About the RAA

The Royal Automobile Association of SA Inc (RAA) is the State's peak non-government body representing motorists. Our 560,000-plus members – 27 per cent of whom reside in regional SA, look to the RAA to represent their interests on a broad range of motoring-related issues, in particular fuel.

The RAA provides a fuel advisory and information service to RAA Members, the broader community, media, stakeholders, industry groups, private companies and government agencies. This is supported by a comprehensive website presence that provides detailed information on all matters relating fuel, including:
The cheapest Adelaide fuel locations (updated daily in the morning and afternoon)
Daily, weekly, monthly and yearly petrol, diesel and LPG price data
Industry background, pricing and taxation fact sheets and FAQ responses
Detailed fuel supply and demand analysis
Current issues and breaking news
Links to relevant industry sites and sources; and
A direct question function.

As part of the Association's fuel monitoring role, the RAA collects and analyses the following fuel information:
Daily crude oil price in US dollars
Daily Australian exchange rate
Adelaide average daily ULP, Diesel and LPG price
Daily Terminal Gate Prices (TGP) - ULP and Diesel
Refining reference price for ULP, PULP and Diesel
Daily Singapore parity price (MOGAS) in Australian dollars for ULP and Diesel
Adelaide monthly average for each fuel type (ULP, PULP, Diesel and LPG)
Monthly average ULP price for 10 regional South Australian towns

Through data analysis, the RAA provides fuel-related information to a range of stakeholders, including other Australian and overseas motoring clubs, industry bodies, private industry, and government agencies such as the Australian Tax Office, Treasury and local government.

On average, the RAA fuel website attracts around 200 daily hits and the Public Affairs Unit receives an average of ten phone calls per day on fuel -related issues. During peak periods (such as experienced recently with higher petrol and diesel prices) the Public Affairs Unit has fielded one telephone call every five minutes and cater for as much as 15 media and stakeholder enquiries per day.

Combined with the results from extensive member surveys (Australian National Opinion Polling), RAA members are indicating that rather than forgo driving as a result of higher petrol prices, motorists are choosing not to spend money on entertainment, food and other essential items.

What the RAA believes in…

The RAA believes that market forces should dictate the price of petroleum-based products reflecting their cost of production, the cost of supplying products to different markets, and the degree of competition that exists in those markets. A free and open competitive market for petroleum products best serves the interests of consumers.

The RAA also calls for the Federal and State Governments to monitor the oil industry and relevant markets to ensure that all levels of government have information upon which to formulate effective policy. This includes more effective and timely monitoring and communication of fuel prices, volume and storage information; greater inclusion and consultation with the RAA and national autoclubs in policy and legislative decision making processes in regard to fuel; and streamlined and responsive complaints investigation and resolution processes.

It is imperative that government legislation and policy should be directed towards ensuring that all sections of the oil industry in Australia (refining, wholesaling, distribution and retailing) operate in a transparent and competitive manner.

In addition, the RAA advocates the following:
The recommendation of the 2001 ACCC Inquiry 'Reducing Fuel Price Variability' against legislating to eliminate or reduce price cycles given these price cycles enable consumers to buy fuel at lower prices overall
A transparent Terminal Gate Pricing system for all fuels

- Governments must monitor and effectively investigate metropolitan and country retail and wholesale fuel prices in order to identify and expose unjustifiable and excessive differences, which would then put pressure on the market to eliminate market deficiencies

- Effective monitoring to ensure that petrol price subsidies are passed on to end consumers

Government must ensure adequate supply of fuel to meet the needs of South Australian motorists; and
The RAA is concerned by the burden that higher rural fuel prices place on motorists, however, retail price capping is ***not*** supported as it may act to restrict competition and result in even higher prices.

Overview of the SA Fuel Market

- As at August 2005, there were 1,189,483 registered motor vehicles in South Australia.

As at the end of the year 2000, there was 807 service stations in South Australia (312 Metro / 495 Country), with the majority in the metropolitan area owned by oil companies or under franchise and most regional stations supplied by distributors. Noting much has changed in the retail market since the introduction of petrol discount vouchers in 2003.
Average daily demand for petrol and diesel in SA is 7.1ML (plus 0.5ML for jet fuel). During peak periods (December) demand for fuel jumps by between 10– 30 per cent). The majority of SA's petroleum requirements come via ship to Port Adelaide.
The majority of SA's LPG requirements are distributed from Santos' Port Bonython facility, piped from the Cooper Basin. Stocks of LPG are then transported via road around the State by several carriers directly to service stations.
Since the closure of the Mobil Port Stanvac refinery, and as predicted by Mobil prior to the closure of the facility, SA motorists pay at most an extra 1cpl premium on petrol.

Adelaide motorists enjoy a distinct discount cycle, which currently results in petrol being sold cheaper on Tuesday and into Wednesday morning.
SA motorists pay approximately $300million per annum to the State Government through GST on fuel and close to $1.2billion to the Federal Government through Fuel Excise.

What the RAA believes is wrong with the petrol market

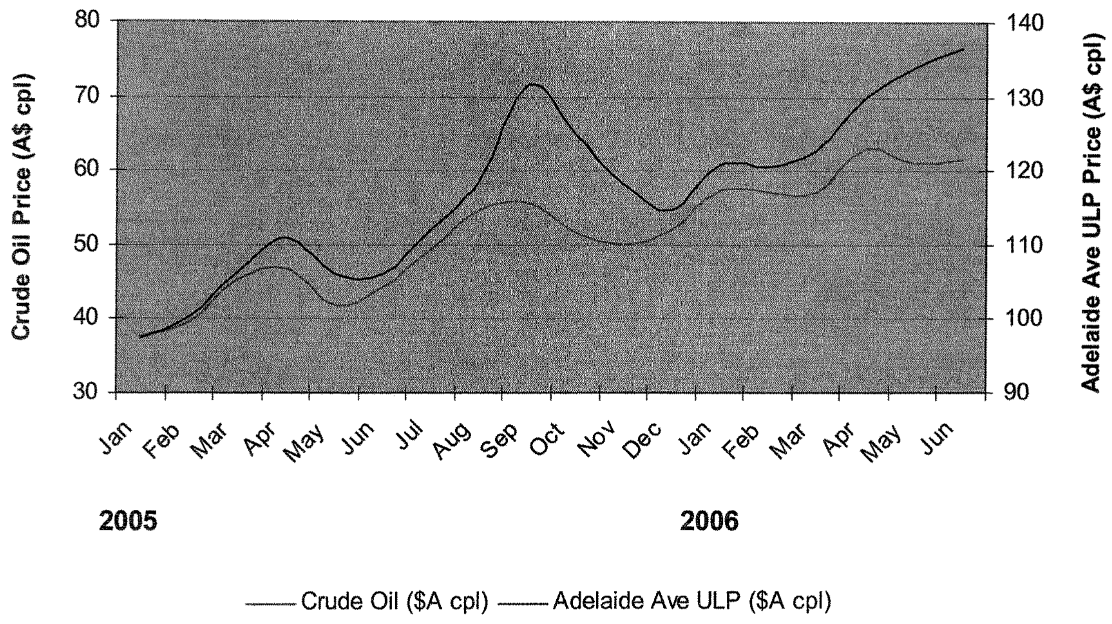
Increased Refinery Margins

September/October 2005

In September last year, while crude oil prices reached record levels in international markets of over US$70 per barrel, prices proceeded to fall relatively quickly to stabilise at around US$64 per barrel. However, while the price of crude oil was driven up by US$5 per barrel as a direct result of damage in the US from Hurricane Katrina, the price of a barrel of ULP rose by US$20 a barrel over the same period.

Highlighted in Table 1 below, this meant that for a sustained period over September and October, oil company refineries reaped a windfall profit gain of $15US per barrel, which equates to around an additional 15cpl for motorists across Australia.

Table 1 - Tapis oil price (left axis) and Adelaide average ULP price (right axis) (Australian cents per litre)



March 2006 – present

As highlighted above, figures compiled by the Australian Automobile Association (AAA) using US Energy Information Administration and FUELtrac data, show the margin between the Tapis Oil Price and Adelaide average ULP petrol prices has risen significantly since April 2006.

The increase in the differential between oil and petrol prices appears to have been driven by a combination of increases in margins at the retailing, wholesaling and refining levels. GST has had a slight influence, since it increases as the retail price increases. In January 2005, the amount of GST paid on the average capital city petrol price was 8.8cpl. By June 2006 this had moved to 12.6cpl, representing a 3.7cpl increase.

Action required - The RAA believes that consumers are best served by the availability of more, not less, transparent information, which drives competition and therefore helps to ensure that prices are reasonable. To this end, while the ACCC updates information about petrol price cycles in five cities on its website on a regular basis, there is scope for a great deal more information to be provided and for specific investigation (ongoing) into petrol margins.

Excessive Country Petrol Margins – October 2005 - present

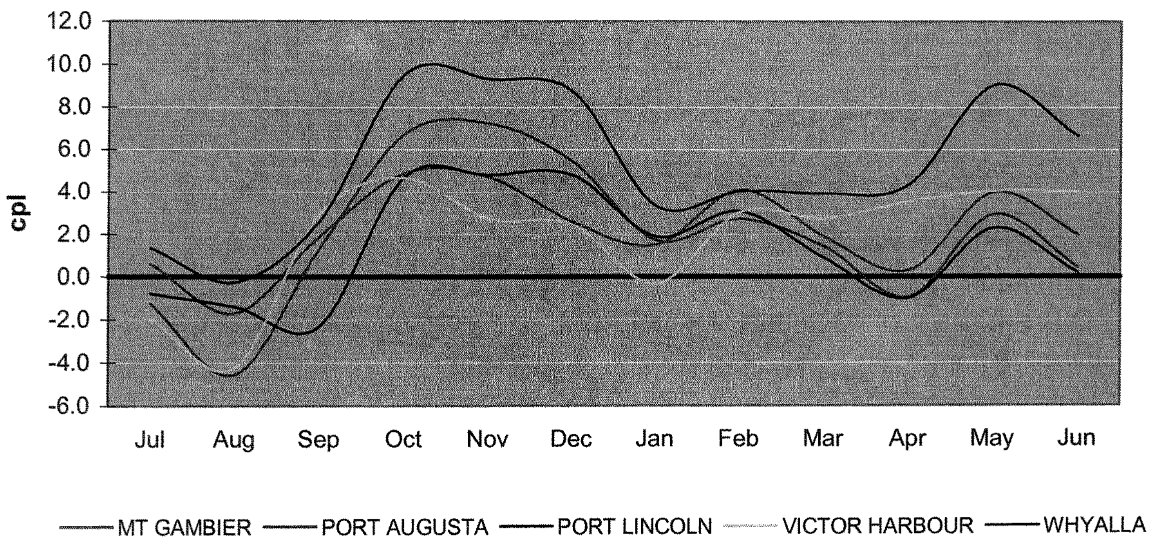
The RAA released figures in late 2005 and again in July 2006 that demonstrated that the gap between city and country petrol prices has reached (and in many cases maintained) record margins during these periods. Table 2 below, provides data which indicates that this has been happening across much of regional Australia in late 2005 and again currently in country SA:

Table 2 – City/Country ULP margin analysis

Location	18-month average city and country ULP margin	ULP city and country margin October 2005 Average	ULP city and country margin May 2006 Average
Mt Gambier	3.1cpl	9.8cpl	6.0cpl
Port Augusta	2.2cpl	7.1cpl	6.2cpl
Port Lincoln	2.1cpl	6.8cpl	4.4cpl
Victor Harbor	1.4cpl	6.0cpl	5.4cpl
Whyalla	1.5cpl	11.0cpl	10.5cpl

Table 3 below, highlights the movement away from historical petrol margins in various South Australian country towns since 2005.

Table 3 – City / Country ULP Margin Analysis – Variation in regional ULP margin July 2005 to June 2006 (against 18-month average January 04 – June 05)



The RAA accepts that reduced competition and greater distance from Adelaide will deliver city/country price differences across South Australia. However, there is no justification for average city/country petrol margins to change significantly, particularly in the short term when international petrol prices increase.

Action required - The ACCC has previously indicated to the AAA that the city/country price differences are a function of the lag between city and regional prices, while major oil companies have suggested that the increase might have been a result of opportunistic pricing by regional retailers. The RAA does not accept these responses and believes urgent detailed analysis and investigation is required by the ACCC to curb what appears to be profiteering in country markets

2005 2006

at the expense of motorists.

A lack of effective competition between oil companies, particularly evident in the Melbourne and Adelaide petrol markets since mid-late 2004.

Overview of metropolitan ULP prices 1999 present

Table 4 below, indicates that since January 1999, Melbourne, Sydney and Perth average monthly ULP prices have followed fairly standard trends. In these graphs, Adelaide is the base of 100 and the points represent whether the average monthly price was higher or lower than Adelaide during that month. Since April 2003, a 1cpl premium has been added to Adelaide prices.

Table 4 – Price fluctuations in the ULP market - January 1999 to June 2006

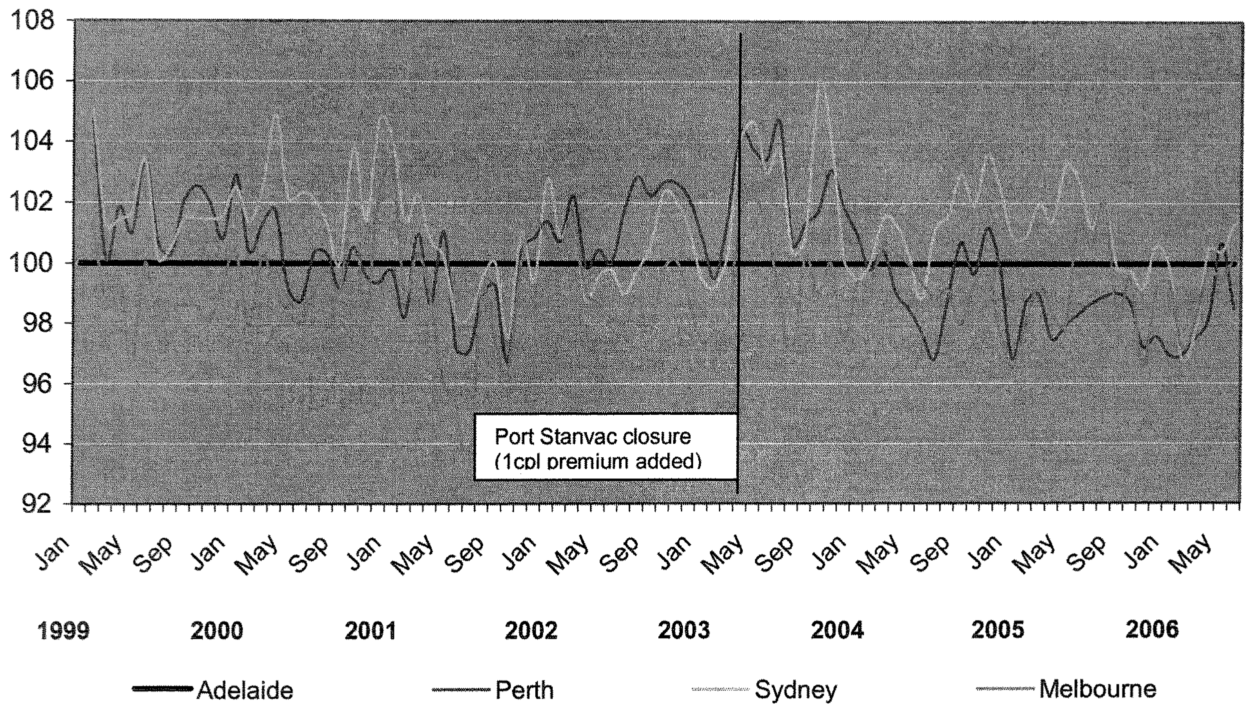
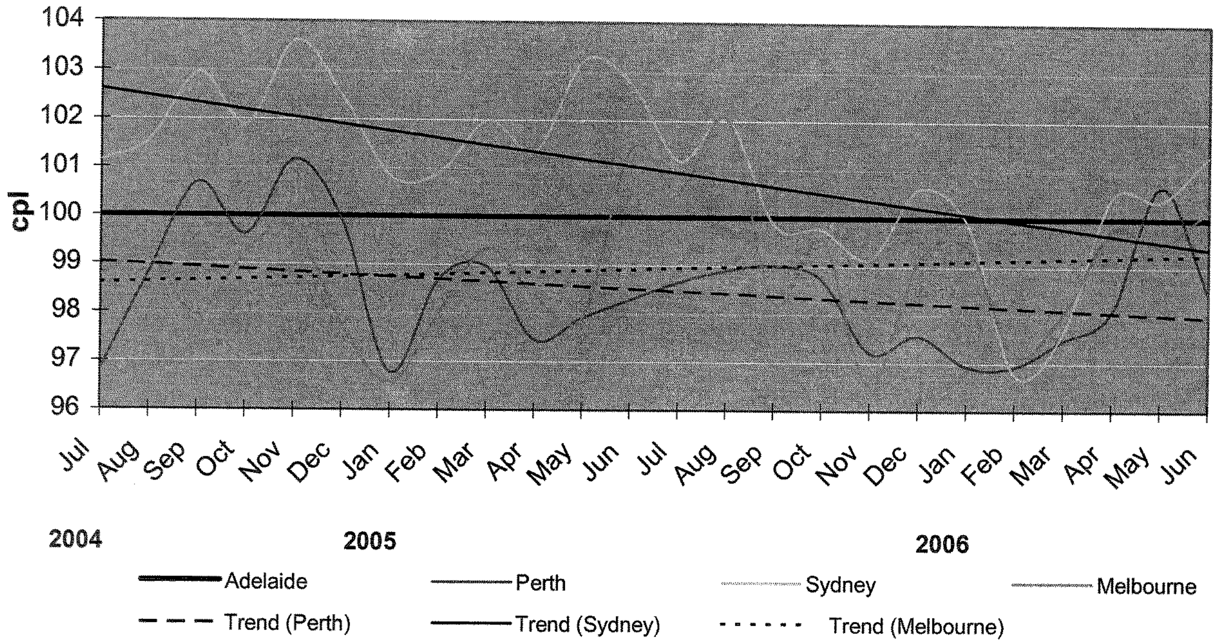


Table 4 highlights that to June 2004, Perth and Sydney prices were on average 1cpl more expensive than Adelaide, and Melbourne prices had reduced to around half a cent cheaper than Adelaide. Other than the 1cpl premium due to the closure of Port Stanvac, fuel prices in Adelaide to mid 2004 trended relatively similar.

However, Table 5 below, highlights that average monthly ULP prices since July 2004 show that Perth and Sydney prices have trended downwards compared to Adelaide, while Melbourne prices have trended higher to be equal with Adelaide. ***This simply means that something different is occurring in Adelaide and Melbourne markets when compared to Sydney and Perth.***

Table 5 – Adelaide Average ULP prices compared to Melbourne, Sydney & Perth



The RAA does not have the resources to identify the factors that drive margin changes in fuel, rather it can only note the lack of transparency between them, the opportunity for cost shifting with the refiners, wholesalers and retailers.

Action required - The Federal Government, in particular the ACCC has the resources to identify likely factors that are driving margin chances within the fuel industry, which most likely include:
Current market share within petrol retail market
Fuel discount schemes
Transparency of industry wholesale prices and refinery margins
Wholesale competition

In recent years, the ACCC has published very little of its petrol price monitoring information. Apart from providing data on petrol price cycles in only five cities on its website and a general brochure on petrol prices, no new reports on petrol price monitoring have been generated by the ACCC since December 2002. While the ACCC reported on supermarket petrol discount vouchers in February 2004, since this time significant market share has been gained by Coles and Woolworths (through their affiliation with Shell and Caltex) which requires investigation.

More broadly, the powers of the ACCC to effectively investigate issues surrounding limited wholesale competition, and rectify adverse price effects, appear to be limited under existing provisions of the Trade Practices Act. Both the increased transparent release of petrol price information and increased power to take action under the Trade Practices Act must be a focus of the Federal Government.

The way forward

ACCC must do, and be empowered to do, more

Given the rapid increases in fuel prices in recent months and the impact that these have had on household budgets, the lack of any new reports by ACCC on its extensive price monitoring is extraordinary.

In the interests of encouraging competition, the ACCC must regularly report on the movements of all fuel prices in all Australian capital cities and the 110 country towns that it monitors. It should also regularly monitor and publish information on the relative price margins in both city and country areas.

Interestingly, the ACCC currently undertakes an annual review of Australian airport fees and charges under the Trade Practices Act. The RAA believes that given the increased burden of higher fuel prices on household budgets, a similar scheme should be applied to Australian fuel pricing arrangements as a starting point for a targeted investigation.

A fairer fuel taxation regime

The RAA supports the abolition of Federal excise on fuel and its replacement with a transparent user-pays based Road User Charge. This charge must reflect the true cost to the community of the use of a motor vehicle including road wear and tear, as well as crash and environmental costs. A detailed proposal on how such a charge might be undertaken is detailed within the AAA's submission to the current *Productivity Inquiry into Road and Rail Freight Infrastructure Pricing*.

Motorists are charged for the use of the road via a range of mechanisms, including fuel excise, but they are only loosely related to actual expenditure on the road network. An annual total of $14 billion in fuel excise revenue is collected by the Commonwealth and yet only $2.7 billion is spent by the Commonwealth on roads.

To achieve efficient use of existing roads, users should be charged the full marginal costs they impose when using the road and at the same time, relieved of fuel tax. Marginal social cost measures the resource cost to society of the road user's decision to make the journey.

With the GST, fuel excises are no longer justifiable to raise revenue. The appropriate tax on fuel for revenue raising purposes is, in our view, 10 per cent GST on all fuels, no indexation and no on-road/off-road distinction.

An ideal road user charge would *replace* fuel excise and have two components—an access charge and a user charge. The access charge would cover the cost of vehicle registration to enable monitoring for security and other reasons. Ideally, the user charge would have four components:
a road wear charge levied according to a proxy for the damage done – based on vehicle mass, axle load, distance travelled and location;
an environmental charge levied according to engine type, efficiency and fuel type;
a charge to reflect the external cost of vehicle crashes; and
a congestion charge collected directly according to road location, time of day and type of vehicle.

Alternative Fuels

The RAA is fully supportive of the development of a range of alternative fuels including LPG and biofuels as a means of reducing dependence on fossil fuels, providing they do not have a detrimental effect for motorists. This also must see governments, industry, vehicle manufacturers, and motorists and oil companies work together to ensure that new vehicle technology is in line with consumer preferences and government's economic, social and environmental policy.

With regards to biofuels, the RAA considers that four conditions must be applied to provide adequate protection for consumers:

The amount of biofuel mixed with regular fuel must be subject to a mandated upper limit. This is necessary because vehicle manufacturers have advised that vehicle warranties might be void through by use of biofuels. Vehicle manufacturers have provided a list of vehicles that are able to satisfactorily operate on the 10 per cent ethanol limit already in place;

There should not be a mandated minimum biofuel content in the fuels. Consumers must be allowed the choice to use, or not use, biofuels;

There should be clear labelling at point of sale which provides consumers with information on the suitability of the use of biofuels in their vehicle. This labelling should include information on any impact on fuel economy or potential implications on vehicle warranty; and

The use of biofuels should not increase petrol prices or the cost of motoring (noting in particular the lower energy content of some biofuels, like a 10 per cent ethanol in petrol blend (E10), and the resulting negative impact on fuel economy).