



CHAMBER OF COMMERCE AND INDUSTRY  
WESTERN AUSTRALIA

28 August 2008

The Secretary  
Select Committee on Fuel and Energy  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

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Dear Secretary

**Submission to the Senate Select Committee on Fuel and Energy**

The Chamber of Commerce and Industry of Western Australia (CCI) welcomes the opportunity to provide a submission to the Senate Select Committee on Fuel and Energy regarding its investigation into fuel and energy as per its Terms of Reference.

***About CCI***

CCI is the leading business association in Western Australia. It is the second largest organisation of its kind in Australia with a membership of approximately 5,500 organisations in all sectors including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services and finance.

Most members are private sector businesses but CCI also represents firms in the not-for-profit and government sectors. About 80 percent of members are small businesses, and members are located in all geographical regions of WA. Some 100 business associations are affiliated with CCI, expanding the organisation's representative coverage to more than 10,000 enterprises.

***The impact of higher petroleum, diesel and gas prices on small business and industry***

Western Australia has recently experienced a severe domestic gas shortage as a result of an unexpected gas processing plant explosion on Varanus Island, in the State's north-west which in turn put upward pressure on prices for available supplies. CCI estimates this incident has already cost business \$2.4 billion in lost turnover. This current example clearly highlights the impact that higher energy prices can have on business.

The increasing cost of energy is eroding industry's international competitiveness at a time when it is also facing significant macroeconomic pressures. Escalating labour and material costs, a rising Australian dollar, increasing interest rates and greater competition from overseas industries are all adding to the pressure on both industry and small business.

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Western Australia's geographic isolation from other major economic centres means that this State's business sector is considerably more exposed to risks associated with increasing fuel prices. This isolation is reflected in higher costs for goods, services and production inputs.

CCI notes that businesses have been absorbing increased fuel costs where possible. However, continually increasing costs are rendering this option unviable and businesses are finding it necessary to pass on increased costs to customers.

Higher prices have the effect of reducing overall demand. Small business in particular is sensitive to even minor reductions in consumer spending and as such, the higher cost base brought on by rising energy prices is presenting a risk to business viability.

Western Australian industry is heavily concentrated around the resources sector. For large businesses involved in the sale of energy resources, higher fuel prices may enhance the profitability of existing projects and improve the chances of new projects commencing. From this perspective, the economy can be seen to benefit through higher fuel prices. CCI considers this dichotomy must be considered by Government when developing policy with regard to energy pricing.

### ***Operation of the domestic petroleum, diesel and gas markets, including the fostering of maximum competition and provision of consumer information***

With respect to the regulation of fuel prices, CCI considers such schemes to be counterproductive when measured from the presumed objective of delivering a net benefit to consumers. CCI advocates that consumers would be best served by a reduction in petroleum product regulation. This would free the market to operate with efficiency in determining prices that best match supply and demand pressures.

Under Western Australia's FuelWatch scheme, CCI believes that while intra-day price volatility has been eliminated, variability over a number of weeks remains. CCI believes that static daily pricing has also resulted in a net average increase in fuel costs. The concept of a business being required to set and maintain a daily price is clearly detrimental to each individual business and eliminates the key tenet of market competition. It is clearly detrimental to consumers that a supplier is prevented from lowering prices solely due to government regulation.

By smoothing the peaks and troughs of the discounting cycle, regulation raises the minimum price available to bargain hunter consumers. Since by definition these consumers place a relatively high store on achieving the lowest cost possible, both the social and economic cost of this measure can be seen to be significant.

### ***The impact of an emissions trading scheme on the fuel and energy industry***

CCI supports the introduction of a broad-based national emissions trading scheme, such as the proposed Carbon Pollution Reduction Scheme (CPRS) that is inclusive of the fuel and energy sector.

However, CCI recognises that such a scheme could have significant impacts on business, particularly those that are emissions-intensive and trade-exposed. The provision of free permits to businesses within these sectors is a critical aspect to ensure Australia's on-going international competitiveness in these global industry sectors.

If Australia's CPRS fails to appropriately compensate the fuel and energy sector, there becomes a real risk of reduced investment in the exploration, mining and utilisation of Australia's natural energy resources. Western Australia's economy is underpinned by the availability of affordable natural gas. The Government must ensure that the CPRS does not eliminate the economic incentive for resource companies to seek to utilise Australia's gas resources.

With fuel and energy being a key input to virtually every business, the cost impact of an emissions trading scheme on this industry sector will be felt across business and the community. CCI believes that any further cost increases resulting from the CPRS represents a real risk to business viability.

CCI understands that emissions reporting data must be submitted to and processed by a well-structured and robust information management system. We are concerned that the primary reporting mechanism for emissions trading (the Online System for Comprehensive Activity Reporting or "OSCAR") is not yet capable of supporting the scheme.

CCI fully supports the Federal Government's ongoing efforts to improve the functionality of OSCAR. We consider that it will be a vital piece of public infrastructure. The success of the CPRS will depend on the capacity of the reporting mechanism to receive, produce and share accurate and verifiable information.

It is important that the government not implement the CPRS until the data collection systems upon which its commencement and subsequent operation will be based are robust and reliable.

### ***Taxation arrangements on petroleum, diesel and gas products***

CCI promotes the simplification of Australia's tax system as a means of enabling improved market outcomes.

CCI notes that the Government's CPRS proposes to reduce fuel excise on a cent for cent basis in line with the price increase created by pricing carbon. CCI believes greater benefit would be gained by Government undertaking to reduce the overall tax impost on petroleum products.

Furthermore, CCI is concerned that while the fuel excise is proposed to be reduced for at least three years, the fuel tax cuts for heavy vehicle road users are only guaranteed for a single year. CCI believes this represents an inequitable approach to compensation particularly given Australia's dependence upon heavy vehicles for industrial use.

CCI advocates the introduction of flow through shares to drive investment in resource exploration. Flow through shares provide a clear tax incentive which encourages investment in this sector. CCI believes this would generate notable benefits, particularly with respect to on-shore and in-shore exploration where fields appropriate for domestic market use are most likely to be discovered.

### ***Domestic oil/gas exploration and refinement industry***

The Western Australian economy relies on the ability of companies to efficiently mine and export energy resources, notably liquefied natural gas from basins situated off-shore from the State's north-west.

CCI is concerned that WA's project approvals process is extremely complex, costly, and subject to delays. A proponent is required to engage multiple agencies across all levels of government. CCI

believes that the ultimate goal of Government should be the provision of streamlined approval processes that provide clear and objective approval criteria with appropriate time constraints.

In October 2006 the Western Australian Government established a domestic gas reservation policy which is based around a requirement to reserve fifteen percent of gas from any future offshore development for use within Western Australia. CCI does not support the State imposing a specific reservation policy for gas resources, based on the belief that market mechanisms provide a more efficient means by which to secure domestic gas supplies.

CCI believes that the system for oil and gas retention lease arrangements should be reviewed to ensure sufficient supplies are made available, particularly for the domestic market. Consideration should be given as to whether Government will seek information from interested or relevant third parties to a retention lease decision as a means of further testing assertions contained in the relevant lease application. CCI believes that greater transparency in the retention lease application process will improve stakeholder engagement, strengthen the commerciality test and promote field developments.

### ***Conclusion***

CCI welcomes this review of Australia's fuel and energy sector by the Senate Select Committee on Fuel and Energy, and appreciate the opportunity to provide input to the process.

CCI's Senior Adviser, Industry Policy, Andrew Canion would be pleased to provide further detail on this submission. Mr Canion may be contacted on (08) 9365 7688 or email [andrew.canion@cciwa.com](mailto:andrew.canion@cciwa.com).

Yours sincerely

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