Submission to the Inquiry into the Price of Petrol in Australia

from the

PUBLIC TRANSPORT USERS ASSOCIATION

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Introduction

The Public Transport Users Association (PTUA) welcomes the opportunity to contribute to the inquiry into the price of petrol in Australia (the petrol price inquiry). The PTUA does not propose to directly address items (a) to (d) in the Inquiry's Terms of Reference, however we would like to make a number of observations on related matters.

This submission makes three key observations:

1. rising prices are a global phenomenon;
2. intervention in the market may be counter-productive; and
3. substitutes to motor vehicle use can mitigate the impact of rising prices.

In addition to this submission, we would also be happy to provide further information if required.

Rising prices are a global phenomenon

The rising price of petrol in Australia reflects large increases in the prices of both crude and refined oil on the international market. With the possible exception of a very small number of countries that heavily subsidise petroleum consumption, the price of petrol has increased substantially in every country around the globe. In economic terms, rising prices are a natural outcome of increasing demand competing for limited supplies.

There is now strong and mounting evidence of a looming shortfall in global oil production relative to projected demand growth. Rather than going into detail on future trends in oil production, we refer the Committee to the current *Inquiry into Australia's future oil supply and alternative transport fuels* (the oil supply inquiry) being conducted by the Senate Rural and Regional Affairs and Transport References Committee[1]. Numerous submissions to the oil supply inquiry point towards a peak and subsequent decline in global oil production sometime between now and 2020. In the meantime, there appears to be little likelihood that production capacity will be lifted significantly above projected demand. In the absence of a substantial global economic slow-down, this tightness of supply means that demand for available supplies will remain intense and maintain upwards pressure on global oil prices.

Australia will not be immune to these global trends and the price of petrol in Australia will continue to follow the international lead.

[1] http://www.aph.gov.au/Senate/committee/rrat_ctte/oil_supply/

Intervention in the market may be counter-productive

While the PTUA does not take a view in this submission on whether there exists an adequate level of competition at all stages of the petroleum supply chain in Australia, we do warn against attempts to reduce petrol prices through government intervention in the market[2].

A range of interventions have been proposed to lower petrol prices including price caps, fuel subsidies and reductions in the level of fuel taxation. By distorting or removing market signals, each of these interventions is likely to have unintended negative side-effects and fail to effectively prepare Australia for future trends in oil supply and prices.

On the supply side, rising prices have the effect of stimulating new production of conventional oil and alternatives such as bio-fuels. Holding prices down through government intervention may stifle such production increases and harm rather than improve energy security.

On the demand side, rising prices encourage greater energy conservation and efficiency, thus easing the pressure on strained supplies. This effect is evident in practice with car buyers shifting to smaller, more economical models and commuters making increasing use of public transport where it is of an adequate standard. Market intervention to lower petrol prices would remove this impetus towards efficiency, and demand would continue to outstrip supply.

Government intervention may however be warranted to moderate demand for petrol. For example, the real value of fuel excise should be maintained through the reintroduction of automatic indexation. Such a measure would ensure that the ability of fuel excise to encourage conservation and efficiency is not eroded over time by inflation.

Fuel taxation is also an effective means of establishing economically efficient pricing by internalising externalities such as pollution that result from vehicle use. Largely due to the relatively low level of fuel taxation in Australia by international standards, the costs and externalities attributable to road use in Australia currently exceed revenue from road users by over $15 billion per annum (PTUA 2006, pp. 5-7).

[2] On the other hand, we take it as a given that government will continue ongoing enforcement of trade practices provisions, etc.

Substitutes to motor vehicle use can mitigate the impact of rising prices

The market price of a product is heavily influenced by the availability and price of substitute products. Even in markets where effective competition is lacking, suppliers will be limited in the extent they can raise prices if consumers are highly likely to shift their expenditure to alternative products.

Petrol consumption is predominantly the result of people wanting to access employment, services and recreation. Motor vehicle use is not the only method of obtaining this access, however the availability and quality of substitutes to motor vehicle use is highly variable depending upon location.

If we assume that there is effective competition in the Australian petroleum supply chain, then as a small nation in a large global market we are effectively a price taker and can have little impact on petroleum prices. If, however, we assume that there is inadequate competition in the domestic market, this implies some degree of power on the part of producers to set prices. To some extent, the extent of this power will depend upon the ability of consumers to switch to substitute products.

Two key substitutes to petrol use should not be overlooked by this inquiry:

Public transport

Public transport authorities have claimed that rising oil prices have led to substantial increases in public transport patronage (Silkstone & Millar 2005). Depending upon market structure, this switch in consumer spending may theoretically help to moderate petrol prices. In practice, this trend towards public transport use is clearly providing relief from the financial impact of rising oil prices for households that have access to adequate public transport services.

The quality of public transport in Australia is highly variable both between and within different cities. Recent research at Griffith University has shown that large areas of Australia's major cities require urgent investment in public transport infrastructure in order to minimise vulnerability to rising oil prices (Dodson & Sipe 2006).

In the interests of ensuring the existence of substitutes to motor vehicle use and to mitigate the impact of rising oil prices on households, all tiers of government should commit to expanding the coverage and quality of urban and regional public transport as a matter of priority.

Better land use practices

While improved public transport can offer alternative means of travel, better land use planning can reduce the amount of travel needed to access employment, services and recreation as well as increase the amount of that travel that is undertaken by public transport, cycling and/or walking.

All tiers of government should seek to place significant trip generators in locations that are easy to access by walking, cycling and public transport. In particular, major trip generators should be located whenever possible near the rail network.

Governments of all levels should also refrain from expanding freeway networks and similar major road projects. Increased road capacity is now understood to induce additional traffic and encourage urban sprawl, thus increasing motor vehicle use and petrol consumption (PTUA 2005, pp. 7-8, 19). Where possible, demand for access and mobility should be met by improved public transport and integrated land use planning.

References

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