



Jon Stanhope MLA

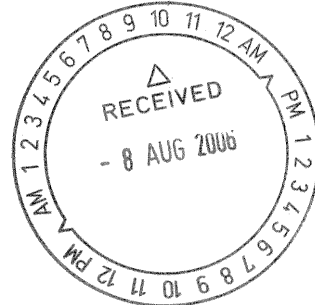
CHIEF MINISTER

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ACT GOVERNMENT

SUBMISSION TO THE COMMONWEALTH INQUIRY INTO THE PRICE OF PETROL IN AUSTRALIA

The ACT Government welcomes the Commonwealth Government's Inquiry into the Price of Petrol in Australia. The Inquiry is the latest of more than 40 inquiries at various levels of government over recent decades that have examined petrol pricing issues. The Inquiry is particularly well timed in view of the increasing impact of rising petrol prices on ACT households and businesses.

Petrol prices in the ACT

Like other jurisdictions, ACT motorists have experienced steady increases in the price of petrol over recent years. Unleaded petrol prices in the ACT increased from 68.7 cents per litre in March 1999 to around 139.9 cents per litre in July 2006, an increase of more than 100 percent over the period.

On average, unleaded petrol prices in the ACT compare favourably with other regional centres throughout southern NSW and are between 2-4 cents per litre higher than in other capital city markets.

Price variations between regions

ACT Government analysis indicates that petrol prices outside major metropolitan centres can be as much as 12 cents per litre higher than major capital city petrol outlets. The ACT Government believes that this difference reflects the fact that smaller metropolitan markets operate quite differently to large capital city markets. The most obvious difference is the

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region. The Singapore benchmark is influenced by international supply and demand factors, such as the general availability of petrol and other finished products on the world market, resulting in fluctuations in the price that petroleum products can be purchased by Australian petrol companies.

Movements in the Australia/US dollar exchange rate

Movements in the Australian dollar relative to the US dollar also impact on the price of petrol because the US dollar is used for most transactions, movements in exchange rates are reflected in adjustments to refiners' costs (measured in local currency) for a given quantity of crude oil at a given \$US price. When the Australian dollar is valued at a high rate against the American currency, this positively impacts the price of petrol leading to lower prices at the pump. When the Australian dollar is valued at a low rate against the American currency, there is a negative impact on the price of petrol resulting in higher pump prices.

Domestic factors also influence retail petrol prices. These may be fixed, as in the case of Commonwealth taxes and excise, or they may vary between locations and over time.

Commonwealth and State/Territory Taxes and Excise

Currently, unleaded petrol is subject to a 10 percent GST together with a petrol excise of 38.14 cents per litre, both levied by the Commonwealth Government. While the current level of fuel taxation in Australia is frequently criticised as being too high, petrol taxes in Australia remain amongst the lowest in the OECD.

Degree of competition between petrol stations

The level of competition between retailers and wholesalers also has the potential to affect petrol prices. The ACT Government believes that despite recent market consolidation, the retail petrol market in the ACT remains competitive. And that competition from independent retailers and alliances between grocery retailers and petrol sellers has delivered significant benefits for ACT consumers.

Other domestic factors

Other factors give rise to variations in the price of petrol between locations and at particular times. These include:

- local demand and supply factors;
- Capital City price cycles;
- availability of imported product; and
- degree of vertical integration in the local industry.

Government responses

The ACT Government believes there is little to be gained from setting petrol prices.

We believe that attempts to actively manage petrol prices through tighter industry regulation or the application of expensive subsidies leads to distorted price signals, which discourage consumers from considering more environmentally-friendly fuel/transport options.

Formal price monitoring is needed

At the same time, with further rationalisation of the retail petrol market expected over the short-to-medium term, we believe there are consumer benefits in establishing a formal mechanism to monitor retail fuel prices.

This could be achieved through the Commonwealth Government reinstating the ACCCs prices surveillance powers (which were removed following de-regulation in 1998). Such a mechanism could provide a range of benefits to consumers, including:

- providing a mechanism whereby consumers could report petrol profiteering, thereby discouraging petrol companies from “hiking” up petrol prices before public holidays;
- discouraging contentious intra-daily price fluctuations;
- providing more transparent pricing arrangements; and
- providing potential savings for motorists through improved access to petrol price information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jon Stanhope', written over a horizontal line.

Jon Stanhope MLA
Chief Minister