



**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: 19**

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22 March 2019

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

Emailed via: [LACommitteeFP@parliament.act.gov.au](mailto:LACommitteeFP@parliament.act.gov.au)

Dear Mr Snedden,

**Re: Caltex Australia Limited's submission to the Select Committee on Fuel Pricing**

Caltex Australia Limited (Caltex Australia) welcomes the opportunity to provide a submission to the Select Committee on Fuel Pricing (the Committee).

Caltex Australia has been operating in Australia since 1900, through various antecedent firms, and has developed a reputation for the safe and reliable supply of transport fuels to a diverse customer base including marine, aviation, defence, government, mining and daily commuters.

As one of the largest fuels and convenience companies listed on the Australian Securities Exchange (ASX), Caltex Australia has a unique perspective to be able to operate within the Australian market as a truly Australian company, with no majority shareholder.

Responsible for the safe and reliable supply of one-third of Australia's liquid transport fuels needs Caltex Australia has a well-developed supply chain incorporating our shipping and trading offices in Singapore, our operating refinery at Brisbane, 19 seaboard terminals, 89 depots, 5 major pipelines, and a retail supply network of approximately 1,900 sites around Australia.

Caltex Australia has sought to provide commentary which can assist the committee through this submission, mindful of commercial sensitivities and with due consideration given to Australian Consumer Law.

Additionally, Caltex Australia is happy to make relevant staff available to meet with the Committee to discuss these matters further.

Please do not hesitate to contact me on ██████████ or via email at ██████████, should you wish to discuss this matter further.

Kind Regards

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████████████████████

## **General Comments**

Caltex Australia welcomes the opportunity to provide comments to the Committee through this submission on our role within the Australian Capital Territory retail fuel market, and some overarching commentary on existing regulatory frameworks in operation in various states and territories around Australia.

We understand that the price of fuel for consumers represents a significant regular, and necessary, cost of living. Furthermore, we acknowledge that the frequency of purchase, coupled with regular state, national and international media coverage of fuel prices, and impacts on fuel prices, result in these costs remaining front of mind for consumers, and politicians, in considering impacts to costs of living.

## **Overview of Caltex Australia role in the ACT**

Within the ACT Caltex Australia is responsible for the supply of transport fuels to 10 Caltex branded retail site, and a further 10 retail sites branded as Woolworths Caltex.

For the purposes of looking at the retail fuel market it is important to state that Caltex Australia has no control over the business decisions, and more specifically the pricing decisions, of Woolworths in the operations of their sites. Caltex Australia serves only as a fuel wholesaler to Woolworths in that respect.

Of the 10 Caltex branded retail sites in the ACT these are broken up between two classifications of sites known as Company Owned Company Operated (COCO) Sites and Company Owned Retailer Operated (CORO) Sites.

COCO sites are service stations whereby Caltex Australia controls all aspects of the site operations, both within the store, and on the forecourt. Under this model Caltex Australia will have overall liability for costs incurred by the business, responsibility over investment decisions, and control over all revenue generated by the business, unless through a third-party arrangement. Within the ACT, Caltex Australia has 2 sites which are COCO sites, the Caltex Holt service station and the unmanned diesel stop at Hume.

CORO sites are service stations whereby Caltex Australia will own, or lease the site, and whereby another person will be engaged either as a franchisee or a commission agent to run the site on Caltex Australia's behalf. Under this model Caltex Australia will have liability for the infrastructure of the site, and typically the forecourt, while the franchisee or commission agent will control the operations for the site, and all responsibility for the operations of the store. Furthermore, Caltex Australia retain ownership of the fuels sold at the site under this model, including setting the price of the fuels, and the franchisee or commission agent are paid a commission for every litre of fuel sold. Within the ACT, Caltex Australia have 8 sites which are CORO sites.

## **Fuel Pricing and Market Competition**

Caltex Australia's over-arching strategy when setting fuel prices in any given market is to operate competitively in the market.

To that point, Caltex Australia attributes fuel pricing decisions within the ACT, and indeed all markets, to a combination of input costs and local market dynamics which drive competition within a market.

To that extent it is important to note that cities, such as Canberra and Sydney, should not be viewed as markets in their entirety, but rather as a collection of market regions which have differing cost inputs and levels of competition within each market.

At a high level, fuel prices in Australia are significantly impacted by variables which are outside of the control of Australian fuel marketers such as Caltex Australia. As regularly reported by the ACCC in their quarterly reports, taxes such as GST and Fuel Excise, along with the international price of fuel are the two largest components of fuel prices, often accounting for around 85% of the price of fuel.

While markets, such as those which operate within the ACT, may not experience more traditional price cycles like Sydney, Brisbane, Melbourne, Adelaide and Perth, fuel prices within the ACT are still heavily

influenced by those international costs and fluctuations within international markets, and changes in the exchange rate.

The remaining 15% of fuel prices are determined by a combination of costs associated with the wholesaling, distribution and retailing of fuels, while also allowing operators to draw a reasonable net profit margin as part of undertaking business in Australia.

At a retail level, when making decisions on fuel pricing a variety of input costs are factored into determining the price of fuel, including;

- Labour costs
- Utility costs
- Rates and property taxes
- Corporate services and support costs
- Regulatory compliance costs, including monitoring and infrastructure costs

In addition, there are variables which impact the business which must also be taken into account when pricing fuels, including:

- Competition from other sites within the same market/area
- Wholesale price of fuel
- Costs associated with distribution/delivery of fuel
- Shop patronage
- Overall reasonable return on investment for the site

Impacts to any one of these variables can ultimately result in changes in pricing behaviour to ensure that a retail site can remain competitive within their market, while remaining a viable business operation.

### **Comments on the ACT Market**

As detailed above, within all markets there are a number of factors which impact on the cost of operations, and the competitive nature of the market which we believe contribute towards fuel prices sitting where they are.

Specifically, when considering fuel operations within the ACT, there are traditionally higher costs of distribution given fuel must be delivered by tanker from the nearest distribution terminal, as opposed to locations which are closer to seaboard terminals, and centralised distribution terminals.

It is also worth noting that currently within the ACT there has been a history of planning restrictions which have largely resulted in a lower number of service stations per capita, compared to other capital cities which can have the effect of reduced competition within a market.

Caltex Australia believes that there could be merit in exploring existing planning regulations to identify any barriers to entry which could exist for existing and new market entrants.

### **Regulatory Approaches**

As a participant in the import, wholesale and retail of petroleum products Caltex Australia understands the importance of ensuring that consumers are well informed of the price of fuel and ensuring that they are getting a competitive offer.

Throughout various state and territory jurisdictions there are a number of regulatory approaches which have been enacted to improve price transparency including fuel price board regulation, and mandatory online reporting of fuel prices through a Government model.

Caltex Australia has provided the following comments from our views on the regulations which have been implemented to assist the Committee in their work. However, we are not in a position to provide comments as to whether we believe the regulations have had a specific effect on the market.

### *Fuel Price Board Regulation*

Over the past 18 years there have been various state and territory regulations which have been implemented to require service stations to either have fuel price boards, or to prohibit the advertisement of discounted fuel prices. In New South Wales there was also a combination of the two.

While each jurisdiction has taken their own approach to the drafting language used within the regulations Caltex Australia has supported the model implemented by South Australia, Victoria, the Northern Territory, Queensland, Tasmania and now the ACT in limiting regulatory interventions to capture listing of discounted fuel prices on fuel price boards.

### *Mandatory Online Fuel Price Reporting*

To date there have been mandatory Fuel Price Reporting regimes established in Western Australia, New South Wales, the Northern Territory and Queensland of varying designs.

While the regimes established by New South Wales, the Northern Territory and Queensland all have subtle differences they, for the most part, follow the same model to require fuel retailers to notify their fuel prices on all products in 'real-time' which includes notifying changes in prices within a reasonable window.

The Western Australian model is far more prescriptive, requiring fuel retailers to notify the following day's fuel prices for all products, by 2:00pm (AWST) on a given day, and then having those prices take effect from 6:00am (AWST) the following day and remain at that level for a period of 24 hours.

In all jurisdictions where these models are in place there are penalties for failure to comply with the relevant regulations.

Caltex Australia is of the opinion that any decisions made by jurisdictions to regulate fuel price monitoring should look at options which introduce minimal regulatory and administrative burden to prevent negative impacts to competition or business operating costs.

### *Non-Regulated Alternatives - Independent Third-Party Applications*

Caltex Australia believes that at present there are a number of independent third-party commercial entities which are providing fuel price comparison services to consumers through websites and phone apps, and that through these applications there is ample information made available to allow consumers to make an educated decision on where to purchase fuel.

Services including Petrol Spy, GasBuddy and MotorMouth all seem to provide reasonable levels of up to date, publicly accessible information to consumers at no cost.

### **Conclusions**

As previously mentioned, Caltex Australia understand that the price of fuel for consumers represents a significant regular, and necessary, cost of living. Retail fuel prices are heavily impacted by input costs, of which more than 85% are, on average, outside of the control of fuel companies operating in Australia.

Caltex Australia believes that strong levels of market competition are the most efficient method to encourage a robust and competitive fuel market which will ultimately benefit consumers, and that any regulatory approach should concentrate on addressing competition, rather than implementing costly regulations which can have a negative impact on the cost of fuels, and be done in a competitively neutral manner to prevent any prejudice against any existing or prospective market participant.