



**LEGISLATIVE ASSEMBLY  
FOR THE AUSTRALIAN CAPITAL TERRITORY**

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**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

**Submission Number: 17**

**Date Authorised for Publication: 25 February 2019**

**From:** [Mark McKenzie](#)  
**To:** [Committees](#)  
**Cc:** [Snedden, Andrew](#)  
**Subject:** ACAPMA Submission to ACT Select Committee Inquiry into Petrol Prices in Canberra  
**Date:** Monday, 11 March 2019 7:54:53 PM  
**Attachments:** [image001.png](#)  
[image002.png](#)  
[ACAPMA Response to Canberra Petrol Price Inquiry - 11 March 2019.pdf](#)

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Dear Andrew,

Attached please find ACAPMA's submission to the Select Committee Inquiry into Canberra's Petrol prices.

Kind regards,

**Mark McKenzie**

Chief Executive Officer  
Australasian Convenience and Petroleum Marketers Association

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**11 March 2019**

The Committee Secretary  
Select Committee on Fuel Pricing  
Legislative Assembly for the ACT  
GPO Box 1020  
CANBERRA ACT 2601

[committees@parliament.act.gov.au](mailto:committees@parliament.act.gov.au)

Dear Mr Snedden,

**Inquiry into ACT fuel prices.**

I refer to your email of 20 February 2019 inviting ACAPMA to make a submission to the Legislative Assembly Select Committee Inquiry into ACT Fuel Prices. Attached please find a copy of ACAPMA's submission for Committee consideration.

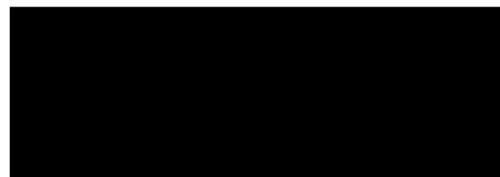
Our submission is prefaced by a discussion on the substantial work already completed by the Australian Competition and Consumer Commission in respect of the market differences in petrol prices (Section 3), followed by a discussion of the broader petrol market (Section 4) and relative differences in the operation of the Canberra market (Section 5).

ACAPMA notes that a key aspect of the Terms of Reference of the Inquiry is to investigate potential legislative and regulatory solutions as a means of redressing Canberra's high average petrol price relative to other markets (including via the examination of approaches adopted in other jurisdictions).

It is worth noting, however, that the central thrust of the discussion presented in this paper is that the relative differences in the Canberra retail fuel market are largely due to issues of market structure. It is therefore difficult to see how this issue could be meaningfully addressed by a legislative or regulatory response advanced by the ACT Government.

Thank you for the opportunity to provide a submission to this Inquiry. We stand ready to provide additional information or clarify any aspect of the report as required.

Yours sincerely,



Mark McKenzie  
Chief Executive Officer

**EVENTS**

**ADVOCACY**

**EMPLOYMENT**

**TRAINING**

**INFORMATION**

## **Submission to ACT Select Committee**

### **Inquiry into fuel prices in the ACT**

**March 2019**

## 1. Introduction

This paper constitutes a submission by the *Australasian Convenience and Petroleum Marketers Association (ACAPMA)* to the recent call by the ACT Legislative Assembly's Select Committee for stakeholder submissions to its' Inquiry into fuel prices in the Australian Capital Territory.

As a national body representing the interests of fuel retailers and fuel wholesalers in Australia, this submission has been specifically developed to address the elements of the Committee's investigations that are most relevant to fuel retailing in the ACT.

This submission seeks to identify the characteristics of the Canberra retail fuel market that differ from the operation of the fuel retail markets that exist in the larger capital cities in Australia.

Given that the Australian Competition and Consumer Commission (ACCC) has been monitoring petrol prices in all of Australia's capital cities for more than 12 years, much of the explanation for the differences in Canberra's petrol price average is provided in the more than 32 reports that have been published by the ACCC to date.

It is therefore strongly suggested that this Submission be considered together with the substantial petrol price information that has been, and continues to be, produced and published by the ACCC.

The only caveat to this observation relates to the fact that ACAPMA firmly believes that the role of the ACCC is to investigate and report on compliance with competition law. It is neither the role of the ACCC Commissioner, nor any Australian politician, to single out the legal pricing behaviours of any single market participant.

## 2. About ACAPMA

The Australasian Convenience and Petroleum Marketers Association (ACAPMA) is the national peak body representing the interests of the petroleum distribution and the petrol-convenience retail industry.

The Association is first and foremost an employer organisation that is formally recognised under Australian law as the industrial advocate for fuel marketing and fuel distribution businesses.

First established in 1976, the Association started operations as the Australian Petroleum Agents and Distributors Association (APADA) and subsequently changed its name to ACAPMA in 2007. The name change was accompanied by a change in the Association's Constitution to incorporate national representation of fuel retailers.

Today, the Association directly represents 95% of fuel distributors in the country and directly and indirectly (via franchisees and distributor-owned retailers) around 5400 of the 7300 service stations (i.e. 74%) operating in Australia.

The scope of ACAPMA's membership extends from 'refinery gate' through to the forecourt of Australia's national network of service stations and petrol convenience outlets – including fuel wholesale, fuel distributors, fuel retailers, petroleum equipment suppliers and petroleum service providers.

ACAPMA's member businesses range from Australian-owned subsidiaries of international companies, to large Australian-owned businesses, to independently owned mid-cap Australian companies, and small single retail site family-owned businesses.

In terms of the Canberra Market, our current members include: Woolworths, Coles, 7 Eleven, Metro Petroleum, Viva Energy, BP Australia and Costco.

Given the diversity of our membership base, ACAPMA strives to assemble an aggregate market picture designed to provide a comprehensive discussion of some *whole-of-market* trends in the fuel retail sector - with a view to aiding an understanding of the nature of operation of the market and the factors that can contribute to cost differences.

Given the wide variance in the market propositions (and market presence) of individual market participants, this "aggregate market picture" should not be taken as necessarily being representative of the position of any individual fuel retailer.

It is therefore possible that one or more of ACAPMA's members may have elected to provide an individual submission to this Inquiry that differs – either in part or as a whole – from the *whole of industry* perspective presented in this paper.

### 3. Pre-existing petrol price and petrol market information

In preparing this submission, ACAPMA notes that despite more than 12 years of ACCC oversight of the Australian retail fuels market (including Canberra) that our industry is yet again being asked to explain the vagaries of petrol pricing.

ACAPMA is concerned that in the face of overwhelming evidence that our industry is operating wholly in accordance with Australian competition law, the national (and State/Territory) fuel pricing debate has evolved into one that is now centred around subjective assessment of what non-industry stakeholders deem to be a 'fair price' – much of it derived from simplistic assessments of a complex and multi-faceted retail market.

In preparing this submission, ACAPMA did not seek to reproduce the substantial body of market information that has been produced and published in the 32 petrol market reports produced by the ACCC since it first began monitoring petrol prices in 2008.

While much of this information relates to the operation of petrol price cycles in Australia's largest capital cities (i.e. Sydney, Melbourne, Brisbane, Perth and Adelaide), there are several reports that provide valuable insights into the reasons why small capital city (i.e. Canberra, Darwin and Hobart) experience higher average petrol prices than larger markets. These reports include detailed petrol market studies in the following locations:

- Darwin market (released on 23 November 2015)
- Launceston market (released on 20 July 2016)
- Armidale market (released on 21 November 2016)
- Cairns market (released on 29 May 2017)
- Brisbane market (released on 9 October 2017)

Copies of all of the above petrol market studies can be readily accessed via the ACCC website (<https://www.accc.gov.au/publications/petrol-market-studies>)

These studies produced very similar findings in respect of their market operation and largely led to the production of a very useful summary document entitled *Fuel Facts: What drives fuel prices in Regional Australia*. This document can also be readily access via the ACCC website ( <https://www.accc.gov.au/system/files/Fuel%20facts%20-%20what%20drives%20fuel%20prices%20in%20regional%20Australia.pdf>)

For all intents and purposes, ACAPMA suggests that the fuel retail market in Canberra (like Darwin and Hobart) behaves more like a *regional market* than a *capital city* market – which is largely why the ACCC reports a *five capital city average* when reporting average petrol prices in Australia.

For the reasons outlined in the ACCC reports cited above, ACAPMA strongly maintains that the direct comparison of the fuel prices in the Canberra market with the larger capital cities of Australia is invalid and would result in similar price discrepancies in other areas of retail such as food and clothing.

## 4. The operation of the fuel retail market in Australia

For reasons outlined at the outset of this paper, ACAPMA urges the Committee to take the time to understand the structure and nature of the fuel retail industry in Australia before examining the sources of difference in the Canberra petrol market. (i.e. informed conclusions about relative differences between markets is not possible without first understanding the operation of the national market in aggregate).

Much of this information can be gleaned by an examination of the Australian Competition and Consumer Commission's (ACCC's) annual reports of the Australian Petroleum Industry. These reports (entitled: Monitoring of the Australian Petroleum Industry) were produced on an annual basis and provided detailed insights on the structure, prices, costs and profit of the fuel retail industry.

Unfortunately, the last of these detailed reports was prepared for the 2013/14 financial year and released in December 2014 (refer to).

Since December 2014, the ACCC has only been producing quarterly reports that track movements in average unleaded fuel prices without tracking changes in retailer costs.

Nonetheless, an indication of the high-level architecture (and financial performance) of the national fuel retail industry can be derived from three key sources of information that are independent of fuel retail market participants, namely:

- The Australian Competition and Consumer Commission's December 2014 Annual Report ([https://www.accc.gov.au/system/files/897\\_ACCC\\_Petrol%20Monitoring%20Report\\_FA\\_web.pdf](https://www.accc.gov.au/system/files/897_ACCC_Petrol%20Monitoring%20Report_FA_web.pdf))
- IBIS World's *Fuel Retailing in Australia* Report-2018 (<https://www.ibisworld.com.au/industry-trends/market-research-reports/retail-trade/fuel-retailing/fuel-retailing.html>)
- Australian petroleum statistics data prepared by the Australian Department of Industry's Office of the Chief Economist. The latest of these monthly reports can be sourced via: [https://www.energy.gov.au/sites/default/files/australian\\_petroleum\\_statistics\\_-\\_issue\\_269\\_december\\_2018.pdf](https://www.energy.gov.au/sites/default/files/australian_petroleum_statistics_-_issue_269_december_2018.pdf).

Analysis of the above data gives rise to some very interesting observations about the true nature of the Australia's fuel retailing sector – many of which openly contradict public commentary about the operation of the fuel retail sector in Australia.

### **4.1. The national fuel industry comprises an estimated 2800 fuel retail businesses of varying size making independent pricing decisions.**

First and foremost, the true face of the fuel retailing sector is one that comprised more than 4000 retail fuel businesses in 2018 and employed more than 43,290 Australians (ACAPMA

estimates that about 30% of these businesses are automotive retail businesses selling lubricants, as opposed to being service station businesses).

This large number of businesses is a far cry from suggestions that the Australian retail fuel market simply comprises four or five large Australian businesses, albeit that these businesses do operate a significant number of high-volume sites.

Given that around 33% of the nation's 7300 service stations are owned and operated by one of the major fuel retailers in Australia (i.e. BP, Caltex, Coles and Woolworths), the remaining two-thirds of Australia's service stations are operated by an estimated 2800 businesses – most of them small Australian businesses.

To suggest that the owners of these 2800 businesses are somehow meeting in secret, under the noses of the ACCC, to collude on fuel prices is a preposterous assertion that belies the true operation of the market.

#### **4.2. There is no such thing as a 'typical' fuel retail business given that the industry utilises a range of different ownership structures and business models that deliver different financial outcomes.**

The business models used by fuel retail businesses are as diverse as the nature of their relationship with their fuel suppliers and the ownership structures that exist throughout the industry.

Some retailers operate using retail sites that are owned by a larger business, others are leasing sites from non-fuel related businesses and still others own and operated their own sites.

Further diversity in business models is created by the fact that most Australian fuel retailers are 'mixed' businesses – with each business relying on varying levels of profitability from the sales of fuel products, sales of convenience products and/or revenues derived from automotive servicing.

Suffice to say, there is no such thing as a 'typical' fuel retail business in Australia.

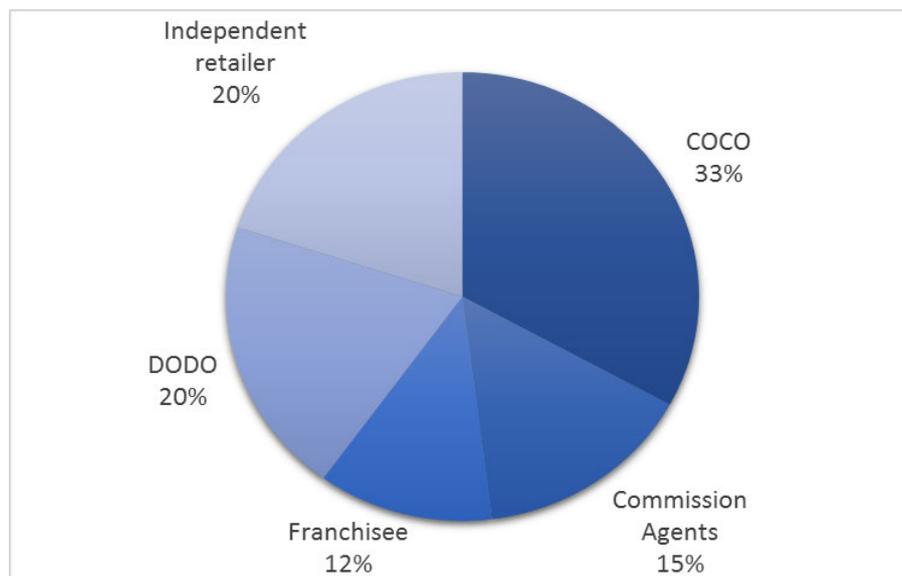
This begs the question "Why does the Australian community believe all fuel prices should be the same simply because fuel is wholesaled into the Australian market at similar prices".

For ease of industry analysis, the ACCC classifies Australian retail fuel businesses into five broad groups (see Figure A), namely:

- **Company owned and company operated (COCO's)** – businesses that are wholly owned and operated by a large fuel company
- **Commission agents (CA's)** – businesses operating under a modified franchise arrangement where the franchisee is not required to purchase the petrol but rather, is

paid a fixed commission per litre of fuel sold. The fuel supplier is the one that sets the retail price.

- **Franchisees** –these businesses operate under a pure franchise arrangement with a fuel major where the fuel major is involved in the retail price discussion.
- **Dealer owned and dealer operated (DODO's)** – businesses that are independently owned but operate under a brand agreement with a fuel major. The business purchases its own fuel stock and has the freedom to respond to market movements in fuel prices
- **Independent fuel retailers** – businesses that are independently owned and operate under a brand other than a fuel or grocery major. Once again, these businesses purchase fuel from their supplier and set their own retail prices according to local market pressures.



**Figure A:** The business operation of Australia's 6400 retail fuel outlets can be broadly classified five key groups according to the nature of their business operating model (ACCC 2014)

### 4.3 The profitability of the fuel retail sector is lower than the 'all industries' retail average in Australia

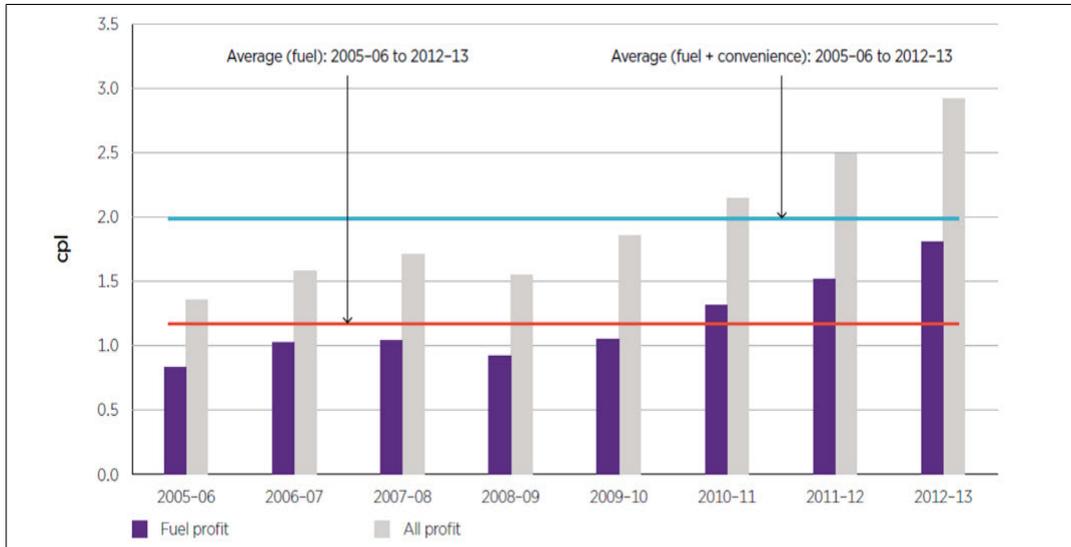
Contrary to popular belief average profit margins in the fuel industry have been historically low over the past decade, largely due to the combined forces of new industry competition from Australia's grocery majors and continued business consolidation.

In fact, the ACCC estimates the profit earned by fuel retail businesses between 1 Jul 2005 and 30 June 2013 average just 2cpl (for petrol and convenience sales) as shown in Figure B. Given average annual fuel sales of 2.86ML per year, this translates into an annual average profit of \$57,200 (or 3.6% of gross revenue).

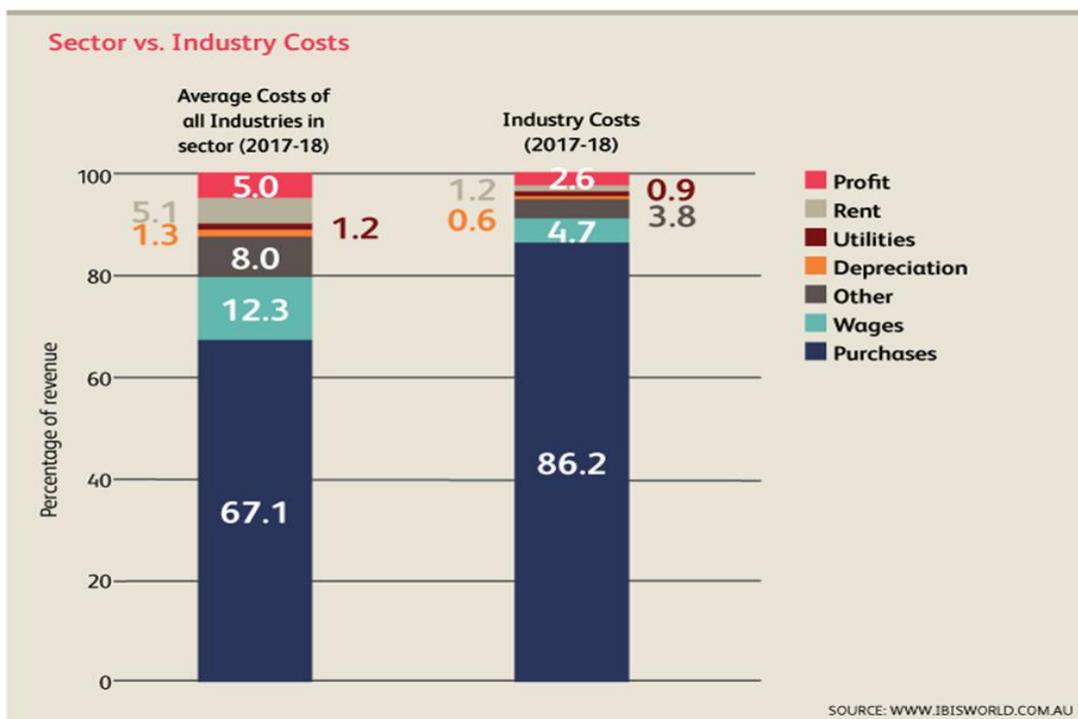
More recent data (IBIS World 2018) suggests that the average gross retail margin (EBITDA Basis) for service station businesses operating in Australia continues to be low, averaging

just 2.6% of total fuel revenues – almost half of the average for all retail industries in Australia during 2018 (See Figure C).

In fact, it is worth noting that 86% of the retail cost of fuel paid at the pump was due to factors outside the fuel retailers control (i.e. wholesale price and Government taxes).

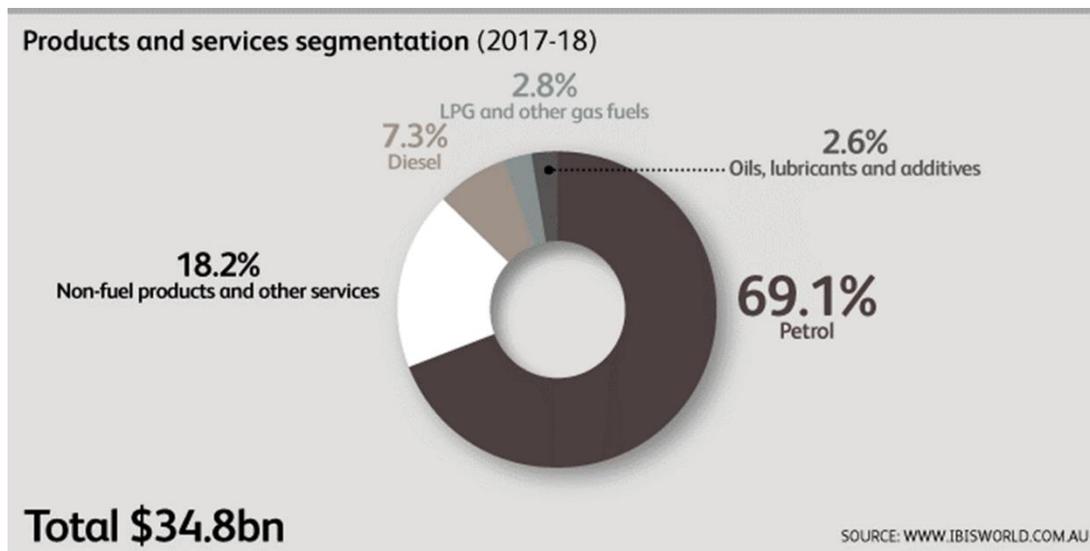


**Figure B:** Retail industry averaged just 2cpl in the 8-year period ending 30 June 2015 (ACCC 2014)

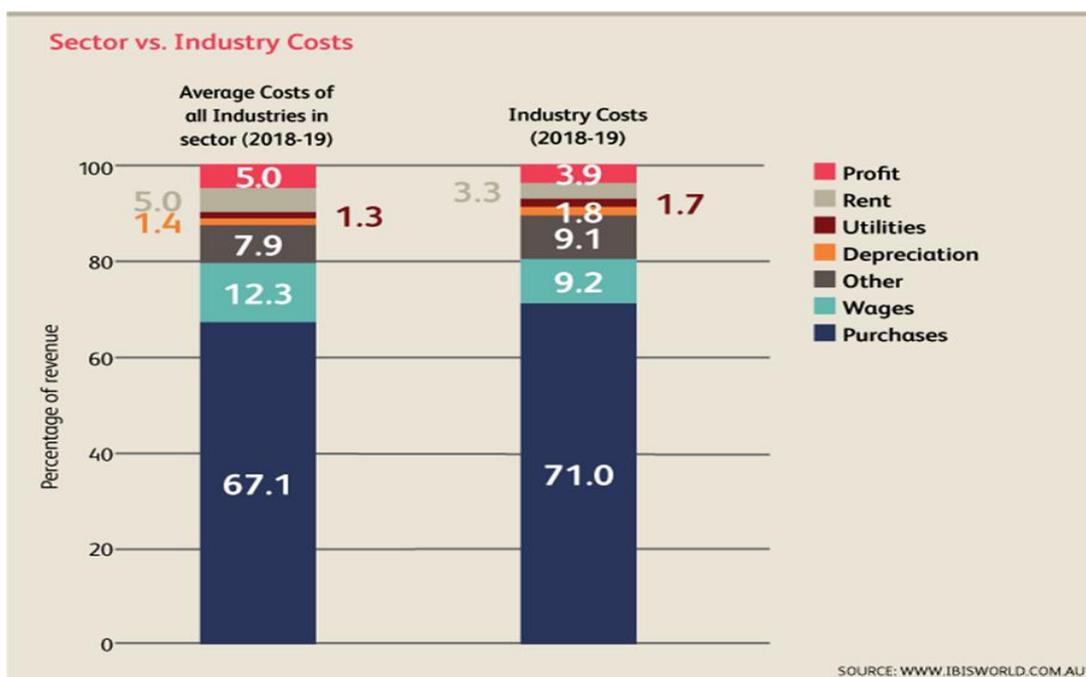


**Figure C:** Contrary to assertions made by media and political commentators, the gross profit margins earned by fuel retailers were roughly half the all-industry average in 2018 at just 2.6% of total revenues (IBIS World 2018)

These small margins mean that fuel retailers have been required to diversify their offerings to survive with a major investment in convenience retailing occurring across the national network over the past decade to the point that revenue from non-fuel products/services generates an average of 21% of total revenues (Figure D) at an average EBITDA of 3.9% (Figure E).



**Figure D:** Annual revenue from fuel sales in FY18 accounted for an average of 79% of all revenue earned by fuel retail businesses, with the remaining 21% generated from sales of convenience products/services (IBIS World 2018)



**Figure E:** Annual revenue from non-fuel sales in FY18 accounted generated a gross profit of 3.9% which was 50% higher than for fuel sales, thereby reducing pressure on cost recovery from fuel sales alone (IBIS World 2018)

The above information suggests that the average profit earned by a service station (i.e. petrol and convenience business) was a Gross Profit (EBITDA basis) of just 2.9% compared with an all retail industries average of 5.0% - that is, 60% of the all-industries average.

#### **4.4. Fuel Retail business account for an average of just 10% of the total cost of petrol paid by Australian motorists at the pump.**

As evidenced in past ACCC reports, around 90% of the cost paid at the pump relates to the wholesale cost of fuel and Federal Government taxes (i.e. fuel excise and GST). In fact, the ACCC's December 2018 Report on the Australian Petroleum Market noted on page 5 of its report that the fuel retailer component of the retail price fell to just 8% in the September 2018 Quarter before returning to 10% in the December 2018 Quarter (largely due to volatility in global fuel prices).

The ACCC Reports tend to focus on the Gross Indicative Retail Difference (GIRD) which is frequently confused with Gross profit. The GIRD is the difference between the buy price paid by the retailer to source the fuel and the selling price to motorists – it therefore includes provision for all costs.

The ACCC frequently notes that the GIRD continues to grow to record levels each year, yet such an observation is self-evident given that a retailer's costs generally do not go backwards (i.e. wages, rent, utilities and other business costs all increase year on year).

Work completed by ACAPMA for the Victorian Government's Fuel Price Inquiry revealed that, depending on the volumes of total annual fuel sales (and excluding any contribution from convenience product sales) the break-even GIRD for a fuel retailer is around 14cpl for an average metropolitan fuel business and can be as high as 17cpl (see [https://www.parliament.vic.gov.au/images/stories/committees/eejsc/Fuel\\_Prices\\_in\\_Regional\\_VIC/Submission\\_32\\_-\\_ACAPMA\\_22092017.pdf](https://www.parliament.vic.gov.au/images/stories/committees/eejsc/Fuel_Prices_in_Regional_VIC/Submission_32_-_ACAPMA_22092017.pdf)).

Contribution from Convenience Sales will typically bring down the break-even GIRD to 10 to 12cpl before any profit is made for service stations operating in the larger capital cities of Australia – with higher costs necessary for those operating in smaller volume markets that are distant from capital city supply chain infrastructure (i.e. like Canberra).

#### **4.5. The operation of Australia's fuel industry delivers internationally competitive fuel prices to Australian households and businesses.**

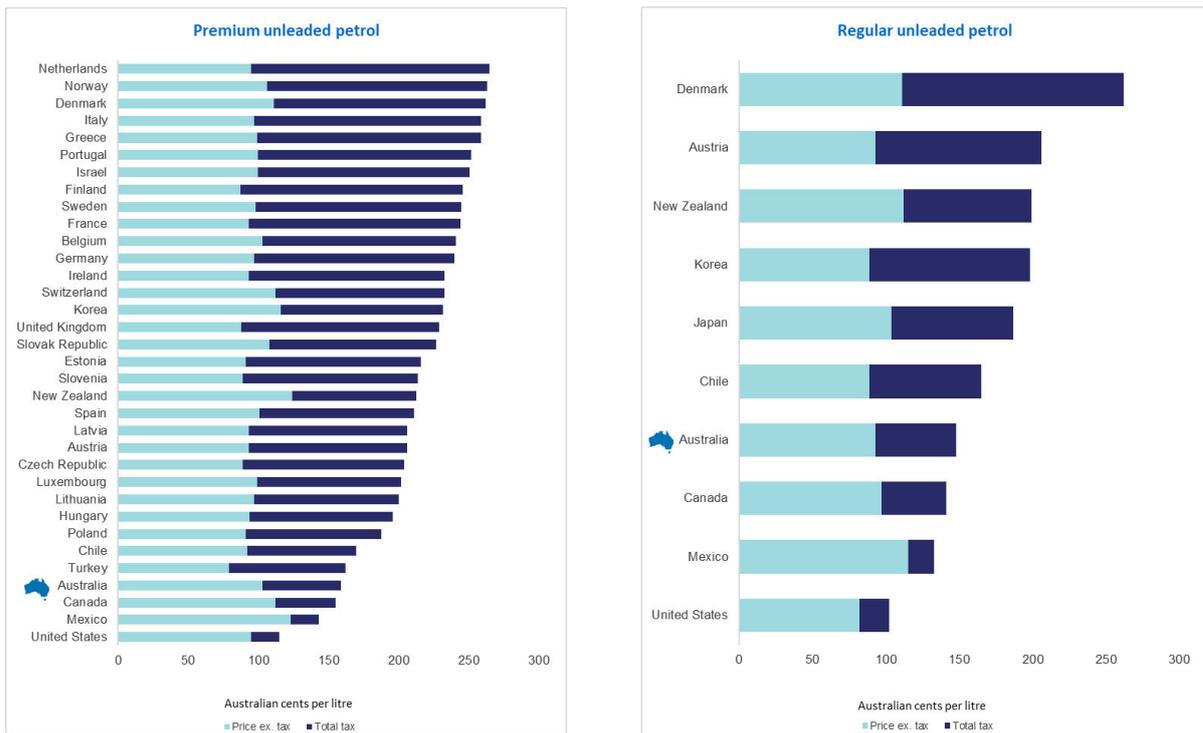
Interestingly, there was considerable debate about petrol prices in December 2015 about the high average price of petrol in Australia – a concern that does not appear to be supported by objective analysis of Australia's petrol prices relative to those levied in other developed economies.

In its most recent assessment of Australia's national average fuel price, the Australian Government found that Australia's petrol and diesel prices were the fifth lowest of all OECD economies in the December 2015 Quarter.

An inspection of the more recent assessments prepared by the Chief Economist since December 2015 shows that the relative fuel price advantage enjoyed by the Australian economy has continued to be maintained as shown in Figure F below

([https://www.energy.gov.au/sites/default/files/australian\\_petroleum\\_statistics\\_-\\_issue\\_269\\_december\\_2018.pdf](https://www.energy.gov.au/sites/default/files/australian_petroleum_statistics_-_issue_269_december_2018.pdf)).

It therefore follows that the Australian retail fuel sector is one of the most efficient in the world in delivering relatively low fuel prices for all Australians - and is doing its part to enhance the international competitiveness of our country in the global market.



**Figure F:** The Australian average price of petrol and diesel was fourth lowest (respectively) of all OECD economies during the December 2018 Quarter.

#### 4.6. The fundamentals of national industry competition remain strong

The variety of business structures that exist in the market provides varying degrees of price control (i.e. direct and indirect) by the major fuel marketers in Australia.

At its most basic level, examination of the ACCC data on retail site about business structures (see Figure A) demonstrates that 40% of Australia’s retail sites operate completely independently of Australia’s largest fuel and supermarket companies.

To suggest that the businesses that operate these sites are somehow conspiring with large oil companies and supermarket majors to set uniformly high national prices is patently absurd.

Nonetheless, the industry regularly welcomes competition interrogation by the Nation's competition watchdog – the ACCC- who despite more than 10 years of intense market interrogation have failed to find any substantial evidence of competition failure.

#### **4.7. The industry is a valuable contributor to the Australian economy**

Much of the attention of politicians and economists on the retail fuels sector is motivated by a desire to minimise input costs to Australian businesses and households. That is, by keeping unit fuel prices low, Australian businesses pay less to transport their goods and services to national and international markets – thereby improving the competitiveness of Australian business and industry.

Low petrol prices also mean that households spend less on moving around in their cars and have more money to spend on buying domestically produced goods and services to help grow our national economy. What often gets lost in these discussions, however, is the actual contribution that the retail fuel industry makes to the Australian economy of itself.

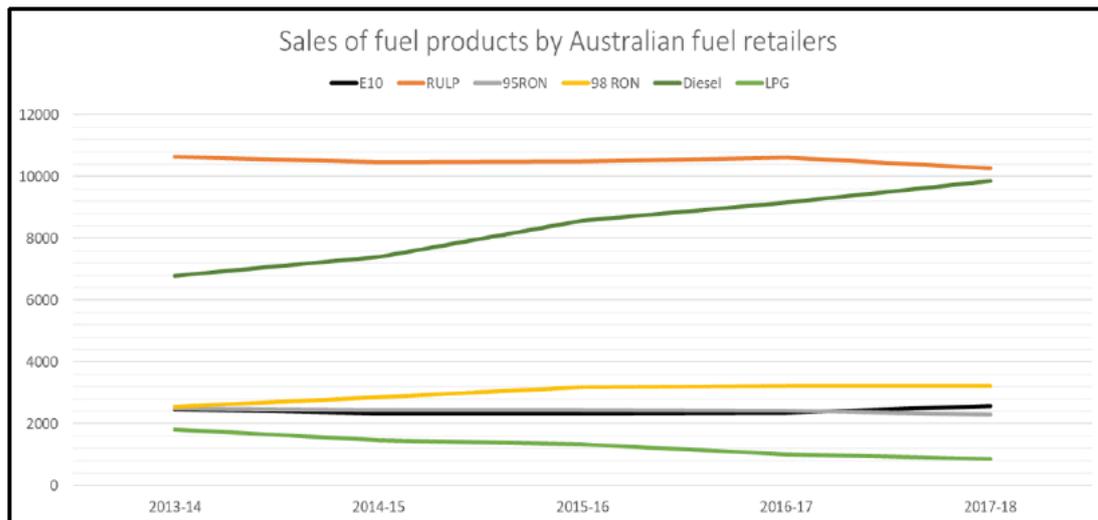
In the last financial year (2017/18), Industry research (IBIS World 2018) tells us that the 3790 businesses that comprised the Australian retail fuel industry employed more than 43,000 Australians and generated more than \$37B in annual revenue (much of it being government taxes).

#### **4.8. The Australian fuel retail industry is a mature industry where the fuel demand outlook is likely to be flat against a background of ever-increasing business costs.**

Retail demand for motor spirit in Australia (aggregate of all grades) has been relatively flat in recent times, averaging just 0.2% year on year growth over the past 5 years. Retail demand for diesel continues to grow at more than 9% per year, while demand for LPG has declined by an average of 10.6% per year.

In terms of individual petrol products, the analysis of five-year retail sales (See Figure G) revealed that annual sales of:

- E10 have grown by an average of 0.9% p.a.
- RULP and 95RON have fallen by an average of 0.7% p.a. and 1.5% p.a.
- 98 RON have grown by an average of 5.3% p.a.



**Figure G:** Retail sales of fuel products over the last 5 years has been largely flat or declining except for diesel and 98RON petrol.

The growth of 98RON – the most expensive of the petrol products sold by Australian fuel retailer – is very interesting given that the fuel retail industry is being constantly criticised for charging high prices in the face of an alleged acute consumer sensitivity to price.

The finding is, however, consistent with the findings of ACAPMA's *2017 Monitor of Fuel Consumer Attitudes* that revealed that less than 50% of consumers were truly 'price sensitive' – with the remainder nominating *convenience of physical location* and *diversity of convenience offerings* as being equally significant considerations in their choice of service stations.

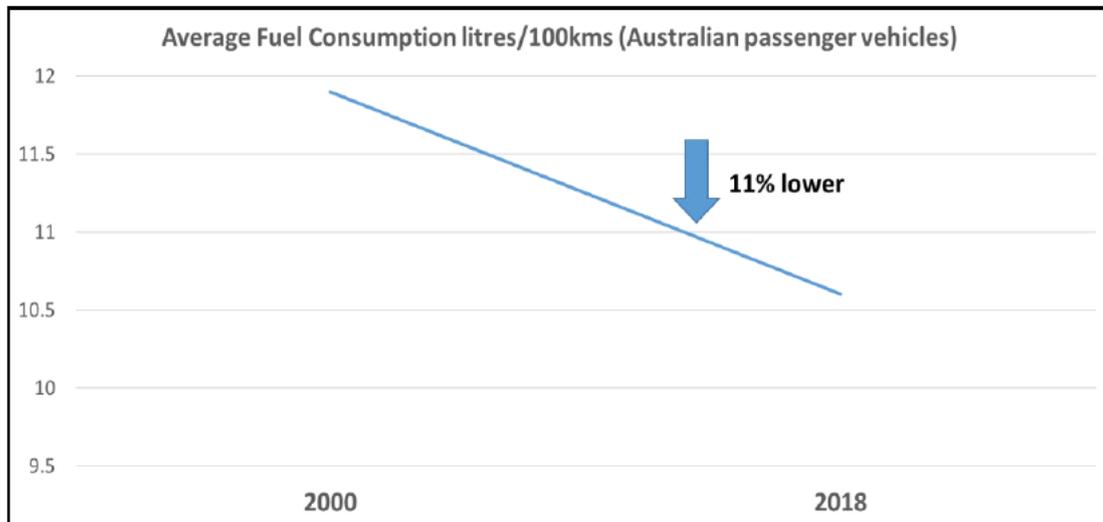
Two other factors are, however, likely to be contributing the growth in sales of 98 Premium petrol experienced in the last five years, namely: changes in biofuel mandates in NSW and QLD and improvements in the fuel efficiency of the national vehicle fleet.

In terms of the biofuel mandates, the forced sale of E10 on the forecourt in NSW and QLD markets has resulted in some fuel retailers replacing the middle-priced product (i.e. 95RON) with E10. As a result, previous buyers of 95RON appear to have chosen to purchase the higher priced 98RON rather than choose 91RON or E10 (Ironically, the actions of both governments appear to have inadvertently increased fuel prices for consumers in both States)

Improvements in vehicle fuel efficiency suggest, however, that the other factor may be that consumers are travelling further per litre of fuel - and are therefore able to maintain their weekly household spend on fuel despite paying a higher unit price for fuel product. This proposition appears to be supported by an analysis of data provided by the Australian Bureau of Statistics (ABS Motor Vehicle Census).

The ABS data reveals that the average fuel consumption of the national light vehicle fleet has decreased from an average of 11.9litre per 100km in 2000 to 10.6 litres per 100km in 2008 – a drop

in average fuel consumption of 11%, with much of it realised with the sale of more fuel-efficient vehicles in the last 8 years (See Figure H).



**Figure H:** The efficiency of the national light vehicle fleet is improving and will likely improve further in coming years

It is worth noting that the Australian Government is currently considering the introduction of new national fuel efficiency standards which will likely accelerate this improvement in national vehicle fuel efficiency in future years, placing further downward pressure on retail demand for petrol in Australia.

The improvements in average fleet fuel efficiency are not, however, occurring because annual sales of electric vehicles (EV's) have grown in overall significance. While advocates of EV's point to the fact that sales of EV's have increased by 88% in the last 5 years, these sales have been off a very small base with sales of fully electric vehicles – as opposed to petrol-electric hybrid vehicles – accounted for just 0.01% of the national vehicle fleet as at January 2018 (See Figure I).

Vehicle segment	% growth p.a. (last 5 years)	% of fleet in 2018
Petrol powered vehicles	1.29%	74.58%
Diesel powered vehicles	10.43%	23.54%
LPG Powered (incl Dual fuel)	-5.20%	1.87%
Other (i.e. fully electric)	88.03%	0.01%

**Figure I:** While annual sales of EV's are growing substantially, this growth is occurring off a very small base.

Analysis of the past 5 years suggests that the outlook for retail fuel demand (especially petrol) in the near term is likely to be flat and trending slightly downward – with continued improvements in vehicle fuel efficiency likely to offset any growth in demand created by net growth in total vehicle numbers.

This trend in the Australian consumer market appears to be wholly in line with the experience of other developed international economies such as North America and Europe, where fuel retailers have sought to diversify their offerings to continue to grow annual revenues in the face of rising costs.

At present, fuel sales account for an average of 79% of annual revenues (69% petrol, 7% diesel and 3% LPG) earned by Australian fuel retail businesses -albeit that there is significant variance between individual retail networks.

The immediate challenge for fuel retailers therefore lays in managing ongoing cost increases (i.e. wages, lease costs and utility costs) and generating new sources of revenue, in the face of likely flat demand for fuel products in the future – likely placing upward pressure on unit cost capture per unit of fuel sold.

By any measure, the Australian retail fuel sector is a big employer of Australians and makes a substantial economic contribution to the national economy.

## 5. Sources of fuel price variance in Canberra

There is no single answer to the question of why regional prices vary between and within discrete geographic markets. Prices will often vary between geographic regions due to the interplay of several factors, namely:

- Variance in the mix of business models and market propositions of the specific fuel retailers that are operating in a given geographic market (i.e. the proportion of *fuel discounters* relative to *value providers* and *premium providers*) leading to a variability in the intensity of retail site competition between markets
- Additional premiums for transport of fuels from metropolitan ports to regional areas
- Variance in business costs (e.g. lease costs, utility costs and compliance costs) between markets
- The proximity of individual businesses to high volume roads and highways
- Time lags in the flow through of wholesale fuel price increases owing to lower rates of stock turnover in smaller volume markets.
- Lower average fuel volumes leading to higher requirement for price capture per unit of fuel sold. Retail business costs generally do not vary in proportion with variations in the volume of fuel sold (and hence gross annual income). As a result, fuel businesses with lower fuel volumes generally need to charge a higher unit price for fuels sold than those levied by higher volume sites to merely recover their business costs (i.e. excludes any profit consideration).

The above being said, there are some individual factors in Canberra that are likely influencing average fuel prices in Canberra, resulting in a higher average petrol price than for other geographic markets.

A brief discussion of these factors is presented below.

### **5.1 The market comprises a high proportion of *premium providers* relative to other capital city markets in Australia, leading to a lower intensity of market competition.**

As noted in the majority of ACCC's Petrol Market studies, the market presence of a significant proportion of *Independent retailers* in a geographic market tends to be a good indicator of the intensity of market competition in a given market (noting that Independent retailers are not able to trade on the basis of a 'known' brand or a broad range of petrol and convenience offerings and must therefore rely on price as the sole basis for attracting customers to their sites).

At this point, it is worth making an important distinction between Independent retailers and Discount retailers given that some independents operate more service stations than the brands often promoted as the "Major Retailers".

National fuel retailer 7 Eleven, for example, operates more than 700 petrol convenience sites around the country and presents a market proposition that combines a competitive fuel price and a broad convenience product proposition – describing 7 Eleven solely as a *Discount Retailer* is not correct but the network is generally classified as an “Independent Retailer”.

For the purposes of clarity of discussion, fuel retailers in the ACT market have been categorised into three groups, namely:

- *Discount Retailers:* These are businesses who operate with lesser known brand and generally do not invest in the convenience side of their business – they are first and foremost a fuel retailer that must use price discounting heavily to attract customers given that their brand is less well known to motorists. Examples include Metro Petroleum and Costco in the Canberra Market and these businesses consistently price at the bottom end of the market. These retailers comprise just 3.5% (2 sites) of the 57 service stations operating in the ACT.
- *Value Retailers:* These tend to be retailers with substantial networks and recognised brands. These retailers use a combination of discounted fuel and convenience products to attract customers but can leverage their convenience proposition in such a manner as to negate heavy discounting of fuel prices. Examples include 7 Eleven and United Petroleum and these businesses tend to price in the middle of the market (These retailers tend to adopt swinging price strategies by following prices down where there are large numbers of discounters or price just below the Major retailers if there are large numbers of these retailers present). These retailers comprise 19% (11 sites) of the 57 service stations operating in the ACT.
- *Major Retailers:* These tend to be the big Oil and Supermarket brands that are very well known in the market. These retailers tend to invest heavily in the look and feel of their sites and use a petrol and convenience proposition to attract customers (i.e. total value) as well as provide fuel cards to business customers. These retailers tend to price towards the upper end of the market given their strong brand and product profiles, but they will move downward in markets with a significant proportion of discount retailers. Examples include the Supermarket chains and major brands like BP and Caltex. These retailers comprise the remaining 77.5% of the fuel retail market in the ACT.

Where large number of discount retailers are present in a market, a pricing tension is created in a market that places downward pressure on the market. This tension tends to result in the creation of a petrol price cycle which occurs due to a critical mass of *Discount Retailers* constantly lowering their prices to attract customers – and all other retailers following them (until all retailers reach a point of pain and the fuel price rebounds upward before a new cycle of discounting commences).

This phenomenon only occurs in Australian markets where substantial numbers of *Discount Retailers* (i.e. greater than 15%) are present -and is referred to as the fuel price cycle.

Past ACT Government policies of restricting release of new sites, coupled with higher relative lease and distribution costs, has largely made Canberra unattractive for *Discount Retailers* and resulted in these retailers comprising just 3.5% of the total ACT market.

The proportion of fuel discounters in the ACT Markets is not significant enough to create intense competition on whole-of market basis for reasons that have been repeatedly discussed in past studies completed by the ACCC.

It is worth noting that in the markets where Discount retailers are active (i.e. Majura Park and Fyshwick), these retailers are operating in areas with low average lease costs and have been very effective in creating price tension in the local marketing areas in which they operate.

## **5.2 The arithmetic average of fuel prices in Canberra is distorted by the current market mix of retailers in what is essentially a small market in relative terms**

A factor related to the point discussed above is that a high presence of *Major retailers* (tending to price in the upper quartile) and low number of *Discount retailers* (tending to price in the lower quartile) will distort a market average – but also produce a wider statistical range of prices.

Within this context, ACAPMA notes comments by the ACCC Commissioner – Mr Rod Sims – that the behaviour of one retailer (i.e. Coles Express) had contributed to the higher average fuel price experienced in Canberra.

While ACAPMA does not support the national competition watchdog singling out a fuel retailer solely due to their legal pricing policy (as opposed to observed problems in competitive behaviour), the significant presence of Coles Express in such a small market has resulted in the Canberra average being higher than it might otherwise have been during 2018.

Conversely, the recent announcement by Coles Express and Viva Energy about a change in the operating nature of their alliance is expected to put downward pressure on fuel prices – and the Canberra market is likely to be one of the most significant beneficiaries of this development in terms of a lower average fuel price during the remainder of 2019.

## **5.3 Socio-Economic homogeneity in Canberra (as a single market) versus relative diversity in other capital city markets (operating as a series of discrete sub-markets)**

It generally follows that retail industries, regardless of whether they are fuel or food or clothing, will charge higher rates in settlements where the disposable income is higher (and vice versa).

Canberra is a relatively unique market that is characterised by a high level of disposable income relative to other capital cities – more than \$300 above the national median – and a low level of variance between the highest weekly household income and lowest weekly household income.

This analysis suggests that any comparison of Canberra (with its high level of Socio-Economic homogeneity) with other capital cities where there is high socio-economic variance may not be valid – particularly given that larger markets like Sydney and Melbourne tend to comprise three or four distinct markets, as opposed to operating as a single market.

It is interesting to note that although Canberra's average petrol prices have trended higher than the aggregate of the sub-markets in these larger capital cities, Canberra's prices compare favourably when compared with discrete markets in areas of similar socio-economic homogeneity (e.g. Sydney's lower north Shore, Brisbane's inner west suburbs and Melbourne's eastern suburbs).

#### **5.4 Fuel distribution costs in the Canberra market are almost double the distribution costs levied in larger capital city markets**

The Canberra market has no capacity for storage of fuel via terminals in the same manner as operates in larger capital city markets. As a result, fuel must be scheduled and transported within relatively tight delivery windows to ensure continuity of fuel supply in the Canberra market (as opposed to providing opportunity for substantial storage of fuel volumes for later delivery to service stations).

The economics of 100% line haul on-road distribution versus a combination of pipeline and urban haul distribution means that the costs of transporting fuel to Canberra is 1.6 to 2 times higher than for larger capital city markets.

ACAPMA estimates that this premium in fuel distribution averages around 2.5cpl in fuel cost.

#### **5.5 Lease costs in Canberra are substantially higher than the NSW Average and most other capital city markets**

ACAPMA notes that past ACT Government's have sought to restrict the supply of new sites for use by fuel retail businesses. This practice, coupled with a marked premium in site lease costs relative to other markets, has resulted in ACT Service Station leases being around 8% more expensive than the NSW average for similar sized sites.

ACAPMA suggests that this lease premium is one of the central explanations for the variation in fuel retail costs that occurs between Canberra and Queanbeyan as well as making the Canberra market unattractive for fuel discounters who rely on low cost business models than cannot be readily advanced from high lease cost sites.

Within this context, it is interesting to note that the only Discount retailers in the Canberra market are operating from industrial sites located in the industrial areas of Majura Park and Fyshwick.

### **5.6 Historical decisions by the ACT Government have made it difficult for new market entrants, particularly lower cost independent market providers.**

During the preparation of this submission, several of our members advised that they believed successive ACT Governments had sought to discourage the entrance of new service station businesses into the Canberra market by throttling back supply of new sites.

Unfortunately, this information is largely anecdotal. Feedback from longstanding members was significant enough, however, to suggest that this might be a line of inquiry that would merit further investigation by the Committee.

To some extent, the flat outlook for fuel demand in the country (see section 4.8 of this paper) suggests that the opportunity for attracting new market entrants in the future is likely to be difficult given the maturity of the current market.

### **5.7 Consumer price behaviours in Canberra are largely inconsistent with that of a truly price sensitive market.**

ACAPMA notes that the price differential in Canberra (difference between highest price and lowest price) on any given day averaged 24.2cpl during 2018. When considered on the basis of a 50-litre fill, this represents a net differential of \$12 per customer fill.

Based on our experience of other markets, the high magnitude of this saving would generally be enough to cause a substantial shift in buying patterns that would force other retailers to respond due to lost foot traffic – but in Canberra, most customers continue to patronise their local service stations despite the quantum of potential savings.

This finding is consistent with observed behaviours in high wealth markets where customers adopt *time-poor cash-rich* purchase behaviours – and retail businesses (regardless of the industry they operate in) respond accordingly.

This behaviour is also consistent with the findings of ACAPMA's *2017 Monitor of Fuel Consumer Attitudes* which revealed that more than half of Australian motorists consider convenience of location and product convenience as being as significant as fuel price when selecting a service station site (<https://acapmag.com.au/wp-content/uploads/2017/11/ACAPMA-2017-National-Monitor-of-Fuel-Consumer-Attitudes-Report-V1.0.pdf>).

## 6 Potential regulatory and legislative solutions

ACAPMA notes that a key aspect of the Terms of Reference of the Inquiry is to investigate potential legislative and regulatory solutions as a means of redressing Canberra's high average petrol price relative to other markets (including via the examination of approaches adopted in other jurisdictions).

It is worth noting that the central thrust of the discussion presented in Section 5 of this paper is one of market structure – and it is difficult to see how this issue could be meaningfully addressed by a legislative or regulatory response.

That said, ACAPMA understands that the ACT Government has a responsibility to explore all potential solutions to address community concerns about petrol prices. Within this context, ACAPMA believes that there are two principal government actions available to the ACT Government, namely:

- a) Introduction of new fuel price transparency laws
- b) Introduction of price regulation (e.g. WA Fuel Watch)

### 6.1 Introduction of new fuel price transparency laws

One of the alternative reasons suggested for the apparent lack of large-scale *price sensitive* fuel purchase behaviours in Canberra has been the suggestion that motorists are unaware of the substantial differences in prices between fuel retailers in Canberra.

Other Australian jurisdictions have sought to address this via the introduction of new laws that compel fuel retailers to publicly report every change in fuel prices in next to real time – and then make that information available to motorists to inform a fuel purchase decision (these laws have been introduced in NSW, the Northern Territory and Queensland to date).

While ACAPMA has no objection to the introduction of these laws – where they leverage existing industry resources such as in Queensland – it is noted that Canberra is already well served with the provision of real time fuel price information via the mobile phone apps operated by *Motor Mouth* and *Petrol Spy*.

In addition, we note that some media outlets (e.g. Radio Station 2CC via Richard Pernot's *Drive Programme*) has provided repeated exposure to Canberra petrol prices and the variance in same.

If the ACT Government elected to introduce fuel price reporting laws, ACAPMA would have a strong preference for the adoption of the Queensland Government model given our substantial concerns with both the operation of (and enforcement of) the NSW Fuel Check Laws and the identical NT Fuel Check Legislation.

## 6.2 Introduction of price regulation

It is worth noting that no Australian jurisdiction has even contemplated the introduction of fuel price regulations as adopted in some parts of the world. ACAPMA suggests that this reluctance is well founded.

Average petrol prices in markets that have introduced fuel price regulation exhibit average petrol prices that are much higher than Australia (even Canberra). These regulations include the use of either a *price ceiling* (e.g. Belgium, China and Vietnam) or *fixed price* mechanism (e.g. Indonesia, Malaysia and South Africa).

As shown in Figure F of this paper, Australia's approach of allowing petrol prices to be determined by the market has resulted in Australia having the *fourth lowest* petrol price and diesel price of all 34 OECD Countries – behind only Canada, Mexico and the USA

It therefore follows that any regulatory intervention in the current ACT market – where fuel prices are market determined -risks significant unintended consequences, with a significant risk of increasing fuel prices average fuel prices for Canberrans.

Within this context, ACAPMA notes recent commentary by ACT Parliamentarians (and the ACCC Chairman) citing the apparent benefits of the WA Fuel Watch Initiative.

Introduced by the West Australian Government in 2001, Fuel Watch requires fuel retailers to formally post fuel prices the day before they are posted on the forecourt.

While the net effect of this action has been to create a more regular fuel discounting cycle (i.e. weekly) there is no evidence that it has reduced fuel prices.

In fact, a recent study completed by the OECD (and released in June 2017) concluded that the WA Fuel Watch Scheme suggested that this scheme may have inadvertently resulted in an increase in fuel prices as a result of a reduction in the competition dynamic ([https://one.oecd.org/document/DAF/COMP/WD\(2017\)25/en/pdf](https://one.oecd.org/document/DAF/COMP/WD(2017)25/en/pdf)).

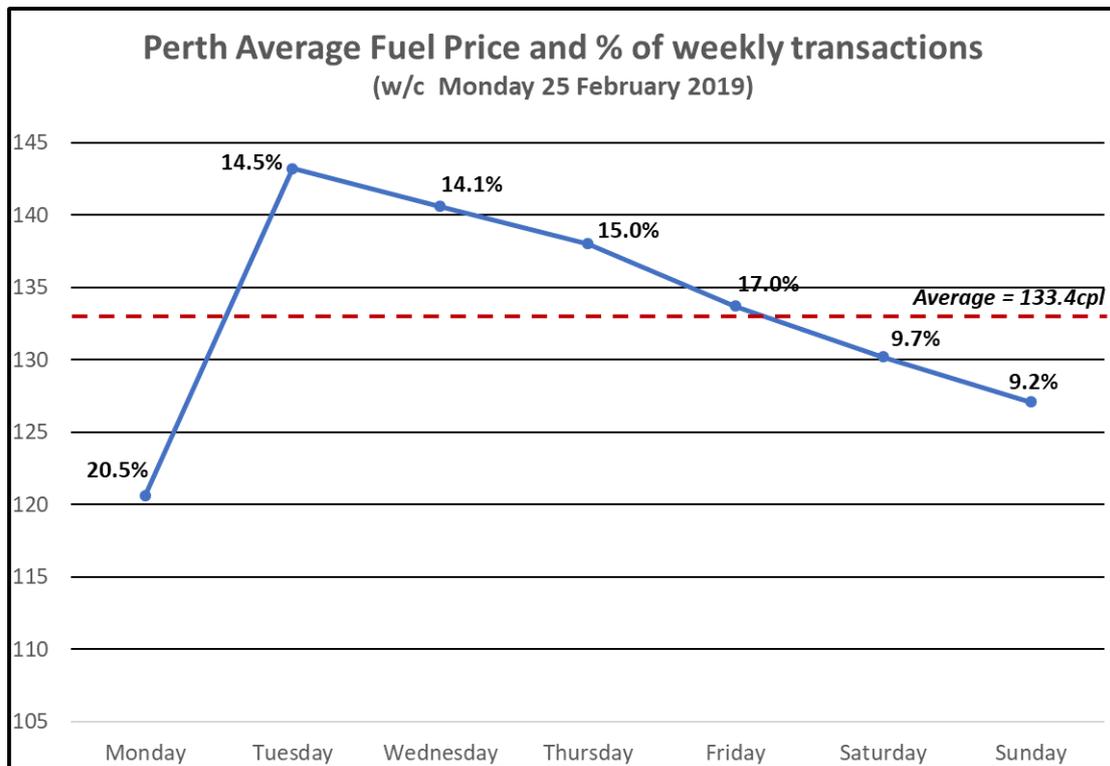
Advocates of the WA Fuel Watch Regulation have suggested that the laws have delivered “significant benefits” to WA Motorists in terms of lower annual fuel costs.

But these claims are highly contestable as they are developed around the fact that ALL Perth motorists are purchasing fuel on the cheapest day of the cycle.

While the number of transactions on the cheapest day of the cycle are higher than the other days of the week, the number of motorists who pay above the average weekly price is greater than the number who benefit.

An analysis of fuel prices and daily transactions for the week commencing Monday 25 February 2019 (See Figure J) revealed that:

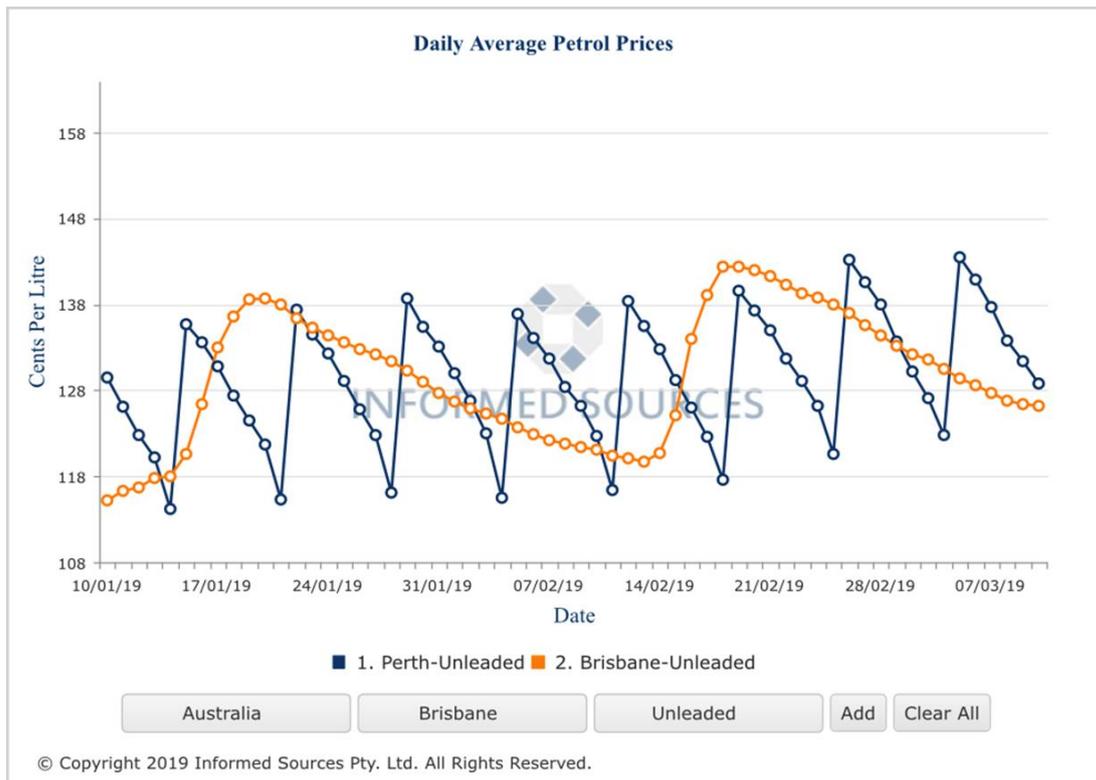
- 20% of motorists purchased fuel on the cheapest day of the week (See Figure J).
- 40% bought fuel below the average weekly price of 133.4cpl
- 60% of motorists bought fuel above the average weekly price of 133.4cpl



**Figure J:** The operation of the WA Fuel Price Regulation has resulted in more people buying fuel above the average price (60%) than below the average price (40%)

Further, comparison of average fuel prices in two cities of equal population - Perth (with its WA Fuel Watch Regulation) and Brisbane with no price regulation – reveals that Brisbane has a greater number of fuel prices below the average than Perth does over equal periods of time (See Figure K).

In short, there is no evidence that the WA Fuel Watch Regulation has delivered any benefit to Perth motorists in terms of lower average fuel prices – with the evidence suggesting that the reverse is more likely true.



**Figure K:** Comparison of Brisbane average fuel prices (no regulation) with Perth’s (with WA Fuel Watch) shows that Brisbane motorists enjoy a greater number of days where the citywide fuel price is below the period average. Source: Informed Sources

## 7 Summary

This submission is provided by ACAPMA – the national peak body representing fuel wholesale and fuel retail businesses in Australia.

ACAPMA suggests that any examination of the Canberra petrol market relative to other geographic markets in Australia should be informed by a thorough understanding of the mechanics of the national fuel market in aggregate.

The key aspects of the national fuel market are discussed in Section 4 of this paper and can be briefly summarised as follows:

- a) The national fuel industry comprises an estimated 2800 fuel retail businesses of varying size who are making independent pricing decisions.
- b) There is no such thing as a ‘typical’ fuel retail business given that the industry utilises a range of different ownership structures and business models, that deliver different financial outcomes.
- c) The profitability of the fuel retail sector is lower than the ‘all industries’ retail average in Australia
- d) Fuel retail businesses account for an average of just 10% of the total cost of petrol paid by Australian motorists at the pump.
- e) The operation of Australia’s fuel industry delivers internationally competitive fuel prices to Australian households and businesses.
- f) The fundamentals of national industry competition remain strong
- g) The industry is a valuable contributor to the Australian economy
- h) The Australian fuel retail industry is a mature industry where the fuel demand outlook is likely to be flat against a background of ever-increasing business costs.

There is no single answer to the question of why regional prices vary between and within discrete geographic markets. Prices vary between geographic regions due to the interplay of several factors – a fact that has been repeatedly highlighted by the more than 30 separate studies of the industry that have been completed by the Australian Competition and Consumer Commission over the past 12 years.

There are, however, a series of factors that are likely combining to create significant differences in Canberra’s average petrol prices relative to other geographic petrol markets in Australia.

These factors are discussed in Section 5 of this paper and can be summarised as follows:

- 1) The market comprises a high proportion of *major providers* relative to other capital city markets in Australia, leading to a lower intensity of market competition.

- 2) The arithmetic average of fuel prices in Canberra is distorted by the current market mix of retailers in what is essentially a small market in relative terms
- 3) Socio-Economic homogeneity in Canberra (as a single market) versus relative diversity in other capital city markets (operating as a series of discrete sub-markets), generally leads to higher retail prices regardless of the retail sector.
- 4) Fuel distribution costs in the Canberra market are almost double the distribution costs levied in larger capital city markets
- 5) Lease costs in Canberra are substantially higher than the NSW average (and most other capital city markets)
- 6) Historical decisions by the ACT Government have made it difficult for new market entrants, particularly lower cost independent market providers
- 7) Consumer price behaviours in Canberra are largely inconsistent with that of a truly price sensitive market

ACAPMA notes that a key aspect of the Terms of Reference of the Inquiry is to investigate potential legislative and regulatory solutions as a means of redressing Canberra's high average petrol price relative to other markets (including via the examination of approaches adopted in other jurisdictions).

It is worth noting, however, that the central thrust of the discussion presented in this paper is that the relative differences in the Canberra retail fuel market are largely due to issues of market structure.

It is therefore difficult to see how this issue could be meaningfully addressed by a legislative or regulatory response advanced by the ACT Government.

## 8 Further information

Further information about this submission can be obtained by contacting the Chief Executive Officer, Mark McKenzie using any of the below details:

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