



**Royal Automobile Association
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27 July 2007

Petrol Price Inquiry
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Samuel

RE: Inquiry into the Price of Unleaded Petrol

I am pleased to enclose the Royal Automobile Association of SA Inc (RAA)'s submission to the ACCC's Inquiry into the Price of Unleaded Petrol.

The RAA is the peak non-government body representing road users in South Australia. The Association has a membership of more than 560,000 SA motorists who look to the RAA to represent their interests to government and industry on motoring-related issues.

The RAA fully supports the recommendations made by the Australian Automobile Association (AAA) in its submission to this Inquiry, but provides this submission having looked at the petroleum industry from a South Australian perspective.

Australian petrol prices have risen dramatically, significantly faster in fact, than any other consumer item in the past 18 months. While the Consumer Price Index (CPI) has risen 13.9% in the five years to March 2007, the index for automotive fuel has increased by a staggering 43% over the same period, leading to record prices for fuel across Australia.

While the Australian economy has been highly resilient over recent years, record high petrol prices have been a bitter pill for motorists, especially in light of announcements of record profits by oil companies, including most recently Caltex. Numerous surveys of motorists conducted by the RAA over the years have demonstrated that the price of petrol is a highly sensitive issue.

The RAA looks forward to working with the ACCC in the coming months on this critically important issue and in the mean time if you require further information, please contact Matthew Hanton, Senior Analyst Public Affairs, on (08) 8202 4542.

Yours sincerely

SHARON HANLON
General Manager Public Affairs



Submission

to

**ACCC INQUIRY INTO THE PRICE
OF UNLEADED PETROL**

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1. About the RAA

The Royal Automobile Association of SA Inc (RAA) is the State's peak non-government body representing motorists. Our 560,000-plus members – 27 per cent of whom reside in regional SA, look to the RAA to represent their interests on a broad range of motoring-related issues, in particular fuel.

The RAA provides a comprehensive fuel advisory and information service to RAA Members, the general public, media, stakeholders, industry groups, private companies and government agencies. This is supported by a comprehensive website, which provides detailed information on all matters relating to fuel, including:

- The cheapest Adelaide fuel locations (updated daily in the morning and afternoon)
- Daily, weekly, monthly and yearly petrol, diesel and LPG price data
- Industry background, pricing and taxation fact sheets and FAQ responses
- Detailed fuel supply and demand analysis
- Current issues and breaking news
- Links to relevant industry sites and sources; and
- A direct question function.

As part of the Association's fuel monitoring role, the RAA collects and analyses the following fuel information:

- Daily crude oil price in US dollars
- Daily Australian exchange rate
- Adelaide average daily ULP, Diesel and LPG price
- Daily Terminal Gate Prices (TGP) - ULP and Diesel
- Refining reference price for ULP, PULP and Diesel
- Daily Singapore parity price (MOGAS) in Australian dollars for ULP and Diesel
- National monthly average for each fuel type (ULP, PULP, Diesel and LPG)
- Monthly average ULP price for 10 regional South Australian towns

Through analysis and data manipulation, the RAA provides fuel related information to its members, the general public, media, other motoring clubs around Australia and the world, industry stakeholders and the private sector. Somewhat disappointingly, even government agencies approach the RAA for current and historical data, including the Federal. Department of Parliamentary Services, Australian Tax Office, State Treasury and local government.

On average, the RAA fuel website attracts around 200 daily hits while the Public Affairs department would field approximately ten phone calls per day from RAA members and the general public on fuel-related issues. During peak periods (for example the lead up to the June long weekend when higher than expected petrol prices were experienced), the Public Affairs department would take one telephone call every 10 minutes and receive 10-15 media and stakeholder enquiries per day.

While the RAA does not necessarily possess the specific expertise or resources required to unravel the often-complex petrol retail market, it sees this Inquiry as the opportunity to improve the knowledge and understanding of consumers through the release of greater information on a consistent basis.

2. The current situation

With petrol considered a consumer good, upon which all Australian's rely on either directly or indirectly, State and Federal governments must do more to ensure petrol prices remain aligned to the movements of the international benchmark price for refined petrol (ie Singapore Mogas 95 Unleaded) as refiners claim is the case¹.

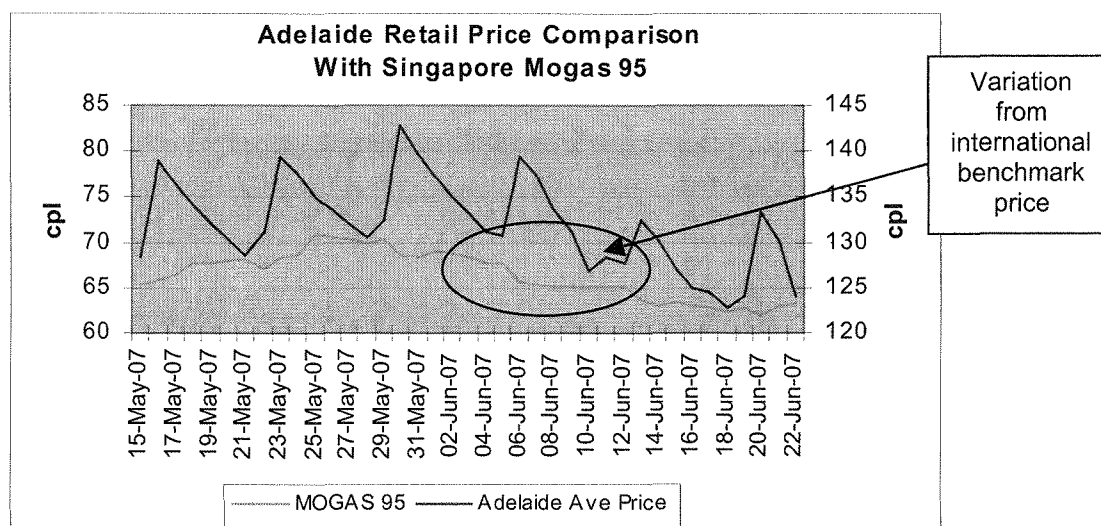
Results of the latest RAA opinion polling supports this call with the community believing both State and Federal governments have not taken appropriate action (to either investigate or prosecute) to ensure the price of petrol remains closely aligned to the movements of the international benchmark, and must do more².

While the ACCC's most recent comment in June 2007 when petrol prices failed to fall in line with international prices was welcomed, the RAA believes the ACCC should have greater powers to go beyond 'naming and shaming' those sections of the industry that choose to stray from the pricing mechanism they proclaim operates.

While these variations, as illustrated in Figure 1, often last for only a short period of time, they do have an impact on motorists at the time of purchase and translate to large increases in revenue when taken across the large volumes of petrol sold throughout Australia.

It is also the increasing frequency of these variations, which place an even greater strain on motorists who now spend more of their income on petrol than they did five years ago as increasing fuel costs continue to outstrip wage increases, which is of concern³.

Figure 1 – Variation from international benchmark price



In fairness to the industry, it must also be noted that although there have been recent periods during which local prices have failed to follow the international benchmark down, prices in the main have adequately reflected the benchmark. And when coupled by periods of heavy and extended discounting, as was the case in Adelaide during April 2007, prices can be driven below the price benchmark, as illustrated in Figure 2.

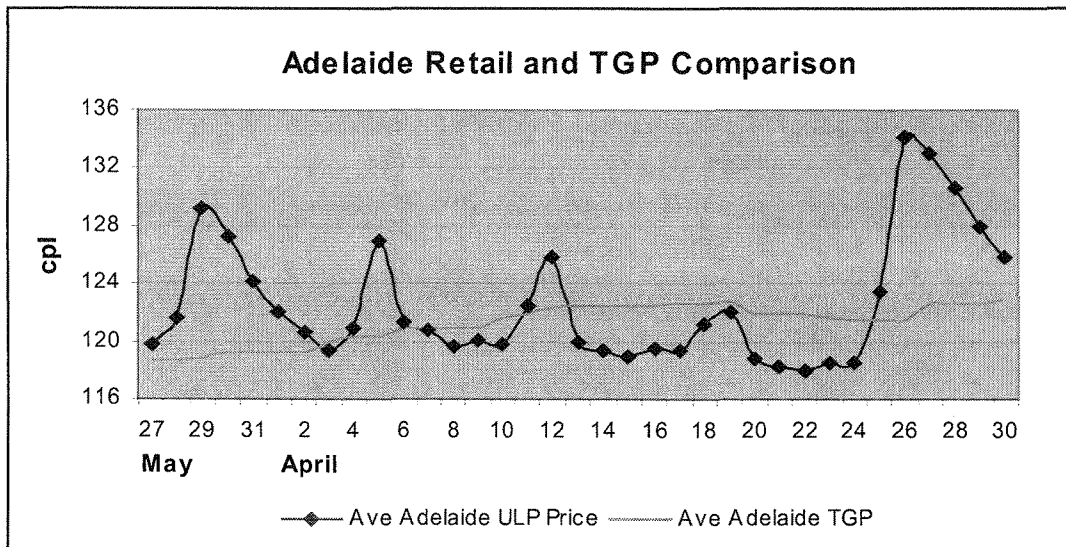
¹ AIP – Information paper 'FACTS ABOUT PETROL PRICES'

(<http://www.aip.com.au/pricing/pdf/Facts%20About%20Petrol%20Prices.pdf>)

² 2007 ANOP survey results – Governments should increase scrutiny on oil companies.

³ ABS figures show average full time weekly earnings rose by 24.7 per cent in the 5 years to March 2007, over that period automotive fuel prices rose 43.4% (ABS 6401; ABS 6302)

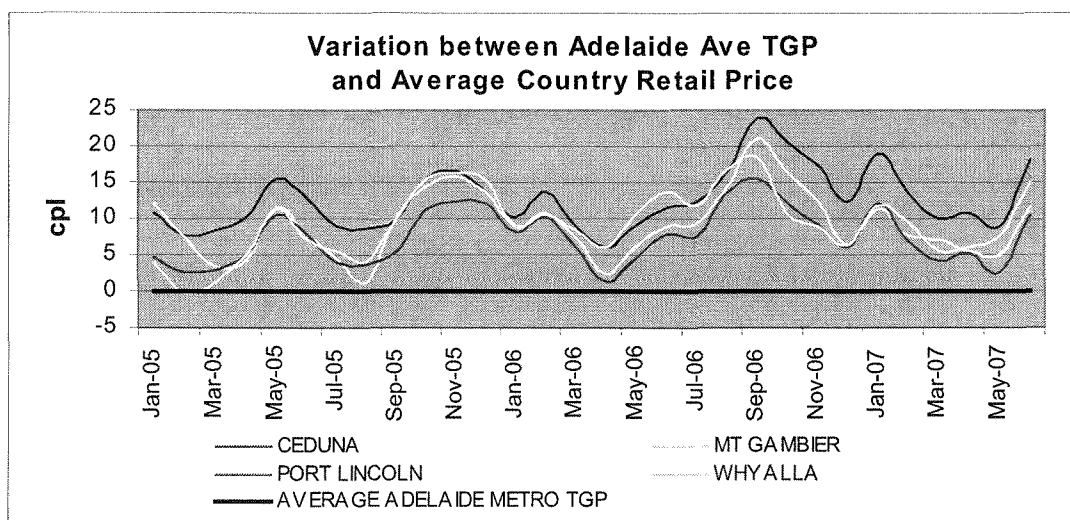
Figure 2 – Adelaide’s Weekly Price Cycle, April 2007



Based on the results of extensive member surveys (Australian National Opinion Polling) record petrol prices have placed significant additional pressure on household budgets. These pressures have been exacerbated in many regional South Australian towns with the differential between city and country prices having increased significantly in some regions since September 2005, (see Figure 3)⁴.

The RAA released figures in late 2005 and again in July 2006 that demonstrated that the gap between city and country petrol prices had reached (and in many cases maintained) record margins during these periods, and through the AAA, raised the issue with the ACCC. The issue of increased country petrol prices is something the RAA also recently raised in its submission to the Senate Inquiry into Future Oil Supply and Alternative Transport Fuels.

Figure 3 – Variation between Adelaide TGP and Country Retail Prices



⁴ Fuel prices supplied by FUELtrac



Submission: The ACCC Petrol Price Inquiry

While the RAA accepts that reduced competition and greater distance from Adelaide will deliver price differences across South Australia, there is no justification for average country petrol margins to change significantly, particularly in the short term, when international petrol prices remain stable.

Recent survey results also show that the motor vehicle continues to be an integral part of most South Australians' lives with motorists extremely concerned about the rising cost of petrol⁵. Most motorists however are reluctant to forgo driving as a result of higher petrol prices, but instead spend less money on other essential and discretionary items. It is because of this that a competitive petroleum industry must exist throughout Australia with those within the industry operating in a transparent manner.

In addition, the RAA also believes there is a lack of openness and transparency regarding South Australian fuel supply capacity. Several events that have occurred in the last 2 years that have highlighted shortfalls in maintaining South Australia's fuel supply continuity, which leads the RAA to call for better monitoring or structural adjustment to storage levels.

Currently, three facilities operate at Birkenhead M Berth at Port Adelaide, that supply fuel to South Australian motorists, holding some 158ML of fuel – petrol, diesel and jet fuel. While small amounts of fuel are trucked into the South East of SA, the majority of fuel is shipped in and it is the RAA's understanding that Birkenhead M Berth receives 7 tankers per month (compared to 1 per month before Port Stanvac was decommissioned). Minor storage facilities are also located at Port Lincoln and Mt Gambier, holding around 7ML and 2.5ML of petroleum product respectively, and are operated by private companies to meet their own fuel requirements. Unlike other states, there is no fuel storage capacity in SA operated by independent retailers.

The RAA believes that the Birkenhead fuel storage facility has the ability to meet the fuel requirements of SA, but at present the facility is not being used to its maximum workable capacity, with fuels generally being stocked on a 5-10 day supply basis (refer Table 1).

Table 1 – RAA Understanding of SA's Fuel Storage

SA Fuel Storage Capacity				
	Birkenhead M Berth (Pt Adelaide)			Port Stanvac
	Petrol	Diesel	Jet Fuel	Finished product
Fuel Storage Capacity	86.7ML	55.4ML	16ML	120ML
Av. SA daily fuel demand	4.1ML	3.0ML	0.5ML	N/A
Max. days storage by oil co.	10.6 – 19.6 days	9.8 – 21 days	17.5 – 25.6 days	15 – 30 days
Min. targeted storage policy by oil co.	3-5 days	3-5 days	3-5 days	N/A
Max. vessel handling capacity	40,000 dead weight tonne (DWT)			250,000 DWT

Given recent incidents over the last 2 years and Australia's requirement as a member of the International Energy Agency (IEA) to maintain 90 days of reserve fuel at any one time (Australia wide). The RAA notes that South Australia could barely operate for more than 10 days without a fuel delivery.

Accordingly, the RAA believes the operators of the Birkenhead facilities must operate in the best interest of the State, by maintaining a minimum level of fuel in storage at any one time. Further, the facility should also be better monitored by government agencies to reduce the occurrence of supply shortages.

⁵ 2007 ANOP survey - 91% rate their car as important, with 65% rating it as extremely important



3. What the RAA believes

The RAA fully supports the recommendations made by the Australian Automobile Association (AAA) in its submission to this Inquiry, but provides this submission having looked at the petroleum industry from a South Australian perspective.

The RAA believes that market forces should dictate the price of petroleum-based products reflecting their cost of production, the cost of supplying products to different markets, and the degree of competition that exists in those markets. A free and open competitive market for petroleum products best serves the interests of consumers.

However, the RAA also calls for the Federal and State governments – through government agencies – to monitor the industry and relevant markets independently to ensure that the government concerned has the information upon which to formulate effective policy. This includes more effective and timely monitoring and communication of fuel price, volume and storage information; greater inclusion and consultation with the RAA and national autoclubs in policy and legislative decision-making processes in regard to fuel; and a streamlined and responsive complaints investigation and resolution processes.

In addition, the RAA advocates the following:

- The recommendation of the 2001 ACCC Inquiry 'Reducing Fuel Price Variability' against legislating to eliminate or reduce price cycles, given these price cycles enable consumers to buy fuel at lower prices overall
- A transparent Terminal Gate Pricing system for all fuels
- Government must monitor and effectively investigate metropolitan and country retail and wholesale fuel prices in order to address unjustifiable and excessive differences, eliminate market deficiencies, and ensure all fuel price subsidies are passed on to end consumers
- Governments must ensure adequate supply of fuel to meet the needs of South Australian motorists; and

The RAA is concerned by the burden that higher rural fuel prices place on motorists, however, retail price capping is not supported as it may act to restrict competition and result in even higher prices.



4. Where to from here

In recent years, the ACCC has published very little of its petrol price monitoring information.

Apart from providing data on petrol price cycles in only five cities on its website and general information on the petrol price discount cycles, no new reports on petrol price monitoring have been generated by the ACCC since December 2002.

The RAA believes that:

- In the interests of ensuring efficient market operation, the ACCC should regularly report on the movements of fuel industry prices, costs and profits in all capital cities and regional areas and publish this information on its website.
- The ACCC current powers to effectively investigate issues surrounding limited wholesale competition and to rectify adverse price effects appear to be limited under existing provisions of the Trade Practices Act. Therefore, the government must ensure that the ACCC has adequate power under the Trade Practices Act to investigate and take appropriate action
- While the ACCC reported on supermarket petrol discount vouchers in February 2004, since this time, significant market share has been gained by Coles and Woolworths (through their affiliation with Shell and Caltex). The ACCC must reinvestigate the impact such schemes are having on the industry and their impact on competition in the long term.
- With motorists now spending more of their income on petrol than they were five years ago as increasing fuel costs continue to outstrip wage increase, States and Federal Governments must acknowledge that higher petrol prices are not simply a function of higher oil prices and development a range of alternative fuels such as LPG, CNG and biofuels as a means of reducing dependence on fossil fuels.