



**LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY**

SELECT COMMITTEE ON FUEL PRICING

Ms Tara Cheyne MLA (Chair), Mr Mark Parton MLA (Deputy Chair), Mr Andrew Wall MLA

Submission Cover Sheet

Inquiry into the Select Committee on Fuel Pricing

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Mr Andrew Snedden
Committee Secretary, Legislative Assembly

Dear Mr Snedden

Please find attached 7-Eleven's submission to the Select Committee on Fuel Pricing. If you have any queries please do not hesitate to contact myself or Clayton Ford, GM Corporate Affairs whose contact details are at the foot of the submission.

Best regards

Rowan Lee
Public Affairs Manager
7-Eleven Stores Pty. Ltd.



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Submission to the ACT Legislative Assembly Select Committee on Fuel Pricing

March 2019



History and Footprint

7-Eleven welcomes the opportunity to make a submission to the ACT Legislative Assembly Select Committee on Fuel Pricing.

7-Eleven is Australia's first choice in convenience, and the largest convenience and independent petrol retailer in Australia. The company holds a license to operate and franchise 7-Eleven stores in Australia from the US based 7-Eleven Inc. 7-Eleven in Australia operates over 690 stores across our franchise and corporate network, covering Victoria, New South Wales, the Australian Capital Territory, Queensland, and Western Australia. Our stores conduct more than 228 million transactions a year, serving an average seven customers per second.

7-Eleven's franchise network incorporates both fuel and non-fuel businesses, there are currently 537 fuel stores nationally; 159 in Victoria, 189 in New South Wales, 147 in Queensland, 32 in Western Australia and nine in the Australian Capital Territory. 7-Eleven accounts for approximately 10% of total petrol sales by volume in Australia.

7-Eleven entered the ACT fuel market on the 6 September 2011 opening the first 7-eleven store in the ACT in the suburb of Holt, which is still in operation today. Currently, 7-Eleven's has about 18% of the petrol sites in the ACT, operating in the areas of Braddon, Fyshwick, Giralang, Holt, Mawson, Melba, Spence, Erindale and Casey.

While 7-Eleven operates both corporate and franchised stores, all 7-Eleven stores in the ACT are franchised. At 7-Eleven, we take a different approach to franchising than many others. We take care of many of the things that are a hassle about being a small business owner, and the items that sometimes cause financial distress, and provide our franchisees with support every step of the way.

Most franchise systems take a percentage of sales as a royalty. The 7-Eleven franchised business model is different because we tie our financial success to the success of our franchisees through sharing in gross profit, ensuring our focus is firmly on the profitability of our franchisees.

Under the 7-Eleven model, 7-Eleven covers many of the largest expenses borne by franchisees in other systems, including:

- fit out costs;
- building rent and outgoings;
- transport costs;
- equipment purchase and maintenance;
- utilities (heating / cooling / lights and water);
- advertising and in store promotion;
- payroll services;
- recording and reporting of transactional and financial data;
- insurance for certain losses;
- bank and credit card fees.

In fact the only large costs that remain with the franchisee are the costs of labour and the cost of stock purchased for their store.

In regard to fuel, 7-Eleven sets prices and pays the franchisee a fixed cents per litre commission regardless of the sale price. 7-Eleven works hard with franchisees to grow gross profit – not just sales - for the mutual benefit of both our business and our franchisees' businesses.

7-Eleven responds in sequence below to the matters to be addressed by the Committee:

1. Fuel price methodology and key determinants;

Australia is fortunate to have one of the lowest pre-tax petrol prices in the OECD. This is a remarkable given our relatively small population, long distances between infrastructure and markets, and oil refining economies of scale.

As has been stated in almost every report undertaken into fuel pricing in Australian jurisdictions, the overwhelming determinant of fuel prices in Australia is the Singapore price and the value of the Australian dollar to that of the US dollar.

The ACT fuel market is in many ways an extension of the Sydney market in that there is no refinery or storage capacity in the ACT so all fuel must be transported by road directly from Sydney terminals.

Fuel prices change regularly and are very sensitive to their competition.

A unique characteristic of fuel prices is their visibility. Fuel prices are up in lights for all to see at all times every day as drivers undertake their commute or go about their business, even if they are not considering a purchase. Coupled with a general lack of understanding of how fuel pricing is determined, one can understand the general frustration and bewilderment of customers as to why prices fluctuate.

The ACCC report *Petrol prices are not the same: report on petrol prices by major retailer in 2017 (May 2018)* found that "...7-Eleven's average prices were lower than the market average price (1.1 cpl) in all four cities, ranging from 1.6 cpl in Perth to 0.1 cpl in Sydney. These 7-Eleven average prices are the board prices and take no account of any savings made by motorists using the 7-Eleven Fuel App"(discussed later in this submission).

2. Characteristics of the ACT fuel market, including historical changes;

There are three unique features to the ACT fuel market. As the ACCC has pointed out, fuel prices in the smaller capital cities such as Canberra, Hobart and Darwin do not move in cycles such as those seen in the major capital cities.

There are three features unique to the ACT fuel market:

- 1. The legacy of the restriction on the location of service stations to small local shopping centres.** Often being located away from major roads, these service stations don't attract passing traffic and instead rely on a limited local catchment area. The result of land use planning and small catchment areas is that consumers are less likely to leave their suburb and drive around looking for less expensive fuel.
- 2. The ACT has neither a port nor a refinery.** As a consequence, petroleum products are trucked from Sydney which adds significant cost on a cent per litre basis. (see reference 4 below)
- 3. There are also fewer independents as a proportion of the retail market compared to the rest of Australia.** There are only thirteen discount and value retailers (including 7-Eleven) in the ACT which has 56 retailers overall. This compares to the rest of Australia

where small independent retailers (excluding large independents such as 7-Eleven) in 2016-17 accounted for 17% of total volume petrol sales. Compounding the small number of fuel discounters is that they are located in the industrial/commercial area of Canberra and are not visible to the average Canberran going about their business or daily commute.

4. Reasons for significant pricing discrepancies within the ACT and when compared to other Australian communities and capital cities;

The cost of doing business in the ACT are higher than that in the greater Sydney area due to a number of factors.

Land and construction costs

Much has been written over the years, even by the ACT government's own Independent Competition and Regulatory Commission, about the very high cost of land in the ACT along with subsequent development costs.

A like-for-like comparison between establishing a 7-Eleven fuel site in NSW compared to the ACT shows it is more than 2.5% more expensive in the ACT. These significant costs are fixed adding to the cost of doing business in the ACT. These cost differentials may vary between retailers but would nevertheless show that the cost of development in the ACT would be higher than NSW.

Leasing costs

The high cost of land and development is passed through in the form of property leases. 7-Eleven's average lease per annum in the ACT for a fuel site is more than 12% above leases in regional NSW. Significantly, the difference between leases in the ACT and metropolitan Sydney sit at over 28%.

Transport costs

Fuel sold in the ACT is delivered from terminals in Sydney creating a significant cost differential which is reflected in the fuel price. One reason for the higher costs is that a tanker in Sydney can undertake approximately three deliveries per day, however this becomes one per day per tanker to the ACT.

Costs will vary between retailers however for 7-Eleven, for the period July 2018 – January 2019, fuel deliveries cost approximately three cents per litre more to deliver to the ACT than to Sydney.

Fuel additives

Given the climate of the ACT in winter, additives are required to be added to fuel to ensure it doesn't freeze. This would be common amongst all retailers in the ACT but it doesn't remove the fact that these additives cost many tens of thousands of dollars each year which cannot necessarily be passed onto the consumer.

Maintenance costs

Service stations require specialist technicians to maintain them. These skills need to be brought in from Sydney at significant cost to 7-Eleven.

5. Consideration of best practice approaches and initiatives in other jurisdictions which have a meaningful impact on reducing fuel prices;

Overall, 7-Eleven believes transparent price information coupled with greater opportunity for increased consumer knowledge and awareness are far more effective than any regulations around price. For example, Terminal Gate Pricing is an effective way for consumers to know what price they should be paying at the bowser.

6. Regulatory and legislative solutions and barriers, particularly around competition and retail margin;

7-Eleven does not believe that regulation of the wholesale or retail fuel market is required in the ACT market. Indeed, what may seem as simple or 'quick fix' regulatory solutions may actually have perverse and unintended consequences in the market.

Instead, 7-Eleven believes the key is greater transparency and informed customer choice.

There is a thirst from consumers for petrol price information. As the ACCC states in its *Report on the Australian petroleum market: June quarter 2018 (August 2018)*

In 2017-18, the petrol price cycle web page on the ACCC website received 426,807 page views, making it the most viewed page on the ACCC website for the year.

Readily available information about current retail petrol prices enables motorists to shop around and purchase petrol at relatively lower priced retail sales. Not only do motorists benefit from those lower prices, but also the availability of petrol price data may promote competitive market behaviour. It will reward those retailers that are prepared to compete actively on price, because their pricing behaviour can be seen, and acted upon by motorists.

Public awareness in the form of an information campaign should be undertaken by the ACT government providing consumers with fuel market pricing information such as apps and websites that allow customers to better manage their fuel costs. A number of these existing apps and websites provide real or near-time pricing information across Australia or within a certain state such as the NSW Fuel Check website. There are also company specific apps that can provide enormous benefits for consumers.

7-Eleven Fuel App

As of February 2019 the 7-Eleven fuel app has been downloaded by 1.6 million Australians. The app's central feature compares real time fuel price data from 7-Eleven stores and enables users to lock in the cheapest price for seven days, enabling customers to purchase petrol at the cheapest local price at their most convenient location. Additional to price locking, the fuel app also features a range of other benefits for its users including daily discounts, free products and additional promotional items.

With no sign-up or joining fee the average saving per use is \$4.37 or 11.6 cents a litre, and since its launch in March 2016 the 7-Eleven fuel app has saved customers nationally over \$11.4 million.

Importantly, our experience has demonstrated that the fuel app can change consumer behavior in that people can see prices across a wide geographic area and will travel further distances to buy fuel at a cheaper price. This could assist in overcoming the barrier in Canberra where petrol stations are generally not highly visible and people tend to buy fuel at their local shopping centre.

The fuel app was recognised on a global scale for its benefit to customers, winning the NACS Asian Convenience Retail Technology Award in February this year at a summit in Shanghai, China.

7-Eleven Australia was also recognised in January 2018, winning Canstar's 2018 Most Satisfied Customers – Service Stations award, based on results from independent customer research on experiences in service stations Australia wide. The 7-Eleven fuel app is attributed with being a major contributor to this level of customer satisfaction.

It is worthy to note that the ACCC encourages consumers to use petrol price saving apps and websites to get the best price for their fuel and increase competitive pricing, the 7-Eleven fuel app is regularly referred to by the ACCC, listed on the ACCC website and in ACCC reports on fuel pricing and the fuel industry in Australia as an option for consumers to utilise best price checking practice. Chairman of the ACCC, Mr Rod Sims has encouraged consumers to use petrol price saving apps and websites to get the best price for their fuel, specifically noting on more than one occasion 7-Eleven's fuel app as an option for consumers to utilise.

In conclusion

As demonstrated in recent weeks, the fuel market is constantly changing and evolving with players entering and exiting market, and over time, segments within the market change such as increasing or decreasing market share. Legislation and regulation imposed on a market at any given time cannot adequately adapt and reflect changed market conditions over time.

Similarly, technological advances in recent years have provided customers with unprecedented access to information about fuel prices. Long gone are the days when people would have to drive around to hunt down the cheapest fuel, now they can do it on their phone or computer before they leave home or work. The power of information is the most effective way to create a competitive fuel market.

We would be happy to respond in writing to any questions the Committee may have regarding this submission.

The contact for this submission is:

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