SUBMISSION BY BP AUSTRALIA PTY LTD

ON

THE PRICE OF PETROL IN AUSTRALIA

TO

SENATE ECONOMICS LEGISLATION COMMITTEE

2 AUGUST 2006

Executive Summary

- The Australian downstream petroleum industry has a very long history of intervention by governments through extensive and rigid price and operational regulation. In the past decade or so, the level of state control has started to gradually unwind as governments acknowledged the role a more dynamic and market driven industry could play in sustaining a competitive, secure and growing national economy.
- The move to more market based policy settings in the downstream sector matches those initiatives in other key energy areas of national energy policy. Each step of market reform has been supported by numerous public inquiries (see Attachment 1).
- The lynchpin of Australia's energy policy has been the move to allow petroleum markets to reflect the real cost of product based on international pricing of crude oil and petroleum products.
- As a result,
    - petrol pricing in Australia is one of the most transparent of all commodities;
    - Australia has one of the most competitive retail market environments in the OECD; and
    - The market is subject to competition at every stage of the supply chain from crude oil to the petrol pump.
- Perceptions of the industry's competitiveness are often clouded by populist commentary and some questionable analysis.
    - The recent Consumer Affairs Victoria report on Automotive Fuel Prices in Victoria, which received some media coverage, used incorrect data in its analysis of Terminal Gate Pricing (TGP) margins and therefore drew wrong conclusions
- The metropolitan price cycles reflect competition in the market. Consumers take advantage of the cycle and buy more at the low end of the cycle.
- BP's direct retail activities in regional Australia are almost non- existent. For regional areas, BP generally sells product to distributors at TGP and they supply and onsell BP product to the regional and country markets.

The Government has put in place a sound market based pricing policy to deliver competition, efficiency and security. BP supports this policy.

1. Introduction

Petrol price controls were imposed during World War II and remained in place for some 30 years before there was any loosening. As the Australian economy grew in the 50s and the 60s – and with it the spread of the suburbs – retail competition was conducted largely by building more service stations. Price competition was prevented because prices were fixed. Price and other regulatory changes occurred to cater for the development of Bass Strait, but this was focussed on ensuring that that development occurred. It was only during the early 1970s, during the first oil shock when government could no longer contain prices, that it commenced to change this policy. And with price competition, a long period of site rationalisation commenced.

Since the 1970s, petrol pricing has undergone a gradual process of regulatory reform in Australia – from one where it was heavily regulated to one where – with some exceptions – regulation is largely encompassed within the Trade Practices Act. (See history of this at Attachment 1).

Attachment 1 essentially commences with the Industry Commission Report of 1994. This was a landmark report because it recognised that it was time that governments withdraw from a heavy regulatory control and allow market forces to work to produce efficiencies in this industry.

Part 3 of that Attachment lists conclusions and recommendations of the many inquiries related to petrol pricing over the last 12 years. Almost without exception the trend of their recommendations has been in favour of price monitoring in place of regulation.

Federal direct pricing regulation ceased in 1998 when the ACCC lifted its maximum intervention wholesale price. There remains regulation in WA and to some extent in Victoria.

Within the industry there have been major changes associated with this freeing up of the market:-

- The unilateral move by BP in 2002 to cease refinery exchange (where refiners exchanged product in different capitals on a tonne per tonne basis, and which was instituted by government), and replace it with full buy/sell arrangements. Other companies followed.
- The introduction of Terminal Gate Pricing (TGP) by BP in 1998
- Moves by oil companies to open access to terminals in 1998
- Much greater transparency by oil companies on pricing, and continued monitoring by bodies such as the ACCC
- The decision by BP to effectively cease price support starting from 1998.

The outcome of this is:-

- Petrol prices are now more transparent than prices of any other commodity – both in the final product and in the supply chain

- Their relationship with crude and international prices appears to be more understood by the public
- While price cycles continue, they can be to the consumer's advantage. Our sales are greater in the lower part of the cycle. The perception that prices are higher at long weekends is a furphy – the cycles occur and to varying extents regardless of long weekends.

2. How Petrol is Priced

There are three major, contestable and largely transparent markets in the build up of the pricing of petrol.

First there is the Singapore Product Price .

- Petrol and diesel are regionally priced and traded commodities. Australia is inextricably linked to the regional trade. 23% of product consumed is now imported.
- The Singapore market is the regional terminal market for petroleum products in Asia (cf New York and Rotterdam terminal markets in their respective regions) and forms the benchmark price. The relevant quote used is MOPS 95[1]

Its dominant influence is the crude oil price (the price of which is determined in its own market), but the Product market is a market of its own[2], and crude price is not the only determinant.

Second there is the Terminal Gate Price, which is the wholesale price ex-terminal for product in Australia

- This comprises three major components:-
    - The Import Parity Price which is the landed price of Australian fuel quality standard petrol at the relevant port in Australia

> Import Parity Price for unleaded petrol = Singapore Platts MOPS 95 + premium + shipping + wharfage+ Insurance & loss (all converted to A$)
>
> Shipping = applicable flat rate times Platts (Sing-Aust clean) WorldScale
> Premium accounts for quality and other premiums.

[1] MOPS 95 = Mean of Platts Spot price for 95 octane Motor Spirit on a particular day. While this is a benchmark regional price, the legislated Australian standard for petrol is a higher quality than that for MOPS 95. So a premium has to be added to this to determine a price for Australian petrol. This premium has increased over the past few years as the legislated Australian standard has increased each year since 2003. Anyone buying Australian standard petrol in the region would therefore pay MOPS 95 plus the premium.

[2] The key influence other than crude price is refinery availability. If refinery capacity is insufficient at a time, then the differential between product and crude price will rise. Similarly, in times of surplus refinery capacity – as occurred between 1998-2004, the differential can be thin (and have on occasion been negative).

    - Our refineries compete against this landed price (see Section 3.A)
  - Wholesaling costs (transport and storage to and in the terminal) and including a wholesale profit margin if available
  - Federal Excise and GST
- BP's TGP for all of our terminals is shown on our website (www.bp.com.au/tgp/)
- Most sales to dealers and distributors are at TGP

How Markets are contestable at every level

• **Crude Price**	determined by world markets
• **Singapore Product Price (MOPS 95)**	determined by regional/world markets
• **Shipping Rates**	determined by international shipping market
• **TGP**	determined by market
• **Domestic Transport**	determined by domestic transport market
• **Retail Price**	determined by retail market

Third, there is the retail price

- BP sets this price at only those BP sites that we own and operate, or where the franchisee operates under a commission agency. This amounts to 250 sites nearly all of which are in capital cities or some major highway sites
- The remaining 1150 sites that BP supplies (mainly through its rural distributors) are in both urban and rural areas. Although most are BP branded, these are privately owned sites and each sets their own retail prices
  - BP would be contravening the TPA were we to intervene
- BP does not, except for some very minor exceptions, provide price support, having opted for a simple pricing approach in 1998
- Within capital cities there is the price cycle phenomenon, which sees prices fluctuate on a weekly or fortnightly cycle (although this is not always predictable). At least to the extent of the amplitude of the cycle, this is relatively unique to Australia. But it brings out the competitive dynamics of the Australian market, which is consistently one of the lowest price markets in the OECD.

The preceding table shows that every step in the chain is competitively contestable.

3. Specific Aspects of the Terms of Reference

The Committee's Terms of Reference are:

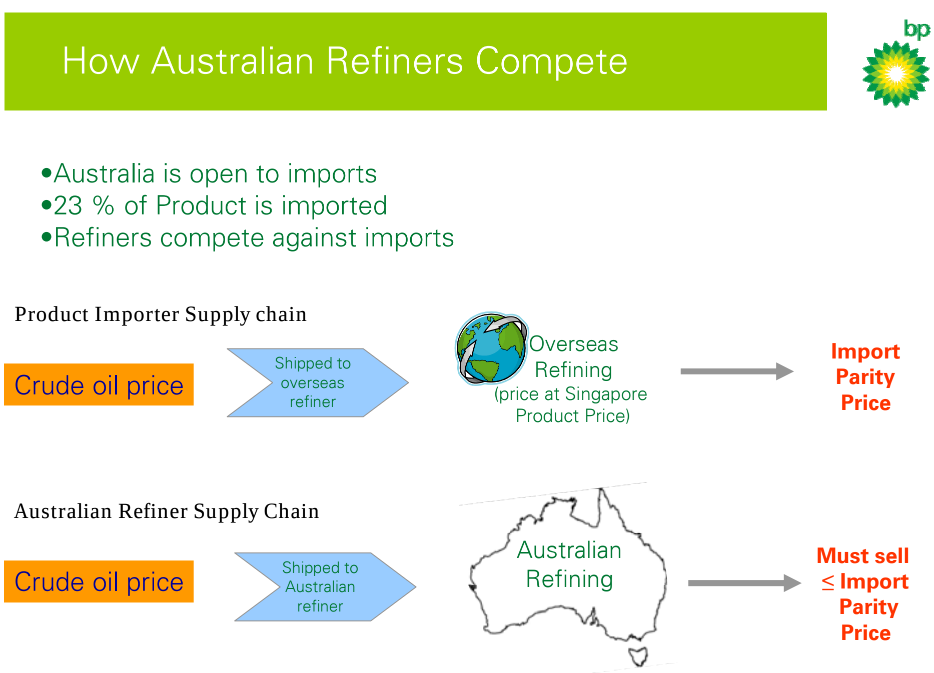
a. the relationship between the landed price of crude oil, refining costs, the wholesale price and the retail price of petrol;

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.

A. The Relationship Between The Landed Price Of Crude Oil, Refining Costs, The Wholesale Price And The Retail Price Of Petrol;

The key benchmark for regional pricing reference is the Singapore Product Price. This was recognised in the late 1980s by both the PSA (now ACCC) and the industry in the determination of the PSA's Intervention Price. The reason for this is that Australian production had (and has) to compete with the price of imported product as landed in Australia. And this was the measure - adjusted to Import Parity Price to allow for quality premia, shipping and insurance - adopted by the PSA in its intervention pricing.

The appropriateness of this has increased over time as Australia's imports of product have increased – currently about 23% of consumption. There is no practical way that Australia can avoid being part of the regional or global market, and import parity price for product is the appropriate benchmark.



The wholesale price – or Terminal Gate Price (TGP) – is the landed price of product (or Import Parity Price (IPP)) plus wholesaling costs including excise and GST and profit margin.

The landed price of crude and refinery capital and operating costs define Australian refinery costs. The challenge for Australian refiners is that their total costs plus profit margin must be less than the IPP with which they compete. If the costs are greater, then the refinery is operating at a loss. There have been long periods in recent years when refineries have been unprofitable or marginally profitable eg in the period 1998-2004. And, in consequence, there has been one mothballing of a refinery in recent years. Because refining margins have recovered from their long depressed period, most would be currently viable, but this is a cyclical industry, and the cycle will again turn.

The relationship between TGP and the retail price of petrol is defined by both costs and the market. Typical metropolitan retail margins are around 4-5 cpl. All transport and retail costs are included in this. Returns in the retail sector are modest due to high competition in this sector.

Box 1: Why Shouldn't Australian Product Pricing be linked as a direct mark up to crude pricing?

The above issue is raised from time to time. The reasons why it shouldn't are:-

- It would lead to a dual pricing system (23% of product is imported at the world price) which would be unmanageable
- While this could conceivably work when refinery margins are high, to be equitable it would require major subsidies to refineries when refinery margins are low, which may lead to other, including WTO, issues
- If corresponding subsidies were not available, there would be a rapid rundown of the Australian industry due to unsustainability. This leads back to IPP anyway
- It would discourage investment.

Import Parity Price on petroleum products is the only logical outcome. Crude oil and petrol are commodities which have their own commodity markets and are subject to international forces. It is the same as for a host of agricultural and mineral commodities which Australia produces and exports, except that in this instance we are a net importer. A similar process applies in petroleum and there are sound economic and supply security reasons to continue the current practice.

B. Regional Differences In The Retail Price Of Petrol;

(a) Between the five major capital cities

Each city is its own market. Its price cycle may have different timings and characteristics to others. While they can be compared in many ways, a common fault is to compare them at any point in time. This can lead to wrong conclusions, as one market may be high on the cycle and another at a low point. Over time, the capital city pricings are comparable.

(b) Rural Australia

Apart from setting TGPs at its provincial terminals BP does not market directly in regional Australia. BP sells to its distributors who then onsell to rural outlets, or sell through distributor owned outlets.

We do not have significant data on regional prices or regional price differentials. The following factors can impact rural pricing vis a vis metropolitan pricing:-

- Low throughputs and low convenience store sales need high retail margins to be sustainable. We believe throughputs in rural sites to be about 1/3 that in urban sites.
    - A comparison may be made with the price of, say, a jar of vegemite or a loaf of bread at a corner store to that in a supermarket. Petrol in rural areas could be, say, 10 cpl (i.e. about 6%) higher than in urban areas. The proportional price differentials for food items between high volume and low volume outlets is likely to be far higher than that for petrol, but are much less obvious.
- Lower competition in smaller towns
- Transport costs.

C. Variations In The Retail Price Of Petrol At Particular Times;

The more general variations relate to the fundamental matters such as world prices for product – largely dependent upon crude prices – exchange rates; and shipping rates.

BP's TGPs closely follow movements in these.

BP only changes its TGPs at most twice a week. The TGPs do not show the major weekly variations that are reflected in the metropolitan retail price cycles.

The continuation of the price cycle – or at least its amplitude - is relatively unique to Australia. The cycle has been evident for perhaps 20 years. Whatever the causes – and notwithstanding a more logical pricing system in evidence today – the cycle continues.

We make the following points about it:-

- It is an expression of competition and of a dynamic market.
- The price cycle is typically saw-toothed. Prices gradually reduce through competition to the point where service stations are at best marginal or not

making adequate returns. Then one or more competitors raise prices. And the process starts again.
    - It can be likened to children playing at staying under water the longest – there comes a point when someone comes up for air, and others follow too.
- It is not entirely predictable. Lifts do not always occur, especially when competition is very intense.
- Consumers have become attuned to the price cycle. Greater volume of sales occur during the lower part of the cycle. BP's sales in Sydney over the past 3 months have been greatest on Mondays and Tuesdays – which are days at the low end of the cycle.

The cycle itself – the dynamism of price competition - is evidence of competition. Any part of the cycle reflects a reconciliation of two fundamental aspects of competition (a) you must make sales to stay in the market and (b) you have to make a profit to stay in business.

We believe the best recommendation the Committee can make is to endorse the moves by ACCC, and RACV, NRMA etc to encourage consumers to buy when prices are low – because petrol is bargain priced at these times. That may serve to temper the amplitude of the cycle.

There are three other points to make about price cycles

- Long weekends
- Transparency
- The WA legislation

(i) "Prices go up on long weekends" – A Misconception

The "prices go up on long weekends" is a common misconception in Australia.

It is wrong.

The reality is that the cycle occurs regardless of long weekends. An observer examining historic prices would be unable to distinguish long weekends from normal weekends.

(ii) Transparency

No other commodity is so openly priced as that for petrol. This is good for competition and the consumer. The paradox is that by being so open the industry is commonly criticised – unfairly – for its practices.

The oil companies' industry body - Australian Institute of Petroleum (AIP) - has itself financed for many years a pricing survey which puts in place a price information survey covering petrol prices in metropolitan and major regional towns in all States.

(iii) The WA Legislation

As set out in Attachment 1, in 2001, WA established a comprehensive regulatory framework for pricing of petrol and diesel. Chief components were:

- A terminal gate pricing system for spot sales;
- A maximum wholesale price;
- A 24 hour rule, limiting intra-day price movements;
- Pricing information systems for public awareness;
- A 50/50 rule, under which retailers could source half their supplies from sources other than their primary supplier.

The stated objectives of the regulatory framework were to improve competition at wholesale and retail levels, increase transparency, reduce the volatility of city prices, and reduce the country-city differential.

The WA moves were a major move towards re-regulation of prices. Accordingly, there have been a number of subsequent inquiries that have reviewed the merits of the WA regulations, as part of their deliberations.

Subsequently, these arrangements have been considered by the ACCC and a number of States and Territories.[3] However, none of these found merit in the WA system, except in the area of public awareness of prices.

Most recently, a similar conclusion was reached by the Queensland Parliament Report of April 2006 on the Impact of Petrol Pricing which recommended "*that the Queensland Minister for Fair Trading <u>not</u> introduce legislation to control prices in Queensland based on the Petroleum Products Pricing Act (1983) WA.*" In its response of June 2006, the Queensland Government supported this recommendation.

BP also does not advocate the WA initiatives.

D. The Industry's Integrated Structure

There are major benefits in integration. Australia benefits by having a refinery industry – one that is competitive, adds to GDP, adds to employment, adds to energy security, and enables us sovereignty over our fuel standards.

And we believe it is only through integration that Australia would have a refining industry. BP only operates refineries where it has a marketing business.

Yet Australia has actually worked against this by severely limiting the role of refiners in marketing through the *Petroleum Retail Marketing Sites Act*. By limiting direct retail involvement for refiners, this has actually discouraged refinery investment in Australia. In so doing it has restricted competition in the market and therefore benefits to consumers.

Petrol market reform – which is currently before Parliament – will address this anomaly if passed.

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[3] For more information see Attachment 1, pp25-7

Notwithstanding integration in the industry as a whole, in terms of pricing, the changes made in recent years have largely de-integrated the industry:-

- The move away from refinery exchange to buy/sell has been key. It has fully monetised the supply chain. Other initiatives such as the TGP and pricing transparency at several key points (Singapore product prices; TGPs) have promoted moves to de-integration.
- In all markets except WA and Qld (where BP has refineries) BP is not integrated. We have to buy product or import it like most other players. The same can be said for other oil companies in capital city markets where they do not have a refinery.

E. Any Other Related Matters.

(i) Consumer Affairs Victoria (CAV) Study

Released in June 2006, this has claimed that in the period 2003 to 2006 wholesale margins in Victoria have risen substantially, with resulting major profits accruing to oil companies.

In this important respect, the report has used the wrong data and accordingly drawn wrong conclusions.

We met with CAV on 26 June, a few days after it was released. The report fails to take into account increased fuel standards set out in the accompanying table in each of the years 2003-2006 which led to increased wholesale costs. This was acknowledged by CAV, which we understand is revising the figures.

This is set out in the AIP press release of 25 July (Attachment 2).

How Australian Petrol Standards have changed

ALL GRADES

	2003	2004	2005	2006
Sulphur (mg/kg max)	500	500 150(PULP)	150	150
Benzene (%max)	5	5	5	1
Olefins (%vol max)	NR*	20	18	18
Aromatics (%vol max)	48	48	42	42
Distillation (Deg C max)	NR*	NR*	210	210

NR* = Not Regulated

The reality is that for BP there was no increase in wholesale (or TGP) gross margin over the period. And there was no windfall profit.

4. The Australian Market Considered against Competition Criteria

The Australian market meets all the characteristics of a competitive market:-

- There is no tariff protection. There is a free flow of imports (23% of product in 2004) and exports
- Profits are not excessive. While refinery margins are currently good, this must be seen in the context of the long period of very low profits or losses. Retail profits have been modest for a long period
- Capacity for change and new or progressive ideas. Shopper dockets and discounting, convenience stores, new products such as Ultimate, Optimax and biofuels, self serve are examples. The number of initiatives for selling biofuels is another example.
- Competitive prices and efficiency. The position of Australia as amongst the lowest prices in the OECD verifies this (Attachment 3).
- A number of competitors. Apart from the 4 oil companies, there are the supermarkets and a range of independents.
- Freedom of entry and exit. Coles and Woolworths have entered the market. At least one independent has grown significantly in recent years.

5. Conclusions

The conclusions of this are:-

- There has been a gradual trend away from heavy regulation to monitoring or at most light regulation over the past 20 years. This has been supported by the findings of nearly all of the many inquiries over this time.
- Petrol Pricing is directly and inextricably linked to world and regional prices. Even more so now given that Australia now imports significant volumes of petroleum products
- There is no case to move away from this linkage to world pricing through Import Parity Pricing
- The market based approach shows competition at every stage in the supply chain
- Petrol pricing and its components together make it the most transparent of all consumer commodities. This is due to moves from both the industry and government.
- Because of this transparency, they are very much in the public eye. A consumer will readily know the petrol price, but not the price of bread. This makes petrol prices more subject to comment when there is any movement.

- All of this results in an efficient and fiercely competitive market – evidenced by Australian metro pricing being consistently amongst the lowest in the OECD
- The only characteristic unique to Australia are the price cycles in the major capital cities. The cycles reflect a dynamism in the market. And low points of the cycle offer bargains for consumers.
- The fact that greater volumes are sold at the low end of the market reflects consumer awareness and responsiveness. Consumer advice by ACCC and auto associations assists here.
- Continued price monitoring by the ACCC is an acceptable outcome
- The CAV study analysis of TGP margins is wrong
- There is no case to expand regulation such as that imposed in Western Australia.
- An integrated industry benefits Australia by providing a marketing basis for our refining industry. Without this integration, our refining industry would be jeopardised. In terms of petrol pricing, the competitiveness and transparency aspects at every link in the chain effectively lead to de-integration.

BP has no concerns about continued monitoring of prices by the ACCC.

BP strongly supports the TGP concept and supports the proposed legislated requirement within the proposed Oilcode that would require oil companies to both publish TGPs and to offer wholesale customers the option of their purchase being at TGP.

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ATTACHMENT 1

REGULATORY REFORM IN THE PETROLEUM PRODUCTS INDUSTRY

A REPORT FOR

BP AUSTRALIA PTY LIMITED

Prepared by UMAC CONSULTING

July 2006

CONTENTS

1 REGULATION OF THE PETROLEUM PRODUCTS INDUSTRY AN OVERVIEW

Refinery Intake of Indigenous Crude Oil

Following the commencement of crude oil production from the Moonie field in 1964, the Commonwealth Government instituted a system for the mandatory intake of indigenous crude by Australian refineries. The allocation was based on each refinery's share of imports, at a fixed price based on world crude prices at the time. As new fields came on stream, such as the Bass Strait fields, new prices were negotiated for these. The allocation system was changed to one based on sales in 1969.

In 1975, the concept of import parity pricing was established for new fields.

In 1983, in response to increasing Bass Strait production, the Government allowed the export of two shipments of Bass Strait crude, and in the next year the Government announced a partial allocation scheme with exports allowed over a defined minimum intake by refineries. This resulted in a lengthy debate on the merits of full deregulation, with an important factor being the imminent decline in Bass Strait production.

In 1987, the Government announced deregulation, to end the mandatory intake by refineries of indigenous crude under the crude allocation system, to take effect from 1 January 1988.

Control of Prices of Petroleum Products

During World War II, the Commonwealth Government instituted a pool arrangement for the sale of petroleum products, under one brand and with prices based on a maximum wholesale price. This pool arrangement lasted until 1948.

Following the end of Commonwealth controls, State Government price controls of wholesale prices remained in place, but by 1954 all States had also ceased controls with the exception of S. Australia. The S. Australian price controls were based on maximum cost-based wholesale prices plus country freight differentials. This system was generally adopted by the industry in other States, on a voluntary basis.

In 1973, the Commonwealth Government re-entered the fuel price control arena, through the Prices Justification Tribunal (PJT). Maximum wholesale prices were set on the basis of costs, and were adjusted in the light of submissions by individual companies to the PJT. Country freight differentials were retained. This PJT process replaced that of S. Australia.

The PJT was abolished in 1981, and the Commonwealth Government established in its place the Petroleum Products Pricing Authority (PPPA), with the same role and function of setting maximum wholesale prices.

However, parallel to this, a number of States instituted their own control of retail prices of petrol and diesel, beginning with NSW in 1981. This was followed by S. Australia and Victoria, and W. Australia in 1983.

The resulting confusion and duplication led to a newly formed Commonwealth body, the Prices Surveillance Authority (PSA), taking over the setting of maximum wholesale prices of petrol and diesel, and country freight differentials, from the PPPA. State Governments agreed to relinquish their roles in price controls of petroleum products. The PSA set prices by reference to the import parity crude price. In 1988, this was replaced by a combination of spot prices for petrol and diesel in Singapore and other regions.

In 1996, the Australian Competition and Consumer Commission (ACCC) assumed the fuel pricing responsibilities of the PSA.

In 1994, the Industry Commission recommended the termination of price surveillance of petrol and diesel. This recommendation was repeated by the ACCC in 1996. In response, the Commonwealth Government moved to terminate price surveillance by the ACCC in 1998. The ACCC retained a residual monitoring role.

Subsequently, two States have enacted legislation on the pricing of petrol and diesel. In 2000, Victoria instituted a mandatory system of terminal gate pricing, under which suppliers were required to publish wholesale prices at the terminal gate; however, there was no control of the actual price levels.

In 2001, W. Australia established a comprehensive regulatory framework for pricing of petrol and diesel. Chief components were:

- A terminal gate pricing system for spot sales;
- A maximum wholesale price;
- A ‘24’ hour rule, limiting intra-day price movements;
- Pricing information systems for public awareness;
- A ‘50/50 rule, under which retailers could source half their supplies from sources other than their primary supplier.

Subsequently, these arrangements have been considered by the ACCC and a number of States and Territories. However, none of these found merit in the W. Australian system, except in the area of public awareness of prices.

In summary, with the exception of one State, Australia has moved over time to deregulation of price controls.

Market reform

During the late 1970s, the service station sector of the industry was undergoing major restructuring as a result of overcapacity. In the process, there were considerable concerns held by resellers over price discrimination by fuel suppliers against lessee dealers.

In response, the Commonwealth Government in 1981 enacted two pieces of legislation:

- The Petroleum Retail Market Sites Act (the Sites Act); and

- The Petroleum Retail Market Franchise Act (PRMF Act).

The Sites Act restricted the ability of refiner-marketers to vertically integrate by limiting the number of sites that they could operate. The PRMF Act regulated the contractual arrangements between franchisor and franchisee in the industry – for example on minimum tenure, assignment rights and disclosure to prospective franchisees.

In 1989, a self-regulation mechanism, Oilcode was established by refiner-marketers, distributors and retailers. This provided further guidance on the contractual arrangements and a dispute resolution system.

Both the Industry Commission in 1994 and the ACCC in 1996 recommended repeal of the Acts. However, in spite of several moves by the Commonwealth Government to repeal the Acts in exchange for a strengthened Oilcode, the Acts remain on the statute books.

2 REGULATION OF THE PETROLEUM PRODUCTS INDUSTRY A TIMELINE

Year	Mandatory intake of indigenous crude	Price Control Federal	Price Control State	Vertical Integration	Reseller Relations
1970	100%		All (by SA)		
1971	100%		All (by SA)		
1972	100%		All (by SA)		
1973	100%	PJT	All (by SA)		
1974	100%	PJT			
1975	100%	PJT			
1976	100%	PJT			
1977	100%	PJT			
1978	100%	PJT			
1979	100%	PJT			
1980	100%	PJT			
1981	100%	PPPA	NSW, SA	Sites Act	PRMF Act
1982	100%	PPPA	NSW, SA, Vic	Sites Act	PRMF Act
1983	Exports allowed	PSA	NSW, SA, Vic, WA	Sites Act	PRMF Act
1984	100%	PSA		Sites Act	PRMF Act
1985	Partial	PSA		Sites Act	PRMF Act
1986	Partial	PSA		Sites Act	PRMF Act
1987	Partial	PSA		Sites Act	PRMF Act
1988	Deregulation	PSA		Sites Act	PRMF Act
1989		PSA		Sites Act	PRMF Act
1990		PSA		Sites Act	PRMF Act
1991		PSA		Sites Act	PRMF Act
1992		PSA		Sites Act	PRMF Act
1993		PSA		Sites Act	PRMF Act
1994		PSA		Sites Act	PRMF Act
1995		PSA		Sites Act	PRMF Act
1996		ACCC		Sites Act	PRMF Act
1997		ACCC		Sites Act	PRMF Act
1998		Deregulation		Sites Act	PRMF Act
1999				Sites Act	PRMF Act
2000			(Vic TGP)	Sites Act	PRMF Act
2001			WA, (Vic TGP)	Sites Act	PRMF Act
2002			WA, (Vic TGP)	Sites Act	PRMF Act
2003			WA, (Vic TGP)	Sites Act	PRMF Act
2004			WA, (Vic TGP)	Sites Act	PRMF Act
2005			WA,(Vic TGP)	Sites Act	PRMF Act
2006			WA, Vic TGP)	Sites Act	PRMF Act

3 PETROLEUM PRODUCT MARKET REFORM AND PRICING INQUIRIES

1994 - 2006

The Industry Commission (IC) Report *Petroleum Products* of 1994 represented a watershed in attitudes towards regulation of the petroleum products industry. Up to that time, the industry was characterised by regulation. Since that time, there has been a slow and sometimes bumpy move towards deregulation.

The Position in 1994

Until the IC report, the industry was dominated by comprehensive regulation covering pricing, relations between refiner-marketers and their retailers, and operational aspects of service stations.

The regulatory framework had been put in place largely in response to government concerns that competitive forces in the industry were insufficient to safeguard the public interest, and that there was an imbalance in contractual power in the industry which could lead to 'unfair' trading. In addition, certain parts of the framework were in place to support particular interest groups in the industry.

Key elements of this regulatory framework were:

- Commonwealth price controls, through the setting of capital city maximum wholesale prices for petrol and diesel – the intervention prices - by the Commonwealth Prices Surveillance Authority (PSA). The intervention prices applied to the five declared companies (Ampol, BP, Caltex, Mobil and Shell). The PSA set the price daily, based on an estimate of an import parity price (the Singapore petrol price, plus estimated costs for sea transport, insurance, loss and wharfage), plus a 'local component' to cover costs from the wharf to the terminal gate, plus excise and State franchise fees.
- State price controls. Six of the eight States and Territories retained legislation covering fuel prices. However, by 1994, the States had passed responsibility for fuel price controls to the Commonwealth PSA, and did not apply their own legislation.
- Control of additional charges for servicing non-metropolitan areas, though a complex system of 4000 regulated freight differentials, set by the PSA. Due to certain Ministerial Directions, the freight differentials did not fully reflect the additional costs of servicing many non-metropolitan areas, resulting in an effective subsidy of these non-metropolitan areas by metropolitan areas.
- Limitation on vertical integration. Under the Petroleum Retail Market Sites Act (the Sites Act), declared companies - the refiner-marketers – were prevented from operating more than 5 per cent of the overall number of service stations. The Commonwealth Government allocated the permitted approximately 400 service stations between the declared companies.
- Regulation of contractual relations between oil companies and resellers, through the Petroleum Retail Market Franchise Act (PRMF Act). The PRMF Act formed

the basis for franchise agreements, providing a nine year assignable tenure, conditions for termination and assignment, and flows of information to prospective franchisees. The PRMF Act was supplemented, and in some areas duplicated, by a tri-partite voluntary Oilcode which included a mediation procedure.

- State regulations on service station operations. These varied widely between States, covering in particular:
    - Controls on the number and location of service stations (S. Australia)
    - Siting of outlets (primarily, the ACT)
    - Hours of operation (primarily, W. Australia)
    - Range of products sold, and allowable retail floor space for non-fuel products (primarily, the ACT and Queensland)
- Access to oil company terminals. Access was restricted not by regulation, but by an agreement which arguably had the effect of regulation. The Laidely Agreement between the Transport Workers Union and the Australian Petroleum Agents and Distributors Association (APADA) restricted the ability for third-party tankers to access oil company terminals to load fuel.

The Industry Commission Report

The IC carried out a comprehensive review of industry, focussing on the economic conditions and efficient market outcomes in the industry, commercial relationships, the framework of regulation, transport and taxation.

The key finding of the IC Report was that there was effective competition in most petroleum markets in Australia most of the time. Indications of this were the low barriers to entry and exit at the wholesale and retail levels, the continuing threat of imports, and the volatility of retail prices. While the IC recognised that local circumstances in some country areas could weaken competitive pressures, the city-country price differentials were explained by normal commercial economic factors, such as lower sales volumes and additional supply costs.

With effective competition in the industry, market forces could be expected to deliver the most efficient outcome and to deliver the adjustment necessary for the industry to continue to perform at an efficient level. Conversely, regulation would distort economic efficiency. The IC therefore concluded that there was no need for continuation of price controls in the industry, and recommended the termination of the PSA surveillance of prices and the repeal of the residual State price control legislation.

The IC also noted positively the development of self-regulation in the industry through Oilcode, which supplemented the general provisions of the *Fair Trading Act*. The IC concluded that the PRMF Act and Sites Act increased costs in the industry and impeded industry adjustment to changing economic conditions; this would distort the industry away from the most efficient economic outcome. The IC therefore recommended the repeal of the Acts.

Similarly, the IC found that the State regulations and the Laidely Agreement imposed extra costs and reduced efficiencies. Accordingly the IC recommended the repeal of the State legislation and negotiations to negate the Laidely Agreement.

Developments 1995-1999: the end of Commonwealth price controls

The main developments in the next five years were the first major movements towards deregulation of the industry. The key components in this move towards deregulation were the Australian Competition and Consumer Commission (ACCC) *Inquiry into the Petroleum Products Declaration* in 1996, which led on to the Commonwealth Government's industry reform package in 1998.

The ACCC found that the four oil majors had substantial market power. Factors behind this were the high concentration levels in the industry, barriers to entry, and the depth and breadth of vertical and horizontal relationships – such as refinery exchange – in the industry; the market pressures from independents were correspondingly weak. However the ACCC considered that there was a good prospect for the market power of the four declared companies to be undermined in the near future by independents increasingly accessing product and by the spread of imports.

The ACCC accordingly recommended the revocation of the declaration of the four major oil companies under the *Prices Surveillance Act.* The ACCC supported the development of price monitoring programs to increase price transparency in country areas. The ACCC also recommended the repeal of the PRMF and Sites Acts.

Following on from the ACCC recommendations, the AIP worked with the Australian Automobile Association (AAA) and the price surveying company Informed Sources to put in place a price information survey covering petrol prices in metropolitan and major regional towns in all States. The cost of the survey was met by the AIP member companies. This survey is still in place at the current date, although the AAA is no longer involved and the format and surveying bodies have changed.

In 1998, the Commonwealth Government launched its reform package for the petroleum products industry. The Government accepted the ACCC recommendation to terminate price surveillance of the industry, but demanded that the declared companies improve access to their terminals by third party tankers. The AIP member companies established an access regime that was satisfactory to the Government, which included the AIP Driver Passport scheme and a mediation process to examine any complaints on access. The AIP Driver Passport training and accreditation scheme covered all tanker drivers – oil company and third party – and within a short time 4000 passports had been issued.

Formal price surveillance of maximum wholesale prices of petrol and diesel ceased in 1998. However the ACCC continued to monitor prices.

The Commonwealth Government also accepted the recommendation of the ACCC to repeal the PRMF and Sites Acts. This repeal was subject to the fuel suppliers and resellers reaching agreement on a revised Oilcode, expanded to ensure that reseller rights were adequately protected. Extensive negotiations between the fuel suppliers and resellers followed, under Government auspices. However agreement was not reached, and, in spite of a report from the Senate Rural and Regional Affairs and Transport Committee supporting repeal, the Government subsequently withdrew the proposed repeal legislation.

In this five year period, there were also a number of State inquiries into petrol prices. These included inquiries in NSW, Tasmania, and the ACT. The primary outcome of the Tasmanian and ACT inquiries was the institution of price monitoring by those State governments. The key recommendations of the 1995 NSW report were:

- A mandatory requirement for service stations to display petrol price boards;
- That the NSW State Government refer the accepted recommendations of the report to the Commonwealth (in recognition of the primary role of the Commonwealth on the issues).

The latter recommendation was the start of move by State governments in this period to terminate specific state regulations regarding service stations. By 2000, most of the State regulations covering service station operations had been terminated.

Overall, by the end of the decade, many of the IC Report recommendations to deregulate the industry had been put in place. The main outstanding issue was the market reform package centred on repeal of the PRMF and Sites Acts.

Developments 2000 onwards

In the new decade, fuel prices have trended upwards and have continued to be a community concern. In response, there have been a number of moves by State Governments to regulate price setting systems.

Victoria: Terminal Gate Pricing

In 2000, the Victorian Government introduced a mandatory requirement for fuel suppliers to publish Terminal Gate Prices. The aim was to improve the transparency of prices and to provide access to product at terminals at competitive wholesale prices for all distributors and retailers.

Western Australia

In 2001, a Select Committee of the W. Australian Legislative Assembly examined petrol pricing in the State, with a focus on the country-city price differential. The Committee's Report was critical of the degree of competition in country areas, and considered that the major oil companies controlled retail prices at their franchise sites. The Committee made a number of recommendations, most of which were subsequently legislated. The primary components of the new State regulatory framework were:

- A ban on intra-day price changes at service stations – sites could charge only one price for each fuel product in a day ('24 hour rule');
- Establishment of a fuel price monitoring system, under which consumers could ascertain daily retail prices at particular service stations;
- Mandatory price boards at service stations
- Establishment of a Terminal Gate Pricing system, incorporating a maximum wholesale price. No spot sales were to be allowed at prices over this maximum.

- '50/50' legislation, allowing a retailer to buy up to 50 per cent of their fuel from sources other than their primary supplier.

The stated objectives of the regulatory framework were to improve competition at wholesale and retail levels, increase transparency, reduce the volatility of city prices, and reduce the country-city differential

<u>ACCC and other State inquiries</u>
The W. Australian moves were a major move towards reregulation of prices. Accordingly, there have been a number of subsequent inquiries that have reviewed the merits of the W. Australian regulations, as part of their deliberations.

There were two relevant ACCC inquiries. The first report, *Reducing fuel price variability,* found that price cycles generally benefit consumers on average, and supported moves to increase consumer awareness of petrol price cycles. The report found that the 24 hour rule in Perth may have contributed to limiting the average variation in price cycles and resulted in higher average prices. The ACCC recommended that options such as the 24 hour rule, limiting price increases to a certain amount each day, or regulation of wholesale and retail prices not be implemented.

The second ACCC report, the 2002 Report *Terminal gate pricing arrangements in Australia and other fuel pricing arrangements in Western Australia,* reviewed the effects of the W. Australian regulations. The ACCC found that the effects were generally negative and objectives not achieved. In particular:

- The maximum wholesale price system had inhibited spot sales, and so reduced competition;
- There had been no significant effect on the duration and variation in the fuel price cycles.
- Country-city price differentials had increased;
- Perth petrol prices had increased compared to relevant benchmarks. While other issues, such as State specific fuel standards, were a factor in this, some of the increase was probably due to components of the new regulatory framework such as the 24 hour rule.
- Investment in the industry had been negatively influenced.
- Price transparency had increased, but the manner of the publication of prices had produced some distortions in the market.

With regard to terminal gate pricing, the ACCC could not identify any significant impact of the Victorian arrangements.

The 2001 ACT Independent Competition and Regulation Commission found that competitive pressures were present in the ACT market, and that the ACT should not attempt to set prices independently of other States. The Commission specifically reviewed the components of the W. Australian regulatory framework and found no merit in introducing them in the ACT. The Commission supported the continuation of a national approach, and that therefore the ACT should take a regulatory approach consistent with any national regulatory action.

The Northern Territory conducted an Independent Fuel Inquiry into fuel prices in the Territory. The inquiry report identified the reasons for the higher prices in the Territory. It noted that increased competition was likely to drive prices in Darwin down, aided by the new fuel terminal and increased public awareness of prices. The Territory Government accepted the report's recommendations, which included:

- Mandatory price boards at service stations;
- Implementation of a public awareness program for fuel prices, and extension of fuel price monitoring by the Territory;
- Support for repeal of PRMF and Sites Acts;
- Multiple fuel cards for Government vehicles.

The most recent inquiry is that of the Queensland Legislative Assembly into petrol pricing. The inquiry found that the fuel retailing industry was highly competitive in South East Queensland, but less so in other areas. The inquiry considered that the presence of independents was an important factor for a competitive and efficient market, and that there were a number of developments in the market that were disadvantaging independents, such as shopper dockets. It recommended accordingly that Oilcode should provide adequate protection for independents.

The inquiry also found that W. Australian legislation had disadvantaged independents in that State, and recommended against Queensland introducing regulation of petrol prices along the lines of that in W. Australia. The inquiry was also not convinced of the efficacy of mandating the publication of terminal gate pricing.

The Position at the current date

The move to deregulate petrol prices, as envisaged by the 1994 IC Report is essentially intact. W. Australia did move against the trend in 2001. However reviews by the ACCC of the W. Australian regulations have found generally negative effects, and other States and Territories have seen no merit in following the W. Australian example.

States and Territories have in general continued to deregulate in this area, and to leave regulation as required to the Commonwealth. The main exceptions in this have been W. Australia, and to a lesser extent Victoria with regard to terminal gate pricing.

The recommendation for market reform, based on repeal of the PRMF and Sites Acts, has had a more difficult path. The matter is again under Government consideration, and there have been very recent developments towards deregulation in this regard.

4 PETROLEUM PRODUCT MARKET REFORM AND PRICING INQUIRIES

SUMMARIES OF KEY FINDINGS AND RECOMMENDATIONS RELATING TO PETROL PRICING AND REFORM OF THE PETROLEUM PRODUCTS MARKET

Year	Inquiry	Key Findings	Key Recommendations
1994	Industry Commission: *Petroleum Products*	• There is effective competition in most petroleum markets most of the time. • There is a continuing threat of imports. • Collusion in refining would be difficult. • At the wholesale and retail levels, low barriers to entry and exit point to strong competitive pressures • Volatility of retail prices in major metro markets is indicative of vigorous competition. • The strong competition means that the PSA wholesale maximum is not a constraint on prices, rather a target. • In most country markets, there is effective competition, but local circumstances in some country towns combine to weaken competitive pressures. • City-country price differentials are explained by the additional costs of supplying country markets and the higher retail margins in the country, the latter due to low volumes and low non-fuel sales and to local factors. • Wholesale price controls, particularly freight differentials, complicate competition. Competition in country areas would be enhanced by removing	1. Commonwealth Government should withdraw Ministerial directions and terminate price surveillance of petroleum products. 2. State and Territory Governments should refrain from regulating petroleum product prices.

	Industry Commission (continued)	price controls. • Wholesale price controls are not providing the reassurance sought, and prevent prices from guiding investment and resources to the most efficient use. • Should Governments favour monitoring of the industry following withdrawal of price surveillance, the monitoring should be focussed and temporary. The ACCC would be the appropriate body to monitor the industry. • Restrictions on access to terminals (such as the Laidley Agreement) can inhibit efficiency • Terminal gate pricing through regulation is neither necessary nor practical. • Vertical integration can bring significant. commercial benefits. Divorcement is not a realistic option. • Self-regulation through Oilcode has been a positive development. • Repeal of the PRMF Act would benefit industry adjustment. • State regulations tend to increase barriers to entry, reduce competition and impede structural adjustment.	3. The Laidely Agreement should be withdrawn. 4. The Petroleum Marketing Sites Act should be repealed. 5. The Petroleum Marketing Franchise Act should be repealed. 6. A review committee should explore strengthening Oilcode. 7. S. Australian Government should repeal the Motor Fuel Distribution Act. 8. Restrictions on trading hours, the retail area, and the range of goods sold at service stations should not be applied as a means of protecting other businesses.

1995	Commission of Inquiry into Petrol Prices in Rural NSW	• Higher prices in country areas are due to factors such as freight costs, lower volumes, less non-fuel costs, lower levels of local competition, absence of discounting. • Commonwealth is the appropriate jurisdiction.	1. Petrol price sign boards to be mandatory 2. Recommendations of the report that are accepted by Government should be referred to the Commonwealth.
1995	Legislative Council Select Committee into Petrol Pricing in Tasmania	• Petrol prices in Tasmania consistently higher than in mainland States.	1. Price monitoring
1996	Australian Competition and Consumer Commission (ACCC): *Inquiry into the Petroleum Products Declaration*	• The four oil majors have substantial market power derived from high concentration levels, barriers to entry and the depth and breadth of the vertical and horizontal relationships between market participants; market pressures from independents is correspondingly relatively weak. • Overall price competition between the majors is not high; while overall demand is price inelastic, demand for any one company's product was highly elastic. • There is a good prospect that the market power of the four declared companies would be undermined in the near future by independents increasingly accessing product, and the growth and spread of imports. • Prices oversight could be entirely removed once	1. Revocation of the declaration of the four major oil companies in relation to the supply of petrol and automotive distillate under the *Prices Surveillance Act 1983.* 2. Development by motoring organisations of monitoring programs focussing on increasing the transparency of competitive conditions in country areas where petrol prices appear excessive. 3. Repeal of the Petroleum Retail Marketing Franchise and Sites Acts. 4. Simplification of new franchise agreements with oil companies. 5. Consideration by State

	ACCC (continued)	independents had developed as a viable competitive force.	Governments of mandatory display of price boards at service stations.
1997	ACT Legislative Assembly Select Committee on Petrol Prices in the ACT	• Concern at the differential between Sydney and ACT prices	1. Encouragement of the establishment of independent service stations in the ACT. 2. Price monitoring
2001	W. Australia Legislative Assembly Select Committee, Pricing of Petroleum Products: *Getting a Fair Deal for WA Motorists*	• The impact of high fuel prices is greater in the country than the city. • The gap between country and city fuel prices has widened since deregulation in 1993. • The major oil companies dictate and manipulate retail prices at franchisee sites. • The way GST is applied on fuel discriminates against country consumers. • Retail competition is limited to the city. • Freight is not a major factor in the price differential between city and country prices. • Country motorists paid considerably more for their fuel, due principally to high wholesale costs and not because of retailers' margins, higher freight costs or lower volumes. • The major reasons for difference in prices between larger country locations and those in metropolitan Perth are: lack of price support; lack of discounting; limited competition at wholesale and retail levels; high wholesale margins; sometimes high retail margins.	1. Legislation to require retail sites to advertise and charge only one price for each fuel product daily. 2. Establishment of a Prices Advisory Committee and procedures for price control of petrol and diesel in country W. Australia. 3. Establishment of an ongoing transparent fuel price monitoring system, whereby consumers can access daily retail prices. 4. All retailers to be required by law to display adequately sized price boards for all their fuel products. 5. Further evaluation of the USA divorcement and anti-trust legislation relevant to the petroleum industry.

	W. Australia Legislative Assembly Select Committee (continued)	• World parity pricing can increase fuel costs independently of production costs, resulting in windfall gains for oil majors. • The petrol market in W. Australia is not characterised by healthy processes of competition at all levels. Genuine competition will deliver the lowest possible prices into the future. Both the wholesale and the retail levels require a greater degree of genuine competition. A true TGP pricing policy would introduce competition at the wholesale level. • Retailers should be legally entitled to purchase a substantial part of their stock from the supplier of their choice.	6. State Government request Commonwealth Government to conduct and review of world parity pricing and supply arrangements. 7. Government establish a true TGP system, incorporating a Maximum Wholesale Price (MWP), set by the W. Australian Government. No spot sales to be allowed above the MWP. 8. Legislation amendment to allow discretionary 50% purchasing.
2001	ACT Independent Competition and Regulation Commission	• Multiplicity of fuel supply arrangements indicates that competitive tensions are at work in the market, such that the majors cannot currently control prices. There is no evidence that oil majors are controlling retail prices. • Competition in refining, marketing and retailing sectors is such that margins and profitability are low, possibly unsustainably so. • Price cycles are not caused by oil companies attempting to capture monopoly profits, but by competitive price discounting cycles. • The ACT should not attempt to set fuel prices independently of other States.	1. The ACT Government not introduce any new fuel pricing regulation before the conclusion of the ACCC inquiry into price variability. 2. Following the ACCC inquiry, the ACT should take a regulatory approach that is consistent with any national regulatory action.

2001	ACCC: *Reducing Fuel Price Variability*	• Volatility in retail prices is generally confined to the major metropolitan areas. Price cycles in these areas are fairly regular and frequent. • Average size of the variations more than doubled in Sydney, Melbourne and Brisbane 1998-2001. • The 24 hour rule in Perth may have contributed to limiting the average variation of price cycles, and may also have resulted in higher average prices. • Petrol prices are relatively stable on average within a day. • On average, 60% of petrol is sold at prices below the average, and 40% above the average. • Diesel retail prices do not display price cycles. This is due to: oil majors not providing price support for diesel retail sales; major diesel sales are to commercial users on agreed contracts which may include a discount on pump prices; most diesel sales occur in regional areas. • Consumers on average benefit from price cycles. • Increasing consumer awareness of petrol price cycles would have two main benefits: a greater understanding by consumers would reduce their concern and frustration on price cycles; consumers would have more information to help them take advantage of lower prices.	1. A consumer awareness initiative to increase consumers' awareness of petrol price cycles, and to enable consumers to time their purchases so that they can buy petrol at times when petrol prices are relatively low. 2. Government should consider holding discussions with all industry participants to further reform in the petroleum industry. 3. Current terminal gate pricing (TGP) arrangements in W. Australia and Victoria should be monitored closely before a final conclusion is made on TGP. 4. Other options to limit price cycles (such as limiting price changes to only once in 24 hours, limiting price increases to a certain amount each day, and price regulation at the retail and wholesale levels) should not be implemented. 5. Fuel pricing arrangements in W. Australia should continue to be monitored closely.

2002	ACCC: *Terminal gate pricing arrangements in Australia and other fuel pricing arrangements in Western Australia*	<u>Western Australia Arrangements</u> • The W. Australia 24-hour rule is likely to have reduced rather than increased competition. • The W. Australia MWP arrangements have not been working as intended since they were introduced in April 2001. The MWP arrangements are likely to have had a negative effect on competition at the wholesale level by reducing supply available to the spot market. • Perth prices have increased relative to price benchmarks. • The Fuelwatch website has increased price transparency for consumers and the industry. • The 24-hour rule has had minimal effects on the variation and duration of price cycles in Perth. • The W. Australia city-country price differential has increased since the introduction of the new fuel pricing arrangements. • On the basis of these findings, it is hard to conclude that the W. Australian fuel pricing arrangements have been successful. The combination of these arrangements and tighter fuel standards in the State have significant implications for the nature of competition and the level of investment in the market. <u>Victorian Terminal Gate Pricing (TGP)</u> • The impact of the Victorian TGP arrangements is not clear. Transparency objectives appear to have been achieved. • It appears that TGP has had minimal effect on the	

	ACCC (continued)	price cycles in Melbourne. • TGP has coincided with an increase in average retail prices compared to the import parity benchmark. One factor in this might be the reduction in discounting linked to TGP.	
2005	Northern Territory Independent Fuel Inquiry	• The Territory's relatively small population and remoteness leads to higher fuel prices. • Price changes in the Territory can lag behind other areas of Australia, which can happen in locations without a refinery. This can lead periods of inflated prices discrepancies between the Territory and other regions. • Increased awareness can help drive petrol prices down. • Increased competition in Darwin is likely to drive prices down. • The new Vopak terminal will have a positive effect on the potential entry of new competition.	1. Mandatory price boards at service stations. 2. The Territory to support the Australian Government in repealing the PRM Franchise and Sites Acts. 3. The Territory to extend fuel price monitoring. 4. Consideration be given to multiple fuel cards for Government vehicles. 5. Government to implement a consumer awareness program. 6. Instances of 'unreasonably high' prices to be referred to the ACCC.
2006	Queensland Legislative Assembly Inquiry into Petrol Pricing in Queensland	• The fuel retailing industry appears to be highly competitive in SE Queensland • However competition can be severely lacking in the fuel markets in other areas of Queensland, due to more limited choices and ability to price shop. • In addition to the lack of competition, there are four aspects of the fuel industry that are not conducive to a competitive and efficient market: vertical integration of the oil majors; the introduction of	1. Queensland should not introduce legislation to control petrol prices based on the *Petroleum Products Pricing Act (WA)* 2. Investigation of viability of petrol cooperatives to improve competition in rural and regional areas. 3. Queensland to seek assurances from the Federal Treasurer that

	Queensland Legislative Assembly Inquiry (continued)	tougher fuel standards; the lack of transparency in fuel pricing; the reduction in the number of independent operators. • There is a concern that the short-term savings from supermarket fuel discounts shopper dockets could be overshadowed in the long-term by the loss of independents. • Section 46 of the Trade Practices Act needs to be strengthened, either through an 'effects' test or a prescribed offence for predatory pricing. • Oilcode needs to provide adequate protection for independents to compete fairly against oil majors and supermarket retailers. • W. Australian legislation has impacted adversely on independent fuel retailers. • The Committee is not convinced of the efficacy of mandating the publication of refiners' terminal gate prices.	the Oilcode will contain adequate provisions to combat anti-competitive behaviour and abuse of market power in the petroleum industry.

ATTACHMENT 2

Australian Institute of Petroleum

MEDIA RELEASE

Tuesday July 25, 2006

Oil companies wholesale margins have not increased - CAV report flawed

Contrary to a recent report published by Consumer Affairs Victoria (CAV), wholesale margins for petrol in Victoria have not increased as suggested in the report, the Executive Director of the Australian Institute of Petroleum (AIP), Dr John Tilley, said today.

"The report claims that wholesale margins for petrol at the terminal gate in Victoria have increased by 2.5 cents per litre since 2003. This claim simply ignores the fact that fuel quality standards in Australia have improved substantially in that period", Dr Tilley said.

"Over the period since 2003, the Australian community and the environment have been the beneficiaries of substantial improvements in national fuel quality standards for both petrol and diesel, which help reduce air pollution from vehicles", Dr Tilley said.

- Over the past few years the sulfur content in petrol has been reduced from 500 parts per million to 150 parts per million. At the same time the sulfur content for diesel has been reduced from 500 parts per million to 50 parts per million.

- Further improvements in petrol quality have been delivered by the industry through several other changes to standards, including reduction in benzene content from a maximum 5% to a maximum of 1%. This is a large reduction in benzene content and has required the adoption of special technology at Australian refineries to achieve this improvement.

"Following the release of the CAV Report, BP Australia (an AIP member) met with the CAV and made it clear that tighter fuel standards have not been adequately considered in the CAV's report and calculations", Dr Tilley said.

"If the price effect of tougher fuel standards were taken into account it would be evident to CAV that wholesale margins have not increased since 2003. This calculation error has unfortunately then been used by CAV to draw incorrect conclusions about the implied 'additional profits' accruing to the industry over that period from increases in margins that do not exist. This error could have been avoided through consultation with the industry prior to the release of the report", Dr Tilley said.

"AIP and its member companies are more than happy to meet with the Minister or again with CAV and of course with the ACCC to discuss any aspect of this report and fuel pricing. AIP and its member companies will also be making submissions to the Senate inquiry into petrol pricing in Australia", Dr Tilley said.

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ATTACHMENT 3