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Ms Naomi Bleeser
Secretary
Senate Select Committee on Fuel and Energy
Parliament House
CANBERRA ACT 2600

Dear Ms Bleeser,

NRMA submission to the Senate Select Committee on Fuel and Energy

Thank you for the opportunity to make a submission to the Senate Select Committee on Fuel and Energy.

NRMA Motoring & Services (NRMA) represents over 2 million Members in NSW and the ACT. For more than 85 years NRMA has provided road side assistance and represented the interests of motorists in relation to road funding, road safety, petrol pricing and other relevant public policy issues.

Below is our response to the terms of reference for the inquiry.

- a. **the impact of higher fuel and energy prices on:**
- i. **families,**
 - ii. **small business,**
 - iii. **rural and regional Australia,**
 - iv. **grocery prices, and**
 - v. **key industries, including but not limited to tourism and transport;**

NRMA has long been campaigning for lower fuel prices given the impact that the cost of fuel has on the price of transport for both freight and passenger movements. As the cost of fuel increases the price inflation effect on providing other goods and services becomes more significant.

Since Australia is a large country, with large distances between major population centres, the cost of moving people and goods becomes more expensive with rising fuel prices. The cost of rising fuel prices on the wider economy is very clear to our Members and the wider community.

A NRMA survey conducted in 2005 found that one in four motorists in NSW and the ACT were spending less on food and other essential items because of increasing fuel prices. Almost one in three motorists surveyed were spending less on non-essential items such as CDs and books.

The survey also found 94 per cent of motorists expect high petrol prices to impact on the cost of other goods and services.

A 2006 survey found that 70 per cent of NSW and ACT small businesses surveyed believed that their profits had been reduced because of the rising cost of fuel.

The survey also found petrol prices had impacted on small business investment in:

- Hiring more staff affected (46%)
- Staff salaries (54%)
- Staff training (51%)
- Research and development (36%)
- Infrastructure, capital and assets (53%)
- Donations to community organizations and charities (48%)

30% of small businesses surveyed had passed on the additional cost of fuel on to their customers.

Another NRMA's survey of almost 1,300 motorists in NSW and the ACT in August 2008 found petrol prices (54%) were having a greater impact on the public's holiday plans than interest rates (44%).

The survey found almost two-thirds (61%) were changing their destination closer to home and 60 per cent cutting back on holiday spending.

Almost two-thirds surveyed (61%) said they would reduce their holiday spending with the majority expected to cut up to \$500 from their holiday budget. Attractions (71%), shopping (62%) and nights out (55%) were expected to be slashed from the family holiday budget.

The findings were reflected in a corresponding NRMA survey of 55 tourist destinations, which found 74% reported a drop in revenue because of rising petrol costs.

More than half (52%) said if rising petrol costs were not addressed the long-term future of their business would be jeopardised.

The destinations surveyed by the NRMA reported that:

- 50 per cent had experienced a drop in visitor numbers
- 37 per cent had experienced a drop in visitor-spending at their destination
- 43 per cent had experienced a drop in bookings

The Australian Competition and Consumer Commission (ACCC) in its *"Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries"* (July 2008) noted the influence that the cost of raw materials and other inputs into farm production, such as petrol and fertiliser, has on grocery prices. The rise in crude oil prices in the 2008 had a major impact on rising food prices.

In addition this effect also led to greater increases in grocery prices in regional areas compared with urban areas due to the cost of fuel being higher outside the urban areas due to higher petrol prices as well as the lower competition pressures for petrol in

regional areas. This has resulted in the general cost of groceries being higher in regional areas of Australia.

b. the role and activities of the Petrol Commissioner, including whether the Petrol Commissioner reduces the price of petroleum;

NRMA had long advocated for the appointment of a Petrol Commissioner and was pleased to see the position established. However, NRMA believes that the powers of the Petrol Commissioner and the ACCC need to be bolstered to ensure greater transparency in the retail fuel market.

NRMA has sought changes to the *Trade Practices Act 1974* to ensure competition and transparency in the oil industry to ensure that fuel prices for drivers are as low as possible by:

- The insertion of a definition of "understanding", for the purposes of section 45 of the Act, so that an understanding is defined to expressly include an expectation that a person creates, or knowingly allows to be created, about their future conduct, without the need for a commitment to behave in a particular way;
- Improving the ability of the ACCC to take action against creeping acquisitions, where such acquisitions may lead to a substantial lessening of competition;
- Ensuring that independent service stations have the access to the same terminals as Woolworths and Coles affiliated service stations and competitive pricing; and
- Ensuring that the commercial arrangements between Caltex and Woolworths in relation to Woolworths-affiliated service stations, and those between Shell and Coles in relation to Coles-affiliated service stations are subject to, and effectively comply with the provisions of, the *Trade Practices (Industry Codes – Oilcode) Regulations 2006* [Oilcode].

NRMA understands that the Government is moving to change the law on defining an understanding and on creeping acquisitions and believes that this should happen as a matter of urgency. Without these changes, and any other that the Petrol Commissioner considers appropriate, NRMA believes that the Petrol Commissioner and the ACCC cannot adequately ensure greater competition and transparency.

c. the operation of the domestic energy markets, and petroleum, diesel and gas markets, including the fostering of maximum competition and provision of consumer information;

NRMA believes that the fuel market in Australia must operate competitively in order to keep prices fair for motorists.

Concentration in the fuel market is of particular concern because of fuel companies' high level of control of refining, wholesaling and retailing, in the Australian fuel industry.

NRMA believes that a diversity of ownership is critical for greater competition in the retail fuel market.

NRMA is particularly concerned about the proposed acquisition by Caltex of 302 Mobil retail service station sites across Australia. In particular there is a risk of service station closures in regional areas, resulting in less competition both in terms of service and price for motorists.

Should this proposed acquisition occur, close to 50 per cent of service stations would be affiliated or under the control of one supplier. This is a significant concentration of market power.

The proposed acquisition would also mean that Caltex or Shell affiliated or controlled service stations would make up 66 per cent of the market.

It is unclear how this could benefit consumers. It may significantly lessen competition in the retail market and lead to less petrol price discounting. Having 66 per cent of the market supplied by and, affiliated to or controlled by, two oil refiners does not appear to be in the best interest of consumers.

It may also lead to a reduction (crowding out) in the number of independent service stations.

NRMA understands that the Mobil's fuel purchase card is not part of the proposed acquisition and will in fact be phased out.

The lack of a corporate fuel purchase card will significantly disadvantage those remaining Mobil branded service stations. They will most likely lose business to service stations that can accept such cards. This is likely to be a particular issue to the remaining Mobil branded service stations in regional areas.

It may also provide opportunities for Caltex to further consolidate retail business within its own network as well as the wholesale market.

Should Caltex acquire the 302 Mobil retail outlets, Caltex may have greater ability to control the current price cycles that operate predominantly in urban centres. This would increase Caltex's ability to dominate, if not control, retail petrol pricing in these areas.

- d. the impact of an emissions trading scheme on the fuel and energy industry, including but not limited to:**
- i. prices,**
 - ii. employment in the fuel and energy industries, and any related adverse impacts on regional centres reliant on these industries,**
 - iii. domestic energy supply, and**
 - iv. future investment in fuel and energy infrastructure;**

It is important to note that the private motor vehicle is responsible for only about 8 per cent of total carbon emissions across Australia.

It is unlikely that the legislation for an emissions trading scheme currently proposed by the Government will be passed in its existing form. For this reason, the NRMA does not wish to make comment on the impacts of such a scheme. However, as a minimum the NRMA expects that whatever additional price increases an emission trading scheme may create above current prices, should be neutralized by a cent-for-cent adjustment in the excise, at least for the first three years of the scheme.

Clearly the Australian motorist more than pays their share in terms of road charges. Any additional cost will feed into price inflation further increasing the cost of transport.

e. the existing set of federal and state government regulatory powers as they relate to fuel and energy products;

As well as the issues raised above, NRMA believes that State Governments can play a role in encouraging competition in the wholesale fuel sector, particularly in relation to fuel storage terminals.

An NRMA study has identified the main impediments to independent operators establishing themselves in the wholesale market are:

- lack of access to existing fuel storage terminals;
- barriers to the expansion of fuel storage terminal capacity;
- establishing a viable distribution network, to facilitate the retail function of the business;
- the difficulties that were associated with sourcing petrol from foreign markets for importation that is compliant with Australian standards; and
- the existing "buy-sell" arrangements between refiner-marketers (These are the bilateral arrangements between domestic refineries for the supply of petrol to a refiner in a region where they do not own a refinery).

State Governments could ensure that a third party access mechanism be included as a condition of granting any new lease agreement for fuel terminal storage capacity. This access mechanism would only apply to the spare capacity that is currently available and any additional capacity expansions.

Such a condition would require leaseholders to negotiate in good faith and allow for an expansion of capacity at the expense of the access seeker.

It could also allow for future wholesale competition should a new entrant wish to enter the wholesale importation, wholesale and storage market.

State Governments could also investigate introducing amendments that prohibit any company from removing, destroying or altering the purpose for storing fuels on any terminal or depot without ministerial approval. In addition it could also be applied to any unused or surplus fuel storage capacity, as a means to enhancing competition in the wholesale fuel sector.

There are a number of wharf side storage facilities around Australia and at inland depots that are progressively being removed and or destroyed or altering the purpose and use of the storage facility. Such action can concentrate market power in favour of an individual company or group of companies, whereas such storage may be used by an independent, which would enhance competitive elements.

An example of this is the Port Stanvac (Adelaide) Mobil facility which has extensive wharf side storage which is linked by pipeline to a number of refiner marketer terminals in Adelaide. Mobil have refused to negotiate the sale of the storage to independents and plan to remove the facility and thus protect their supply by ship to the other refiner marketers in South Australia.

The protection of wharf side terminals and some inland depots should be regarded by governments as being essential for both national security and energy security reasons.

- f. **taxation arrangements on fuel and energy products including:**
 - i. **Commonwealth excise,**
 - ii. **the goods and services tax, and**
 - iii. **new state and federal taxes;**

NRMA supports the Australian Automobile Association's submission to the Henry Review of taxation in Australia.

A copy of the report is attached for the Committee's information. However NRMA has often noted that for every 38 cents collected by the Australian Government, motorists only see about 11 cents returned back to the road network.

- g. **the role of alternative sources of energy to coal and alternative fuels to petroleum and diesel, including but not limited to: LPG, LNG, CNG, gas to liquids, coal to liquids, electricity and bio-fuels such as, but not limited to, ethanol;**

Last year, NRMA Motoring and Services released the Jamison Group Report: *A Roadmap for Alternative Fuels in Australia: Ending our Dependence on Oil.*

The Jamison Group was established by the NRMA following the company's Alternative Fuel Summit in 2006 and comprises eminent scholars in the fields of energy and transport including David Lamb, Mark Diesendorf, John Mathews and Graeme Pearman. A copy of the report is attached for the Committee's consideration.

In the past four years Australia's dependence on foreign oil has grown by 30 per cent and if nothing is done, the nation could have an oil trade deficit of \$25 billion by 2015, causing enormous inflationary pressures on the economy and further damage to the environment.

The report provides a 12-step road map to reduce Australia's oil dependence. The first step calls on the Australian Government to set a target of reducing oil dependence by 20 per cent by 2020; 30 per cent by 2030 and 50 per cent by 2050.

The Jamison Report recommends that the Australian Government do all it can to fast-track the development of the electric car in Australia, charged by renewable energy sources such as wind or solar.

The report suggests that a socially and environmentally sustainable biofuels industry is possible in Australia, and that the Australian Government should play its part in the development of the industry through the use of mandatory targets for alternative fuels.

It also calls on the Australian Government to wind back subsidies for fossil fuel industries and replace them with tax incentives for alternative fuels and energy.

An important point made throughout the report is that the recommendations made by the Jamison Group have already been implemented in other jurisdictions around the world. NRMA believes that Australia needs an alternative fuels plan with a target of reducing oil dependence by 50 per cent by 2050.

As a first step, NRMA believes that the Australian Government should establish an industry advisory panel on alternative fuels. This will advise on public policy enhancements leading to the increased production and use of alternative fuels in Australia. The advisory panel could work closely with Renewables Australia.

The advisory panel could, for example, advise the Government on how best to manage the expansion of a biofuels industry in Australia.

Biofuels are currently the most commercially advanced alternatives to petrol and LPG.

Other alternative fuels are talked about but, apart from CNG (compressed natural gas) used for bus transportation in Canberra, these have no retail infrastructure as yet.

The proposed industry advisory panel could work to:

- determine how the biofuels industry can contribute to and support public policy development on biofuels;
- advise the Government on economic and social issues associated with the increased use of biofuels;
- advise Government on Australia's biofuel requirements, distribution and marketing;
- advise Government on research and development issues;
- identify technologies required to meet these requirements; and
- advise on appropriate tax regimes and other incentives to help meet these requirements.

An industry advisory panel on alternative fuels would be a clear demonstration of commitment to the development of a comprehensive alternative fuels plan for Australia. It would allow Australia to take the lead in research and development of alternative fuels including second generation biofuels.

- h. domestic energy supply and the domestic oil/gas exploration and refinement industry, with particular reference to:**
 - i. the impact of Commonwealth, state and local government regulations on these industries,**

- ii. **increasing domestic oil/gas exploration and refinement activities, with a view to reducing Australia's reliance on imported oil,**
- iii. **other tax incentives, and**
- iv. **securing Australia's future domestic energy supply;**

Insofar as NRMA has a position on these matters, they are covered in the Jamison Report referred to above.

- i. **the impact of higher petroleum, diesel and gas prices on public transport systems, including the adequacy of public transport infrastructure and record of public transport investment by state governments;**

NRMA believes that there has been significant underinvestment in public transport in New South Wales for decades.

Public transport services have failed to keep pace with population growth and the geographical expansion of Sydney. As a result some high growth areas of the city, such as the north west and south west suburbs are critically underserved by public transport. Residents in such areas are forced to rely on their cars to get around and pay expensive tolls to use motorways. High petrol prices a 'double hit' to these residents. In addition, issues referred to above about the cost of fuel impact the cost of public transport.

- j. **any related matters.**

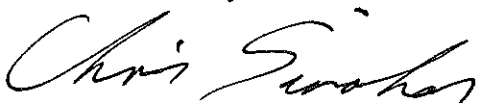
There is no doubt that the price of fuel will increase substantially in the future. As oil becomes scarcer and more difficult to extract its cost will increase. The inflationary impact on our economy will be significant.

As the price of fuel rises so will the calls for greater oversight and regulation of the oil industry. This is how this issue has played out over the last twenty years or so; without much progress but a great deal of public anger and disenchantment. While some increased oversight and regulation may be necessary, NRMA Motoring and Services believes that the key to keeping fuel costs low is to reduce Australia's oil dependence by increasing the use of alternative fuels.

All levels of government must work with the community to reduce Australia's oil dependence by 50 per cent by 2050. The Jamison Report referred to above provides the basis for achieving this.

Should you or the Committee require further information please contact me on 02 9276 7245 or chris.siorokos@mynrma.com.au.

Yours sincerely



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