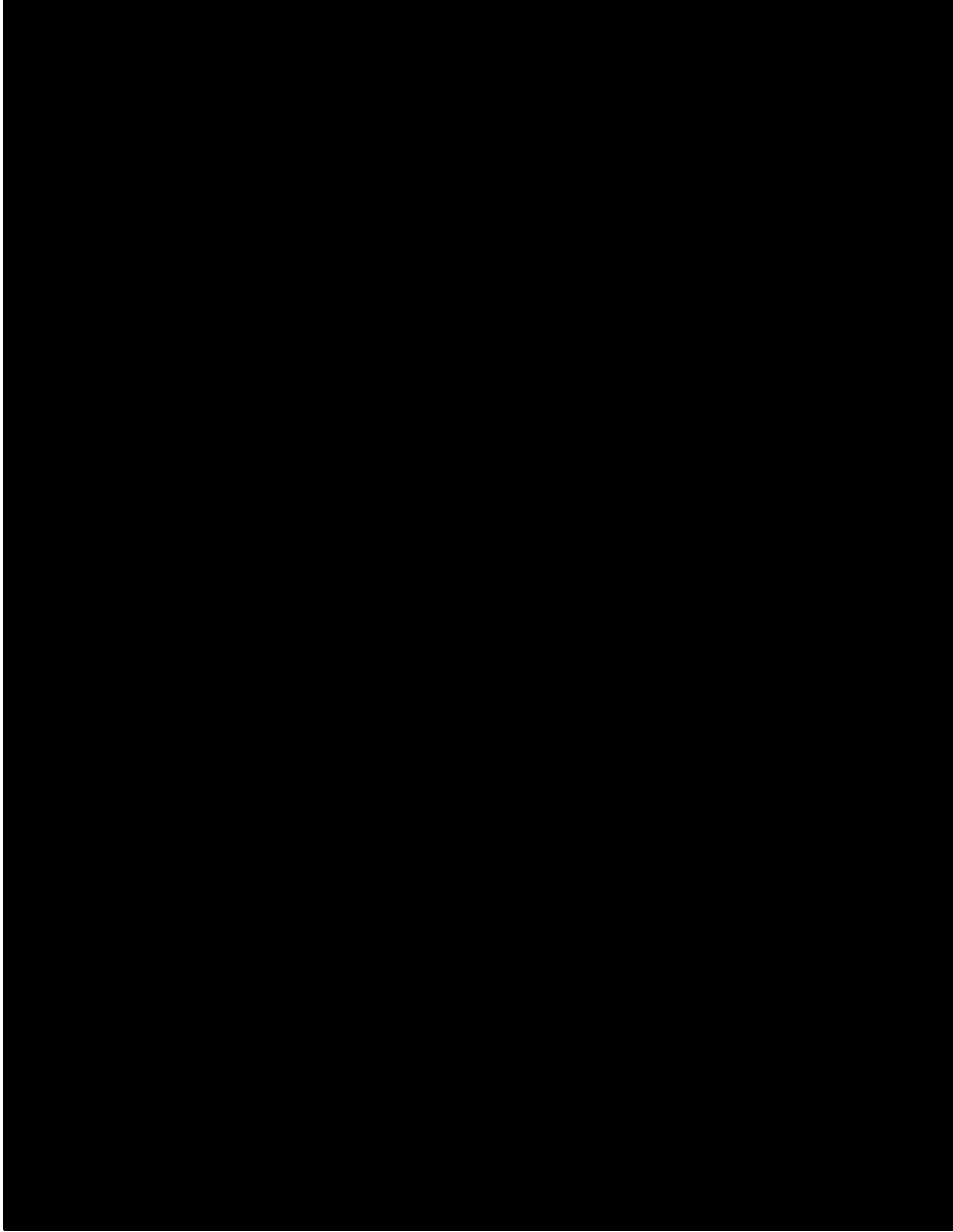


Regulatory Affairs Division Submission



**AUSTRALIAN COMPETITION & CONSUMER COMMISSION
MINUTE**

OFFICE: Melbourne
TRACKIT No: 48037
FILE REF.:
DATE: 29 February 2012

TO: Regulated Access, Pricing and Monitoring Committee

CC: Mark Pearson, Matthew Schroder

FROM: Gary Dobinson

SUBJECT: Comments on the Australian Automobile Association report on the impact of the supermarket fuel discount

1. Purpose

The purpose of this paper is to inform the Committee about the Australian Automobile Association (AAA) report on the impact of the supermarket fuel discount and staff comments on it.

2. Background

On Friday 10 February 2012 the ACCC received a copy of a draft report prepared by the AAA entitled "Impact of supermarket fuel discount: market analysis". It was sent to the ACCC by a journalist from the *Sunday Telegraph* seeking comment on it. At that time, it was not sent to the ACCC by the AAA.

A copy of the draft report is at Attachment A.

The results of AAA report were reported widely in the media on the following Sunday and Monday. The issue was also raised by Senator Xenophon at the ACCC attendance at the Senate Estimates hearing in Canberra on Wednesday 15 February.

On Friday 22 February 2012 the AAA sent a copy of their report to the ACCC. The overall conclusions of the final version of the report were essentially the same as the draft version.

However, the final version provided more detail about how some of the numbers in the draft report had been derived. It also included a breakdown of margins at the peak and the trough of the price cycle for each of the four eastern capitals (Sydney, Melbourne, Brisbane and Adelaide). The draft report had only included averages across the four cities.

A copy of the report is at Attachment B.

3. AAA claims

The AAA claims that fuel prices and margins (i.e. the difference between retail prices and wholesale prices) have been higher by up to 2.0 cents per litre (cpl) since late October 2011 following the introduction of 8.0 cpl shopper docket discount schemes by Coles Express and Woolworths. The AAA also notes that the duration of price cycles has increased since late October.

In their letter to Commissioner Dimasi accompanying the report the AAA comment that, arising from their analysis, is the need for greater transparency in fuel pricing and they propose two initiatives to address the issue. These are:

- National standards for fuel price boards (possibly using the Oilcode as the basis for such an approach); and
- Provision of real-time (or near real-time) price information to consumers.

4. Analysis and ACCC response

Fuel group staff have had a close look at both the draft and final versions of the AAA report. The comments below refer to the final version.

Methodological and factual issues

There are a number of methodological and factual issues about the report. These include:

- It does not clearly explain how it has derived all of the calculations in the report:
 - for example, the claim that in the period November 2011 to January 2012 gross retail margins in some cities were around 2.0 cpl higher than over the previous 12 months, or how chart 1 was derived;
- It suggests that the increase in retail margins is a national issue, but excludes Perth from the analysis (this is presumably because Perth has regular price cycles);
- It compares E10 retail prices in Sydney with terminal gate prices for regular unleaded petrol rather than those for E10;
- The comment on page 12 of the report that on 2 November 2011 Brisbane's trough price was 7.8 cpl higher than normal is incorrect because the wrong "normal" margin was used.

Comment and analysis

More substantially, we have the following comments on the AAA analysis:

- Petrol retail margins are volatile and vary significantly;
- There is no apparent relationship between margins and the 8.0 cpl shopper docket discounts;
 - This is reinforced by a statistical analysis undertaken by staff in Regulatory Development Branch;

- Short term comparisons can be misleading and using a longer-term perspective provides different results;
- Price cycles are generally led up by the refiner-marketers rather than the supermarkets;
- Supermarket average retail prices have hardly changed relative to market average retail prices;
- Petrol price cycles have been changing since mid-2010; and
- The ACCC is examining the shopper docket arrangements.

These comments are outlined in more detail in the attached note. It was prepared in consultation with Enforcement Branch and Regulatory Development Branch.

The note has been written on the basis that it (or selected parts of it) could be provided to the AAA and the Senate Estimates Committee.

5. Recommendation

The Committee notes the ACCC response to the AAA report and provides any comments/feedback on it.

Fuel Prices and Market Analysis
Fuel Group

Assessment of the AAA report – *Impact of supermarket fuel discount: market analysis*

Background

On 10 February 2012 the ACCC received through the media a copy of a draft report prepared by the Australian Automobile Association (AAA) entitled *Impact of supermarket fuel discount: market analysis*. It was not sent to the ACCC by the AAA.

Subsequently on 22 February 2012 the AAA sent a final version of the report to the ACCC. The overall conclusions of the final version of the report were broadly the same as the draft version. However, the final version of the report provided more detail about how some of the numbers in the draft report had been derived.

The report claims that fuel prices and gross retail margins (i.e. the difference between retail prices and wholesale prices) have been higher by up to 2.0 cents per litre (cpl) since late October 2011 following the introduction of 8.0 cpl shopper docket discount schemes by Coles Express and Woolworths. It also notes that the duration of price cycles has increased since late October.

Assessment

There are a number of methodological and factual issues with the AAA report. These include:

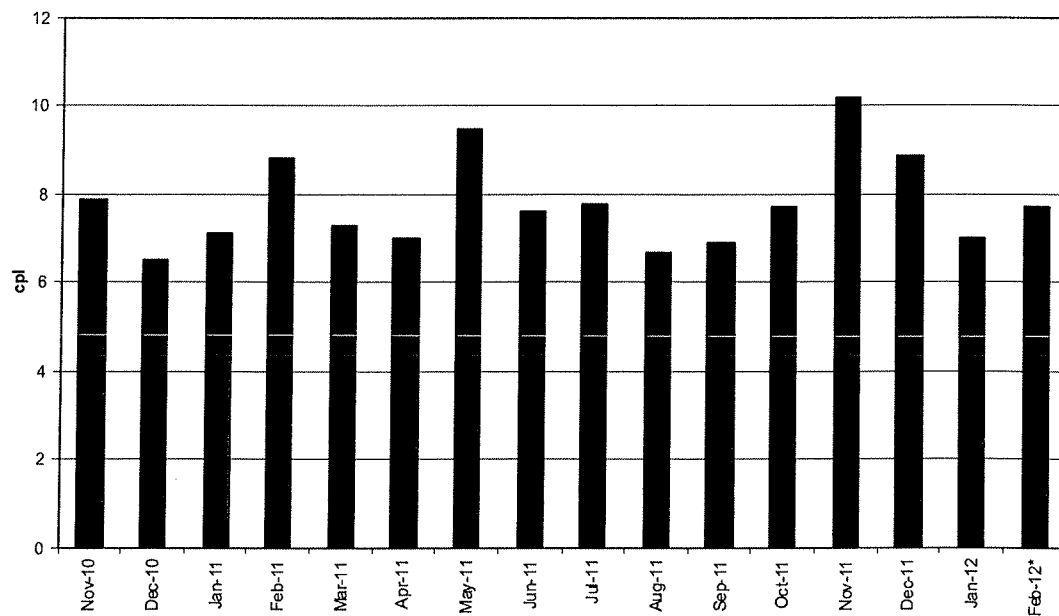
- It does not clearly explain how it has derived all of the calculations in the report - for example, the claim that in the period November 2011 to January 2012 gross retail margins in some cities were around 2.0 cpl higher than over the previous 12 months, or how chart 1 was derived;
- It suggests that the increase in retail margins is a national issue, but excludes Perth from the analysis – this is presumably because Perth has regular price cycles;
- It compares E10 retail prices in Sydney with terminal gate prices for regular unleaded petrol;
- The comment on page 12 of the report that on 2 November 2011 Brisbane's trough price was 7.8 cpl higher than normal is incorrect because the wrong "normal" margin was used.

However, the ACCC has the following substantive comments on the AAA report:

Petrol retail margins are volatile and vary significantly

- Chart 1 shows monthly average margins across the five largest cities (Sydney, Melbourne, Brisbane, Adelaide and Perth) between November 2010 and February 2012.¹ Table 2 provides the data behind the chart.
- This period was analysed because it covers the last three 8.0 cpl shopper docket discount periods.
- Over this period, margins averaged 7.8 cpl. They ranged from a high of 10.2 cpl in November 2011 to a low of 6.5 cpl in December 2010.

Chart 1: Monthly average margins across the five largest cities - November 2010 to February 2012



* to 15 February

Source: ACCC calculations based on Informed Sources, AIP and data provided by the monitored companies.

¹ These are calculated by subtracting average monthly terminal gate prices (TGPs) from average monthly retail prices across the five largest cities. Data for February 2012 is up to 15 February. TGPs for February 2012 are sourced from the Australian Institute of Petroleum (AIP) website. Other TGPs are sourced from the monitored companies. All references to petrol in this note are to regular unleaded petrol.

Table 1: Monthly average retail prices, terminal gate prices and margins across the five largest cities - November 2010 to February 2012

Month	Average retail price (cpl)	Average TGP (cpl)	Margin (cpl)
Nov-10	124.0	116.1	7.9
Dec-10	128.9	122.4	6.5
Jan-11	132.3	125.2	7.1
Feb-11	135.7	126.9	8.8
Mar-11	141.7	134.4	7.3
Apr-11	143.2	136.2	7.0
May-11	144.1	134.6	9.5
Jun-11	138.6	131.0	7.6
Jul-11	139.9	132.1	7.8
Aug-11	139.4	132.7	6.7
Sep-11	143.0	136.1	6.9
Oct-11	144.9	137.2	7.7
Nov-11	140.7	130.5	10.2
Dec-11	139.1	130.2	8.9
Jan-12	141.4	134.4	7.0
Feb-12*	142.0	134.3	7.7

* to 15 February

Source: ACCC calculations based on Informed Sources, AIP and data provided by the monitored companies.

- As margins are calculated as the difference between retail prices and wholesale prices they will be influenced by factors affecting those wholesale and retail prices.
 - For example, significant increases and decreases in movements in international petrol prices will affect wholesale prices. Similarly, changes in the extent of competition in retail markets, or the instances of failed price cycles, will affect retail prices.

ACCC analysis of movements in terminal gate prices and retail prices over the last four years indicates that when there are significant changes in TGPs in a short period of time – both up and down – retail prices tend not to change to the same degree.

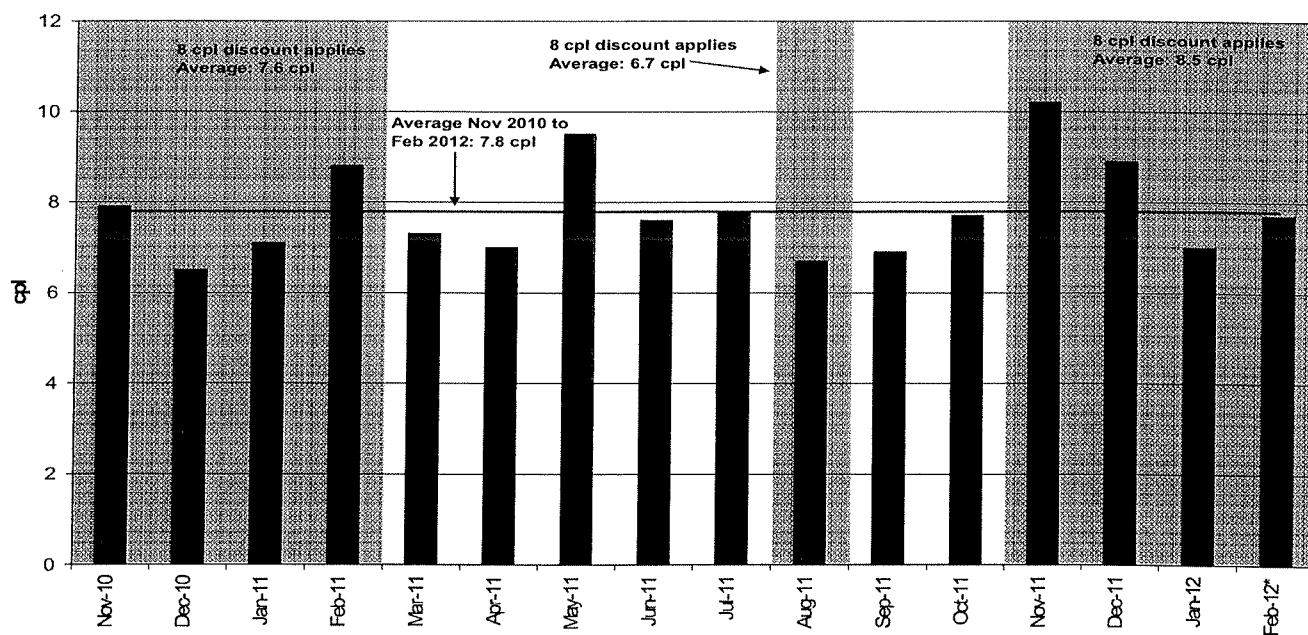
This means that when TGPs are increasing significantly, retail prices do not increase as quickly and therefore margins are lower than they otherwise would be. This was the case in December 2010. Similarly, when TGPs are decreasing significantly, retail prices do not decrease as quickly and therefore margins are higher than they otherwise would be. This was the case in November 2011.

There is no apparent relationship between margins and the 8.0 cpl shopper docket discounts

- During the last 16 months there have been three periods during which Coles Express and Woolworths operated 8.0 cpl shopper docket schemes. These were: 5 November 2010 to 31 January 2011, 21 July 2011 to 3 August 2011 and 29 October 2011 to 31 January 2012.

- Chart 2 shows these three discount periods and the monthly average margins across the five largest cities between November 2010 and February 2012.²

Chart 2: Monthly average margins across the five largest cities and 8.0 cpl shopper docket periods – November 2010 to February 2012



* to 15 February

Source: ACCC calculations based on Informed Sources, AIP and data provided by the monitored companies.

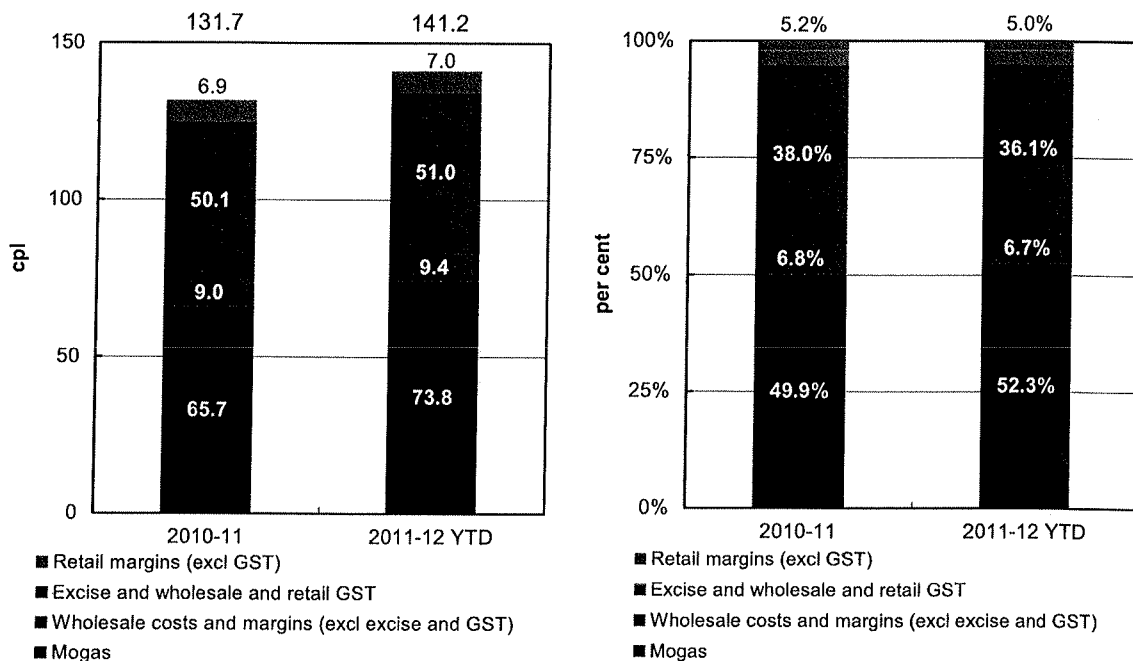
- It shows that there is no apparent relationship between margins and the 8.0 cpl shopper docket discounts.
- The average margin over the 16 months was 7.8 cpl. The average margins in two of the three periods with 8.0 cpl shopper dockets were lower than this (7.6 cpl in November 2010 to February 2011 and 6.7 cpl in August 2011) and higher in the third period (8.5 cpl in November 2011 to February 2012).
- The average margin in the nine months in which shopper docket arrangements applied was 7.9 cpl and the average margin in the seven months without 8.0 cpl shopper dockets was 7.7 cpl.
- Both the highest monthly average and the lowest monthly average occurred in months when the 8.0 cpl shopper dockets arrangements were operating.
- A statistical analysis of the relationship between margins and 8.0 cpl shopper docket discounts during this period is provided in Annex A. It shows that the relationship between margins and the 8.0 cpl shopper docket discounts is neither robust nor statistically significant.

² As the shopper dockets can be redeemed for 28 days after the 8.0 cpl shopper docket scheme ends we have taken the first shopper docket period to be November 2010 to February 2011, the second period to be August 2011 and the third period to be November 2011 to February 2012.

Short term comparisons can be misleading

- The AAA report compares changes in the period November 2011 to January 2012 with the period July 2011 to October 2011 (which it regards as “normal”).
- However, the period July to October 2011 was one where margins were relatively low in 2011, which means that the increase in margins in the subsequent period November 2011 to January 2012 looked high.
- Using a longer-term perspective provides different results.
- Chart 3 shows the components of petrol prices for the five largest cities for the financial years 2010-11 and 2011-12 to date (15 February 2012).
 - Similar data for previous years is included in the ACCC’s petrol monitoring reports.
 - It shows that retail margins (excluding GST) are virtually the same over the two periods – 7.0 cpl in 2011-12 to date compared with 6.9 cpl in 2010-11. As a percentage of total retail prices they are slightly lower in 2011-12 to date (5.0%) than in 2010-11 (5.2%).

Chart 3: Components of retail petrol prices – five largest cities - 2010-11 and 2011-12 to date



Source: ACCC calculations based on Informed Sources, Platts, Reserve Bank of Australia, WA Fuelwatch, AIP and data provided by monitored companies.

Price cycles are generally led up by the refiner-marketers rather than the supermarkets

- The ACCC 2011 petrol monitoring report noted that petrol price cycles are generally led up by Caltex and BP, rather than the supermarkets.
- Any instance of the supermarket retailers leading price increases to accommodate the increased fuel discounts would be at odds with this experience.

Supermarket average retail prices have hardly changed relative to market average retail prices

- Table 2 shows the monthly average difference between the average retail price of the supermarkets (i.e. Coles Express and Woolworths) and the market average price across the five largest cities in the period November 2010 to January 2012³.
 - A negative number indicates that the supermarket average price was lower than the market average price and a positive number indicates that it was higher.
- The table also shows the difference between the average retail price of the refiner-marketer branded sites (i.e. BP and Caltex) and the market average price across the five largest cities.⁴

³ Data for February 2012 is not available.

⁴ Refiner-marketer branded sites includes company-owned company-operated sites, commission agent sites, franchisee sites and refiner-marketer branded but independently owned sites.

Table 2: Monthly average five-city petrol prices – market average, supermarket average and refiner-marketer branded average - November 2010 to January 2012

Month	Market average	Supermarket average	Refiner-marketer branded average	Supermarket average less Market average	Refiner-marketer branded average less Market average
Nov 10	124.1	123.9	124.3	-0.2	0.2
Dec 10	129.0	128.9	129.3	-0.1	0.3
Jan 11	132.4	132.6	132.7	0.2	0.3
Feb 11	135.8	136.1	135.9	0.3	0.1
Mar 11	141.8	141.5	142.4	-0.3	0.6
Apr 11	143.3	142.9	143.9	-0.4	0.6
May 11	144.2	144.2	144.6	0.0	0.4
Jun 11	138.6	138.5	139.0	-0.1	0.4
Jul 11	140.0	139.9	140.3	-0.1	0.3
Aug 11	139.5	139.5	139.9	0.0	0.4
Sep 11	143.2	143.0	143.5	-0.2	0.3
Oct 11	145.0	144.9	145.3	-0.1	0.3
Nov 11	140.8	140.8	141.0	0.0	0.2
Dec 11	139.2	139.3	139.4	0.1	0.2
Jan 12	141.5	141.7	141.8	0.2	0.3
Average	138.6	138.5	138.9	-0.1	0.3

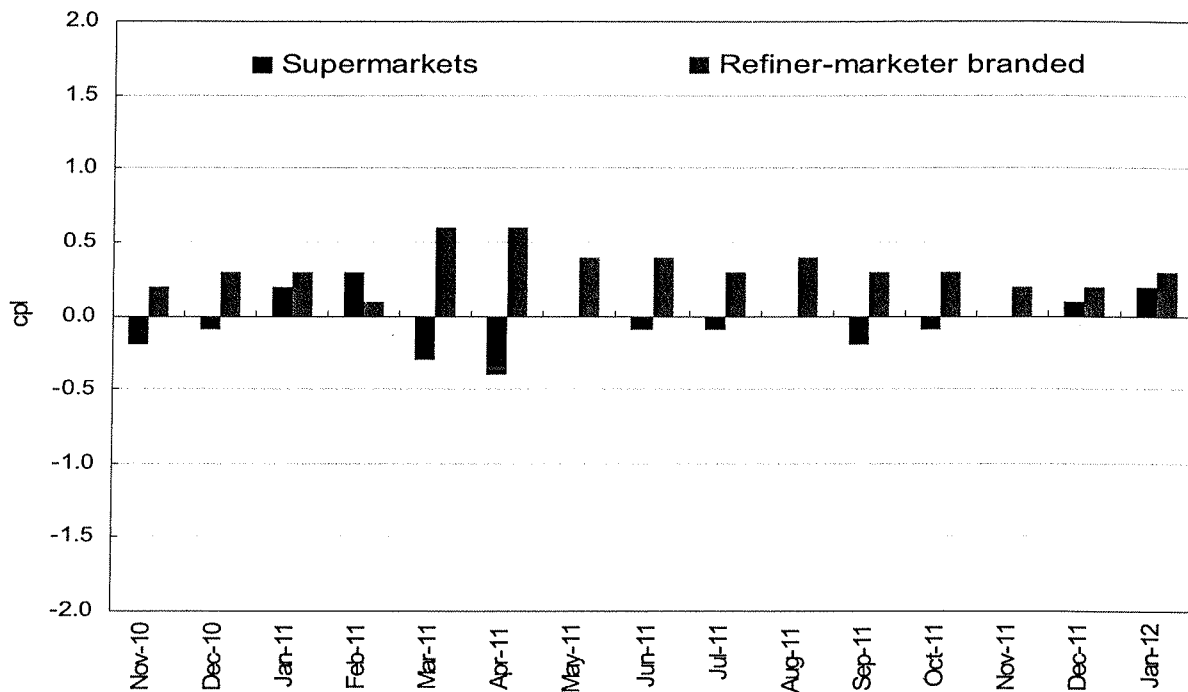
Note: Supermarket prices are the average of the two supermarket brands and refiner-marketer branded prices are the average of BP and Caltex branded sites. Prices at Individual brands and sites will vary from the average price. There are only a small number of supermarket sites selling regular unleaded petrol in Sydney.

Source: ACCC calculations based on Informed Sources data.

- It shows that, as with margins, the difference between supermarket average prices and market average prices varies over time.
- The difference has ranged from the supermarket average prices being 0.3 cpl higher than market average prices (in February 2011) to being 0.4 cpl lower (in April 2011).
- On average over the 15 months the difference between the two series is -0.1 cpl. The difference during the seven months with the 8.0 cpl shopper docket discount was 0.1 cpl and during the months without the shopper docket it was -0.2 cpl.
- Monthly supermarket average prices were lower than refiner-marketer branded average prices in all but one month (February 2011).

The differences between the average retail price of the supermarkets, and the average of refiner-marketer branded sites, and the market average over this period are shown in chart 4.

Chart 4: Monthly average differences between the average retail price of the supermarkets and refiner-marketer branded sites and the market average - five largest cities - November 2010 to January 2012



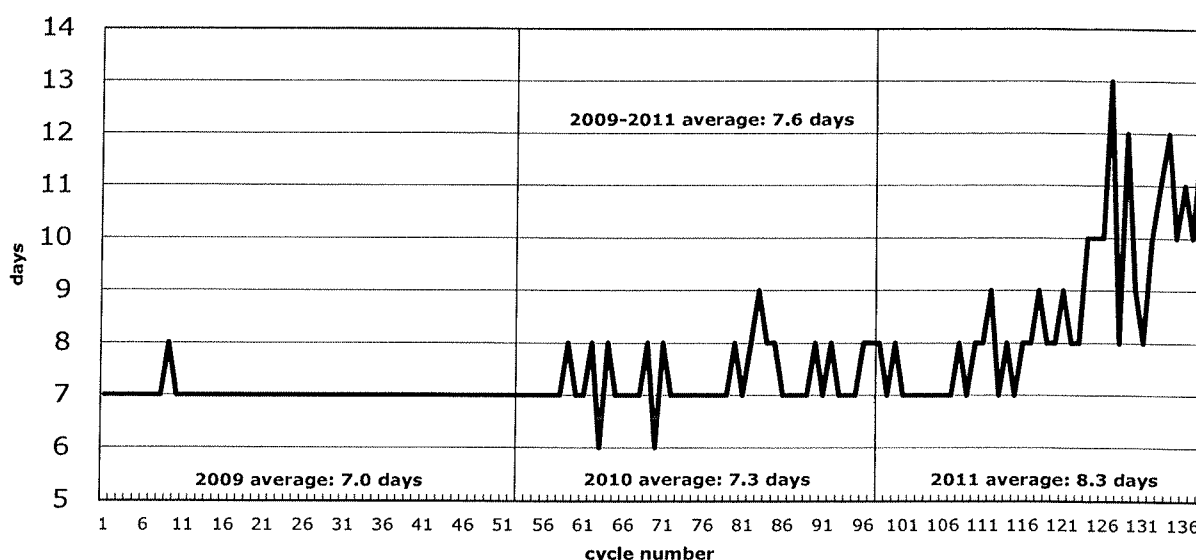
Source: ACCC calculations based on Informed Sources data.

Petrol price cycles have been changing since mid-2010

- The AAA comment that the duration of petrol price cycles in the four eastern cities increased from around 10 to around 11 days on average in late 2011. This is broadly consistent with ACCC analysis.
- However, the increase in the duration of price cycles in the eastern capital cities is not a new phenomenon. It has been increasing since around mid-2010 (prior to which the average duration was seven days).
- An example of this change is provided in chart 5, which shows the duration of each price cycle in Melbourne between January 2009 and December 2011.⁵ Similar patterns can be seen in the other eastern capital cities.
 - The average duration of price cycles in Melbourne increased from 7 days in 2009 to 8.3 days in 2011.
- The chart also shows how the duration changed significantly in the second half of 2011, which was prior to the introduction of the 8.0 cpl shopper docket discount in late October 2011.

⁵ The duration of a price cycle is the number of days from the peak of one price cycle to the peak of the next. Note that chart 5 excludes 3 failed price cycles in Melbourne during this period.

Chart 5: Duration of price cycles in Melbourne – January 2009 to December 2011



Source: ACCC calculations based on Informed Sources data.

This change in the duration of petrol price cycles was noted in the ACCC's 2010 and 2011 petrol monitoring reports. It is unlikely to be linked to the 8.0 cpl shopper docket offer from late October 2011.

The ACCC is examining the shopper docket arrangements

The ACCC has previously noted the potential for concerns to arise with the fuel shopper dockets in certain circumstances.

In its 2007 report of the *Inquiry into the price of unleaded petrol* the ACCC noted that it would consider developments in the sector as they arise, including changes in the extent of the impact of shopper docket arrangements and their effect on competition.

More recently, in October 2009 the ACCC advised Coles (and publicly by way of media release) that it was not satisfied on the information available that its planned 40.0 cpl shopper docket discount struck the right balance between discounts benefiting consumers on the one hand, and on the other offering significant price cuts for sustained periods or repeated offers which might have deeper impact on competition in the long term. Coles withdrew its plans for the offer.

At the end of 2011 the ACCC put Coles and Woolworths on notice that some of their representations about savings in the context of frequently changing offers may raise consumer protection concerns. It also put Coles on notice that the extension of the 8cpl promotion over the Christmas period would give rise to ACCC examination to consider any implications under the *Competition and Consumer Act 2010*.

Over this same period the ACCC received approaches from three industry representative bodies. The ACCC met with each of these bodies over

December 2011 and January 2012 and has advised each that the ACCC was considering the concerns raised about shopper dockets and sought further information from their members to facilitate such.

The ACCC is actively considering the competition and consumer protection concerns that may arise from the trend of discounts above 4.0 cpl being offered more often for longer periods and will continue to work with industry representative groups as it progresses.

The ACCC's consideration is necessarily through the prism of the competition and consumer protection provisions of its legislation. Since amendments in 2007, the third line forcing provisions and consequential notifications that once provided the ACCC with more direct interaction with the fuels shopper docket arrangements are now less relevant, and the ACCC is required to consider the arrangements under other provisions such as the misuse of market power prohibitions.

It is important that the ACCC assesses these matters carefully and extensively and this will not happen overnight. It will require detailed consideration of market information and engagement with a number of market participants. It is unlikely that the ACCC will be in a position to form a final view on the matters until the second half of the year. This is not ideal given current concerns, but it is important that we can give these issues the attention they deserve.

ACCC
March 2012

The Relationship between Fuel Discounts and Margins: A Statistical Analysis

An inspection of Chart 2 suggests there is not a significant and robust relationship between margins and 8.0 cpl shopper docket discounts. This conclusion is supported by further statistical analysis of the data.

The statistical analysis is divided into two parts:

- The first is a preliminary analysis of the correlation between margins and discounts. It finds that the sign of the correlation is sensitive to the time period chosen, and thus the correlation is not robust.
- The second uses econometric methods to evaluate the statistical significance of the relationship between margins and discounts. It fails to find a statistically significant relationship between margins and discounts.

1. Analysis of the correlation between margins and discounts

- The correlation between margins and discounts can be analysed by creating a dummy variable that takes on a value of 1 in those months during the 8.0 cpl discount periods⁶ and a value of 0 in other months.
- It is then possible to calculate a correlation coefficient between this dummy variable and the monthly average margins.
- This correlation coefficient was calculated for two sets of monthly average margin data:⁷
 - (1) data from November 2010 to February 2012, for each of the five largest cities (the number of observations is $5 \times 16 = 80$)
 - (2) data from October 2010 to February 2012, for each of the five largest cities (the number of observations is $5 \times 17 = 85$).
- For the dataset beginning in November 2010, the correlation coefficient is 0.040, but for the dataset beginning in October 2010, the correlation coefficient is -0.005.
- A small change in the time period, therefore, changes the correlation from positive to negative. The sign of the correlation is sensitive to the period chosen.
- This simple calculation indicates that the correlation between margins and discounts is not robust, at least for the time period from the final quarter of 2010 to the present.

⁶The months of the 8.0 cpl discounts are November 2010 – February 2011, August 2011, and November 2011 – February 2012.

⁷The final observation is 15 February, 2012, so the average for February 2012 is based only on the first 15 days of the month.

2. Significance of the relationship between margins and discounts

- The statistical significance of the relationship between margins and discounts was evaluated using regression analysis.
- The regression used cycle averages rather than monthly averages, in order to increase the number of observations, and thus potentially to increase the significance of the coefficients.
- It was a panel data regression.⁸ Heterogeneity between the five largest cities was captured using dummy variables. Melbourne was taken as the base case, and a dummy variable was created for Sydney (SYD), Adelaide (AD), Brisbane (BRIS) and Perth (PER).
- Another dummy variable (DISC) was created which has a value of 1 in the months during the 8.0 cpl discount periods and 0 in other months.
- The dependent variable was the margin (MARG).
- MARG was regressed on DISC, SYD, AD, BRIS and PER, using a linear model with a constant, and the least squares method.
- The previous section found that the sign of the correlation coefficient between margins and discounts changed depending on whether the period began in October 2010 or November 2010. Because of this lack of robustness, the regression was performed for two time periods:⁹
 - (1) from October 2010 to February 2012 (291 observations)
 - (2) from November 2010 to February 2012 (267 observations)
- The results of the two regressions are reported in Table 3.

⁸Panel data are data that have both cross-sectional and time-series dimensions.

⁹The final observation is 15 February, 2012.

Table 3: Regression of margins on discount and city variables

Time Period: October 2010 to February 2012				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	7.874***	0.253	31.077	0.000
AD	-0.796**	0.337	-2.364	0.019
BRIS	2.747***	0.335	8.201	0.000
PER	-0.738**	0.315	-2.346	0.020
SYD	-0.033	0.330	-0.099	0.921
DISC	-0.207	0.201	-1.001	0.318
Time Period: November 2010 to February 2012				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	7.647***	0.272	28.140	0.000
AD	-0.662*	0.357	-1.858	0.064
BRIS	2.855***	0.355	8.052	0.000
PER	-0.524	0.330	-1.586	0.114
SYD	-0.047	0.349	-0.136	0.892
DISC	-0.075	0.218	-0.345	0.730

*** Significant at 1 per cent level.

** Significant at 5 per cent level.

* Significant at 10 per cent level.

- For the two regressions, the signs on the coefficients are the same.
- In both regressions, the Brisbane dummy variable was strongly significant with a positive coefficient while in the regression beginning in October 2010, the Adelaide and Perth dummy variables were significant at a 5 per cent level with a negative coefficient. This indicates that, all else equal, margins tend to be higher in Brisbane than in the reference city Melbourne and tend to be lower in Adelaide and Perth than in Melbourne. (Note, however, that for the regression beginning in November, the coefficients on the Adelaide and Perth dummy variables are no longer significant at a 5 per cent level.)
- In neither of the regressions was the discount dummy variable statistically significant, at either a 1, 5 or 10 per cent level.
- At least for the period from the final quarter of 2010 to the present, therefore, there is not a statistically significant relationship between margins and discounts.



AUSTRALIAN
AUTOMOBILE
ASSOCIATION

RAA
It's about trust

IMPACT OF SUPERMARKET FUEL DISCOUNT

Market Analysis

Purpose

- Propose that the clubs lobby for the ACCC Petrol Commissioner to assess whether the last 8cpl supermarket discount provided public benefit.

Strategic context

Woolworths and Coles have an increasing presence in the fuel retail sector, where their distinctive advantage is their shopper docket fuel discount offer.

The size of the fuel discount is typically 4 cents per litre (cpl) however there are promotional periods where the supermarkets will match one another's larger discount.

Many motorists consider the supermarkets to be aggressive discounters, in addition to offering their 4cpl fuel discount. The clubs have previously not supported or opposed the existence of the 4cpl fuel discount offered.

In 2009 Woolworths, Coles and Metcash supermarkets offered in-store customers a maximum 30cpl discount. At the end of the initial promotional period, Coles announced it would extend this offer. Coles removed their offer following public criticism by the ACCC that:

"...there is a balance to be found between providing consumers with discounts on the one hand, and on the other offering significant price cuts for sustained periods or repeated offers which might have a deeper impact on competition in the long term."¹

The clubs play a role in scrutinising the ACCC Petrol Commissioner to act on behalf of motorists. When market changes occur, it is necessary for the Clubs to hold the ACCC accountable for its failings to identify, assess and inform the public of such issues when they arise 'on their watch'.

This paper summarises a market change that has occurred since November 2011, the same start date for the supermarket's 8cpl fuel discount.

¹ ACCC (2009) 'Media release: ACCC questions latest Coles fuel discount promotion'. October 2009. [Http://www.accc.gov.au/content/index.phtml/itemId/897604](http://www.accc.gov.au/content/index.phtml/itemId/897604). Accessed 12/01/12

Current Situation

Coles and Woolworths increased their normal 4cpl fuel discount to 8cpl in late October 2011. When announced, the 8cpl fuel discount would remain until 31 December 2011, however both supermarkets extended this offer until 31 January 2012.

Since the 8cpl fuel discount was introduced, the fuel cycle has shifted. This is evident when the average gross retail margins² are isolated from external pricing influences such as wholesale and crude oil prices.

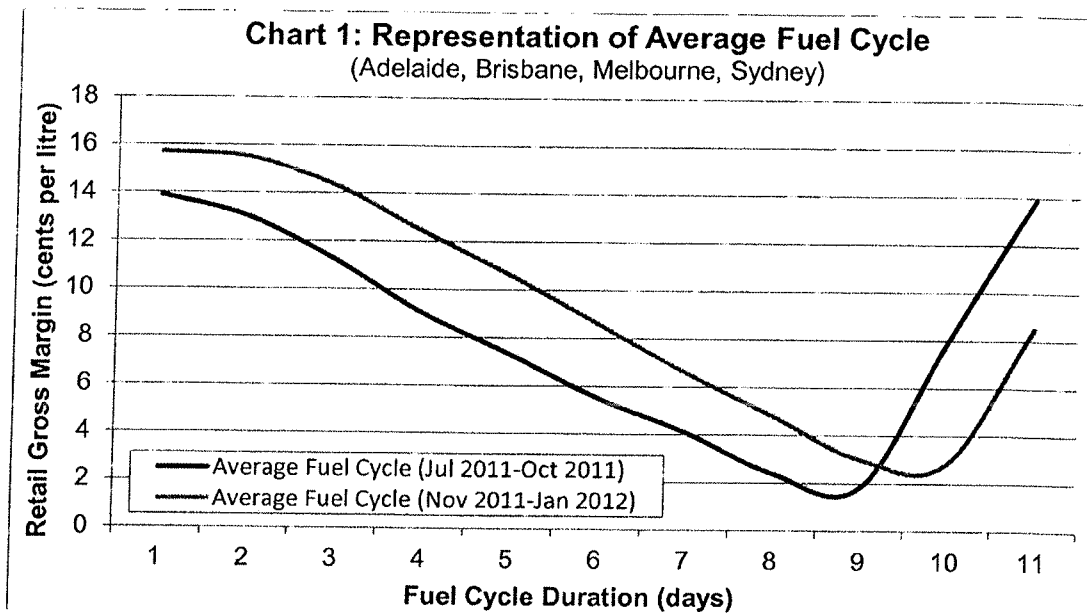
This analysis includes those cities that experience volatile fuel cycles, namely Sydney, Brisbane, Melbourne and Adelaide. The analysis includes all complete fuel cycles from July 2011 to January 2012. The same trends were evident in all these capital cities, suggesting that the change is a national issue.

On further analysis, all four capital cities' unleaded fuel cycles have shifted higher above the listed wholesale price by up to 2cpl, and retailers are receiving an extra 20% gross retail margins during each fuel cycle (7.6cpl to 9.1cpl).

In reality, motorists are paying a higher fuel price every day in their fuel cycle when compared to fuel cycles before the 8cpl discount was operating.

Attachment 1 provides an analysis highlighting that the gross retail margin at the trough and peak price in the fuel cycle has risen since November 2011.

Chart 1 provides a comparison of the average gross retail margin of the four capital cities. The red trend line represents the fuel cycle prior to the 8cpl discount, whereas the green trend line represents the fuel cycle during the 8cpl discount. As can be seen, the fuel cycle is now higher in all four capital cities. The duration of the fuel cycle has also changed, extending from an average 10 to 11 days.



Motorists are receiving an 8cpl discount when redeeming their docket at the supermarket service stations however, the average price every day is now up to 2cpl higher. In reality, these motorists

² Gross retail margin is the difference between average pump prices and the average listed wholesale price. It includes overheads, taxes and retail profit.

are receiving a net saving of 6cpl instead of the 8cpl. In the meantime, all other motorists are paying up to 2cpl more for their fuel.

A plausible explanation is the supermarkets changed their pricing policy relative to their competitors during their 8cpl fuel discount offer to minimise the cost of the promotion. The ACCC acknowledges that Woolworths is normally 'very active' in pushing prices lower in the fuel cycle³. This may have changed as the supermarkets seek to balance the financial impact of the larger fuel discount and increasing sales volumes by being less competitive on the 'full' listed price.

Effect on competition

The ACCC has previously expressed concern of the possible effects the large supermarket discounts would have on the industry.⁴

There are two long standing concerns regarding the supermarket fuel docket, namely:

- misuse of market power; and
- whether this situation has become anti-competitive as to lead to predatory pricing.

The ACCC has indicated that the presence of a clear anti-competitive purpose may turn price cutting by any company with substantial market power or market share into predatory pricing. These concerns remain where the supermarket's larger fuel discounts are forcing other retailers to compete on both the artificial 'discount' and 'full' price.

As indicated, average gross retail margins have increased since November 2011, so profitability within the industry has increased - if equally distributed to all retailers. In fact, in the period October to December 2011, Woolworths increased its fuel sales volumes by 2.2 per cent⁵ and Coles Express increased sales volumes by 2.5 per cent⁶. Wesfarmers attributed Coles Express' increases to "record levels of shopping docket redemptions"⁷. As both supermarkets have increased their sales volumes during the 8cpl discount, it will have increased pressure on their competitors to maximise their gross retail margin on a smaller volume of fuel sold. This applies upward pressure on fuel prices.

This analysis notes that there have been instances where the supermarket's 8cpl fuel discount price has been well below the listed average wholesale price that independent retailers can access. The concern is that these retailers are unable to compete and are forced out of the market due to lost sales volumes and profitability.

Any negative effect of the 8cpl fuel discount on independent retailers will not be seen now, but when they leave the market in the short to medium term. This has an obvious effect on competition, which could lead to higher prices in the medium-term for motorists.

³ ACCC (2011) 'Monitoring of the Australian petroleum industry', December 2011.

⁴ ACCC (2009) 'Media release: ACCC questions latest Coles fuel discount promotion'.
<http://www.accc.gov.au/content/index.phtml/itemId/897604>. Accessed 12/01/12\

⁵ Woolworths Ltd (2012) 'First half year sales results', 30 January 2012. p. 4.
<http://www.woolworthslimited.com.au/phoenix.zhtml?c=144044&p=homepage>. Accessed 30 January 2012.

⁶ Wesfarmers (2012) 'Second quarter retail sales results', 2 February 2012, p. 3.
<http://www.wesfarmers.com.au/news.html>. Accessed 2 February 2012.

⁷ Ibid

Policy Context

2004 ACCC Assessment of Shopper Dockets

This report evaluated the tying of fuel discounts and supermarket grocery purchases. The ACCC concluded that the shopper docket fuel discounts were likely to result in a net public benefit arising from lower prices for consumers, generation of a culture of discounting and increased non-price competition.

2007 Fuel Inquiry

This Inquiry considered key competition concerns with regard to the supermarkets fuel discount scheme, namely their ability to leverage their strong positions in the grocery sector into the petrol retailing sector, leading to anti-competitive effects in the market.

ACCC Petrol Commissioner

To fulfil its election commitment to promote competition and transparency in Australia's retail fuel market, the Rudd Government created an ACCC Petrol Commissioner in 2008. Since then the Petrol Commissioner has increasingly left fuel related public commentary to the Clubs and has, arguably, become increasingly invisible to the public.

If the Petrol Commissioner has been monitoring this situation and been aware of the changes in the fuel cycles since November 2011, the ACCC has a duty to warn motorists. The Commissioner must remain relevant to motorists by proactively monitoring price changes, investigate issues where they occur and advise the public accordingly.

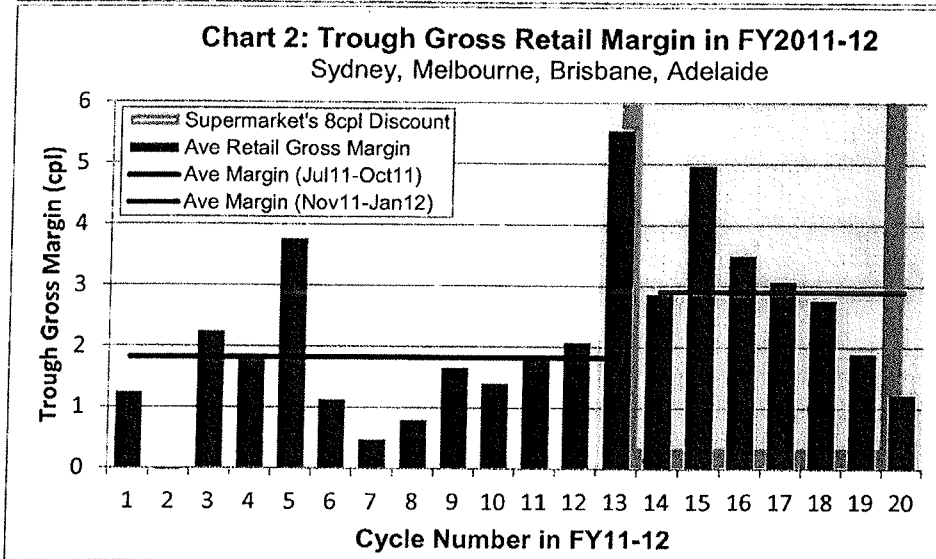
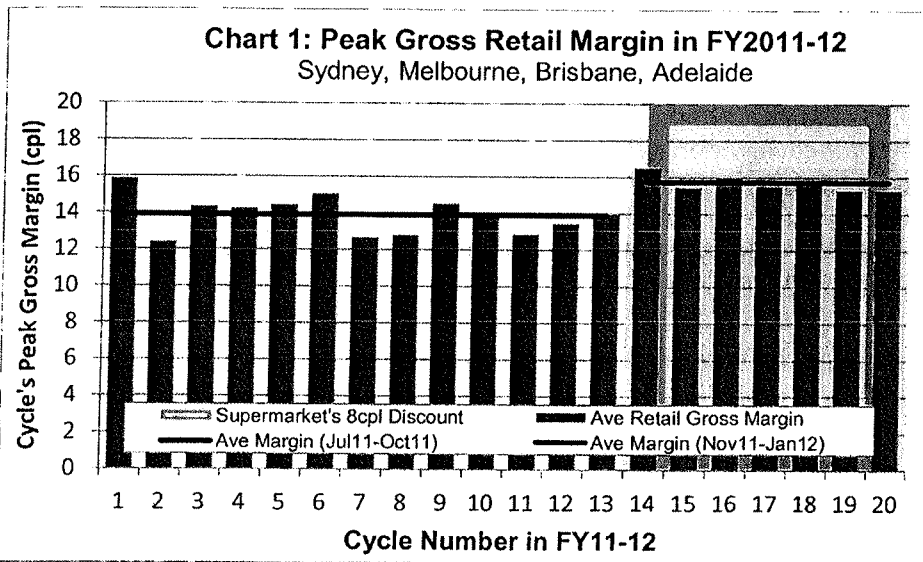
There is a role for the clubs to seek clarification of the relevance of the role of this Commissioner in its current form and to seek changes to the role.

Attachment 1

The charts below display the average gross retail margins of Adelaide, Brisbane, Melbourne and Sydney in each fuel cycle. The fuel cycle's are referred to by number as fuel cycles can begin on different days in each capital city. The yellow shading indicates those fuel cycles that occurred during the supermarket's 8cpl fuel discount. The analysis below highlights the change in average gross retail margins at the fuel cycle's peak and trough price.

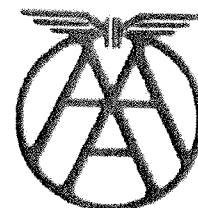
Chart 1 indicates that the peak gross retail margin has increased since the 14th fuel cycle (Peak occurred on 4 or 7 November 2011). The average peak gross retail margin has increased from 13.9cpl (Jul 11 to Oct 11) to 15.7cpl (Nov 11 to Jan 12).

Chart 2 indicates that the trough gross retail margin has increased since the 13th fuel cycle (Trough occurred on either 2 or 3 November 2011) where the average trough gross retail margin has shifted from 1.8cpl (Jul 11 to Oct 11) to 2.9cpl (Nov 11 to Jan 12).



22 February 2012

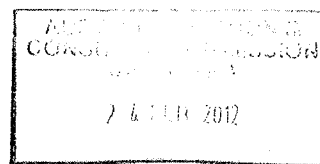
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DOC:
MARS/PRISM:



**AUSTRALIAN
AUTOMOBILE
ASSOCIATION**

Members

Mr Joe Dimasi
Commissioner
Australian Competition and Consumer Commission
23 Marcus Clarke Street
CANBERRA ACT 2601



MOTORING + SERVICES



Dear Mr Dimasi, *Joe*

Re: Retail Gross Margins and Petrol Price Transparency

As you are aware the Australian Automobile Association (AAA) and constituent motoring clubs have recently undertaken analysis of retail petrol prices and associated gross margins over the period November 2011 to end-January 2012.

The analysis demonstrated that gross retail margins in several major Australian cities, during this period, were an average of around two cents a litre higher than over the previous 12 months. In addition, there is evidence of further change in the petrol price cycle during this period.

It is noted that this period coincides with an advertised promotion from the major supermarket chains offering a 'double discount' on fuel of eight cents per litre.

The AAA's concern is that motorists were effectively being misled by the supermarket advertising for the discount promotion. In many circumstances motorists were not receiving the full benefit of the advertised discount and those without a discount 'docket' were paying more than they otherwise would have.

I seek your cooperation in investigating this matter further and in the spirit of positive engagement, I have provided a report summarising aspects of the AAA analysis as an attachment to this letter.

GPO Box 1555
103 Northbourne Ave
Canberra ACT 2601
Ph: (02) 6247 7311
Fax: (02) 6257 5320
Email: aaa@aaa.asn.au
ABN 25008 526 369
Web: www.aaa.asn.au

Achieving Greater Price Transparency for Motorists

The wider point that arises from this analysis is the need for greater transparency in fuel pricing. The AAA and constituent motoring clubs have long advocated the availability of better pricing information for motorists based on very clear concerns expressed by many members of our clubs. We consider that there are two key initiatives which would assist significantly in addressing this issue:

Fuel Price Boards: Service station fuel price boards remain the predominant means by which motorists are able to observe and compare information on fuel prices. The AAA is concerned that there are no clear national guidelines or standards which apply to fuel price displays. The result is that in some cases the provision of pricing information to motorists is unclear, misleading, or inaccurate. This is especially the case when discount prices feature more prominently than the regular price.

The AAA believes that it is time new standards were developed for fuel price boards, ensuring the availability of clear, accurate and consistent information about prices on key fuel products.

The AAA has previously advanced a proposal to implement new standards for retail fuel price displays, possibly using the Oilcode as the basis for such an approach.

Real-Time Price Information: Another area which AAA and our constituent clubs have advocated for some time is the provision of real-time (or near real-time) price information to consumers. Under current arrangements major suppliers and retailers have ready access to such information but consumers do not.

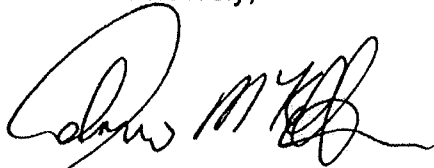
Australian motoring clubs strive to provide timely information to the public about the availability and pricing of fuel. Under current constraints it is only possible to provide motorists with information on a limited range of fuel products, with a limited number of daily price observations. Clubs source this information at cost from Informed Sources.

The AAA believes it is timely to reconsider how more accurate and timely fuel price information can be made available to Australian consumers.

I urge the ACCC and the Australian Government to give serious and urgent consideration to the measures suggested here. They are simple but tangible steps that would go long way to addressing concerns about the current lack of transparency in retail fuel price information available to consumers.

I look forward to discussing these proposals with you in the very near future.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew McKellar', written in a cursive style.

ANDREW McKELLAR

Executive Director

cc: The Hon David Bradbury, MP
Parliamentary Secretary to the Treasurer



**AUSTRALIAN
AUTOMOBILE
ASSOCIATION**



It's about trust

SUPERMARKET FUEL DISCOUNT AND GROSS RETAIL MARGINS

Market Analysis

February 2012

Purpose

Propose that the clubs advocate for the ACCC Petrol Commissioner to assess whether the previous 8 cent per litre (cpl) supermarket discount provided public benefit.

Strategic context

Woolworths and Coles have an increasing presence in the fuel retail sector, where their distinctive advantage is their shopper docket fuel discount offer.

The size of the fuel discount is typically 4 cpl however; there are promotional periods where the supermarkets will match one another's larger discount.

Many motorists consider the supermarkets to be aggressive discounters, in addition to offering their 4cpl fuel discount. The clubs have previously not supported or opposed the existence of the 4cpl fuel discount offered.

In 2009 Woolworths, Coles and Metcash supermarkets offered in-store customers a maximum 30cpl discount. At the end of the initial promotional period, Coles announced it would extend this offer. Coles removed their offer following public criticism by the ACCC that:

*"...there is a balance to be found between providing consumers with discounts on the one hand, and on the other offering significant price cuts for sustained periods or repeated offers which might have a deeper impact on competition in the long term."*¹

This paper summarises a market change that has occurred since November 2011, the same start date for the supermarket's 8cpl fuel discount.

¹ ACCC (2009) 'Media release: ACCC questions latest Coles fuel discount promotion'. October 2009. [Http://www.accc.gov.au/content/index.phtml/ItemId/897604](http://www.accc.gov.au/content/index.phtml/ItemId/897604). Accessed 12/01/12

Discussion

Coles and Woolworths increased their normal 4 cpl fuel discount to 8 cpl in late October 2011. When announced, the 8 cpl fuel discount would remain until 31 December 2011; however, both supermarkets extended this offer until 31 January 2012.

Since the 8 cpl fuel discount was introduced, the fuel cycle has shifted. This is evident when the average gross retail margins² are isolated from external pricing influences such as wholesale and crude oil prices.

This analysis includes those cities that experience volatile fuel cycles, namely Sydney, Brisbane, Melbourne and Adelaide. The analysis includes all complete fuel cycles from July 2011 to January 2012. The same trends in average retail gross margins were evident in all these capital cities, suggesting that the change is a national issue.

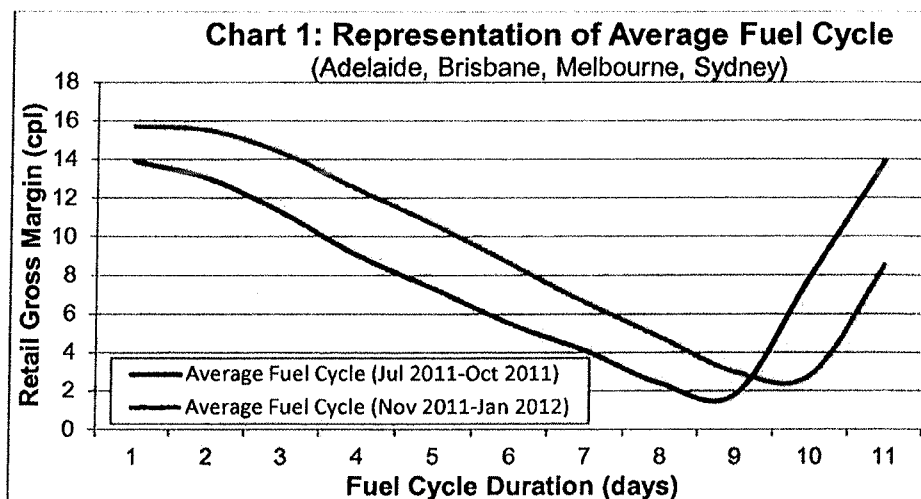
On further analysis, all four capital cities' unleaded fuel cycles have shifted higher above the listed wholesale price by up to 2 cpl, and retailers are receiving an extra 20 per cent gross retail margins during each fuel cycle (7.6cpl to 9.1cpl). This applies to both the fuel cycle's peak and trough prices.

In reality, motorists are paying a higher fuel price every day in their fuel cycle when compared to fuel cycles before the 8 cpl discount was operating, particularly in November and December 2011.

Attachment 1: provides an analysis highlighting that the gross retail margin at the trough and peak price in the fuel cycle has risen since November 2011, where for some capital cities they have seen the highest gross retail margins in more than four years.

The largest rise in gross retail margins occurred as of the first fuel cycle in November where the peak and trough were significantly above average.

Chart 1: provides a comparison of the average gross retail margins of the four capital cities. The red trend line represents the fuel cycle prior to the 8 cpl discount, whereas the green trend line represents the fuel cycle during the 8 cpl discount. As can be seen, the fuel cycle is now higher in all four capital cities. The duration of the fuel cycle has also changed, extending from an average 9.9 to 11.3 days.



² Gross retail margin is the difference between average pump prices and the average listed wholesale price. It includes overheads, taxes and retail profit.

Motorists are receiving an 8 cpl discount when redeeming their docket at the supermarket service stations however, the average price every day is now up to 2 cpl higher.

In reality, these motorists are receiving a net saving of 6cpl instead of the 8cpl. In the meantime, all other motorists are paying up to 2cpl more for their fuel.

The simple comparison is that if motorists were able to use their 8 cpl discount in September or October 2011, they would have received a higher benefit as gross retail margins were lower than in November 2011.

A plausible explanation is the supermarkets changed their pricing policy relative to their competitors during their 8 cpl fuel discount offer to minimise the cost of the promotion. The ACCC acknowledges that Woolworths is normally 'very active' in pushing prices lower in the fuel cycle³. This may have changed as the supermarkets seek to balance the financial impact of the larger fuel discount and increasing sales volumes by being less competitive on the 'full' listed price.

To assess this situation, retailers pricing behaviour must be observed before and during the supermarket's 8 cpl discount offer. As the ACCC has access to retail site specific price data, they should be urged to investigate why the retail margins have increased.

The supermarkets have 45 per cent of sales volumes nationally and have the ability to influence prices. The supermarkets have been identified as active discounters by the ACCC, yet average gross retail margins at the fuel cycle's trough during the recent 8 cpl promotion were on average higher. This is despite the fuel cycle's becoming longer, where further discounting could have occurred.

Effect on competition

The ACCC has previously expressed concern of the possible effects the large supermarket discounts would have on the industry.⁴

There are two long standing concerns regarding the supermarket fuel dockets, namely:

- misuse of market power; and
- whether this situation has become anti-competitive as to lead to predatory pricing.

The ACCC has indicated that the presence of a clear anti-competitive purpose may turn price cutting by any company with substantial market power or market share into predatory pricing. These concerns remain where the supermarket's larger fuel discounts are forcing other retailers to compete on both the artificial 'discount' and 'full' price.

As indicated, average gross retail margins have increased since November 2011, so profitability within the industry has increased – if equally distributed to all retailers. In fact, in the period October to December 2011, Woolworths increased its fuel sales volumes by 2.2 per cent⁵ and Coles

³ ACCC (2011) 'Monitoring of the Australian petroleum industry', December 2011.

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⁵ Woolworths Ltd (2012) 'First half year sales results', 30 January 2012. p. 4.

<http://www.woolworthslimited.com.au/phoenix.zhtml?c=144044&p=homepage>. Accessed 30 January 2012.

Express increased sales volumes by 2.5 per cent⁶. Wesfarmers attributed Coles Express' increases to "record levels of shopping docket redemptions"⁷.

As both supermarkets have increased their sales volumes during the 8 cpl discount, it will have increased pressure on their competitors to maximise their gross retail margin on a smaller volume of fuel sold. This applies upward pressure on fuel prices.

This analysis notes that there have been instances where the supermarket's 8 cpl fuel discount price has been well below the listed average wholesale price that independent retailers can access. The concern is that these retailers are unable to compete and are forced out of the market due to lost sales volumes and profitability.

Any negative effect of the 8 cpl fuel discount on independent retailers will not be seen now, but when they leave the market in the short to medium term. This has an obvious effect on competition, which could lead to higher prices in the medium-term for motorists.

Policy Context

➤ 2004 ACCC Assessment of Shopper Dockets

This report evaluated the tying of fuel discounts and supermarket grocery purchases. The ACCC concluded that the shopper docket fuel discounts were likely to result in a net public benefit arising from lower prices for consumers, generation of a culture of discounting and increased non-price competition.

➤ 2007 Fuel Inquiry

This Inquiry considered key competition concerns with regard to the supermarkets fuel discount scheme, namely their ability to leverage their strong positions in the grocery sector into the petrol retailing sector, leading to anti-competitive effects in the market.

➤ ACCC Petrol Commissioner

To fulfil its election commitment to promote competition and transparency in Australia's retail fuel market, the Rudd Government created an ACCC Petrol Commissioner in 2008. Since then the Petrol Commissioner has increasingly left fuel related public commentary to the motoring clubs and has, arguably, become increasingly invisible to the public.

⁶ Wesfarmers (2012) 'Second quarter retail sales results', 2 February 2012, p. 3.
<http://www.wesfarmers.com.au/news.html>. Accessed 2 February 2012.

⁷ Ibid

Conclusion

As of November 2011, the gross retail margin rose above average, due to an increase in the peak price, but also the trough not falling to previous levels despite fuel cycles becoming longer.

In summary, the key trends that have occurred since November in Adelaide, Melbourne, Brisbane, Sydney include:

- Fuel cycle has shifted higher above the average listed wholesale price since November 2011.
- Sydney and Adelaide had their highest peak gross retail margin in over four years on the first peak coincided with the 8 cpl promotion period, while Brisbane had its highest trough gross retail margin.
- During the period of the 8 cpl discount, the unleaded price rose by up to 2 cpl in some cities on every day of the fuel cycle due to increasing average peak gross margins.
- Changes in retail gross margin began in the same fuel cycle as supermarket's 8 cpl discount.
- Despite fuel cycles getting longer, where there was greater opportunity for the active discounting to occur to lower prices, prices remained higher.

The ACCC has access to retail site specific price and sales volume data and can observe pricing behaviour of different competitors in the retail fuel market.

The motoring clubs should advocate for the ACCC Petrol Commissioner to assess the impact of this discount, observed changes in the supermarket's pricing policy relative to its competitors and the double discount's impact on above average gross retail margins.

RECOMMENDATION

If the Petrol Commissioner had been monitoring this recent situation and the changes in the fuel cycle since November 2011, the ACCC had a duty to warn motorists. The Commissioner must remain relevant to motorists by proactively monitoring price changes, investigate issues where they occur and advise the public accordingly.

There is a role for the motoring clubs to seek clarification of the relevance of the role of this Commissioner in its current form and to seek changes to the role.

Retailers pricing behaviour must be observed before and during the supermarket's 8 cpl discount offer. As the ACCC has access to retail site specific price data, they should be urged to investigate why the retail margins have increased.

Attachment 1 – Analysis

Objective:

A number of motoring clubs identified a change in retail margins during November and December 2011. On further analysis, emerging trends were identified, including gross retail margins in Adelaide, Brisbane, Melbourne and Sydney since late October 2011.

It was decided a market analysis would be generated to highlight the change and advocate for the ACCC to assess the situation. Given the ACCC's access to retail site specific price data, they can determine who was responsible for prices not falling, which has the greatest impact on price sensitive motorists.

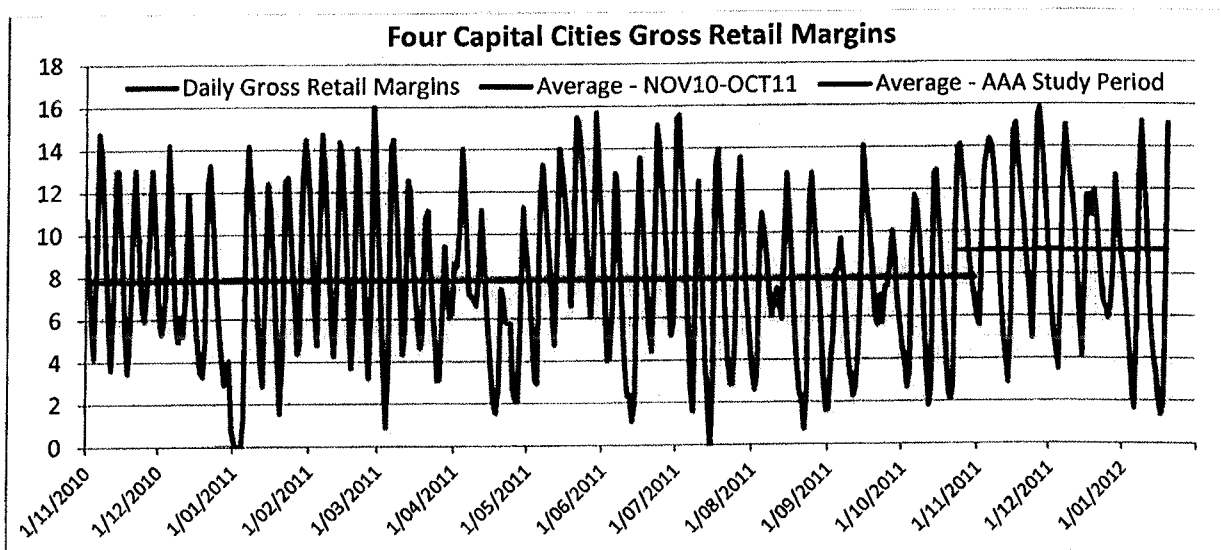
Background:

The chart below highlights the increase in gross retail margins that coincided with the supermarket's 8 cpl discount offer.

During the supermarket's 8 cpl fuel discount, average retail margins increased to 9.1 cpl (purple trend line), above the previous 12-month period of 7.8 cpl (red trend line). Also, during July to October 2011 the average gross retail margin was 7.6 cpl. In both instances gross retail margins in November were higher than the previous months.

For the purposes of this analysis, gross retail margins during the 8 cpl double discount were compared with margins in the July to October 2011 period.

As this analysis focuses on changes in fuel cycles, only complete fuel cycles are included.



Calculating a National Aggregate

Adelaide, Brisbane, Melbourne and Sydney each have a unique fuel cycle, however each fuel cycle has the following:

- price hiking phase – prices rise significantly in a short period of time
- discounting phase – after the spiked price appears, prices continually fall until the next price hiking phase

The four capital cities generally have different dates at which their prices reach their peak and trough. Generally, the eastern capital cities are relatively aligned. Adelaide is the exception where between July 2011 and January 2012 it had two less fuel cycles.

For the purposes of this report, national figures will be presented as a fuel cycle number. The table below indicates which fuel cycles will be aggregated to produce a capital city average based on their proximity to one another.

Table 1 – Fuel Cycle Number

Fuel Cycle No.	Sydney	Melbourne	Brisbane	Adelaide
1	2/07/2011	1/07/2011	2/07/2011	2/07/2011
2	10/07/2011	10/07/2011	10/07/2011	10/07/2011
3	18/07/2011	18/07/2011	18/07/2011	17/07/2011
4	26/07/2011	26/07/2011	26/07/2011	27/07/2011
5	5/08/2011	5/08/2011	5/08/2011	
6	15/08/2011	15/08/2011	15/08/2011	11/08/2011
7	25/08/2011	26/08/2011	25/08/2011	24/08/2011
8	5/09/2011	7/09/2011	4/09/2011	2/09/2011
9	15/09/2011	15/09/2011	15/09/2011	13/09/2011
10	25/09/2011	27/09/2011	28/09/2011	22/09/2011
11	6/10/2011	6/10/2011	8/10/2011	6/10/2011
12	14/10/2011	14/10/2011	15/10/2011	15/10/2011
13	24/10/2011	24/10/2011	24/10/2011	24/10/2011
14	4/11/2011	4/11/2011	4/11/2011	7/11/2011
15	17/11/2011	16/11/2011	16/11/2011	17/11/2011
16	27/11/2011	26/11/2011	27/11/2011	27/11/2011
17	7/12/2011	7/12/2011	7/12/2011	8/12/2011
18	18/12/2011	17/12/2011	18/12/2011	21/12/2011
19	30/12/2011	29/12/2011	29/12/2011	
20	9/01/2012	9/01/2012	9/01/2012	8/01/2012

National Analysis

The charts below display the average gross retail margins of Adelaide, Brisbane, Melbourne and Sydney in each fuel cycle. The yellow shading indicates fuel cycles that occurred during the supermarket's 8 cpl fuel discount. The chart below highlights the change in average gross retail margins at the fuel cycle's peak and trough price.

The first peak and trough price in Adelaide, Brisbane, Melbourne and Sydney during the 8 cpl supermarket promotion were above average, as were the retail margins during November and December 2011. This is despite fuel cycles becoming longer where there is a greater opportunity for discounting to occur.

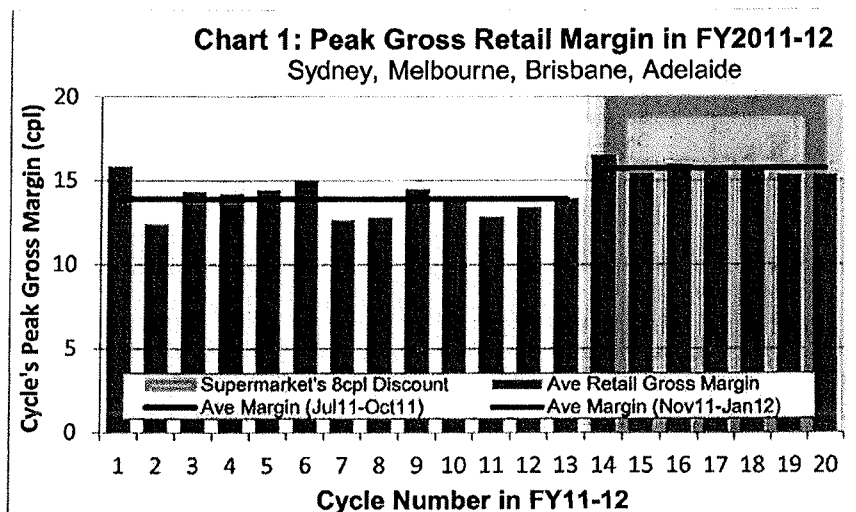
Peak Retail Gross Margins:

Chart 1 indicates that the peak gross retail margin has increased since the 14th fuel cycle (Peak occurred on 4 or 7 November 2011). The average peak gross retail margin has increased from 13.9cpl (Jul 11 to Oct 11) to 15.7cpl (Nov 11 to Jan 12).

In the 14th fuel cycle, the peak price rose from 14.0cpl to 16.5cpl. For the remainder of the 8cpl promotional period the peak price gross retail margin declined from 16.5cpl to 15.3cpl. The peak gross retail margin remained above the previous average and suggests market leaders are trying to establish a new higher pricing point during the price hiking phase.

Table 1: Trough Gross Margins

Fuel Cycle No. (FY 11-12)	Gross Retail Margin (CPL)
1	15.9
2	12.4
3	14.4
4	14.3
5	14.5
6	15.1
7	12.7
8	12.8
9	14.5
10	14.0
11	12.9
12	13.5
13	14.0
Average (JUL11-OCT11)	13.9
14	16.5
15	15.5
16	16.0
17	15.6
18	15.9
19	15.3
20	15.3
Average (NOV11-JAN12)	15.7



Trough Retail Gross Margins:

Chart 2 indicates that the trough gross retail margin has increased since the 13th fuel cycle (Trough occurred on either 2 or 3 November 2011), where the trough gross retail margin increased from 2.1cpl to 5.6cpl.

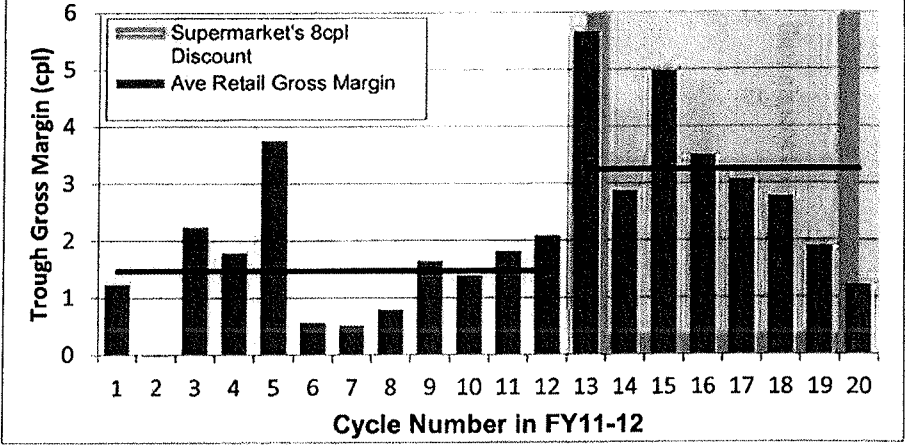
The average trough gross retail margin shifted from 1.5cpl (Jul 11 to Oct 11) to 3.3cpl (Nov 11 to Jan 12). The trough gross retail margins remained significantly higher during the November and December 2011 period. This limited motorists ability to utilise the full benefit of the extra 4cpl discount offer as the lowest possible fuel price was in fact higher than average.

However, the trough gross retail margin had begun declining by mid-January where the margin was below the Jul11-Oct11 average.

Table 2: Trough Gross Margins

Fuel Cycle No. (FY11-12)	Gross Retail Margin (CPL)
1	1.2
2	-0.3
3	2.3
4	1.8
5	3.8
6	0.6
7	0.5
8	0.8
9	1.7
10	1.4
11	1.8
12	2.1
Average (JUL11-OCT11)	1.5
13	5.7
14	2.9
15	5.0
16	3.5
17	3.1
18	2.8
19	1.9
20	1.2
Average (NOV11-JAN12)	3.3

Chart 2: Trough Gross Retail Margin in FY2011-12
 Sydney, Melbourne, Brisbane, Adelaide



Brisbane Analysis

Trough Gross Retail Margins:

Brisbane's trough gross retail margins have shifted the most during the 8 cpl promotion period and were the highest of the capital cities. The average trough retail gross margin increased from 3.8 cpl to 7.3 cpl. The highest trough gross retail margin occurred on 2 November at 11.8 cpl, which was Brisbane's highest trough gross retail margin since 2009.

Brisbane's trough gross retail margins remained high over November and December 2011, before easing.

As an observation, Brisbane motorists using the 8 cpl supermarket docket when purchasing ULP were in fact not getting the full benefit of the extra discount they were lead to believe compared to the previous average margins, most notably:

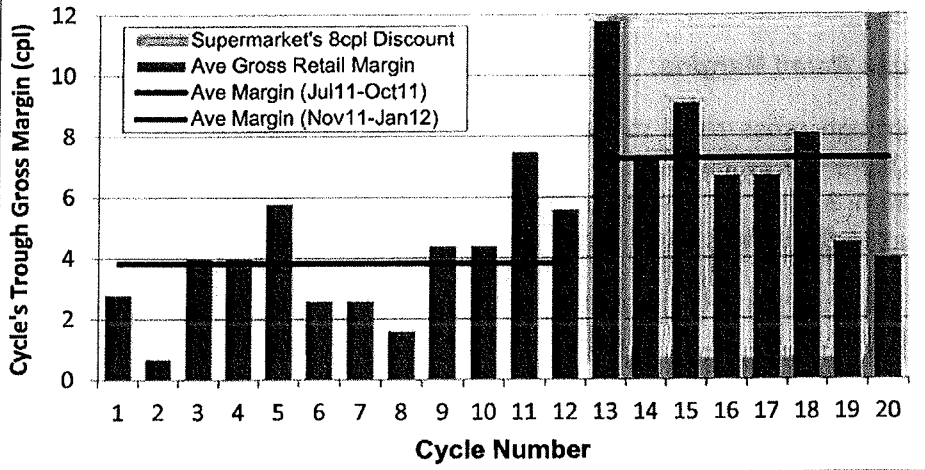
- On 2/11/11 trough price was 7.8 cpl higher than normal. Motorists using the 8 cpl docket received an extra 3.8cpl.
- On 24/11/11 trough price was 5.1 cpl higher than normal. Motorists using the 8 cpl docket received an extra 1.1 cpl.

Brisbane's Trough Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Trough	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	8/07/2011	131.3	134.1	2.8
2	15/07/2011	133.6	134.3	0.7
3	23/07/2011	133.0	137.0	4.0
4	2/08/2011	132.9	136.9	4.0
5	12/08/2011	130.9	136.7	5.8
6	23/08/2011	133.4	136.0	2.6
7	1/09/2011	134.2	136.8	2.6
8	13/09/2011	135.9	137.5	1.6
9	25/09/2011	136.6	141.0	4.4
10	5/10/2011	136.7	141.1	4.4
11	12/10/2011	138.3	145.8	7.5
12	21/10/2011	137.4	143.0	5.6
Average Retail Margin at Trough (JUL11-OCT11)				3.8

13	2/11/2011	132.4	144.2	11.8
14	14/11/2011	130.9	138.2	7.3
15	24/11/2011	128.8	137.9	9.1
16	5/12/2011	129.6	136.3	6.7
17	15/12/2011	129.2	135.9	6.7
18	26/12/2011	130.7	138.8	8.1
19	6/01/2012	132.7	137.2	4.5
20	18/01/2012	135.3	139.3	4.0
Average Retail Margin at Trough (NOV11-JAN12)				7.3

Fuel Cycle's ULP Trough Gross Margin FY11-12
 Brisbane



Brisbane Analysis – cont.

Peak Gross Retail Margins:

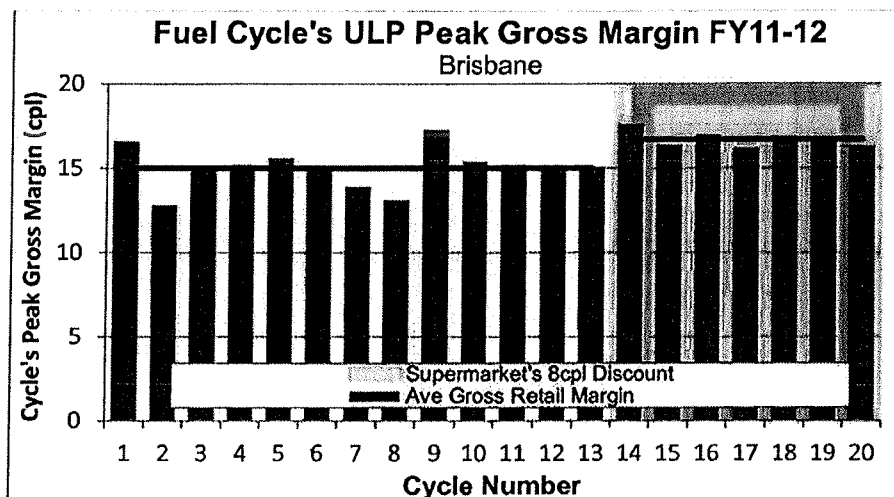
Brisbane's peak gross retail margins have shifted relative to the capital cities increasing from an average peak gross margin of 15.0 cpl to 16.7 cpl. The highest peak gross retail margin occurred on 4 November at 17.6 cpl, the highest peak retail gross margin since October 2009 and the first during the 8cpl promotional period.

Brisbane's peak gross retail margins remained high over November 2011 to January 2012 period, easing marginally since mid-January.

Brisbane's Peak Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Peak	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	2/07/2011	128.3	144.9	16.6
2	10/07/2011	131.3	144.1	12.8
3	18/07/2011	133.6	148.5	14.9
4	26/07/2011	132.9	148.1	15.2
5	5/08/2011	132.4	148.0	15.6
6	15/08/2011	131.0	146.1	15.1
7	25/08/2011	133.4	147.3	13.9
8	4/09/2011	134.5	147.6	13.1
9	15/09/2011	135.5	152.8	17.3
10	28/09/2011	136.8	152.2	15.4
11	8/10/2011	137.0	152.2	15.2
12	15/10/2011	139.0	153.8	14.8
13	24/10/2011	137.1	152.2	15.1
Average Retail Margin at Peak (JUL11-OCT11)				15.0

14	4/11/2011	130.7	148.3	17.6
15	16/11/2011	131.1	147.5	16.4
16	27/11/2011	128.7	145.7	17.0
17	7/12/2011	129.1	145.3	16.2
18	18/12/2011	129.6	146.5	16.9
19	29/12/2011	130.9	147.5	16.6
20	9/01/2012	133.0	149.3	16.3
Average Retail Margin at Peak (NOV11-JAN12)				16.7



Sydney Analysis (ULP)

Trough Gross Retail Margins:

Sydney had the second largest trough gross retail margins for unleaded during the 8 cpl promotion period. The trough gross retail margin increased significantly on 2 November at 3.8 cpl, however the highest trough retail gross margin occurred on 24 November at 4.6 cpl.

Sydney's trough gross retail margins remained high over November and December 2011, before easing.

As an observation, Sydney motorists using the 8cpl supermarket docket when purchasing ULP were in fact not getting the full benefit of the extra discount they were lead to believe compared to the previous average margins, most notably:

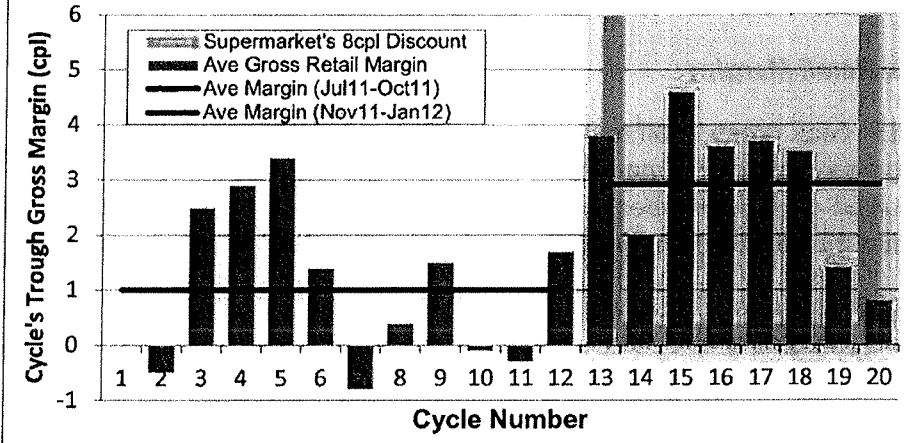
- On 2/11/11 trough price was 2.8 cpl higher than normal. Motorists using the 8 cpl docket received an extra 1.2 cpl.
- On 24/11/11 trough price was 3.6cpl higher than normal. Motorists using the 8 cpl docket received an extra 0.4 cpl.

Sydney's ULP Trough Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Trough	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	8/07/2011	131.6	131.6	0.0
2	15/07/2011	134.0	133.5	-0.5
3	24/07/2011	133.3	135.8	2.5
4	2/08/2011	133.2	136.1	2.9
5	12/08/2011	131.1	134.5	3.4
6	22/08/2011	133.5	134.9	1.4
7	1/09/2011	134.5	133.7	-0.8
8	13/09/2011	136.2	136.6	0.4
9	23/09/2011	137.0	138.0	1.0
10	3/10/2011	136.9	136.8	-0.1
11	12/10/2011	138.7	138.4	-0.3
12	21/10/2011	137.7	139.4	1.7
Average Retail Margin at Trough (JUL11-OCT11)				1.0

13	2/11/2011	132.9	136.7	3.8
14	14/11/2011	131.5	133.5	2.0
15	24/11/2011	129.4	134.0	4.6
16	5/12/2011	130.3	133.9	3.6
17	15/12/2011	129.8	133.5	3.7
18	26/12/2011	131.3	134.8	3.5
19	6/01/2012	133.2	134.6	1.4
20	18/01/2012	135.9	136.7	0.8
Average Retail Margin at Trough (NOV11-JAN12)				2.9

Fuel Cycle's ULP Trough Gross Margin FY11-12
 Sydney



Sydney Analysis (ULP) – cont.

Peak Gross Retail Margins:

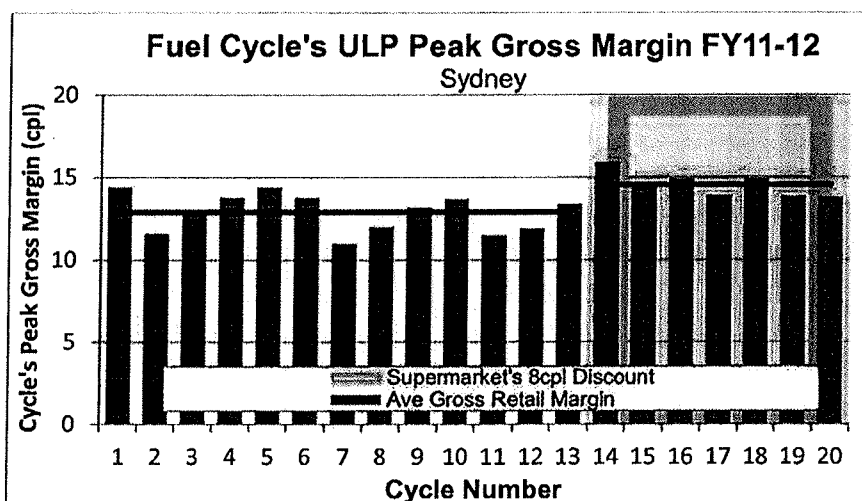
Sydney's ULP peak gross retail margins have shifted relative to the capital cities increasing from an average peak gross margin of 12.9 cpl to 14.5 cpl. The highest peak gross retail margin occurred on 4 November at 15.9 cpl, the highest peak retail gross margin for over four years and the first peak during in the 8cpl promotional period.

Sydney's peak gross retail margins remained high over November 2011 to January 2012 period, easing marginally since mid-January.

Sydney's ULP Peak Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Peak	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	2/07/2011	128.6	143.0	14.4
2	10/07/2011	131.6	143.2	11.6
3	18/07/2011	134.0	147.0	13.0
4	26/07/2011	133.2	147.0	13.8
5	5/08/2011	132.7	147.1	14.4
6	15/08/2011	131.3	145.1	13.8
7	25/08/2011	133.7	144.7	11.0
8	5/09/2011	135.6	147.6	12.0
9	15/09/2011	135.8	149.0	13.2
10	25/09/2011	137.0	150.7	13.7
11	6/10/2011	137.0	148.5	11.5
12	14/10/2011	139.3	151.2	11.9
13	24/10/2011	137.3	150.7	13.4
Average Retail Margin at Peak (JUL11-OCT11)				12.9

14	4/11/2011	131.3	147.2	15.9
15	17/11/2011	131.4	145.9	14.5
16	27/11/2011	129.4	144.3	14.9
17	7/12/2011	129.8	143.7	13.9
18	18/12/2011	130.2	145.1	14.9
19	30/12/2011	131.7	145.5	13.8
20	9/01/2012	133.6	147.4	13.8
Average Retail Margin at Peak (NOV11-JAN12)				14.5



Sydney Analysis (E10)

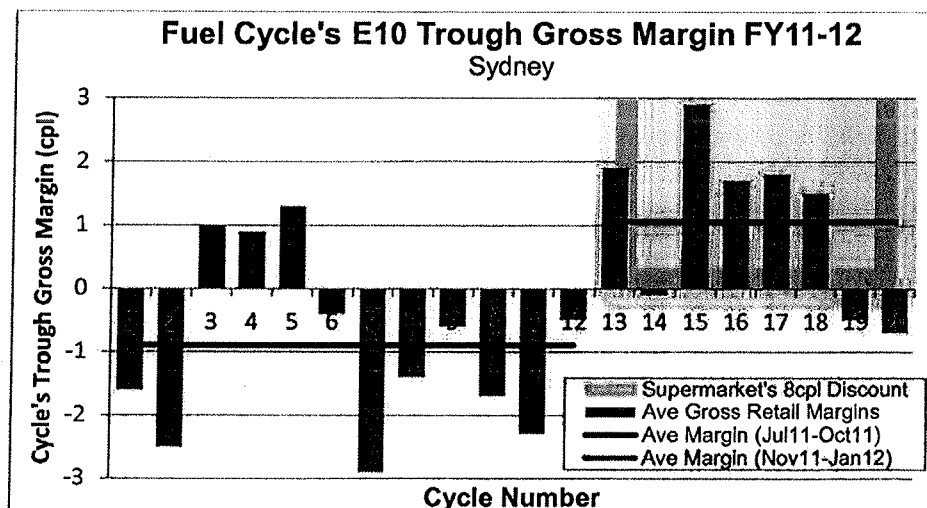
Trough Gross Retail Margins:

For the Sydney market, E10 was also analysed to assess changes in gross retail margins during the promotion period. Like ULP, the trough gross retail margin for E10 increased significantly on 2 November at 1.9 cpl, however the highest trough retail gross margin occurred on 24 November at 2.9 cpl.

Sydney's E10 trough gross retail margins remained high over November and December 2011, before easing in mid-January.

Sydney's E10 Trough Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Trough	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	8/07/2011	131.6	130	-1.6
2	15/07/2011	134	131.5	-2.5
3	23/07/2011	133.3	134.3	1
4	2/08/2011	133.2	134.1	0.9
5	13/08/2011	131.1	134.1	1.3
6	22/08/2011	133.5	133.1	-0.4
7	1/09/2011	134.5	131.6	-2.9
8	13/09/2011	136.2	134.8	-1.4
9	22/09/2011	136.5	135.9	-0.6
10	3/10/2011	136.9	135.2	-1.7
11	12/10/2011	138.7	136.4	-2.3
12	21/10/2011	137.7	137.2	-0.5
Average Retail Margin at Trough (JUL11-OCT11)				-0.9
13	2/11/2011	132.9	134.8	1.9
14	14/11/2011	131.5	131.4	-0.1
15	24/11/2011	129.4	132.3	2.9
16	5/12/2011	130.3	132.1	1.8
17	15/12/2011	129.8	131.6	1.8
18	26/12/2011	131.3	132.8	1.5
19	6/01/2012	133.2	132.7	-0.5
20	17/01/2012	136	135.3	-0.7
Average Retail Margin at Trough (NOV11-JAN12)				1.1



Sydney Analysis (E10) – cont.

Peak Gross Retail Margins:

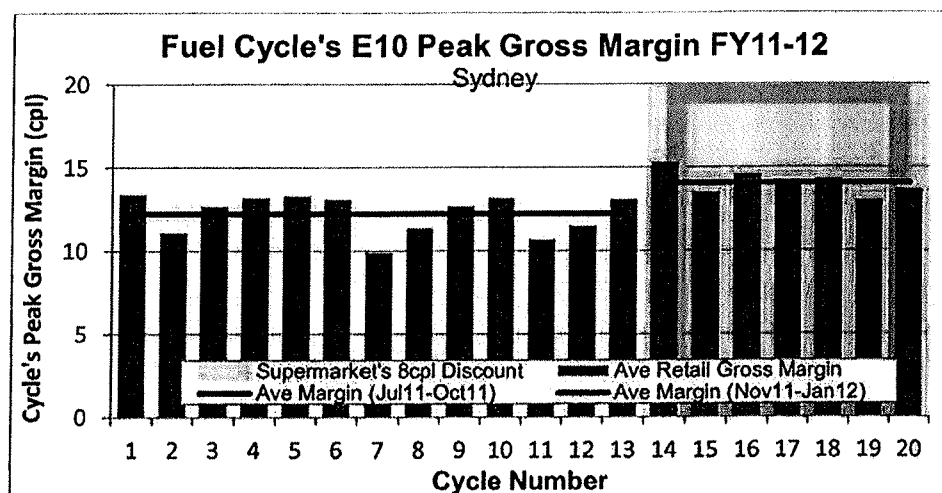
Sydney's peak E10 gross retail margins have shifted relative to the capital cities increasing from an average peak gross margin of 12.3 cpl to 14.0 cpl. The highest peak gross retail margin occurred on 4 November at 15.3 cpl, the first peak during in the 8 cpl promotional period.

Sydney's peak gross retail margins remained high over November 2011 to January 2012 period, easing moderately since mid-January.

Sydney's E10 Peak Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Peak	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	2/07/2011	128.6	142.0	13.4
2	10/07/2011	131.6	142.7	11.1
3	18/07/2011	134.0	146.7	12.7
4	26/07/2011	133.2	146.4	13.2
5	5/08/2011	132.7	146.0	13.3
6	15/08/2011	131.3	144.4	13.1
7	25/08/2011	133.7	143.6	9.9
8	5/09/2011	135.6	147.0	11.4
9	15/09/2011	135.8	148.5	12.7
10	25/09/2011	137.0	150.2	13.2
11	6/10/2011	137.0	147.7	10.7
12	14/10/2011	139.3	150.8	11.5
13	24/10/2011	137.3	150.4	13.1
Average Retail Margin at Peak (JUL11-OCT11)				12.3

14	4/11/2011	131.3	146.6	15.3
15	17/11/2011	131.4	144.9	13.5
16	27/11/2011	129.4	144.0	14.6
17	7/12/2011	129.8	143.7	13.9
18	18/12/2011	130.2	144.5	14.3
19	30/12/2011	131.7	144.7	13.0
20	9/01/2012	133.6	147.3	13.7
Average Retail Margin at Peak (NOV11-JAN12)				14.0



Melbourne Analysis

Trough Gross Retail Margins:

Melbourne had the smallest rise in trough gross retail margins during the promotion period, however changes in fuel cycles interstate were evident in Melbourne's corresponding fuel cycles. The trough gross retail margin increased significantly on 2 November at 4.2 cpl, however the highest trough retail gross margin occurred on 24 November at 4.4 cpl.

Unlike the other capital cities, Melbourne's trough gross retail margins eased quicker from late December.

As an observation, Melbourne motorists using the 8 cpl supermarket docket when purchasing ULP were in fact not getting the full benefit of the extra discount they were lead to believe compared to the previous average margins, most notably:

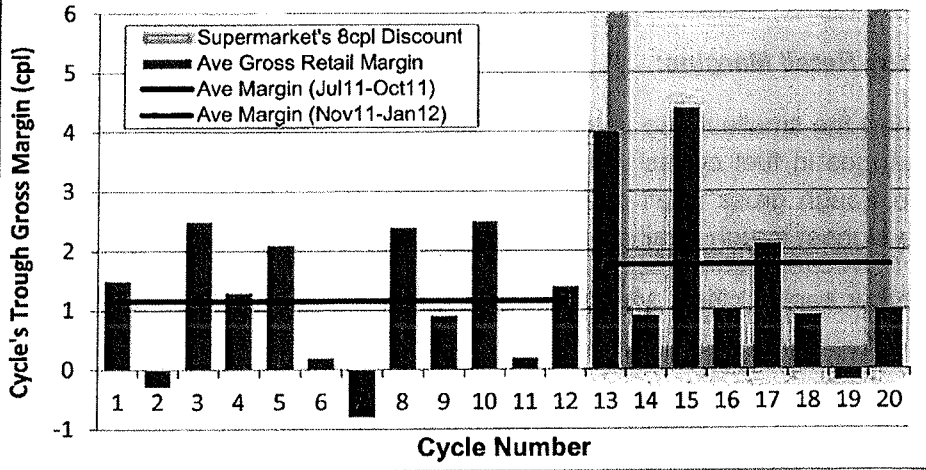
- On 2/11/11 trough price was 3.0 cpl higher than normal. Motorists using the 8 cpl docket received an extra 1.0 cpl.
- On 24/11/11 trough price was 3.2 cpl higher than normal. Motorists using the 8 cpl docket received an extra 0.8 cpl.

Melbourne's Trough Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Trough	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	8/07/2011	131.0	132.5	1.5
2	15/07/2011	133.3	133.0	-0.3
3	24/07/2011	132.8	135.3	2.5
4	3/08/2011	132.4	133.7	1.3
5	13/08/2011	130.6	132.7	2.1
6	22/08/2011	133.0	133.2	0.2
7	4/09/2011	134.3	133.5	-0.8
8	13/09/2011	135.6	138.0	2.4
9	24/09/2011	136.4	137.3	0.9
10	4/10/2011	136.3	138.8	2.5
11	12/10/2011	138.1	138.3	0.2
12	21/10/2011	137.1	138.5	1.4
Average Retail Margin at Trough (JUL11-OCT11)				1.2

13	2/11/2011	132.3	136.5	4.2
14	14/11/2012	133.6	131.8	0.9
15	24/11/2011	128.9	133.3	4.4
16	5/12/2011	129.7	130.7	1.0
17	15/12/2011	129.3	131.4	2.1
18	26/12/2011	130.7	131.6	0.9
19	6/01/2012	132.6	132.4	-0.2
20	17/01/2012	135.5	136.5	1.0
Average Retail Margin at Trough (NOV11-JAN12)				1.8

Fuel Cycle's ULP Trough Gross Margin FY11-12 Melbourne



Melbourne Analysis - cont.

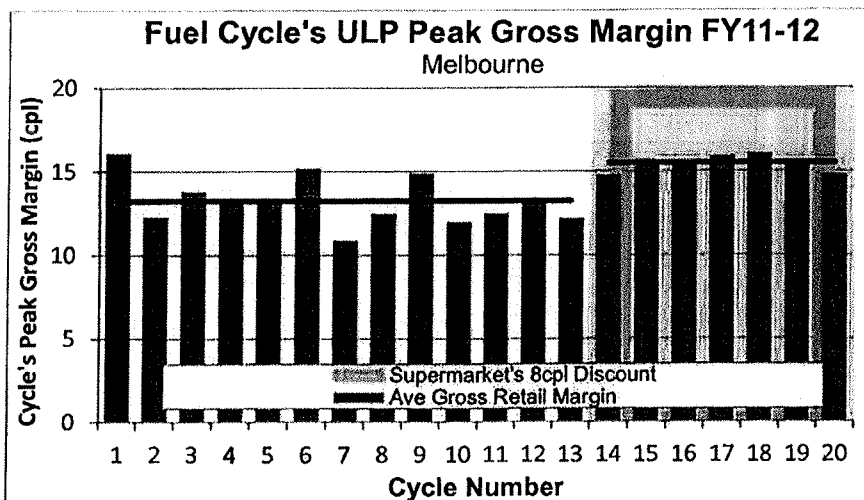
Peak Gross Retail Margins:

Melbourne's peak gross retail margins have shifted relative to the capital cities increasing from an average peak gross margin of 13.2 cpl to 15.5 cpl. Unlike the other capitals, Melbourne's highest peak was on 17 December at 15.9 cpl, however the first peak during in the 8cpl promotional period 2.7 cpl higher than the previous peak.

Melbourne's peak gross retail margins remained high over November 2011 to January 2012 period, easing moderately in mid-January.

Melbourne's Peak Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Peak	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	1/07/2011	128.0	144.1	16.1
2	10/07/2011	131.0	143.3	12.3
3	18/07/2011	133.3	147.1	13.8
4	26/07/2011	132.7	145.9	13.2
5	5/08/2011	132.2	145.6	13.4
6	15/08/2011	130.7	145.9	15.2
7	26/08/2011	133.0	143.9	10.9
8	7/09/2011	135.7	148.2	12.5
9	15/09/2011	135.3	150.2	14.9
10	27/09/2011	136.7	148.7	12.0
11	6/10/2011	136.4	148.9	12.5
12	14/10/2011	138.7	151.9	13.2
13	24/10/2011	136.8	149.0	12.2
Average Retail Margin at Peak (JUL11-OCT11)				13.2
14	4/11/2011	130.7	145.5	14.8
15	16/11/2011	131.2	146.9	15.7
16	26/11/2011	128.8	144.4	15.6
17	7/12/2011	129.2	145.1	15.9
18	17/12/2011	129.6	145.7	16.1
19	29/12/2011	130.9	146.5	15.6
20	9/01/2012	133.0	147.8	14.8
Average Retail Margin at Peak (NOV11-JAN12)				15.5



Adelaide Analysis

Trough Gross Retail Margins:

Adelaide had the third largest rise in trough gross retail margins during the promotion period. The highest trough gross retail margin occurred on 3 November at 2.9 cpl, the first trough in the 8 cpl promotional period.

Unlike the other capital cities, Adelaide's trough gross retail margins eased quicker from late December after gross retail margins were above average in November and early December.

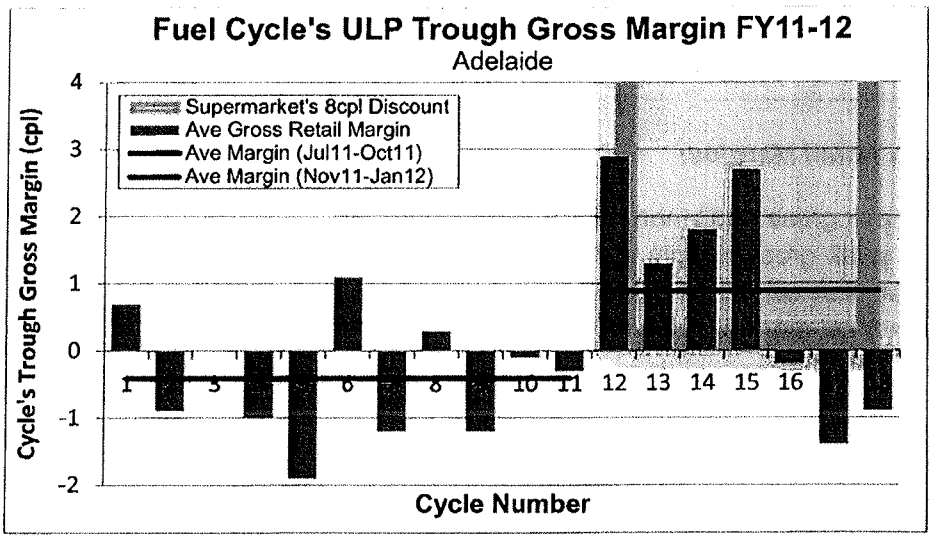
As an observation, Adelaide motorists using the 8 cpl supermarket docket when purchasing ULP were in fact not getting the full benefit of the extra discount they were lead to believe compared to the previous average margins, most notably:

- On 3/11/11 trough price was 3.3 cpl higher than normal. Motorists using the 8 cpl docket received an extra 0.7 cpl.
- On 5/12/11 trough price was 3.1 cpl higher than normal. Motorists using the 8 cpl docket received an extra 0.9 cpl.

Adelaide's Trough Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Trough	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	7/07/2011	130.0	130.7	0.7
2	15/07/2011	133.8	132.9	-0.9
3	25/07/2011	133.3	133.3	0.0
4	8/08/2011	132.5	131.5	-1.0
5	20/08/2011	133.4	131.5	-1.9
6	31/08/2011	134.3	135.4	1.1
7	11/09/2011	136.5	135.3	-1.2
8	20/09/2011	136.0	136.3	0.3
9	3/10/2011	136.9	135.7	-1.2
10	12/10/2011	138.7	138.6	-0.1
11	21/10/2011	138.1	137.8	-0.3
Average Retail Margin at Trough (JUL11-OCT11)				-0.4

12	3/11/2011	131.9	134.8	2.9
13	14/11/2011	131.3	132.6	1.3
14	24/11/2011	129.2	131.0	1.8
15	5/12/2011	130.0	132.7	2.7
16	18/12/2011	130.0	129.8	-0.2
17	5/01/2012	132.2	130.8	-1.4
18	17/01/2012	135.8	134.9	-0.9
Average Retail Margin at Trough (NOV11-JAN12)				0.9



Adelaide Analysis - cont.

Peak Gross Retail Margins:

Adelaide's peak gross retail margins have shifted relative to the capital cities increasing from an average peak gross margin of 14.5 cpl to 16.3 cpl. Adelaide's highest peak was on 7 November at 17.8 cpl, the highest peak gross margin in over four years and the first peak during in the 8 cpl promotional period.

Adelaide's peak gross retail margins remained high over November 2011 to January 2012 period, maintain the new average gross retail margin.

Adelaide's Peak Gross Retail Margins

Fuel Cycle No. (FY11-12)	Date of Peak	Average Terminal Gate Price (CPL)	Average Retail Price (CPL)	Gross Retail Margin (CPL)
1	2/07/2011	128.6	145.0	16.4
2	10/07/2011	131.5	144.5	13.0
3	17/07/2011	133.8	149.5	15.7
4	27/07/2011	133.2	148.0	14.8
5	11/08/2011	132.0	148.2	16.2
6	24/08/2011	133.7	148.6	14.9
7	2/09/2011	134.9	148.6	13.7
8	13/09/2011	136.2	148.9	12.7
9	22/09/2011	136.5	151.3	14.8
10	6/10/2011	137.0	149.3	12.3
11	15/10/2011	139.3	153.2	13.9
12	24/10/2011	137.4	152.6	15.2
Average Retail Margin at Peak (JUL11-OCT11)				14.5

14	7/11/2011	130.6	148.4	17.8
15	17/11/2011	131.2	146.5	15.3
16	27/11/2011	129.1	145.6	16.5
17	8/12/2011	129.3	145.5	16.2
18	21/12/2011	131.1	146.6	15.5
19	8/01/2012	133.0	149.4	16.4
Average Retail Margin at Peak (NOV11-JAN12)				16.3

