

Report on the Launceston petrol market

July 2016



ISBN 978 1 922145 82 6

Australian Competition and Consumer Commission 23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

© Commonwealth of Australia 2016

This work is copyright. In addition to any use permitted under the *Copyright Act 1968*, all material contained within this work is provided under a Creative Commons Attribution 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications, ACCC, GPO Box 3131, Canberra ACT 2601, or publishing.unit@accc.gov.au.

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice, and should not be relied on as a statement of the law in any jurisdiction. Because it is intended only as a general guide, it may contain generalisations. You should obtain professional advice if you have any specific concern.

The ACCC has made every reasonable effort to provide current and accurate information, but it does not make any guarantees regarding the accuracy, currency or completeness of that information.

Parties who wish to republish or otherwise use the information in this publication must check this information for currency and accuracy prior to publication. This should be done prior to each publication edition, as ACCC guidance and relevant transitional legislation frequently change. Any queries parties have should be addressed to the Director, Corporate Communications, ACCC, GPO Box 3131, Canberra ACT 2601, or publishing.unit@accc.gov.au.

ACCC 07/16_1084

Contents

Sum	mary		1
Key	point	3	1
1	Petr	ol prices in Launceston have been significantly higher than in the five largest cities	7
	1.1	Petrol prices in Launceston were consistently above average prices in Australia's five largest cities, and the differential increased between 2012-13 and the first half of 2015-16	7
	1.2	Movements in petrol prices in other locations in Tasmania are broadly similar to Launceston	8
	1.3	Price cycles in the five largest cities influence comparisons with Launceston	10
	1.4	There was no noticeable market study announcement effect on retail prices in Launceston	10
2	Reta Laur	il and wholesale costs and margins were the largest contributors to the high retail prices in Inceston	12
	2.1	The petrol value chain in Launceston	12
	2.2	Retail operating costs and margins are higher in Launceston	13
	2.3	Wholesale prices account for around one-third of the retail price differential between Launceston and Adelaide	14
3	Reta	il profits have been relatively high in Launceston since 2012–13	17
	3.1	Net profit per site in Launceston is substantially higher than in Adelaide	17
	3.2	Retail sites in Launceston sell lower volumes of petrol	19
	3.3	Retail unit net profit in Launceston is higher than the Australian average	20
	3.4	Higher profits in Launceston are reflected in higher GIRDs and petrol margins	21
4	The	Launceston market is quite fragmented	23
	4.1	There are a number of players at all levels of the Launceston petrol market	23
	4.2	Overview of the Launceston retail market	23
	4.3	Independent Tasmanian retailers operate around two thirds of the retail sites in Launceston	24
	4.4	In recent years the number of retail sites in Launceston has declined	25
	4.5	There are few independent retail chains in Launceston	26
5	Lack	of aggressive retail competition in Launceston has resulted in higher retail margins and profits	27
	5.1	Weak responses to decreases in TGPs underpinned retail margin expansion in Launceston	27
	5.2	With the exception of United, independent retailers do not provide a strong competitive	
		constraint in Launceston	30
	5.5	Lack of competitive pressure in petrol retaining in Tasmania is not unique to Launceston	55
6	Incre	eased transparency and promotion of price competition are the way forward	37
	6.L	Increase transparency of GIRDs and retail prices	37
	6.2	Promote price competition	39
Арр	endix	A: Background and process	40
Арр	endix	B: Petrol prices, TGPs and GIRDs in Launceston	42
Арр	endix	C: Diesel prices, TGPs and GIRDs in Launceston	47
Арр	endix	D: Petrol prices in all monitored locations in Tasmania	52
Арр	endix	E: Financial data collection and methodology	56

Summary

Petrol prices in Launceston were significantly higher than those in the five largest cities in Australia for much of the time since 2012–13.¹ The main reasons for this were: higher transport costs; higher wholesale operating costs and margins; and higher retail operating costs and margins.

The higher retail margins largely reflect a lack of effective price competition. While two thirds of retail sites are operated by independent retailers in Launceston, the major price pressure is coming from only one independent retailer (United). However, given United's relatively small sales volumes compared with the major retailers, the impact on price competition has been muted.

Although many of the factors contributing to higher retail prices in Launceston are unlikely to change, greater transparency through better price information to consumers should in time lead to more price competition.

Key points

Petrol prices in Launceston have been significantly higher than in the five largest cities in Australia and this difference has increased in recent years

Between 2012–13 and the first half of 2015–16 Launceston motorists paid on average around 12 cents per litre (cpl) more for petrol than motorists in the five largest cities (i.e. Sydney, Melbourne, Brisbane, Adelaide and Perth).

This was almost double the price difference for the previous five years: petrol prices in Launceston between 2007–08 and 2011–12 were on average around 7 cpl more than in the five largest cities.

The differential between petrol prices in Launceston and the five largest cities has narrowed in recent months following increased competitive pressure from United

On 23 February 2016 the Royal Automobile Club of Tasmania (RACT) announced that it had established a partnership with United Petroleum to offer an 8 cpl discount commencing on 15 March 2016 for two months at nearly 40 United and associated sites across the state.² In response to this offer, the supermarket chains (Coles Express and Woolworths) introduced their own increased shopper docket offers.

The RACT/United discounts and the supermarket shopper docket schemes appear to be leading to lower prices for motorists in Launceston. Since these offers became available, monthly average retail petrol prices (i.e. board prices not including discounts) in Launceston decreased by 2.0 cpl between February and April 2016, while retail prices in the five largest cities increased by 6.1 cpl.

Gross indicative retail differences (GIRDs) in Launceston also decreased relative to those in the five largest cities. GIRDs are the difference between retail prices and published wholesale prices (or terminal gate prices (TGPs)). GIRDs are a broad indicator of gross retail margins.

¹ In this report 'petrol' means regular unleaded petrol unless otherwise specified. All prices used in this report are board prices and do not take account of discount arrangements (such as shopper docket discount schemes). For the purposes of this study, the ACCC has defined Launceston as the area of Launceston and its surrounds to a 20 kilometre radius.

² Royal Automobile Club of Tasmania (RACT), media release, RACT-UNITED partnership to combat high fuel prices, 23 February 2016, at: <u>http://www.ract.com.au/SiteCollectionDocuments/</u> <u>MediaRelease42016RACTUnitedpartnershiptocombathighfuelprices.pdf</u>, accessed on 14 April 2016.

Between 2007-08 and 2011-12 GIRDs were around 10 cpl in Launceston, which was around 3 cpl higher than in the five largest cities. GIRDs in Launceston increased to around 16 cpl between 2012-13 and 2014-15, around 8 cpl higher than in the five largest cities.

GIRDs in Launceston decreased substantially following the introduction of the RACT/United discount scheme to around 13 cpl in April 2016. Between February and April 2016 monthly average GIRDs in Launceston decreased by 6.8 cpl. Over the same period, GIRDs in the five largest cities increased by 1.4 cpl.

There are three main influences which explain the higher prices in Launceston in recent years

In 2014-15 average retail petrol prices in Launceston were around 14 cpl higher than in Adelaide.

Adelaide was chosen as a comparator because, of the five largest cities in Australia, it is the smallest and does not have a refinery. However, retail and wholesale prices in each of the largest cities are broadly similar and therefore the results would not be materially different if another of these cities instead of Adelaide was used for comparison purposes.

The three main influences on higher prices in Launceston are that it had:

- higher transport costs (accounting for around 3 cpl)
- higher operating costs at both the wholesale and retail level, and higher wholesale margins (together around 7 cpl) and
- higher retail margins and profits (around 4 cpl).

These influences are explained in more detail below.

It costs more to get petrol to Launceston

Petrol comes into Tasmania from refineries and terminals in other Australian cities, or from overseas refineries. Regardless of the source, the price of refined petrol across Australia is based on import parity. This is because Australia is a net importer of refined petrol and domestic prices must reflect international prices to attract sufficient petrol into the Australian market.

In 2014–15 the cost of bringing petrol into Tasmania was around 2 cpl higher than bringing petrol into the five largest cities. Shipping costs to Tasmania are higher than to mainland Australian ports because of its distance from Singapore (the major export hub in the Asia-Pacific region). Other importing costs also tend to be higher, reflecting relatively lower volumes in Tasmania.

In addition, Launceston does not have its own fuel terminal. Fuel is transported to Launceston from five terminals around Tasmania (Bell Bay, Devonport, Burnie and two in Hobart).³ The average cost to transport petrol from these terminals to retail sites in Launceston was around 2 cpl in 2014–15. This was 1 cpl higher than the freight cost in Adelaide, where the distance between terminals and retail sites is much shorter.

Wholesale operating costs and margins are higher because of the relatively small size of the Launceston and Tasmanian markets

Operating costs per litre sold are higher in Launceston at both the wholesale and retail level because of the smaller size of the Launceston and Tasmanian markets, and the smaller volumes sold at most retail sites.

At the wholesale level, some companies reported that terminal operating costs per litre were higher in Tasmania compared with Adelaide as a result of the lower throughput of petrol in Tasmanian terminals. In 2013–14 average throughput of terminals operated by the refiner-

³ For this reason, this study considers that the appropriate wholesale price benchmark for Launceston is the average of all TGPs in Tasmania.

wholesalers in Tasmania was only around one-quarter of the average throughput of terminals operated by the refiner-wholesalers in Adelaide.⁴

Launceston TGPs were on average around 5 cpl higher than those in Adelaide in 2014–15. The higher operating costs in Launceston compared with Adelaide, and higher wholesale margins, account for around 3 cpl of this difference. The remaining 2 cpl is due to the higher shipping and importing costs noted earlier.

Operating costs are also higher at the retail level

At the retail level, operating costs per litre of petrol sold are also relatively higher in Launceston than in Adelaide. This is because lower volumes of petrol are sold on average at retail sites in Launceston. In 2014–15, retail sites in Launceston sold over 40 per cent less petrol than sites in Adelaide (around 2.6 million litres per site compared with 4.4 million litres per site).

In addition, gross profits made on convenience sales are significantly lower in Launceston than in Adelaide. This means that a greater proportion of operating costs are allocated to petrol sales. In 2014–15, operating costs per litre of petrol at the retail level in Launceston were on average around 7 cpl, which was 4 cpl higher than average operating costs per litre in Adelaide.

The combined impact on Launceston petrol prices of higher operating costs at both the wholesale and retail level, and higher wholesale margins, is around 7 cpl.

Given the relatively small volumes of petrol sold in Launceston, if there were fewer retail sites in Launceston selling larger volumes, this would lead to lower costs per litre and potentially lower retail prices for motorists.

Scale is important at the retail level in Launceston

The higher volume of petrol sold by the supermarket sites in Launceston has allowed them to be significantly more profitable than the non-supermarket sites.

The supermarket chains make up only a quarter of the retail market in Launceston by number of retail sites, but they represent over half of all petrol sold to motorists in Launceston. The high sales volumes are likely due to motorists taking advantage of the shopper docket discounts, as well as sites being in prominent locations such as shopping centre carparks. Independent retailers represent around two-thirds of the Launceston retail market in terms of site numbers, but account for only a third of the market by volume.

The ability of the supermarket chains to purchase very large volumes allows them to negotiate better prices from wholesalers, relative to smaller retailers. Higher volumes per site also mean that a smaller share of operating costs is allocated to each litre of petrol sold. Therefore, the net retail margin made on each litre of petrol is higher than if overall sales volumes were lower (all else being equal).

Until very recently retailers in Launceston achieved higher margins and profits because of weaker retail competition

Relatively weak retail competition in Launceston, reflected by a lack of aggressive price discounting, led to an increase in retail margins and profits in recent years.

In 2014-15 retail margins in Launceston were around 4 cpl higher than those in Adelaide.

The number of retail sites in Launceston has decreased since 2007, which may have influenced the extent of price competition. However, the current retailers in Launceston told the ACCC that they were not aware of any changes to market structure or in the pricing strategies of their competitors during this time.

⁴ A refiner-wholesaler is a company that refines, imports and wholesales fuel in Australia. It includes BP, Caltex, Mobil and Viva Energy.

Petrol retailers in Launceston have passed on more of the increases than decreases in TGPs, which led to the significant growth in GIRDs from 2012–13. In the three years to October 2014 only around 25 per cent of the aggregate decreases in TGPs were passed on by retailers, compared with around 35 per cent of the aggregate increases in TGPs. This reflects the absence of a sufficient number of retailers in Launceston willing to 'chase volumes' by discounting their prices.

In 2014–15 the average net profit for retail sites in Launceston was around \$276 000 per site.⁵ Over the five years to 2014–15 average net profit per site in Launceston was considerably higher than in Adelaide, and across Australia. However, profitability varied greatly between retailers. The supermarket chains achieved much higher profits per site than the market average for Launceston, while many of the smaller independents saw substantially lower net profit per site.⁶

The story of weak competition and higher prices in Launceston was seen across Tasmania

Motorists in Launceston, Hobart and Tasmanian regional locations have paid more for petrol in recent years relative to motorists in the five largest cities. Over the past seven years, Launceston petrol prices have moved closely in line with prices in the four other largest cities in Tasmania based on population (i.e. Hobart, Devonport, Burnie and Ulverstone). However, since 2012–13 Launceston has had the highest prices among these cities.

Analysis of retail petrol price data in both Launceston and Hobart indicates that United is a strong price competitor. In both cities United tended to be on average the cheapest brand or among the cheapest brands. The relatively small size of United in terms of market share, and a lack of other aggressive discounters to lead prices down, appears to have resulted in weaker responses to decreases in TGPs in Launceston and Hobart than otherwise may have been the case.

While the supermarkets and the refiner-wholesaler controlled sites offer prices with an eye to one another, it appears necessary for other retailers to be present to drive prices down. While United plays this role to a degree, to the benefit of consumers, it has not been sufficient to prevent increases in retail margins in Launceston and Hobart until very recently.

Increased price competition and transparency are the way forward

There are several steps that could be taken to promote effective price competition and increase transparency in Launceston. These include:

- promotion of discount schemes that enhance price competition
- providing current retail prices to motorists, including through new apps
- regular publication of GIRDs and benchmarking against other locations
- continued monitoring by the ACCC of future merger activity in the Launceston petrol market.

Where there are high profits, as in the Launceston market, there is usually a competitive response. This might include retailers aggressively discounting to gain market share. While in recent years price competition has been weak, there have very recently been more encouraging signs, as discussed earlier.

The recently introduced RACT/United discount scheme appears to be leading to lower prices in Launceston. The success of this scheme depends on the discounter benefiting through increased sales volumes and higher convenience store sales.

If petrol price information is readily available to consumers, motorists in Launceston can support those discounters offering lower prices.

⁵ Net profit per site broadly equates to earnings before interest and tax, and does not take into account head office costs.

⁶ Independent retail sites in this report are generally sites which: (a) are not owned or operated by the supermarket chains or refiner-wholesalers, and (b) whose retail prices are not determined by the supermarket chains or refiner-wholesalers. These sites may or may not trade under a major brand (e.g. BP).

Increased transparency will be assisted by the resolution in December 2015 of ACCC court proceedings against Informed Sources and a number of petrol retailers, which will lead to petrol price information being available to consumers and third parties on a near real-time basis.

Over time, the greater provision of price information to consumers will improve the functioning of retail petrol markets in a number of ways. It will:

- enable motorists to more easily compare prices across retail sites (particularly through welltailored apps)
- reward more those companies that discount
- enable greater public scrutiny of the behaviour of petrol retailers.

The more information on petrol prices which is available to the public, the better informed motorists will be about when to buy petrol and from whom.

Launceston consumers, with the new information provided by the apps, will have a key role in driving the overall competitiveness on the Launceston petrol market, and therefore the prices they pay for fuel.

If retailers in Launceston were more competitive, the ACCC would expect GIRDs in the future to be much closer to the level that they were over the period 2007–08 to 2011–12 (around 10 cpl), and in April 2016. If this were the case, then motorists could expect savings of around 4 to 5 cpl on retail petrol prices.

Background

In December 2014 the then Minister for Small Business, the Hon. Bruce Billson MP, gave the ACCC a new direction to monitor the prices, costs and profits of unleaded petroleum products in Australia for a period of three years. The new monitoring arrangements introduced by the ACCC include the preparation of regional market studies. These aim to explain why petrol prices are higher in certain regional locations and explain where profits are being made in the petrol supply value chain.

The ACCC collects retail petrol prices for all capital cities and over 190 regional locations across Australia. Following extensive assessment of price and other data for these locations, the ACCC announced in March 2015 that Darwin would be the first of its regional studies. The report on the Darwin market was released in November 2015.

In May 2015 the ACCC announced Launceston as the location for the second fuel market study.⁷

The ACCC is also undertaking regional fuel market studies in Armidale and Cairns. On conclusion of the four regional market studies the ACCC will review the overall lessons learned and how they may apply in other regional areas.

⁷ More detail on the background to the regional studies and how Launceston was chosen is included in appendix A.

High prices and margins do not necessarily indicate a breach of the Competition and Consumer Act

Without anticompetitive agreements or misuse of market power, 'profiteering' or 'price gouging' are not illegal. The ACCC does not set prices or profit margins in petrol markets, and it is not able to restructure petrol markets or make them operate more efficiently. Its role is to promote effective competition in petrol markets where it can, so that resources are used efficiently and markets work in the interests of consumers.

Higher prices and margins can occur in competitive markets resulting from factors such as increasing demand, supply constraints, or cost savings from operational efficiencies or technological investment.

Markets where competition is weak or ineffective will usually result in higher prices and profits at the expense of consumers. This may be the result of illegal conduct or could also be the result of structural or market dynamics which are not a breach of the *Competition and Consumer Act 2010* (Cth). In such circumstances the operation of the market can often improve over time through the competitive process or with policy or other changes to the business environment.

The ACCC takes action to enforce compliance with competition law which prohibits anticompetitive behaviour. This includes cartel conduct, misuse of market power and anticompetitive agreements. These behaviours can all affect prices.

- Certain types of agreements can adversely affect the competitive process. Competition law prohibits agreements between competitors about price, customers, outputs and market shares, as well as supply agreements that substantially lessen competition.
- By itself, having market power or a significant market share is not illegal. Concerns arise where substantial market power is used to interfere with the process of competition such as eliminating or substantially damaging a competitor, preventing the entry of a person into a market, or deterring or preventing a person from engaging in competitive conduct in a market.

It is the ACCC's role not only to discover breaches of the *Competition and Consumer Act 2010* and take action accordingly, but also to highlight where there is a need for more effective competition.

1 Petrol prices in Launceston have been significantly higher than in the five largest cities

1.1 Petrol prices in Launceston were consistently above average prices in Australia's five largest cities, and the differential increased between 2012–13 and the first half of 2015–16

Annual average petrol prices in Launceston were consistently higher than those in the five largest cities (i.e. Sydney, Melbourne, Brisbane, Adelaide, and Perth)—see chart 1.1.⁸ Between 2003-04 and 2011-12 Launceston motorists paid on average 6.9 cents per litre (cpl) more for petrol than motorists in the five largest cities. Between 2012-13 and the first half of 2015-16 the differential increased to 11.9 cpl (this period is shaded in the chart).⁹

Similar trends and price differentials were observed for diesel sales in Launceston.¹⁰



Chart 1.1: Annual average retail petrol prices in Launceston and the five largest cities and the difference: 2003–04 to the first half of 2015–16

Source:ACCC calculations based on FUELtrac and Informed Sources data.Note:2015-16* covers the period 1 July to 31 December 2015.

The price differential between Launceston and the five largest cities began increasing in late 2011 (see chart 1.2). Since then, the monthly average differential has fluctuated but has exhibited an upward trend. The differential reached a peak of 22.1 cpl in December 2014. In April 2016 the differential was 7.3 cpl.

⁸ Average prices for the five largest cities are for regular unleaded petrol (RULP) except for Sydney, where E10 prices have been used since July 2014 instead of RULP. When comparing retail prices across locations during this period it is important to note that a number of state governments provided subsidies that lowered the final petrol price to consumers. Prior to 1 October 2007, the Tasmanian Government provided a subsidy of 1.95 cpl (around 2.1 cpl when GST is included) to fuel wholesalers, distributors and bulk end-users. Prior to 1 July 2009 the Queensland Government provided a subsidy at the retail level of 8.4 cpl (around 9.2 cpl when GST is included).

⁹ Appendix B provides more data on petrol prices in Launceston.

¹⁰ Appendix C provides more data on diesel prices in Launceston.



Chart 1.2: Monthly average retail petrol price differentials between Launceston and the five largest cities: January 2010 to April 2016

Source: ACCC calculations based on FUELtrac and Informed Sources data.

The fluctuation in the differential in prices between Launceston and the five largest cities largely reflects that Launceston prices tend to be less volatile than those in the five largest cities, and less responsive to movements in international petrol prices and wholesale prices. However, the differential has trended upwards—this is considered further in chapter 5.

1.2 Movements in petrol prices in other locations in Tasmania are broadly similar to Launceston

The five largest cities in Tasmania (by population) are Hobart, Launceston, Devonport, Burnie and Ulverstone. Over the last seven years petrol prices in Launceston have moved closely in line with prices in the other four largest cities in Tasmania (see chart 1.3). However, since December 2012 Launceston prices have been slightly higher than the average of these four cities. In addition, in every month from January 2015, Launceston prices were higher than prices in each of the other four cities.¹¹

¹¹ Appendix D provides more data on petrol prices in the other locations monitored by the ACCC in Tasmania.



Chart 1.3: Monthly average retail petrol prices in Launceston and the other four largest Tasmanian cities: July 2009 to April 2016

Source: ACCC calculations based on FUELtrac and Informed Sources data.

The similarity in the movement of Launceston prices with other Tasmanian locations suggests that factors that are relevant to the Launceston market may be applicable across the whole state. Therefore the findings of this report are likely to have a wider applicability to other fuel markets in Tasmania.

Chart 1.4 shows that since 2009–10, prices in the five largest cities in Tasmania have been consistently higher than prices in the five largest cities in Australia. As is the case with Launceston (chart 1.2), the differential between prices in the largest cities in Tasmania and those in the five largest Australian cities has been increasing in recent years.



Chart 1.4: Monthly average retail petrol prices in the five largest Tasmanian cities and in the five largest cities in Australia: July 2009 to April 2016

Source: ACCC calculations based on FUELtrac and Informed Sources data.

1.3 Price cycles in the five largest cities influence comparisons with Launceston

Retail petrol prices in Australian regional locations are generally higher than in the five largest cities due to a number of factors, such as a lower level of local competition and lower volumes of fuel sold. However, a major influence on the daily difference in prices is the presence of price cycles in the larger capital cities, which do not generally occur in regional locations.

Chart 1.5 shows daily average retail petrol prices in Launceston and Melbourne over the period 1 May 2015 to 31 August 2015. Launceston retail prices were on average 11.4 cpl higher than those in Melbourne over the four month period. However, on a daily basis, they ranged from being 28.0 cpl higher than Melbourne prices (on 31 August 2015) to being 5.1 cpl lower than Melbourne prices (on 7 June 2015).

This indicates that comparing daily average prices in regional locations with those in the larger capital cities can be misleading. Comparisons should be made over longer time periods.



Chart 1.5: Daily average retail petrol prices in Launceston and Melbourne: 1 May 2015 to 31 August 2015

Source: ACCC calculations based on FUELtrac data.

1.4 There was no noticeable market study announcement effect on retail prices in Launceston

When the ACCC announced that it was undertaking a fuel market study in Darwin and Armidale there was a fall in retail prices in those locations. For example, the ACCC's Darwin report noted that retail prices in Darwin decreased significantly from October 2014 and commented that:

This decrease, and its size relative to the five largest cities, appears to have been significantly influenced by the increased scrutiny of Darwin prices by the Northern Territory Government (including through the Northern Territory Fuel Summit), the ACCC and the wider community.¹²

In Launceston there was no noticeable announcement effect on retail prices.

The ACCC announced Launceston as the location for its second regional fuel market study on 8 May 2015. At that time, Launceston petrol prices were around 143 cpl (chart 1.6). Prices slowly increased and reached a peak of around 150 cpl at the end of June 2015. Average prices in Launceston in May 2015 were 7.6 cpl higher than the five largest cities, only a slight decrease from the previous month (8.2 cpl). By October 2015 the differential between prices in Launceston and the five largest cities had increased to 11.8 cpl.

¹² Australian Competition and Consumer Commission (ACCC), *Report on the Darwin petrol market, November 2015*, <u>https://www.accc.gov.au/publications/petrol-market-studies/report-on-the-darwin-petrol-market</u>, p. 33.





Source: ACCC calculations based on FUELtrac data.

2 Retail and wholesale costs and margins were the largest contributors to the high retail prices in Launceston

Retail petrol prices are influenced by a large number of factors. These include the international price of refined petrol and the AUD-USD exchange rate, transport costs, operating costs, and profits made by wholesalers and retailers. The international price of refined petrol and the AUD-USD exchange rate are the same anywhere in Australia, but other components of the retail petrol price will vary across locations.

The analysis in chapters 2 and 3 is based on retail site-specific data provided by most retailers operating in Launceston. There are some consistency issues associated with this data, which are described in more detail in appendix E. Key points to note are:

- Data obtained from the sites of individual companies have been averaged across the city, and therefore the aggregate data represents an average only and should not be attributed to any individual retail site or company.
- Various types of retail sites operate in the petrol industry—such as company-owned and company-operated, franchise and commission agency—which have different operating and financial arrangements.
- As companies allocate head office costs in different ways, these have been excluded from the profit calculations in these chapters, except in chart 3.2.¹³

2.1 The petrol value chain in Launceston

The ACCC has examined the value chain for petrol in Launceston for 2014–15 and compared it with the value chain in Adelaide. The value chain shows the elements of the price of a litre of petrol from the price of imported refined petrol through to the pump.

Adelaide was chosen as a comparator location because, of the five largest cities in Australia, it is the smallest and does not have a refinery. Retail and wholesale prices in each of the five largest cities are broadly similar, and each has a number of terminals. Therefore, if Adelaide was substituted with another major city as the comparator with Launceston, the results would not be materially different.

Adelaide has a population of around 1.1 million people and around 260 retail sites. Launceston is much smaller with a population of around 74 000 people and 33 retail sites.

In 2014–15 the average retail petrol price was 147.2 cpl in Launceston and 132.4 cpl in Adelaide—a difference of 14.8 cpl. The value chain in table 2.1 shows the broad components of these prices.

¹³ Head office costs are costs incurred by larger retail operators in the operation of retail sites. These costs may relate to marketing, training, IT services, support office costs, and other administrative costs, which may not easily be attributed to individual sites. Head office costs are generally not included in the profit and loss statements for individual retail sites but are reported separately in the profit and loss statements across the overall business. As the retail operators used different methods to allocate their head office costs, they have been largely excluded from the profitability analysis in this report.

Table 2.1:	Petrol value	chain in Laun	ceston and A	delaide: 2	2014-15 ((cpl)
------------	--------------	---------------	--------------	------------	-----------	-------

	Launceston	Adelaide	Difference
Retail price	147.2	132.4	14.8
Net margin	6	2	4
Operating costs	7	3	4
Freight ^a	2	1	1
GST—retail ^₅	2	1	1
Terminal gate price	130.4	125.7	4.7
Wholesale GST and excise ^d	50	50	0
Costs and margins	8	5	3
Import parity price	72.9	70.5	2.4
Refined petrol	66	66	0
Shipping	4	3	1
Costs and margins	1	1	0
Quality premium ^e	1	0	1

Source: ACCC calculations based on data from BP, Caltas, Caltex, Centrel, Coles Express, FUELtrac, Mobil, United, Viva Energy, and Woolworths.

The components of each price have been rounded to the nearest cent. As a result, they may not sum to the totals. a The retail freight costs are from the FUELtrac Freight Index.

b GST-retail is one-eleventh of the difference between the retail price and the TGP.

c Terminal gate prices (TGPs) are the prices at which petrol can be purchased from wholesalers in the spot market and are posted on a regular basis on the websites of the major wholesalers. Launceston TGPs are calculated by averaging the eight published TGPs at the five terminals across Tasmania (two in Hobart, Bell Bay, Burnie and Devonport). Average TGPs across Tasmania were used because fuel sold in Launceston is sourced from all five terminals.

d Wholesale GST and excise are the same in Launceston and Adelaide due to rounding.

e Quality premium is described in section 2.3.1.

The value chain shows that in 2014-15 the main contributors to the higher retail petrol prices in Launceston compared with Adelaide were:

- net retail margin-higher in Launceston by around 4 cpl
- retail operating costs—higher in Launceston by around 4 cpl
- wholesale prices—higher in Launceston by around 5 cpl
 - higher wholesale costs and margins contributed around 3 cpl
 - international shipping costs and quality premium contributed around 2 cpl.¹⁴

These elements of the value chain are explained further below.

2.2 Retail operating costs and margins are higher in Launceston

The value chain highlights that the most significant contributions to the high prices in Launceston occur at the retail level. In 2014–15, the difference between wholesale and retail prices in Launceston was around 10 cpl higher than in Adelaide. Table 2.1 shows that this difference was largely due to higher retail operating costs and net retail margins.

The higher operating costs per litre in Launceston were influenced by lower petrol sales, and therefore lower economies of scale, compared with sites in Adelaide. However, the higher net retail margins in Launceston are more of a concern to the ACCC as they indicate a lack of effective price competition in the Launceston retail petrol market.

Notes:

¹⁴ The other contributors to the difference are freight costs at the retail level (which were around 1 cpl higher in Launceston) and the impact of the GST at the retail level (also around 1 cpl).

2.2.1 Higher retail operating costs per litre are a significant contributor to higher retail prices in Launceston

Fuel retailers incur a range of operating expenses including wages, energy costs, site lease costs and cleaning and maintenance. The margins fuel retailers make on the sale of fuel and other products (such as convenience products) must cover these costs.

Retail allocated operating costs were around 7 cpl on petrol sold in Launceston in 2014–15, compared with 3 cpl in Adelaide.

Overall, average retail operating costs per site in Launceston were around \$386 000 in 2014–15, which was lower than in Adelaide where operating costs per site were on average \$595 000. However, the amount of operating costs allocated to each litre of petrol sold in Launceston was higher than in Adelaide for two reasons:

- retailers in Launceston sold lower volumes of fuel per site, resulting in a greater share of operating costs for each litre of petrol sold
 - information about sales volumes is presented in section 3.2
- convenience store revenue per site was lower in Launceston than in Adelaide (by around \$610 000 per site), which meant that a lower share of operating costs is apportioned to non-fuel sales.

2.2.2 High net retail margins reflect a lack of strong price competition in Launceston

Retailers in Launceston achieved an average net margin of around six cents on every litre of petrol sold, after accounting for retail operating costs, freight and taxes. Net retail margins in Launceston were 4 cpl higher than in Adelaide, where they were around 2 cpl. The higher net retail margins achieved on petrol and other fuels in Launceston in 2014–15 helped contribute to higher overall net profits per site compared with Adelaide.

2.3 Wholesale prices account for around one-third of the retail price differential between Launceston and Adelaide

Petrol sold in Launceston is obtained from five terminals around Tasmania (Bell Bay, Devonport, Burnie and two in Hobart). Therefore, the appropriate wholesale price benchmark is the average of all TGPs in Tasmania.

In 2014–15 average TGPs in Tasmania were 4.7 cpl higher than in Adelaide. This represents around one-third of the difference between retail petrol prices in Launceston and Adelaide.

Of this difference, 2.4 cpl was due to the higher costs of bringing petrol into Tasmania. Wholesale costs and margins contributed around 3 cpl to the higher wholesale prices in Launceston in 2014–15. Some companies reported that operating costs per litre were higher in Tasmania compared with Adelaide as a result of the lower throughput of petrol in Tasmanian terminals. For example, in 2013–14 average terminal throughput of refiner-marketer terminals in Tasmania was around one-quarter of the average throughput of refiner-marketer terminals in Adelaide.

Chart 2.1 shows annual average TGPs in Tasmania and Adelaide, and the difference over the last eight years.



Chart 2.1: Annual average TGPs in Tasmania and Adelaide: 2007-08 to 2014-15

From 2007–08 TGPs in Tasmania increased relative to TGPs in Adelaide (and the other larger capital cities).

The difference between TGPs in Launceston and Adelaide increased between 2007–08 and 2014–15 by around 3 cpl.

This was due to a number of factors, including:

- increasing international shipping costs and quality premiums (around 1.5 cpl)
- increasing wholesale costs and margins (around 1 cpl)
- the cessation of the Tasmanian fuel subsidy from 1 October 2007 (around 0.5 cpl).

While wholesale petrol prices for Launceston have increased relative to Adelaide since 2007–08 retail petrol prices have increased by an even greater amount.

2.3.1 It costs more to import petrol into Tasmania than to the largest mainland cities

Petrol is imported into Launceston from refineries and terminals in other Australian cities, or from overseas refineries. Regardless of the source, the price of refined petrol is based on the import parity price (IPP).¹⁵ Pricing according to import parity is the setting of wholesale prices of petrol at a price comparable with the cost of importing fuel into a given location in Australia. This is because Australia is a net importer of refined petrol and domestic prices must reflect international prices to attract sufficient petrol into the Australian market.

The IPP price has four components:

- the benchmark price of petrol, which is generally the same anywhere in Australia
- international shipping costs
- a quality premium
- other import costs (such as wharfage and other incidental costs).

Because of Tasmania's distance from Singapore—the major petrol exporting hub in the Asia-Pacific region—shipping costs to Launceston are higher than to mainland Australian ports. In addition, other importing costs (wharfage and terminal costs, etc.) per litre also tend to be higher, reflecting the relatively lower volumes coming into Tasmania. Petrol delivered to Tasmania

Source: ACCC calculations based on data from BP, Caltex, Mobil, United and Viva Energy.

¹⁵ The IPP for petrol imported into Hobart is used as an estimate of the IPP for Launceston.

also attracted a higher fuel quality premium, which is likely to be influenced by factors such as remoteness and smaller volumes.¹⁶

Chart 2.2 shows the annual average IPP for Hobart and Adelaide from 2007-08 to 2014-15.

Overall, the cost of bringing petrol into Hobart (the closest location to Launceston for which the ACCC has data) was around 2 cpl higher than bringing petrol into Adelaide over the period. On average, international shipping to Hobart was around 1 cpl higher than for Adelaide, and the quality premium was also around 1 cpl higher.



Chart 2.2: Annual average IPPs in Hobart and Adelaide: 2007-08 to 2014-15

Source: ACCC calculations based on data from BP, Caltex, Mobil, and Viva Energy.

2.3.2 It also costs more to transport petrol to retail sites in Launceston

Launceston does not have its own fuel terminal. It obtains fuel from five terminals around Tasmania (Bell Bay, Devonport, Burnie and two in Hobart). The average cost to transport petrol from the terminals to retail sites in Launceston was around 2 cpl in 2014–15. This is 1 cpl higher than the cost in Adelaide, where the distance between terminals and retail sites is much shorter.

¹⁶ The quality premium is a component in the import parity pricing formula which reflects the fact that Australian specifications for petrol are more stringent than the specifications associated with the Singapore benchmarks for petrol. It consists of two components. The first reflects the quality difference, which represents the difference in price between the appropriate benchmark and the product required to meet the appropriate Australian specifications. The second reflects a number of local elements (such as the relative bargaining positions of the parties). The overall quality premium represents a negotiated settlement between the buyer and seller which takes both of these elements into account.

3 Retail profits have been relatively high in Launceston since 2012–13

This chapter presents the analysis of retail site profitability in Launceston, and compares this with Adelaide and Australia as a whole.¹⁷

3.1 Net profit per site in Launceston is substantially higher than in Adelaide

In 2014–15 the average net profit for retail sites in Launceston was around \$276 000 per site. However, profits made by individual sites varied greatly. The supermarket sites generally made the highest profits, and the smaller independent sites the smallest profits.

Chart 3.1 shows average net profit per site in Launceston and Adelaide in 2013-14 and 2014-15.



Chart 3.1: Net profit per site in Launceston and Adelaide: 2013-14 and 2014-15

Source: ACCC calculations based on data obtained from the companies.

Notes: Launceston estimates are based on data from Caltas, Centrel, Coles Express, United, Woolworths and five small independent retailers. Adelaide estimates are based on data from Caltex (2014-15 only), Coles Express, United, and Woolworths. The net profit figures are based on profit and loss statements provided by the companies. Net profit per site is broadly equal to earnings before interest and tax.

Chart 3.2 shows the average net profit per site in Launceston and Adelaide in 2013-14 and 2014-15 taking into account head office costs.

¹⁷ The consistency issues mentioned in chapter 2 and appendix E are applicable to this chapter.



Chart 3.2: Net profit per site (taking into account head office costs) in Launceston and Adelaide: 2013-14 and 2014-15

 Source:
 ACCC calculations based on data obtained from the companies.

 Notes:
 Launceston estimates are based on data from Caltas, Centrel, Coles Express, United, Woolworths and five small independent retailers. Adelaide estimates are based on data from Caltex (2014-15 only), Coles Express, United, and Woolworths.

 The net profit figures are based on profit and loss statements and additional data provided by the companies. Net profit per site is broadly equal to earnings before interest and tax, taking into account head office costs.

Chart 3.1 and 3.2 show that after taking into account head office costs, Adelaide net profit per site figures were reduced by around \$110 000 in 2013–14 and 2014–15, with net profit per site negative in Adelaide in 2014–15.

Companies use different methodologies in defining and allocating head office costs. Therefore, except in chart 3.2, the analysis in this study does not take into account head office costs.

Chart 3.1 shows that between 2013–14 and 2014–15 net profit per site in Launceston increased marginally, but decreased substantially in Adelaide.

Changes in the retail market are likely to have contributed to the decrease in profits in Adelaide in 2014–15. These include: slightly lower fuel volumes being sold by the monitored companies compared with 2013–14, and the full year impact of the undertaking signed by the supermarkets in December 2013 preventing them from offering fuel discounts that are subsidised by their supermarket operations and from bundling supermarket fuel offers greater than 4.0 cpl.

In addition, the opening of a Costco petrol site in Adelaide in November 2014, which has a policy of very aggressive pricing, appears to have significantly reduced prices at the surrounding retail sites. This was reflected in higher volumes at those sites as consumers took advantage of the more competitive retail prices. The combination of low prices and high volumes at the Costco petrol site and surrounding retail sites partly explains the decrease in net profit per site in Adelaide in 2014–15. This illustrates the importance of an aggressive price discounter in increasing competition and lowering retail prices within a market.

In Launceston retailers continued to be profitable in 2014–15. This was largely achieved through high margins on fuel sold.

3.1.1 Net profit per site has been high since 2012-13

Chart 3.3 shows that net profit per site in Launceston decreased between 2010-11 and 2011-12 (primarily due to increasing operating costs) and then increased by over 60 per cent in 2012-13. Net profit per site remained over \$250 000 from 2012-13 to 2014-15.



Chart 3.3: Net profit per site in Launceston: 2010-11 to 2014-15

Source: ACCC calculations based on data obtained from Caltas, Centrel, Coles Express, United, Woolworths and five small independent retailers.

Notes: The net profit figures are based on profit and loss statements provided by the companies. Net profit per site is broadly equal to earnings before interest and tax.

The increase in net profit was mainly driven by higher fuel margins. In 2010–11 and 2011–12 average fuel margins were around 7 cpl. They increased by 4 cpl to around 11 cpl between 2012–13 and 2014–15. Over the same period average non-fuel margins decreased from around 3 cpl to around 2 cpl.

3.2 Retail sites in Launceston sell lower volumes of petrol

Retail sites in Launceston on average sell much lower volumes of petrol than sites in Adelaide. In 2014–15, retail sites in Launceston sold over 40 per cent less petrol than sites in Adelaide (around 2.6 million litres per site compared with 4.4 million litres per site—see chart 3.4).



Chart 3.4: Average volume of fuel sold per site in Launceston and Adelaide: 2014-15

Source: ACCC calculations based on data from the companies.

Notes: Launceston estimates are based on data from Caltas, Centrel, Coles Express, United and Woolworths. Adelaide estimates are based on data from Caltex, Coles Express, United and Woolworths.

Average retail fuel sales per site were around 4.6 million litres in Launceston in 2014–15. This was around two thirds of average retail fuel sales per site in Adelaide (7.1 million litres).

Generally speaking, retail sites selling higher volumes of fuel will have lower operating costs per litre of fuel sold, to the extent that the higher sales volumes do not substantially increase costs (such as wages and energy costs).

3.3 Retail unit net profit in Launceston is higher than the Australian average

Retail unit net profit measures the overall profitability of retail sites in relation to total volume of fuel sold at those sites. It is defined as the total net profit earned at retail sites (including profit made on convenience sales) per litre of fuel sold. This includes all grades of petrol, diesel and LPG.¹⁸

Annual average retail unit net profit for Launceston for the period 2010-11 to 2014-15 is shown in chart 3.5. It is compared with the average retail unit net profit across Australia.

In 2013–14, retail unit net profit in Launceston was around 7 cpl, compared with around 5 cpl across Australia.¹⁹





Source: ACCC calculations based on data from the companies.

Launceston estimates are based on data from Caltas, Centrel, Coles Express, United and Woolworths.

The Australia-wide estimates in this chart are based on data published in the ACCC's 2014 petrol monitoring report, adjusted to remove the impact of head office costs.

 * Australia-wide average retail unit net profit for 2014-15 is not available.

Average retail unit net profit in Launceston was higher than the average across Australia in 2012-13 and 2013-14. Retail unit net profit in Launceston almost doubled from 2011-12 to 2012-13, which was partly due to increases in gross margins on all fuels. It then increased by around 1 cpl over the next two years to around 7 cpl in 2014-15. Retail unit net profit across Australia ranged between 3 cpl and 5 cpl from 2010-11 to 2013-14.

Notes:

¹⁸ Retail unit net profit is different to the retail net margin calculated in section 2.1 as part of the petrol value chain (which only includes net profit on regular unleaded petrol sales).

¹⁹ Australia-wide data for 2014-15 is not available.

3.4 Higher profits in Launceston are reflected in higher GIRDs and petrol margins

3.4.1 The difference in GIRDs between Launceston and the five largest cities has increased in recent years

GIRDs are the difference between retail prices and published TGPs. TGPs are the prices at which petrol can be purchased from wholesalers in the spot market and are posted on a regular basis on the websites of the major wholesalers. While many wholesale transactions do not occur at the terminal gate, TGPs can be regarded as indicative wholesale prices.

As a result, GIRDs can be treated only as a useful approximate benchmark of the retail gross margin on petrol. They should not be confused with actual retail profits as they also include retail operating costs, which may also vary through time.

In 2014–15 average GIRDs in Launceston were 16.8 cpl, which was 8.2 cpl higher than average GIRDs in the five largest cities (see chart 3.6).





Source: ACCC calculations based on data from BP, Caltex, FUELtrac, Informed Sources, Mobil, United, Viva Energy and WA Fuelwatch.

Between 2007–08 and 2014–15 petrol GIRDs increased in the five largest cities, but they increased by a greater amount in Launceston. From 2007–08 to 2011–12 GIRDs in Launceston were on average 3.1 cpl higher than those in the five largest cities. They then increased substantially to be on average 7.8 cpl above those in the five largest cities over the period 2012–13 to 2014–15.

The number of retail sites in Launceston has decreased since 2007, which may have influenced the increase in GIRDs in Launceston from 2012–13. However, the current retailers in Launceston told the ACCC that they were not aware of any changes to market structure or in the pricing strategies of their competitors during this time.

3.4.2 GIRDs, net retail margin on petrol and net profit per site all show the same upward trend

The net retail margin on petrol indicates the profits that retailers make on petrol sales. It is calculated by subtracting operating costs (per litre of petrol sold) at the retail level from GIRDs.

Chart 3.7 shows annual average GIRDs, net retail margin on petrol and average net profit per site in Launceston from 2010-11 to 2014-15.

Net profit per site and net retail margin on petrol exclude the five small independent retailers in chart 3.7 due to incomplete financial data. Therefore, in this chart net profit per site is different from that presented in section 3.1.





Source: ACCC calculations based on data from Caltas, Centrel, Coles Express, FUELtrac, Informed Sources, United and Woolworths.

Between 2010-11 and 2014-15 the overall trend in the movements in petrol GIRDs in Launceston is largely reflected in the movements in net profit per site and net retail margin on petrol.

GIRDs increased by around 58 per cent over this period, compared with an increase of around 38 per cent for net profit per site. The increase in net retail margin on petrol was higher, at 135 per cent.

Relative to the movements in GIRDs and net retail margin on petrol, the large decrease in net profit per site in 2011–12 was due to decreases in total fuel margins and non-fuel margins, and an increase in total operating costs.

This suggests that the increase in net profit per site explains a large proportion of the increases in GIRDs in Launceston, especially after 2011-12.

In 2014–15 retail sites in Launceston sold on average 2.6 million litres of petrol. Each one cent per litre increase in the net retail margin on petrol would therefore have added around \$26 000 to annual net profit of an average site.

4 The Launceston market is quite fragmented

4.1 There are a number of players at all levels of the Launceston petrol market

The petroleum industry in Launceston operates at four levels: import, terminal, wholesale and retail. For the purposes of this study, the ACCC has defined Launceston as the area of Launceston and its surrounds to a 20 kilometre radius.

The current participants in the Launceston market are shown in table 4.1.

Import	Terminal	Wholesale	Retail
BP Caltex United	BP Burnie BP Hobart Caltex Hobart United Bell Bay Viva Energy Devonport	BP (as Centrel) Caltas Caltex Tas Petroleum United Viva Energy	BP (as Centrel) Coles Express Woolworths Independent sites branded as: • BP • Caltex (including Caltas) • Liberty • United • Independently branded

Table 4.1: Launceston supply chain

Source: ACCC based on data from the companies.

Three companies bring fuel into Tasmania for sale in the Launceston retail market—BP, Caltex and United. They obtain their fuel from Australian refineries and overseas from locations such as Singapore and South Korea.

Fuel sold in the Launceston market is trucked from five different terminals around Tasmania. There are three on the north coast and two in Hobart. There are four companies that supply petrol from these terminals: BP, Caltex, United and Viva Energy. While Viva Energy operates the Devonport terminal, it does not import petrol into Tasmania.

4.2 Overview of the Launceston retail market

At the retail level, there are 15 different operators in Launceston. These include the two supermarket chains (Coles Express and Woolworths), one refiner-wholesaler (BP operating as Centrel), two independent chains (Caltas and United) and 10 small independent retailers.

Independent retail sites in Launceston are sites which:

- are not owned or operated by the refiner-wholesalers or supermarket chains
- retail prices are not determined by the refiner-wholesalers or supermarket chains.

These sites may or may not trade under a major brand (such as BP or Caltex). Independent retailers who choose to trade under the brand of a major fuel company will generally pay licencing and other fees. However, they may benefit from additional sales due to brand recognition, site maintenance and marketing initiatives provided by the major fuel company.

There are two broad categories of independent retail operations in Launceston:

- independent chains (such as United and Caltas)
- small independent operators.

Due to their larger size, independent chains may have an ability to purchase fuel at a discount relative to the small independent operators. Two independent chains that operate in Launceston also have a presence in the wholesale market. These factors can allow independent chains to aggressively discount and drive price competition in the Launceston retail market.

In contrast, the small independent operators in Launceston are at a relative disadvantage to the larger retailers as they are less likely to purchase bulk fuel or convenience store products at a discounted rate. This can make it more difficult for these operators to compete aggressively in the petrol market on price.

Coles Express and Woolworths dominate the retail market in terms of sales volumes. In 2013–14 they had a combined market share of over 50 per cent by volume (see chart 4.1).



Chart 4.1: Launceston retail petrol sales volumes by price setter: 2013-14²⁰

Source: ACCC calculations based on data from companies.

While the supermarkets account for over half of all petrol sold, they only operate and set the prices at around one quarter (eight sites) of the retail petrol sites in Launceston (see chart 4.2).

The high sales volumes at Coles Express and Woolworths sites are likely due to motorists taking advantage of the shopper docket discounts, as well as sites being in prominent locations such as shopping centre carparks.

In 2013–14 the third-largest retailer of petrol by volume was Centrel, a wholly-owned subsidiary of BP, which operated three sites and had a 13 per cent market share by volume. The fourth largest retailer was Caltas, an independent distributor-retailer operating under the Caltex brand, with 8 per cent market share by volume. Together the four largest retail operators sold around 77 per cent of all petrol in Launceston. In comparison, in Adelaide the four largest retail operators sold 80 per cent.

4.3 Independent Tasmanian retailers operate around two thirds of the retail sites in Launceston

Twenty-two retail sites in Launceston are operated by independents (see chart 4.2). The independent retail chains operate 11 sites (United and Caltas) and small independent Tasmanian retailers operate 11 sites.²¹

Caltex is the most common retail brand in Launceston with eight branded sites. Caltex does not operate any of these sites and the prices at these sites are set by third parties. Five of these sites are operated by Caltas. The remaining Caltex-branded sites are independently owned and operated.

There are six BP-branded sites, but BP (via Centrel) sets the price at only half of these sites. United sets the price at the most sites of any retailer in Launceston (six in total).

²⁰ Chart 4.1 includes 31 retail petrol sites that operated in Launceston for the full year in 2013–14. It excludes two independent retail sites that are currently operating in Launceston because data was not available. Since 2013–14, United has opened three retail sites. Of these, one was operated by Caltas in 2013–14 (and attributed as such in the chart), a second was operated by an independent in 2013–14 (and attributed as such in the chart) and the third was one of the independent sites excluded from the chart.

²¹ Most of these are single retail site operators. Only one independent operator runs two retail sites.



Chart 4.2: Launceston retail petrol sites by brand and price setter: December 2015

Source: ACCC based on data from the companies.

4.4 In recent years the number of retail sites in Launceston has declined

According to the Informed Sources Netwatch database, the number of retail sites in Launceston has decreased in recent years—from 45 sites in May 2007 to 39 sites in June 2014.²² This is shown in chart 4.3.



Chart 4.3: Launceston retail petrol sites by brand: May 2007 and June 2014

Source:ACCC calculations based on Informed Sources Netwatch dataNote:Percentages do not always add to 100 due to rounding.

²² Netwatch is a database maintained by Informed Sources. The differences between the Netwatch site numbers for Launceston and the data provided by the companies reported in sections 4.1 to 4.3 may be due to a number of factors. These include: different time periods reported, different geographical definitions of Launceston, and the frequency with which data in Netwatch is updated.

Contributing to the decrease in the number of retail sites between 2007 and 2014 was the exit of Mobil and Shell retail sites from the Launceston market. In contrast, three United retail sites opened between 2007 and 2014. All of these were acquisitions of existing sites rather than new 'greenfield' sites. The number of Coles Express and Woolworths retail sites did not change over the period.

The ACCC is not aware of any new retail petrol sites in the Launceston market which opened in the past 12 months, or of any plans for future sites.

4.5 There are few independent retail chains in Launceston

As shown in charts 4.1 and 4.2, the independent retail chains and the small independents command a sizeable market share in Launceston—31 per cent by volume in 2013-14 and 66 per cent by number of retail sites as at December 2015.

Table 4.2 shows the number of independent retail chains in Launceston, Adelaide and Melbourne. It also shows the proportion of retail sites operated by these chains in each of these markets.

	Launceston	Adelaide	Melbourne
Number of independent retail chains	2	5	6
Percentage of total market sites	33%	around 55%	around 40%

Table 4.2: Number of independent retail chains in Launceston, Adelaide and Melbourne²³

Source:ACCC calculations based on ACCC data, data provided by the companies and Informed Sources Netwatch.Notes:Data for Launceston is at December 2015.

Data for Adelaide and Melbourne are estimates only based on total site numbers as at June 2014.

Adelaide and Melbourne have a larger number of independent retail chains than Launceston. In the larger capital cities, the presence of more large independent chains can enhance price competition—both with other independents and with the major retailers.

United and Caltas are the only two independent chains currently operating in Launceston. United sites are usually among the cheapest petrol retailers in Launceston. Despite this, the independent chains have generally not provided sufficient competitive pressure in recent years to drive prices lower and more in line with the large capital cities.

There is a lack of aggressive discounters among the small independents in Launceston. For some independents, fuel sales are not their primary business and they may have limited incentive to chase higher volumes through discounting.

²³ Independent retail chains includes non-refiner-wholesaler branded independent chains as well as independent retail chains that sell refiner-wholesaler branded petrol.

5 Lack of aggressive retail competition in Launceston has resulted in higher retail margins and profits

Competition among petrol retailers has an important influence on petrol prices and retail profit margins. The high degree of transparency of petrol prices enables consumers to shop around for petrol. This can encourage some petrol retailers to 'chase volumes' through discounting. However, the absence of a sufficient number of retailers with a strategy to 'chase volumes' can result in situations where petrol prices remain stubbornly high, even when wholesale prices are falling.

5.1 Weak responses to decreases in TGPs underpinned retail margin expansion in Launceston

There have been significant swings in international crude oil and refined petrol prices over the last four years, which have been reflected in wholesale prices. For example, over the four months to the end of January 2015, daily average TGPs in Tasmania fell by close to 40 cpl. During the following five months daily average TGPs increased by over 30 cpl.

Competition among retailers plays a key role in how retail prices react to changes in TGPs. In the larger capital cities (and allowing for the price cycles that occur in those cities) retail prices tend to be very responsive to movements in TGPs, both up and down. This is not the case in Launceston or in other major centres in Tasmania, including Hobart.

To investigate the reaction of retail prices in Launceston to changes in TGPs, seven time periods between June 2011 and September 2015 were identified. Each time period was split into two sub-periods:

- during the first sub-period TGPs were decreasing
- during the second sub-period TGPs were generally increasing.

Table 5.1 identifies the periods and chart 5.1 shows daily median petrol prices and daily average TGPs for each period.

		Number	r of days
Period	Dates	Sub-period when TGPs were decreasing	Sub-period when TGPs were increasing
1	16 October 2011 to 12 April 2012	56	123
2	12 April 2012 to 17 October 2012	80	108
3	17 October 2012 to 21 February 2013	98	29
4	21 February 2013 to 8 September 2013	61	138
5	8 September 2013 to 5 January 2014	53	66
6	5 January 2014 to 4 October 2014	231	41
7	4 October 2014 to 19 June 2015	109	149

Table 5.1:	Time periods u	sed to assess	the reaction	of retail pric	es in Launceston
------------	----------------	---------------	--------------	----------------	------------------

Source: ACCC calculations based on data from BP, Caltex, United and Viva Energy.



Chart 5.1: Daily median retail petrol prices and TGPs in Launceston: 1 June 2011 to 30 September 2015

Source: ACCC calculations based on data provided by one of the companies and BP, Caltex, United and Viva Energy.

Table 5.2 separates each period into the two sub-periods described in table 5.1. The changes in median retail prices, average TGPs and GIRDs are shown for each sub-period and for each period as a whole. The column 'Retail/TGP' shows the percentage of the change in TGPs that was passed through to retail prices during each sub-period.

Over the first six periods (from 16 October 2011 to 4 October 2014) TGPs were largely unchanged overall, while retail prices increased. This led to an increase in GIRDs:

- TGPs increased by 0.8 cpl
- retail prices increased by 9.0 cpl
- GIRDs increased by 8.2 cpl.

Period 7 was different from the previous six periods, with prices both falling and then increasing by a large amount in a short period of time. Over this period, retail prices decreased by 17.0 cpl, compared with a decrease in TGPs of only 7.2 cpl. Period 7 is discussed in further detail in section 5.1.2.

5.1.1 Retail prices in Launceston are sticky both up and down, but more of the increases in TGPs flowed through to retail prices than the decreases in TGPs

There was only partial pass-through, both up and down, of changes in TGPs to retail prices in Launceston between October 2011 and October 2014. However, while retail prices in Launceston have been 'sticky' on the way up, they have been more 'sticky' on the way down (see table 5.2).

	Sub-peric	od when TGPs w	rere decreasing	G	Sub-perio	d when TGPs w	vere increasin	ס	Who	le period	
Change in:	Retail prices cpl	TGPs cpl	GIRDs cpl	Retail/TGP %	Retail prices cpl	TGPs cpl	GIRDs cpl	Retail/TGP %	Retail prices cpl	TGPs cpl	GIRDs cpl
Period											
	0.0	-10.4	10.4	0	4.0	16.3	-12.3	25	4.0	5.9	-1.9
2	-14.0	-25.3	11.3	55	14.0	20.5	-6.5	68	0.0	-4.8	4.8
М	-3.0	-8.6	5.6	35	7.0	12.2	-5.2	57	4.0	3.6	0.4
4	-1.2	-17.8	16.6	7	7.2	20.7	-13.5	35	6.0	2.9	3.1
Ð	-2.0	-12.4	10.4	16	1.0	13.5	-12.5	7	-1.0	1.1	-2.1
9	-2.0	-13.5	11.5	15	-2.0	5.6	-7.6	-36	-4.0	-7.9	3.9
7	-34.0	-39.4	5.4	86	17.0	32.2	-15.2	53	-17.0	-7.2	-9.8
Source:	ACCC calculations based	on data provided	by one of the c	ompanies and BP, Ca	altex, United and Viva Ene	ergy.					

Table 5.2:

Changes in retail prices and TGPs in Launceston, by time period

From period 1 to period 6 (16 October 2011 to 4 October 2014) 35 per cent of the total increase in TGPs was passed through as higher retail prices. In aggregate, TGPs increased by 88.8 cpl and retail prices increased by 31.2 cpl.

However, over the same period 25 per cent of the total decrease in TGPs was passed on to motorists. In aggregate, TGPs decreased by 88.0 cpl and retail prices decreased by 22.2 cpl.

The asymmetry in pass-through of wholesale price changes resulted in an increase in GIRDs over the period. Chart 3.6 shows that annual average GIRDs increased from 10.6 cpl in 2010–11 to 16.0 cpl in 2013–14.

5.1.2 Retail prices appear to be more responsive to very large changes in wholesale prices

Period 7 (4 October 2014 to 16 June 2015) was different. TGPs decreased substantially, and most of the decrease was passed through to retail prices.

One possible reason for this significant pass-through is the large size of the decrease in TGPs. Large and rapid falls in TGPs can cause substantial increases in retail margins. During periods when retail margins are high, it can become more attractive for retailers to chase higher sales volumes (as the margin on each additional sale is high). This in turn creates a competitive impetus whereby many retailers bring down their prices to match their competitors.

5.2 With the exception of United, independent retailers do not provide a strong competitive constraint in Launceston

5.2.1 Classification of petrol retailing in Launceston

For the purpose of analysing retail prices in this chapter we have divided the retailers in Launceston into four categories: supermarkets; refiner-wholesaler controlled; refiner-wholesaler branded independents; and other independents.²⁴

Refiner-wholesaler controlled sites and refiner-wholesaler branded independents operate under the brand of the refiner-wholesaler (BP or Caltex). BP and Caltex only set the retail price at the refiner-wholesaler controlled sites. In Launceston, Caltex does not set the price at any of the Caltex-branded sites.

Table 5.3 shows the number of sites in Launceston and Hobart for each category of retailer separated by brand.

Retailers in each of these classes play important roles in the competitive dynamics of petrol markets. For instance, the supermarkets tend to quickly follow changes in retail petrol prices of major local competitors in order to remain competitive. As a result the local presence of supermarkets can affect the speed with which retail prices adjust to changes in wholesale prices.

The ACCC's previous analysis of retail petrol markets in the larger capital cities revealed the critical importance of the behaviours of independent retailers (both refiner-wholesaler branded independents and other independents) in affecting competitive outcomes. The supermarkets and the refiner-wholesaler controlled sites tend to adopt similar pricing strategies across locations, as does United. As such, the presence and influence of independent retailers can be important in determining the intensity of competition and outcomes in retail petrol markets.

²⁴ Refiner-wholesaler controlled sites are those where the refiner-wholesalers set the retail price of fuel at the site. The refinerwholesalers may own and operate the site, or sell petrol at the site through a commission agent or similar arrangement. These sites carry the brand of the refiner-wholesaler.

	Laund	eston	Ho	bart
Retailer	Number	Share	Number	Share
		%		%
Supermarkets				
Coles Express	4	12	7	13
Woolworths	4	12	5	9
Refiner-wholesaler controlled				
BP	3	9	7	13
Caltex	0	0	7	13
Refiner-wholesaler branded independents				
BP-branded independents	3	9	4	7
Caltex-branded independents	8	25	12	21
Other independents				
United	7	21	6	11
Liberty	1	3	1	2
Other	3	9	6	11
Total	33	100	55	100

Source: ACCC calculations based on Informed Sources Netwatch and data obtained from the companies.

Note: Launceston sites numbers are as at December 2015 and Hobart site numbers are as at 30 June 2014.

5.2.2 A lack of aggressive discounting has kept retail prices high in Launceston

Charts 5.2 to 5.4 show daily average retail prices of eight retailers or retail types in Launceston. Each chart relates to a period when retail prices decreased and then increased.

A number of observations can be drawn from these charts.

First, with the exception of Caltas, the retail prices of Caltex and BP-branded independents were on average typically around 5 cpl higher than the other retailers. Therefore, it appears that the smaller independents in Launceston did not drive lower retail petrol prices.

Second, refiner-wholesaler branded independents (BP and Caltex branded) and other independents, with the exception of United, tended to be the first to increase retail prices following increases in TGPs. The supermarkets, BP and United increased their retail prices a number of weeks later. This may suggest that the larger retailers were more concerned with competing against each other rather than responding to the price movements of the independents.

Third, there was no clear leader of retail price decreases. The supermarkets, BP-controlled sites, United and Caltas tended to reduce their retail prices quickly once one of their competitors had moved. However, with no clear leader, the reaction of retail prices to reductions in wholesale prices was usually slow.

Analysis of the pricing behaviour of individual sites within close proximity to each other produced results consistent with those shown in charts 5.2 to 5.4.²⁵

²⁵ The prices of individual sites in three local markets in Launceston (five sites in central Launceston, five sites in the northeastern suburbs, and seven sites in the southern suburbs) were examined. Overall, the findings were consistent with the results shown in charts 5.2 to 5.4.



Chart 5.2: Daily average retail petrol prices by retailer in Launceston: 28 May 2012 to 5 September 2012

Source: ACCC calculations based on data provided by one of the companies.



Chart 5.3: Daily average retail petrol prices by retailer in Launceston: 3 April 2013 to 22 July 2013

Source: ACCC calculations based on data provided by one of the companies.



Chart 5.4: Daily average retail petrol prices by retailer in Launceston: 4 December 2014 to 14 March 2015

Source: ACCC calculations based on data provided by one of the companies.

5.3 Lack of competitive pressure in petrol retailing in Tasmania is not unique to Launceston

The lack of strong competitive pressure in petrol retailing does not appear to be limited to Launceston. Generally speaking, retail prices in both Launceston and Hobart tend to respond to rises in wholesale prices at a faster rate than to falls in wholesale prices.

Chart 5.5 shows daily average GIRDs for Launceston and Hobart over the period 1 June 2011 to 30 June 2015. With the exception of small periods at the start and the end of the period, GIRDs in Launceston and Hobart were very similar. Moreover, they move together.

To the extent that the increases in GIRDs in Launceston have been caused by the lack of competitive pressure to push retail prices down during times of falling TGPs, the same appears to be the case in Hobart.



Chart 5.5: Daily average petrol gross indicative retail differences in Launceston and Hobart: 1 June 2011 to 30 June 2015

Source: ACCC calculations based on data provided by one of the companies, BP, Caltex, United and Viva Energy.

5.3.1 The structure of petrol retailing in Launceston and Hobart is similar

Table 5.3 in section 5.2.1 indicates that the structure of petrol retailing in Launceston and Hobart is very similar. Specifically, in both cities:

- the supermarkets control around 25 per cent of sites
- BP controls around 10 per cent of sites
- BP-branded independents control around 10 per cent of sites
- United-branded sites and other independents have a significant presence.

The major difference is in the Caltex-controlled and the Caltex-branded independent sites. While in Launceston there are no Caltex-controlled sites, they account for 13 per cent of sites in Hobart. Caltex-branded independents account for all Caltex-branded sites in Launceston and two-thirds of the Caltex-branded sites in Hobart.

5.3.2 Pricing behaviours of retailers in Launceston and Hobart are similar

Charts 5.6 to 5.8 show daily average retail prices of eight retailers or retail types in Hobart. The time periods are the same as charts 5.2 to 5.4 for Launceston.

Comparing the charts for Launceston with those for Hobart reveals a number of observations.

First, United is a strong price competitor in both Launceston and Hobart. In both cities, United tended to be on average the cheapest brand or among the cheapest brands. Moreover, in both Launceston and Hobart United-branded sites tended to:

- either lead prices down or follow discounting by other retailers quickly
- delay following retail price increases by others.

Second, independent retailers (other than United) do not appear to be strong price competitors in Launceston or Hobart. Neither the refiner-wholesaler branded independents nor the other independents appear to aggressively lead prices down. Moreover, they tended to either lead or quickly follow price increases by other retailers.

Third, BP-controlled sites behave in a similar manner in both cities, being quick followers when retail prices were declining or increasing.

Fourth, there does not appear to be a substantial difference between the pricing behaviour of the Caltex-controlled sites in Hobart and the major Caltex-branded independent (Caltas) sites in Launceston.

Finally, the pricing behaviour of the two supermarkets was similar in Launceston and Hobart. Both Coles Express and Woolworths appeared to match low prices in each of the cities. As a result Coles Express and Woolworths quickly followed prices down and tended to delay following price increases. This suggests that Coles Express and Woolworths reacted mostly to each other and to the major retailers such as BP, Caltex and United.

While these observations are evidence of price competition in Launceston and Hobart, it is clear that the major retailers will generally follow and match prices of their competitors. They do not appear to set their prices lower than their competitors in order to increase market share.

The lack of aggressive discounters (with the possible exception of United) to lead prices down appears to have resulted in weaker responses to decreases in wholesale prices in Launceston and Hobart than otherwise may have been the case. While the supermarkets and the refiner-wholesaler controlled sites offer prices to remain competitive with one another, it appears necessary for other retailers to drive prices down. While United plays this role to a degree, it has not been sufficient to prevent increases in retail margins in Launceston and Hobart.



Chart 5.6: Daily average retail petrol prices by retailer in Hobart: 28 May 2012 to 5 September 2012

Source: ACCC calculations based on data provided by one of the companies.





ACCC calculations based on data provided by one of the companies.



Chart 5.8: Daily average retail petrol prices by retailer in Hobart: 4 December 2014 to 14 March 2015

Source: ACCC calculations based on data provided by one of the companies.

6 Increased transparency and promotion of price competition are the way forward

6.1 Increase transparency of GIRDs and retail prices

Firms may have less incentive to increase and maintain high prices if there is close scrutiny of their pricing behaviour. Ongoing monitoring and publication of margins can shine a light on what is happening in the market. This may promote competitive market behaviour and reward discounters, as more consumers will see which firms are discounting.

Furthermore, easy access to information about current retail petrol prices enables motorists to shop around and purchase fuel at relatively lower priced retail sites.

6.1.1 Regular publication of GIRDs and benchmarking against other locations

GIRDs are a broad indicator of profitability and can be compared across locations and over time. When GIRDs in one location are significantly higher than in other locations it may indicate a lack of price competition among fuel retailers.

The Tasmanian Government may wish to consider closely monitoring GIRDs in the Launceston market, relative to other locations, and publish information on GIRDs for consumers and industry participants. This could include information such as:

- chart 6.1 which shows monthly average GIRDs in Launceston and the five largest cities between July 2015 and April 2016
- chart 6.2 which shows the monthly average difference between the two.



Chart 6.1: Monthly average gross indicative retail differences in Launceston and the five largest cities: July 2015 to April 2016





Chart 6.2: Difference between monthly average gross indicative retail differences in Launceston and the five largest cities: July 2015 to April 2016

Source: ACCC calculations based on FUELtrac, BP, Caltex, Mobil, United, Viva Energy and WA Fuelwatch data.

By making this information widely available, the Tasmanian Government and consumers can make companies accountable when GIRDs become significantly higher than usual.

6.1.2 Providing current retail prices to motorists

Price-sensitive motorists will often shop around for the cheapest prices, which can be facilitated by access to petrol pricing information.

In December 2015 the ACCC resolved Federal Court proceedings against Informed Sources (Australia) Pty Ltd (Informed Sources) and five petrol retailers (7-Eleven, BP, Caltex, Coles and Woolworths) by way of court enforceable undertakings.²⁶ Informed Sources operates a petrol price information exchange service which allows for subscribing petrol retailers to exchange prices on a near real-time basis. On 21 December 2015 Informed Sources and four of the petrol retailers settled with the ACCC by agreeing to make the petrol price information public.²⁷

Making the price information available to consumers and third parties on a near real-time basis will improve the functioning of retail petrol markets in a number of ways:

- it will enable motorists to more easily compare prices across retail sites (particularly through well-tailored apps)
- it will reward more those companies that discount
- it will enable greater public scrutiny of the behaviour of petrol retailers.

The more information on petrol prices which is available to the public, the better informed motorists will be about when to buy petrol and from whom.

As a result of the undertaking, Informed Sources will provide near real-time prices for around 55 per cent of the retail sites in Launceston. There may be benefits for media outlets and motoring bodies such as the Royal Automobile Club of Tasmania (RACT) to more actively disseminate retail pricing information to help consumers find the cheapest price.

²⁶ ACCC media release, *Petrol price information sharing proceedings resolved*, 23 December 2015, at: <u>https://www.accc.gov.</u> <u>au/media-release/petrol-price-information-sharing-proceedings-resolved</u>.

²⁷ On 15 December 2015 Coles settled the proceedings with the ACCC by agreeing to exit the Informed Sources service at the expiration of the current term of its agreement (15 April 2016) and not to enter into a similar price exchange service for a period of five years.

6.2 Promote price competition

6.2.1 Promote discount schemes

On 23 February 2016 the RACT announced that it had established a partnership with United Petroleum to offer an 8 cpl discount commencing on 15 March 2016 for two months at United sites across the state to 177 000 members of the RACT.²⁸ At the end of the initial two-month period the discount will fall to 6 cpl. The RACT/United discount offer became available at nearly 40 sites in all parts of the state from 15 March 2016.

In response to this offer, Woolworths and Coles Express introduced their own increased fuel discount offers:

- On 15 March 2016, Woolworths increased its standard 4 cpl offer to 8 cpl for the duration of the United offer at each of its 14 petrol stations in Tasmania. The discount is contingent on at least a \$30 grocery spend at Woolworths Tasmanian supermarkets.
- On 19 March 2016, Coles increased its standard 4 cpl offer to 8 cpl for \$30 grocery spent at Coles Express Tasmanian supermarkets.

In addition to these offers, both Coles Express and Woolworths continued to offer further discounts subject to purchases in their fuel convenience stores.

The competitive impact of these offers appears to be leading to lower prices for many consumers. Since these offers became available, monthly average retail petrol prices (i.e. board prices not including discounts) in Launceston decreased by 2.0 cpl between February 2016 and April 2016, while retail prices in the five largest cities increased by 6.1 cpl. Monthly average GIRDs in Launceston decreased by 6.8 cpl between February 2016 and April 2016 (see chart 6.1). Over the same period, GIRDs in the five largest cities increased by 1.4 cpl.

The ACCC has expressed concerns in the past about the supermarkets offering large fuel discounts funded by the supermarket division and dependent on supermarket purchases, which reached as high as 40 cpl. The ACCC was concerned that other fuel retailers could not reasonably compete on price. The RACT/United offer, on the other hand, has brought about a response from other fuel retailers, resulting in increased competition and lower prices for consumers.

6.2.2 ACCC to closely monitor future merger activity in the Launceston market

The ACCC will closely monitor and assess future acquisitions in Launceston and assess whether any acquisitions are likely to substantially lessen competition. This includes acquisitions of existing sites/leases and potential sites/leases.

²⁸ RACT, op. cit.

Appendix A: Background and process

Background to the ACCC petrol monitoring arrangements

On 9 December 2014 the then Minister for Small Business, the Hon. Bruce Billson MP, gave the ACCC a new direction to monitor the prices, costs and profits of unleaded petroleum products in Australia for a period of three years.²⁹

Instead of providing an annual report to the Minister, as occurred under the previous direction, the ACCC is to provide reports at least quarterly. The new arrangements enable the ACCC to undertake more timely and targeted monitoring and analysis of particular topics and fuel markets that are of concern to consumers.

Under these arrangements the ACCC produces two types of reports³⁰:

- quarterly 'macro' reports on petrol price movements and the overall drivers of Australian fuel prices
 - six of these reports have already been released³¹
- market studies that look at 'micro' issues in considerable depth, including an analysis of the drivers of petrol prices in specific regional markets
 - the first market study into the Darwin market was released in November 2015.

Regional market studies and what they aim to achieve

The aims of the regional market studies are to:

- get to the bottom of why prices are higher in certain regional locations
- identify and explain each component of the prices paid at the bowser
- explain where money is being made in the petrol price value chain.

These studies rely on compulsory information gathering powers under section 95ZK of the *Competition and Consumer Act 2010* (Cth).

While only a small number of regional market studies are likely to be conducted in each year, each of these studies will have wider implications. The ACCC will be able to draw lessons of wider relevance to other regional markets.

Choice of Launceston

The ACCC undertook extensive assessment of relevant data to select the regional locations.

The ACCC collects retail petrol prices for around 190 regional locations across Australia. Two types of analyses were undertaken on this data:

- a regression analysis, which estimated prices for each regional location and then compared these with the actual prices in each location
- a ranking analysis, which ranked the regional locations against a number of criteria, including:
 - the difference in price in each location compared with the average price in the five largest cities (i.e. Sydney, Melbourne, Brisbane, Adelaide and Perth)
 - the gross indicative retail difference (GIRD) in each location
 - the GIRD in each location relative to population size
 - the GIRD in each location relative to nearby locations
 - the variance of prices in each location.

²⁹ The Minister's letter and direction are available from the ACCC website at: <u>https://www.accc.gov.au/system/files/</u> <u>Ministerial%20direction%20%26%20letter%202014.pdf</u>.

³⁰ ACCC media release, ACCC's new petrol price reports, 15 January 2015, at: <u>https://www.accc.gov.au/media-release/acccs-new-petrol-price-reports.</u>

³¹ These are available from the ACCC website at: <u>https://www.accc.gov.au/publications/quarterly-report-on-the-australian-petroleum-industry</u>.

The regression and ranking analyses were each undertaken for two time periods—one year (2013-14) and three years (2011-12 to 2013-14).

The results of the four analyses were compiled and assessed. On the basis that Launceston ranked very high overall, it was chosen as the location for the second regional market study.

On 8 May 2015 the ACCC announced Launceston as the location of the second regional market study. $^{\rm 32}$

How the study was conducted

Data collection and analysis

Between May 2015 and January 2016, the ACCC issued 95ZK notices to BP, Caltas, Caltex, Centrel, Coles Express, Mobil, Tas Petroleum, United, Viva Energy, Woolworths, and nine independent retail petrol site operators to obtain information and documents relating to the supply of petroleum products in Launceston.

The data requested included financial and operational information about each company.

Consultation

The ACCC established a consultation hub on the ACCC website for any stakeholder or interested party to provide information to the market study.

ACCC staff visited retail site operators in Launceston, and held meetings with stakeholders in Hobart.

³² ACCC media release, ACCC announces second regional petrol market study in Launceston, 8 May 2015, at: <u>http://www.accc.gov.au/media-release/accc-announces-second-regional-petrol-market-study-in-launceston</u>.

Appendix B: Petrol prices, TGPs and GIRDs in Launceston

This appendix provides historical data on petrol prices, TGPs and GIRDs in Launceston, the five largest cities, Hobart and Adelaide.³³

Retail petrol prices: 2000-01 to 2014-15³⁴

Table B1:	Annual average retail petrol prices in Launceston and selected locations: 2000-01 to 2014-15 (cpl)
-----------	--

Year	Launceston	Five largest cities	Diff	Hobart	Diff	Adelaide	Diff
2000-01	100.1	91.0	9.1	96.8	3.3	92.8	7.3
2001-02	91.8	83.4	8.4	89.3	2.5	85.5	6.3
2002-03	94.9	88.5	6.4	95.4	-0.5	90.4	4.5
2003-04	98.1	90.3	7.8	97.9	0.2	93.0	5.1
2004-05	108.8	100.6	8.2	108.7	0.1	103.3	5.5
2005-06	128.1	121.1	7.0	129.2	-1.1	123.7	4.4
2006-07	126.8	121.6	5.2	126.4	0.4	122.4	4.4
2007-08	141.4	134.5	6.9	139.7	1.7	135.6	5.8
2008-09	135.1	127.1	8.0	133.3	1.8	128.7	6.4
2009-10	130.1	124.2	5.9	129.7	0.4	123.6	6.5
2010-11	138.3	131.7	6.6	138.0	0.3	130.0	8.3
2011-12	149.4	142.8	6.6	149.8	-0.4	142.1	7.3
2012-13	152.5	141.3	11.2	151.6	0.9	140.1	12.4
2013-14	162.6	150.6	12.0	161.6	1.0	149.7	12.9
2014-15	147.2	134.1	13.1	145.1	2.1	132.4	14.8



³³ The source of all retail prices in this appendix is ACCC calculations based on data from FUELtrac and Informed Sources. The sources of TGP data are BP, Caltex, Mobil, Viva Energy, United and WA Fuelwatch.

³⁴ When comparing retail prices across locations during this period it is important to note that a number of state governments provided subsidies that lowered the final petrol price to consumers. Prior to 1 October 2007, the Tasmanian Government provided a subsidy of 1.95 cpl (around 2.1 cpl when GST is included) to fuel wholesalers, distributors and bulk end-users. Prior to 1 July 2009 the Queensland Government provided a subsidy at the retail level of 8.4 cpl (around 9.2 cpl when GST is included).



Chart B2: Annual average retail petrol prices in Launceston and Hobart: 2000-01 to 2014-15





Petrol TGPs: 2007-08 to 2014-15³⁵

		Five largest			
Year	Tasmania	cities	Diff	Adelaide	Diff
2007-08	133.2	129.4	3.8	131.4	1.8
2008-09	125.0	120.4	4.6	122.6	2.4
2009-10	120.2	117.2	3.0	117.4	2.8
2010-11	127.7	124.1	3.6	124.1	3.6
2011-12	138.8	135.1	3.7	135.1	3.7
2012-13	138.2	134.2	4.0	134.3	3.9
2013-14	146.6	142.5	4.1	142.6	4.0
2014-15	130.4	125.5	4.9	125.7	4.7







³⁵ As noted in footnote 34, prior to 1 July 2009 the Queensland Government provided a subsidy at the retail level of 8.4 cpl (around 9.2 cpl when GST is included). For analysis of GIRDs in Brisbane in this period, TGPs in Brisbane were reduced by 9.2 cpl to put wholesale and retail prices on a consistent basis. Across the five largest cities, this reduced average TGPs by 1.8 cpl. These adjusted TGPs have been included in tables B2 and B3. As a result, in the years 2007-08 and 2008-09, actual TGPs in the five largest cities would have been 1.8 cpl higher, and the difference between Launceston and five city average TGPs would have been 1.8 cpl lower.

³⁶ As petrol in Launceston is sourced from a number of different terminals across Tasmania, the average of all Tasmanian TGPs has been used for Launceston.



Chart B5: Annual average petrol TGPs in Launceston and Adelaide: 2007-08 to 2014-15

Petrol GIRDs: 2007-08 to 2014-15

Table B3:	Annual average r	etail petrol prices.	TGPs and GIRDs:	2007-08 to	2014-15 (cpl)

Year	Retail	TGPs	GIRDs	GIRDs difference
Launceston				
2007-08	141.4	133.2	8.2	-
2008-09	135.1	125.0	10.1	-
2009-10	130.1	120.2	9.9	-
2010-11	138.3	127.7	10.6	-
2011-12	149.4	138.8	10.6	-
2012-13	152.5	138.2	14.3	-
2013-14	162.6	146.6	16.0	-
2014-15	147.2	130.4	16.8	-
Five largest cities				
2007-08	134.5	129.4	5.1	3.1
2008-09	127.1	120.4	6.7	3.4
2009-10	124.2	117.2	7.0	2.9
2010-11	131.7	124.1	7.6	3.0
2011-12	142.8	135.1	7.7	2.9
2012-13	141.3	134.2	7.1	7.2
2013-14	150.6	142.5	8.1	7.9
2014-15	134.1	125.5	8.6	8.2
Adelaide				
2007-08	135.6	131.4	4.2	4.0
2008-09	128.7	122.6	6.1	4.0
2009-10	123.6	117.4	6.2	3.7
2010-11	130.0	124.1	5.9	4.7
2011-12	142.1	135.1	7.0	3.6
2012-13	140.1	134.3	5.8	8.5
2013-14	149.7	142.6	7.1	8.9
2014-15	132.4	125.7	6.7	10.1



Chart B6: Annual average petrol GIRDs in Launceston and the five largest cities: 2007-08 to 2014-15

Chart B7: Annual average petrol GIRDs in Launceston and Adelaide: 2007-08 to 2014-15



Appendix C: Diesel prices, TGPs and GIRDs in Launceston

This appendix provides historical data on diesel prices, TGPs and GIRDs in Launceston, the five largest cities, Adelaide and Hobart.³⁷

Annual average retail diesel prices in Launceston and selected locations: 2004-05 to 2014-15 (cpl)

Retail diesel prices: 2004-05 to 2014-15³⁸

Table C1:

		Five largest					
Year	Launceston	cities	Diff	Hobart	Diff	Adelaide	Diff
2004-05	115.1	108.9	6.2	113.8	1.3	110.9	4.2
2005-06	136.1	130.3	5.8	135.2	0.9	132.4	3.7
2006-07	133.6	127.6	6.0	133.5	0.1	129.8	3.8
2007-08	153.6	147.2	6.4	152.3	1.3	149.7	3.9
2008-09	149.6	139.0	10.6	149.6	0.0	140.1	9.5
2009-10	130.4	124.5	5.9	130.1	0.3	123.8	6.6
2010-11	141.2	136.3	4.9	142.0	-0.8	135.8	5.4
2011-12	152.2	147.9	4.3	154.9	-2.7	148.2	4.0
2012-13	155.3	147.4	7.9	155.1	0.2	147.5	7.8
2013-14	166.5	157.8	8.7	165.8	0.7	158.0	8.5
2014-15	149.6	140.4	9.2	147.8	1.8	138.6	11.0





³⁷ The source for all retail prices in this appendix is ACCC calculations based on data from FUELtrac and Informed Sources. The sources for TGP data are: Australian Institute of Petroleum, BP, Caltex, Mobil, Viva Energy, and WA Fuelwatch. Hobart TGPs were used for Launceston as diesel data for the other terminals in Tasmania was not readily available.

³⁸ When comparing retail prices across locations during this period it is important to note that a number of state governments provided subsidies that lowered the final diesel price to consumers. Prior to 1 October 2007, the Tasmanian Government provided a subsidy of 1.99 cpl (around 2.2 cpl when GST is included) for on-road diesel use to fuel wholesalers, distributors and bulk end-users. Prior to 1 July 2009 the Queensland Government provided a subsidy at the retail level of 8.4 cpl (around 9.2 cpl when GST is included).



Chart C2: Annual average retail diesel prices in Launceston and Adelaide: 2004-05 to 2014-15





Diesel TGPs: 2007-08 to 2014-15³⁹

		Five largest			
Year	Launceston	cities	Diff	Adelaide	Diff
2007-08	144.4	139.4	5.0	141.5	2.9
2008-09	134.8	129.4	5.4	131.4	3.4
2009-10	120.4	116.2	4.2	116.3	4.1
2010-11	131.8	127.4	4.4	127.5	4.3
2011-12	142.1	138.0	4.1	138.2	3.9
2012-13	141.2	136.9	4.3	137.2	4.0
2013-14	151.1	146.3	4.8	146.7	4.4
2014-15	131.7	126.7	5.0	126.8	4.9







³⁹ As noted in footnote 38 prior to 1 July 2009 the Queensland Government provided a subsidy at the retail level of 8.4 cpl (around 9.2 cpl when GST is included). For analysis of GIRDs in Brisbane in this period, TGPs in Brisbane were reduced by 9.2 cpl to put wholesale and retail prices on a consistent basis. Across the five largest cities, this reduced average TGPs by 1.8 cpl. These adjusted TGPs have been included in tables C2 and C3. As a result, in the years 2007-08 and 2008-09, actual TGPs in the five largest cities would have been 1.8 cpl higher and the difference between Launceston and five city average TGPs would have been 1.8 cpl lower.



Chart C5: Annual average diesel TGPs in Launceston and Adelaide: 2004-05 to 2014-15

Diesel GIRDs: 2007-08 to 2014-15

Table C3:	Annual average retail	diesel prices,	TGPs and	GIRDs: 2007-0)8 to 2014-15 (cpl)
-----------	-----------------------	----------------	-----------------	---------------	---------------------

Year	Retail	TGPs	GIRDs	GIRDs difference
Launceston				
2007-08	153.6	144.4	9.2	-
2008-09	149.6	134.8	14.8	-
2009-10	130.4	120.4	10.0	-
2010-11	141.2	131.8	9.4	-
2011-12	152.2	142.1	10.1	-
2012-13	155.3	141.2	14.1	-
2013-14	166.5	151.1	15.4	-
2014-15	149.6	131.7	17.9	-
Five largest cities				
2007-08	147.2	139.4	7.8	1.4
2008-09	139.0	129.4	9.6	5.2
2009-10	124.5	116.2	8.3	1.7
2010-11	136.3	127.4	8.9	0.5
2011-12	147.9	138.0	9.9	0.2
2012-13	147.4	136.9	10.5	3.6
2013-14	157.8	146.3	11.5	3.9
2014-15	140.4	126.7	13.7	4.2
Adelaide				
2007-08	149.7	141.5	8.2	1.0
2008-09	140.1	131.4	8.7	6.1
2009-10	123.8	116.3	7.5	2.5
2010-11	135.8	127.5	8.3	1.1
2011-12	148.2	138.2	10.0	0.1
2012-13	147.5	137.2	10.3	3.8
2013-14	158.0	146.7	11.3	4.1
2014-15	138.6	126.8	11.8	6.1



Chart C6: Annual average diesel GIRDs in Launceston and the five largest cities: 2004-05 to 2014-15

Chart C7: Annual average diesel GIRDs in Launceston and Adelaide: 2004-05 to 2014-15



Appendix D: Petrol prices in all monitored locations in Tasmania

The ACCC monitors fuel prices in twelve Tasmanian locations: Burnie, Campbell Town, Devonport, Hobart, Huonville, Launceston, New Norfolk, Queenstown, Smithton, Sorell, Ulverstone and Wynyard.⁴⁰

This appendix compares movements in annual average retail petrol prices and GIRDs in these Tasmanian locations during the period July 2007 to April 2016.

ACCC petrol monitoring has found that retail petrol prices in regional locations in Australia are typically higher than those in the capital cities, although they generally tend to follow the same overall price movements. Prices in regional locations are generally higher for a number of reasons, including:

- a lower level of local competition, often reflecting the lower number of retail sites
- lower volumes of fuel sold
- distance/location factors
- lower convenience store sales.

These factors also explain differences in petrol prices between regional locations.⁴¹

Retail petrol prices

Chart D1 shows monthly average retail petrol prices in Launceston and the other four largest Tasmanian cities (Hobart, Devonport, Burnie and Ulverstone) on average between January 2015 and April 2016.





During this period, movements in monthly retail petrol prices in Launceston followed movements in retail prices in the larger Tasmanian locations. However, average petrol prices in Launceston were always higher than in the four larger Tasmanian locations.

⁴⁰ All retail prices in this appendix are ACCC calculations based on data from FUELtrac and Informed Sources. The sources of TGP data are BP, Caltex, Mobil, Viva Energy, and United.

⁴¹ ACCC, *Monitoring of the Australian petroleum industry*, December 2014, page xi, at: <u>https://www.accc.gov.au/publications/</u> monitoring-of-the-australian-petroleum-industry/monitoring-of-the-australian-petroleum-industry-2014-report.

Over the period January 2015 to April 2016, prices in Launceston were on average 2.2 cpl higher than in the four larger Tasmanian locations, with the monthly average difference ranging from a high of 3.2 cpl in June 2015 to a low of 1.0 cpl in January 2015.

Chart D2 shows monthly average retail petrol prices in Launceston and the smaller Tasmanian locations (Campbell Town, Huonville, New Norfolk, Queenstown, Smithton, Sorell and Wynyard) on average over the period January 2015 to April 2016.





Movements in monthly retail petrol prices in Launceston closed followed movements in retail prices in the smaller Tasmanian locations.

Over the period January 2015 to April 2016, petrol prices in Launceston were on average 0.6 cpl higher than in the smaller Tasmanian locations, with the monthly average difference ranging from a high of 1.5 cpl in April 2015 to a low of -0.3 cpl in March 2016.

Table D1 shows annual average retail petrol prices in the twelve Tasmanian locations and the difference relative to Launceston prices from 2007-08 to 2014-15.

Table D2 shows annual average GIRDs in these locations from 2007-08 to 2014-15.42

⁴² Tasmanian TGPs (provided in appendix B) are used in this section. See footnote 36.

Table D1:	Annual average retail	petrol prices	in Launceston	and other Tas	manian locatic	ons: 2007-	08 to 2014-19	5 (cpl)				
Year	Launceston	Hobart	Diff	Devonport	Diff		aurnie	Diff	Ulverstone	Diff	Huonville	Diff
2007-08	141.4	139.7	-1.7	139.9	-1.5		I	I	142.0	0.6	I	1
2008-09	135.1	133.3	-1.8	134.0	-1.1		I	I	135.9	0.8	129.0	-6.1
2009-10	130.1	129.7	-0.4	128.1	-2.0		129.0	-1.0	128.1	-1.9	131.9	1.9
2010-11	138.3	138.0	-0.3	138.1	-0.3		138.5	0.2	138.2	-0.1	139.4	1.0
2011-12	149.4	149.8	0.4	149.4	0.0		150.1	0.6	149.9	0.4	150.3	0.9
2012-13	152.5	151.6	-0.8	151.9	-0.5		152.4	-0.1	151.9	-0.5	153.0	0.6
2013-14	162.6	161.5	-1.0	162.0	-0.6		161.9	-0.7	161.9	-0.7	161.9	-0.7
2014-15	147.2	145.1	-2.1	145.4	-1.8		145.7	-1.5	145.6	-1.6	145.7	-1.5
Year	Queenstown	Diff New	Norfolk	Diff	Sorell	Diff	Smithton	Diff	Wynyard	Diff	Campbell Town	Diff
2007-08	I	I	138.6	-2.9	ı	I	I	1	I	I	I	1
2008-09	135.0	-0.1	132.3	-2.8	I	I	I	I	I	I	I	I
2009-10	136.2	6.1	127.9	-2.2	123.5	-6.6	I	I	I	I	I	I
2010-11	143.8	5.5	136.7	-1.6	132.9	-5.4	I	I	I	I	I	I
2011-12	156.0	6.6	150.1	0.7	147.2	-2.2	153.5	4.1	156.6	7.1	I	I
2012-13	155.4	3.0	152.6	0.2	150.3	-2.1	152.1	-0.4	154.6	2.1	I	I
2013-14	164.0	1.4	163.3	0.7	160.4	-2.1	162.3	-0.3	164.3	1.7	I	I
2014-15	148.5	1.3	148.2	1.1	144.2	-3.0	147.1	0.1	146.1	-1.1	146.7	-0.5

12
4
É.
Я
0
8
õ
Ľ.
8
2
S
ō
ati
Ň.
Ĕ
ar
ī.
na
S
Ē
er
Ē
ō
p
ar
L
ğ
ĕ
Ĕ
au
Ľ
⊒.
es S
<u>.ö</u>
Ъ
ţ
9 0
=
ta
อ
e
ã
ēr
a۷
6
ň
n
∢
H
D

								New				Campbell
Year	Launceston	Hobart	Devonport	Burnie	Ulverstone	Huonville	Queenstown	Norfolk	Sorell	Smithton	Wynyard	Town
2007-08	8.2	6.5	6.7	I	8.8	I	1	5.4	I	I	I	
2008-09	10.1	8.3	0.0	I	10.9	4.0	10.0	7.3	I	I	I	I
2009-10	9.9	9.5	7.9	8.8	7.9	11.7	16.0	7.7	3.3	I	I	I
2010-11	10.6	10.3	10.4	10.8	10.5	11.7	16.1	0.0	5.2	I	I	I
2011-12	10.6	11.0	10.6	11.3	11.1	11.5	17.2	11.3	8.4	14.7	17.8	I
2012-13	14.3	13.4	13.7	14.2	13.7	14.8	17.2	14.4	12.1	13.9	16.4	I
2013-14	16.0	14.9	15.4	15.3	15.3	15.3	17.4	16.7	13.8	15.7	17.7	I
2014-15	16.8	14.7	15.0	15.3	15.2	15.3	18.1	17.8	13.8	16.7	15.7	16.3

Annual average petrol GIRDs in Launceston and other Tasmanian locations-2007-08 to 2014-15 (cpl) Table D2:

Appendix E: Financial data collection and methodology

This appendix outlines the process of collection and analysis of data for the Launceston market study and the methodology for the processing of retail financial data.

Collection

The ACCC sought detailed financial information from fuel retailers and wholesalers operating in Launceston. These companies included Caltas, Caltex, Centrel, Coles Express, United Petroleum, Woolworths, and nine independent retailers.

In addition, information from the major retailers about their retail sites in Adelaide was sought to make comparisons with the Launceston market.

Information collected under the ACCC's petrol monitoring program was also used to compare Australia-wide retail profitability with Launceston.

Confidentiality

The information provided to the ACCC is mostly commercially sensitive and has been provided on a confidential basis. To protect confidentiality, this report presents primarily aggregated analysis of retail costs and profits.

Financial assessment methodology

Data presented in this report was collected from the fuel retailers through financial data templates and profit and loss statements for individual retail sites provided by the companies. The templates were broadly similar to those used under the ACCC's petrol monitoring program.

Coverage

The analysis focuses on regular unleaded petrol sold at retail sites in Launceston and Adelaide. To fully examine the retail fuel market, revenue and costs of other fuels and non-fuel products were also analysed, as well as the overall profitability of each retail site.

When calculating the average costs and profits per site in Launceston, only those sites that operated for the full financial year were included.

Head office costs are costs incurred by larger retail operators in the operation of retail sites. These costs may relate to marketing, training, IT services, support office costs, and other administrative costs, which may not easily be attributed to individual sites. Head office costs are generally not included in the profit and loss statements for individual retail sites but are reported separately in the profit and loss statements across the overall business. As the retail operators used different methods to allocate their head office costs, they have been largely excluded from the profitability analysis in this report.

Cost allocation

Costs associated with the operation of a retail site cannot be directly attributed to a particular product or service. Petrol is sold jointly with other automotive fuels as well as non-fuel products, such as convenience store goods. Therefore, many costs are common to the retailing of both fuel and convenience store products, as they are generally sold from the same premises and by the same staff.

The existence of common and joint costs means that costs must be allocated to individual products. However, as the monitored companies do not generally measure net profit by product or service, they do not allocate costs to individual products or services.

The methodology the ACCC has used in this report to allocate common costs in the retail sector is consistent with that used in previous years in the ACCC's annual petrol monitoring reports.

Firstly, gross profit by convenience store and fuel sales were used to prorate costs between these two broad activities. Secondly, costs were then split by petroleum product on the basis of the relative product volumes sold.

While the ACCC has used well accepted cost allocation rules and conventions such as using sales volumes, revenue and costs, care should be taken when interpreting data presented in this report as there is no exact way of allocating common costs.

Petrol value chain

The petrol value chain describes each component contributing to the price of petrol at the bowser in Launceston, and compares this with the components of Adelaide petrol prices. The value chain includes costs and margins associated with importing, storage, wholesaling, transporting and retailing petrol.

Note that the value chain components are based on the average across companies and do not reflect the costs or profits of any individual company.

The value chain uses the average terminal gate price as a proxy for the wholesale price, and uses the average retail petrol price for each location obtained from FUELtrac.

Retail business models in Launceston

In the fuel industry, as with other industries, different companies operate under different business models and organisational structures. Types of retail businesses in Launceston include company owned and operated sites and commission agents.

The differences in business models and their effect on operating costs reported by the companies need to be borne in mind when considering the average costs and profits of the retail fuel market in Launceston.

Profit and loss data

Companies operating retail sites in Launceston were asked to provide profit and loss statements for each of their retail sites in Launceston for the period 1 July 2010 to 30 June 2015. This information was used to assess the profitability of retail sites in Launceston. Profit and loss information was used to calculate net profit per site and retail unit net profit—these concepts are described below.

Financial template

Companies operating retail sites in Launceston were asked to complete financial templates for each of their retail sites covering the period 1 July 2010 to 30 June 2015. The template sought information specific to petrol, including costs, revenue and sales volumes that was not available from the profit and loss statements. This information was used to calculate retail unit net profit and net retail margins on petrol—these concepts are described below. The templates were also used to allocate retail operating costs to petrol, as outlined above.

Key financial indicators for assessing the Launceston retail market

Net profit per site

Net profit in section 3.1 is as reported in companies' profit and loss statements for each site in Launceston and Adelaide. While there were some small differences in how net profit was calculated between companies, in general net profit broadly equates to net earnings before interest and tax.

Retail unit net profit

The net profit made by fuel retailers for each litre of fuel sold. That is, the overall net profit reported by companies divided by the total volume of fuel sold. This includes profit made on non-fuel products such as convenience store sales.

Net retail margin on petrol

The net profit earned by companies on the sales of petrol only, i.e. revenue on petrol less purchases less allocated operating costs. In this report this was calculated as the average retail petrol price less the average TGP, the average operating costs allocated to petrol sales (as described earlier), freight and retail GST.