

NSW Submission to the Senate Economics Legislation Committee
Inquiry into the price of petrol in Australia

Rising petrol prices are a concern for everyone – they affect all sectors of the economy, including every household and every business. The impacts are direct, such as the cost of running a motor car, as well as indirect, such as increased freight costs of goods.

However, research conducted by the NSW Government shows that rising fuel prices have an impact on some people more than others. The most affected are low and fixed income earners, people living in urban fringe, regional and rural areas, and particular types of businesses – especially those heavily reliant on fuel input or which have less ability to pass fuel costs on in prices, such as primary industries and small business.

Increases in the price of fuel also appear to be contributing to the rising prices of some staple items, affecting all households, and are affecting government expenditure, with the costs of delivering many government programs increasing.

In relation to the Committee's specific terms of reference, New South Wales makes the following observations:

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

The oil market in Australia is dominated by four major oil companies, which have significant influence over the distribution and retail chains. Some price competition occurs between petrol outlets, particularly in urban areas and towns on major highways, however, petrol consumers are essentially "price-takers" in that they are able to make only a limited impact on petrol prices.

Crude oil is the largest component of the bowser price for petrol. Rises and falls in the price of crude oil have a broad impact on the retail price of petrol. Similarly movements in the price of refined oil also have an impact (although refining costs are a smaller component of the price). Research commissioned by the NSW Government suggests that increases in crude oil prices appear to translate very quickly in bowser price rises, despite the fact that it takes 7-10 days for oil to be refined, distributed and sold through retailers.

The price of petrol also responds to fluctuating demand and supply factors in the market, however, "price spikes" at certain times (eg weekends and prior to public and school holidays) have given rise to concerns about artificially high petrol pricing at the bowser.

Given that the price of petrol has a significant impact on the stability and well-being of the Australian economy, the Commonwealth should take measures to ensure greater oversight of petrol prices to ensure that appropriate penalties are applied in the event that artificially high petrol prices are found in the market.

The NSW Government recommends formal price monitoring under Part VIIA of the *Trade Practices Act 1974* (Cth) ('TPA'). Such price monitoring should go beyond merely tracking the retail price of petrol, but should consider prices, revenues, costs and margins at all stages of the petrol supply chain in rural and urban areas, on an ongoing basis.

Other possible Commonwealth action includes:

- amending the TPA to guarantee independent wholesalers and retailers access to fuel supplies from the terminals of the oil companies on fair terms and to permit them to bargain collectively;
- effectively outlawing predatory pricing under the TPA and strengthening s46 (Abuse of Market Power);
- giving the Australian Competition and Consumer Commission ('ACCC') the power to issue 'cease and desist' orders for immediate relief against market abuse and anti-competitive behaviour;
- new court powers to order the divestiture of assets and impose jail terms to tackle cartels and the worst cases of market abuse;
- establishing a "Yellow Card" system, so the ACCC keeps a register of bona fide complaints of misuse of market power to be used for assessing penalties for proven breaches of the TPA; and
- criminal penalties and larger pecuniary penalties if necessary.

b. Regional differences in the retail price of petrol

The NSW Government has identified that people in rural and regional areas are particularly affected by current high fuel prices. This is partly because:

- people in regional and rural areas have fewer transport options and tend to travel 50% greater distances by road than their city counterparts;
- competition is more limited in rural and regional areas where there are fewer outlets;
- diesel, used heavily in regional and rural areas, is now priced consistently higher and fluctuates less than unleaded petrol;
- farm incomes have remained relatively static over the past few years, while fuel costs have risen as a proportion of overall costs; and
- some regional small businesses, such as tourism and transport operators, which have relatively elastic demand and high core fuel costs are particularly vulnerable.

Consumers in rural areas should not be unfairly disadvantaged by the price of petrol. Research commissioned by the NSW Government reveals that oil companies are enjoying higher margins in rural areas. In light of this, formal price monitoring would be particularly useful to ensure fair outcomes for consumers in rural and regional areas.

Although the Commonwealth is introducing new fuel tax credits for large on-road vehicles (more than 4.5 tonnes) from 1 July 2006, the delayed introduction of fuel tax credits until 2008 for the business use of fuels off-road will affect many businesses, and in particular, primary industries. Reconsideration of the tax deductibility of motor cars for the small business sector (especially in regional areas) may also be a matter for the Commonwealth's consideration.

c. Variations in the retail price of petrol at particular times

On certain days of the week and at certain times of the year (eg prior to public holidays), fuel prices commonly increase. As discussed above, fuel consumers are essentially price-takers and are therefore vulnerable to such price spikes.

While the medium to long term trend in petrol prices is driven mainly by the underlying price of international indicators (eg crude oil prices), in the short term, petrol price spikes appear to have a limited relationship to the component costs of a litre of fuel.

While variations in supply and demand patterns appear to contribute to increases in petrol prices at these times, formal price monitoring across the whole petrol chain would help to bring to light any instances of artificially high petrol prices.

d. The industry's integrated structure

The oil market is dominated by four principal oil companies (ie Caltex/Ampol, Shell, BP and Mobil), which have significant influence, branding arrangements and/or equity in the distribution and retail chains. As a result, the oil majors have considerable market power throughout the petrol supply chain. Therefore, potential exists for margins at the supply, refining, distribution, and retail stages of the chain to significantly affect prices at the bowser. Research commissioned by the NSW Government shows that the oil companies have been achieving record margins over the past several years.

Most influence over the oil industry and prices comes from the Commonwealth Government. It is noted that the Commonwealth has reforms underway in this area, such as OilCode, which will include a nationally consistent approach to terminal gate pricing, and an independent petroleum dispute resolution scheme.

Should formal price monitoring demonstrate any instances of artificially high petrol prices in the market, it will be necessary for the Commonwealth to establish appropriate strategies to respond.

e. Any other related matters

The Commonwealth could also conduct further research into the social and economic impacts of high petrol prices, such as a review by the Productivity Commission. A thorough understanding of the ways in which people and governments are affected by high fuel prices and how this manifests in the

economy would aid the development of appropriate government policy to help those members of society most vulnerable to petrol price increases.

In the medium to long term, governments may need to consider how best to respond to over-reliance on oil. Given that oil is a depletable resource, there is a need to plan for a future with very expensive and limited access to crude oil. Energy security is a major issue on which the Commonwealth Government will need to take the lead. Two areas in particular should be considered:

Encouraging alternative technologies

Most levers for influencing the impact of rising petrol prices and encouraging the uptake of alternative transport fuels and technologies in Australia lie with the Commonwealth Government. As identified in the NSW submission to the Commonwealth Senate Inquiry into Future Oil Supply and Alternative Transport Fuels, the NSW Government would be pleased to work with the Commonwealth to explore options such as:

- identifying any underlying issues with the supply chain that may impede the efficiency of the Australian alternative fuels market;
- the continuation of excise arrangements to encourage the domestic biofuels industry; and
- providing financial and price incentives, such as through the fringe benefits tax ('FBT') system, to encourage consumers to choose biofuels and fuel-efficient vehicles.

The NSW Government will continue to lead by example in adopting biofuel and hybrid technologies within its own fleet. NSW will also continue to cooperate with processes already underway through COAG to develop strategies that might provide incentives to encourage motorists to purchase vehicles with greater fuel efficiency.

Encouraging the uptake of public transport

There are considerable financial and other benefits for motorists to shift from private vehicles to public transport. While consumers cannot reliably budget for fluctuating petrol costs, they can reliably budget for public transport costs.

Yet people are not encouraged through the tax system to use public transport. In Australia, under the Commonwealth's FBT system, there are generous tax breaks for buying and leasing new cars and paying for them from pre-tax salary with greater tax benefits the further the car is driven.

The tax system therefore distorts responses to the current petrol price situation because the tax break for salary packaging a vehicle can be financially attractive compared to paying for public transport out of post-tax earnings.

The House of Representatives' Standing Committee on Environment and Heritage's report, *Sustainable Cities*, concluded that a review should be

conducted "with a view to removing incentives for greater car use and extending incentives to other modes of transport".

Public transport users deserve the same tax treatment as private vehicle drivers, as they receive in many overseas jurisdictions. The NSW Government recommends that the Commonwealth reform the FBT system to provide tax incentives for the use of public transport in the same way as such incentives are available for the use of private vehicles.