

# CHAPTER 1

## Background to the Inquiry

### Referral and Terms of Reference

1.1 On 22 June 2006, on the motion of Senator Kerry O'Brien, the Senate referred the following terms of reference to the Senate Economics Legislation Committee (as it was known at that date), for inquiry and report by 9 October 2006:

- (a) the relationship between the landed price of crude oil, refining costs, the wholesale price and the retail price of petrol;
- (b) regional differences in the retail price of petrol;
- (c) variations in the retail price of petrol at particular times;
- (d) the industry's integrated structure; and
- (e) any other related matters.

1.2 An interim report was tabled out of session on 9 October 2006.

### Conduct of the inquiry

1.3 The Committee advertised the inquiry nationally and posted details on its internet site. In addition, it wrote to a number of organisations advising them of the inquiry and inviting them to make submissions.

1.4 The Committee received 75 submissions to its inquiry. These are listed at Appendix 1. Several supplementary submissions were also received.

1.5 The Committee held a total of 8 hearings. The first public hearing was a briefing to the Committee by officers of the Australian Competition and Consumer Commission (ACCC) on 3 August 2006. Public hearings were then held in Kybong in Queensland on 23 August 2006, Perth on 20 September 2006, and on 26 September 2006, a round table was held with economists to canvas a number of issues relating to petrol pricing and the petroleum industry. Further public hearings were held in Parliament House in Canberra on 27 and 28 September 2006 and 13 October 2006. The last public hearing was held in Parliament House on 19 October 2006 and heard final evidence from officers of the ACCC.

1.6 The Hansard of the Committee's hearings and copies of all submissions have been tabled with this report. These documents, including the Committee's report, are available on the Committee's website at:

[http://www.aph.gov.au/senate/committee/economics\\_ctte/completed\\_inquiries/index.htm](http://www.aph.gov.au/senate/committee/economics_ctte/completed_inquiries/index.htm)

1.7 The Committee wishes to express its appreciation to all witnesses for their cooperation during the inquiry, whether by making submissions, by personal attendance at a hearing or, as in the case of many, by giving both oral and written evidence. In particular, the Committee thanks representatives from the ACCC for appearing before the Committee on multiple occasions.

### **Outline of the report**

1.8 Chapter 2 provides an overview of the petroleum industry and the framework for setting petrol prices. It covers the structure of the petroleum industry and domestic and international factors which affect petrol prices, such as the world price of crude oil, market forces in the Asia-Pacific region and the extent to which the Australian petroleum industry can influence the price of petrol at the bowser.

1.9 Chapter 3 concentrates on petrol price cycles and examines whether price cycles are good for consumers and whether prices really do rise just before long weekends and public holidays. This chapter includes an examination of the Western Australian petrol pricing system and its effectiveness in managing petrol price fluctuations and injecting greater transparency into the petroleum market.

1.10 Competition in the market and competition strategies used by the petroleum industry are discussed in Chapter 4. This chapter considers whether some of the strategies undertaken by various fuel retailers in raising and lowering fuel prices may indicate collusive or anti-competitive behaviour and examines claims that profiteering, price gouging and predatory behaviour exist in the domestic petroleum market.

1.11 Chapter 5 poses a number of questions relating to the taxation of petrol. It analyses propositions submitted to the inquiry about restructuring petrol taxes, including whether excise or GST should be lifted from petrol, or alternatively, if taxes should be increased to send clear price signals to consumers about reducing consumption of the product.

1.12 As reiterated in past inquiries (see below), country consumers on average pay a much higher price for petrol than do consumers in metropolitan centres. The reason for the price differentials and what could be done to alleviate the financial burden on people living in regional, rural and remote communities is discussed in Chapter 6.

1.13 The power of the Australian Government to intervene in the petrol market is covered in Chapter 7. This chapter examines how the ACCC is working to ensure that the domestic petroleum market is a fair and level playing field for all competitors and discusses the current powers of the ACCC to monitor and report on petrol pricing to the public and to Government.

1.14 Finally, Chapter 8 provides the Committee's conclusions for improved petrol price management and proposes recommendations for enhancing consumer confidence in petrol pricing. It summarises the key themes from each of the preceding chapters and outlines directions for addressing these issues.

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### ***Terminology in this report***

1.15 The term 'petrol' is broadly used throughout this report to refer to the fuel product derived from petroleum used to power motor vehicles and devices. This is in recognition of the Senate's instruction that the Committee inquire into the 'price of petrol in Australia'. The Committee acknowledges the legitimacy of using the term 'fuel' to describe the broad suite of products (for example, petroleum, diesel, liquefied petroleum gas and biofuels) used to power engines.

### **Past inquiries**

1.16 There have been numerous inquiries and reports into the petroleum industry and petrol pricing over the past decade at the state, territory and federal levels. Notable Federal Government inquiries include:

- The inquiry by the Industry Commission (1994) into petroleum products with key findings including that: the price surveillance of petroleum products should cease; State and Territory Governments should not regulate petrol prices; and the *Petroleum Marketing Sites Act 1980* and *Petroleum Retail Franchise Act 1980* should be repealed.
- ACCC inquiry into the petroleum products declaration (1996) which again called for the repeal of the two aforementioned petroleum Acts whilst also advocating for the introduction of increased transparency in the petroleum market.
- ACCC inquiry into reducing fuel price variability (2001), which recommended that a consumer awareness campaign be launched to raise awareness of petrol price cycles whilst other options could be considered to control the extent of price cycle fluctuations. The report also suggested the Government engage with industry to consider future reforms of the petroleum market.
- Fuel Taxation Inquiry (2002) which recommended, among other things, that excise (and customs) duty should apply to all liquid fuels and liquefied and/or compressed natural and petroleum gases, and the rates to apply should be based on the relative energy content of each fuel (except aviation fuels and greases).
- ACCC inquiry examining terminal gate pricing arrangements in Victoria and fuel pricing in the Western Australian market following the introduction of the new petrol pricing and notification system (2002). The report concluded that it was not able to directly attribute the introduction of these state-based systems to better outcomes for consumers.
- ACCC inquiry into shopper docket petrol discounts and acquisitions in the petrol and grocery sectors (2004). The report found that the introduction of the shopper docket schemes had encouraged competition and lower prices in the fuel market.

1.17 State and Territory Governments have also produced a number of reports examining matters such as why petrol prices are high and particularly, the price differential between country and city consumers. The most recent reports were prepared by the Northern Territory (NT) and Queensland Governments. The NT report, *Inquiry into fuel prices in the Northern Territory* (2005) supported the repeal of the two existing Commonwealth petroleum acts and recommended the introduction of increased transparency into the NT petroleum market, such as the mandatory display of price boards, extended fuel price monitoring and increased public awareness of petrol prices, and that all claims of 'unreasonably high' petrol prices be referred to the ACCC. The Queensland report, *Inquiry into petrol pricing in Queensland* (2006) examined competition in the market and recommended Queensland should not introduce a similar petrol pricing system to the Western Australian system, but that options are considered to increase pricing competitiveness in country areas of the state.

1.18 A comprehensive list of past inquiries and reports into the petroleum industry and petrol pricing is included in Appendix 4.

#### **Note on references in this report**

1.19 References to *Committee Hansard* are to the proof Hansard with the exception of the hearings held on 3 August 2006 (Canberra) and 23 August 2006 (Kybong, Queensland). In these instances, references are to the official Hansard. Page numbers may vary between the proof and the official Hansard transcript.