domestic factors such as transportation and storage costs, wholesale and retail selling margins, and local competition also contribute to retail petrol prices.

The ACCC has also examined the impact of local factors on average retail petrol prices in country towns. The ACCC analysis indicates that prices in regional centres and country towns tend to be higher than in the largest cities for a number of reasons including: lower volumes of fuel and convenience store sales over which to spread operating costs; a greater distance from fuel terminals; and the number of service stations, which can affect the degree of local competition. All of these factors can affect different regional centres and country towns to varying degrees, which can result in variations in fuel prices in seemingly similar regional centres and country towns.

Similar prices in a market are not necessarily indicative of collusion. Petrol, especially unleaded petrol, is generally a very similar product, with minimal brand loyalty, and competition occurring primarily on price. As a result, it is common for retail petrol prices to converge on a common price in local markets.

The Gillard Government is committed to promoting competition and transparency in Australia's fuel market for the benefit of Australian consumers. The Government appointed a Petrol Commissioner within the ACCC, and has given the ACCC the power to monitor prices, costs and profits relating to the supply of unleaded petrol in the petroleum industry. In the 2011-12 Budget, the Government provided the ACCC with funding of \$2 million over two years to continue these functions.

The ACCC's latest report released in December 2010 on the prices, costs and profits relating to the supply of unleaded petroleum products shows that Australian petrol prices remained relatively stable during 2009-10, and prices closely followed international benchmark prices of refined petrol. Petrol industry profit for 2009-10 was below the average net profit over the last eight years, and there have been significant structural changes to the fuel retail industry, with 7 Eleven and Peregrine Corporation (which owns the On The Run chain) buying the retail assets of Mobil. The ACCC report can be found at www.accc.gov.au.

Where there is sufficient evidence that a business has misled or behaved in an anti-competitive way to the detriment of consumers, the ACCC can take action under the *Competition and Consumer Act 2010* (CCA) (formerly the *Trade Practices Act 1974*). The ACCC has taken action against businesses to protect consumers where there has been evidence of illegal conduct in the Australian fuel industry.

The ACCC is an independent statutory agency that is responsible for enforcing and ensuring compliance with the CCA. Section 29 of the CCA specifically prohibits me from giving the ACCC a direction on the performance of its functions or the exercise of its powers under the anti-competitive conduct provisions. One of the reasons for the ACCC's independence is to ensure that its decisions are, and are seen to be, separate from the political process.

Should the petitioners wish to raise their concerns with the ACCC, it can be contacted by calling 1300 302 502, by visiting www.accc.gov.au, or by writing to:

The Australian Competition and Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

I note that, when the Committee has considered this response, it will be presented in the House and posted on the Committee's website.

Thank you for bringing this petition to my attention. I trust that this information will be of assistance to you.

Yours sincerely

WAYNE SWAN