Australia: high oil prices provoking protests and discontent

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Escalating petrol and fuel prices are exacerbating the already difficult financial situation for working people in Australia and undermining small businesses, including private truck operators, small manufacturers and a range of rural producers.

Last month under the impact of escalating global prices for crude oil, compounded by the devastation of refineries in the Gulf of Mexico by Hurricane Katrina, the cost of unleaded petrol across Australia leapt to around $1.40 a litre—a 30 percent increase since May.

The price of diesel—once a cheaper source of fuel for farming, trucking and a range of passenger and commercial vehicles—shot up to $1.43 cents a litre in many areas. Economic commentators forecast that fuel costs would remain high well into the future and that the price of petrol would never again fall below $1 a litre.

Fuel price rises have already provoked protests by owner truck drivers calling for reduced vehicle registration costs and better contract rates from primary haulage firms. On September 23, around 200 truck drivers blockaded the Pacific Highway at Macksville in northern New South Wales (NSW)—a major highway between Sydney and Brisbane. In the same week, about 300 truck drivers drove in convoy through the eastern suburbs of the West Australian capital of Perth to protest to state parliament over the same issues.

A spokesman for the NSW truck blockade said rising operating costs and low contract prices meant many owner-drivers were "working for nearly nothing". He said fuel price hikes meant that the cost of an average trip had risen over the past five months by between $625 and $640. "Some truck drivers simply cannot afford to eat because their wages do not cover their fuel costs," he said.

The protests are symptomatic of broader discontent. Many families are living close to the edge after decades of cuts to living standards and social services under both Liberal and Labor governments at the federal and state levels. In 2000, the Howard government introduced a Goods and Services Tax slamming an extra 10 percent on almost all purchases—including petrol—and shifting the taxation burden from business and high-income earners to low-paid consumers.

Now, rising petrol prices are biting even deeper into family budgets, especially in rural and outer metropolitan areas heavily dependent on private vehicles. Inadequate or non-existent public transport means that most people in these areas are forced to use a car for everyday requirements, from dropping off children at school to getting to and from work.

Recent research by the motoring body NRMA shows that the rising cost of petrol has forced many people to cut spending in other areas, including on essential items. A quarter of all families surveyed had reduced spending on food and groceries, while 32 percent had spent less on a range of items, such as CDs, books and better quality children's clothing.

The Salvation Army's communications director John Daiziel said his charity organisation was now giving food vouchers to disadvantaged families so they would have money for petrol. "I've hardly heard of it until the last few months," he said.

This situation will only worsen as higher transport costs are passed onto consumers, including for essential goods such as groceries and clothing. Last month Australian Trucking Association chairman Ross Fraser said fuel bills for his livestock transporting company had increased 30 percent in the past ten months. He and other trucking companies now charge clients a 10 percent fuel tax.

In a sign of what is to come, Dairy Farmers raised the price of milk products, including cheese, yogurt and fruit juice, by 4 to 8 percent in early October. The cost of a litre of milk jumped by 16 cents, as did the price of a 250-gram block of cheese.

Consumers Association spokesman Norm Crothers warned: "[T]he cost of fuel is going to go into the cost of just about every product that we buy and some services," he said. TD Securities economist Stephen Koukoulas said: "Anything that is transported to a supermarket for example will probably increase in price..."

Rising prices have increased the likelihood of higher home mortgage interest rates. Economic forecaster BIS Shrapnel predicted last month that rising fuel prices, combined with wage-driven cost increases, could push inflation to 3 percent this year—the upper limit of Reserve Bank's target band—and over 4 percent next year. Senior economist Matthew Hassan forecast a 1 percent interest rate increase over the next year.

Higher prices and interest rates will compound the political difficulties confronting the Liberal-National Party government. Prime Minister John Howard won the federal election last year by running a scare campaign attacking Labor's economic credentials and claiming that interest rates would rise if Labor regained office.

Sensitive that fuel price increases will add to widespread resentment, Howard has gone to lengths to allay public concern. Late last month, he said that he was "concerned about the flow-on effects" of soaring petrol prices but called on people "not to panic". Dismissing expert opinion and mounting evidence to the contrary, he declared people should "not assume that all goods would be more expensive".

The government has attempted to deny responsibility by claiming "where oil prices are influenced by international events... there's not a much the Australian government can do". Most people are well aware, however, that Australia's four main oil companies—Caltex, Mobil, Shell and BP—continue to make massive profits and that the government itself rakes in an estimated $13 billion annually from its 38 cents a litre petrol excise. The GST accounts for another 11 cents a litre of fuel prices.

Moreover, there is growing evidence of profiteering and "price gouging," which is prompting calls for the government to intervene. Motoring organisation RACT's chief engineer Doug Ling pointed out that while the price of crude oil fell slightly from $US67.52 a barrel on August 25 to $US66.23 on September 29, the average price of a litre of unleaded petrol in Tasmania leapt by 9 cents during that period.

On the eve of an emergency fuel summit called by the NRMA last month, NRMA president Alan Evans said oil producers had increased refinery margins threefold in just two months—from 5 cents to 17 cents a litre—pushing up the price to retailers. Far from rebuffing the charge, Shell chairman Tim Warren boasted to the media that in the area of refining the "petrol companies are enjoying a rich year this year".

The NRMA fuel summit was attended by more than 40 representatives of interests groups, including the Service Stations Association, Tourism Task Force and Australian Fleet Managers. It called on the government to instruct the Australian Competition and Consumers Commission (ACCC) to investigate how oil companies set refinery prices, to reinstate a system of national fuel price monitoring and to make all parties receiving petrol revenue, including the oil companies, service stations and government, "more accountable".

While the government—ever sensitive to the needs of the oil giants—dismissed the NRMA's call, it was forced to abandon plans to raise the petrol excise by early next year. The issue became more explosive after the media revealed that the $420 million in increased excise would be handed to the oil companies to "encourage them to produce environmentally friendly fuels". Howard rejected calls to use the budget surplus to reduce the present petrol excise, saying "once a tax is reduced... there is a near 100 percent resistance to it going up again."

Howard has attempted to divert concerns over petrol prices with a plan to require the use of bio-fuels such as ethanol produced from the fermentation and distillation of sugar cane. He was hoping to kill several birds with one stone: to placate both drivers and rural interests represented by his National Party coalition partner. Ethanol producers such as the Manildra Group have been pushing for a mandatory 10 percent ethanol blend in all petrol, which would prove a boon for sugar cane farmers, angry that their interests were sacrificed in negotiations for last year's US-Australia trade agreement.

In the wake of the NRMA fuel summit, the government called its own fuel conference attended by representatives of the four oil companies and the ACCC. The only proposal to emerge was a vague agreement by the oil companies to set a target of marketing 350 million litres of ethanol biofuel by 2010. At just over 1 percent of Australia's fuel consumption, even Howard was forced to admit: "It will have little, if any impact on petrol prices".

For now, Howard appears to have been able to brush the issue aside. But high oil prices are one more factor undermining the relative economic stability on which his government has rested since 1996. Westpac's survey of consumer sentiment, which fell 13.3 percent and registered its lowest level in two years in September, is an indicator of slowing consumer spending that will impact on manufacturing, construction and retail. Any economic downturn will immediately multiply the political problems facing the government.