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July 4, 2008

The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Sir or Madam,

**Re: Inquiry into National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008**

Thank you for the opportunity to respond to the enquiry on the national petroleum process and the cost structure of pricing of petroleum products.

Clearly the pricing of fuel is an economic factor and affects both the input costing of every business in the nation, but also significant contributor to price and costs escalation throughout the economy. The gearing affect of costs with transport and logistics in the economy have a factored effect many times within the whole cost structures as goods move throughout the logistics chain.

Too often we just measure the cost at the pump of the delivery costs of goods and services, but it should be recognised that transport costs lie buried in the costs throughout the production cycle and are not only measured at the "last mile" stage of distribution.

It is also recognised and understood by business that fuel costs are an element of the whole "carbon economy". It is apparent that Australia and the world is within an economic change - a remodeling of the economy - where costs are going to escalate in areas of energy and resources, regardless of what any single government does. It should also be recognised that in the global economy Australia has limited affect, given the relative size of the Australian economy compared to other much larger economies in the global scheme.

The importance of that fact though, is not our field of influence but rather that the manner in which we deal with this re-orientation occurring in the global economy will affect our trading and economic competitiveness in the world, and seriously and drastically affect our trade, industrial, commercial and social competitiveness and positioning against other economies. This is the anxiety that many businesses and individuals have as a greater concern.

It seems unfortunate that we are branding such important economic policy legislation as “fuelwatch”. Many business people recognise the saying – there are three types of people;

Those who make things happen.

Those who watch things happen; and,

Those who wonder what happened.

It seems to many, that the Australian and State Governments are categorizing us among the last two. The Australian people are going to watch, and wonder why, while the “powerful” economies will dictate the terms.

There is very little empowering consumers about this legislation when the cost construct of fuel at the pump is hidden and masked. While Government spends a great deal of time assessing and evaluating the petroleum production and value chain from escalating costs, there is insufficient vigilance of the government imposed fees, tariffs, taxes, levies, charges costs that are loaded onto the source costs of fuel. Those who travel are amazed that costs in many other countries are competitive and variable, giving the consumer real empowerment to choose, whereas in Australia, regardless of the few cents of marginal variation in the core fuel cost, most of the costs are loaded on by Government at various levels. Unless the fuel watch clearly identifies the costs breakdown and elements of cost, the public will have little real confidence in any “vigilant observation”. Further it would seem that such escalation of Government charges has a leveraged affect, where increases have an increasing relative impost on the core cost.

The empowerment of the Australian consumer is most effective when pure free market terms allow market forces to provide open intelligent choice and the simple transaction between a willing buyer and willing seller. Regulations and competitive forces have restricted the free-choice in the market at all stages through the supply, distribution and sales chain. Another factor affecting a true free market is the opportunity of choice, substitution and alternatives. These choices are also being limited by regulatory or structural impediments on the sale of alternative energy, and the barrier to entry of competitive suppliers or alternative suppliers in the market.

The demise of small independents at all levels from supply through to delivery was voiced as a concern over many years, and now the consequences of the demise of the small independent operator is causing a major rift in our whole economic welfare. It seems, without detailed knowledge of the proposal that the fuel watch scheme may well be a perverse motivator for small independent operators to react and respond to local market circumstances. The real underlying issue is the opportunity for business to compete fairly and squarely without underlying structural factors unduly influencing fair and reasonable competition. Grocery fuel vouchers, and so on are a negative long term influence on fair competition where large chains are using undue market influence to structure and corrupt buyer free choice. Also the continuing elimination of small independent operators has a negative effect on the free-market economy. There needs to be Government intervention to reduce the impact of large networks on resource and prime goods throughout the economy, not just in fuel.

The fuelwatch scheme in regional areas will have a varied affect. In many small communities there may only be one supplier to the local market, and again free competition is not available. A business will inevitably then maximise return and offset risk. Where price projections are being required, the cost/price risk will be factored in. This will then elevate the overall price average as there would be little opportunity to recapture lost margins by fluctuating price on a supply and demand basis. The only simple way in which an operator (particularly a small operator) can offset risk is in risk premium pricing. The average would inevitably trend higher.

The cost of fuel in regional rural and remote areas is a further impost on not only the commercial well being of the area, but also the social aspects of regional living. Distances are greater, true and reasonable delivery costs would inevitably be higher. The structural costs of fuel as a component of production cost and overhead (regardless of the industry) will therefore have a added price gearing affect the further one moves from major distributions sources. The impact on, local communities could well be a tipping point in so many primary, and primary dependant rural industries.

It is more than possible that escalation of costs for many rural industries would mean the demise of individual businesses. As we know the insidious failure of businesses in rural communities leads to the whole breakdown of the economic and social infrastructure.

“Watching” fuel prices rise, and reporting regularly to the local regional or rural consumers that “we are watching the fuel price rise” is going to be little consolation to the demise of rural communities and the breakdown of regional and rural production. We need to do more than watch and report.

Most independent businesses will need to establish systems and procedures to report and observe the compliance of any Regulation imposed. The main disadvantage is that smaller operators will need to cover that from lower sales quantities, therefore the relative impost will be higher for smaller outlets than larger chains and network suppliers, who generally have centralised pricing and monitoring systems controlled by the network provider or fuel company. Further it would allow fuel suppliers to place another cost burden on independent outlets by imposing a further “service fee” for managing what is an externally regulated impost. The real cost is that once production or supply costs exceed the revenue, than another business fails in the market. That is most likely to occur where fuel companies and network supplier are least likely to provide a service, i.e. regional rural and remote communities where quantities are low, delivery costs are high and systems are limited.

Finally it should be clearly noted that in the eyes of business fuelwatch is not the answer to rising fuel prices, and is an expedient solution until a determined and meaningful government petroleum pricing strategy can be determined. We should not confuse two very clear elements in this discussion.

1. The discussion on the effectiveness of fuelwatch legislation, which in the eyes of many is fundamentally flawed and will be an ineffective impression that the Government is actually doing anything, when the reality is they are going to watch and report – so what!
2. The actual need for a constructive Government Policy on fuel pricing and the actual management of the supply, distribution and sale of petroleum in Australia. The encouragement of true free-market competitiveness within this industry would be a far more constructive discussion.

There is very real concern that the Government will intentionally confuse these issues and try to imply that debate focused on the Fuelwatch legislation is opposition to Government policy to control fuel prices. This is not so. Business is expecting from Government real policy and meaningful action to moderate the negative effects on fuel costs in the economy and meaningful policy to protect and restore free market competitiveness in the petroleum industry, and for that matter in other key industries within the economy.

Sincerely,



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Ray Conder  
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