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## Summary and Recommendations

The Motor Trades Association of Queensland (MTA) is the peak organisation in the State representing the specific interests of 2500 businesses in the retail, repair and service sector of the Australian Motor Industry.

The MTA's submission is confined to issues that are within the purview of its Members.

Independent Service Station issues include:

- Independent service station operators have little control over retail petrol pricing. They are price takers;
- They are subjected to severe economic pressures having to fund approximately 30% increase in stock capital without being able to achieve a commensurate investment margin return;
- Increased retail prices cause a reduction in sales volumes, estimated to be between 2 and 3 per cent resulting in erosions of profit levels;
- Supermarket/oil major alliances have forced and are forcing Independents out of business through price discounting;
- The domination of the market by supermarkets and oil majors is impacting on genuine sustainable competition;
- Terminal Gate Pricing despite the Oilcode formula lacks calculation transparency particularly given the perceived variations in the wholesale prices to Independents; and
- There is an emerging trend for the oil majors to take a distributor site and open retail.

Recommendations:

The MTA recommends a uniform base transparent terminal gate price from which the wholesale price can be determined. The terminal gate price is published daily but it is impossible to confirm if sales are made or not made at the published terminal gate price. Further it is difficult to determine if in fact the terminal gate price is directly relevant to the prices in the market. It can be stated categorically that small volume independents are unable to purchase fuel at the published terminal gate price. Small independent Service Station operators are price takers. The price makers are the vertically integrated oligarchic oil majors.

Consideration be given to the appointment of a Petroleum Industry Ombudsman. Such an appointment would be to act as a one-stop shop to act on or to forward to the bodies concerned the suggestions/complaints (but not disputes) presented which fall outside his/her responsibility to investigate.

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## Submission ACCC Inquiry into the Price of Unleaded Petrol

### **Motor Trades Association of Queensland background**

The Motor Trades Association of Queensland (MTA) is the peak organisation in the State representing the specific interests of 2500 businesses in the retail, repair and service sector of the Australian Motor Industry.

The Association represents and promotes the issues of the automotive industries to all levels of government and within Queensland's economic structure.

The MTAQ comprises 14 separate divisions, each representative of a specialist area of the State's automotive industry. They are - Automobile Dealers' Association; Farm and Industrial Machinery Dealers; Auto Electrical Specialists; Motorcycle Industry; Combined Mechanical Repairer Specialists; Tyre Dealers & Retreaders; Engine Re-conditioners; Rental Vehicle Industry; Independent Tow Truck Operators; Service Station & Convenience Store Association; National Auto Collision Alliance; Used Car; Automotive Under car and Auto Parts Recyclers.

The Association is the largest automotive trainer in Queensland offering nationally recognised training covering all aspects of the Retail Motor Trades Industry. The Association's Motor Industry Training Department is the largest automotive apprentice trainer in Queensland.

### **Introduction**

The MTA's submission is confined to issues that are within the purview of its Members.

Our service-station operators Members are:

- Independent operators selling refiner/marketer branded petrol;
- Distributor owned sites selling refiner/marketer branded petrol;
- Independent chains (such as 7-Eleven); and
- Small Independent operators selling their own brands.

The ownership structure of our members is based on a system of franchise, lease and branding agreements between single and multi-site owners, fuel suppliers, and convenience store chains.

### **Service Station Industry**

Queensland Independent operators such as Liberty, Matilda, and Neumann use their own site, equipment and brand name and buy fuel as required from the local distributor or refiner/marketer.

Queensland independent chains such as 7-Eleven generally buy fuel in bulk from local refiner/marketer and sell it through their company-owned sites.

At January 2007 there were 1017 licensed petrol retailers in Queensland operating from 1840 active retail sites<sup>1</sup>.

From 1993 to 2005 approximately 24 per cent or 440 service stations exited the Queensland industry. Between 2000 and 2004 the number of branded service stations operated by franchisees fell by 46 per cent, the majority of which were taken over by the supermarket/oil major alliances.<sup>2</sup> This trend is continuing which is exemplified by the current incident of a Gold Coast oil major franchisee who has through courteous service, presentation, convenience goods, reliable automotive repairs and a good position over the duration of the lease has substantially built up an excellent business and increased volume sales. It has become a consumer preferred site to purchase fuel and convenience goods. The oil major advised the franchisee the lease would not be renewed.

### **Rationalisation**

Rationalisation has been common across Australia for more than 30 years. In 2006 it was estimated that nationally there were around 6,500 retail sites.<sup>3</sup> In 1970 there were 20,000 sites, in 1980 12,500 sites and in 2,000 8,000 sites.<sup>4</sup>

According to the Australian Institute of Petroleum, since 2000 the number of service stations has fallen from 8,200 to about 6,000. In that period the supermarket chains have increased their presence sevenfold from a base of 156 sites to 1091.

### **Restructuring**

Accompanying rationalisation is restructuring of the industry based on vertical integration by the oil majors and the convergence of fuel retailing with convenience store shopping and alliances/joint ventures between the major supermarkets and the refiner/ marketers – (Woolworths-Caltex and Coles-Shell). The operations of service stations is changing with emergence of high volume service stations with multiple pumps, the introduction of self-service technology supported by Automatic Teller Machines and a range of services and conveniences.

Changes within the structure of the service station industry and the supporting technology has been complemented by advances in motor vehicle technology including increased fuel capacity, improved highways and development of shopping centres in population centres to suit consumer needs.

An apparent downside to the rationalisation and restructuring of service stations in Queensland is the ongoing reductions of outlets in small country towns - for example on the major western highways. Motorists unwary of distances frequently underestimate fuel consumption between destinations and have no knowledge that a fuel bowser attached to a small convenience store is not open twelve hours a day seven days a week. To service remote areas some Distributors have located automated bowsers to service the trucking industry and motoring public.

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<sup>1</sup> Hon Treasurer Anna Bligh Media Statement “Queensland blitz rorters” 22 January 2007

<sup>2</sup> Queensland Government Submission Impact of Petrol Pricing Select Committee Inquiry into Petrol Pricing In Queensland, April 2006 p.2

<sup>3</sup> ACCC Submission Senate Economic Legislation Committee Inquiry into the price of petrol in Australia July 2006 p. 22

<sup>4</sup> Ibid 22

## Queensland's domestic fuel industry

Queensland's domestic fuel industry is dominated by the oil majors BP, Shell, Mobil and Caltex. These companies are highly integrated. In Queensland, Caltex owns and operates the Lytton Refinery with an annual capacity of 6.110 million litres and BP owns and operates Bulwer Island with an annual capacity of 5.100 million litres.

Neumann Petroleum Terminals Pty Ltd is a small Queensland privately owned independent Australian oil company.<sup>5</sup> It owns and operates customs bonded, state of the art bulk seaboard fuel terminal located at Eagle Farm Brisbane. Petroleum products is sourced from both domestic and international refineries and sells to service stations, distributors etc. Neumann has a network of about 40 branded retail sites of which about 31 are in Queensland.

### Volumes

Unleaded petrol volumes utilised by all Queensland road vehicles was 3,783.23 ML in 2003/04 compared with 3,047.91 ML in 2000-01 an increase of 19 per cent. Queensland's usage is equivalent to 21 per cent of the nation's unleaded petrol consumption. Queensland's 2014 projected consumption is 5,043.8 ML an increase of 25%.<sup>6</sup>

Independent service station operators are a minority. Nationally, 75 per cent of service stations are owned by or directly affiliated with the four major petroleum refining and marketing companies.<sup>7</sup> Their share of retail sales is estimated to amount to 90% of the total consumption of automotive fuels.

The alliance between the major supermarkets and oil majors in 2003 and the emergence of shopper docket discounting of 4 cents per litre following the purchase of \$30 dollars of supermarket items has focused consumers on seeking the outlets where the shopper docket has currency. Anecdotally it is estimated that in Brisbane that combined supermarket/oil major volume sales via shopper dockets control in excess of 70% of the unleaded petrol market, in regional areas its is 60% and in the remote areas it is zero.

Some small independents offer discounts if consumers purchase a specified dollar amount of non unleaded petrol items.

### Independent Service Station Issues

Independent Service Station issues include:

- Independent service station operators have little control over retail petrol pricing. They are price takers;
- They are subjected to severe economic pressures having to fund approximately 30% increase in stock capital without being able to achieve a commensurate investment margin return;
- Increased retail prices cause a reduction in sales volumes, estimated to be between 2 and 3 per cent resulting in erosions of profit levels;

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<sup>5</sup> [www.neumannpetroleum.com.au](http://www.neumannpetroleum.com.au)

<sup>6</sup> Queensland, Transport Facts 2006, Section 4 Transport Energy Consumption

<sup>7</sup> Australian Government Department of Industry Transport and Resources

- Supermarket/oil major alliances have forced and are forcing Independents out of business through price discounting;
- The domination of the market by supermarkets and oil majors is impacting on genuine sustainable competition;
- Terminal Gate Pricing despite the Oilcode formula lacks calculation transparency particularly given the perceived variations in the wholesale prices to Independents; and
- There is an emerging trend for the oil majors to take a distributor site and open retail.

## Wholesale – Distribution – Retail

From the perspective of our Members there is a lack of competition in the wholesale sector and there are no indications that this will change. The harmonisation of Australian fuel quality standards with international standards prevents the importation of cheaper Asian fuels and is supported by the MTA.

It is clear that a range of wholesale prices are offered to retailers by the oil majors and their distributors. It appears that service station outlets with large unleaded petrol throughput or aligned with the oil majors generally buy petrol at lower wholesale prices than some franchisees and smaller independents. It seems that the larger operations have an ability to negotiate relatively lower prices enabling them to participate in price discounting as part of the weekly price cycle without impacting on their viability enabling them to increase market share at the expense of the small independents.

It seems to our Members that comparing an oil major aligned outlet with a similar independent outlet at times of peak demand the oil major aligned outlet is able to discount fuel at prices unable to be matched by the independent which suggests a favourable wholesale price from either vertical integration or a supermarket / oil major alliance. The independent's solvency prevents the lowering of the retail price to an unsustainable level.

Small Independents are highly efficient, have low overheads and can compete with the oil majors / supermarket outlets in satisfying consumer demands for service, multiple pumps, convenience items and presentation but struggle to compete when there is not a uniform, base transparent terminal gate price from which the wholesale price may be negotiated. Small independents cannot negotiate a wholesale price.

The MTA members are price takers not price makers. The price makers are the behemoth supermarket and oil major integrated outlets.

*The MTA recommends a uniform base transparent terminal gate price from which the wholesale price can be determined.*

## Price cycles

Price cycles are difficult for small independent service station operators but of significant concern has been the lag time between the decreases in world prices for crude oil derivatives such as unleaded automotive fuels and Australia's domestic unleaded fuel price. In 2007 there were two events one in mid January 2007 and the one in mid June when the drop in world prices was not reflected at the petrol pump to benefit motorists. This was beyond the control of any MTA member.

In January 2007 the Singapore refined petrol price (the international benchmark) was approximately A\$76 per barrel and the national average price for 16 January 2007 was 114.3 cpl. A comparison may be made with June 2005 when the Singapore refined petrol price was also about \$A76 but the national average price for January 2005 was 106.7 cpl.<sup>8</sup>

#### Petrol Prices in Capital cities (cents per litre)

Capital City	June 2005	16 January 2007
Brisbane	98.5	108.5
Sydney	108.0	112.6
Canberra	104.2	117.1
Melbourne	106.6	111.1
Hobart	113.0	114.1
Adelaide	106.1	110.1
Perth	103.3	114.9
Darwin	113.6	125.9
Average	106.7	114.3 <sup>9</sup>

\*(This was the last time the Singapore refined petrol price was about the same as today (\$A76 per barrel)<sup>10</sup>

Using June 2005 capital city average cpl price of 106.7 as a benchmark for January 2007 the price should have been at least 7 cpl below the average. The high petrol prices was reflected in the June Quarter 2007 Consumer Price Index which showed automotive fuel rose by + 9.1 per cent (national) and was the most significant price rise for the quarter and an indication of the impact of continued high fuel prices. The increase in automotive fuel was common to all capital cities.<sup>11</sup>

Automotive fuel prices fell in January (-3.0%), then rose in February (+1.1%), March (+7.6%), April (+1.2%) and May (+3.7%), then fell slightly in June (-0.3%).<sup>12</sup>

The following graphs show the pattern of the average daily prices for unleaded petrol for the eight capital cities over the last 24 months.<sup>13</sup> and underscores the lack of Terminal Gate Price transparency and the need for a known base price so that the retailer and the consumer know that the price posted is fair to all.

<sup>8</sup> Australian Automobile Association Media Release 16 January 2007

<sup>9</sup> Ibid

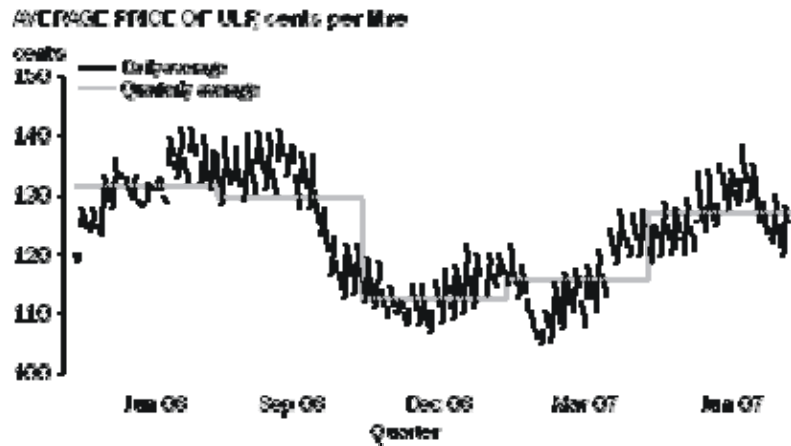
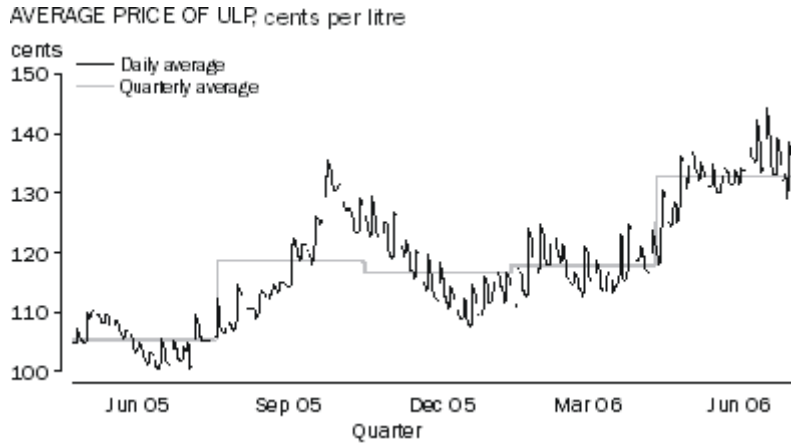
<sup>10</sup> Ibid

<sup>11</sup> ABS Consumer Price Index June Quarters 2006 and 2007 (6401.0)

<sup>12</sup> Ibid

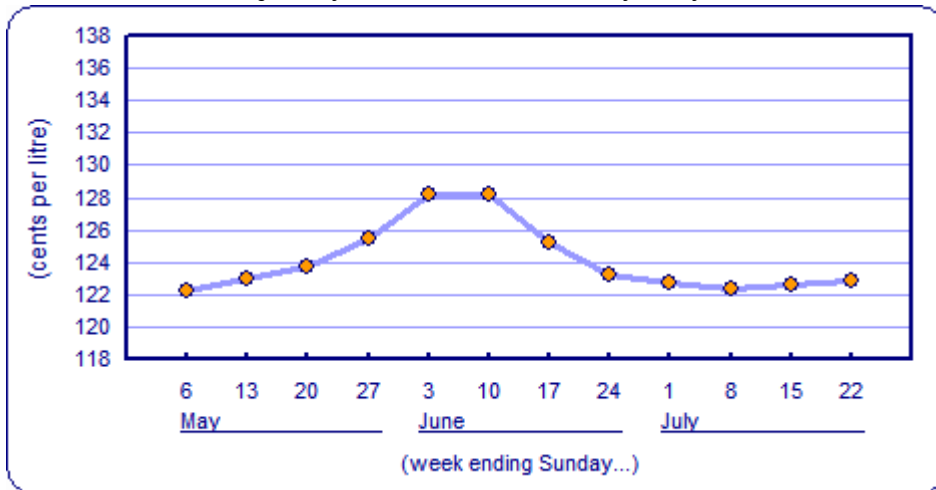
<sup>13</sup> Ibid





Queensland State Average

Average Weekly Prices for the 12 Weeks to Sunday, 15 July 2007



The Average ULP Terminal Gate Prices for the June 4 – 15 compared with the above table highlights numerically the price divergence between Queensland State average ULP and is as follows:

Monday June 4	128.4
Tuesday June 5	127.3
Wednesday June 6	126.9

Thursday June 7	126.6
Friday June 8	125.4
Monday June 11	124.9
Tuesday June 12	124.8
Wednesday June 13	123.8
Thursday June 14	123.6
Friday June 15	122.8

The Terminal Gate Price is published daily but it is impossible to confirm if sales are made or not made at the published terminal gate price. It can be stated categorically that small volume independents are unable to purchase fuel at the published terminal gate price.

The oil companies use the linkage to Singapore refined petrol price to explain increases in Australian fuel prices but it could be assumed that the linkage should also result in consumer petrol prices trending down when the Singapore refined petrol price declined.

The ACCC Issues Paper table shows a clear price divergence between a declining Singapore refined petrol price and increasing domestic petrol prices. The impact on consumers is reflected in the Consumer Price Index data.

Small independents may postulate anti-competitive conspiracy theories for the price divergence but as they are price takers they have no insights of the behaviour of the oil companies and major retailers regarding prices. They are price takers and cannot influence the relationship and response lags between international price movements, domestic terminal gate pricing and the posted retail prices.

The small independents are of the view that the level of competition in the service station industry is being eroded by the vertically integrated oligarchic oil majors.

Price cycles in the view of the small independents, are part of the anti-competitive practices to increase sales volume. From 1 January to 30 June 2006 in Brisbane there were 25 price cycles with a variation of 7.7 cpl. The variation over the period ranged from 1.2 cpl to 11.7 cpl, with the most common variation being between 7.0 cpl and 9.99 cpl and the most common duration of the price cycle was seven days. Thursday was the most common day for peaks (96 per cent), and Tuesday was the most common day for troughs (85 per cent).<sup>14</sup>

Changing petrol prices confuses consumers particularly when prices fall Monday morning and rise Thursday. Petrol cycles have no relevance to the import parity mechanism of petrol pricing in Australia, which is determined on a daily basis. It seems to our Members they are a device introduced by the major oil companies to enable them to average and manipulate their margins over a period of time.

The increased transparency created by Independent price monitoring companies (MotorMouth and Fueltrac) motorist are now able to determine from the internet which is the cheapest day for them to buy and where they are located. The ACCC provides useful pricing data on its website and has produced a booklet "Understanding Petrol Pricing in Australia" which is a valuable education aid for Australian motorists.

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<sup>14</sup> ACCC Submission Senate Economic Legislation Committee Inquiry into the price of petrol in Australia July 2006 p.68

## Regional Queensland ULP prices

For Queensland's regional business operators, communities, and householders fuel is an essential standard of living and quality of life item. Fuel prices impact on business and enterprise financial decisions and priorities and communities' and householders.

The Table below highlights the higher prices compared with the city:

### Queensland Retail Petrol Prices Weekending 22 July 2007 (Orima Research)<sup>15</sup>

	Weekly Average	Weekly Change	Variation from Metro	Weekly Low	Weekly High
<b>Queensland State Average</b>	122.8	+0.2	+3.2	121.6	124.5
<b>Brisbane</b>	119.6	+0.0	-	116.6	123.1
<b>Queensland Regional Average</b>	125.9	+0.3	+6.3	124.6	126.9
<b>Bowen</b>	126.4	+0.0	+6.8	125.9	129.4
<b>Bundaberg</b>	126.4	-0.1	+6.8	125.7	127.1
<b>Cairns</b>	128.9	+0.8	+9.3	128.4	129.6
<b>Charleville</b>	n.a.	-	-	-	-
<b>Charters Towers</b>	127.4	-1.6	+7.8	125.9	129.3
<b>Emerald</b>	126.8	-0.1	+7.2	126.4	126.9
<b>Gladstone</b>	126.6	+0.0	+7.0	126.0	126.9
<b>Longreach</b>	133.4	+0.0	+13.8	133.2	133.4
<b>Mackay</b>	125.8	-0.3	+6.2	125.5	127.0
<b>Mt Isa</b>	130.9	+0.0	+11.3	130.9	130.9
<b>Rockhampton</b>	128.4	-0.2	+8.8	125.9	130.0
<b>Roma</b>	131.1	+0.0	+11.6	130.5	132.1
<b>Toowoomba</b>	121.8	-0.8	+2.2	119.2	124.3
<b>Townsville</b>	125.1	+2.9	+5.5	122.2	127.6
<b>Warwick</b>	122.6	+1.0	+3.0	121.9	123.3

All values are in cents per litre.

'Weekly Low' and 'Weekly High' are based on average daily prices across all producers.

<sup>15</sup> Australian Institute of Petroleum [www.aip.com.au](http://www.aip.com.au)

The **Regional Average** price is calculated as the weighted average of the retail petrol prices for the non-metropolitan regions in each State/Territory, where the weights are based on the number of vehicles using unleaded petrol. The **National Average** is calculated as the weighted average of each State/Territory's metropolitan and non-metropolitan retail petrol prices, with the weights based on the number of vehicles using unleaded petrol registered in each of these areas (Vehicle data source: *ABS Motor Vehicle Census, 2005, Cat No 9309.0*).

The average weekly variation between metropolitan Brisbane and regional Queensland is 6.3 cpl. In western Queensland the variation between Brisbane city is more pronounced. For example the variation between Longreach and Brisbane on 22 July 2007 was 13.8 cpl.

The table below shows the variations for the nine year period June 1998 to June 2006 the average monthly variation was 12.2 cents per litre for unleaded petrol.

### Average Price of Unleaded Petrol<sup>16</sup>

The table<sup>17</sup> below charts the disparity or variation between Brisbane and Longreach in the central west for unleaded petrol.

	June '98	June '99	June 00	June 01	June 02
Average	75.2	74.5	90.3	93.3	90.7
Monthly Movement	-1.7	0.6	3.5	-5.6	-0.2
Variation from Metro	13.7	14.6	12.0	16.4	12.0
Minimum	72.5	73.7	88.9	89.9	87.5
Maximum	78.9	78.9	94.9	103.1	98.0

	June 03	June '04	June 05	June 06
Average	88.6	101.6	107.8	138.5
Monthly Movement	-2.1	0.0	-1.6	0.8
Variation from Metro	14.0	9.0	9.3	9.2
Minimum	85.9	93.9	99.9	133.9
Maximum	91.9	105.9	113.3	148.9

Factors that influence the variation in the price includes the price of international product and the exchange rate, and freight and distribution costs...

### Industry Reform

The downstream petroleum reform package with reservations was supported by the MTA. More time needs to pass to assess the operation of the Oilcode and the effectiveness of the disputes resolution scheme but there appears to be a number of unintended consequences including the duration of competition and the eclectic terminal gate pricing which are causes for concern. The Oilcode "provides industry participants with a national approach to terminal gate pricing, (TPG) fairer contractual arrangements and access to a disputes resolution scheme."

<sup>16</sup> See: <http://www.aip.com.au/pricing/orima.htm>

<sup>17</sup> Queensland Fueltrac Pricing Summary Unleaded Petrol (cents per litre)

The terminal gate price formula is published but it is the lack of numerical empirical transparency for its determination and its failure to be the base price for unleaded petrol is a fundamental weakness. Independents are at the end of price chain and have to accept the wholesale delivery price of the day. The TCP appears to have limited relevance to the wholesale price paid by small independents.

The MTA supports the ACCC in its role of administration of the Trade Practices Act and recent changes to the legislation. We believe that the ACCC should be assisted with its responsibilities with a Petroleum Industry Ombudsman. Such an appointment would be to act as a one-stop shop to act on or to forward suggestions/complaints (but not disputes) presented which fall outside his responsibility to investigate, to the bodies concerned.

### **Recommendations**

The MTA recommends an uniform base transparent terminal gate price from which the wholesale price can be determined. The Terminal Gate Price is published daily but it is impossible to confirm if sales are made or not made at the published terminal gate price. It can be stated categorically that small volume independents are unable to purchase fuel at the published terminal gate price. Small independent Service Station operators are price takers. The price makers are the vertically integrated oligarchic oil majors.

Consideration be given to the appointment of a Petroleum Industry Ombudsman. Such an appointment would be to act as a one-stop shop to act on or to forward suggestions/complaints (but not disputes) presented which fall outside his responsibility to investigate, to the bodies concerned.

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