



30 July 2019

ACT Select Committee on Fuel Pricing
ACT Legislative Assembly
GPO Box 1020
CANBERRA ACT 2601

Via email: LACommitteeFP@parliament.act.gov.au

Dear Committee

Re: Interim Report on Inquiry into ACT Fuel Pricing

Thank you for the opportunity to comment on the Select Committee on Fuel Pricing's *Interim Report on Inquiry into ACT Fuel Pricing*.

The Australian Institute of Petroleum (AIP) presents this Submission to the Committee on behalf of AIP's core member companies:

- BP Australia Pty Ltd
- Caltex Australia Limited
- Mobil Oil Australia Pty Ltd
- Viva Energy Australia Pty Ltd.

AIP does not consider that there has been sufficient evidence presented to the Committee to warrant a change in views from those presented by AIP in its original submission to the Committee, through AIP's subsequent testimony to the Committee or in AIP's response to the Questions on Notice.

AIP's key messages from its submission were, and remain:

- The Australian liquid fuels market is highly competitive and transparent, with pricing information at the wholesale and retail levels freely and widely published on a daily basis.
- According to the ACCC, wholesale petrol prices are dominated by refined international benchmark prices and Australian Government taxes. The wholesale "Terminal Gate Price" (TGP) typically represents around 95% of the retail price.
- ACT retail prices are not exposed to the highs and lows of the price cycles evident in the five capital cities (Sydney, Melbourne, Brisbane, Adelaide and Perth) and appear to be more stable.
- There will, however, always be differences across towns and across retail sites within towns due to a range of local area competition and business factors.
- ACT pricing is more closely aligned with regional fuel pricing than capital cities. The ACCC notes that regional prices are higher due to a range of factors including:
 - a lower level of local competition;
 - lower volumes of fuel sold;
 - distance/ location factors; and
 - lower convenience store sales.
- In the case of the ACT, higher prices are also driven by additional local market factors including:
 - site locations,

- planning restrictions, and
- higher distribution costs.
- AIP publishes a range of prices, including Canberra specific prices, that provides consumers with the capacity to compare prices and price trends.
- There are also a range of freely available third-party applications that provide site specific data on prices in the ACT.

These facts appear to have been largely reflected in the interim report.

AIP's submission concluded that given the market realities, the existing and ever-increasing provision of transparent pricing information and the innovation by direct industry participants and third-party providers, there is little evidence to support Government intervention in the fuel market. Such intervention would impose additional costs on both Government and the fuels market without a demonstrated commensurate benefit.

Response to Recommendations

In relation to the recommendations, AIP makes the following comments:

1. Do nothing

AIP believes that on balance, the Interim Report does not make a compelling case for Government intervention into the fuels market. Indeed, each recommendation acknowledges that the intervention is unlikely to (or at best "may") reduce the price of fuel in the ACT, particularly in the short term.

This fact is largely due to the collective structural issues in the ACT fuel market identified in submissions, Committee hearings and/or the Interim report, including:

- Site locations being away from major thoroughfares
- Lack of clustering of sites
- Low visibility of fuel pricing
- Transportation and distribution costs
- Flat to slow growth in gasoline volumes as a disincentive to new entrants (new entrants may lead to the closure of other existing less profitable sites).
- Canberra as a destination in itself (i.e. surrounding towns – and the fuel offerings - are connected to major markets such as Sydney as traffic passes through these towns, whereas Canberra is a largely stand-alone market and therefore competitive tension is largely confined to the Canberra market)

Government intervention in one or more of these areas is highly unlikely to lead to lower prices in the short term (and may in fact lead to price increases) due to their cumulative nature and therefore a longer view is required. AIP notes however that the retail fuels market is highly dynamic. The past twenty years has seen significant changes to the market including, but not limited to, the:

- emergence of the supermarket chains in retail fuels
- exit of the supermarkets as operators of the fuel offering at retail sites
- exit of some major fuel companies from the fuels retail market
- growth of existing and new independent operators
- large contraction in the total number of retail sites follow by some growth in recent years
- emergence of a broader convenience offering associated with retail fuel sites

Government must therefore be cognisant that in attempting to assess the impacts of long-term policy change, the outcomes may not ultimately be borne out as expected due to natural changes in market dynamics.

2. Better Education

While there is a range of information already available, AIP supports efforts to better educate consumers on fuel pricing. AIP and its member companies expend significant efforts and resources to increase market transparency, particularly through the free publication of comprehensive market prices data on a daily and weekly basis, and at jurisdictional, regional and town levels (on the AIP website at www.aip.com.au) and member company websites for terminal gate (wholesale) prices at terminals across the country. This represents a significant investment and commitment to market transparency by AIP and member companies.

Despite this range of information, additional support from Government (as an independent commentator) in providing information to consumers is always welcome. AIP notes that significant information is already provided by a range of government sources, including the ACCC and the ACT's Access Canberra website, in addition to a range of third parties.

AIP would therefore recommend that rather than doing anything new, the Government undertake additional research on whether consumers are accessing this information, and if not, ways to improve access and understanding by consumers.

3. Create a fuel prices oversight position or body

AIP considers this recommendation to be an extension of Recommendation 2. Further clarity on the role and expectations of this position/body in consultation with industry would be required.

AIP notes that establishment of such a body/position should not:

- duplicate the work of the ACCC
- duplicate existing information already available in the marketplace
- impinge on company innovation
- restrict competition
- impose costs on the fuels industry that would ultimately need to be recouped from consumers.

4. Introduce a Government-run real-time price monitoring scheme

AIP contends that while there is not 100 percent market coverage of price information for all retail sites, there is more than sufficient price information for the vast majority of sites available as currently provided by industry and third parties. Imposing a mandatory scheme on industry would come at cost to both retailers and the government that would not be commensurate with any additional benefit to that which is available now. Furthermore, the impost is greater if the Government required "real time" reporting of prices. This would appear to be an unnecessary imposition, as there is little intra-day movements in retail fuel prices in the ACT (also noted in the Interim Report). AIP notes that the Northern Territory, which also has limited intra-day trading, introduced real time pricing based on the NSW scheme. Consumers have not benefited from the introduction of this scheme. Similarly, there is no evidence to support the argument that mandatory price reporting has led to lower prices in the either NSW or Queensland. Furthermore, the number of consumers accessing these services is relatively low.

If the Government were to introduce a price reporting scheme, AIP would strongly encourage an approach that is closely aligned or replicates current reporting schemes in Queensland and NSW. Further consultation with industry on any scheme being contemplated is required.

5. Petrol companies required to lock in fuel prices for 24 hours, with mandatory reporting
Consistent with AIP's views in recommendation 4, AIP does not support mandatory reporting where prices are required to be locked in, such as the system imposed in WA. As AIP noted in its submission to the Inquiry,

While it is true that WA consumers have had the opportunity to buy fuel at a discounted price on one or two days within the weekly cycle, the price appears to be higher for longer periods and has led to increased margins for retailers. The WA system is unlikely to be suitable to circumstances in the ACT due to the lack of a price cycle and relative price stability across the ACT.

Although it is impossible to predict the outcomes from such an intervention, the structure of the ACT retail fuels market and the lack of a price cycle would indicate that it is unlikely to lead to a consumer benefit from this approach. Rather, retailers are more likely to be more cautious in their pricing practise, potentially leading to higher prices.

6. Set maximum retail margin for fuel companies

AIP is strongly opposed to such an extreme intervention. Consumers have benefited over a number of decades from the removal of government regulatory involvement in fuel pricing. While AIP is not convinced that such an approach would lead to lower prices (consistent with the Luxembourg example), or "a perception of fairness for consumers", AIP does agree that this approach would exhibit many, if not all of the cons identified in the Interim Report, namely:

- potential for market distortions
- potential changes to wholesale pricing to compensate for the restriction on retail margin
- disincentives and discouragement to all new market entrants (and not just independent retailers as stated in the Interim Report)
- negative economic impacts on existing retailers who may have a reduced capacity to economically recover the cost of capital or cover operating costs
- forced increased prices to other in-store offerings.

AIP also agrees that determining a "reasonable" margin would be difficult given the different business/operating models of both the wholesale and retail sectors of the fuel industry. Such an approach is likely to create a range of winners and losers. As AIP has previously emphasised, 85-90 percent of the current retail price of fuel is determined by the wholesale price (a price in and of itself largely determined by the international fuel product price and government taxes). Retailers must therefore cover their remaining business costs and achieve a small profit from the remaining 10-15 percent of the retail fuel price.

7. Set aside highly visible land in the ACT for numerous service stations

While AIP agrees that that historical and existing ACT planning laws have led to the ACT's unique retail fuel market, it is not clear if such an approach would lead to lower prices, and certainly not in the short term. As noted in the discussion in recommendation 1, there are a combination of structural issues in the ACT market that are collectively difficult to overcome.

The Government therefore needs to recognise that this approach is, by its nature, a long-term reform if the Government believes that a restructuring of the ACT fuel market is necessary to better align with other markets. The historical approach has been to not provide accessible sites on major roads, which has led to different consumer behaviour compared with other markets, such as Sydney, Melbourne or Brisbane. Policy change leading to major industry structural

adjustment (that reflects the characteristics of other markets) would need to be carefully considered to ensure that:

- the desired outcomes are given the best chance to succeed, and
- there can be an orderly transition as it is likely that existing retailers would be forced from the market.

AIP also believes that no retailer (be they existing, major or independent) should be excluded from operating any new site. While the Interim Report makes assertions that independent operators can lead to lower prices, there is no firm evidence to support this. As per AIP's submission:

AIP notes that observations are regularly made about the Canberra market in that a lower number of independent operators has led to higher prices. It is true that the Canberra retail fuel market differs to almost every other similar market by virtue of a lower number of independent retailers. According to Informed Sources, of the 58 retail sites in Canberra, only five – or 9 percent – are independents. This compares with most other markets in Australia where at least 20+ percent of retail sites are operated by independents.

However, the presence of independents in markets comparable to Canberra have not generally led to lower prices. For example, the independents in the Northern Territory market hold around 57 percent of the market, yet average prices in that market over the longer term are consistently above the five major capitals with prices more closely aligned with Canberra. The same can be said of Tasmania where 27 percent of market participants are independents. Again, prices in this market are more closely aligned with the ACT.

In this context, AIP also makes the following observations:

- The most efficient supply chains are not with independents (due to economies of scale).
- Competition is due to a range of local market factors and should not be defined by the number of independents, but the number of accessible sites in a given area. The ACT has the lowest number of sites per person.
- As noted by Costco, there is only room for one cross subsidised offering in the ACT market. Indeed, they are often selling fuel for less than cost as a loss-leader to get customers into their member only store.

8. Review the rates and taxes charges to service station operators

AIP welcomes efforts to reduce the cost of doing business in the ACT and would be happy to work with the Government in this area.

9. Subsidies for low income families

AIP believes this is a decision for government and therefore does not have a view on this recommendation, other than to agree with the findings of the Interim Report that this would not lead to lower retail fuel prices.

Conclusion

AIP appreciates the opportunity to provide further advice to the ACT Inquiry into Fuel Pricing and to respond to the Committee's Interim Report. AIP does not consider that there has been sufficient evidence presented to the Committee that would warrant a change in views from those presented by AIP in its original submission to the Committee, or through AIP's subsequent testimony to the Committee or AIP's response to the Questions on Notice. AIP maintains that the ACT retail fuels market is highly competitive but is heavily influenced by a number of unique structural characteristics that leads to differing prices and pricing behaviour to other markets. AIP does not

believe that government intervention can be justified or substantiated. Indeed, it is highly possible that intervention could in fact lead to a less competitive market and therefore possibly higher prices paid by consumers.

AIP would be happy to talk further with the Committee on our submission or further information we have provided. Please contact us via email at aip@aip.com.au or via phone on [REDACTED]

Yours sincerely

[signed]

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