

From: David Evans
Sent: Sunday, 6 August 2006 9:43 AM
To: Economics, Committee (SEN)
Subject: petrol pricing enquiry
7th August 2006

Senator George Brandis,
Chair, Senate Economics Legislation Committee,
P.O.Box 6100,
Parliament House,
CANBERRA 2600

Dear Senator Brandis,

Enquiry into Petrol Pricing in Australia

I have just obtained a brief document setting out the Terms of Reference of the above Enquiry, and as I noted that the time for submissions has just expired, I telephoned the Committee Secretary last Friday, indicating my interest and previous experience in the issue, and was advised to write direct setting out that experience in case it should be of interest to you.

In March 1993, backbench members of the Liberal and National Parties in the Victorian Parliament set up the Coalition Petrol Pricing Committee, under the auspices of the (then) Minister for Consumer Affairs, Hon Jan Wade. I was elected Chairman of the Committee.

Our main concern was the differential fuel pricing, generally between city and country, often leading to variations of 10/12 cents per litre at a time when petrol retailed in the 50/60 cents/litre range.

We sought and received submissions from the four major oil companies, organizations such as VACC, APADA, RACV, and a number of wholesalers and retailers, and produced a Discussion Paper in August 1993, which was widely distributed.

On a visit to New Zealand in 1992, I had noticed that petrol prices rarely varied by more than 1c/litre, except in the most remote areas, and found that the reason was a system of Terminal Gates, some 12 in all, at which all customers were charged a similar wholesale price. Incidentally, a neighbour of mine has just returned from New Zealand, and told me last week that he noted a similar situation at present.

We included this approach as a main theme of our Discussion Paper, and further developed and promoted it over the next three years, encouraged by strong support from VACC and RACV, VFF, VCCI and many individuals and organizations.

There was some cautious but limited support forthcoming in meetings we held with oil company executives, but the then Chair of ACCC Prof Alan Fels, in a meeting in Jan Wade's office, said that in his view the fact that discounting was occurring indicated that the market was working. Mrs Wade immediately commented that the market was only working for some, and not for others.

As Chair of the Committee, I took a number of actions, including:

- A written Submission and subsequent appearance before the Australian Consumer and Competition Commission in 1994.
- Presented a Paper at the Service Station Owners and Operators Conference on the Gold Coast in 1994, together with a representative of the ACCC and the Assistant Federal Treasurer, Hon George Gear.
- Debate on 3LO (774 Radio National) on 24/8/1995 involving Jim Starkey, Exec Director APADA, Bob Davison Exec Director VACC, David Byers Gen Manager Corporate Affairs, Mobil and myself, with interviewer Terry Laidler. This went for about 40 minutes, and a transcript is available. It sets out in detail many aspects of petrol pricing and trading.
- Return visit to New Zealand in late 1995, meeting with officers of the Ministry of Consumer Affairs, and personal observation of petrol price variability.
- Regular interviews on statewide radio and local television.
- Visit to South Australia, and discussions with the South Australian Automotive Chamber of Commerce.
- Noted in an ACCC Report that, by my calculations, from data in that Report, that the profit on fuel was only in the order of 1 to 2 c/litre- subsequently confirmed by the Managing Director of Ampol at a Rural Press Club of Victoria Petrol Price Debate on November 28th 1996 – not enough to finance wholesale price differences of up to 10c/litre! In fact, these below cost of production prices are clawed back by higher prices from what the oil industry calls the “captive market.”

As I was paying personally for all fuel in my petrol tank at this time, I became acutely aware of price variations, and took a particular interest in claims, particularly by APADA with regard to the reasons for price variability, such as:

- High volumes reduce prices, generally in the city – so I took photos of service stations in Melbourne which regularly offered discount petrol – with none or at most one customer at peak hour. Service stations in the country, no discounting, four or five cars on tarmac.
- Subsidised by sale of merchandise “dear hamburgers syndrome” – carefully noted that MOST customers purchased only petrol, and service stations with major food trade had separate staff.
- Cost of freight – usually greatly overstated, and ignored the “Metropolitan Free Delivery” zone where freight was built in to wholesale price.
- Watched with fascination sudden large variations – up to 10c/litre – at discount outlets.
- Listened to a major Company telephone hotline quote two different wholesale prices for city and country – 12c/litre apart. (transcript available.)

- Noted evidence to our Committee by a service station owner with two outlets and his own delivery truck, that he had been charged two different wholesale prices for one tanker load, according to destination.

- With Jan Wade, was told by a former Oil company executive that when politicians move in to petrol pricing, the oil companies create confusion, and as no politician really understands the oil industry, after a while they go away.

I did not seek re-election in March 1996, but have still retained my interest in the issue of petrol pricing, and have had the following involvement:

- In 2000, the Victorian Independent Member for Mildura brought in a private Members Bill on petrol pricing – I think following a discussion I had with his (then) adviser. It was unworkable, but as the Member was critical to the Government's majority, I was contacted and asked for information on the work we had done. It was supplied, but not fully followed in a radically altered Bill, missing out on key compliance requirements, and amendments proposed to make it fully effective were not accepted.

- On 27/8/2001 I met with Peter Livingston, Stuart Smith and Tania Constable of the Department of Industry Science Resources in Canberra for lengthy discussions on an ACCC Discussion Paper on Reducing Fuel Price Variability, and was encouraged by the degree of consensus we had.

- On 5/9/2001 I put in a submission to the ACCC Discussion Paper on Reducing Fuel Price Variability. Copies of that submission are available.

I am aware that major Oil companies currently regularly brief their executives on the absolute necessity of avoiding anti competitive behavior.

The above history is, I understand, now rather dated, the entry of major supermarkets into fuel retailing has altered the industry, as has of course the cost of crude oil.

I have a real concern that the refining industry remain profitable – profit is not a dirty word- otherwise our refineries will not be updated and will become inefficient producing more costly fuel.

I have done what I did not originally intend to do – write basically a submission – but it was difficult to write such a resume without putting some meat on the bones.

The matters to which I have referred I can generally back with documentation – several hundred pages of it!

I trust it may be of some value in a very complex issue.

A hard copy will be posted.

Yours sincerely,

David M.Evans (now a happy farmer)