Submission

to

Senate Economics Legislation Committee

Inquiry into the Price of Petrol in Australia

Submitted by:

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Senate Economics Committee

Inquiry into the Price of Petrol in Australia

Terms of Reference

The Senate Economics Legislation Committee is inquiring into the price of petrol in Australia, with particular reference to:

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

b. regional differences in the retail price of petrol;

c. variations in the retail price of petrol at particular times;

d. the industry's integrated structure; and

e. any other related matters.

The Secretary
Senate Economics Legislation Committee
Suite SG.64, Parliament House
Canberra ACT 2600

Inquiry into the Price of Petrol in Australia

As the Federal Member for Bendigo, located in Central Victoria, my constituents and I are acutely aware of the price of petrol and the fact that the average retail price has risen from 89 cents per litre in September, 2003 to $1.45 per litre June, 2006. A massive rise of 62.9%.

I urge the Government to develop a comprehensive, strategic framework including tax incentives, promotion of research and new technologies, and the necessary infrastructure to ensure that Australia rapidly repositions itself to be less dependent on imported petroleum and a hostage to wild fluctuations in the world price of oil.

I also urge the Government to immediately exercise its power under the Trade Practices Act and direct the ACCC to fully investigate petrol pricing in Australia and ensure transparency, competition and fair fuel prices for all consumers.

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Steve Gibbons MP
Federal Member for Bendigo

15th August 2006

Terms of Reference

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

I wish to draw the Senate Committee's attention to the fact that the Victorian Government introduced Legislation to monitor the Terminal Gate Pricing (TGP), of petrol and diesel, effective from August, 2001. The objective being to promote transparency in the wholesale fuel price and improve access to competitively priced fuel at the terminal gate. With the anticipated benefits flowing to all consumers.

Terminal Gate Pricing applies to petrol and diesel fuel sold to the wholesale market, and comprises four cost components; Import Parity Price, Federal Government Excise Tax, terminal operating margins and Goods and Services Tax (GST). It excludes discounts, retail margins and other charges post the terminal gate.

The most recent report on Automotive Fuel Prices in Victoria, January 2003 to April 2006, illustrates a number of trends which are disconcerting and should be of interest to your Committee. Including:

- Terminal Gate Prices showed both an upward trend over the review period, and generally followed fluctuations in international product price.
- TGP rose by more than the Landed International Product Price. Indicating rises in the Notional Terminal Margins- particularly since 2004.
- Average Notional Terminal Margins for petrol, increased by 2.5 cents per litre or 131%, from 1.9 cents per litre in January, 2003 to 4.4 cents per litre in April, 2006.

b) Regional Differences in the Price of Fuel

The Victorian report on Automotive Fuel Prices, also highlighted a number of issues regarding regional differences, which are particularly pertinent to constituents in my Electorate, given that petrol prices have increased by 62.9% in less than three years. Including:

- During the period between January 2003 and April, 2006, the average price difference between metropolitan Melbourne and country Victoria, was 5 cents per litre.
- The price difference in the 12 months to April, 2006 was an additional 1 cent per litre higher.
- The largest price difference between Melbourne and the country regions, was the North West Region, which includes Bendigo, Echuca, Swan Hill and Mildura.

- The price variation between the regions, such as the North West and Central West Region, covering Ballarat, Ararat, and Horsham, was up to 5 cents per litre, at any one time.
- Regional prices generally rose quickly, in line with increases in Melbourne, but demonstrated a greater lag period in downward price adjustment.
- At any one time, a significant variation in prices can be observed within the region. For example, during Easter 2006, the price of petrol in Mildura was 13 cents per litre cheaper than in Bendigo. Mildura being 600km from Melbourne and 400km from Adelaide.

c) Variation in the retail price at particular times

- Variations in price are usually observable early in the week compared with weekend days.
- Price fluctuations between different days of the week are most pronounced over long weekends.
- Rapid price movement, which appear to be correlated, can be observed along busy highway strips leading into town, where a high concentration of petrol retailers exist.
- In recent weeks there have been occasions when petrol prices have jumped by as much as 7 cents in less than one hour. A situation that Victoria's peak motoring body, The Royal Automobile Club of Victoria, labelled as simple "profiteering".

The Victorian Fuel Price Report also noted that "discount cycles" for both petrol and LPG became less frequent in the period after mid-2004.

e) Other Related Matters

(i) ***Role of the Australian Competition and Consumer Commission (ACCC)***

In addressing Terms of Reference a), b) and c) above I have highlighted a number of areas of pricing discrepancy which are strongly suggestive of "price fixing" or "price gouging". Including similar observations by two non-partisan organizations.

In 1996, the Government abolished the Prices Surveillance Authority, whose role was to monitor excessive price increases and prosecute price fixing activities. I note that the Prime Minister, in his statement to Parliament on Energy Initiatives, on the 12th August 2006, made specific reference to the powers of the ACCC. Including that the "ACCC has the powers to protect consumers from unlawful anti-competitive conduct and unlawful market practices through the provisions of the Trade Practices Act". And "The ACCC monitors the daily average retail price of unleaded petrol, diesel and automotive LPG".

There is a major difference between observing the retail price of petrol, and vigorously investigating, using powers to subpoena documents and witnesses, in order to fully understand the pricing process and profit margins within the automotive fuel industry.

I also draw the Committee's attention to the conclusion of Consumer Affairs Victoria's Report on Automotive Fuel Prices, that "A detailed examination of oil company prices and margins by the Australian Competition and Consumer Commission is needed to ensure that the market is operating efficiently and that consumers are not being disadvantaged".

The Government has continually refused, despite numerous demands by the Federal Opposition and motoring organisations, to formally direct the ACCC, under Part 7 of the Trade Practices Act, to formally investigate and monitor fuel prices and excess profits.

(ii) ***Australia's Dependence on Petroleum Imports***

It is clear that while Australia is considered an "energy rich" country, we are increasingly dependent on Middle-East oil. The confluence of several factors including, political instability, world demand for oil- which is exceeding world supply, leading to dramatic price increases, means that Australia is at risk of an energy crisis.

The increase in the world price of oil over the past few years and our increasing reliance on oil imports are matters of grave concern to motorists as well as the National Economy.

- Australia currently produces between 60-65% of its petroleum needs. Historically this has been as high as 80-90%.
- The Australian Petroleum Production and Exploration Association predict that Australia will need to import 78% of our oil requirements within 10 years.
- Australia is consuming petroleum three times faster than we are finding it.
- The cost of importing crude oil and refined petroleum is the single largest import expense. Rising from $10.2 billion in 2003/04 to $15.1 billion in 2004/05 and estimated to rise to $19 billion in 2005/06.

There is an over-whelming case for Australia to reduce its dependence on Middle-East oil, for both economic and security reasons. In addition there is an increasingly obvious need to reduce our current pollutants from transportation vehicles. Including issues relating to human health, global warming and our international obligations.

Australia needs urgent leadership to address our dependence on imported petroleum in terms of risk to supply, current cost and the economic risks associated with future price increases.

The Government needs to provide leadership and develop a policy framework that encourages use, investment, research and development of technology and support infrastructure for a range of alternative fuels.

*(iii) **Natural Gas***

Australia has estimated reserves of 150 trillion cubic feet of natural gas. If converted to transport fuel, enough to power all of Australia's cars, buses and trucks for 50 years. Our natural gas is easily converted to liquid diesel that can be used without modification to existing engines.

Liquid Petroleum Gas (LPG) is much more environmentally friendly than petrol. Producing 50% less Carbon Monoxide, 15% less Carbon Dioxide and 80% less Benzine.

More than 500,000 Australian cars run on Autogas. The most recent figures show that 21% of new Ford Falcons are designed to run on LPG. The Government's repeated policy shifts regarding excise duty, and the addition of GST (without the corresponding reduction in excise, as with petrol), have added unnecessary uncertainty for industry and consumers.

Australia currently exports up to 12 million tonnes of liquefied natural gas annually. With a 25 year supply contract recently signed with China. 15 year-plus, supply contracts for 5-8 million tonnes annually are currently being negotiated with two Japanese energy utilities. While these exports are significant in terms of export revenue, they may not be in Australia's long-term strategic best interests.

*(iv) **Bio-Ethanol and Bio- Diesel***

The Keating Government helped establish the Ethanol industry in Australia, through assistance grants, in 1993. The current Government has failed to provide a Policy framework that supports the development of a thriving Ethanol industry, which offers significant petroleum substitution options, as well as environmental benefits. The Government's changing plans, to introduce tax on Ethanol, have provided both uncertainty and disincentive,

Australia first used Ethanol in 1929, and it was used extensively during World War Two. It is Brazil however, which has been the dominant country in Ethanol production for the past 30 years. All petrol sold in Brazil contains 25% Ethanol. While we are currently paying $US75 per barrel for oil, Brazil can produce Ethanol for $US28 per barrel.

In the United States 30% of all fuel sold contains Ethanol. Producing 8 billion litres in 2002 which created 195,000 jobs in rural communities. In June 2005 the US Senate voted to double Ethanol production by 2010. Should Australia mandate a 10% Ethanol component to petrol, an estimated 80-90,000 jobs would be created in rural and regional Australia.

Environmental advantages of Bio-diesel vs Petroleum Diesel;

» Particle matter (< 10 microns)	- 68%
» Carbon Dioxide	- 46%
» Nitrogen Oxide	+ 8.9%
» Hydrocarbons	- 37%

Bio-Fuel Advantages;

- » Renewable
- » Better Environmentally
- » Less toxic and cancer causing emissions
- » Cleaner burning engines
- » Reduced dependence on imported fuel
- » Value adding to Australian agriculture
- » Generating economic and jobs growth in rural & regional communities

CONCLUSIONS AND RECOMMENDATIONS

While the Government's Energy Initiatives, announced on the 14th August 2006 are welcomed, many of them have been advocated by the Labor Opposition, despite ridicule from the Government since October 2005. They do not go far enough however, and in the light of the letter from the Special Minister of State of 13th July 2006, suggests that the Government's approach is reactionary and fails to address Australia's strategic energy needs.

This submission has highlighted;

- Increased Notional Terminal Gate Margins in the order of 120% since 2003
- Petrol price variations both regionally and at particular times raises questions of profiteering
- Cited independent commentary by the RACV suggesting blatant profiteering
- The need for Australia to reduce its dependence on petroleum imports, particularly from the Middle-East
- The negative impact of petroleum imports on Australia's Current Account Deficit
- The environmental impact of petroleum fuel emissions and potential benefits of alternative fuels.

I urge the Government to develop a comprehensive, strategic framework including tax incentives, promotion of research and new technologies, and the necessary infrastructure to ensure that Australia rapidly repositions itself to be less dependent on imported petroleum and a hostage to wild fluctuations in the world price of oil.

I also urge the Government to immediately exercise its power under the Trade Practices Act and direct the ACCC to fully investigate petrol pricing in Australia and ensure transparency, competition and fair fuel prices for all consumers.