

# CHAPTER 6

## Petrol Prices in Country Areas

### Introduction

6.1 Inquiry after inquiry has found that consumers living outside of metropolitan areas pay more for petrol, sometimes significantly so. During a time of rising prices the differentials can be especially marked. Although it is widely acknowledged that higher freight costs incurred in longer transportation distances add to country petrol prices, this is not the only expense contributing to higher prices in many regional, rural and remote locations.

6.2 As discussed in Chapter 3 – The Petrol Price Rollercoaster, the retail price of petrol reflects the wholesale price plus a number of other factors, including freightage and distribution costs, but the price is also influenced by the relative absence of competitive pressures in many local markets, both at the retail and wholesale level. Furthermore, a lower turnover rate of petrol at retail sites often leads to higher prices at the bowser. These factors, as well as a range of other influences which lead to country consumers<sup>1</sup> paying more for petrol, are examined in this chapter.

### Are country petrol prices really higher than city prices?

6.3 The Australian Automobile Association (AAA) described consumer sentiment towards rising petrol prices, and in particular, the country and city price differential:

...motorists find it difficult to understand why prices can vary so much from place to place. This is particularly the case in rural and regional areas, where prices are higher than in the capital cities...during the past 18 months, there have been occasions when the differential has increased dramatically in some locations.<sup>2</sup>

6.4 The Sustainable Transport Coalition WA submitted that whilst higher petrol prices in country areas are justifiable to an extent, significant price differentials are not:

It is obvious that those roadhouses which are isolated and have to provide their own power generation and sustenance will have higher operating costs than those in the towns, and this will be reflected in even higher retail fuel prices at such roadhouses. However, some instances of petrol pricing in

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1 The term 'country consumers' refers to those consumers living in regional, rural and remote communities across Australia.

2 AAA, *Submission 29*, p. 9.

(WA's) north west could bear scrutiny. It seems difficult to justify cases where fuel is sold up to **32% higher per litre** than Perth city prices.<sup>3</sup>

6.5 The higher cost of fuel in the country not only adds to the weekly costs of transport borne by consumers, but residents also experience a general increase in the cost of living and doing business when fuel prices are high. Additionally, much of their travel is non-discretionary, there are few if any alternative transport modes, and the distances that people drive are often greater than those of people living in metropolitan areas:

For Queensland's Outback and remote business operators, communities, and householders, fuel is an essential part of life. Fuel prices impact on business and enterprise financial decisions and priorities, as well as communities' and householder's quality of life and lifestyle.<sup>4</sup>

6.6 A number of personal submissions described the limited alternatives available to country residents:

A lot of us do have to use our own car as there is no transport in a lot of rural areas. [I] can't carpool as there is no one to carpool with. I'm sure I'm not just speaking for myself here. How can people put up with it?<sup>5</sup>

It must be realised that we do not have services to our door like urban dwellers, for example, even our garbage must be transported to 'collection sites' for disposal. It is not economical to perform this task daily with one bag of garbage, so it is collected until a trailer load can be transported, likewise...water is essential...[and] must be transported from the public bores...this demonstrate[s] that vehicles of a suitable power to weight ratio must be utilised, [so] reducing petrol bills is extremely difficult.<sup>6</sup>

6.7 The Remote Area Planning and Development (RAPAD) Board reported that the cost of living in a remote community like Boulia (located 1 719 km from Brisbane, 305 km south of Mount Isa and 364 km west of Winton) was already double the cost of living in a larger provincial centre like Toowoomba.<sup>7</sup>

6.8 Figure 6.1 illustrates that the average price of petrol in metropolitan Sydney as compared to NSW country is consistently lower for the period July 2005 to June 2006 and the extent of the differential can vary quite significantly.

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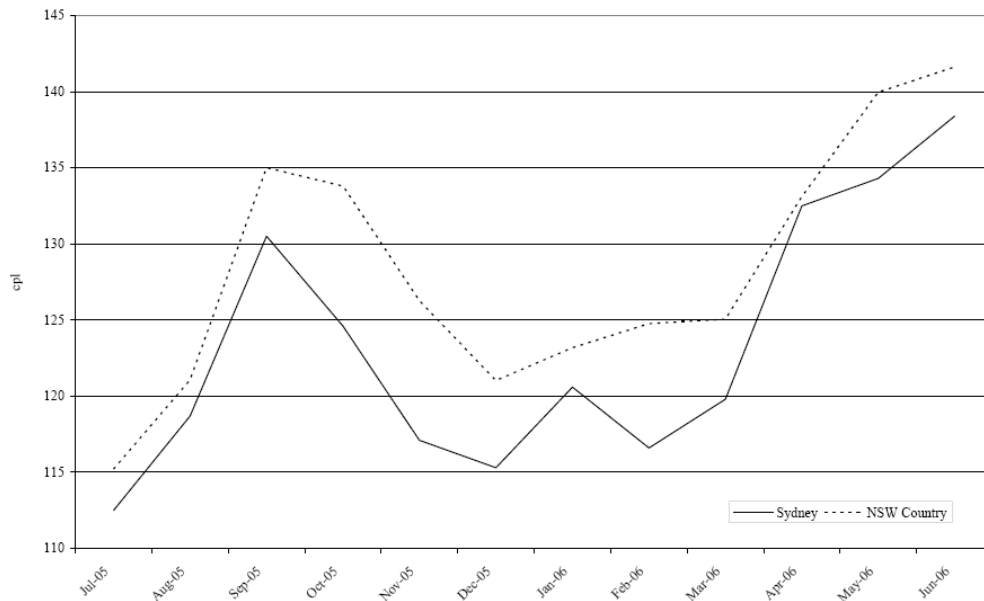
3 Sustainable Transport Coalition WA, *Submission 13*, p. 1.

4 Remote Area Planning and Development (RAPAD) Board, *Submission 43*, p. 4.

5 Name withheld, *Submission 22a*, p. 1.

6 Mr Alan Phillip May, *Submission 48*, p. 7.

7 RAPAD Board, *Submission 43*, p. 7.

**Figure 6.1—Average monthly retail prices (Sydney and NSW country)<sup>8</sup>**

6.9 Mr Jim Turnour noted that communities in Far North Queensland are particularly dependent on the tourism industry and rising petrol prices have reduced the number of domestic tourists travelling to Cairns, Douglas Shire, Cape York and the Torres Strait:

Our communities are therefore experiencing hardships in a number of ways as a result of spiralling petrol prices.<sup>9</sup>

6.10 The RAPAD Board commented that the latest statistics from Tourism Queensland showed an eight per cent fall in tourism to Queensland's outback and that anecdotally, higher fuel prices have been a major factor influencing the decisions of potential holiday makers to the outback.<sup>10</sup> The self-drive tourism market is especially threatened by rising petrol prices:

It is cheaper to fly to Bali from Melbourne return than to tow a caravan from Melbourne to Winton and return as part of a holiday. A Melbourne to Bali return airfare including prepaid airfare taxes, 7 nights' accommodation, plus free full breakfast daily is currently being promoted at \$744. The indicative fuel cost of towing a caravan from Melbourne to Winton and return is \$1270.<sup>11</sup>

6.11 However, Caltex disputed the claim that a large price difference exists between country and city petrol prices, stating that in the first half of 2006 there was 'only a small difference on average between the average prices of petrol in regional

8 ACCC, *Submission 31*, p. 86.

9 Mr Jim Turnour, *Submission 19*, p. 1.

10 RAPAD Board, *Submission 43*, p. 8.

11 RAPAD Board, *Submission 43*, p. 8.

and metropolitan areas when freight is excluded, apart from WA', accounting for an average difference of 2.2 cents per litre (cpl), not including freight and excluding the WA market. This was argued to be similar to the historical average.<sup>12</sup>

### **What factors contribute to the price of petrol in country areas?**

6.12 The margins set by retailers are dependent on factors such as the average volume of sales, the ability to retail goods and services other than petrol, and the level of competition in the area. A retailer must have sufficient margins to make a profit and keep the business viable. Country service stations typically sell less than half the fuel of a metropolitan service station and unlike metropolitan service stations, those in country areas tend to rely primarily on their petrol sales to maintain the business, so they require higher profit margins.

6.13 When questioned about the impact of the volume of sales on petrol prices, Dr John Tilley from the Australian Institute of Petroleum (AIP) told the Committee that there are many other factors which also add to petrol prices in regional, rural and remote locations:

**Senator JOYCE**—In a local market then if I were to go to Kalgoorlie where there is a massive amount of diesel used, I would expect a cheaper price for diesel, wouldn't I?

**Dr Tilley**—What you would expect in Kalgoorlie is the underlying price level to reflect the wholesale price of diesel, plus the local area factors and competition. How much does it cost to freight diesel to Kalgoorlie? Is it double-handled along the way? Is it stored in depots so the distribution and handling costs are higher? What is the nature of the market in Kalgoorlie? How many service stations are located in that market? What is the nature of competition between those service stations? What is the average customer base for each of those sites? Do they have the opportunity to move large volumes of diesel over time?<sup>13</sup>

6.14 The experience of operating a fuel retail outlet in a remote location was described by Mr Michael Carr:

It does cost more to service the country. I spent five years on the Nullarbor, running service stations there, and we do hear a lot of complaints about the price of fuel in the country, but there are a lot of extra costs such as freight, power and water.<sup>14</sup>

6.15 The key influences driving the country and metropolitan price differential, such as freight, transport and distribution costs, local market competition and the lack of price cycles in country markets, are canvassed below.

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12 Caltex Australia, *Submission 55*, Executive Summary, p. 1.

13 Dr John Tilley, Executive Director, AIP, *Committee Hansard*, 27 September 2006, p. 41.

14 Mr Michael Carr, *Committee Hansard*, 23 August 2006, p. 23.

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***Freight, transport and distribution costs***

6.16 The further away a fuel retailer is from a refinery terminal, freight and transport charges will be higher, whilst the retailer may also have to pay a distributor for fuel acquisitions, thereby creating an additional expense. Caltex Australia estimated that freight is typically 1.5 to 3.0 cpl greater for country deliveries as compared to deliveries in metropolitan locations. Whilst freight and transport costs are perhaps the most widely publicised cause of higher country petrol prices, as pointed out by Mr Turnour, the difference in petrol prices cannot be explained by distance alone:

Cairns regularly experiences fuel prices greater than those in Innisfail and Atherton. Both of these are smaller centres approximately 100 km from Cairns. The arguments that service stations need to charge more because of higher transport costs or smaller volume of sales do not hold up in these circumstances. A lack of competition in the Cairns market is enabling service station owners to price gouge local consumers.<sup>15</sup>

6.17 In terms of the WA petroleum market, the Royal Automobile Club of Western Australia (RACWA) stated that whilst it is difficult to generalise about costs, it is estimated that in many cases transport costs are only a minor influence affecting the price of petrol.<sup>16</sup>

6.18 The costs of acquiring wholesale fuel from a source other than directly from the refinery terminal, such as from a regionally-located storage depot or from a distributor servicing the country area region, can also add further expense to retail petrol prices. Where a retailer is able to source petrol directly from a refinery terminal, then the wholesale price the retailer will pay is generally lower. Purchases from a distributor (via a storage depot), however, results in higher handling costs incurred by the fuel retailer and additional expenses will be reflected in the retail price. BP submitted that its direct retail activities in regional Australia are 'almost non-existent' because the company sells petrol to distributors who then on-sell the BP product to retailers.<sup>17</sup>

***Competition in local markets***

6.19 Caltex Australia summed up the key reason for the price differential as competition:

In almost all cases, these differences are the result of local competitive factors, including site volumes and site density, the presence of discounters

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15 Mr Jim Turnour, *Submission 19*, p. 2.

16 Mr David Moir, RACWA, *Committee Hansard*, 20 September 2006, p. 27.

17 BP Australia, *Submission 34*, p. 3.

including supermarkets and the impact of new entrants seeking to establish volume.<sup>18</sup>

6.20 The Committee found that while many people recognised that competition in the local market has an impact on prices, concern remains as to why country petrol prices do not fall at the same rate as those in metropolitan centres following international price drops:

There is certainly a lack of competition and, in any particular fuel retail outlet, volumes are much lower in these remote parts than they are in the heavily populated parts of the country. So we recognise it is necessary for the retailer to have a higher cents per litre mark-up on his product in order to cover his overhead costs. But the bit that hurts is that price drops at the retail level seem to be far quicker in the cities than they are out here.<sup>19</sup>

6.21 Councillor Stanley Collins from the RAPAD Board described the impact of reduced competition on country petrol prices:

I do not think that the claims have ever come from this region that we are cross-subsidising or subsidising city consumers or that fuel companies are jacking the price up out here to put a lower than cost price in the cities. But they find it very easy because of the lack of competition just to take an undue time to drop their prices here. Their margins are pretty good out in these areas because of that.<sup>20</sup>

6.22 There is generally a time lag of around one to two weeks between changes in these prices and price changes at petrol bowsers due to the averaging formula used by refiners in Australia and the frequency of changes to terminal gate prices. This lag is generally longer in country areas because petrol stocks are replenished less often by wholesalers and retailers, due to the generally lower volume of sales. This accounts for why a change to the international price of petrol or crude oil tends to be reflected more rapidly in metropolitan areas, as compared to that in country areas.

6.23 Locations which have a small population and perhaps little traffic through the town are also likely to have fewer service stations and therefore less competition, and higher margins may be needed to ensure the business is financially viable and sustainable into the future. Fuel retailers located in country areas that are close to or on major highways will tend to generate higher volumes of sales of both petrol and other consumer goods, so these sites may be in a position to offer a lower price for petrol. Alternatively, if they are the only fuel retailer in the location or one of very few retailers, then the retailer may be in a position to charge higher prices because of a lack of local competition in the market.

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18 Caltex Australia, *Submission 55*, p. 12.

19 Councillor Stanley Collins, Mayor, Winton Shire, *Committee Hansard*, 28 September 2006, p. 30.

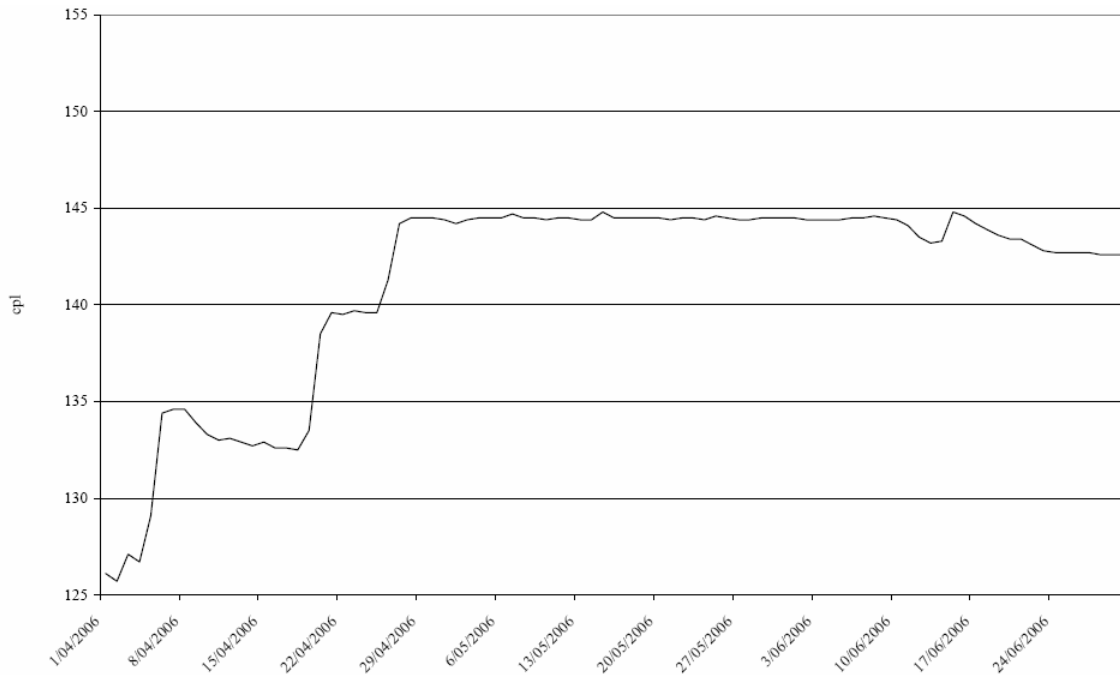
20 Councillor Stanley Collins, Mayor, Winton Shire, *Committee Hansard*, 28 September 2006, p. 33.

6.24 Furthermore, greater competition in the wholesale market generally means fuel retailers are able to secure supply at a lower price and so the relative absence of competitive pressures not only in the retail market, but also in the wholesale market in country areas means retailers have a reduced ability to offer lower prices to consumers.

### *Lack of price cycles*

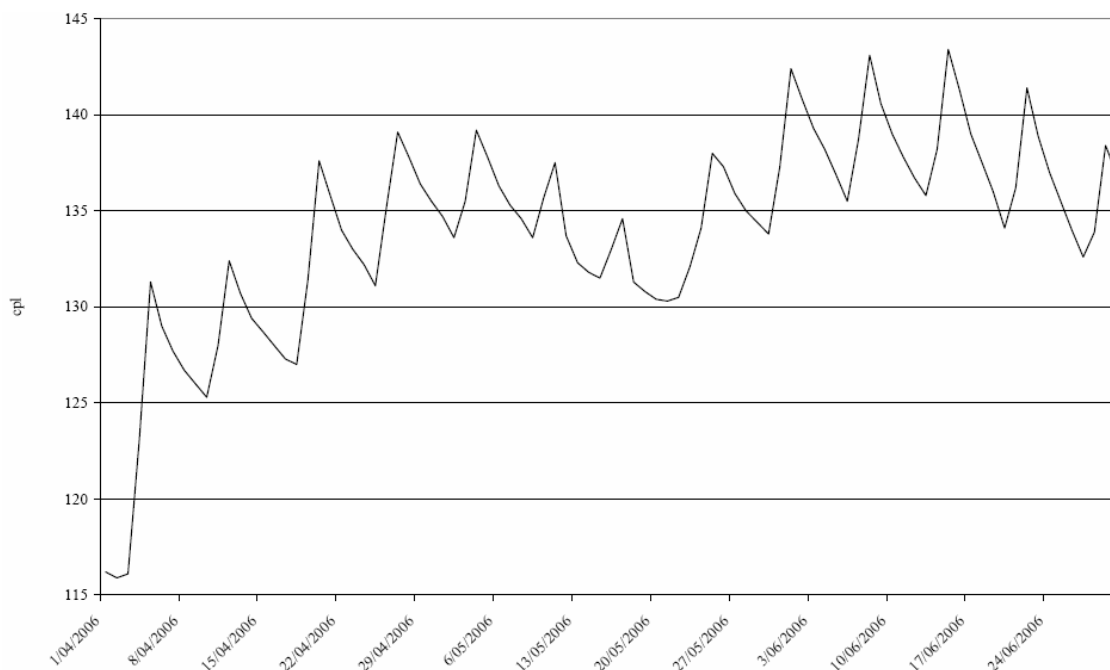
6.25 Reduced competitive pressures in the market of country locations generally results in regular price cycles being uncommon and consequently, country prices are more stable than in metropolitan areas. Whilst some country areas do have regular cycles, these tend to be located in areas close to metropolitan cities. Figure 6.2 illustrates the level of price movements in Tamworth, New South Wales as an example of the extent of price movements in a regional hub.

**Figure 6.2—Average daily retail prices for Tamworth (April–June 2006)<sup>21</sup>**



6.26 This compares starkly with average daily retail prices over the same period for Sydney, as shown in Figure 6.3.

21 ACCC, *Submission 31*, p. 63.

**Figure 6.3—Average daily retail prices for Sydney (April–June 2006)<sup>22</sup>**

6.27 Although a marked difference in petrol prices is apparent between cities and country areas, the Committee received evidence that in some regional locations the differential is declining. For example, the difference in prices between Bunbury and Perth has declined. In January 2004, consumers paid on average eight cpl more than in Perth, whilst in September 2006 the differential had dropped to just under 5 cpl on average.

6.28 The entrance of a major new competitor to the Bunbury market appears to have produced lower prices. Mr John Bain described the positive affect of increased competition in this country market:

Coles Express has really put a cat amongst the pigeons. There were two of them. Caltex and Woolworths on two sites were the only two that put a cat amongst the pigeons. Now there are six.<sup>23</sup>

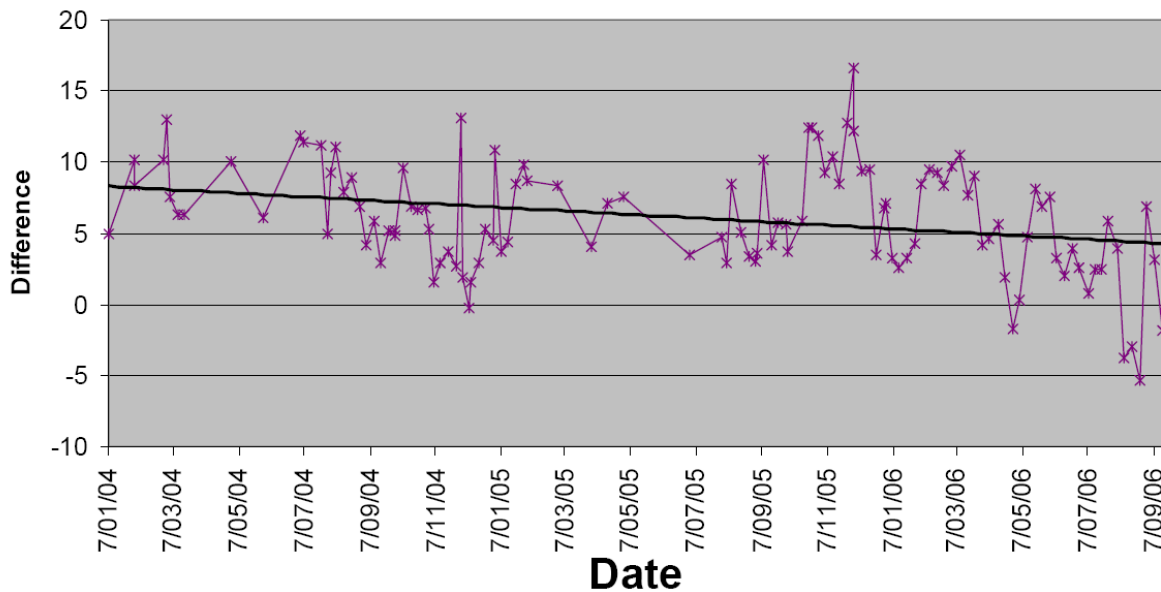
6.29 The differential between Busselton and Perth, and Kalgoorlie and Perth has also declined. This phenomenon can also be observed in data provided to the Committee from the RAPAD Board which compares average petrol prices in Brisbane and Longreach between June 1998 and June 2006.<sup>24</sup> This was supported in evidence submitted by the RACWA (included at Figure 6.4), which illustrates the declining price differential between Bunbury and Perth.

22 ACCC, *Submission 31*, p. 55.

23 Mr John Bain, *Committee Hansard*, 20 September 2006, p. 59.

24 RAPAD Board, *Submission 43*, p. 6.



**Figure 6.4—Bunbury and Perth price differential<sup>25</sup>**

6.30 However, in other regional areas such as Albany and Geraldton the price differential has remained steady whilst the differential between Port Hedland and Perth is increasing:

The point we are making here is that it is difficult to generalise about the trends in regional prices. There are local, geographical and economic factors that tend to be pushing things one way or the other.<sup>26</sup>

### **Do petrol taxes impose a greater burden on country consumers?**

6.31 As discussed in Chapter 5 – Petrol, Excise and GST, higher petrol prices attract higher amounts of GST. Several submissions argued that GST on fuel in regional, rural and remote communities should be abolished or lowered.<sup>27</sup> The RAPAD Board submitted that outback residents are paying an additional 1 cpl or more GST on their fuel purchases.<sup>28</sup> Mr Turnour argued that this is discriminatory towards non-metropolitan consumers:

It is completely unfair for communities in the Torres Strait to be paying 7 cents per litre in GST more than those in places like Brisbane and up to 15 cents more GST per litre in the outer islands.<sup>29</sup>

25 RACWA, *Submission 72*, slide 12.

26 Mr David Moir, RACWA, *Committee Hansard*, 20 September 2006, p. 26.

27 See for example, Mr Jim Turnour, *Submission 19*, p. 2; RAPAD Board, *Submission 43*, p. 11; and Mr Robert Parry, *Submission 74*, pp 3–4.

28 RAPAD Board, *Submission 43*, p. 6.

29 Mr Jim Turnour, *Submission 19*, p. 2.

6.32 Mr Robert Parry proposed that the GST on fuel is removed in tandem with an increase of 7 cpl to both fuel excise and the Fuel Tax Credits, and the additional 7 cents collected in excise revenue could be distributed among the State and Territory Governments at an agreed ratio.<sup>30</sup> Mr Parry's submission also suggested a number of reforms to simplify the collection of excise revenue.

6.33 Lower excise rates for fuel purchases in non-metropolitan areas were also proposed:

The fuel excise system does not reward Outback and remote business operators, communities and householders. It is discriminative, increasing the cost of transported items through the compounding effect of the fuel excise...

...The higher fuel price provides the opportunity for the Australian Government to revert to the fuel excise system that existed prior to 1959. This would mean the removal of fuel excise as a means of raising general revenue but hypothecated towards those areas from which it is collected – expenditure on roads, rail, air transport.<sup>31</sup>

6.34 However, the Committee notes that those who are eligible for Fuel Tax Credits would not benefit from such a measure because they are already effectively paying reduced or nil excises on fuel. Mr Michael Potter from the Australian Chamber of Commerce and Industry (ACCI) told the Committee that reforms to the petrol taxation structure to assist country consumers would be difficult to implement:

You could argue that fuel taxes should be lower in the regions. That is probably too hard to implement, though. The Government had the Fuels Sales Grant Scheme designed to keep down the price of fuel in rural and regional areas, but most analysis showed that it was not hugely successful at keeping down fuel prices in rural and regional areas.<sup>32</sup>

### **So what can be done to reduce country petrol prices?**

6.35 Given that competition has been shown to make the most significant contribution to lowering petrol prices in country areas, it is clear that consumers derive benefit from a market which promotes healthy competition between retailers and wholesalers and the emergence of more competitors into the market. The example of Coles Express entering the Bunbury market in Western Australia substantiates this point.

6.36 However, the Committee questions what can be done to help country consumers, unless new competitors enter the market. The Committee agrees that the most effective means of promoting competition in regional, rural and remote areas is

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30 Mr Robert Parry, *Submission 74*, pp 3–4.

31 RAPAD Board, *Submission 43*, p. 9, 11.

32 Mr Michael Potter, ACCI, *Committee Hansard*, 13 October 2006, p. 31.

to ensure the market is free from unnecessary regulation or controls which may restrict market growth.

6.37 In terms of intervening in the market, a submitter called for prices surveillance by the ACCC to be reinstated in country areas to enable formal petrol pricing investigations and to issue six monthly reports on price movements.<sup>33</sup> This view was shared by the NRMA which asserted that:

NRMA believes that the marked price differentials that exist between regional and metropolitan areas (and which have increased substantially in some locations) are sufficient justification for greater scrutiny by the ACCC of petrol pricing in rural and regional areas. The ACCC should be given sufficient powers to investigate the extent to which regional price differences in automotive fuels reflect increased costs of distribution and marketing as opposed to opportunistic price behaviour.<sup>34</sup>

6.38 The ACCC continues to monitor the city-country retail price differential and retail prices in approximately 110 country towns. If the differential were to widen significantly, it would increase the scope of monitoring. Matters relating to the extent of desirable government intervention in the market are further explored in Chapter 7 – Petrol Market Regulation.

6.39 As an alternative to Australia's reliance on petroleum products, the RAPAD Board submitted that ethanol has the capacity to lower the bowser price of fuel.<sup>35</sup> However, at the hearing Councillor Collins told the Committee that he had mixed feelings about subsidising ethanol production:

Not only I but everyone living in this part of Australia would be very keen to see cheaper, alternative energy developed. But if it consumes grain in particular it certainly impacts fairly heavily against the cattle feedlotting industry, and much of the cattle coming out of this area go into that industry. So while we might see cheaper energy we would probably also see dearer grain prices, which would impact against us in the long term.<sup>36</sup>

6.40 For further information about alternative fuels, readers are referred to the Senate Rural and Regional Affairs and Transport Committee report on Australia's future oil supply and alternative transport fuels, tabled in December 2006.

6.41 Boyce Chartered Accountants argued that fuel subsidies would help out rural communities struggling with rising petrol prices.<sup>37</sup> It is the view of the Committee that perhaps the most targeted method of alleviating the burden of rising petrol prices on

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33 Mr Jim Turnour, *Submission 19*, p. 2.

34 NRMA, *Submission 33*, p. 22.

35 RAPAD Board, *Submission 43*, p. 12.

36 Councillor Stanley Collins, Mayor, Winton Shire, *Committee Hansard*, 28 September 2006, p. 30.

37 Boyce Chartered Accountants, *Submission 63*, p. 3.

country consumers is for State and Territory Governments to review the level of subsidies they provide, particularly given that all GST revenue collected on petrol is paid to the state and territory governments. Currently, some jurisdictions provide subsidy schemes to reduce petrol prices at either the wholesale or the retail level.

6.42 Victoria is the only state providing a subsidy at the wholesale level (0.429 cpl) whilst jurisdiction-wide retail subsidies are provided in Queensland (8.354 cpl), Tasmania (1.956 cpl) and the Northern Territory (1.10 cpl). In New South Wales and South Australia, subsidies are restricted to particular zones; five zones within New South Wales receive subsidies ranging from 1.67 cpl to 8.35 cpl; and in South Australia subsidies range from 0.82 cpl to 3.33 cpl within two zones in the state. The Western Australian and the Australian Capital Territory Governments do not provide subsidies.

6.43 This report has highlighted that whilst perhaps a source of frustration for some, consumers in metropolitan areas reap the benefits of competitive market activities which lower the price of petrol or at least provide consumers with an opportunity to purchase petrol at a better price, such as on days when petrol prices are at the lowest point of a price cycle. These are opportunities simply not afforded to many in country areas, particularly those living in remote locations or very small communities.

6.44 The Committee notes that the extent of subsidies offered in some jurisdictions is very low or, as in the case of Western Australia and the Australian Capital Territory, subsidies are not offered. To provide targeted assistance to consumers in country areas, the Committee encourages State and Territory Governments to review their existing subsidy schemes to make sure that the people experiencing the greatest hurt because of rising petrol prices, are the ones receiving the most assistance through subsidy schemes.

## **Conclusion**

6.45 Petrol prices in rural, regional and remote areas are on average, higher than prices in metropolitan areas. People in metropolitan areas benefit from market forces and increased competition, whilst these just do not exist in markets servicing people living in many regional, rural and remote communities of Australia and to whom fuel is very much a non-discretionary commodity.

6.46 Although higher fuel prices flow through to higher costs of living in country areas, other costs such as rent and property prices can be lower which goes some way to offsetting them. Nevertheless, the Committee acknowledges that sustained high petrol prices are particularly painful to those in country areas.