

10 November 2005

The Research Director
Impact of Petrol Pricing Select Committee
Parliament House
BRISBANE QLD 4000

Dear Sir or Madam

Impact of Petrol Pricing Select Committee

We welcome the call for submissions from the Committee in relation to the Governments investigations into petrol prices. We understand that many people are concerned about petrol prices, particularly with recent price increases, and will welcome the Governments investigations. We note in providing our submission that as residents of South East Queensland, we emit more CO₂ per capita than any other population on earth.

We note that submissions are invited in relation to the Terms of Reference of the Committee which are (numbered for reference):

- *The extent to which current petrol prices increase the competitiveness of alternative fuels such as E-10 (1);*
- *The economic and financial consequences of current fuel prices with a particular emphasis on regional Queensland and outer metropolitan areas (2);*
- *Practical ways that consumers can reduce their petrol bills (3);*
- *Whether existing information on the fuel efficiency of different makes of motor vehicle is sufficient (4);*
- *The extent to which recent fuel increases could be moderated through enhanced domestic competition (5);*
- *How the Australian Competition and Consumer Commission's powers could be strengthened to deliver enhanced competition (6);*
- *Whether Queensland receives its fair share of road funding (7);*
- *The capacity and benefits of the Federal Government reducing the fuel excise to ameliorate the impact of high fuel prices on families and business (8);*
- *Whether Queensland Motorists are receiving the full benefit of the 8.354 cents per litre subsidy (9); and*
- *The efficiency and administration of the end users scheme (10).*

Our submission will focus on a number of elements including:

- A. The scope of the Terms of Reference;
- B. Detailed response to the Terms of Reference; and
- C. Other relevant issues.

A The Terms of Reference.

We consider that the Terms of Reference (TOR) is insufficient to enable the Committee to undertake a detailed investigation into impacts and potential solutions.

The TOR is unnecessarily narrow and supply-focused. The TOR appears to be focused on acknowledging continuing demand for cheap energy and seeking political support for the Queensland Governments position on a number of key policies, including the Queensland fuel subsidy; and soliciting criticism of the federal government for failure to provide sufficient road funding.

It would have been more helpful to consult the public on the Terms of Reference to ensure that the Committee findings are relevant to Queensland families and businesses.

The TOR should be expanded to investigate fuel prices within a comprehensive investigation into transport (and energy) costs in Queensland. Such an investigation should guide Queensland's transport policy based on the long-term costs of various options, including those direct costs to the consumer such as petrol prices.

It should be the role of the committee to make recommendations to Parliament in relation to transport and energy pricing which could take the form of:

- Strategies and Actions for the consideration of the Queensland Parliament to reduce the cost of transport to Queensland families and business; and
- Representations to Federal Government on matters within the jurisdiction of the federal government or where involving international agreements, laws or treaties.

We have also added a number of other issues that are worthy of the Committees consideration which have not been incorporated into the TOR which will have a significant impact on our energy choices in coming years. These issues will be outlined in Section C of this report and include:

- Peak Oil and its impact on energy prices;
- Pricing and the external costs of petrol consumption;
- Managing demand – the effect of reduced demand on transport costs; and
- Petrol and Energy subsidies and financial incentives for the reduction of petrol use and therefore reduction of the impact of petrol prices on family budgets.

B Detailed Response to the Terms of Reference.

We have outlined our response to these issues in the published order.

The extent to which current petrol prices increase the competitiveness of alternative fuels such as E-10 (1);

There are a number of alternative fuels currently in the infancy of their widespread take-up for use in motor vehicles in Queensland such as Ethanol (E-10) and Biodiesel. We acknowledge these fuels and their local environmental benefits, particularly in relation to local air quality and note that these fuels will provide a useful alternative to traditional fossil-fuel-based petrol. These fuels are particularly beneficial as they are ready for adoption and can be distributed and sold through the network and market which so efficiently distributes petroleum fuels; and can be utilized by existing vehicles (albeit in some cases, with some modification). This is the clear benefit of these fuels over Hydrogen Fuel Cells.

There are a number of concerns with these fuels. It would clearly be unsustainable to fuel the entire existing passenger car fleet with these fuels due to the land required to produce them. These fuels should be considered a replacement for fossil fuels within the context of a program to significantly reduce the number of vehicles on the road.

Significantly, the pricing of these fuels will be independent of the global oil price and prices should therefore remain at more predictable levels. It is therefore appropriate that the Committee investigate the possibility of increasing the proportion of Ethanol in E-10 and providing tax incentives to ethanol blends and biodiesel.

The economic and financial consequences of current fuel prices with a particular emphasis on regional Queensland and outer metropolitan areas (2);

It is clear that increased fuel prices have a direct impact on those that consume fuel in the regular course of their business, such as the agricultural and transport industries. These cost increases will ultimately be passed on to consumers leading to inflationary pressure in the wider economy. As a result, there is clearly benefit in considering opportunities to reduce the impact of high petrol prices in this industry. An important strategy could be to encourage the use of more environmentally-friendly fuels by subsidizing these fuels to this industry.

In addition, travelers and commuters, particularly in outer metropolitan areas that do not have the benefit of a close and convenient public transport system will experience increasing costs. These people will experience an increase in petrol costs as a proportion of their household budget. In some cases, it is these families that can least afford such increased costs.

The government should consider a long-term solution to this problem:

- Increasing public transport subsidy to outlying areas such that a flat fare of (say) \$1.00 is payable for all public transport trips not passing through the Brisbane CBD (similar to the scheme recently implemented on London buses);
- Encouraging better integration of land use and transport planning;
- Investing in public transport rather than road infrastructure projects.

Practical ways that consumers can reduce their petrol bills (3);

With recent increases in petrol prices, there have been numerous articles, commentaries and editorials in relation to this matter. Most focus on matters such as motor vehicle maintenance and driver behaviour.

There is a significant opportunity for the Government to take the opportunity to encourage more sustainable transport choices by providing more beneficial, long-term advice, such as:

- Encouraging people to reduce their travel by private motor vehicle, by encouraging walking to shops, schools and local recreation and conveniences – reducing 10% of the weekly mileage will reduce the fuel bills by 10% in addition to social and health benefits;
- Encouraging people to socialize and recreate locally by allowing the development of a system of vibrant local centres and reducing the extent of sprawling residential subdivisions;
- Significantly increasing investment in public transport and active transport; and
- Encouraging people to car pool and use public transport

Whether existing information on the fuel efficiency of different makes of motor vehicle is sufficient (4);

There is increasing information available on the fuel efficiency of motor vehicles. The provision of fuel efficiency information is a supply-based solution which facilitates increased car ownership and use, though seeks potentially to reduce fuel consumption through consumer education. This information is currently available to consumers who are aware and able to find it. Such figures should be displayed more prominently to inform motor vehicle choice.

In the United Kingdom, all cars must be advertised with fuel consumption and CO₂ emission figures. The Registration (Road Tax) is based on CO₂ emissions rather than the number of cylinders. Such a system should be implemented in Australia to encourage a more efficient fleet within the context of a program to reduce our dependence on motor vehicles.

In addition, Australian motorists are currently encouraged to purchase less efficient, SUVs due to the reduced import duty on these vehicles. Such a duty should be abolished.

The extent to which recent fuel increases could be moderated through enhanced domestic competition (5);

There may clearly be a role for a competition watch-dog to review pricing in the industry. It is noted however that this would be undermined by the international price fixing that occurs by agreement of the OPEC countries.

One issue of concern that appears to apply only to the oil industry is the immediate effect on consumers of an increase in the global oil price. In this regard, increases in the global oil price are reflected almost immediately on pump prices (despite the company having purchased its current stock at earlier lower prices). Discounts are not passed on as quickly when global oil prices fall.

We have outlined a distortion in competition in the above point, where the Government encourages the purchase of inefficient vehicles by subsidizing SUV imports. Abolition of this subsidy will clearly moderate fuel consumption by these vehicles.

In addition, the provision of such subsidies, such as the SUV import subsidy, and the Queensland fuel subsidy stifle the development of technologies which may reduce long term fuel consumption, and therefore reduce domestic competition between industries.

How the Australian Competition and Consumer Commission's powers could be strengthened to deliver enhanced competition (6);

We are unable to comment on this matter.

Whether Queensland receives its fair share of road funding (7);

We are unconvinced that this matter is relevant to petrol pricing and are unsure of the reason for its inclusion within the TOR.

The capacity and benefits of the Federal Government reducing the fuel excise to ameliorate the impact of high fuel prices on families and business (8);

It would clearly be short-term thinking to reduce the fuel excise in response to current fuel prices. In deciding whether to reduce the fuel excise, we would effectively be further subsidizing private vehicle use, further increasing Australia's dependence on fossil fuels and depriving other federal government programs of funding.

Fuel excise should be increased to reflect the total environmental costs of fuel consumption.

Whether Queensland Motorists are receiving the full benefit of the 8.354 cents per litre subsidy (9); and

We are not convinced that *benefit* is the correct terminology in this instance, as we consider that artificially reducing the cost of petrol has been detrimental to the long-term Queensland economy by allowing us to become more dependent on fossil fuels.

The efficiency and administration of the end users scheme (10).

We are unable to comment on this matter.

C Other Relevant Issues

1. Peak Oil and its impact on energy prices.

The Committee should undertake a detailed investigation on the issue of Peak Oil and consider its impact on long term energy prices, and develop recommendations on strategies to reduce our vulnerability to a shortage of oil or significantly escalated prices.

2. Managing demand – the effect of reduced demand on transport costs;

As outlined above, an effective strategy would be to manage the demand for travel thereby reducing family and business exposure to high fuel prices by reducing their consumption – taking a demand-based approach rather than focusing on supply. We have provided a number of suggestions within our specific comments above, and would be pleased to elaborate.

3. Pricing and the external costs of petrol consumption;

The terms of reference of the Committee should consider the extent to which the total environmental and social costs of petrol consumption (ie private vehicle use) are priced into the cost of petrol. In this regard, an assessment should be undertaken to determine the costs of environmental and social degradation that occurs as a result of *inter-alia*:

- Reduced environmental quality such as air quality, reduction in bushland, impact of roads and bridges on the ecology of natural areas;
- Health effects including the number of people who suffer reduced productivity, health problems or death as a direct (Accidents) or indirect (air quality, social division by roads) impacts of petrol consumption and private vehicle use.

These are the very real effects of private vehicle dependence and are often not wholly included in the cost-benefit analysis. These costs are often subsidized by the community at large through taxes, private health insurance, volunteering etc. We would be pleased to assist the committee to compile a more comprehensive list to assist in its deliberation on this matter.

4. Petrol and Energy subsidies and financial incentives for the reduction of petrol use (and therefore reduction of the impact of petrol prices on Family Budgets.

The Committee needs to consider whether there is long-term benefit in continuing to subsidise the inefficient and unnecessary consumption of fossil fuels. A number of suggestions upon which the Queensland Parliament could act or make representations to Canberra include:

- Removing the tax-deductibility of private vehicle use (or possibly the petrol component of the package) such that alternative modes of transport become economically viable;
- Reducing import tariff discounts on SUV vehicles and increasing such on Hybrid vehicles;
- Basing motor vehicle registration costs on CO₂ emissions as is the current practice in the United Kingdom, though going a step further by offering significant registration discounts for significant increases in efficiency (to 2l/100km for example); and
- Abolishing any Fringe Benefits Tax on public transport such that employers and employees can negotiate public transport passes as part of salary packages without tax penalties.

Summary

We are concerned that the investigations of the Committee will be insufficiently broad to enable a meaningful debate on energy and transport costs in Queensland, of which Petrol Prices is an important component. We urge the Committee to broaden its scope to consider the matters described above.

We regret that, as a working couple, we have been able to provide only a brief response to this very important initiative.

We once again thank the committee for the opportunity to comment on the terms of reference and look forward to receiving advice on progress of the issues raised in our submission.

Yours faithfully

Andrew and Meriel Chamberlin