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SUBMISSION

TO THE

QUEENSLAND GOVERNMENT

SELECT COMMITTEE OF INQUIRY

INTO

THE IMPACT OF PETROL PRICING

October 2005

MOTOR TRADES ASSOCIATION OF QUEENSLAND LTD
SUBMISSION
TO THE QUEENSLAND GOVERNMENT'S
SELECT COMMITTEE INQUIRY INTO
"THE IMPACT OF PETROL PRICING"

PREAMBLE:

The Motor Trades Association of Queensland (MTA-Q) represents 2500 businesses in the retail, repair and service sector of the Australian Motor Industry.
MTA-Q /SS&CS Association welcomes the opportunity of providing this submission to the Queensland Government's Select Committee of Inquiry into the "Impact of Petrol Pricing".

The current range of high petrol and diesel prices is causing great concern throughout the whole Australian community with its influence on inflationary elements, and severe reduction in discretionary spending. High diesel prices are also causing considerable financial pressure and in particular the SS&CS Association of MTA-Q for primary production, transport and industry generally, which will of course create higher price pressures on food stuffs, commodities and inflation. The reduction in discretionary spending has an increasing impact on retail sales and for Queensland in particular, a reduction in tourism activity.

GENERAL OVERVIEW:

Our service station membership, have little control over retail petrol pricing, are also subjected to severe economic pressures through having to fund approximately 30% increase in stock capital, without being able to achieve a commensurate investment margin return. In addition, increased retail prices are causing a reduction in sales volumes, estimated to be about 2-3% and therefore reducing even further their profit levels. Adding to this, the influences of the invasion of the supermarkets to the petrol industry, should not be underestimated and will continue to force many independents out of business. It is estimated that the duopoly of the (2) supermarket chain alliances – Shell/Coles and Caltex/Woolworths have now captured some 55% of the petrol retail market in Australia and are expected to continue to gain an even greater share of the market. An example of the serious reduction of competition in the service station sector in Queensland is the number of sites that have exited the industry over the period 1993 - 2005 being some 24% or (440) sites have been forced to close. The effect of such reduction of competition and site numbers will in the long term not be to the benefit of consumers.

For Queensland in particular, the significant and ongoing reduction in the number of service stations is already creating difficulties for regional motorists. The longer distances that motorists now have to travel in Queensland rural areas to obtain petrol can be 70-80 kilometres. As the number of service stations continues to diminish, this lack of retail sites in rural areas will further accentuate reasonable petrol access problems for regional motorists.

NEW & USED CAR DEALERSHIPS:

New and Used Car Dealerships are facing a changing market scenario – larger to smaller vehicles where fuel economies become apparent for consumers. There has also been a marked increase in sales of motor cycles and scooters thus providing a cheaper alternative to motor vehicles. Hybrid vehicles are another option, and despite its presence in the marketplace, it is too early to gauge this as a viable alternative. Figures released from VFACTs indicate increases in unit sales for light and small passenger vehicles and decreases for medium and large passenger vehicles.

It is often overlooked by governments and regulators, that petroleum has an influence on the whole Australian community and that there is not one Australian industry or business that is not impacted by what happens with petroleum in not only pricing, but logistics, regulation and political influences. In spite of this major influence on the average lives of all Australians, there is no Ombudsman or single focus and dedicated unit to monitor the market behaviour of the providers of petroleum to the community.

TRADE PRACTICES ACT REFORM:

The MTA-Q does not support price control within the petroleum industry. However, we do believe, because of its major influence on the whole of the Australian community, it should be monitored more closely by the Federal Government, with the whole process of petrol pricing made much more transparent. The strengthening of Trade Practices Law in the areas of abuse of market power and predatory conduct, for the protection of the consumer and small business is urgently needed, in both the short and long term interests of consumers. The Australian Competition and Consumer Commission (ACCC), which is charged with the responsibility of protecting consumer interest, is currently severely constrained under inadequate provisions of the Trade Practices Act which should govern the commercial behaviour of the major oil companies and their supermarket alliances in the areas of exploitive and predatory conduct. The MTA-Q believes that both predatory and exploitive behaviour is occurring in petrol retailing in the Queensland marketplace on an intermittent and geographically discriminatory basis. Therefore, the MTA-Q believes the Queensland State Government needs to become more proactive in urging the Federal Government to ensure that s46 of the Trade Practices Act is amended to create more effective trade practices law to deal with anti-competitive behaviour and the abuse of market power for both large and small business.

The Federal Government, through its Industry, Tourism and Resources Department, under its Minister, Hon Ian Macfarlane, is currently developing a mandated, petroleum industry code of conduct called – OILCODE. This code, which it is proposed to be administered by the appointment of a Disputes Resolution Advisor (DRA) is supported by the MTA-Q as being an effective means of monitoring the behaviour of the industry. However, the MTA-Q believes the DRA to be effective in its role, needs to be given sufficient authority, be highly experienced in the workings of the petroleum industry and that it is a senior level appointment, enabling it to work in conjunction with the ACCC, in monitoring petroleum industry pricing behaviour. The MTA-Q believe the implementation of OILCODE and the appointment of its DRA should be given the highest priority by the Federal Government and vigorously supported by the State Governments.

In presenting this submission the MTA-Q have also taken into consideration that Australia's petroleum pricing is predicated on world commodity pricing based on refined product sales ex Singapore (import parity) and is further influenced by national logistics and political issues such as taxation.

TAXATION ISSUES:

Obviously governments in Australia have little or no influence on world commodity pricing with petroleum. However, the factors that are directly controlled by our governments are the various levels of taxation. In Australia governments have imposed two levels – Excise at 38.14cpl benefiting Federal Government revenue by some $13 billion) and GST at 10% (benefiting State revenue), **which creates an iniquitous position of tax on tax.** Fuel tax in Australia is used as a general means of collecting taxation revenue with only some 25% of excise going to road funding.

The MTA-Q present the following comments and recommendations specifically addressing the Select Committee's Terms of Reference.

a) ***Consider the extent to which current price increases the competitiveness of alternative fuel sources such as E-10 (Ethanol).***

The MTA-Q, because of its benefit to primary production and the environment, supports the promotion of the bio-fuels (including ethanol) industry in Australia, but do not see it as a panacea for relief from high petrol prices or having any significant impact on cushioning Australian petroleum demand pressures in the short to medium term.

- Bio-fuels are environmentally friendly; give support to primary production – including in particular, sugar cane and grain crops. Bio-fuels production also decreases, by a relatively small amount, our dependency on petroleum fuel products. The Federal Government has established a target of 350 million litres of bio-fuels production by the year 2010. This represents less than 1% of Australia's petroleum fuels consumption.

MTA-Q does have some concerns about the longer term prospects for the industry and the manner in which bio-fuels are marketed in Australia.

- Bio-fuels currently have an excise free status (38.14cpl) to assist with the industry's development and will continue to receive preferred excise tax treatment until 2011, when ethanol (and LPG and Bio-diesel) will be progressively obliged to pay excise at a much reduced rate to that of petrol and diesel. Viz:-

  2011 – 2.5cpl
  2012 – 5.0cpl
  2013 – 7.5cpl
  2014 – 10cpl
  2015 – 12.5cpl

- The mandating of an E-10 blend of petrol, until the year 2011, would cost the Australian taxpayer $700 million in foregone excise revenue.

- A number of studies undertaken by government and also as reviewed by the *Centre for International Economics* has revealed that the long term economics of ethanol production is doubtful even with a full rebate of excise.

- Where E-10 ethanol has been marketed – in North Queensland and some areas of NSW, in spite of its excise free status (price advantaged by 38cpl) there has been little or no price reduction noted to the consumer. Petroleum marketers have used the E-10 blends to subsidise poor margins.

- Some primary producer groups, supported by the *Centre for International Economics* have expressed concern about grain crops being used for bio-fuels production. The livestock industry in particular believe that grain crops diverted to bio-fuels production will cause unsustainable feed stock price rises and shortages.

- Bio-fuels have less energy content than petrol and diesel fuels, which indicates that consumers would need to have a distinct price advantage to petroleum to receive any real benefit.

  The Energy content of the respective fuels are:

	Diesel	**Biodiesel**	**Petrol**	**LPG**	**Ethanol**
MJ/L	**38.6**	**36**	**34.4**	**26.2**	**23.5**

- Ethanol has not yet been embraced by the motoring public. This has been created by at times, unfair scaremongering, which has emanated from vested interest groups such as the major oil companies and some car manufacturers. The ethanol industry has not yet been able to mount an effective public awareness campaign to overcome buyer resistance that strongly exists at this time.

- Whereas currently, 90% of all ethanol manufactured in Australia is undertaken by the Manildra Company (based near Nowra NSW), logistically at this time it would seem not economically prudent to consider mandating ethanol until other refining plants planned across Australia come on stream.

In view of all of the foregoing influences, MTA-Q does not recommend that ethanol E-10 be mandated at this time.

However, the MTA-Q supports the efforts of the Queensland Government in promoting the expansion of the ethanol industry in Queensland and of improving public awareness of the benefits of ethanol use to motorists and Queensland rural economies.

b) Identify the economic and financial consequences of current fuel prices with a particular emphasis on regional Queensland and outer metropolitan areas.

i) Wholesale petrol prices as at September 2005 in Australia have increased 35% since the end of 2004, with diesel prices having also increased by 25%.

ii) For petroleum marketers, such increases represents, based on September 2005 prices, for each B double tanker load (60,000 litres) of petrol purchased, an additional $20,000 needs to be found.

Assuming an average service station will have underground stock levels approximating 80,000 litres, additional funding required to service that stock at today's high prices represent approximately $26,000.

For a regional petroleum distributor, the additional capital investment to service stocks and debtors, is significantly more. Assuming a medium sized distributor has stock levels of 2 million litres, they will be required to find an additional $650,000. Petroleum distributors carry debtor ledgers to service primary producers, miners, transport etc, usually of the order of at least $2 million, they will need to find an additional $350,000 for each million dollars to service their debtors ledger. Normally in business, if you are required to increase your invested capital, percentage margins are increased to cover that additional cost.

However, the injustice to independent petroleum marketers is that they are locked in to cents per litre margins, not percentages and, the prevailing margins dictated by the majors. They are therefore unable to recover the increased cost of investment. In addition to these cash flow problems independent petroleum marketers are also having to face the fierce and at times unfair, competition from the majors and their supermarket alliances.

This serious imbalance means that many independent service station operators and distributors will run out of capital and be forced to exit the industry.

Such a significant lessening in competition will, in both the short and long term, seriously diminish competition to the marked disadvantage of consumers, particularly for people living in regional areas.

iii) Country motorists have to contend with a "double whammy" in petroleum pricing. They have to absorb freight costs to their region, plus increased cents per litre margins having to be charged by petroleum resellers to maintain viability due to lesser sales being achieved compared to their metropolitan colleagues. In addition, regional independent service station operators are generally unable to buy at the majors' published Terminal Gate Prices, which has the result of depriving country people of capital city levels of discounting.

iv) The influence of high petroleum prices on inflation, the significant reduction of discretionary spending is obvious. Consumables and food stuffs in particular, face significant increases because of higher transportation costs. The reduction in tourism activity will particularly hurt Queensland.

The extreme pressure that the issues of lessening of discretionary spending will place on families cannot be overestimated.

c) Identify practical ways that consumers can reduce their petrol bills, including through considering whether the existing information on the fuel efficiency of different makes of motor vehicles is sufficient.

i) There are several means in which consumers can moderate their petroleum purchases. However, a number that are being promoted in the media and elsewhere as being viable alternatives, may in reality not offer real cost saving or practical benefit for consumers.

ii) The Association on a regular basis promotes media exposure on the need to have motor vehicles properly serviced at all times.

An engine correctly tuned will use petrol efficiently. Conversely poorly tuned engines experienced increased consumption.

The government's "Air Care" Program of some years ago was a positive campaign to highlight increased environmental awareness associated with the proper maintenance of motor vehicles. **The MTA-Q would**

strongly support any effort by the Government to restore this activity.

Other practical ways include maintaining correct tyre pressures to reduce drag and driving habits to be moderated e.g. fast acceleration at traffic lights etc.

iii) **Price cycles:** The element of petrol pricing that most annoys motorists are the "on again off again" cycles, where variances can be more than 10cpl from one day to the next or indeed on the same day. These cycles have no relevance to the import parity mechanism of petrol pricing in Australia, which is determined on a daily basis. They are in fact purely a device introduced by the major oil companies to enable them to average and manipulate their margins over a period of time. However, with the increased transparency created by independent price monitoring companies, (MotorMouth and Fueltrac) motorists are now able to determine from the internet which is the cheapest day for them to buy. Also, these sites can provide the cheapest available sites in their area. It is also noteworthy that the ACCC provides useful pricing data on its Web site and has also produced a booklet "Understanding Petrol Pricing in Australia" which is a valuable education aid for Australian motorists.

iv) **Conversion to LPG:** Wholesale pricing for this petroleum product rises at a much slower rate than petrol and diesel – usually about twice per year, but it does rise and fall and currently enjoys an excise free status of (38.14cpl). The cost variance between LPG and ULP varies across the country but is broadly about 60cpl. The cost saving for consumers in recouping the cost of a gas conversion depends on the kilometres travelled each year – the higher the distance travelled, the more cost effective conversion to LPG becomes. Taxis and small commercial vehicles are a good example of how good economies of scale can be achieved. The average private motorist, again subject to travel distances, including consideration of LPG's lesser energy content, would probably take about (5) years to recoup conversion costs. However, some of the down sides of LPG are that it has about 30% less energy content than petrol and it does not have the spread of refuelling outlets that petrol has, particularly in rural areas. The refuelling outlet spread is becoming a more pertinent issue as many independent service station operators are exiting the LPG market because they cannot achieve a viable margin.

v) The MTA-Q believes that the public are trending to the conversion to smaller engined motor vehicles.

Retail vehicle market for class types of vehicles, source VFACTS. Figures as below show a decrease in the larger passenger market in Queensland over the last 12 months (September year to date).

Type of Vehicle	*Comparison to same period last year*
Light Market example typically: Ford Fiesta, Holden Barina etc.	554 increase in units sold
Small Market example: Ford Focus, Holden Astra etc	1005 increase in units sold
Medium Market example: Holden Vectra, Toyota Camry etc.	300 decrease in units sold
Large Market example: Ford Falcon, Holden Commodore etc.	971 decrease in units sold

vi) **Hybrid vehicles** are considered by the MTA-Q not yet to be a viable alternative in relieving the impact of high petrol pricing but are certainly worth encouraging wider use.

The market leader at this time is the Toyota Prius but dealers are unable to obtain sufficient supply to meet the market. This will of course change in time as the manufacturers gear up for the wider demand.

d) Consider the extent to which recent fuel increases could be moderated through enhanced domestic competition, including how the Australian Competition and Consumer Commission powers could be strengthened to deliver enhanced competition.

Within the State of Queensland the MTA-Q believes that there is intermittent and geographic price exploitation and predatory pricing conduct..

This observation has been made possible by the increasing transparency of retail board pricing provided by independent price monitor firms such as MotorMouth, Fueltrac and Informed Sources and relating these to import parity benchmark wholesale prices.

Whereas Australia's petroleum pricing is predicated on import parity based on refined product sales ex Singapore, the following will illustrate how wholesale pricing is determined.

Australian Land Cost Indicators: This price is a (7) Day Rolling Average of median refined product sales ex Singapore plus World Scale Shipping Rates, Insurance and Port Charges	**ULP 95RON**	**70.67cpl**
Australian Federal Excise Rate: This amount is currently not indexed and is as determined from time to time by the Federal Government		**38.14cpl**

Local Margin Indicator: This is an arbitory amount used by the industry to cover terminalling and discounting programs	**7.50cpl**
Goods and Services Tax (GST @10%) It should be noted that the GST element creates a tax on tax position relative to the excise rate	**11.63cpl**
(7) Day rolling average Australian Eastern Seaboard WHOLESALE PRICE INDICATE: this wholesale price indicator excludes discounts and government subsidies	**127.94cpl**

The above table is an actual price structure – averaging landed prices for Melbourne, Sydney & Brisbane for the 29th of September 2005.

To assess whether or not exploitive and predatory conduct is being enacted, there needs to be a clear definition of what these actions constitute. To assist the Select Committee in their deliberations on these issues the MTA-Q offers the following non legal perspective that petroleum marketers (non major oil) on what behaviour they view as predatory and exploitive.

Predatory: - "When service stations and the supermarket alliances post retail board prices that are – at or below the supplying major oil company's published terminal gate price". Such action precludes independent operators from fairly competing in the market place.

Exploitive: - "When service stations and the supermarket alliances post retail board prices that provide unreasonable margins. Also, when major oil companies, service stations and the supermarket alliances, unreasonably delay the implementation of import parity price reductions."

The MTA-Q believes that while transparency in petroleum pricing has considerably improved, the community would be advantaged by encouraging the increased use of the price monitoring forms (MotorMouth, Informed Sources and Fueltrac). Drawing attention to the ACCC web site and price information booklet would also be of great benefit to motorists in enabling them to take advantage of the "best price" information and transparency that these services provide.

The MTA-Q has noted that the current Trade Practices Laws do not give the ACCC sufficient powers to police abuse of market power and predatory and exploitive pricing conduct. Therefore, we would urge the Queensland Government to take a proactive role and pressure the Federal Government to introduce the recommendations of the 2004 Senate Economics Reference Committee majority recommendations to Government to strengthen the Restrictive Trade Practices Laws in the areas of Abuse of Market Power and both Predatory and Exploitive commercial conduct for the protection of small business in Australia.

Over the past three years the Federal Government has been working towards the introduction of a code of behaviour for the Australian oil industry. It has been a long and torturous journey in developing OILCODE, with getting the various stakeholders within the industry to reach some form of consensus proving to be extremely difficult. However, the development of the code is still proceeding, with the associations, supported by the MTA-Q, endeavouring to ensure that the proposed Dispute Resolution Adviser (DRA) who will monitor the code, is of sufficient senior status and oil industry experience and has sufficient legislative authority, to ensure the effectiveness of his petroleum industry behaviour monitoring role. When OILCODE is mandated, this will enable the Federal Government to move forward with its Oil Industry Reform Package which will include – the adoption of OILCODE, the appointment of a Disputes Resolution Adviser (DRA) and the abolition of the now outmoded Petroleum Sites Act and the Petroleum Retail Franchise Act.

The MTA-Q is of the view the Queensland Government should support the OILCODE concept ensuring that it has the legislative authority through the DRA to effectively protect the interest of consumers and all stakeholders within the petroleum industry.

e) Examine whether Queensland receives its fair share of road funding.

MTA-Q is not in a position to comment on this. The RACQ is the appropriate body to make comment on road funding based on their Policy Analysis dated the 14th February 2005.

However, generally speaking, the MTA-Q believes it is clear that infrastructure spending by all levels of government is not meeting public expectations and needs.

f) Identify the capacity and benefits of the Federal Government reducing fuel excise to ameliorate the impact of high fuel prices on families and business.

Contrary to a general public belief, excise tax collected through petroleum sales is not reserved for motorist benefit. Excise is used in this instance as a purely tax revenue source, recouping some $13 billion dollars in the 2004/5 year. GST is of course collected for the benefit of States, but does give rise to a tax on tax position, which is in reality a windfall for State revenues.

The Federal Government has already indicated its unwillingness to further reduce petroleum excise from its current level and realistically, for it to do so, would cause them to seek the lost revenue from elsewhere, the sources and cost of which maybe less palatable to taxpayers.

Tax on tax is always an iniquitous tax position for governments to impose. Therefore, the MTA-Q believes there is an extremely strong argument, for the benefit of consumers, that the excise element of petroleum pricing should be exempt from GST. This would save the petroleum consumer nearly 4cpl (3.8cpl).

However, State Governments would need to agree to the foregone (loss) of revenue that such a GST correction would entail. Hopefully, the States will come to accept that they are currently enjoying a GST revenue stream to which they are not equitably entitled.

The MTA-Q strongly recommends that the Queensland Government pursue with vigour this common sense approach for the benefit of consumers and the elimination of an iniquitous tax regime.

(g) Identify whether the Queensland motorists are receiving the full benefit of the 8.354cpl subsidy and examine the efficiency of administration for the bulk end users scheme.

The MTA-Q believes the payment of the subsidy to front end resellers based on their actual sales volume provides the most reliable way to ensure that the consumer receives the discount. Payment direct to the major oil companies would not derive the same level of confidence that the subsidy would not be lost in so called rebates and price support programs and would permit, as it did in the past, manipulation of the price over State boundaries.

In recent years, various organisations and special interest groups have advocated the abolition of the fuel subsidy and to channel the savings to fund other projects considered under funded as in roads, public transport and disability services. The estimate redeployment is approximately $500 million per year. One suggestion was to phase out the subsidy over 4-5 years and reallocate savings to service borrowings to fund road and public transport infrastructure.

MTA-Q believe that Queensland motorists are receiving the full benefit of the fuel subsidy. Pricing records indicate that NSW prices exceed Queensland prices by amounts averaging close to the amount of the subsidy plus GST. MTA-Q believes the existing Queensland Fuel Subsidy should be retained until due consideration is given to replacing it with a comprehensive reform of taxes, government charges and subsidies that improve efficiencies and equity.

MTA-Q acknowledges the support given by the State Government to representations for assistance in meeting the administration costs of the Queensland Fuel Subsidy Scheme for petroleum retailers.

Finally, the MTA-Q has welcomed the opportunity to articulate the significant problems associated with petrol pricing that are confronting, in particular, consumers and petroleum marketers. We would be pleased to further elaborate on the major issues of petrol pricing and our recommendations contained within this submission directly before the Committee, if requested.

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