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# Policy developments

*In a joint statement on 11 December 1996 the Commonwealth Treasurer, the Hon. Peter Costello, and the Minister for Industry, Science and Tourism, the Hon. John Moore, announced the Commonwealth Government's response to the Commission's petrol inquiry report, released in August 1996. Their statement is reproduced below.*

## **Government response to petrol report**

The Government will implement new measures in 1997 to promote increased competition and benefits to consumers in the petrol industry. In responding to the Australian Competition and Consumer Commission Petroleum Products Declaration report, the Government announced that petroleum products would be removed from prices surveillance in 1997, once the Treasurer is satisfied of pro-competitive developments in the market. One of the measures required to put this in place will be commitments from the oil majors to allow open terminal access and price transparency for the purchase of petrol by distributors and retailers.

The Government believes that such significant reforms will inject greater competition into the petroleum industry and put downward pressure on petrol prices to the benefit of consumers.

The Government has carefully considered the views expressed by industry participants, motoring organisations and rural and community groups in formulating its response to the report's findings and recommendations. The Government is satisfied that the ACCC report demonstrates that promoting competition and removing unnecessary regulation in the petroleum products industry is the best way of achieving lower prices for consumers. Deregulation and structural change

in the sector will proceed in an orderly manner over the next few years.

The Laidly Agreement is an anti-competitive covenant which restricts access to oil terminals and has been a significant impediment to open access to oil terminals. The Government will take all steps necessary to prevent the operation of this Agreement to ensure access to oil terminals on fair and reasonable terms to all comers.

The ACCC found that current high prices in country markets often reflect particular problems at the retail level, including too many low-volume, old, undiversified sites which require high margins to survive. The Government is concerned that greater efficiencies at the wholesale/distribution level will not flow through to consumers if these problems at the retail level are not resolved. Site rationalisation in many of these markets appears to be important to lower petrol prices. The Government expects the oil majors to take reasonable account of adjustments for small service station operators in the rationalisation of retail sites.

The Ministers noted that State and local Governments will need to assist in the implementation of measures to lower petrol prices in country markets. There are State and local Government legislative restrictions concerning petrol retailing that will need to be addressed. In accordance with the requirements of national competition policy, some of this legislation has been included in State and Territory legislation review schedules, however, governments may need to consider bringing forward the timing of such reviews. The Ministers will write soon to Premiers and Chief Ministers concerning these matters. Similarly, local governments can facilitate enhanced competition at the retail level in country areas through improved planning approval for the retailing of petrol by supermarkets.

The ACCC recommended that the declaration of petrol and distillate by the four major oil companies be revoked during the course of 1997, subject to the development of more vigorous competition in the industry. In addition, the ACCC recommended that the Petroleum Retail Marketing Sites Act (the 'Sites Act') and Petroleum Retail Marketing Franchise Act (the 'Franchise Act') be repealed.

Since the release of the ACCC report it has become apparent that a number of the structural changes sought by the ACCC have started to take shape. Three independently owned terminals are operating. Woolworths has entered the retail market and has opened its first retail site in Dubbo with plans for another 200 sites, many of which will be in country areas. Liberty, an independent retailer, has also announced an expansion of its retail network into country areas.

Action is proceeding on other fronts to implement the Government's election commitments. The Treasurer wrote to motoring organisations in September 1996 encouraging them to develop, in conjunction with the ACCC, a price-monitoring program in country areas. The Australian Automobile Association, its constituent members, and the ACCC are already working to advance the development of the price monitoring program, which could be operational from as early as 1 January 1997. Once established, the monitoring program should enable an estimation of excessive prices in specific locations and complement the ACCC's trade practices enforcement activities in country petrol markets.

The Government is disposed towards the removal of the Sites Act and the Franchise Act once oil companies, distributors and retailers reach agreement on a new Oilcode and appropriate Code of Conduct. The Government expects that all parties will enter negotiations to achieve this outcome over the next 12 months. The Department of Industry Science and Tourism will work with industry participants to address concerns about Oilcode.

The Government recognises distributors' and franchisees' concerns about market power in the industry. Business conduct issues associated

with franchising, small business and the petroleum products market are currently being considered by the House of Representatives Fair Trading Inquiry.

The Government is committed to delivering major reforms in the petroleum sector consistent with its election commitment. Progress has already been made towards this end. The Government moves to implement deregulation will promote greater competition which will lower prices over time.