

**Submission by
NRMA Motoring & Services**

Inquiry into the Price of Petrol in Australia

Senate Economics Legislation Committee

August 2006

Executive Summary

Recent increases in the retail price of petrol in Australia far exceed the recent rise in the price of crude oil. In fact, taking into account the GST, retail price rises exceed the increased cost of crude oil by around 15 cents per litre.

At the same time Australia's oil refiners, distributors and retailers have all experienced increased margins. For example, Caltex Australia has announced record profits due to increased refiner margins. Similarly the Western Australian Department of Consumer and Employment Protection has found that petrol retailers in Perth have experienced a 2 to 3 cents per litre increase in retail fuel margins over the last 12 months.

NRMA believes that this situation is the consequence of a market structure that is not effectively competitive. Australia's oil industry is characterised by a small number of large players that are vertically integrated throughout the supply chain. In 2005, the four major oil companies in Australia supplied in excess of 98 per cent of the total market. Moreover, in 2006, two of the four major companies (Caltex-Woolworths and Shell-Coles) accounted for around 65 per cent of the retail petrol market.¹

Despite increased profits and margins throughout the supply chain there is little evidence of investment in refining and storage capacity to ease the current price rises. In fact, Australia is now a net importer of refined petroleum products despite the fact that oil companies are sitting on mothballed refining facilities, such as Mobil's Port Stanvac facility in Adelaide.

This is of particular concern given there is a consensus of opinion that high oil prices are here to stay. This opinion has been expressed by a range of commentators including the Federal Treasurer.

Furthermore there is now clear evidence that high fuel prices are not only hurting motorists but are feeding inflation across the Australian economy. As a consequence Australian motorists are likely to be impacted by not only high fuel prices but also higher interest rates and higher prices in general given that fuel is an essential input into nearly all areas of economic activity.

NRMA believes that there is a strong role for government in addressing the current high fuel prices and the lack of effective competition in Australia's oil industry. Accordingly NRMA recommends:

- Government investigate ways in which it can effectively lower the barriers to entry that currently characterise the Australian oil industry. This may mean encouraging investment by independent oil refiners or reviewing the effectiveness of trade practices legislation in relation to claims of anti-competitive conduct at the retail level of the industry.

¹ HEH Australian Petroleum Consultancy Co

- A review of the current pricing strategies used by the major oil companies and how the Indicative Wholesale Price is calculated.
- A requirement by the ACCC to give full consideration to the impact of economies of scale in shipping, price discounts given to the supermarkets chains and the true cost of refining 91 RON unleaded petrol (as opposed to 95 RON). The ACCC should also undertake to publish the extent to which each of these factors influence the retail price of petrol in Australia.
- A requirement for the oil industry to reinvest a greater proportion of their profits in infrastructure to assist with supply and storage including adequate refining capacity.
- Effective price surveillance by the ACCC, recognising that supply of fuel is an essential service.
- Strong government support for alternative fuels to build a local biofuels industry, encourage wider use of LPG and CNG and to help ensure Australia's energy security and an affordable future supply of fuels.
- A greater commitment by the Commonwealth and State Governments to reinvest a greater proportion of tax revenues from fuel excise and GST (applied to fuel sales) in improving the nation's road network and addressing the growing backlog of transport infrastructure needs in both metropolitan and regional areas.

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1 Introduction

NRMA Motoring & Services (NRMA) extends its thanks to the Senate Economics Legislation Committee for the opportunity to provide a submission to its Inquiry into the Price of Petrol in Australia.

NRMA considers this Inquiry to be a timely opportunity to examine the way in which the oil industry operates in Australia, its impact on motorists and ways in which the situation can be improved.

NRMA understands the Committee's terms of reference are as follows:

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

This submission will address each of these issues in turn and provide commentary from the perspective of our membership. It will also highlight areas where NRMA considers reform would be appropriate and discusses the consequences of inaction.

NRMA's submission has been informed by our knowledge of:

- the Australian oil industry,
- motorist's concerns about increased petrol prices and how the price of petrol impacts transport choices and consumption patterns; and
- research and analysis into the issues raised by the terms of reference.

2 NRMA Motoring & Services

NRMA was formed in 1920 out of a sense of frustration that not enough was being done to improve the quality of roads in NSW. Our sole purpose was to be a voice for the growing number of people owning a motor vehicle.

Five years later NRMA's legendary roadside assistance service began. There were 22,000 registered vehicles in the state and no one to call on when the Model T broke down.

Eighty-six years later NRMA Motoring & Services has grown to become the nation's largest motoring group, with more than two million members in NSW and the Australian Capital Territory (ACT).

Today roadside assistance remains NRMA's flagship service but the benefits of membership go well beyond this important service. Members can now access a wide range of travel and touring services, magazines and guides, vehicle inspections, batteries, rental vehicles, car loans and accommodation. In addition NRMA continues to champion the interest of motorists in relation to important issues such as road funding, fuel taxation and of course petrol pricing.

NRMA has taken a leading interest in rising fuel prices and the consequences for motorists and the community as a whole. In September 2005, it convened the Emergency Petrol Summit which was successful in winning Federal Government support for the alternative fuels industry.

On Friday 29 July 2006, NRMA announced its intention to host another summit which focuses on raising public awareness of the available alternatives to petrol and encourage further government support for a domestic alternative fuels industry. NRMA believes that a sustainable alternative fuels industry will provide competition to the existing fuel market operators and offer increased choice to consumers.

3 Australia's petroleum industry: recent trends, impact on motorists and broader consequences.

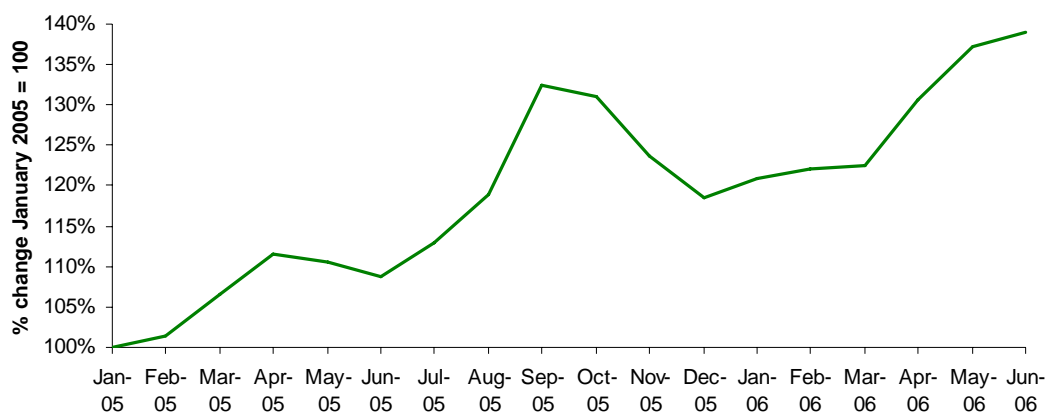
This Inquiry into the Price of Petrol in Australia takes place at a time of not only record petrol prices but also record oil company profits and growing global demand for crude oil. Consequently Australian motorists are paying more for petrol than they have ever done before and Australian Governments are benefiting.²

This section of the submission provides a brief overview of recent trends in Australia's oil industry. It also discusses the direct impact that these trends are having on Australian motorists as well as likely broader economic consequences.

3.1 Recent price trends

As can be seen from figure 3.1, since January 2005 petrol prices in NSW have risen by an average of 39.65 cents per litre. This is equivalent to a 39 percent increase over the period.

Figure 3.1: Retail Petrol Price Index: NSW



Source: Australian Automobile Association www.aaa.asn.au

Contrary to popular belief motorists in the metropolitan areas of Sydney, Newcastle, Wollongong and Canberra have experienced greater price rises than their regional counter parts³. On average⁴ petrol prices in metropolitan NSW have increased by 41.25 cents per litre (or 42 per cent) compared to 39.46 cents per litre (or 39 per cent) in regional areas — see table 3.1.

² Australian governments are indirectly profiting from high petrol prices because GST is levied on the sale of petroleum.

³ The regional impact of increased petrol prices is discussed at length in the AAA's submission to this inquiry see AAA 2006, *Inquiry into the Price of Petrol in Australia*, Canberra.

⁴ Calculated as a simple average of the average price for unleaded prices in selected NSW country areas.

Despite greater price increases in metropolitan areas since January 2005, retail petrol prices remain higher in non-metropolitan areas of NSW. For example, in June 2006 the retail price of unleaded petrol was around 3.2 cents per litre cheaper than areas outside Sydney. Motorists in Bega, however, were paying an average of 7.5 cents per litre more for petrol than those in Sydney.

Table 3.1: Regional Movements in Petrol Prices

Region	18 month price movement (cents per litre)	Per cent increase
SYDNEY METRO	41.30	43%
WOLLONGONG	39.50	40%
CANBERRA	43.80	45%
NEWCASTLE	40.40	41%
NSW Metro Average	41.25	42%
ALBURY	40.70	40%
ARMIDALE	43.50	44%
BATEMANS BAY	36.80	35%
BATHURST	46.20	47%
BEGA	41.10	39%
BROKEN HILL	35.50	33%
CASINO	41.30	44%
COFFS HARBOUR	37.70	36%
COOMA	41.10	40%
COONABARABRAN	38.40	37%
COWRA	37.70	36%
DUBBO	43.00	44%
FORBES	38.80	37%
FORSTER	37.20	35%
GLEN INNES	40.00	40%
GOULBURN	41.80	41%
GRAFTON	37.50	38%
GRIFFITH	38.60	37%
HAY	35.30	32%
INVERELL	33.30	32%
KEMPSEY	39.90	38%
LISMORE	40.80	44%
MAITLAND	39.70	40%
MOREE	41.60	43%
NARRABRI	40.10	40%
ORANGE	43.00	43%
PARKES	37.90	36%
PORT MACQUARIE	39.10	38%
TAMWORTH	41.20	40%
TAREE	36.50	36%
ULLADULLA	41.30	40%
WAGGA WAGGA	33.60	31%
YASS	41.90	42%
NSW Regional Average	39.46	39%
NSW Average	39.65	39%

Source: Australian Automobile Association www.aaa.asn.au

The magnitude of recent petrol price increases is highlighted when one compares the rise in petrol prices to price rises in other essential goods and services.

As detailed in table 3.2, since January 2005 the consumer price index (CPI) has risen by only 5.32 per cent. Similarly, the cost of a local telephone call has remained the same at 22 cents (including GST), the cost of banking and financial services has increased by 3.5 per cent, retail prices for gas and

electricity have remained relatively stable⁵ and the cost of food (including the cost of bananas) has increased by only 9.4 per cent. Clearly, over the period January 2005 to June 2006 the price of petrol is increasing faster than the cost of any other essential good or service consumed by Australian households or businesses.

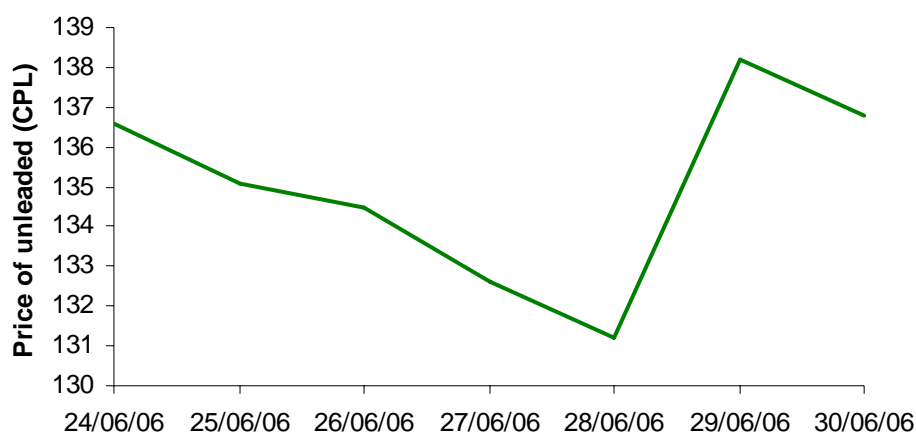
Table 3.2 Average price movements across essential goods and services

Category of Good/Service	Average price movement
Food	9.38%
Alcohol and tobacco	5.54%
Clothing and footwear	-2.25%
Housing	5.07%
Household contents and services	1.32%
Health	11.37%
Transportation	8.83%
Communication	-1.44%
Recreation	0.84%
Education	12.30%
Financial and insurance services	3.53%
Consumer Price Index	5.32%

Source: ABS cat 6401.0

In addition to the general climb in the per litre cost of fuel, it is understood that average prices can vary by up to 12 cents per litre over the course of a week. For example in the seven days preceding the end of 2005/06 financial year (24/06/06 to 30/06/06) average prices for unleaded petrol in Sydney fluctuated five per cent — from a low of 131.2 cents per litre on 28 June 2006 to a high of 138.2 on 29 June 2006 — see figure 3.2.⁶ This leads to confusion and resentment amongst motorists, who do not experience these fluctuations in any other common commodity's price.

Figure 3.2: Weekly Petrol Price Cycles: Average Prices Metropolitan Sydney



Source: Australian Automobile Association www.aaa.asn.au

⁵ ABS Cat. No: 6427.0

⁶ Australian Automobile Association www.aaa.asn.au

3.2 The impact of the GST

Of this average price increase, the GST accounts for 10 per cent. This means that in June 2006 Australian Governments were collecting an average of 3.6 cents per litre more in GST revenue than they were in January 2005.

3.3 Petroleum industry profits

In recent times, both Australian and global oil companies have recorded strong profit growth despite higher input costs:

- **Caltex Australia's** full year profit after tax to 31 December 2005 was \$414 million, compared with \$350 million in 2004. Caltex reported its increased profit was largely driven by a boost in refinery margins in the face of increased demand. Caltex reports that the fuels market is changing as increasing global demand outstrips growth in refining capacity.
- **Exxon Mobil (worldwide)** recorded first quarter results for 2006 with a net income of \$8,400 million, an increase of \$540 million from the first quarter of 2005. Net income increased 7% and was attributed to higher crude oil prices and natural gas realisations and marketing.
- **Chevron (worldwide)** recorded for the first quarter of 2006 a net income of \$4 billion, up 49% from first quarter of 2005. Chevron said the price for crude oil and natural gas was strong during the period.
- **BP (worldwide)** recorded a second quarter profit for 2006 that was up 30%. BP posted a net profit of \$7.3 billion for the three months ending June 30, compared with \$5.6 billion a year earlier.

The largest domestic refiner, Caltex, has recently forecast a half year profit of between \$160 million and \$170 million, an increase of 14%. Again the company said its surging profits had nothing to do with the high price being paid by consumers and attributed it to strong refining margins.⁷

3.3 Impacts on motorists

Market research undertaken by NRMA in September 2005 shows that high petrol prices have clearly impacted the behaviour of Australian motorists and consumer spending.⁸ The survey of motorists across NSW and the ACT revealed that:

- 25 per cent have cut spending on food and groceries;
- 32 per cent have cut spending on non-essential items such as CD's and books;

⁷ Quoted in The Australian, 19 July 2006

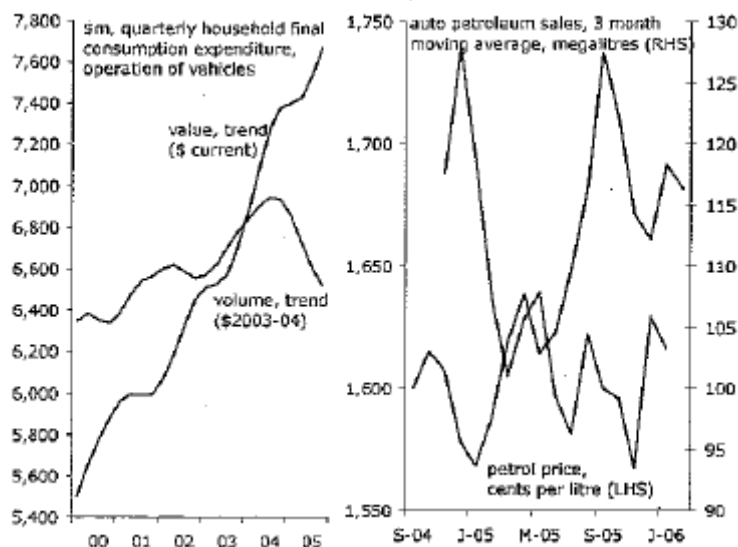
⁸ The findings of the NRMA Motoring & Services Petrol Price Survey can be read at http://www.mynrma.com.au/2005_050922e.asp

- 94 per cent expect high petrol prices to impact on the cost of other goods and services;
- 73 per cent are extremely concerned about rising fuel prices;
- 80 per cent expect high prices are here to stay;
- 61 per cent are using, or intending to use, their car less as a result of high fuel prices; and
- 27 per cent have changed the way they travel to and from work over the past few months as a result of rising fuel costs

According to NRMA latest running cost analysis a Holden Commodore, Australia's highest selling vehicle, now costs \$234 a week (\$12,226 annually), which is up almost 10 per cent from last year partly as a result of increased fuel costs. Furthermore it is estimated that in the first half of this year, Australian motorists have spent some \$1.8 billion more on petrol — or \$89 more per person — compared to the same period last year⁹.

In addition to research undertaken by various Australian various Motoring clubs, data produced by the ABS indicates that motorists are reacting to increased petrol prices. In particular, last year Australians spent more on petrol but bought less. ABS data shows total automotive petrol sales were 3% lower in 2005 than in 2004 — see figure 3.3.

Figure 3.3 Petrol – consumers spending more but buying less



Source: Economics@ ANZ 2006, Industry brief: consumer trends p.2.

The significance of this ABS data and its impact on consumer sentiment and household disposable incomes was discussed at length in Economics@ANZ's March 2006 *Industry Brief: Consumer Trends*

The big story for consumer sentiment in 2005 was petrol prices. Metropolitan petrol prices peaked around 127 cents per litre in September 2005 – 27 % higher than a year earlier (monthly weighted average) Petrol sales (in megalitres) fell immediately in response, but

⁹ AAA 2006, *Inquiry into the Price of Petrol in Australia*, Canberra P.3

only by 7.8% on the same month of 2004. Petrol sales slowly climbed back up in late 2005, but remained significantly below sales levels of a year earlier. Total automotive petrol sales ended 3% lower in 2005 than in 2004. By January 2006, monthly petrol sales were still 2% lower (by volume) than in January 2005.

At national level, 2005 petrol price increases meant that households spent 4% more on operating their cars (the main cost component of which is fuel) in nominal terms, but they bought 6% less in real terms (that is, household expenditure adjusted for inflation of the cost of running a car), in the December quarter of 2005 than they did in the same quarter of 2004.

2005's petrol prices rises were immediately mirrored in equally sharp drops in consumer sentiment, certain categories of retail spending and large car purchases....

While consumer sentiment appears to have recovered, actual spending may take longer due to petrol's real and ongoing impact on household disposable income. We expect oil and petrol prices to ease only slowly in 2006. Despite consumers' best efforts to reduce their fuel consumption, higher fuel prices will continue to eat into disposable incomes and discretionary spending.

3.4 Broader economic impacts

The latest CPI figures released by the ABS on 26 July 2006, clearly shows that increased petrol prices are beginning to impact general prices across the economy. According to the ABS' *June 2006 Consumer Price Index Release*, in the 3 months to 30 June 2006 inflation grew 1.6 percent, of which petrol price increases accounted for 21 per cent. For the 12 month period to 30 June 2006, the CPI rose by 5.9 percentage points, of which 12 per cent can be attributed to the rising price of fuel.

As a consequence, an interest rate rise is highly likely and will result in a 'double whammy' for Australian consumers — high interest rates and high petrol prices. It is arguable that in the absence of higher petrol prices, inflation would be lower and that an interest rate rise would be less likely.

In addition to the CPI data, Australia's Treasurer, Peter Costello, has conceded higher fuel prices are adding to the nation's inflation rate. In an interview on Sky News this month Mr Costello agreed that fuel prices "have been extraordinarily high and are building into those inflation figures".

3.5 Outlook

Caltex has also predicted petrol prices are likely to rise even further because of the crisis in the Middle East.

Meanwhile, it is generally anticipated that Australia will face two interest rate rises before the end of the year. These are due to a combination of record oil prices, a three-decade-low unemployment rate and rising wages.

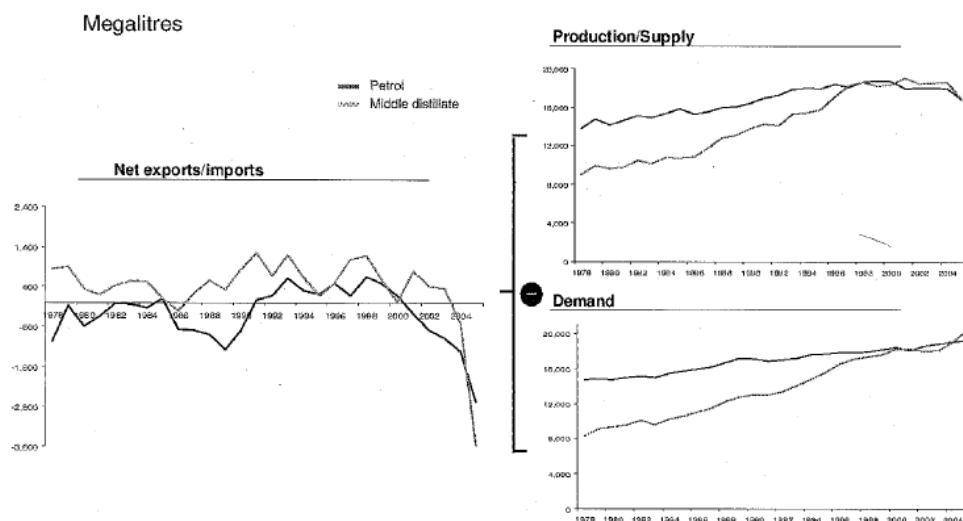
The views of AMP Chief Economist Shane Oliver¹⁰ are typical of commentary at present. He was quoted recently in the *Eureka Report* as follows:

"The next few months are likely to see oil prices higher, probably to about \$US80 a barrel. We are now in the period of peak seasonal oil demand associated with the northern hemisphere summer and the hurricane season in the Gulf of Mexico. Oil prices at \$US80 a barrel would translate to about \$1.50 a litre at the pump for Australian motorists."

"Our assessment remains that an oil price above \$US\$100 a barrel is likely over the next few years. In terms of economic impact, the key is how quickly it gets there. If the price grows steadily that level over several years in response to global demand, consumers and businesses would have time to adjust. However, if it occurred over a few months, say due to a wider Middle East conflict, it could cause a global recession."

At the same time, dependence on overseas supply is increasing – see figure 3.3. According to Caltex Australia, Australia's net exports of petrol and middle distillate have fallen dramatically in recent years. This is due to both increased domestic demand as well as a drop off in domestic production and supply.

Figure 3.2: Australia is now a net importer of refined petroleum products



Source: Caltex Australia Limited 2006, *Caltex Australia Limited — Business Fundamentals Remain Strong*, presentation by Simon Hepworth (Chief Financial Officer) to the UBS Australian Resource Conference.

¹⁰ Quoted in the 21 June edition, www.eureka.com.au

Australian Petroleum Production and Exploration Association (APPEA) chief executive Belinda Robinson¹¹ recently stated that by 2015 Australian production of petroleum liquids will represent less than 30% of our consumption:

“In the last year, no liquids finds in Australia exceeded 10,000 barrels. There are massive implications - economic implications - associated with a decline like this, including a potential trade deficit in oil and condensate in excess of \$20 billion. To give you some sense of proportion, Australia's total trade deficit at present is around \$19 billion, total.”

This increasing dependence on foreign oil means that all things being equal Australia's balance of payments situation is likely to worsen. This will no doubt have wide ranging ramifications for Australia's economy as a whole.

¹¹ Quoted on *Lateline*, ABC TV, 8 May 2006

4 Relationship between crude, wholesale and retail prices

This section seeks to address issues raised by the Inquiry's first term of reference. In doing so it examines the relationship between the landed price of crude oil, refining costs, the wholesale price and the retail price of petrol.

As explained by the Australian Competition and Consumer Commission (ACCC) retail petrol prices are a function of a number of factors including:¹²

- changes in international prices for refined petroleum products;
- movements in the Australian/US dollar exchange rate;
- the level of federal and state excise and taxes;
- local price cycles; and
- profit margins.

Many commentators have justified the recent increase in the retail price of petrol by movements in the price of crude oil. For example, in June 2006, Prime Minister John Howard stated:

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...¹³

Similarly, Caltex Australia's website states that¹⁴:

Crude oil prices have risen dramatically over the last year, driven by strong global demand, limited spare oil production capacity, and continuing political instability in certain oil producing regions.

Since the price of crude oil has the most significant long-term impact on the average price of petroleum, contributing over 50 percent to the retail price, it is not surprising to see average petroleum prices significantly higher as well.

While crude oil prices are undoubtedly a major underlying factor in the price of petrol, recent retail price increases exceed the global price hike in crude oil. Since January 2005 the price of Malaysian Tapis has increased from AUS\$59.70 per barrel to \$97.70 per barrel. This translates to an increase of around AUS\$38 per barrel or 24 cents per litre. Assuming that this cost was fully passed on to motorists and there was additional GST levied the average retail price of unleaded petrol in Sydney, in June 2006, would have been around 123.4 cents per litre.¹⁵

¹² ACCC, *What determines petrol prices in Australia?*

<http://www.accc.gov.au/content/index.phtml/itemId/348768/fromItemId/280309> accessed 26 June 2006.

¹³ Transcript Of The Prime Minister The Hon John Howard Mp Doorstop Interview, North Ryde, Sydney, 8 June 2006

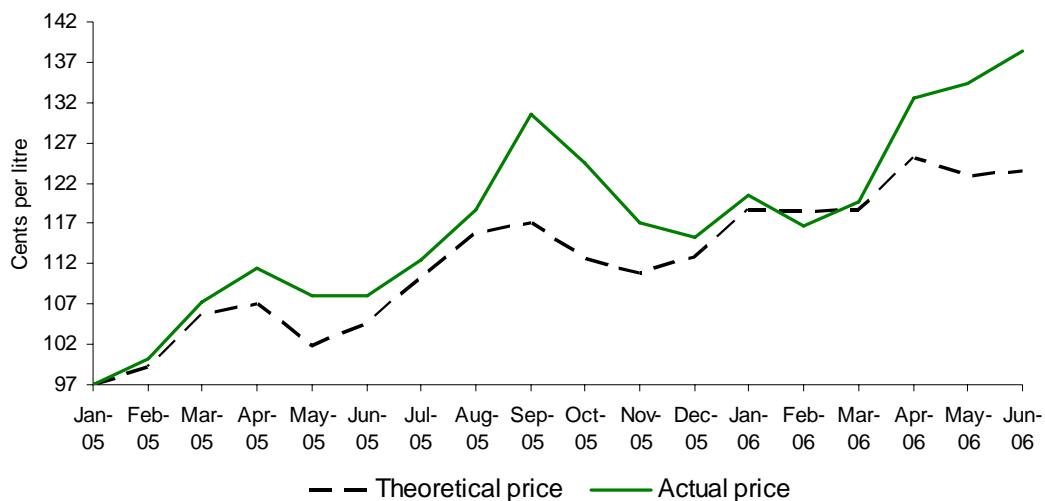
¹⁴ Caltex Australia, *What determines fuel prices?* <http://www.caltex.com/corp/en/FuelPrices.asp> accessed 26 June 2006.

¹⁵ The additional GST represents a total cost of 2.4 cents per litre.

By comparison the average retail price for unleaded petrol in Sydney ranged from a minimum of 124.6 cents per litre to a maximum of 152.8 cents per litre. This suggests that in the month of June 2006 crude oil prices do not explain 36 per cent (15 cents per litre) of the increased cost of unleaded petrol.

Figure 4.1 compares the actual average retail cost of unleaded petrol in metropolitan Sydney to the theoretical price of unleaded petrol, if the increase in the price of crude oil had been the only factor leading to petrol price rises.¹⁶ It shows that actual price rises have been higher than the hike in crude oil prices. Accordingly oil companies have increased their margins in other areas as reflected by their recent profit increases.

Figure 4.1: What petrol price should be given increased crude oil prices?



Source: NRMA Motoring & Services

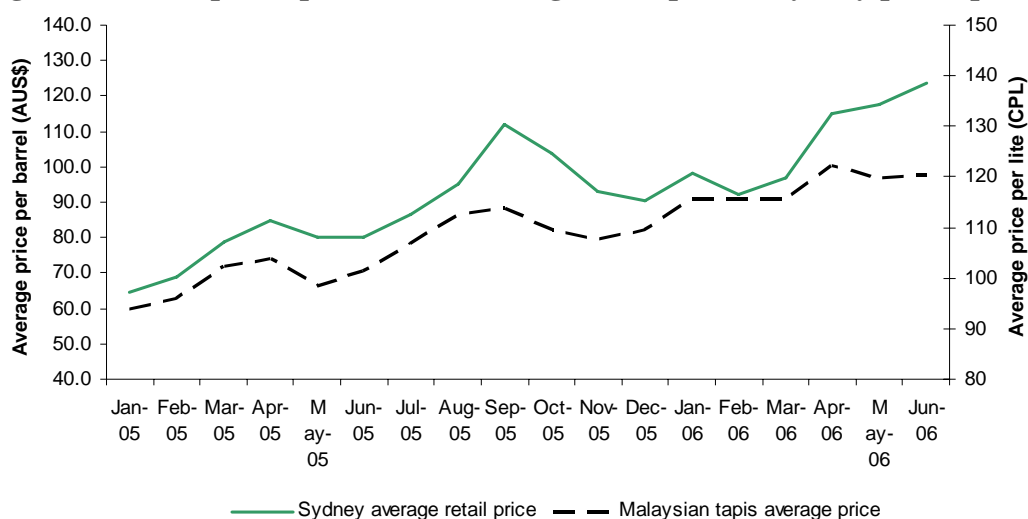
As shown in figure 4.2, over the period January 2005 to June 2006 the price of Malaysian Tapis increased AUS\$38 per barrel.¹⁷ In the same period, the average price of unleaded petrol in metropolitan Sydney increased by 42.5 per cent.¹⁸ This means that over an 18 month period the retail price of fuel in Australia’s largest city increased by an additional 17.4 cents per litre over and above the increase in the cost of Malaysian Tapis (excludes the impact of the GST).

¹⁶ Theoretical prices also take into account the impact of the GST.

¹⁷ <http://tonto.eia.doe.gov/dnav/pet/hist/wepctapisw.htm>

¹⁸ Australian Automobile Association

Figure 4.2: Tapis oil price versus average metropolitan Sydney petrol price



Sources: US Energy Information Administration and Australian Automobile Association
www.aaa.asn.au

NRMA believes that the 17.4 cents per litre that can not be accounted for by the increase in the global price of crude oil can be explained by a combination of factors, including:

- **Increases in refiner margins** — as discussed in the previous section Caltex Australia’s \$414 million profit for period ending 31 December 2005, was largely driven by a boost in refinery margins in the face of increased demand. As detailed in a Caltex presentation to the UBS Australian Resources Conference (June 2006) the Caltex Refiner Margin has increased from 6.6 cents per litre in 2004 to 8.4 cents per litre in 2005 — an increase of 27.3 per cent in one year¹⁹.
- **Increased retailing margins**— according to the Western Australian Department of Consumer and Employment Protection petrol retailers in Perth have experienced a 2 to 3 cents per litre increase in retail fuel margins over the last 12 months.²⁰ NRMA, along with other Australian Motoring Clubs, suspect that similar increases have been enjoyed by petrol retailers in Australia’s Eastern States.
- **Increased wholesale margins** — there has been a marked increase in wholesale margins since September 2005. According to the AAA since September 2005 wholesale margins for petrol have increased 2.5 cents per litre and in June 2006 they stood at around 14.4 cents per litre²¹.
- **Increased tax** — the GST levied on a litre of unleaded petrol in metropolitan Sydney in June 2006 is 12.58 cents per litre compared to only 8.83 cents per litre in January 2005. This means that Australian Governments are receiving a windfall gain of 3.75 cents per litre at the

¹⁹ Caltex Australia Limited 2006, *Caltex Australia Limited — Business Fundamentals Remain Strong*, presentation by Simon Hepworth (Chief Financial Officer) to the UBS Australian Resource Conference.

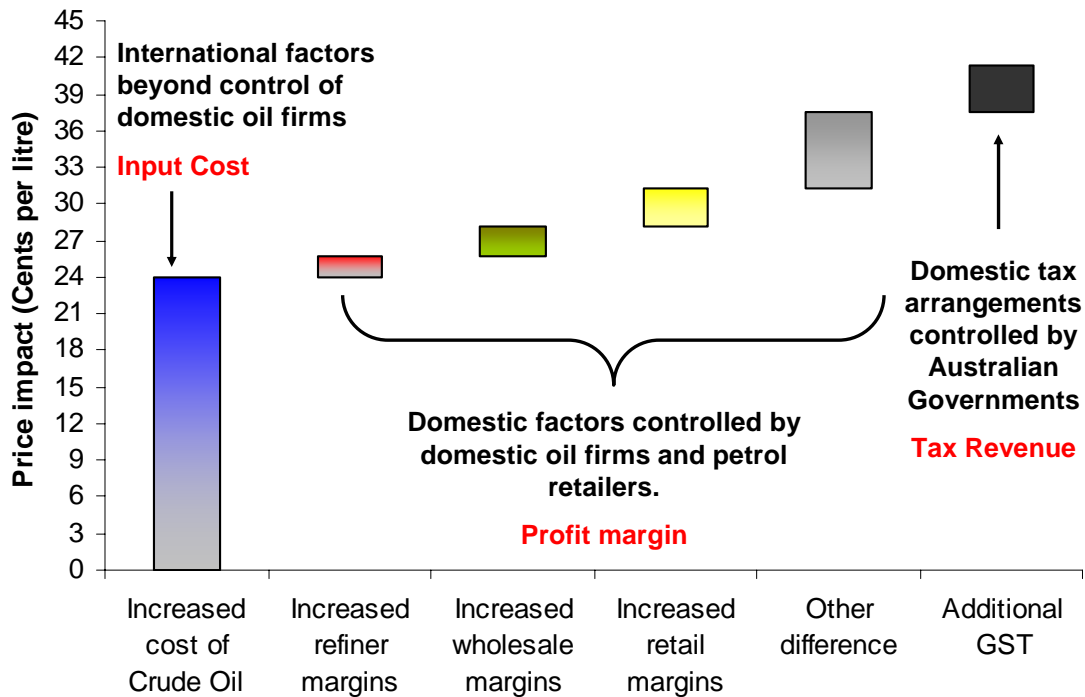
²⁰ Correspondence from WA Department of Consumer and Employment Protection to NRMA, dated 20 June 2006.

²¹ AAA 2006, *Inquiry into the Price of Petrol in Australia*, Canberra, P.7.

expense of the Australian motorists who are already hurting due to high petrol costs.

The incremental impact of each of the above factors on the retail price of unleaded petrol (in Sydney) is depicted in figure 4.3.

Figure 4.3: Price impact of individual factors on the average price of unleaded petrol

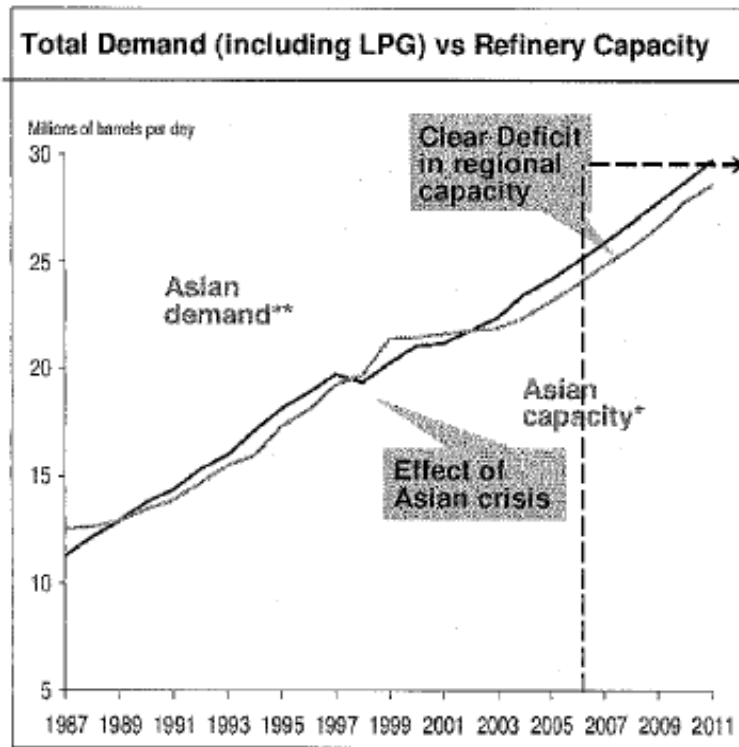


Source: NRMA Motoring & Services

NRMA does not know why there has been a simultaneous increase in refiner margins, wholesale margins and retail margins along with record high crude oil prices. There is no evidence to suggest that higher crude oil prices would lead to increases in other input costs throughout the oil production and distribution chain. On balance, we believe that these simultaneous increases in various margins throughout industry supply chain suggest that the oil industry in Australia is not effectively competitive.

Evidence also suggests that higher profits do not represent a return on increased investment. In fact, according to Caltex Australia, Australia, like the rest of Asia, is experiencing refining capacity constraints which are expected to continue for the foreseeable future. This is despite growing domestic demand and improved refiner margins — see figure 4.4

Figure 4.4: Refining capacity is constrained



Source: Caltex Australia Limited 2006, *Caltex Australia Limited — Business Fundamentals Remain Strong*, presentation by Simon Hepworth (Chief Financial Officer) to the UBS Australian Resource Conference.

5 Regional differences in the retail price of petrol

This section examines regional differences in the retail price of petrol.

There is a marked difference in the price of petrol throughout regional and metropolitan NSW. As shown in Table 5.1, in June 2006 average retail prices in regional NSW were 5.4 per cent higher than those in metropolitan Sydney. This compares to 9.1 per cent in June 2005. This suggests that over the past 18 months petrol prices have increased more in metropolitan Sydney than in other parts of NSW.

Table 5.1 Regional petrol price differentials: NSW

Regional centre	Percent price difference from Sydney	
	June 2005	June 2006
ALBURY	1.76%	3.61%
ARMIDALE	4.07%	3.47%
BATEMANS BAY	1.39%	3.18%
BATHURST	1.57%	3.68%
BEGA	5.93%	5.42%
BROKEN HILL	4.44%	3.03%
CANBERRA	-3.52%	2.02%
CASINO	-3.89%	-2.75%
COFFS HARBOUR	5.37%	3.32%
COOMA	4.81%	4.19%
COONABARABRAN	4.35%	3.18%
COWRA	5.37%	2.75%
DUBBO	3.43%	2.31%
FORBES	5.28%	4.05%
FORSTER	4.17%	3.97%
GLEN INNES	1.02%	0.65%
GOULBURN	3.33%	4.62%
GRAFTON	0.37%	-1.95%
GRIFFITH	2.96%	3.54%
HAY	9.07%	5.35%
INVERELL	3.70%	-1.45%
KEMPSEY	4.54%	3.76%
LISMORE	-2.04%	-2.82%
MAITLAND	2.41%	0.79%
MOREE	-0.74%	0.43%
NARRABRI	3.24%	1.37%
NEWCASTLE	-0.28%	-0.14%
ORANGE	4.44%	3.76%
PARKES	5.56%	3.61%
PORT MACQUARIE	3.33%	3.47%
TAMWORTH	1.57%	3.54%
TAREE	1.85%	-1.08%
ULLADULLA	5.09%	4.70%
WAGGA WAGGA	3.06%	2.38%
WOLLONGONG	-0.46%	0.29%
YASS	-0.46%	2.24%
Average	9.07%	5.42%

Source: Australian Automobile Association www.aaa.asn.au

It is claimed by the oil industry that this differential is due to several factors including:

- **Lack of competition in regional areas** — it is argued that prices in regional NSW are higher than in metropolitan areas given that there are fewer retail outlets meaning less competition at the retail level. According to Shell Australia's website:

The extent and nature of competition in country and city markets also helps to explain some of the differences in petrol prices. Metropolitan service stations generally operate in a more intensely competitive market than their country counterparts.

Metropolitan consumers have a much larger number of outlets to choose from. This concentration of outlets means that once price discounting starts in one location, it tends to spread throughout the metropolitan area very quickly. In many country towns, particularly those with little passing traffic, the potential to increase sales through discounting is limited.

- **Higher retail margins in regional areas** —it is claimed that retail margins are typically higher in the country compared with major capital cities, mainly due to lower fuel volumes and shop sales over which to spread service station operating costs. For example this position is advocated by Shell Australia. Shell's website states²²:

The reason behind higher country petrol prices is they simply do not have the petroleum product volumes to lower their margins to city levels. Basically, small volumes mean country service stations cannot sell enough soft drinks and cigarettes to compensate for losing money selling petrol.

- **higher freight costs** — according to Caltex Australia freight is typically 1.5 to 3 cents per litre greater for country than city delivery²³. Similarly, Shell Australia claims that in NSW the average difference between country and city freight costs is 1.6 cents per litre. This is because of the wide geographic spread of country service stations and the relatively small quantities they sell. Furthermore, it is claimed that it is often impractical to supply these service stations directly from terminals²⁴ which add to distribution costs.
- **Shortages of onsite storage capacity** —less storage capacity leads to higher freight costs for retailers in rural Australia. According to Caltex

²² Shell Australia, http://www.shell.com/home/Framework?siteId=au-en&FC2=/au-en/html/iwgen/shell_for_motorists/petrol_pricing/country_prices/zzz_lhn.html&FC3=/au-en/html/iwgen/shell_for_motorists/petrol_pricing/country_prices/country_prices_nsw_0116.html accessed 24 July 2006.

²³ Caltex Australia, http://www.caltex.com.au/pricing_pla.asp#q10 accessed 23 July 2006

²⁴ Shell Australia, http://www.shell.com/home/Framework?siteId=au-en&FC2=/au-en/html/iwgen/shell_for_motorists/petrol_pricing/country_prices/zzz_lhn.html&FC3=/au-en/html/iwgen/shell_for_motorists/petrol_pricing/country_prices/country_prices_nsw_0116.html accessed 24 July 2006.

Australia “*distribution costs may be significant for country areas where fuel must be stored in depots and double-handled, rather than being delivered directly from coastal terminals*”²⁵

NRMA is unable to comment on a number of these claims and the extent to which the claimed factors account for regional price differences. For example, little or no data is available on the relative sales of non-fuel items (such as groceries, convenience goods, and mechanical and lubrication goods)—at regional and city service stations.

NRMA recognises that the above factors would, without a doubt, cause price differences between regional and city locations. In particular, we suspect that less competition in many regional areas results in higher petrol prices for consumers. Moreover, in some regional areas of NSW retail petrol prices appear to be lower as a result of the presence of an independent service station.

In addition to the above factors, we believe that consideration should also be given to other factors which may act to offset the higher costs of retailing petrol in regional areas. These factors include lower wage rates, lower rents and property taxes (including local rates), lower cost of capital and lower operating costs, such as the cost of site security. Furthermore, it is unlikely that service stations in regional areas always sell smaller volumes of petroleum and other goods. For example, in major regional centres where there are fewer service stations supplying not only locals, but also freight and tourist traffic, sales volumes are likely to be as high (or higher) than in some metropolitan areas.

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.

²⁵ Caltex Australia, http://www.caltex.com.au/pricing_pla.asp#q10 accessed 23 July 2006

6 Variations in the retail price at particular times

This section addresses part C of the Committee's terms of reference. It examines the impact that variations in the retail price of petrol at particular times have on Australian motorists and consumers.

Member correspondence reveals that ongoing variation in the retail price of petrol is of great concern to NRMA's members. It appears that price variations are a major source of anger for consumers, who express bewilderment and feelings of being exploited when they see the retail price of petrol varying from 10 to 15 cents per litre within the space of 24 hours and even more over a seven day period.

The major oil companies claim the volatility in oil prices is a good sign that competition is working and that rival petrol station sites closely monitor each other's boards to avoid losing sales to competitors with a lower petrol price. Shell Australia argues that:

Petrol prices move up and down so much and so quickly because of intense competition. Service station operators set their own prices and discount prices to attract more customers....

The reason prices jump up and down so much because the market for petrol has fundamentally changed over the last decade. Twenty five years ago a service station was just a service station and companies relied on average margins to cover their costs. There was also not as much innovation in the industry to attract new markets.

Today, the market is driven by volume. Companies rely on small margins on large volumes to compete. Services and products are far more innovative (such as Optimax, Shell Card and a wider range of retail goods). Petroleum retailers sell a lot more fuel at each outlet, but make a lot less on each litre sold and non-fuel sales make up a significant percentage of service station sales.

In addition to competitive factors NRMA understands that cyclical prices result from changes in wholesale rebates or price support schemes. It is often the case that wholesalers provide franchised dealers with rebates (known as price support or rebates) in order to help them meet competition and cut prices at their sites. However, the level of price support can change or even end at any time in the price cycle. This causes retail prices to change leading to movements in the retail price of fuel.

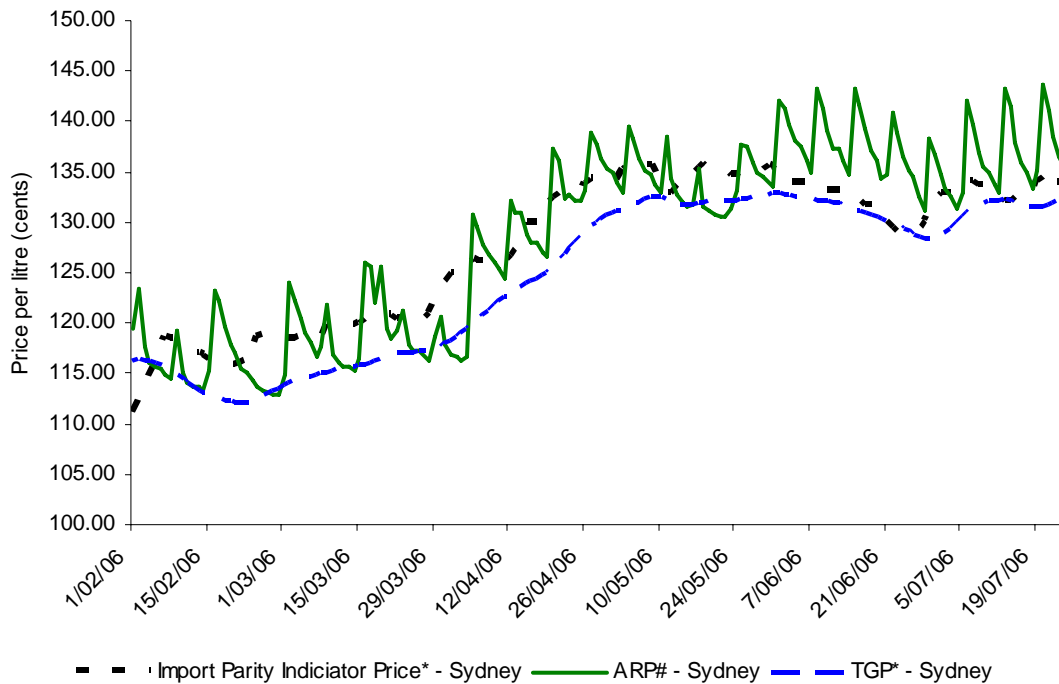
The oil industry argues that the practice of offering rebates is neither anti-competitive nor illegal. In fact NRMA notes that in some cases it may result in lower average prices across the cycle. However, we do question the way in which these rebates are offered in an on-again/off-again fashion and the intended purpose of doing so.

In fact as can be seen in figure 6.1 the volatility in Sydney's daily retail price for unleaded petrol seems to be totally inconsistent with the movements in the Import Parity Indicator Price (IPIP) and the Terminal Gate Price (TGP).

Accordingly we question whether retail cyclical pricing is a means of market manipulation, aimed at

- disguising the margins being achieved;
- creating the perception for consumers that they are receiving a discount;
- restricting the activities of independent resellers who generally cannot compete at that level of discount.

Figure 6.1 Retail Prices vs TGP vs IPIP: Metropolitan Sydney



Source: Australian Automobile Association www.aaa.asn.au and MotorMouth

NRMA maintains that there continues to be a lack of sufficient market transparency to justify the current volatility in retail markets. We therefore advocate the need for greater price monitoring by the ACCC and other regulatory authorities (such as the NSW Department of Fair Trading) to determine the extent to which cyclical pricing constitutes anti-competitive behaviour.

If the ACCC lacks the resources or the remit for the task, the Government should act to give it the tools for the job. Alternatively, Government may wish to establish a fuel industry ombudsman to monitor changes in petrol prices and the extent to which pricing practices reflect opportunistic behaviour on behalf of the oil industry (including retailers, oil majors wholesalers and distributors).

7 The level of competition and industry structure

This section examines the structure of Australia's petroleum industry. In doing so addresses part D of the Committee's terms of reference.

The key message from this section is that Australia's oil industry is dominated by a small number of large integrated players and that there are significant barriers to entry. These and other factors have resulted in a weakening of the competitive process and higher retail prices for consumers.

7.1 Market Structure

Market structure relates to the cost structure and demand conditions in a particular industry and is important because it is a major determinant of market outcomes. An assessment of the following indicators is useful in assessing whether market structure is consistent with effective competition:

1. Degree of entry (actual and its potential threat);
2. Industry concentration / number of competitors in the market;
3. Barriers to entry; and
4. The degree of vertical integration.

Each of these is discussed below.

Degree of market entry:

The Australian petroleum industry has been characterised by four major players (BP Australia, Exxon Mobile; Caltex Australia and Shell Australia) as well as a number of smaller independent firms such as United and Liberty. In 2005 the four oil majors had a combined market share of the refining market 98 per cent.²⁶

The most significant change that the Australian petroleum industry has experienced in the last decade has been the market entry of Coles and Woolworths in petrol retailing. This however has not meant increased consumer choice. Instead given that Woolworths has partnered with Caltex and Coles has partnered with Shell many existing service stations have simply been rebranded.

NRMA believes that the partnerships formed by Coles and Woolworths with the existing oil majors reflects the high barriers to entry that characterise the oil industry as well as the difficulty of sourcing refined petroleum products from independent overseas suppliers that meet Australia's high fuel standards.

Barriers to Entry

The Petroleum Industry is a highly capital intensive industry characterised by very high barriers to entry.

²⁶ IBISWorld 2006, Petroleum Refining in Australia, Sydney p. 22.

In regard to oil refining, barriers to entry are high mainly due to its capital intensive nature. In particular:

- Extremely large amounts of capital are required to construct and maintain refineries. For example a new catalytic cracker, which is only one of the major units needed to process crude oil, costs around \$500 million.
- Existing refiners have large market shares which provide them with economies of scale and scope. This combined with a relatively small domestic market makes market entry relatively unattractive.
- Existing refiners are vertically integrated and have strong retail presence with established retail networks. As noted the market entry of Woolworths and Coles into the retail market has enabled both Caltex and Shell to further strengthen their retail presence.

In regards to downstream markets, potential entrants are faced with a strong presence by the existing refiners that have established retail networks. More recently market entry by Woolworths and Coles means that a potential market entrant would be faced with fuel discounting possibly subsidised by supermarket operations. Furthermore fuel retailers earn slender margins on high sales volumes requiring prospective entrants to have access to large amounts of working capital.

Industry concentration

The Australian petroleum industry is characterised by a small number of large players. Using the CR 4 index to measure market concentration reveals that the four largest players account for 98 per cent of the Australia's total refining market.

A reading of the ACCC's *Merger Guidelines* highlights the significance of the extent of market concentration in Australia's petroleum industry. According to the Merger Guidelines²⁷:

If a merger that will result in a post merger combined market share of the four (or fewer) largest firms (CR4) of 75 per cent or more and the merged firm will supply at least 15 per cent of the relevant market, the Commission will want to give further consideration to a merger proposal before being satisfied that it will not result in a substantial lessening of competition.

In 2005, four oil companies breached the ACCC's threshold. This suggests the level of market concentration that characterises Australia's petroleum industry is less than what the ACCC would consider to be optimal for effective competition.

There is also growing concern that the introduction of established supermarkets into petrol retailing is leading to increased market dominance. It is estimated that as at June 2006 the two major supermarket alliances, Shell-

²⁷ ACCC, 1999, Merger Guidelines, P 43

Coles and Caltex-Woolworths have captured around 65 per cent of the retail petrol market. This compares to just over 50 per cent in 2005.

This market share is expected to further increase as each of those supermarket-chains actively expands its networks at the expense of the smaller independent retailers. Accordingly there is a growing concern that increased market share will lead to market dominance which would no doubt further disadvantage motorists.

Vertical Integration

There is a high degree of vertical integration in the petroleum industry. The oil majors control virtually all aspects of the process from production to petrol marketing

The integrated nature of Shell Australia's operations is highlighted in the following extract from IBISWorld:

In 2003, a new dual holding company structure for Shell's businesses in Australia was established, separating the upstream and downstream businesses. A new holding company, Shell Energy Holdings Australia Limited (SEHAL), was established for Shell's upstream exploration, production and gas interests in Australia. Shell's downstream businesses, primarily petroleum refining and marketing, continued to be held by Shell Australia.

7.2 Consequences for consumers?

An assessment of the above indicators suggests that the Australian oil industry is not characterised by robust competition in which consumers benefit from price competition as well as competition in relation to quality efficient investment decisions and ongoing product innovation. Instead a lack of vigorous competition has resulted in record oil company profits and increased retailer margins at a time of record high crude oil prices.

If Australia's petroleum industry was characterised by robust competition, higher input prices (i.e. higher crude oil prices) would result in lower profits or no profit growth. However in the last 18 months despite higher prices for crude oil Australia's oil companies are earning record profits. This suggests that they are not only passing on the full cost of the higher crude oil price but as discussed in section 4 of this submission, they are further increasing their prices.

Effective competition would not allow this outcome. Accordingly NRMA believes that there is a role for government to encourage greater competition in Australia's petroleum industry by reducing barriers to entry and monitoring and discouraging opportunistic pricing behaviour.

A recent piece by respected academic and micro-economist Professor Joshua Gans suggests that the recent record half year profit by Caltex Australia is a result of a lack of competition in Australia's petroleum industry²⁸:

Here is an exam question: demand stays the same but a key cost component rises. What happens to profits? This is about as basic as it gets, they go down. Why? Because the supply curve has shifted to the left. While price might be higher there is less producer surplus or profits.

So how do we reconcile this prediction with the news that Caltex's Australian profits have soared?

There is a theory in economics regarding how competition amongst firms may be soft during slumps but intense during booms. The idea is that competing firms worry that when they drop their prices to grab market share this might trigger a price war. That means any gain they get would be temporary. Thus, when margins are low (during slumps) the grab for profits is not worthwhile but when margins are high (during booms) they are. So perversely, demand may be high but prices and profits may be lower.

Flip that theory around to think about cost shocks. When costs are low, margins are high and so there is more reason to be competitive. On the other hand, high costs bring low margins if a firm decides to compete for market share and so they don't. The end result is higher profits associated with higher prices and demand and supply seemingly not delivering the results one would expect on profits.

This outcome does not require any explicit collusion and so does not violate price fixing laws. It is caused by oligopoly and in petrol refining and distribution in Australia, that is not going to change any time soon

²⁸ Joshua Gans 2006, Petrol 101, CORE Economics: Comments on economics, strategy and more, <http://economics.com.au/?p=247> accessed 30 July 2006.

8 Other relevant issues

This section discusses a number of important issues that are related to the Committee's terms of reference but outside the scope of those issues raised in points A to D. Specifically, it comments briefly on the following issues:

- security of supply,
- energy security; and
- the opportunities that a domestic renewable fuels industry may provide Australia.

While each of these issues is only covered briefly in this submission, NRMA proposes to look at these matters in more detail as part of our recently announced 2006 fuel summit.

8.1 Petroleum industry pricing strategies

Australia's oil industry implements and manages its pricing strategies, with reference to what is termed Import Parity. This is a pricing model that is used to establish the varying selling prices to Resellers, Reseller Groups and Wholesale Distributors.

Import Parity Prices are calculated as per the following equation²⁹:

(7) Day Rolling Average of the Median range of daily sales of shipping cargoes of refined product ex Singapore.

Plus

Shipping costs and insurance.

Plus

A local margin indicator of 7.2cents per litre, from which rebates are given to wholesalers and reseller groups.

Plus

Federal Government Excise of 38.14cpl

Plus

G.S.T.

Equals

Indicative Wholesale Indicator Price.

A reseller margin is then added to the Indicative wholesale price which then determines the retail price of petrol.

While this model is not a mandated pricing structure it is widely used by oil companies to determine the selling price of petrol to resellers distributors and other retailers. It is also used by the ACCC to assist in its petroleum industry price monitoring processes³⁰.

²⁹ HEH Australian Petroleum Consultancy Co 2006, *Debunking the Myths of Petrol Pricing*, p.12.

³⁰ It should be noted that there are no price control mechanisms on petroleum. This enables the oil industry majors, resellers and wholesalers to charge market determined.

For the following reasons NRMA believes that there is considerable scope to refine the application of the import parity model in the interests of consumers:

Prices do not reflect the cost of refining— all Australian oil major refine and import 91 RON Unleaded petrol but sell at the 95 RON standard. This pricing strategy means that Australians are paying more for a cheaper product and delivers Australian companies an increased margin of about 0.8 cents per litre³¹.

Shipping costs do not take into account economies of scale: — the above pricing formula is applied assuming shipping costs consistent with 38,000 tonne tankers. In practice tankers with larger carrying capacities are used resulting in significant cost savings per litre of oil. However final consumers do not benefit from these economies of scale because the way in which shipping costs are calculated in the Import Party Price model does not allow for any cost savings to be reflected in the indicative wholesale price of petrol.

The buying power of retailers is not reflected in final prices — NRMA understand that over the past 18 months to two years the major supermarket chains have received significant discounts on the wholesale price of petrol. This is due to their considerable buying power and means that the price at which they purchase refined product more closely resembles the Terminal Gate Price (TPG) as opposed to Indicative Wholesale Price. However despite this Australian consumers are not benefiting from lower prices, instead Coles and Woolworths are benefiting from increased margins.

NRMA questions the appropriateness of the above pricing strategies by oil companies. Furthermore we believe that the failure by the ACCC to adequately take into consideration these factors when monitoring petrol prices in an aberration of its duties as a consumer watch dog. NRMA, therefore recommend that when undertaking price monitoring the ACCC takes into account the impact of economies of scale in shipping, price discounts given to the supermarkets chains and the true cost of refining 91 RON unleaded petrol.

8.2 Energy security for Australia

NRMA considers Australia's energy security has reached an important "tipping point".

Historically Australia has locally produced about 80% of its domestic fuel consumption. However, with no major oil fields having been discovered in the last 10 years, Australia faces the difficult situation of being more greatly reliant on fuel imports at the time when prices are rising.

³¹ HEH Australian Petroleum Consultancy Co 2006, *Debunking the Myths of Petrol Pricing*, p.14.

As noted earlier in this submission, the organisation representing production and exploration, APPEA, has stated Australian petroleum liquids production has declined 29% since it peaked in 2000, and by 2015 our production will represent less than 30% of our consumption.

In the last year, there has been no oil liquids find in Australia that has exceeded 10,000 barrels. According to APPEA, this has massive implications for Australia including a potential trade deficit in oil and condensate in excess of \$20 billion. To put this in perspective, Australia's total trade deficit at present is around \$19 billion.

APPEA believes that over the next decade the Australian oil industry should collectively aspire to:

- drilling at least 40 new wells in offshore frontier areas;
- doubling Australian known 2P (Proved but Probable) oil reserves; and
- discovering at least at one oil and gas province.

This raises questions about whether existing tax arrangements are sufficiently attractive to encourage the investment needed to undertake the required exploration. Related to this is whether or not ongoing incentives are required given that oil prices are at record highs and are unlikely to return to their previous levels anytime soon.

8.3 Renewable and alternative fuels

Given the global concern about oil supply peaking and the apparent tightening of available reserves in Australia, the question must be raised whether Australia has a credible alternative energy program.

It is NRMA's view that Australia has dragged the chain on this issue while the rest of the world has accepted the challenge. A case in point is that the potential wider use of Compressed Natural Gas (CNG), of which Australia has abundant supplies, has not been fully explored. By comparison, many countries such as the US and Brazil, are well positioned to take economic advantage of emerging new biofuel technologies.

Renewable fuels represent a small proportion of Australia's total petroleum consumption. According to Renewable Fuels Australia³², the total production of renewable fuels in Australia, which currently stands at about 36 million litres a year, is dwarfed by the 34 billion litres of petrol and diesel that Australian consume per year.

³² *The Australian Financial Review*, "Chance to shine in renewable energy being lost", 26 July 2006, page 10.

Despite the fact that renewable fuels account for only a small share of Australia's total fuel use, NRMA maintains that renewable fuels have an enormous potential both in Australia and overseas.

This is reflected in a press statement issued by the Industry Minister Ian Macfarlane on 1 June 2006:

- The production of transport ethanol in Australia will have jumped by more than 50% in the last 12 months, from almost 23 million litres in 2004-05 to an expected 36 million litres by June 2005-06.
- Ethanol producers and oil distributors plan to increase production and distribution of ethanol to ensure Australia reaches its agreed biofuel target of 350 million litres by 2010.
- The number of service stations selling ethanol has jumped from 70 to 230.

However, the facts about alternative fuels are not widely known to consumers in Australia. There is a role for government to rectify this and to increase general awareness of both alternative fuels and ways in which the community can conserve energy consumption (such as purchasing hybrid vehicles etc). Accordingly, NRMA supports any effort by Government to provide information to consumers that would help them to make more informed choices about alternative fuels and fuel conservation. NRMA also supports taxation incentives for the purchase of cleaner and lower fuel consumption vehicles.

8.4 The Fuel Tax Bill 2006

The *Fuel Tax Bill 2006* was passed in June this year. NRMA understands that this legislation reinstates fuel taxes meaning larger and commercial vehicles using biodiesel will not get the 38 cents per litre rebate available to users of regular diesel. This will not doubt create a distortion in the market for diesel and biodiesel fuels skewing purchasing decisions away from a more environmentally friendly fuel³³ and will threaten the development of the biodiesel industry in Australia.

Around \$150 million has been invested throughout Australia in biodiesel plants in the past two years but worryingly Australia's largest renewable fuel company, Australian Renewable Fuels (ARF) says the legislation will force them to focus on growth opportunities in the US and Europe³⁴.

NRMA believes that Government should address the unintended market distortions created by the Fuel Tax Bill 2006 so as to remove the current policy uncertainty that is inhibiting the development of biodiesel fuel in Australia.

³³ Biodiesel is a non-toxic biodegradable fuel that emits 70% less greenhouse gases compared to regular diesel.

³⁴ "Biodiesel maker says it will look overseas," Angus Grigg, *Australian Financial Review*, 26 June 2006 p. 9

8.5 Road funding and taxation arrangements

Despite governments collecting significant revenues from fuel taxation and GST levies on fuel a significant road infrastructure backlog remains throughout regional and metropolitan Australia. Moreover Australia's largest City, Sydney, which accounts for around 20 per cent of the nations economic output is struggling to meet the demands of a 21st century economy with a 19th century public transport system and 20th century urban road network.

The total tax paid on fuel by Australian motorists far exceeds what Australian governments give back in the form of road and transport funding. In 2005-06 the Federal Government collected some \$14.07 billion from the fuel excise of 38.14 cents per litre. Of this it returned just \$2.1 billion (or 15 per cent) to motorists in the form of better and safer roads. Moreover, it did not allocate any funding to public transport services in Australia's City's which are the home of the majority of Australian's and the hub of the nation's economic activity.

NRMA's September 2005 Petrol Price Survey of motorists indicated that 73% wanted taxation revenue from petrol to be redirected into road funding. Greater use of petrol taxes to invest in the road network will result in improved transport outcomes which will deliver both economic and social benefits to all Australians.

9 Conclusion

To reiterate, NRMA believes that motorists are not well served by the current market arrangements for petrol in Australia.

NRMA is committed to placing the matters it has raised in this paper on the national agenda.

We want to work with Government, the oil industry, regulators and the alternative fuels industry to find solutions.

NRMA is prepared to support efforts by Government that would:

- Deliver affordable fuel to Australians.
- Encourage more competition in the market.
- Ensure security of supply in the future.
- Encourage choice through support for the development of alternative fuels.
- Provide an effective watchdog for the interests of consumers.
- Educate consumers about alternatives to petrol.

NRMA again thanks the Committee for the opportunity to provide this submission.

NRMA is available to consult the Committee on the contents of this submission and provide whatever assistance we can to the Inquiry process.