

Ref No:

9 August 2006

Mr Peter Hallahan

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Subject: Submission to Senate Economics Legislation Committee Inquiry into the Price of Petrol in Australia

Dear Mr Hallahan

Thank you for accepting this late submission from the Remote Area Planning and Development Board.

The Remote Area Planning and Development (RAPAD) Board is a regional organisation of councils and regional development agency owned by and representing the eleven shires of Central Western Queensland: Longreach, Boulia, Aramac, Ilfracombe, Isisford, Barcoo, Diamantina, Winton, Tambo, Blackall and Barcaldine. Membership is voluntary and governance is via a board, representative of all member shire councils. The RAPAD shires in total cover an area of approximately 385,000 sq km, encompassing 17 towns. The regional

population is approximately 15,000 spread between the townships and some 1,300 rural properties.

Fuel prices impact on every part of our communities' business activities and lifestyles, and the RAPAD Board urges the Australian government to take on board our concerns and recommendations.

If you have any further enquiries please do not hesitate to call me on 07 46583944 or 0428583301, or alternatively Board Chairman Cr Gary Peoples on 07 46513311.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'David Arnold', with a large initial 'D' and 'A'.

David Arnold
General Manager

Visit www.rapad.com.au

Att – Excel Spreadsheet; RAPAD response to senate enquiry on fuel prices

Background

The Remote Area Planning and Development Board (RAPAD) covers an area of some 385,000 km, encompassing 17 towns in 11 local government areas - Aramac, Barcaldine, Barcoo, Blackall, Boulia, Diamantina, Ilfracombe, Isisford, Longreach, Tambo and Winton. The regional population is approximately 15,000 spread between townships and some 1,300 rural properties.

The main industries in the region are livestock production, mining and tourism. Essential to each is transportation.

Shire Councils are significant businesses in the Outback, are large consumers of fuel products and major employers in their various areas.

Submission

Terms of Reference:

- the relationship between the landed price of crude oil, refining costs, the wholesale price and the retail price of petrol;
- regional differences in the retail price of petrol;
- variations in the retail price of petrol at particular times;
- the industry's integrated structure; and
- any other related matters.

This submission takes its reference from the "regional differences in the retail price of petrol" and "other related matters". Its focus is:

- the impact of high petrol and fuel prices including the fuel excise component on Outback and remote area production, enterprises, industries, communities and householders within RAPAD's region – Queensland's central west.

Discussion

The issues that RAPAD seeks to put before the Committee include:

- The variation of fuel prices between Brisbane and the central west;
- The cost of living in the Outback and remote areas;
- The quantities of fuel used in production;
- The quantities of fuel used by a business enterprise such as a Shire Council; and
- The compounding impact of the fuel excise on transported items.

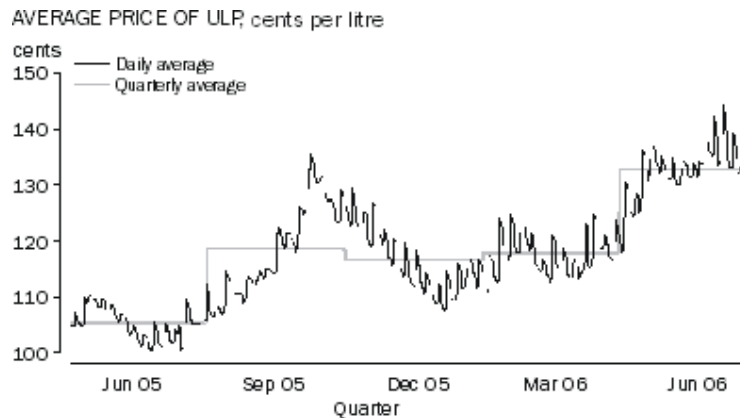
RAPAD is of the view that the price of fuel to the consumer can be lowered through the Australian Government's fuel excise system and Goods and Services Tax policy instruments.

The general view is that the market will determine the economic behaviour of consumers but in the central west there are areas where competition is non-existent.

Automotive Fuel Prices

For Queensland's Outback and remote business operators, communities, and householders, fuel is an essential part of life. Fuel prices impact on business and enterprise financial decisions and priorities, as well as communities' and householder's quality of life and lifestyle.

The following graph¹ shows the pattern of the average daily price behaviour for unleaded petrol for the eight capital cities over the last fifteen months.



In Outback and remote Queensland on Monday 6 August 2006 the price of automotive fuel is 10-15 cents per litre higher than capital city Brisbane as the table below shows:

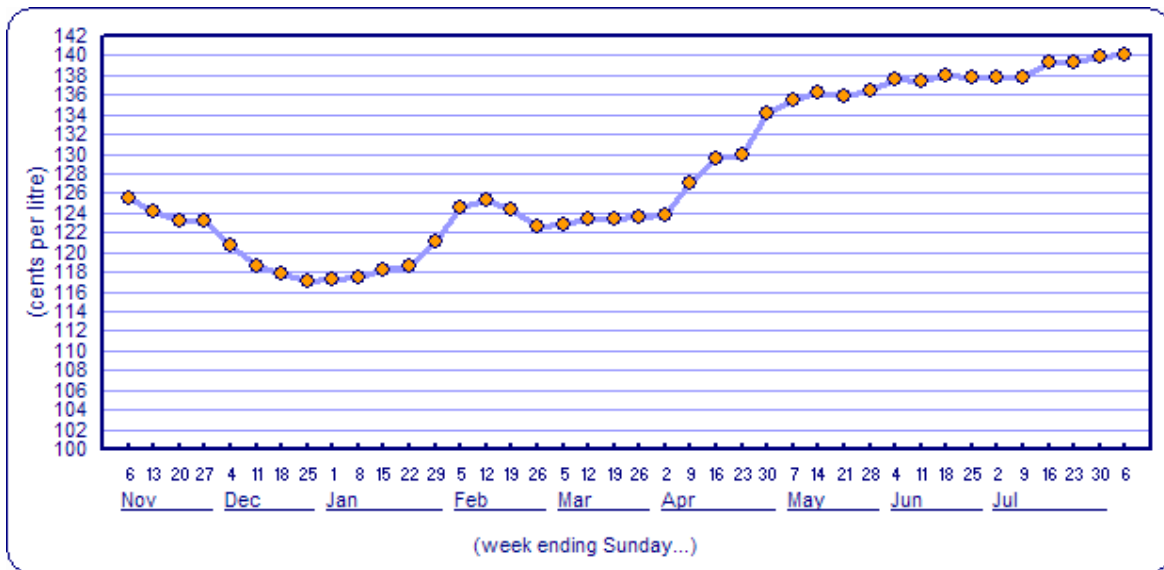
Location	Fuel prices August 6 2006	
	Diesel	Unleaded Petrol
Brisbane	\$1.319	\$1.319
Boulia	\$1.459	\$1.419
Longreach	\$1.469	\$1.399
Winton	\$1.459	\$1.409

The graph below plots the average weekly price fluctuations for the forty week period from 6 November 2005 to 6 August 2006 for unleaded petrol at Longreach. In the forty week period the lowest average weekly price was \$1.17 per litre around Christmas 2005 followed by a graduated increase peaking at \$1.40 - \$1.41 per litre in August 2006.

¹ Australian Bureau of Statistics Consumer Price Index 6401.0

Average Price of Unleaded Petrol²

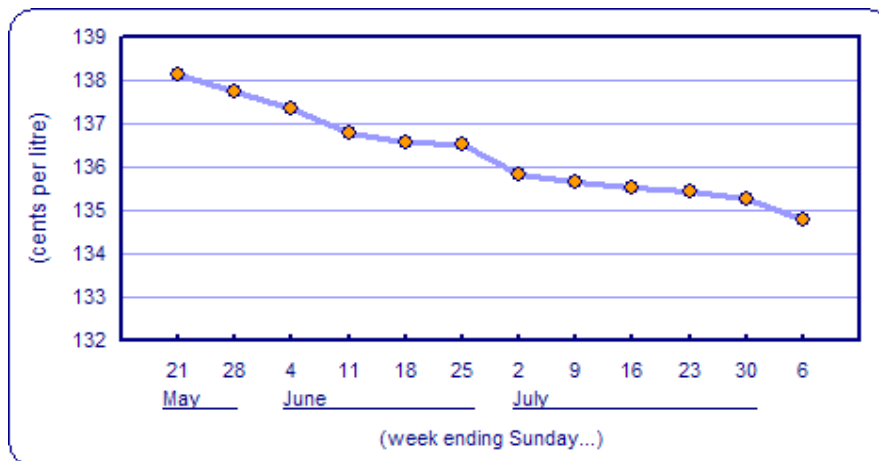
Longreach
Average Weekly Prices for the 40 Weeks to Sunday, 6 August 2006



The story for diesel fuel in regional Queensland is different to unleaded petrol. There has been a steady decline from an average of \$1.38 per litre on 21 May 2006 to an average of \$1.35 on 6 August 2006.

Average price of diesel³

Queensland Regional Average
Average Weekly Prices for the 12 Weeks to Sunday, 6 August 2006



² See: <http://www.aip.com.au/pricing/orima.htm>

³ Ibid

An issue of concern for RAPAD, Outback and remote business operators, communities and householders is the price disparity between capital city and country fuel prices.

The table⁴ below charts the disparity or variation between Brisbane and Longreach in the central west for unleaded petrol.

	June '98	June '99	June 00	June 01	June 02
Average	75.2	74.5	90.3	93.3	90.7
Monthly Movement	-1.7	0.6	3.5	-5.6	-0.2
Variation from Metro	13.7	14.6	12.0	16.4	12.0
Minimum	72.5	73.7	88.9	89.9	87.5
Maximum	78.9	78.9	94.9	103.1	98.0
	June 03	June '04	June 05	June 06	
Average	88.6	101.6	107.8	138.5	
Monthly Movement	-2.1	0.0	-1.6	0.8	
Variation from Metro	14.0	9.0	9.3	9.2	
Minimum	85.9	93.9	99.9	133.9	
Maximum	91.9	105.9	113.3	148.9	

For the nine year period June 1998 to June 2006 the average monthly variation was 12.2 cents per litre for unleaded petrol.

It is the view of RAPAD that these wide disparities in fuel prices undermine regional development and business opportunities as well as curtailing lifestyle choices and quality of life services

Listening to the electronic media and reading the city press one would be inclined to the view that the pain of higher fuel prices is confined to the cities. The Table above highlights that it is a fact of life that the bush has experienced higher prices compared with the city.

Transportation Costs

The June Quarter Consumer Price Index reported that transportation costs through the year to June quarter 2006 rose by +7.7%. The main contributing factor was the +24.6% rise in automotive fuel.

It is in the Outback and remote areas where high fuel prices take a toll on the economy, the quality of life and lifestyle. Prices are constantly and evenly high due to a range of factors such as the lack of competition between suppliers as well as the compounding effect of fuel excise.

As the GST is levied at the bowser, Outback residents are paying an additional 1c/ or more in GST on their fuel purchases.

The most recent survey of prices in forty-five Queensland regional centres by the Office of Economic and Statistical Research which included transport costs only - automotive fuel, tyres, oil, spark plugs, labour charges, registration, licences, vehicle club membership and taxi fares - showed that the centres of Barcaldine,

⁴ Queensland Fueltrac Pricing Summary Unleaded Petrol (cents per litre)

Longreach, and Winton all recorded transportation prices that were more than 10-15 per cent higher than Brisbane.⁵

Fuel Excise and Living Costs

Fuel excise increases the price of all inputs that have a transport component built into their cost of supply due to the compounding effect.

Living costs are higher due to the increased costs of food, fuel and essentials making remote and Outback regions less attractive for people to choose to live and work compared with the capital city, provincial cities and more settled areas. For example the cost of living in a remote area like Boulia is double the cost of living in a larger provincial centre like Toowoomba.⁶

Office of Economic and Statistical Research survey of prices paid by householders in forty-five Queensland centres shows generally the cost of living in the Outback is five percent higher than in Brisbane.⁷ However when housing rents were removed from the basket it showed that the outback centres of Blackall (+11%), Winton (+10%), Longreach (+9%) and Barcaldine (+9%)⁸ each recorded higher prices than Brisbane.

The cost of daily essentials transported to remote and Outback areas consumed or used by householders is compounded by the fuel excise component which is a hidden tax.

All Australians are dependant on the road transport system but those living in Outback and remote Australia are reliant on it for goods and services and experience greater distances associated with their travel and transport activities. Therefore, there is a greater transport component in the cost of their every-day services and consumer items.

Expenditure on road travel is far less of a discretionary activity in the Outback and remote regions than it is in metropolitan areas due to the often greater distances involved between centres or activities and the declining and minimal level of public transport such as coach, rail and air. In reality, the further from the coast or metropolitan area that a person or family lives the higher will be their transport costs and their contribution to general revenue through fuel excise.

If the Australian Government is serious about ensuring the continued existence, viability and sustainability of life outside the metropolitan areas they need to understand the serious impacts of fuel prices on every aspect of living and working in Outback and remote Australia.

⁵ Office of Economic and Treasury Research: Index of Retail Prices in Regional Centres October 2001

⁶ Record of a combined Bush Talks/Rural and Remote Education Inquiry public meeting on 4 October 1999

⁷ Coordinator General Website: http://www.coordinatorgeneral.qld.gov.au/workliveplay/nth_west/ and Office of Economic and Statistical Research Index of Retail Price in Regional Centres, October 2001 (latest)

⁸ Ibid

Impact of fuel excise on industry

The main industries in remote Australia are livestock production, mining and tourism. All of these are adversely impacted by the price of fuel and therefore by fuel excise. The mining and livestock industries are eligible to claim a rebate on the fuel used in the production phase, but are limited by what they can claim in transport of goods in or out of the region.

To demonstrate fuel quantities used in production, two industries are exemplified. The first represents the usage, outlays, costs, and claims for a medium family beef production operation in the Mitchell grass downs country at Winton. These details are attached in Addendum 1.

This second example highlights the large fuel quantities utilised by a transport operator servicing the Outback. This livestock transporter, freights livestock (primarily cattle) to marketing centres - Roma, Toowoomba, Brisbane, Townsville as well as from Winton properties to go out on rail.

2004-05 used 1,329,780 litres
2005-06 used 914,784 litres

Tourism is an important developing industry in outback Australia with the self-drive market making up the biggest sector. Anecdotally, high fuel prices have been a major factor influencing the decisions of potential holiday makers to the Outback.

It is cheaper to fly to Bali from Melbourne return than to tow a caravan from Melbourne to Winton and return as part of a holiday. A Melbourne to Bali return airfare including prepaid airfare taxes, 7 nights' accommodation, plus free full breakfast daily is currently being promoted at \$744. The indicative fuel cost of towing a caravan from Melbourne to Winton and return is \$1270.

The Queensland Government, local government and industry facilitated the establishment of the Outback Queensland Tourism Authority to market and develop tourism in Queensland's outback. The latest statistics from Tourism Queensland shows a distinct fall of 8% in growth which the industry is attributing to the higher fuel prices.

QUEENSLAND DATA SHEET

Domestic (Overnight) Visitors to Queensland's Regions - Year Ended December 2005													
	Gold Coast	Brisbane	Sunshine Coast	Fraser Coast Sth Burnett	Darling Downs	Bundaberg	Fitzroy	Mackay	Whitsundays	Northern	Tropical North Queensland	Outback	Total Queensland
Visitors by Origin													
Total Visitors ('000)	3,523	4,581	2,724	1,210	1,069	509	1,025	592	546	826	1,252	622	16,448
Growth % (YE Dec 2005 on YE Dec 2004)	-2	-5	1	16	-26	-9	-5	-6	32	-10	-16	-8	-4
Interstate (%)	56	43	28	17	22	19	16	16	42	18	42	25	33
Intrastate (%)	44	57	72	83	78	81	84	84	58	82	58	75	67
Brisbane (%)	29	13	44	36	26	26	18	17	9	15	12	22	25

The growth in Outback tourism, particularly in the self drive tourism market experienced in recent years is threatened by the rising costs of travel particularly from higher fuel prices which is increased by the GST and compounded by the fuel excise.

The relatively higher distance from markets precludes much of the Queensland Outback from serious consideration as a site for the establishment of many new industries, particularly those that have a higher transport component in their marketing costs.

Fuel Excise is a an inequitable tax

Any tax that raises the cost of essential goods and services over and above what they would cost in other parts of the country is an inequitable tax.

The fuel excise system does not reward Outback and remote business operators, communities and householders. It is discriminative, increasing the cost of transported items through the compounding effect of the fuel excise.

The retail price of petrol in Australia currently carries a Federal Government excise component of AUD \$0.38143 per litre. The main components of Australian retail petrol prices are:-

- Refinery Price: the basic cost of petrol leaving a refinery;
- Excise: levied by the Australian Government on petrol leaving a refinery;
- GST: levied on the final price at a rate of 10%;
- Margin: the additional price levied by both the wholesaler/supplier and the retailer to cover costs of distributing and retailing and providing profit.

Anecdotally, the Australian Government receives revenue of approximately 50 cents per litre from automotive fuel consumption.

The 2006-07 Budget Papers indicated that fuel excises returned \$14 billion and approximately 7% of all revenues. The Victorian Automobile Chamber of Commerce estimates that from petrol alone the Australian Government received (for distribution to the States) more than \$2 billion a year.

Fuel Excise as a Tax on Production

The further the point of production from that of value-adding or export the greater the impact of excise as a tax on production. As a rule of thumb, a Type 1 Road Train will have an average usage of approximately 0.9l diesel/km on a round trip (loaded one way and empty on return). With respect to the transport of fat cattle from Winton to Toowoomba this represents a cost of approximately \$5/hd in excise cost (80 animals transported 2500km; 2300 litres fuel @18c per litre unrebated).

As fuel excise contributes to higher transport charges there is a multiplier effect not only on the cost of living but also on the competitive disadvantage it inflicts on local businesses in rural and remote areas.

Alternative Energy

Now more than ever with escalating world oil prices and fuel costs there is an urgent need to pursue alternate energy industries and sources. Stronger action, commitment and leadership are required from the Australian Government to establish a biorenewable fuels industry as well seriously facilitating development of all sustainable forms of energy production.

RAPAD is of the view that an ethanol product has the capacity to lower the bowser price of fuel.

Alternative energy sources for transport are available in cities and selective areas of the State. In the Outback and remote areas many of these alternative energy sources are not available, and nor are they suitable as replacements for the road transport industry.

In the metropolitan and coastal areas much of the rail system and subsidised public transport systems are powered by coal-powered electricity, while gas is readily available as an alternative for private road vehicles (gas is widely available in rural and regional Australia, but is not widespread in smaller remote communities).

Gas is readily available as a source of household energy in metropolitan areas but only as more expensive bottled gas in rural and remote areas.

As world oil prices rise those living in metropolitan areas are better insulated from its adverse effects than those in rural and remote areas. If Outback and remote people are to be treated equally then any fuel excise that is levied must be hypothecated to the development and maintenance of road infrastructure.

Fuel Excise impact on a Remote Shire

The Winton Shire is 53,000 sq km in area, has a population of 1600, a shire controlled road length of 2,400 km of which 30 km is sealed.

In 2002/03 the Winton Shires fuel usage was:

- 130,000 litres diesel on road;
- 17,130 litres Unleaded Petrol (ULP) on road;
- 185,082 l diesel off road;
- 52,255 l (ULP)

Fuel excise rebates are claimable for Council work but allowing for all eligible deductions, remote and Outback Shires are disadvantaged due to the increased freight component of the fuel which includes the compounded impact of the fuel excise.

As can be seen from the shire road length, high volumes of fuel are consumed travelling to and from a work site.

Fuel Excise Reforms

RAPAD supports the fuel excise reforms set out in *Securing Australia's Energy Future*. Across the board and fully implemented in 2012-13 the reforms have the potential to deliver \$1.5 billion in reductions. The Australian Government is urged to bring forward the fuel excise credits for off road use which form part of the fuel excise reforms.

RAPAD believes the reduction in collections would provide some relief to Outback business and households and are needed now. The elements to be brought forward are: the \$350m in 2008-09 and the \$310m in 2012-13.

Recommendations

1. Business operators and Outback dwellers make financial, quality of life and lifestyle decisions and choices forced on them through higher fuel prices. RAPAD emphasis that higher fuel prices in the remote and Outback areas impact on business profitability and viability and undermines quality of life forcing economic choices relating to education, health, and employment opportunities, sporting and recreational activities.

RAPAD believes that the Australian Government should also make some tough decisions about the policy areas which it controls - the fuel excise and Goods and Service Tax which are components in higher fuel prices.

RAPAD urges the Australian Government to act to lower the tax imposts in the two policy areas for which it has responsibility - Goods and Service Tax and the fuel excise system.

The higher fuel price provides the opportunity for the Australian Government to revert to the fuel excise system that existed prior to 1959. This would mean the removal of fuel excise as a means of raising general revenue but hypothecated towards those areas from which it is collected - expenditure on roads, rail, air transport.

Outback and remote businesses and dwellers whose costs are affected by fuel excise would benefit from such a policy change as there is the potential for transport services to be enhanced as a result of their contributions.

If the preference is for the fuel excise system to remain as a general revenue instrument it can morally be supported if the public across Australia contribute equally through similar dependence on the fuels subject to excise. Currently remote and Outback dwellers and travellers contribute to general revenue at a greater level than urban or provincial dwellers. Where this is not based on the capacity of these individuals to contribute (as opposed to income tax), it becomes a regressive and sectional tax.

2. The Australian Government is urged to bring forward the fuel excise credits for off road use which form part of the fuel excise reforms set out in *Securing Australia's Energy Future*. Fully implemented in 2012-13 the reforms have the

potential to deliver \$1.5 billion in reductions over the whole period. RAPAD believes the reduction in collections would provide some relief to Outback business and households and are needed now. The elements to be brought forward are the \$350m in 2008-09 and the \$310m in 2012-13.

3. RAPAD urges the Australian Government to show stronger action, commitment and leadership to establish a biorenewable fuels industry.

RAPAD is of the view that an ethanol product has the capacity to lower the bower price of fuel.

Conclusion

The purpose of this submission is to put before the Committee that in Queensland's central west - the area covered by RAPAD –

- The daily price of fuel on 6 August 2006 was up to 14c per litre higher than the capital city;
- The average weekly price of unleaded petrol over a 40 week period which plots the steady rise;
- A decline in average weekly diesel prices over a 12 week period;
- The consistent variation in price of unleaded petrol between Queensland central west and Brisbane over a period June 1998 – June 2006;
- That as GST is levied at the bowser, Outback residents are paying an additional 1c/l or more in GST on their fuel purchases- another inequitable tax;
- The cost of living in Queensland central west is 5%+ higher than living in the capital city;
- The cost of living in Queensland central west excluding housing rents is 9-11% higher than living in Brisbane;
- Transport costs in Queensland's central west are 10-15% higher than in Brisbane;
- The need for a biorenewable fuels industry. An ethanol product has the capacity to lower the bowser price of fuel;
- High quantities of fuel are used in production and business enterprises; and
- Tourism numbers to the Outback have fallen and anecdotally higher fuel prices were and are contributing factors.

RAPAD believes the circumstances of people operating businesses and enterprises, living and working in Outback and remote areas and the vast distances travelled warrants special attention from the Australian Government.