AUSTRALIAN AUTOMOBILE ASSOCIATION

Senate Economics Legislation Committee

Constituent Members

NRMA

RACV

RACQ

RAA

RACT

INQUIRY INTO THE PRICE OF PETROL IN AUSTRALIA

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Australian Automobile Association
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Executive Summary

AAA welcomes the opportunity to present this submission to the Senate Economics Legislation Committee Inquiry into the Price of Petrol in Australia. The Inquiry is an opportunity to improve knowledge and understanding of the issues relating to petrol pricing.

The key points of this submission are:

- Record petrol prices have placed significant additional pressure on household budgets.

- Petrol prices have risen at a faster rate than oil prices in the past 18 months.

- Retail margins appear to have increased by 2 to 3 cents per litre in the past two years.

- The differential between city and regional prices has increased considerably in some regional locations since September 2005.

- Wholesale margins have risen by around 2.5 cents per litre since September 2005.

- Asian refining margins grew strongly through 2004 and 2005.

- AAA believes that:

    - The government should acknowledge that higher petrol prices are not simply a function of higher oil prices.

    - In the interests of ensuring efficient market operation, the ACCC should regularly report on the movements of fuel industry prices, costs and profits in all capital cities and regional areas.

    - The government should ensure that the ACCC has adequate power under the Trade Practices Act to get to the bottom of limited wholesale competition—through investigation of, for example, potential barriers to entry that limit competition in the market as well as competition for the market (contestability)—and rectify its adverse price effects.

    - While petrol prices are high, the least the government can do is to ensure that petrol taxes are invested in making the road network safer. AAA has long called on the government to increase the amount invested in roads from a current equivalent of around 6cpl of the 38cpl fuel excise to 12cpl.

- The economy is likely to benefit by a more appropriate pricing of road use. AAA detailed the need for such reforms, and ways in which these reforms might be undertaken, in a submission to the current *Productivity Inquiry into Road and Rail Freight Infrastructure Pricing*.[1]

- The development of a range of alternative fuels such as LPG, CNG and biofuels as a means of reducing dependence on fossil fuels and promoting competition between fuel types is appropriate, providing they do not have a detrimental effect for motorists.

[1] http://www.aaa.asn.au/documents/submissions%2F2006%2FPC_Pricing_Final.pdf

1. Introduction

The Australian Automobile Association (AAA) welcomes the opportunity to present this submission the Senate Economics Legislation Committee Inquiry into the Price of Petrol in Australia.

The AAA serves as the federal secretariat of the state and territory motoring clubs, its members being the:

- National Roads and Motorists' Association Limited (NRMA);
- Royal Automobile Club of Victoria (RACV);
- Royal Automobile Club of Queensland (RACQ);
- Royal Automobile Association of South Australia (RAA SA);
- Royal Automobile Club of Western Australia (RAC WA);
- Royal Automobile Club of Tasmania (RACT);
- Automobile Association of Northern Territory (AANT); and
- Royal Automobile Club of Australia (RACA).

Through these organisations, AAA represents the interests of over 6 million motorists and, indirectly, all Australian motorists at the national and international levels.

AAA has played a leading in role in advocating on fuel issues on behalf of motorists. AAA played a significant role in 2000 and 2001 in ensuring that the fuel excise rate was adjusted downwards to account for the introduction of GST, and that fuel excise indexation was abolished. AAA and its member clubs also monitor and publish petrol prices on a regular basis.

Debate about petrol pricing can be confusing for motorists—conflicting comments made last year by oil companies and fuel retailers are illustrative of the difficulties motorists face. In the Daily Telegraph on 25 February 2005, Helen Morgner of Shell said *Let's be clear—it is the retailers who set the price of petrol at the pump*. In the same article, James McCall of the NSW Motor Trades Association said *The oil companies have complete control over petrol pricing in this country*.[2]

In recent months, oil companies and the Prime Minister have focused on just one factor: the price of oil. In June 2006, Prime Minister John Howard said *We all know why the price of petrol is high, painfully high, and that is because the world price of crude oil is very high...* [3]

AAA represents the consumers of petrol. We do not necessarily possess the specific expertise or resources necessary to unravel the often complex petrol

[2] Morger, H. and McCall, J. (2004), *The Debate,* The Daily Telegraph, 25 February 2005.
[3] The Hon John Howard MP, Doorstop Interview, North Ryde, Sydney, 8 June 2006.

retail market. We see this Inquiry as an opportunity to improve knowledge and understanding in the community of the issues relating to petrol pricing.

In this submission, we discuss a number of issues of concern and which overlap with the Committee's terms of reference. Of particular concern is that the various price margins in the petrol marketing chain appear to be rising, which the government (and ACCC) seem to have been reluctant to acknowledge in recent months.

AAA also made a submission to the Senate Rural and Regional Affairs and Transport Committee Inquiry into Future Oil Supply and Alternative Transport Fuels in June 2006.

1.1. Terms of reference

The Senate Economics Legislation Committee is inquiring into the price of petrol in Australia, with particular reference to:

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

2. The impact of petrol prices

Australian petrol prices have risen significantly faster than any other consumer item in the past 18 months. While the Consumer Price Index (CPI) rose 3% through the year to March quarter 2006, the index for automotive fuel increased by a staggering 20%.[4]

This increase has created a considerable additional financial burden on motorists. A Holden Commodore, Australia's highest selling vehicle, now costs $215 a week ($11,160 annually), which is up 5.9% from last year partly as a result of the cost of fuel.

The Australian economy overall is showing signs of weathering the spike in oil prices reasonably well. This is in part because Australia is now less oil intensive than it was in the past (because of the rise in the services sector over other more

[4] ABS, 2006.

energy intense sectors), and because the economy is more flexible in handling shocks, partly through more flexible exchange rates.[5]

Nevertheless, record high petrol prices have been a bitter pill for motorists, especially in light of an announcement of strong profit growth by Caltex locally[6] and other oil companies internationally. Numerous surveys of motorists conducted by AAA over the years have demonstrated that the price of petrol is a highly sensitive issue.[7]

3. Petrol prices are increasing at a faster rate than oil prices

Petrol prices are a function of a large number of factors including crude oil prices, transportation costs of both the crude oil and the petrol, refining costs and margins, marketing costs and margins, supply and demand balances in a given region, inventory levels, federal taxes (excise and GST), federal and state subsidies (most notably the 8.35cpl subsidy in Queensland), local price competition (or lack thereof), exchange rates and profit margins.

While oil prices are a major underlying factor in the price of petrol it is clear that increases in the price of oil explain only part of the increase in petrol prices.

During the 18 month period beginning in January 2005, the price of oil (Tapis) in Australian dollar terms moved from 38 cents per litre (cpl) to 62cpl, an increase of 24cpl.[8] In the same period, the average price of unleaded petrol in Australian capital cities moved from 97cpl to 138cpl, an increase of 41cpl.[9] That is, the price of petrol has increased at a faster rate than the price of oil. This is illustrated below in Figure 1.

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[5] Lin, K. and Gruen, N., 2006. “Australia in a world of high-cost energy.” *CEDA Economic and Political Overview.* CEDA White Paper No. 26.

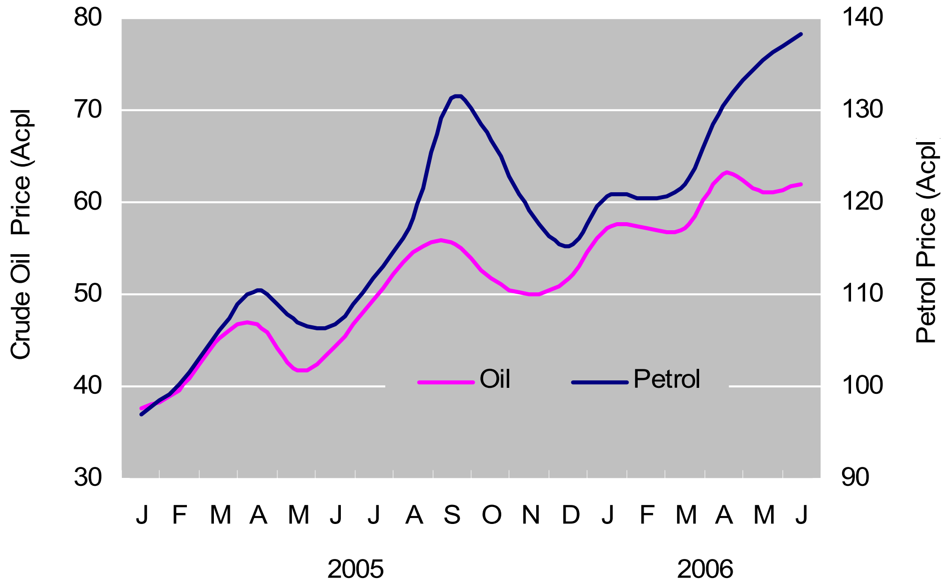
[6] Williams, F., 2006. *Caltex says Australian fuel demand set to outstrip supply.* AAP Financial News, 23 June 2006.

[7] See http://www.aaa.asn.au/publications/polls.php

[8] http://tonto.eia.doe.gov/dnav/pet/hist/wepctapisw.htm

[9] Data supplied to AAA by FUELtrac

Figure 1: Tapis oil price (left axis) and average capital city petrol price (right axis) (Australian cents per litre)



Sources: US Energy Information Administration and FUELtrac

Though it is difficult for us to pinpoint the reason for the increase in the differential between oil and petrol prices, our analysis suggests it has 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 (of the 17cpl differential between oil and petrol prices).

Although the federal excise of 38.143cpl makes up a large proportion of the price of petrol, it is set at a fixed rate and therefore has not been a factor in recent price increases. The fuel excise rate was reduced by a total of 8.2 cpl to accommodate the introduction of GST in 2000. The policy of adjusting the excise rate according to changes in the consumer price index was abolished at about the same time.[10]

The Government's and ACCC's apparent unwillingness to acknowledge that higher prices are the result of more than just increased oil prices has been a point of frustration for AAA. Oil companies themselves argue that *The market forces affecting petroleum products and crude oil are quite different so their prices may not be very closely aligned…*[11] Consumers are best served by the availability of more, not less, information, which facilitates a better function of the

[10] Webb, R., 2006. *Excise taxation: developments since the mid-1990s.* Department of Parliamentary Services, Research Brief no. 15, 2005-06.
[11] http://www.caltex.com.au/assets/pricing_plain/Petrol_Price_Brochure.pdf

market and therefore helps to ensure that prices are reasonable. The ACCC updates information on petrol price cycles in only five cities on its website on a regular basis. There is scope for a great deal more information and analysis to be provided.

3.1. Retail margins for petrol have increased

This issue of retail margins can be incredibly complex, with situations changing between locations and over time. Nevertheless, our evidence suggests that margins have increased, which warrants further investigation.

AAA monitors capital city retail prices and import parity indicator prices (IPIP) on a monthly basis. The IPIP is equivalent to the former Australian Consumer and Competition Commission (ACCC) maximum endorsed wholesale price. It is based on Singapore prices and includes product costs, shipping, insurance, port and terminal charges and margins.

AAA monitoring indicates that the average margin between retail prices and wholesale prices (ie IPIP) was higher in the first half of 2006 (4.6cpl) than in the same periods in 2004 and 2005 (1.2cpl and 1.6cpl respectively). This suggests that retail margins have increased.

This analysis is supported by evidence provided to us by the Western Australian Commissioner for Consumer and Employment Protection. On 20 June 2006, the Commissioner wrote to AAA outlining research his department had undertaken on fuel retail margins. His analysis showed that, during the past six months, fuel retail margins in Perth had increased by 2 to 3 cpl compared to the April and June quarters of the last two years.

The Commissioner noted that although the increase in the margin might seem small, when taken in the context of total petrol sales in WA—more than 110 million litres a month—the resultant increase in revenue is significant. The Commissioner also argued that because Perth prices have recently been on average 1.6 to 3.0 cpl lower than prices in the eastern states, retail margins in the eastern states are likely to be even higher than in Perth.

The WA Commissioner also argues that his analysis refutes recent claims by the Service Station Association (SSA) that higher petrol prices have resulted in lower profits for service station operators. This analysis refutes the SSA’s argument that operators must introduce fees for credit card sales or risk selling at a loss.

3.2. *Regional-city margins for petrol have increased*

In addition to their concern about high prices, 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. AAA has been monitoring and publishing petrol prices at more than 110 regional and rural locations since 1998 (see http://www.aaa.asn.au/issues/petrol.htm). This monitoring began in conjunction with an announcement by the Treasurer that the automobile clubs, in conjunction with the ACCC, would monitor prices to ensure that no unfair advantage is taken in areas where there is not adequate competition.[12]

Shell argues that regional prices are higher than in cities because sales volumes and shop sales are smaller, freight costs are higher, onsite storage capacity tends to be smaller which leads to higher distribution costs and there is less competition.[13]

Unfortunately some of this is difficult for us to substantiate. For example, no data is available on the relative sales of items other than fuel—like groceries, convenience goods, confectionary and mechanical and lubrication goods—or on rental or franchise fees, at regional and city service stations.

Undoubtedly these factors could influence the price differential between regional and city locations. However, during the past 18 months, there have been occasions when the differential has increased dramatically in some locations. This was particularly the case in the period immediately after Hurricane Katrina struck the USA, around September 2005. ACCC indicated to us that this increase was a function of the lag between city and regional prices; major oil companies have suggested to us that the increase might have been a result of opportunistic pricing by regional retailers.

We are particularly dubious about the ACCC's explanation, which seems to be an oversimplification of the situation. As will be discussed later, a lack of competition at the wholesale level provides an intuitively more appealing explanation for price increases in regional areas. The abolition of the Fuel Sales Grant Scheme (discussed in more detail later) might serve to further increase the regional-city differential. In any event, increased differentials between city and regional prices place a significant additional burden on rural and regional motorists.

Two examples of the growing differential between regional and city prices are provided below in Figure 2. The first chart shows petrol prices in Sydney and

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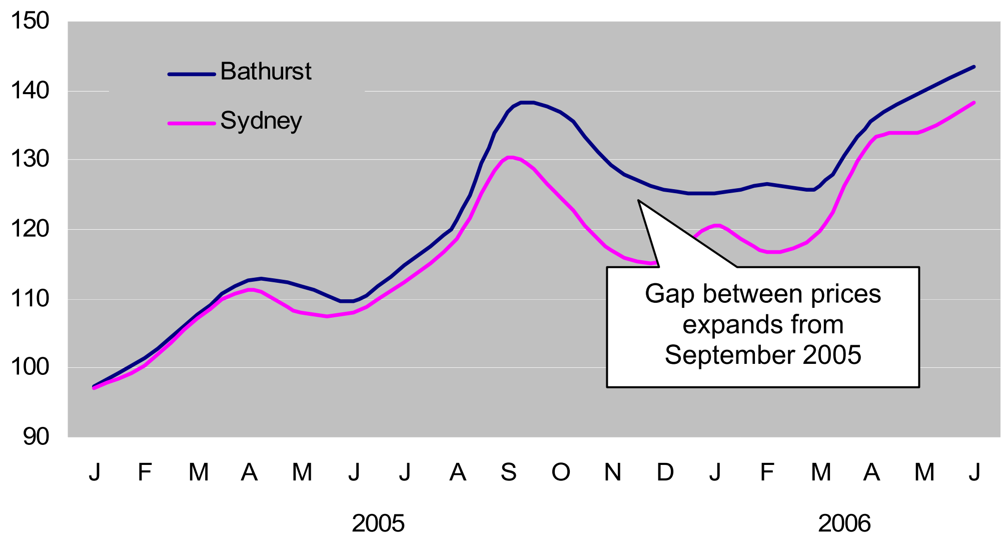
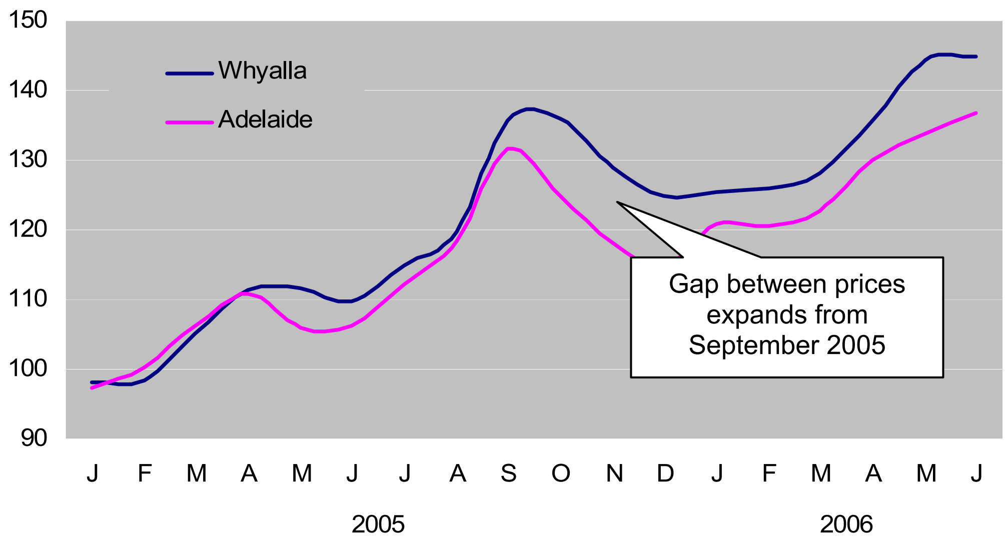
12 Transcript No. 38, Hon Peter Costello MP and Hon Peter Moore MP, RACV, Melbourne, Monday, 20 July 1998

13 www.shell.com.au

Bathurst, NSW for the 18 months to June 2006. The second chart shows prices in Adelaide and Whyalla, South Australia. In the eight months prior to September 2005, the regional prices tracked closely with their respective city prices. From September 2005 however, the regional prices stayed well above the city prices.

Figure 2: Petrol prices in Sydney and Bathurst, NSW, and Adelaide and Whyalla, South Australia (cents per litre)



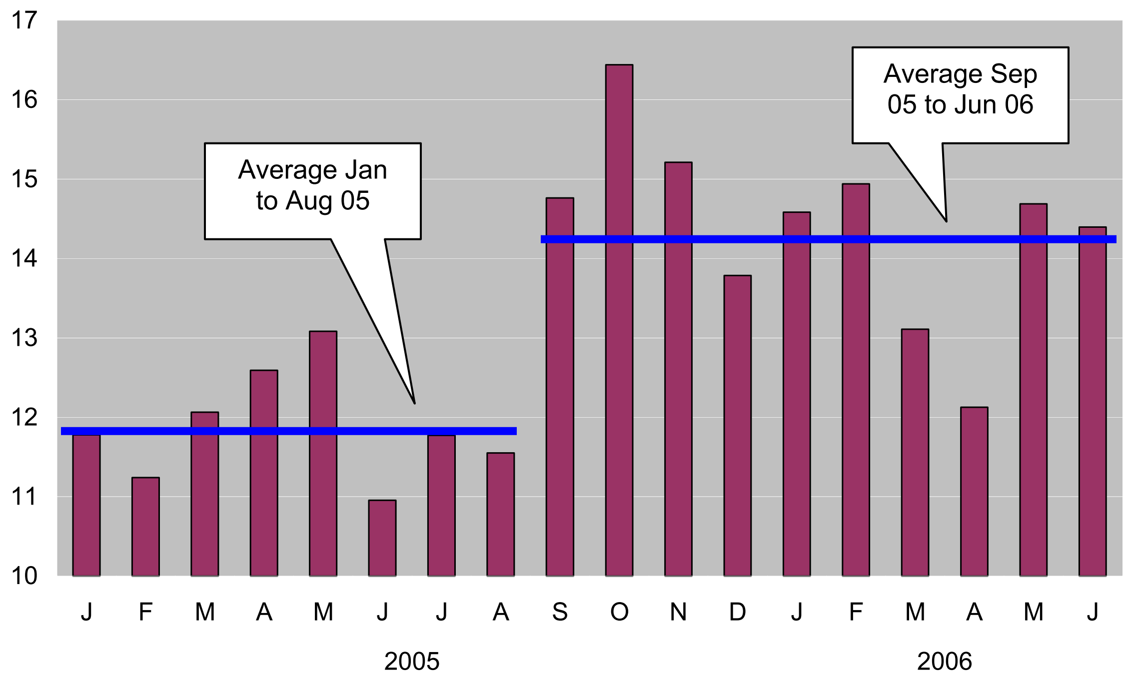


Source: FUELtrac

3.3. *Wholesale margins for petrol have increased*

Wholesale margins have also increased in the past 18 months and, like regional margins, there was a marked increase from September 2005. This increase is illustrated in Figure 3, which plots the difference between Terminal Gate Prices (TGP) in Western Australia (excluding excise and GST) with the refined petrol price in Singapore (Mogas). Prior to September 2005, the average margin was approximately 11.8cpl. Between September 2005 and June 2006, the margin was around 14.4cpl, a 2.5cpl increase.

Figure 3: Difference between Singapore refined petrol price (Mogas) and WA average TGP (cents per litre)



Sources: TGP data supplied by RAC WA – state average TGP for BP and Caltex; Mogas prices supplied by RAA SA – analysis based on a 7-day rolling average of Mogas prices.

Although this analysis draws on TGP data for Western Australia, analyses from other states provides similar results. For example, the Financial Review recently reported Victoria's Consumer Affairs Minister, Marsha Thomson, as saying in a letter to Treasurer Peter Costello that between 2003 and 2006, terminal gate prices increased at a faster rate than international prices, thereby creating higher margins for oil companies.[14]

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[14] Brenchley, F., 2006. *Costello spurns petrol inquiry call.* The Australian Financial Review, Wednesday 19 July 2006.

3.4. *Refining margins for petrol have increased*

According to the Australian Institute of Petroleum, Asian refining margins grew strongly through 2004 and 2005.[15] The refining margin in Singapore peaked in September 2005, when petrol prices spiked in conjunction with Hurricane Katrina. At that time, the average monthly margin reached approximately 10cpl, which was more than double the average margin the preceding eight months. Following the September spike, margins declined, even going into negative values, though then returned to the 10cpl mark by March 2006. On the whole, the refining margin has increased during the past 18 months.

4. Improving competition

AAA is not in a position to explain the reasons for changes in the various margins. We can only note the lack of transparency between them, the opportunity for cost shifting with the refiners, wholesalers and retailers. While world traded prices have increased, there is no published evidence of any significant increases in production and distribution costs.

In its submission to the *Queensland Impact on Petrol Pricing Select Committee* in December 2005, AAA Queensland member, RACQ, argued a case that the domestic fuel market suffers from a high degree of concentration of ownership, particularly at the wholesale level.[16] This high degree of concentration, which has tightened as improved fuel quality standards have made it more difficult for independent brands to source fuel from overseas, implies that major oil companies exercise substantial market power.

RACQ cites two examples as evidence of the substantial market power that oil companies possess. First is the existence of the weekly price cycles in major metropolitan areas. Intuitively, without the power to near-simultaneously provide and withdraw price support to company-owned franchised service stations, weekly cycles could not exist.

The second example RACQ cites as evidence of the substantial market powers of oil companies relates to pricing of two types of premium unleaded petrol (PULP) - 95 RON and 98 RON - noting that regular unleaded petrol (ULP) is 91 RON. RACQ noted that there has been a remarkable uniformity of differentials between ULP PULP95 (currently 5 to 6 cpl) and PULP95 and PULP98 (currently 4 cpl), and a remarkable occurrence of near-simultaneous increases in those differentials. These increases were particularly noticeable during the period when Lead Replacement Petrol was being phased out.

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[15] Australian Institute of Petroleum (AIP), 2006. *Downstream petroleum 2005.*

[16] http://www.parliament.qld.gov.au/committees/view/committees/documents/PETROL/Submissions/81_RACQ.pdf

That market power enables oil companies to capitalise on consumer expectations of high and rising petrol prices by introducing marked increases in margins at the top end of prolonged upswings and downswings in oil prices.

The introduction of shopper-docket schemes by Woolworths and Coles may have sharpened competition in retail markets—although AAA's Tasmanian club, RACT, argues competition has not increased in Tasmania. Indeed as the supermarket chains gain market share, and as other retailers move to introduce similar shopper-docket schemes, retail competition might decrease. The movement of Woolworths and Coles into the retail market may also have reduced competition at the wholesale level, because Woolworths entered into an agreement to source products from Caltex rather than importing them from overseas.

Unfortunately, much of the evidence provided here is circumstantial. The issues are difficult to analyse and the causes are difficult to identify with confidence.

There is three key steps the government should take to address these concerns. First, it should acknowledge that higher petrol prices are not simply a function of higher oil prices.

Second, the government and ACCC should provide more information on petrol pricing to the community. The ACCC reportedly monitors petrol, diesel and LPG prices in the capital cities and in around 110 country towns. Under the Trade Practices Act, the Treasurer can direct the ACCC to report on its price monitoring. These reports are to be made available to the public as soon as possible after they have been provided to the Treasurer. [17]

In recent years, the ACCC has published very little of its petrol price monitoring information. Apart from providing data on petrol price cycles in just five cities on its website, very few reports on petrol price monitoring have been published by the ACCC since 2000. In fact, the ACCC has even removed information from its website; for a brief period in the second half of 2005, it published a 'petrol pricing snapshot', though this is not longer available.

This is especially concerning considering that the market has undergone significant change. We also note that the Prime Minister told media in June 2006 that ACCC monitoring of petrol prices over the June long weekend showed nothing unusual. Presumably, if this report to the Prime Minister had been made under the provisions of the Trade Practices Act, it should have been made public by now.[18]

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[17] www.accc.gov.au

[18] AAP NewsWire, 2006. *Petrol hikes on long weekend were not unusual – PM.* AAP Political News, Monday 19 June, 2006.

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. Interestingly, the ACCC currently undertakes an *annual* review of Australian airport prices, costs and profits.

Therefore, in the interests of ensuring efficient market operation, the ACCC should regularly report on the movements of fuel industry prices, costs and profits in all capital cities and regional areas.

Thirdly, and more broadly, the powers of the ACCC to get to the bottom of the problem of limited wholesale competition—through investigation of, for example, potential barriers to entry that limit competition in the market as well as competition for the market (contestability)—and rectify its adverse price effects, appear to be very limited under existing provisions of the Trade Practices Act. This must also be a focus of the government.

5. Longer term reforms

There is still a great deal of uncertainty about the future of oil supplies and prices. Whatever scenario eventually plays out, the economy is likely to benefit by a more appropriate pricing of road use. AAA detailed the need for such reforms, and ways in which these reforms might be undertaken, in a submission to the current *Productivity Inquiry into Road and Rail Freight Infrastructure Pricing*.[19] This is an area where a great deal of improvement can be made by the government.

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 only $2.7 billion is spent by the Commonwealth on roads.

Trucks are charged for road use via a reasonably complex charging methodology developed by the National Transport Commission (NTC) involving a registration charge and a so-called non-hypothecated road user charge. The approach used by the NTC is based on full cost recovery and is known as PAYGO (Pay as you Go). New charges were recently proposed by the NTC in a so-called 3rd Heavy Vehicle Charging Determination (although rejected by Commonwealth and State Transport Ministers early this year).

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

[19] http://www.aaa.asn.au/documents/submissions%2F2006%2FPC_Pricing_Final.pdf

user's decision to make the journey. This is a very different approach to the PAYGO approach adopted by the National Transport Commission (NTC).

With the GST, fuel excises are no longer justifiable to raise revenue. And 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. This treatment of fuel taxation avoids the taxation of intermediate inputs still present to some degree in current arrangements.

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. 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.

6. Investment in road infrastructure

Governments continue to collect significant revenue from fuel taxation and a significant road infrastructure backlog remains. The Federal government collects some $14 billion annually from the 38.14 cpl fuel excise. It will invest the equivalent of between 6 and 9 cpl of the 38.14 cpl excise in roads during the next five years.

The National Highway System was given a rating of C in the 2001 Australian Infrastructure Report Card, implying major changes to the network are needed. Most concerning of all, road safety continues to be a substantial problem in Australia. Every day, five people are killed on our roads - 60 are admitted to hospital with serious injuries which add to the workload of hospitals and medical services. In economic terms, road trauma costs the nation around $17 billion a year through medical and insurance costs, lost productivity and property damage.[20] The Australian Road Assessment Program (AusRAP) has identified nearly 2,000km of the National Network along which there is both a relatively

[20] Connelly, L. and Supangan, R., 2006. "The economic costs of road traffic crashes: Australia, states and territories." *Accident Analysis and Prevention.*

high number of casualty crashes each year, and where motorists face relatively high individual risk.[21]

According to the National Road Safety Strategy (NRSS):

> *Improving the safety of roads is the single most significant achievable factor in reducing road trauma. Further investment in safer roads is highly justified on both social and economic grounds. Road investment improves road safety through general road improvements — typically, 'new' roads are safer than 'old' roads — as well as through treatment of black spots.*[22]

While petrol prices are high, the least the government can do is ensure that petrol taxes are invested in making the road network safer. AAA has long called on the government to increase the amount invested in roads from a current equivalent of around 6cpl of the 38cpl fuel excise to 12cpl.

7. Alternative fuels

The government has actively sought to develop a range of alternative fuels such as LPG, CNG and biofuels as a means of reducing dependence on fossil fuels and promoting competition between fuel types. AAA is supportive of the development of these fuels, providing they do not have a detrimental effect for motorists. We consider for biofuels that there are four conditions that must be applied to provide adequate protection for consumers:

1. 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 voided by use of biofuels. Vehicle manufacturers have provided a list of vehicles that are able to satisfactorily operate on the 10% ethanol limit already in place;

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

3. there should be 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 about any impact on fuel consumption or potential implications on vehicle warranty; and

4. 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 consumption).

[21] www.ausrap.org
[22] http://www.atcouncil.gov.au/documents/pubs/strategy.pdf

8. Fuel Sales Grant Scheme

The Fuel Sales Grant Scheme (FSGS) was introduced on 1 July 2000 to maintain city and country price relativities after the introduction of the GST.

AAA was generally supportive of the Government's decision to abolish the scheme in light of the Fuel Tax Inquiry finding that there was difficulty in ensuring its benefits were passed on to regional consumers, and also because the Hon John Anderson, then Minister for Transport and Regional Services, stated on 22 January 2004 that: *I also do not believe that there will be significant or noticeable change in fuel prices.* We also were supportive of the decision to redirect the funding into road infrastructure. (We note however, that AAA's Queensland member, RACQ, is more circumspect on this issue.)

Nevertheless, there are aspects of the scheme's operation which are concerning. Throughout the scheme's operation, information on the ATO website said:

> *The Australian Competition and Consumer Commission (ACCC) closely monitors petrol and diesel prices to ensure the grant is passed on to consumers. The price exploitation provisions of the Trade Practices Act give the ACCC extensive powers to obtain information relating to pricing. The Act also provides for fines of up to $10 million for price exploitation.*

Despite this, we were informed by the ACCC that their role in monitoring the passing on of the grant and ensuring compliance under the Trade Practices Act, 1974, ceased on 30 June 2002.

The implication of this is that throughout the period 1 July 2002 to 30 June 2006—when the scheme was abolished—the $250 million a year scheme went unchecked by the Federal government.

We are yet to know what the impact of the winding up of the FSGS will be (although RACQ believes there is little doubt that prices will increase). In coming weeks and months, AAA will be closely monitoring regional prices to assess whether retailers have acted to protect their margins by increasing prices. We have also requested that the ACCC conduct additional random monitoring of petrol prices in regional and remote areas, and that any price changes subsequent to the abolition of the FSGS be investigated.

We also requested that the ACCC publish the results of this monitoring and investigation so that the community can be well informed about what impact that the abolition of the FSGS has had. We have not received a reply from the ACCC on this issue.

9. Conclusion and recommendations

AAA welcomes the opportunity to present this submission to the Senate Economics Legislation Committee Inquiry into the Price of Petrol in Australia. The Inquiry is an opportunity to improve knowledge and understanding of the issues relating to petrol pricing.

The recent rapid increases in the price of petrol have created a considerable additional financial burden on motorists. Although much has been made of the link between the world oil and petrol prices, our analysis shows that the price of petrol has increased at a faster rate than the price of oil. This seems to have been driven largely by a combination of increases in margins at the retailing, wholesaling and refining levels.

The apparent unwillingness of the Government and ACCC to acknowledge that higher petrol prices are the result of more than just increased oil prices has been a point of frustration for AAA. In the interests of ensuring efficient market operation, the ACCC should regularly report on the movements of fuel industry prices, costs and profits in all capital cities and regional areas.

More broadly, the powers of the ACCC to get to the bottom of the problem of limited wholesale competition—through investigation of, for example, potential barriers to entry that limit competition-in-the-market as well as competition-for-the-market (contestability)—and rectify its adverse price effects, appear to be very limited under existing provisions of the Trade Practices Act. This must also be a focus of the government.

Governments continue to collect significant revenue from fuel taxation and a significant road infrastructure backlog remains. While petrol prices are high, the least the government can do is to ensure that petrol taxes are invested in making the road network safer. AAA has long called on the government to increase the amount invested in roads from a current equivalent of around 6cpl of the 38cpl fuel excise to 12cpl.

In the longer term, the economy is likely to benefit by a more appropriate pricing of road use. AAA detailed the need for such reforms, and ways in which these reforms might be undertaken, in a submission to the current *Productivity Inquiry into Road and Rail Freight Infrastructure Pricing*.[23] This is an area where a great deal of improvement can be made by the government.

AAA is supportive of the development of a range of alternative fuels such as LPG, CNG and biofuels as a means of reducing dependence on fossil fuels and promoting competition between fuel types, providing they do not have a detrimental effect for motorists.

[23] http://www.aaa.asn.au/documents/submissions%2F2006%2FPC_Pricing_Final.pdf