Motoring DIRECTIONS

Our petrol industry, like almost everything else, is undergoing change.

The industry has a complex regulatory framework covering pricing, distribution and retailing arrangements. These have been brought on by the need for more open competition and pressure from motorists to understand the vagaries of petrol pricing.

Petrol has become an easy target for governments as a tax source and the commitment to tax reform by the current Federal Government provides another trigger for a change in petrol pricing.

Environmental concerns and new technologies in engine development are also putting pressure on the industry for change.

The Triple A, together with the Australian Institute of Petroleum, co-hosted a conference in April to examine the challenges and opportunities these changes provide. The key addresses of interest to *Motoring DIRECTIONS* readers are published in edited form in this issue.

With some 20 speakers and panellists, the conference covered a wide range of issues, although a re-occurring theme was the need for deregulation of the industry. Having agreed that this is in the best interests of business and consumers alike, the slow pace of progress in implementing the reforms is all the more frustrating.

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Executive Director

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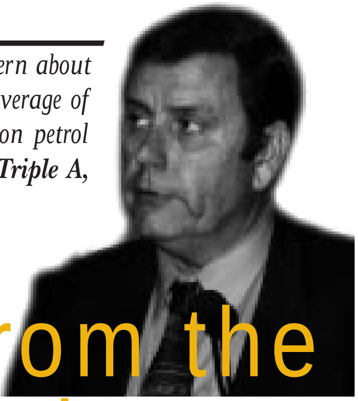
'Motorists consider the car to be an integral part of their day-to-day lifestyle and often express concern about the increasing costs of motoring, particularly variations in the price of petrol. Motorists use an average of 2,000 litres of petrol a year, which costs them around $1,400 or $25 a week. This spending on petrol accounts for more than one-quarter of vehicle running expenses' - ***the Executive Director of the Triple A, Lauchlan McIntosh, in outlining:***



Petrol Policy Issues from the Motorists' Perspective

Collectively, Australian motorists and other road users consumed almost 18 billion litres of petrol in 1997. The Australian Institute of Petroleum forecasts that in 1998 18.5 billion litres of petrol will be consumed and by the year 2005 consumption will be almost 20 billion litres (see graph below).

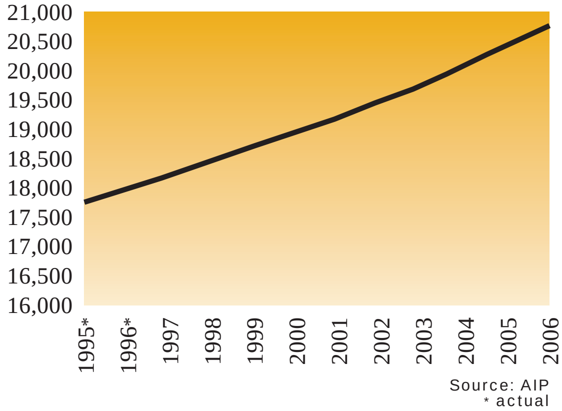
Demand for petrol is derived in large measure from the demand for transport. Demand for petrol used in the transport sector is determined by a number of factors including the level of gross domestic product, population size and vehicle ownership. Continuing improvements in the national average fuel consumption of new vehicles may, however, offset this increased demand for petrol to a certain degree.

Vehicle penetration

The rate of increase in motor vehicle penetration is also an indicator of economic conditions. A slowing of the rate of increase in motor vehicle penetration generally reflects tighter economic conditions, resulting in reduced demand for transport services and hence reduced demand for petrol.

Motor vehicle penetration has remained relatively steady in Australia over the last decade and has not impacted significantly on demand for petrol. Vehicle ownership in Australia is near saturation. In 1995 passenger vehicle ownership per head was 0.46. By the year 2015 it is forecast to increase only slightly to 0.5 or one vehicle for every two people.

Total Petrol Sales (all grades) 1995-2007



As the increase in car ownership rates slows and vehicle fuel efficiency continues to improve, demand for petrol as a percentage of land transport fuel demand (petrol, LPG and diesel) is anticipated to decline from 57 per cent in 1996 to 53 per cent in 2006, while demand for automotive diesel is expected to increase from 38 per cent to 40 per cent over the same period.

Automotive LPG, with a stronger growth rate of 6.2 per cent a year compared to 1.5 per cent for petrol and 2.8 per cent for automotive diesel, is expected to increase from five per cent of land transport fuel sales in 1996 to seven per cent of sales in 2006 (see graph next page).

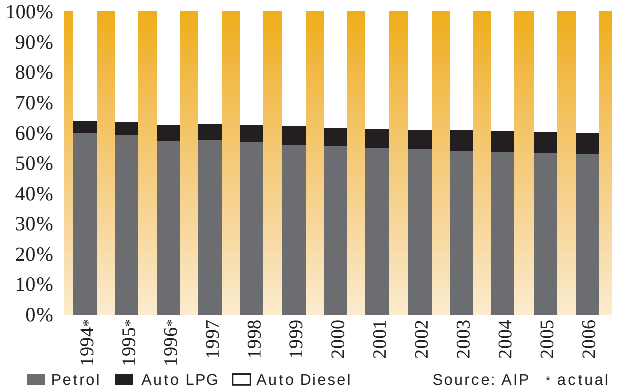
Vehicles have become more fuel efficient over the last two decades. Improved aerodynamic efficiency, the incorporation of weight saving materials, the adoption of high technology by vehicle manufacturers to produce fuel efficient engines, the growing popularity of smaller, lighter cars as well as consumer demand and government pressure to increase efficiency have all led to reduced fuel consumption. In 1978 national average fuel consumption was 11.5 litres per 100km. Today it is 8.6 L/100 km, but has basically levelled out.

We expect the local industry to make a commitment to accelerate the rate of improvement in environmental performance, while the increasing share of the domestic market being taken by smaller imported vehicles with low fuel consumption will also bring about further improvements.

Some cars of the future are going to use less and less petrol. Hybrids, fuel cells and computers could all come together to create 'super cars' in the early part of the next century. However, it is difficult to predict when these technologies will have an impact and to forecast the improvements in fuel consumption that will actually be realised and hence the effect on demand for petrol.

Most of the technology is already available to produce cars that could be three times as efficient as they are

Demand for Land Transport Fuels



today as well as more reliable. The real question is whether or not such vehicles are desirable to consumers.

Efforts in the USA to improve fuel efficiency have been derailed by the popularity of four-wheel-drive vehicles. We have yet to see if the same will be true in other countries, although the indications are that Australia is following America's lead.

Petrol price components

According to the producers, the final retail petrol price to the consumer in any particular area is a combination of many factors including the price of crude oil, the exchange rate, the maximum endorsed wholesale price, manufacturing and distribution or freight costs, retailer costs, fuel taxes and the local market conditions such as sales volumes, the number of retail sites and how many of those are independents.

In areas of intense competition such as Sydney, Melbourne and other capital cities, sales volumes are large and therefore retail margins are lower than in other areas. Other factors include reward and loyalty programs and various discount/incentive programs.

Over recent months we have seen a significant decrease in the world price of oil from about $US 21.55 per barrel in November 1997 to a low of about $US 13.85 in March 1998. For every $US 1.00 per barrel decrease in the world price of oil the average price of petrol in Australia should fall by about 0.8 cents per litre.

However, this has not been the case in several Australian cities. Reductions in the price of oil are not being passed on to motorists. In Darwin the price of petrol has remained steady at about 80 cpl for the last four months even though the price of oil has fallen by one-third.

It is also interesting to note that while the excise component of the petrol price remains constant at around 130 per cent of the pre-tax retail price of 42.7 cents for unleaded and 44.9 cents for leaded, the producer and retailer component can vary by as much as 10 cpl in a single day across outlets. That is 10 cents on a margin of around 30 cents.

Motorists are generally uncertain where the money they pay at the petrol pump goes. They have little knowledge of fuel taxes and express concern that motorists in the country pay more for petrol than their city counterparts.

A national study of motorists' priorities and attitudes undertaken by ANOP for the Triple A in 1995 revealed that about half of motorists underestimate the federal tax on petrol while six in ten overestimate the proportion of federal petrol tax spent on roads.

The overwhelming majority of motorists are aware that petrol prices are higher in the country than in the city, with six in ten expressing concern about this. More than half of those who live in provincial or rural locations are extremely concerned about this issue and eight in ten are extremely, very or fairly concerned.

The differential between city and country petrol prices is a highly political and sensitive issue, and it is because of the concern expressed by motorists about this and the importance of petrol prices in general that all the motoring clubs monitor petrol prices in the city and country on a regular basis. The motoring clubs publish petrol prices in various media including their own magazines and in more recent times on the internet.

The Triple A is planning to trial a comprehensive, nation-wide country petrol price monitoring scheme in the near future. This scheme is in addition to the monitoring activities already undertaken by its member clubs and is intended to deliver greater price transparency to motorists while also measuring the impact of deregulation on petrol prices, when the Federal Government finally fulfils its promise in this area.

Oil company margins

For a long time motorists were unable to get information about the margins charged by oil companies and their distributors and retailers. In an effort to demystify the market, several major oil companies have attempted to provide consumers with detailed

A variety of factors influence the final retail petrol price paid by the consumer, including reward, loyalty, discount and incentive programs information on the cost factors that make up the price of petrol.

Some motoring clubs have also provided the data and in some cases a collective approach has been taken. The RACV-Shell *Petrol Gauge* is an example. It features pricing information from the Melbourne metropolitan area and a selection of different regions each month.

There is a Mobil document *Demystifying the Myth*. Caltex and Ampol publish information regularly and BP has a publication *Petrol Prices - Some Answers to your Questions*. I must say the caveats attached to these documents demonstrate the huge complexity of the process.

Motorists believe they are being exploited when they see petrol prices are higher in their area than elsewhere. There continues to be debate about what should be done to address these concerns.

The Triple A and its member clubs have for some time been advocating a change to Australia's petrol pricing policy and are committing resources to persuade all political parties to change the existing petrol pricing system, which in our opinion is not fair and, most importantly, not understandable or open to scrutiny in country areas.

It is important to note that we are not arguing for equality between city and country prices, rather that city motorists should not subsidise country consumers and vice versa. The view of the Triple A is that the current regulatory framework is not working as it fails to deliver efficient and equitable petrol prices to motorists.

> *'While there are valid reasons for disparity between city and country petrol prices, and for prices to differ between city outlets on the same day... from the consumers' perspective there often appears to be no logic to the prices on offer.'*

Pricing 'lacks logic'

While there are valid reasons for disparity between city and country petrol prices, and for prices to differ between city outlets on the same day, too, the differences are often so large that they do not appear to be due solely to factors such as freight costs, the degree of competition, the need to obtain a reasonable return on investment, the costs of operating the site and the location of the site or the population of the area it serves. From the consumers' perspective there often appears to be no logic to the prices on offer.

When preparing for this address on the Thursday before Easter, I checked the prices at some petrol stations in an area adjacent to the centre of Canberra. I followed up after Easter and - surprise, surprise - the price had fallen. I also checked the smaller local outlets, less than one kilometre from the cheapest sites. A difference of 10 cents a litre is difficult to explain. For the average motorist this equates to about $3.00 a week. It is no wonder consumers are puzzled about petrol prices when they believe there is regulation.

It is virtually impossible to explain the regulatory complexities of the industry to Australian motorists. We believe that motorists will be best served by moving to a new petrol pricing system that is open, transparent and understandable, where competition is the mechanism for price setting at the various stages, not regulation. The prices may well still vary. The system must also ensure the continued presence of independent distributors and service station operators.

Price monitoring required

The Triple A supports deregulation of the industry subject to certain safeguards being met so that consumer interests are satisfied and that the anticipated benefits from deregulation are realised. One important safeguard which must be instituted when the industry is deregulated is a system of formal price monitoring. The Triple A and its member clubs continue to talk with the Australian Competition and Consumer Commission (ACCC) and the oil companies to develop this monitoring.

The RACV, Victorian Farmers' Federation and Victorian Automobile Chamber of Commerce prepared a petrol price policy some time ago which would deliver fairer and understandable petrol prices to consumers. The policy has subsequently been endorsed by thousands of Victorians at a series of regional public meetings sponsored by the RACV, as well as by the motoring clubs of Australia.

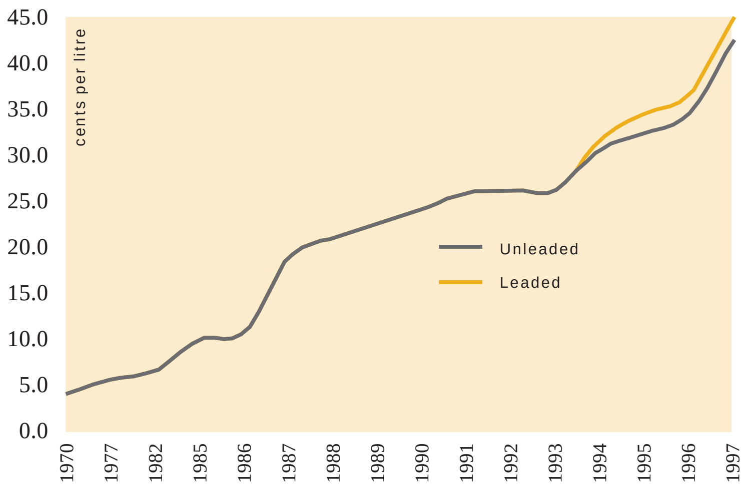
The main thrust of the policy is to open up the system and introduce competition by requiring the industry to set its own wholesale price. Wholesale prices for all classes of customer should be made public on a daily basis to any potential customer at the terminal.

The entire delivery chain should be monitored by the ACCC to ensure that all costs from the wholesale price to the pump are itemised and open to scrutiny, and that charges are appropriate and cost savings are passed on to motorists. The ACCC will require adequate resources to do this.

In responding to the ACCC's *Petroleum Products Declaration* report in December 1996 the Government announced a number of reforms aimed at injecting greater competition into the petroleum industry and lowering petrol prices. These included deregulation of price setting, open access to oil terminals, greater monitoring of petrol prices and the establishment of a code of fair business practice for the oil industry.

Over a year later it is clear the Government is dilly-dallying over petroleum industry deregulation. The *Laidly Agreement* has been removed and we look forward to total open access upon deregulation, but while there appears to be agreement between government and the oil companies on the deregulation package, the Government seems reluctant to proceed. The delays in achieving this promised deregulation are as difficult to interpret as the variation in petrol prices. We have to ask, "does the Government or the ACCC really support deregulation?"

Leaded and Unleaded Petrol Excise Rates



History of petrol taxes

Pertinent to any discussion on petrol prices is taxation. The Federal Government has been taxing petrol since 1902 when it imposed a revenue tariff as all petrol was imported at that time. Once refineries were built in Australia excise could also be levied on petrol and this was introduced in 1929.

Apart from increases to raise revenue, no major changes to excise rates occurred until 1982 when the Government introduced the *Australian Bicentennial Road Development* program which it funded by a hypothecated surcharge on petrol excise.

In the 1983 Budget, the Federal Government indexed the rate of petrol excise to inflation. Indexation adjustments continue to occur twice-yearly, although with low inflation over recent years there has been no adjustment since February 1997. However, this Government, as did the last, has allowed indexation to continue.

In 1994, a 2.0 cpl surcharge was imposed on leaded petrol to encourage motorists to use unleaded petrol where possible. The widening gap between the excise rates for leaded and unleaded petrol (see above graph) means that indexation has the greatest impact on the least well off in the community, who are forced to drive older cars.

A regressive tax

The Triple A is also concerned that the tax on petrol is regressive. Households with a disposable income in the lowest quintile pay almost four per cent of their income in petrol tax while those in the highest quintile pay only 1.5 per cent (see table next page).

Increases in the excise due to indexation are often only small but the cumulative effect is enormous. Since the introduction of indexation the petrol excise has risen from 7.0 cpl to a current rate of almost 43.0 cpl on unleaded petrol and 45.0 cpl on leaded petrol, which includes an additional 8.1 cpl collected on behalf of the states and territories as a replacement for the now defunct state business franchise fee on petrol. This represents a tax of around 130 percent on the pre-tax retail price of unleaded petrol and does not include the resource tax paid by producers.

It is illogical for the Government to continue increasing the cost of petrol when it is proposing deregulation of the industry. It is convenient for the Government to tell us that there are no current increases in the excise as inflation is low. We would rather see them actually legislate to remove the indexation.

Tax yields $6 billion

The excise on leaded and unleaded petrol generated more than $6 billion in revenue from road users for the Federal Government in 1996-97, accounting for over 20 per cent of total Commonwealth indirect tax revenue. Broadening of the tax base is essential if the Government's increasing dependence on motorists as a source of general revenue is to be reduced.

Within the Government's current tax reform agenda we strongly believe that the current petrol tax regime should be replaced by a general tax on petrol, commensurate with the rate applying to other products, plus a road user charge to fund construction, maintenance and other costs related to road use.

The charge should be paid directly to corporatised road providers. It should reflect the costs of road use and generate enough revenue to fund the federal and state road programs and a portion of local government expenditure on roads. This would establish a direct relationship between road users and corporatised road providers like other infrastructure services. This must be the key reform.

Around the world more than 520 million vehicles run on petrol or diesel fuel, which means that around 97 per cent of the energy consumed by transportation globally is

Petrol Taxes as Percentage of Disposable Income for Households 1993-94

Gross Income Quintile	
Lowest 20%	3.93%
Second quintile	2.73%
Third quintile	2.44%
Fourth quintile	2.05%
Highest quintile	1.49%
All households	2.06%

derived from oil. This reliance has only declined marginally over the last decade largely due to the increasing influence of gaseous fuels in general and LPG in particular.

Stemming from this reliance on oil are concerns about urban air pollution, greenhouse gas emissions and the future exhaustion of non renewable energy sources. The Triple A recognises the responsibility of all users of motorised transport to contribute to reducing CO_2 emissions and supports a range of cost-effective and equitable policy measures that can help to reduce and stabilise greenhouse gas concentrations.

The development by the Federal Government of an environmental strategy for the automotive industry, which will include corporate fuel efficiency targets, model specific labelling and a move to internationally harmonised vehicle emission standards, is supported. The Triple A has offered its assistance in developing the joint industry/government *Code of Environmental Performance* and will be particularly involved in discussions on designing fuel consumption targets.

An effective strategy to reduce CO_2 emissions from cars must promote fuel efficiency and reduced car dependency as appropriate. This will require a mix of policies to encourage new vehicles and fuel technologies that reduce energy consumption.

Such improvements in fuel consumption must be made compatible with other important policy goals, specifically higher levels of safety performance (no diminution in crash-worthiness) and reduced noxious emissions, while remaining affordable. It must be remembered that motorists do not have time for discretionary travel. Average vehicle kilometres travelled have in fact shown a decrease.

The achievement of substantial improvements in fuel efficiency and thereby reductions in CO_2 emissions from the motorised transport sector ultimately depend on a new generation of ultra-clean, ultra-safe and ultra-fuel efficient vehicles and also on significant improvements being made to current generation fossil-fuel vehicles.

Improved co-ordination of the automotive research and development efforts of both industry and governments with active consumer involvement world-wide is needed. Fuel efficiency gains can be derived from engine technologies, lightweight materials, vehicle design and aerodynamics, transmission systems, advanced electronics, vehicle telematics and alternative fuel systems.

Technologies that are already available or could be introduced soon into the vehicle fleet include on-board diagnostics, integrated powertrains, intelligent cruise control, route guidance and navigation systems which can help ease congestion and promote more fuel efficient driving, and alternative fuels and propulsion systems that offer the prospect of cleaner and more fuel efficient motorised transport. These intelligent transport systems (ITS) are being implemented in Australia, but a more comprehensive approach is needed.

A critical factor in the introduction of any of these technologies is their affordability and attractiveness to the consumer. The Triple A believes that a scheme of fiscal incentives should be introduced to encourage new ultra-fuel efficient, ultra-clean and ultra-safe vehicles to replace older models.

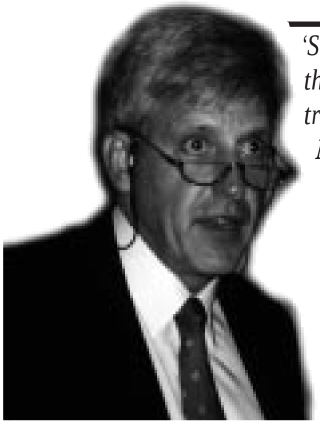
Another important aspect of driver information is the importance of vehicle maintenance and inspection. The Triple A places strong emphasis on vehicle maintenance to promote both fuel efficiency and safety. In the future the application of on-board diagnostics will be an enormous assistance to maintaining vehicle performance at optimal levels of efficiency and therefore higher levels of fuel economy.

Conclusions

Motorists will continue to consume petrol to meet their ordinary mobility needs. Fuel efficiency improvements in new vehicles are possible and need encouragement along with technological improvements in traffic management.

Petrol prices are confusing for the motorist and transparency in the process is vital. Deregulation of the industry is essential, has been recognised by the Government but we have seen no real action.

Excise on petrol must be removed and replaced by a road user charge. Motorists are concerned about unnecessary resource use and pollution issues. However, they are also dependent on their car for their everyday needs.



'Since 1995, ANOP has explored many issues important to motorists. Some of the areas examined include the costs of motoring, safety issues, the car's effect on the environment, new technologies, intelligent transport systems and, most recently, views about petrol pricing and fuel taxes' - ***Rod Cameron, Managing Director of ANOP Research Services, reporting on:***

What 'Battlers' Have to Say about Fuel Prices and Taxes

One clear message emerges from our years of speaking to motorists. It is that motorists' passion for the car, and the lifestyle it gives them, is absolutely fundamental and can never be underestimated. It is this love affair of Australians with their cars that helps us understand the attitudes and behaviour of motorists.

For example, we know motorists have genuine concerns about the effect of the car on the environment. However, despite worrying about the smog they see when they are on the road, very few would consider changing their driving habits because of this.

In fact, the inclination to use public transport is actually on the decline. What motorists are prepared to consider to reduce the environmental impact of their cars are merely measures of convenience or things they may already be doing, such as keeping their cars well maintained and using unleaded petrol.

Petrol a price issue

Their environmental concerns do not have much impact on their day-to-day motoring behaviour and this equally applies when they are wielding a petrol hose. Petrol is seen essentially as a price issue. It is something they have to pay for to keep their cars on the road.

ANOP's latest study, undertaken in February and March for the Triple A, focused on 'battlers' - essentially blue collar and unskilled white collar motorists. We concentrated on battlers because they are a key electoral group. Winning their support was essential to John Howard in winning the last election. Retaining their support will also be crucial to John Howard at the next election.

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Electoral considerations aside, battlers are also particularly sensitive to the costs of motoring, so they were ideally suited to be the focus of our research, which investigated attitudes to motoring costs, taxes and the perceived impact of a GST on the cost of running a car. Our group discussion topics also included attitudes to the cost of fuel generally as well as issues associated with petrol purchasing.

As one might expect, motoring costs are a major household expense for battlers. They rank in significance with, or just behind, housing costs, such as mortgage or rent payments. Battlers struggle to meet them, but it is essential that they do because the car is such an integral part of their lives.

The costs that cause the most conscious pain are the big 'slugs', such as registration and insurance and unpredictable repairs. Petrol costs cause less conscious pain because they are spread out. This is not to say, however, that petrol is less important. Petrol costs are one of those quintessential 'bread and butter' issues. They are budgeted for as part of household expenses each and every week.

Little awareness

Battlers' understanding of petrol pricing, like most motorists, is limited. They have little awareness of what actually constitutes the cost of each litre of fuel - how much is oil company profit, how much goes to the local service station and how much goes to government in the form of fuel taxes.

As with all indirect taxes, fuel excise remains largely out of sight and out of mind. Many of our battlers suspect that the fuel excise is a significant component of the petrol pump price, but they get hazy on specifics, such as exactly how much and which level of government levies it.

For instance, we found in Brisbane that the Queensland Government gets little kudos for having no state fuel tax. Queenslanders know petrol is cheaper in their state and they certainly like this, but they don't really know the reason for the cheaper price.

The key point is that on a day-to-day level motorists are focusing on the end price and its impact on their pocket and not on the components. So if you get a group of motorists around a table they will start complaining about daily fluctuations in petrol prices well before mentioning any concern about fuel taxes.

Petrol price fluctuations

Motorists have their pet theories for these fluctuations: some put it down to the day of the week, school holidays or because it's pay day or pension day, while others nominate a phone call from the big oil company as the cause. Whatever the latest conspiracy theory, the bottom line is that motorists are annoyed by unpredictable petrol price fluctuations and this irritation reveals their considerable sensitivity to the cost of petrol.

Motorists who live outside the capital cities are even more sensitive to petrol price disparities because they are subject to the additional country-city price difference.

So how does this price sensitivity actually affect purchasing behaviour? Because price sensitivity is related to petrol price fluctuations, it means that a one or two cent price difference between one service station and another, or between one week and the next, represents a big deal psychologically.

Many of our battlers told us that they always keep a 'weather eye' on the bowsers to see how much petrol is, and as soon as it comes down, they say that they whiz in and fill up. And when they do make a one or two cent saving they get this warm inner glow of having secured a good deal.

But this is not to say that they drive out of their way to find a bargain. This would be a false economy. We found that rather than buying petrol from numerous stations all around town, many motorists patronise one or two service stations on a regular basis.

Their regular service stations are chosen primarily because of the convenience of their location, the customer service they deliver and because motorists become familiar with them. So it's a case of motorists keeping an eye out for cheap petrol and a bargain while at the same time continuing to patronise their regular service stations.

There may be a loyalty to the local petrol station, but this does not necessarily translate to attachment to the brand of petrol being sold. While we did not explore the issue of brand loyalty in detail we did find some hints of greater goodwill towards independent stations than to the main players. Interestingly, some motorists also expressed a preference for service stations with a reputation for so-called 'good quality' petrol.

While petrol is undoubtedly one of those 'bread and butter' issues affecting motorists, I am aware that some in the petroleum industry are of the opinion that petrol and food don't mix and would prefer not to see the sale of petrol in supermarkets.

Some in the service station and motor trades industry have even claimed that research we undertook for the

Motorists' passion for the car and the lifestyle it gives them is absolutely fundamental and can never be underestimated.

Triple A last year shows that motorists are also clearly resistant to this concept. I'm afraid those who are peddling this line can take little comfort from what our findings actually revealed.

Supermarket petrol sales

It is true that there was an initial resistance to the idea of petrol in supermarkets but much of this was driven by the fact that, at the time, barely half of motorists had ever heard of the idea. When the notion was put to them, people were much more worried about how they were going to get their car down the shopping aisle than considering what benefits they might actually accrue from this new service.

While there was a sympathy towards small service stations which it was believed would suffer from the competition, the bottom line is that those who were aware of this development were more likely to think it was a good idea than a bad one. And no doubt this trend will continue. The greater the awareness of petrol sales at supermarkets, the more acceptance there will be.

Message for the Treasurer

What motorists already like about the idea and what will increase its appeal as awareness grows is the prospect of cheaper petrol as well as the convenience of 'one-stop shopping' and the competition it will encourage. There's a deregulation message here for [Treasurer] Peter Costello.

The Government is not mentioning where petrol fits into the up and coming tax debate. To them, it appears to be the hidden tax that they want to keep hidden.

I received the Government's brochure on *The Hidden Tax System* from my local Member of Parliament. I learnt how unfair the hidden taxes are on pet food, disposable razors, wheelbarrows, dry biscuits and umbrellas. But there was no mention of the current level of fuel excise and its significance as a hidden tax. It is not surprising that when we talk to the punters they are also not talking about the hidden fuel excise in relation to tax reform.

Battlers believe that presently the tax burden is too heavy on ordinary PAYE taxpayers and that big companies and moguls are not paying their fair share. There is a belief that tax reform is needed and an expectation that it may turn out to be the goose that lays the golden egg.

While battlers hope they will be handed the golden egg in the form of tax cuts and a more equitable distribution of tax, many fear they may be left only clutching the goose. Despite these suspicions, there is evidence that the electorate is willing to listen.

As we get closer to the election there will be a growing demand to know more of the detail. The successful ploy of withholding policy information that was used in the lead-up to the last federal election will not be an option for the Coalition now it is in government.

Australians will eventually receive information about the potential changes, whether it be factual or speculative. We have found in our research that as the details of the GST and its possible impact are discussed, distrust and cynicism grows - the devil is in the detail.

It is then that the big picture starts disintegrating into sectional and personal self-interest. Battlers need a firm assurance that they will be better off and need to understand how. This means more than just the promise of income tax cuts.

Potential danger for Government

A potential danger for the Government in explaining the new system is that battlers may object to increases in essentials such as food and clothing being offset by what they see as luxury items. Most have no inkling that food is virtually untaxed but, when informed of this, they believe this to be essentially fair.

When they realise that food will go up by, say, 10 per cent and that luxury cars will come down by 35 per cent "fair" tends not to be the four letter word starting with "f" that they utter. This will be one of the Government's biggest hurdles to overcome.

Tax reform is a minefield and because it is so close to the hip pocket nerve it is not an issue that the Government can afford to slip up on.

'Battlers believe that presently the tax burden is too heavy on ordinary PAYE taxpayers and that big companies and moguls are not paying their fair share. There is a belief that tax reform is needed and an expectation that it may turn out to be the goose that lays the golden egg.'

Motorists and the GST

Of greatest interest today is the reaction of motorists to the impact the GST may have on their motoring budget, particularly fuel costs. Our research on this topic revealed how quickly the nitty gritty of possible change has the potential to undermine the GST.

As we have already seen, battlers are highly sensitive to the cost of petrol, yet the current indirect tax arrangement means few motorists are even aware of what they are paying, and this helps to deflect antagonism. However, when it is suggested that a GST may be added on top of the existing fuel tax, motorists react strongly and a potential political flashpoint is revealed.

The possibility of increases in the price of petrol being offset by cheaper new cars, through a reduction in sales tax and stamp duty, does not cut any ice among battlers. It is no compensation to them at all because most do not drive new cars nor do they contemplate buying one. They simply cannot afford it. And they do not understand the flow-through effect of cheaper new car prices into the used car market.

This potential hot spot offers an opportunity for the motoring and petroleum lobby to bend the ear of the Government. My understanding of who has the Treasurer's ear at the moment means that this lobby will need every bit of help they can get in pushing their own barrow as they try to be heard among the melee of competing interests.

'There is no doubt that tax will be the major election issue, particularly for battlers. And as the Government's own research is undoubtedly telling it, a GST will prove as difficult to sell the second time round as the first.'

Worthwhile proposal

A worthwhile proposal to put to government in this climate is the Triple A's idea of replacing the current fuel excise by a road user charge and a GST. The proposition we tested in our focus groups meant cheaper petrol as the combined road user charge and GST would be less than the current fuel tax and this was the main reason for its appeal.

Nonetheless, the principle of a road user charge dedicated to spending on roads is supported. As we've found in our other surveys, the low proportion of the fuel excise spent on roads is an underlying irritant.

There is no doubt that tax will be the major election issue, particularly for battlers. And as the Government's own research is undoubtedly telling it, a GST will prove as difficult to sell the second time round as the first.

Critical factor

Motoring costs have the potential to be a critical factor in the overall tax debate. Petrol is a sleeping issue in the tax debate at the moment because of motorists' lack of day-to-day consciousness of petrol taxes.

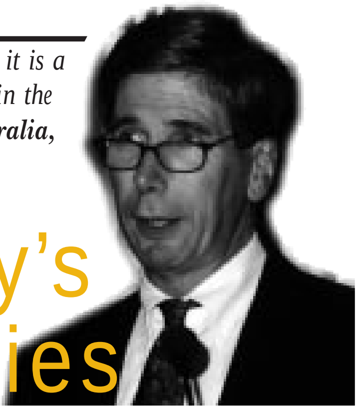
The electoral risk in adding a GST on top of the fuel excise is that motorists will be sensitive to the resulting increase in the price of petrol. This has the potential to bring petrol firmly into the tax debate and then focus attention, not just on the GST, but also on the up to now hidden fuel excise.

The battlers' particular sensitivity to petrol price issues should have the Government's alarm bells ringing. For this coalition Government knows all too well how much they rely electorally on this important group.

If the Government is listening to battlers then it would be hearing that, as happy as they are to accept income tax cuts, cynicism means that a further big sweetener is needed to sell a GST. It may well be that at the end of the day the Government may choose to use the sweet taste of cheaper petrol to reduce the bitterness of a GST. ■

Motorists have little awareness of what actually constitutes the cost of each litre of fuel: how much is oil company profit, how much goes to the local service station and how much goes to government in taxes.

'Sometimes you reach a point in life where you wonder how on earth you got to where you are. If it is a good position you might put it down to the luck of the Irish. If it is a bad position you think how in the name of logic did we end up here?' - ***Ron McGimpsey, Chief Executive Officer of BP Australia, explaining:***



The Petroleum Industry's Distortions and Anomalies

If you remember the *Torrey Canyon* - a super tanker which, fully laden, hit rocks off Lands End in broad daylight and in perfect weather - you might wonder how it happened. How it happened was that a whole sequence of small incidents - each in themselves harmless - came together to cause one of the industry's worst oil spills.

Here in mid-98 I look at the lack of logic in our marketing industry and I wonder if something similar occurred here, over a long period, to lead to the series of distortions and anomalies that characterise our market today.

Now, the results for the consumer from our marketing system are very good in the following key respects:

- ☐ *Australia has about the third cheapest product (pre- or post-petrol tax) in the OECD, reflecting competition and efficiency.*
- ☐ *We - that is everyone in the industry - by and large deliver highly dangerous products safely and with proper regard to the environment. We deliver them efficiently to meet the needs of a far-flung population for whom petrol and diesel are necessities of everyday life.*

However, our petrol marketing system today has some attributes that resemble a Heath Robinson cartoon - full of metaphorical bits of string, pulleys and sticky tape to hold it all together. What are these problems? I would say the industry has seven - like the seven deadly sins.

1. **We have too many assets in the industry.**
   There are 9,000 petroleum retail outlets in Australia. A few years ago, the Motor Trades Association of Australia estimated that the viably stable number is 6,000. It likely is even less. Too many assets make cost efficiency difficult.
2. **We have restrictive and excessive regulation.**
   The refiner/marketers are governed by the:
   - ✔ Petroleum Sites Act.
   - ✔ Petroleum Franchise Act.
   - ✔ Price Surveillance Act.
   - ✔ Trade Practices Act.
   - ✔ Common Law.
   - ✔ Voluntary codes of practice known as *Oilcode*.

   Probably no other western developed country maintains this degree of regulation. What other Australian industry faces such a plethora of legislation? Naturally there is a welter of duplication contained in the legislation. But more importantly the over-regulation weaves a web of inertia, making it difficult to respond to market conditions in the rapidly changing market that exists today.

> *'... penalising of the refiner/marketers jeopardises the viability of Australia's refining operations, which are already facing difficulties in a fierce refining regional market. So we end up with a policy which jeopardises Australian jobs and manufacturing.'*

3. **We have an unlevel playing field.**
   The most pernicious aspect about the regulation is that, despite its duplication, the key elements of it do not apply to many of the players. The *Sites Act*, the *Franchise Act*, the *Price Surveillance Act* and *Oilcode* only apply to the refiner-marketers. They do not apply to the independents, so we have a set of rules which apply to some players, but not to others. There is a basic inequity here.

   Exacerbating this is the fact that the *Sites Act* is intended to apply to those importing product as well as the refiner/marketers. Woolworths, Burmah and Gull have been importing. We have pointed this out to the Government. That the Act has not been applied to them since then, I am taking optimistically as meaning that the Act will soon go, which would be the best outcome for all.

   This penalising of the refiner/marketers jeopardises the viability of Australia's refining operations, which are already facing difficulties in a fierce refining regional market. So we end up with a policy which jeopardises Australian jobs and manufacturing. Where else in the world do you get regulation which effectively penalises your own manufacturing industry?

This surely is bad policy, albeit by default, and I am looking forward to the positive signals that we are getting that the Government will soon take action on this.

4. **Those crazy prices.**

Last year one rural backbencher challenged our Retail General Manager to explain the logic of petrol prices. When he replied that there was not a lot of logic in the way the industry prices, the steam went out of the argument and the discussion became constructive.

The backbencher was right. I think we have a lousy pricing system. It is the root cause of most of our reputation problems. The industry's pricing system appears to have grown like topsy and is all of the following:

- It is complex. We have achieved the unachievable by making what should be a simple thing complex.
- It is not transparent.
- It is crazily volatile. What other industry sees its prices regularly fluctuate by about one-third of its average price (excluding taxes) on a weekly basis?
- But this volatility is confined to the cities, so country folk get angry when they hear that prices in Melbourne are 65 cents per litre and they are paying 80 cpl.

5. **Our image**

Where has this system got us? It hasn't helped profits - they are lousy - and it hasn't helped our image, which is our fifth problem. When pump prices are 65 cpl the public thinks we are making a profit, so when they go to 75 cpl - and we are finally making a profit to counter the losses - they think we are making an absolute killing. Nothing could be further from the truth.

What can we do? Pricing is central to our dilemma and it's inextricably linked to the other deadly sins. However, it is clear we are where we are and something drastic needs to be done, even if it's in isolation from other actions. On prices, we need to get back to the fundamentals. The price should go back to doing its primary job of truly reflecting its cost of supply (in context of demand).

6. **A closed shop perception.**

There's a perception that we (refiner/marketers) collude on a whole range of issues. There are times when we need to work together, such as on environmental issues. But we are in fact in fierce competition with one another. But more than this, there has been a perception that we exclude other competitors. I think we are addressing this, as I will explain.

7. **Our lousy returns.**

This is both very serious - because, in BP's case at least, we are looking at our very survival here - and ironic, given the public perception that we are making good money.

On a Boston Matrix charting profit and reputation we are in the bottom quadrant. I find it a bitter irony that the Mafia would rank in a higher quadrant. They may have the world's worst reputation but at least they make money. We neither make money nor enjoy a reasonable reputation.

Fundamental changes

These then are our difficulties. They are of course overlain by the welter of changes taking place in the market in the last couple of years:

- New, highly competitive and efficient independent players.
- New independent products terminals in nearly all state capitals.
- Increased imports.
- The entry of Woolworths, especially in the provincial towns.
- The introduction of multi-site operators.
- Site closures.

These are all changes we accept in a competitive market. Not surprisingly competition has been fiercer than ever and is likely to stay that way.

There are 9,000 petroleum retail outlets in Australia. A few years ago the Motor Trades Association of Australia estimated that the viably stable number was 6,000.

With this scenario, at BP we believe that we - and for that matter the industry - must change. If we don't, then we are dead. The change must be basic, not another band aid on another band aid. And the change must be both from within and without. We must address the problems. There is just no turning back. We have to act and think differently.

Retail marketing operations

Last year, we reviewed our retail marketing operations at BP in the light of the poor performance of our retail assets and the fundamental changes taking place. We had to take a good hard look at ourselves. The key conclusion was that our network's costs are significantly higher than the most efficient player due to a combination of the current regulation covering us and the way we operate and our asset base.

We decided on the following strategy:

- A decisive move to a multi-site franchise system.
- A substantial rationalisation in company owned service station numbers and corresponding reduction in BP retail marketing employees in head and regional offices.
- Changes to our pricing systems.
- Changes to our offers to our dealers.

On changing our pricing systems, in the positive expectation that we are heading towards a move by the Government for full deregulation, we in BP have decided to move to a terminal gate pricing system (or TGP).

TGP will be a transparent price, at the terminal, for any BP private service station operator or distributor entering into a term contract for the bulk supply of petrol from BP terminals. The provision of services past the terminal gate, such as brand, delivery, provision of equipment and credit, will be charged separately. All this is in line with the Federal Government's election platform.

Simplified pricing system

One aim of TGP is to simplify the pricing system. A related aim is to ensure that we properly understand each level of our cost structures, from import parity up, thereby ensuring they are adequately remunerated. Although the market place is always the ultimate determinant of price we believe this simplification will lead over time to a reduction of the huge price swings often seen in large metropolitan markets. If metro price swings reduce we would also expect a reduction in the difference between petrol prices charged in city and country areas.

Why are we doing this prior to industry deregulation? We are hopeful that the Government will deregulate in the near future and we felt we could move ahead with TGP. In return, we hope the Government will see this initiative as an act of good faith on our part and that they will urgently legislate for total deregulation, which they have indicated is their predisposition.

Now, what is the industry offering? Last September, the four refiner/marketers put a package of measures to government designed to address the problems - perceived or otherwise - of the industry. Implementation of the package is conditional on deregulation. It is a good package. The only trouble with it is that we have not really told anyone else.

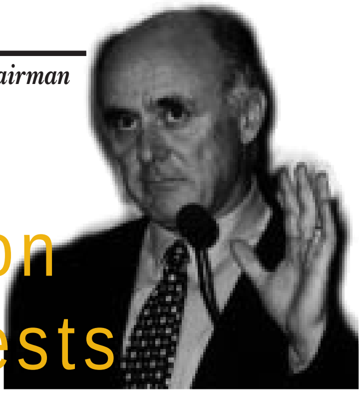
The package comprises the following items:

- **Price Transparency -** *We will finance an independent price monitoring system covering 100 country towns. This will draw attention to any areas of pricing concern. The system has been approved by the Australian Bureau of Statistics and will be monitored by the Triple A. Several companies already doing so will, I believe, continue their provision of monthly price/cost data. The ACCC will continue to monitor prices with a focus on 'hot spots' and the Government will eliminate ACCC maximum price setting.*
- **Terminal Access and Terminal Price -** *There will be open access to terminals for bulk fuel supply customers. Should there be any disputes on access there will be a dispute mechanism to resolve these. There will be a list price published, but customers may also negotiate prices.*
- **Industry Efficiency and Open Arrangements -** *Industry horizontal arrangements such as product exchange and sharing of terminals, which lead to efficiencies benefiting all Australians, will be available to any participant on a normal commercial basis. Industry restructuring must be allowed to occur. A policy of an open and competitive industry, operating on a level playing field, will be pursued. The Government will repeal the restrictive Sites and Franchise Acts which only apply to the refiner/marketers.*
- **Fair Treatment of Industry Participants -** *There will be a new Oilcode. The process for this is well advanced. The participants will enjoy the added protections of the new Section 51AC of the Trade Practices Act on unconscionable conduct and the general provisions of the Act, as well as Common Law.*

This is a broad-based package with major improvements in several areas - new *Oilcode*, price transparency, TGP, open terminals and horizontal arrangements.

I think we can have an industry which is broader and stronger, has a level playing field, with less violent price cycles, lower country/metro differentials, a viable industry, an open industry with high competition. This is our aim. We are not far off it. I trust that the Government wishes to take this industry forward and ask them to do it now, to finalise the *Oilcode* quickly and then urgently deregulate before an election is called.

'The Australian petroleum products industry is entering a new phase in its development' - ***the Chairman of the Australian Competition and Consumer Commission, Professor Allan Fels, in arguing that:***



Competition Not Regulation is in Consumers' Best Interests

In the past the extent of competition between the major oil companies varied geographically and over time, depending on factors such as the extent of oversupply of product. Excess supplies of petrol were sold at a discount to independents and resulted in price discounting at the retail level. Such discounting would then extend to other retailers. Whereas discounting had been a feature in most capital cities, especially on the east coast, this was relatively rare in country areas.

As the industry became more concentrated, and as different brands are very close substitutes, the pressure for co-ordination increased. This was supported by various industry agreements and, to some degree, by the existence of a published maximum wholesale price for petrol. The existence of market power is also suggested by the number of cases brought against the oil companies in recent years, primarily instances of price fixing and resale price maintenance, under Part IV of the *Trade Practices Act.*

Significant change

However, the competitive environment has already undergone significant change. It appears that domestic supply of petroleum products is moving closer to balance with demand. Any significant reduction in the surplus supply could be expected to place upward pressure on retail prices. Conversely, increased supplies through imports that may be brought into the country in the future, to the extent that imported product is regarded as a close substitute for domestic supplies, can be expected to restrain prices.

Petroleum product retailing has evolved through a series of differing marketing approaches. Initially, fuel was sold as an adjunct to other general business. Subsequently, it was common for numerous brands to be sold from one site. Then followed a period when sites were made exclusive to a particular brand of fuel. Fuel sales were the main activity but often auto repair workshops were attached to service stations. This exclusive brand strategy encouraged the proliferation of sites and, arguably, an unsustainable investment in land and buildings.

'...when sites were made exclusive to a particular brand of fuel... fuel sales were the main activity... This exclusive brand strategy encouraged the proliferation of sites and, arguably, an unsustainable investment in land and buildings.'

The next phase saw a rationalisation of sites and a lessening of the importance of petrol sales to retail site viability as the range of products sold increased. However, this development differed in emphasis between city and country sites. This is because there are usually considerable differences in the economics of a typical metropolitan and country retail site. Metropolitan sites tend to experience higher average petroleum and ancillary product volumes. They are also likely to rely more heavily on ancillary products for viability, allowing lower margins on petroleum products.

The number of retail sites in Australia has declined substantially over the last 20 years and this trend is expected to continue in the immediate future. Large scale rationalisation programs have been undertaken by the major oil companies but substantial numbers of independent service stations have also disappeared over the last two decades.

Many of the independents who have survived are single, low volume sites without the economies of scale of a chain network and with little countervailing power. However, a number of independents have entered the retail sector and established substantial networks in the relatively recent past.

The number of distributors supplied by refiners has declined rapidly over recent years due to depot rationalisation by the oil companies. In addition, further pressures for rationalisation have resulted from reduced structural rebates provided by the oil majors, less regulation of delivery modes, and the consequence of improvements in transport and increasing average site throughputs. Most branded distributors operate in country areas where the average throughput of service stations is lower than in metropolitan areas and in some cases does not economically support direct delivery from a metropolitan terminal.

Four major players

The relatively small size of total domestic demand, combined with the need to achieve economies of scale in production, assists to explain the high level of concentration in the Australian refining sector. The nine major players in the industry in the early 1980s had reduced to four by 1995. These four oil majors still account for the great majority of all supplies of refined petroleum products in Australia.

The small number of significant players in the Australian industry has contributed to a lack of competition in petroleum products in the nation. However, the adverse effects on competition caused by the high concentration in the industry may be overcome if imports provide competitive discipline. The Commission expects that if there are significantly increasing imports of product in the future this will create pressure for price reductions.

As overall demand for petrol in the short term is relatively price inelastic, the price reduction for a given volume of imports will be greater than if demand were price elastic. However, initially such an outcome is likely to occur only in the cities. Given time, independents may establish retail outlets in provincial cities and towns, thus extending the pricing effects. The entry of grocery chains into country areas on a significant scale may hasten the positive effects of this development in rural areas.

The petroleum products industry in Australia is characterised by a relatively high level of vertical integration. This has largely been achieved via the existence of vertical arrangements other than the actual owning of sites by major oil companies, due to the existence of the Sites Act. These arrangements have primarily included franchising deals and the existence of 100 per cent ties.

Direct vertical integration has been limited by the existence of the *Sites Act*, which has fixed the number of company owned and operated sites at half the level operating in 1980. It has divided this number into individual quotas, assigned to each oil major according to average wholesale sales share over the preceding three years.

It is not clear whether the *Sites Act* has heavily constrained oil major involvement in the retail sector as this can be achieved through the other vertical arrangements mentioned. The oil majors have used franchising and 100 per cent ties to achieve the control at the retail level which the *Sites Act* sought to prevent.

There is a strong argument to say that restrictions like the *Sites Act* have only had the effect of creating distortions and inefficiencies. For instance, the *Sites Act* is likely to have encouraged the oil majors to seek equity in distributorships, where they might not have done so, to influence the retail sites associated with them. Thus, while the number of distributorships has declined, the proportion with oil company equity has increased.

Reduced flexibilty

In addition, the *Sites Act* is likely to have reduced the flexibility of oil majors to respond to changing market conditions, while not impinging on wholesalers or importers. These perceived distortions and inefficiencies were the reason the Commission recommended in its 1996 public inquiry report that the *Sites Act* should be repealed.

The industry in Australia has also witnessed extensive utilisation of franchise arrangements by the oil majors. A franchise agreement includes conditions that restrict supply to one brand, which gives franchisees little effective control over supply.

> *'The industry in Australia has also witnessed extensive utilisation of franchise arrangements by the oil majors. A franchise agreement includes conditions that restrict supply to one brand, which gives franchisees little effective control over supply.'*

While initially franchise agreements were negotiated with an individual on a single site basis, in more recent times there has been a marked shift to franchises covering a number of sites. Multi-site franchise agreements now cover, in some cases, over 30 sites. The capital requirements for entry into such an arrangement are much higher than for a single site, increasing barriers to entry and making transfer from one form of operation to another unlikely for most small operators without capital assistance from the franchisor.

The Franchise Act

The *Franchise Act* was initially introduced with the aim of addressing the imbalance in bargaining power between franchisors and franchisees by setting minimum terms and conditions for franchise agreements. Prior to the introduction of the *Franchise Act*, many lessees were on monthly tenancies. This Act aimed to deliver greater security of tenure and an ability to accrue goodwill.

However, evidence to the Commission's 1996 inquiry indicated that the *Franchise Act* has often acted to restrict competition in the industry - eg, the viability of sites can often change quickly in an industry characterised by continuing efficiency improvements brought on by improvements in economies of scale and scope, but entry and exit are restricted by the minimum term provisions presently contained in the *Franchise Act*. For these reasons, the ACCC also argued in its inquiry report that the *Franchise Act* should be repealed.

Barriers to entry into the petroleum products industry in Australia are very high. Entry by a fully integrated new player across the country, even another experienced large multinational, seems unlikely. No new entry at this level has occurred for over 30 years and a prospective entrant today faces tougher conditions, with slow sales growth and highly concentrated and integrated rivals.

By comparison, entry into distribution or retailing is relatively open, but the latter is affected by the widespread direct and indirect control exercised by the oil companies and their unwillingness to make existing sites available. Retailing is also affected by high costs of exit, including site remediation costs, which tends to perpetuate inefficient retailing structures, especially in country towns.

Nevertheless, successful entry at the retailing level has occurred in Australia over the last two years, in particular by Woolworths and Liberty. This has shown that barriers to entry into retailing, while remaining high, are not necessarily insurmountable.

Offering discounted petrol to customers who buy groceries from certain supermarkets is potentially anti-competitive behaviour, but has been allowed by the ACCC in the interests of consumers.

Imports are restricted

Australia has traditionally been largely self sufficient in the supply of refined petroleum products. In the past, imports have been concentrated in either specialised products, such as fuel oil, or in particular geographic areas, such as the Northern Territory, where there are no refining facilities.

The petroleum products industry is characterised by large economies of scale, which tends to act as natural protection for the incumbent oil majors. Imports are restricted by the fact that large distances between Australia and overseas ports of origin for petroleum products mean that large ships are required to transport large volumes.

Importers require sufficient long-term capacity to store an economic volume of product close to substantial population areas. In past years, importing was more successful into Western Australian than the eastern states due to the better availability of independent storage facilities.

The unavailability of storage facilities was the major reason for the Commission accepting undertakings from Ampol, at the time of the merger with Caltex, to sell storage facilities in major population centres. The rationale behind this was that the offer for sale of these terminals could be expected to cause a general reassessment of import opportunities.

The size of volumes required to make the shipping and storage of product economically viable means that a potential importer needs a significant number of retail outlets to source product on an ongoing basis. This inevitably involves a substantial capital cost. An additional difficulty for importers is access to a sufficient number of existing service stations in a given geographic area.

The high level of vertical integration and vertical arrangements applied by the oil majors leave little opportunity for new entrants unless a retail network already exists. Barriers to imports remain substantial and also include the reluctance of many independent wholesalers and retailers to accept ongoing imports due to concerns about quality of product and security of supply.

Entry of new players

Mainly because of the reasons outlined, imports of refined product into Australia have been undertaken on an ad hoc basis and have generally not been successful or sustained. A large proportion of imports into Australia in the past has been undertaken by the major oil companies themselves. However, independent imports have increased significantly in the last two years. This has been largely driven by the entry of new players, such as Liberty and Woolworths. Other independents have also been important.

The novelty of the present situation may be that the importing could prove to be undertaken by major international companies into a number of different locations and is intended to be ongoing rather than opportunistic. As a consequence, the Commission hopes that the extra competition that these imports have brought to the industry will continue into the future and result in substantial long term benefits for consumers.

> *'Mergers and arrangements between competitors are of greatest concern in concentrated industries with minimal independent imports. The petroleum products industry is highly concentrated at the supply level, with limited or no competition from imports in most areas. It is an industry that is characterised by various arrangements between competitors that can have anti-competitive effects.'*

Mergers and arrangements

Mergers and arrangements between competitors are of greatest concern in concentrated industries with minimal independent imports. The petroleum products industry is highly concentrated at the supply level, with limited or no competition from imports in most areas. It is an industry that is characterised by various arrangements between competitors that can have anti-competitive effects.

The oil majors have entered into a number of inter-company wholesale product and facility arrangements. These seek to avoid transporting product to regions where a particular refiner has no production capacity and to provide a back-up supply source during supply disruptions.

In Australia, refinery exchange agreements, borrow and loan arrangements and joint terminalling agreements appear to be unique to the petroleum products industry. While these sorts of arrangements exist in the petroleum products industry in a number of other countries, the Commission has a concern that they may well tend to encourage co-operation rather than competition in the industry.

The oil majors do not own refinery capacity in each major population centre. However, all need to supply their retailers, distributors and other end-user customers across the country. The companies claim that they participate in refinery exchange arrangements to avoid the transport costs of servicing customers in their non-refining states.

Exchange arrangements

The Commission's view is that refinery exchange agreements may well lessen competition as they appear to act as a barrier to entry to independent operators. The oil majors have not generally entered refinery exchange agreements with independent operators because the independent operators cannot reciprocate in the kind of services that the majors offer.

As a consequence, competition would be likely to increase, with the overall benefit to consumers that this would be likely to bring, with the removal of these refinery exchange agreements, although further analysis of this issue could be required.

Borrow and loan arrangements between oil majors are additional to refinery exchange agreements and cover shorter term situations. They can be organised on a permanent, temporary or emergency basis. The oil majors have claimed that these arrangements benefit consumers by providing security of supply.

However, the Commission's concern is that they discourage the major companies from taking advantage of a competitor's stock shortage problem, thus inhibiting competition. The arrangements also reduce the incentives for companies to invest in establishing new facilities that may, in the long run, make them more competitive in particular markets. In addition, the arrangements may give rise to informal market sharing involving reciprocal support by competitors to cover each other in times of commercial mistakes.

Competition in the petroleum products industry is also inhibited by the existence of joint terminalling arrangements. The oil majors have entered joint venture terminal agreements on a bilateral and multilateral bases. Each major is involved in a number of terminal sharing arrangements and the sharing arrangements are likely to lead to a degree of co-operation between the joint operators, which may give rise to anti-competitive outcomes as well as an increase in the difficulty for independents gaining access to terminals and negotiating for regional volumes at commercial prices.

These factors, as well as the potential for exchange of information between oil major competitors, mean that joint terminalling arrangements are likely to be anti-competitive. If they provide efficiency benefits then authorisation would be relevant.

These types of arrangements between oil companies act to restrict operations and entry by non-participating parties, and also provide increased opportunities for price co-ordination between competitors. They have potentially serious anti-competitive effects. The question of authorisation and efficiency benefits has not come before the Commission, so it is difficult to comment on that aspect.

The ACCC recommended in its 1996 public inquiry report that further and more detailed assessment is necessary in regard to the various horizontal arrangements existing between the oil majors and that this should be an integral part of moves towards deregulation. The Commission will also be keen to satisfy itself that any new arrangements that are entered into in the future do not contravene the *Trade Practices Act*.

Aims of Oilcode

Oilcode is an agreement between segments of the petroleum industry represented by their respective associations. It aims to provide for fair and reasonable conduct between oil companies and distributors and retailers, and conciliation of disputes between them. *Oilcode* has been fairly successful in achieving these aims to date but the Commission believes that it can become significantly more successful in the future.

A new version of *Oilcode* is presently in the process of being drafted by its member bodies and the final product of this process should take into account a lot more items than are currently dealt with. It is hoped that the new *Oilcode* will lead to more open and vigorous competition between participants at all functional levels of the industry in Australia and bring consequent benefits for consumers.

There has been widespread and increasing concern in recent years by rural consumers about the prices they pay for petrol compared to their city counterparts. Another concern of country people is the significant variation in retail petrol prices often evident between rural locations. The Commission and its predecessor, the Prices Surveillance Authority, have conducted substantial investigations into petrol pricing behaviour in a number of regions over the last few years.

There is no doubt that, almost without exception, retail petrol prices in country locations are higher and more stable than prices in their corresponding state capital cities. It is commonly argued that the most significant reason for these differentials are the additional freight costs involved in transporting petroleum products from refineries located in metropolitan areas to service stations in rural areas (allowances for freight costs, the freight differentials, are incorporated in wholesale price caps for non-refinery locations, which are usually reflected in retail prices). However, price differentials of up to 10 cents are not explained solely by these freight differentials.

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Another feature of country retail prices is that they tend to include higher retail margins than in major city locations. There are various reasons for this. Service stations in rural areas generally have smaller turnovers on petrol sales than stations in metropolitan areas. In addition, country service stations tend to be more dependent on sales of petrol as a revenue earner than city stations, which generally have a much larger turnover of other products such as grocery items.

It can also be argued that an important reason for country prices being higher than city prices is that country areas tend to be characterised by less competition than city areas due to less population concentration, lower volume retail outlets and larger distances from terminals. The Commission considers that retail prices in most country centres could be lower if there was vigorous and effective competition.

The ACCC has been concerned to continue monitoring movements in the price of petrol over the past year or so. It has taken particular steps to do this when institutional arrangements have changed. For example, the Victorian Government instituted a cut in franchise fees which came into effect in May of last year.

The Commission estimated that the cuts should mean price fails of about 1.6 cents per litre for petrols and 4.0 cents per litre for distillate. Commission investigators closely monitored prices at both metropolitan and country sites before and after the first deliveries at the lower prices. The Commission was satisfied that the full extent of the franchise fee cut was passed on by service stations and that the price falls that ensued have been maintained in the period since.

The Commission will closely monitor the effects of similar institutional changes in the future to ensure that consumers receive the full benefit of such developments, particularly consumers in country areas who presently suffer from a lack of effective competition.

Woolworths entry

The recent entry of Woolworths into a number of metropolitan and regional fuel products should have the effect of increasing the level of competition in those markets, particularly because Woolworths has a pricing policy that means that its board prices match the lowest prices in the surrounding area. It also offers a 2.0 cents per litre discount with $30 plus worth of grocery purchases. This policy has already led to lower petrol prices for consumers in a number of country towns in Queensland, NSW and Victoria.

The Commission views the entry of Woolworths and others as a pro-active force in the restructuring of the petrol industry and believes that the developments have proved to be pro-competitive. It is a practical means of increasing competition, particularly in country areas, especially those with historically high prices. Woolworths has been receiving its supplies of petrol from imported sources and this augurs well for future competition in the industry.

'The Commission views the entry of Woolworths and others as a pro-active force in the restructuring of the petrol industry and believes that the developments have proved to be pro-competitive.'

One stop environment

The Woolworths move followed an overseas trend where consumers can buy essentials - food and fuel - in a one-stop environment. In the UK, supermarkets have led petrol prices down by significant amounts and major oil companies have been forced to respond. In Australia, the move has already led to greater choice for consumers about where they buy their fuel. It is crucial that local councils do not hinder such important developments by refusing planning approvals.

The Commission has received a series of 'third-line forcing' notifications from the major oil companies in recent months relating to discounts offered to motorists alongside grocery shopping. These notifications, involving moves to offer discounted petrol to customers who buy groceries from certain supermarkets, have been allowed to stand.

The ACCC has taken the view that the offers are good for consumers. The offers that have been notified by the major oil companies have come in response to the entry of Woolworths into the petrol retailing market in many regions as this has involved it in offering its customers a similar discount.

The Commission had decided in 1996 not to oppose Woolworths' intention to offer discount petrol to customers buying at least $30 worth of groceries at selected Woolworths and Safeway supermarkets. As Woolworths created a special division for its petrol sales, and is technically 'third-line forcing' customers who wish to buy cheaper petrol, the company notified the ACCC of the potentially anti-competitive behaviour.

The Commission reviewed the proposal and is satisfied that the public benefits (including lower petrol prices) outweigh any public detriment. Woolworths' entry into petrol retailing is consistent with the ACCC's view that increased competition and new entry should be encouraged.

Some other service stations in country areas began linking the sale of petrol and groceries in response to Woolworths' moves. Woolworths complained to the Commission about a small retailer of petrol in a country town in Victoria offering an arrangement similar to Woolworths'. In response to its complaint the ACCC wrote to that retailer to explain the law and to point out that the practice could technically be in breach of the Act.

However, the letter clearly indicated that no action would be taken, although it did draw attention to the fact that under the *Trade Practices Act* it is possible for private parties to take legal action over these matters. Where the practice is being undertaken by a large business such as a major supermarket chain or a large oil company, the Commission would expect notification under the Act. However, the ACCC is not requesting notification from small players nor will it take any legal proceedings.

ACCC recommendations

The Commission recommended in its 1996 public inquiry report to the Federal Government that the declaration for price purposes of the supply of petrol and automotive distillate by the four oil majors be revoked, subject to certain conditions. These included the development of more vigorous competition in the industry, which was expected to follow increased numbers of independent retailers entering the industry through the growth and spread of imports of fuel.

The price controls do not serve a very useful purpose. In most capital cities, they only restrain prices occasionally and then only a little. At other times, the setting of the prices in fact facilitates price co-ordination, not competition, encouraging companies at times to charge the maximum price rather than a lower one.

In rural areas the controls have been avoided to a significant degree by oil companies selling through distributors who are not subject to price restraints. In addition, there have been some harmful side effects on the efficiency of the industry.

The ACCC believes the balance of arguments is changing in favour of removing controls in the near future because:

- There is likely to be improved competition.
- The ACCC will have an opportunity to examine arrangements within the industry which give rise to some current concerns about anti-competitive effects - eg, refinery exchange, borrow and loan, and joint terminalling arrangements.
- Time is needed to allow the very large number of contracts between oil companies and resellers to be renegotiated. Most are currently based on maximum wholesale prices set by the ACCC.
- Monitoring arrangements can be established.
- Progress towards terminal gate pricing can occur.

Other major recommendations of the report were that:

- The Petroleum Retail Marketing Sites Act be repealed.
- The Franchise Act be repealed, subject to satisfactory modifications to the provisions of the new *Oilcode* and self-regulatory *Code of Conduct*.
- The Department of Industry, Science and Tourism (which is responsible for the *Franchise Act*) takes up the issue of new franchise agreements with the oil companies with the purpose of greater simplification and the use of plain language.
- Site remediation costs be considered in the *Oilcode* process.
- The Federal Government establish the process and timetable for the opening of coastal shipping to international vessels.
- State and territory governments give consideration to uniform franchise fees to eliminate border distortions.
- State and territory governments give consideration to the mandatory display of price boards at service stations.

The ACCC considered proposals to introduce terminal gate pricing and found it is likely to offer some significant advantages, chiefly by providing established independents, country distributors and new players with the opportunity to supply city and country consumers with more competitively priced fuel.

A requirement for oil companies to supply at the terminal gate cannot be imposed under current law. The Commission considers that there are certain commercial prerequisites before meaningful supply will occur. In this respect new seaboard terminals operated for independents will have open access. This will put competitive pressure on all terminals, including terminals owned by major oil companies, to supply at the terminal gate.

The terminal gate price enables the ‘unbundling’ of the supply of petrol from associated services such as transport and marketing as well as enabling access of independents, new players and country distributors. The ACCC believes this can and will be brought about by an appropriate commercial environment of the kind which is now starting to emerge. It has not sought to impose a regulated terminal gate price. The terminal gate price would become a regulated price which would do little to stimulate competition or encourage new entry.

Greater transparency needed

The Commission believes there is a need for greater transparency of prices by:

- Posting, on a historical basis, actual or realised prices at terminals as a basis for negotiation between oil companies and resellers.
- The collection of more information about country prices assisted by motoring organisations. There needs to be a particular focus on 'hot spot' areas where prices are high.

The Commission also believes that local and state/territory governments could assist effective competition in regional Australia by:

- Freeing up regulations that effect new entry and market-based responses, including the products sold and trading hours.
- Ending cabotage which would have a significant beneficial effect on petroleum prices through lowered costs.

The ACCC intends to keep a number of matters under close review for potential anti-competitive effects, including restrictions on entry to terminals or depots, multi-site franchising and tied agreements.

It will also review changes in the competitive environment, including developments in the independent importation, distribution and retailing of petroleum products. In particular there will be some monitoring of retail prices through the transition to a more competitive market, especially in areas displaying high margins. ■

'Air pollution in and around our cities consistently comes up as environmental public enemy number one in opinion polls and climate change is almost undoubtedly the most difficult matter on the global environmental agenda' - ***the Secretary of the Commonwealth Department of the Environment, Roger Beale, in claiming:***

Environmental Problems Offer Challenges and Opportunities

From the perspective of the petroleum sector there is an optimistic and a pessimistic way of seeing the issues of air pollution and climate change. The pessimist would emphasise that the petroleum and motor vehicle industries are at the very heart of both problems. The optimist, on the other hand, would point out that these industries are also in the position to make perhaps the greatest contributions to solving both problems.

Both those observations are right, but it is a more productive use of time and resources to focus on the up-side - the solutions to the problems.

This is not to say we can ignore the nature and sources of the problems, rather that there is little to be gained in apportioning blame to industries when it comes to activities which reflect the strong lifestyle preferences of millions of Australians. You might not like the smell of car exhausts or the thought of global warming, but blaming car makers and oil companies for the fact that millions of Australians like to drive is both misguided and futile.

It is far more effective to work with the companies that facilitate the driving experience and associations like the Triple A which represent ordinary drivers to minimise the impact of motoring on ambient air pollution and greenhouse emissions.

From government, this requires a mix of regulatory, market-based and co-operative measures to encourage manufacturers, refiners and drivers to make environmentally informed choices. And from the petroleum and motor vehicle industries, and motoring associations, it requires an unprecedented degree of commitment and co-operation.

That re-engineering at the industry level is so vital was something reinforced by the research ANOP conducted recently for the Triple A. To quote from the research report:

"For ordinary motorists, solving the environmental problem means fixing what goes into their car and what comes out of it. By all means fix what I drive, but don't interfere with the way I drive."

> *'You might not like the smell of car exhausts or the thought of global warming, but blaming car makers and oil companies for the fact that millions of Australians like to drive is both misguided and futile.'*

This was followed up with *"a word of warning. Do not approach an environmental education program by telling people to stop driving their cars. I guarantee that such a message will fall on deaf ears"'*

As we design programs to combat climate change and air pollution, we must hear these messages.

We can encourage people to see the environmental and economic sense of changing certain individual behaviours, and certainly governments can use economic instruments of many kinds to influence the decisions of individual drivers - high parking fees, road tolls, discounts on frequent use of public transport, car-pooling incentives, etc.

The structural issues

But, we can't rely on changing behaviour alone. We must also address the more structural issues - the fuel efficiency of vehicles and the pollution-intensity of vehicle emissions, the energy efficiency of buildings, factories, appliances, and the uptake of greenhouse-friendly and low-polluting energy alternatives.

In order to facilitate this, government has to establish the right frameworks, realistic and achievable standards, and financial support where necessary to accelerate environmental improvements.

What I'd like to do is outline what the Commonwealth is doing in this regard to combat air pollution and climate change, obviously with an emphasis on the petroleum products and motoring sectors.

With respect to climate change the Prime Minister made it quite clear last November that we would implement $180 million in additional greenhouse measures, irrespective of the outcome of last December's historic meeting in Kyoto. These new measures amount to the biggest commitment to combating climate change ever undertaken by an Australian Government.

The Australian Greenhouse Office has now been established, and after lengthy negotiations with the states and stakeholders, we are now close to finalising a new *National Greenhouse Strategy*. So all of the elements are in place and the task now is implementation.

The role of petroleum products will be absolutely vital, especially in the transport sector which accounts for some 14 per cent of Australia's greenhouse emissions. This is why the initiatives announced by the Prime Minister include a commitment to negotiate an environmental strategy with the automotive industry. This will facilitate some very significant environmental improvements such as:

- A 15 per cent increase in fuel efficiency over business as usual by 2010.
- Mandatory model-specific fuel consumption labelling for all new vehicles.
- Extension of co-operative partnerships like the *Greenhouse Challenge* to encourage fleet operators to support fuel efficiency increases.
- An accelerated introduction of high octane fuel in order to improve vehicle performance and fuel efficiency.

In addition to this the Commonwealth is:

- Establishing a *Bush for Greenhouse* scheme to facilitate corporate support for greenhouse sinks.
- Facilitating the development and commercialisation of renewable energy technologies.
- Examining options for the development of a domestic greenhouse emissions trading scheme.

All of these measures will better equip businesses to seize the opportunities to make their operations more eco-efficient, while at the same time contributing to our national greenhouse objectives. And there will be many opportunities for Australian business.

For example, Australian liquid natural gas export opportunities will increase as a number of our key trading partners turn to less greenhouse-intensive energy alternatives to meet their own emission reduction commitments. And with light freight accounting for the biggest component of emissions growth in the transport sector, there is great scope for a broader domestic usage of compressed natural gas in our vehicle fleet.

How well companies adapt and seize these and other opportunities is going to help determine our success as a nation. Based on all the evidence I have acquired to date from personal contacts I'm reasonably confident that Australian industry leaders in the petroleum sector recognise the opportunities and the need to grasp them.

The Triple A's commitment to taking an active role in encouraging improved fuel efficiency of the motor vehicle fleet is also a welcome step forward. Providing motorists with better information is one of the keys to a better vehicle fleet - one which has maximum mobility, minimum pollution and minimal extra cost.

Since more fuel-inefficient (and less safe) four-wheel-drive (4WD) vehicles are being purchased, but not for off-road use, one of the real tests will be how well we communicate to motorists that big cars are not always

Less fuel efficient four-wheel-drive vehicles are being purchased, but not for off-road use.

the best cars. We have to learn well the American lesson. They excluded 4WDs and light trucks from their corporate average fuel-efficiency requirements, and by doing so did much to undermine the improvements that companies secured in the efficiency of ordinary motor vehicles.

I look forward to a dynamic partnership between the Australian Greenhouse Office and the Triple A on these types of issues.

The same positive collaborative approach is also required in our battle against urban air pollution. While the introduction of unleaded petrol and catalytic converters a decade or so ago made a big difference as new cars gradually entered the national fleet, the problem is far from solved.

Our continually improving knowledge about the human health impacts of various air pollutants (especially fine particles, mainly from diesel emissions) has meant there is a continual increase in the level of ambient air quality we consider acceptable. So the more we learn, the higher we raise the bar.

At the same time we are increasingly concerned about demographic and traffic trends which are eroding some of the progress we've made over the years:

- Increases in the population of our major cities.
- Continued urban sprawl.
- Ineffective or inaccessible public transport systems.
- Increased traffic congestion.

All of these combine to increase the number of vehicle kilometres travelled. So more efficient engines and cleaner fuels are doing less because people are spending more time getting from ‘A’ to ‘B’. This was borne out in the Urban Air Pollution Inquiry conducted last year by the Australian Academy of Technological Sciences and Engineering at the request of the Commonwealth.

Diesel a major polluter

More use of high sulphur diesel fuels in often poorly maintained engines is another concern in the light commercial fleet and among 4WD vehicles being increasingly used to move between the home and the supermarket. Diesel is a major factor in the levels of particulate pollution in Australia already and one which will get far worse unless we improve the composition of the fuel and/or the environmental effectiveness and maintenance of diesel engines in the national vehicle fleet.

This is why governments of all levels and political persuasions have been united in supporting the adoption of a National Environmental Protection Measure (NEPM) for ambient air quality, to apply right across Australia. It is also why the National Environmental Protection Council began the preliminary work in consultation with relevant stakeholders on a diesel NEPM.

It is partly why the strategy announced by the Prime Minister with respect to greenhouse emissions reduction contains numerous measures which also make a significant contribution to reducing urban air pollution. Lastly, it is why the Environment Minister has signalled that he is considering, in conjunction with a number of portfolios, a comprehensive review of Australia’s fuel quality needs.

As with the greenhouse programs mentioned, these developments have significant ramifications for the oil industry, automotive manufacturers and importers, and ultimately consumers as well. And like the greenhouse programs, they will bring some real opportunities to improve the environmental performance of vehicles, the quality of the driving experience and the quality of urban life, without dramatically or unfairly imposing extra costs.

Once again a pro-active approach from industry will go a long way to ensuring that we achieve this in the most cost-effective and environmentally effective way.

In conclusion, climate change and air pollution are both big challenges for governments, for industry and for motoring associations, but it's important that the environmental priorities are not seen as obstacles to the future of the automotive and petroleum products industries in this country.

In the past environmental issues were perceived as more threatening. This was part ignorance and partly because government regulators didn't always approach things in the most effective way. It was also exacerbated by the tendency for the motor vehicle industry and the petrol products industry to blame one another for the slow pace of improvement in environmental performance; and also the tendency for the Australian subsidiaries to resist reforms which their parent companies showed themselves very capable of adapting to overseas.

These practices will hopefully continue to fade into the past. There are after all, to put it bluntly, much bigger problems for the petroleum products industry than environmental regulation. The volatility of oil prices, reduction in tariff protection, the impact of the Asian economic downturn and the current rearrangements on the Australian waterfront are all concerns of a much higher order, I would have thought.

There is no good reason why environmental regulation shouldn't remain pretty low on your list of potential threats to industry viability. And there are plenty of good reasons for industry to see environmental issues like climate change and urban air pollution as opportunities to be pro-active and self-serving and as an opportunity to create a better product for the motoring public.

Peter Sturrock, Chief Executive Officer, Federal Chamber of Automotive Industries on:

Fuel Requirements - The Vehicle Industry's View

If Australian fuel economy targets force the adoption of new engine technologies, the commercial fuel specifications must be equivalent to those required in the USA or Europe in the near future.

The costs of such a requirement to the consumer, in terms of vehicle purchase price, loss of amenity and fuel cost, as well as the effect on the refining industry and Australia's balance of payments will require careful appraisal and risk assessment by the Australian Government.

Government has the responsibility to select the appropriate level of response required, having regard to the balance of improvement achieved and consequences arising from their pursuit.

A tripartite partnership of government, motor industry and oil industry must act to ensure the obligations of each will be practical, workable and achievable.

Prof. Harry Watson, Head of the Department of Mechanical and Manufacturing Engineering, University of Melbourne on:

Developments in Alternative Fuels

Reformed gasoline (RFG) involves the addition of some oxygenates and reduction in components such as olefines and aromatic compounds, together with a near elimination of sulphur, leading to pollution abatement from all types of cars, according to European and US experience. European findings with their proposed RFG have been much smaller reductions in emissions than in the USA, but following the same trend.

The benefits are in reduced hydrocarbon, carbon monoxide and nitrogen oxides emissions. The mechanisms by which these are achieved are a combination of improving the combustion in the engine and allowing the exhaust catalysts to work more effectively. Emissions of other toxics not yet controlled in Australia, such as benzene, acetaldehyde and 1,3 butadiene, are also significantly reduced.

RFG involves considerable investment at the refinery to effectively further refine the fuel, costing some energy, maybe increasing refinery energy input by about 10 per cent over that currently needed to produce gasoline and diesel. This plus the capital investment costs are likely to increase the price of fuel at the pump by one cent a litre. Australia's situation is complex because our vehicles are sourced indigenously and from the USA (eg, Holden Commodore engine), Japan and Europe.

The difference in the findings between the USA and Europe probably relate not only to the difference in the vehicles, but to the difference in the test driving cycle used for emissions measurement. The benefits of RFG to Australia are therefore not clear and warrant reasonable research before additional cost is imposed on the motorist. Any test program to find the local benefits should be designed to use both Australian Design Rules and European test procedures as there is a recommendation for ADRs to align with European methods post-2002.

Benefits of gas

A brief review of LPG and CNG argues the benefits of gas dedicated and optimised engines for the use of gaseous fuels. LPG is no longer the instant clean fuel that it was in the days of the 70s when vehicle emissions were high. CNG implies significant weight penalty if the efficiency advantages offered by high compression engines are not introduced into the market place. Ford's sole-fuel natural gas Falcon is an example of world best practice.

With careful selection of practices from around the world, without adopting the most stringent pollution standards or the 'best' fuels, a combination of fuel changes and fuel substitution can lead to continuous improvement of the environment at quite reasonable cost.

Key Motoring Facts

1998-99 FEDERAL BUDGET

Road Transport Outlays:

	1997-98	1998-99 Estimate	1999-00 Budget	2000-01 Estimate	2001-02 Estimate	Estimate
Road Grants (a)	$m	817.3	799.0	785.6	805.8	811.3
Interstate Road Transport Charge	$m	20.3	15.3	15.3	-	-
Road Safety and Land Transport Research (b)	$m	29.0	48.8	38.0	38.8	39.6
Other	$m	6.7	5.2	4.7	4.7	3.5
TOTAL	**$m**	**873.3**	**868.2**	**843.6**	**849.3**	**854.4**

Source: Budget Paper No.1, "Budget Strategy and Outlook 1998-99"

(a) The Commonwealth funds the National Highway System and contributes to the capital cost of some other roads of national importance. For roads more generally, the Commonwealth provides general revenue assistance to the States and to local government.

(b) The major component of Road Safety and Land Transport Research is a contribution for the remediation of road safety black spots through assistance to State and local governments.

General Revenue Assistance to States

	1996-97 $m	1997-98 a $m	1998-99a $m
NSW	113	116	118
VIC	93	85	87
QLD	72	75	75
WA	41	38	38
SA	33	37	39
TAS	13	15	15
ACT	4	6	6
NT	14	19	20
TOTAL	**383**	**391**	**399**

Source: Budget Paper No.3, "Federal Financial Relations 1998-99"

From 1995-96, the distribution of identified road grants (IRGs) was progressively moved to a distribution based on financial assistance grants (FAGs). In 1997-98 these payments will be absorbed into FAGs.

(a) The amount of each State's FAGs which are notionally attributed to the IRGs which will be absorbed in 1997-98.

General Revenue Assistance to Local Government: Identified Road Grants

	1997-98 $m	1998-99 $m
NSW	107.5	109.6
VIC	76.4	77.9
QLD	69.4	70.8
WA	56.6	57.7
SA	20.4	20.8
TAS	19.6	20.0
ACT	11.9	12.1
NT	8.7	8.1
TOTAL	**370.4**	**377.7**

Source: Budget Paper No.3, "Federal Financial Relations 1998-99"

PETROL

Estimated Revenue from Excise Duty on Petroleum Products

	1997-98 estimate $m	1998-99 estimate $m	Change on 1997-98 %
Leaded Petrol	2,063	1,818	-11.9
Unleaded Petrol	4,275	4,586	7.3
Diesel	4,378	4,494	2.7
Other (a)	142	144	1.2
Total Petroleum Products	10,858	11,043	1.7
Crude Oil and LPG	42	67	59.5

Source: Budget Paper No.1, "Budget Strategy and Outlook 1998-99"

(a) Includes aviation gasoline, aviation turbine fuel, fuel oil, heating oil and kerosene and refunds/drawbacks relating to petroleum products excise.

Conferences and Events 1998

July 17-19

Society of Automotive Engineers Australasia *Young Engineers* conference, Ballarat (Vic), contact SAE-A, phone (03) 9326 7166, fax (03) 9326 7244, email sae-a@werple.net.au

September 7

Australian Automobile Association Annual Conference, Darwin, contact Julie Anderson, phone (02) 6247 7311, fax (02) 6257 5320, email julie@aaa.asn.au

September 18

Society of Automotive Engineers Australasia *Legal Liability Within the Automotive Industry* conference, Hobart, contact SAE-A, phone (03) 9326 7166, fax (03) 9326 7244, email sae-a@werple.net.au

September 27-October 1

FISITA World Automotive Congress, Paris, contact Societe des Ingenieurs de l'Automobile, fax + 33 (1) 47-20-48-73

October 12-16

Intelligent Transport Systems World Congress, Seoul, fax 82-2-562-5775, email krta@chollian.dacom.co.kr

October 13

Society of Automotive Engineers Australasia *Industry Outlook* conference, Melbourne, contact SAE-A, phone (03) 9326 7166, fax (03) 9326 7244, email sae-a@werple.net.au

October 26-28

JIDITVA 1998 (International Days of Road Safety), Brussels, contact Belgian Road Safety Institute, fax 32 2/216.43.42, email ibsr@pophost.eunet.be.

October 26-28

Safety on the Roads International Conference, Bahrain, contact Dr Hasshim Al-Madani (University of Bahrain), fax (973) 684844, email ayabdalla@eng.uob.bh., http://www.uob.bh.

November 6

Society of Automotive Engineers Australasia *Automotive Engineering Excellence Awards*, contact SAE-A, phone (03) 9326 7166, fax (03) 9326 7244, email sae-a@werple.net.au

To include your event in the calendar, please forward the date/s, title/topic, location and contact details to the editor (see page 2 for fax number, postal and email addresses).

THE TRIPLE A ROLE

The Australian Automobile Association was established in 1924 to enable the various motoring clubs and associations to speak with a united voice on issues affecting their members. As the Federal Secretariat of the state and territory motoring organisations, the Triple A co-ordinates their activities in areas of mutual interest. It provides national and international representation for their members and, indirectly, all Australian motorists.

CONSTITUENT MEMBERS

NRMA Limited

Royal Automobile Club of Victoria (RACV) Ltd

The Royal Automobile Club of Queensland

Royal Automobile Association of South Australia, Inc.

The Royal Automobile Club of W.A., (Incorporated)

The Royal Automobile Club of Tasmania Limited

Royal Automobile Club of Australia

Automobile Association of Northern Territory Inc.