

20 February 2020

Dr Matthew Butlin
Chair and Chief Executive
South Australian Productivity Commission
Wakefield House, Level 15
30 Wakefield Street
ADELAIDE SA 5000

sapc@sa.gov.au

Dear Mr Butlin,

Inquiry into fuel pricing and transparency in South Australia.

I refer to your email of today inviting ACAPMA to make a submission to the SA Productivity Commission's (SAPC) investigation of fuel prices and options to improve fuel price transparency in South Australia.

I note from your email that despite the SAPC investigation commencing on 18 December 2020, ACAPMA was not formally invited to provide a submission until receipt of an email from Ms Giselle Oruga on 30 January 2020. We are therefore disappointed about the lack of sufficient notice that has been afforded to ACAPMA – and indeed the wider industry – in respect of this SAPC investigation, which was further complicated by the fact that much of it has been conducted over the busiest period of the year for our industry.

That said, we attached please find a copy of ACAPMA's submission for SAPC consideration.

Thank you for the opportunity to provide a submission to this Inquiry. We would be happy 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 SA Productivity Commission

Inquiry into SA Fuel Pricing

February 2020

1. Introduction

This paper constitutes a submission by the *Australasian Convenience and Petroleum Marketers Association (ACAPMA)* to the South Australian Productivity Commission's (SAPC) investigation of fuel pricing in South Australia and opportunities to improve fuel price transparency.

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 SAPC's Inquiry relation to fuel pricing and fuel price transparency in South 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 discussion about petrol prices (and supporting fuel price transparency mechanisms) 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 Adelaide Market, our current members include Woolworths/EG, On-the-Run, Liberty, Puma, Coles/Viva Energy and BP Australia.

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 Adelaide) 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 34 petrol market reports produced by the ACCC since it first began monitoring petrol prices in 2008. Copies of all of the petrol market studies that have been produced by the ACCC in recent years can be readily accessed via the Commission's website

(<https://www.accc.gov.au/publications/petrol-market-studies>)

Your attention is drawn to a substantial ACCC report that is of direct relevance to the scope of SAPC's Inquiry. This report was released late last year (17 October 2019) and is entitled: Petrol prices vary significantly: report on petrol prices by major retailer in 2018 (A copy of this report can be downloaded at: <https://www.accc.gov.au/publications/petrol-industry-reports/petrol-prices-vary-significantly-report-on-petrol-prices-by-major-retailer-in-2018>)

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 the reasons outlined in the ACCC reports cited above, ACAPMA strongly maintains that the SA Australian retail fuel market – particularly the Adelaide market - is highly competitive and operates with a similar competition dynamic to other key geographically discrete markets in NSW (and Sydney), Victoria (and Melbourne) and Queensland (and Brisbane).

4. The operation of the fuel retail market in Australia

For reasons outlined at the outset of this paper, ACAPMA urges the Commission 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 Adelaide – and wider South Australian - 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)
- 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.

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.

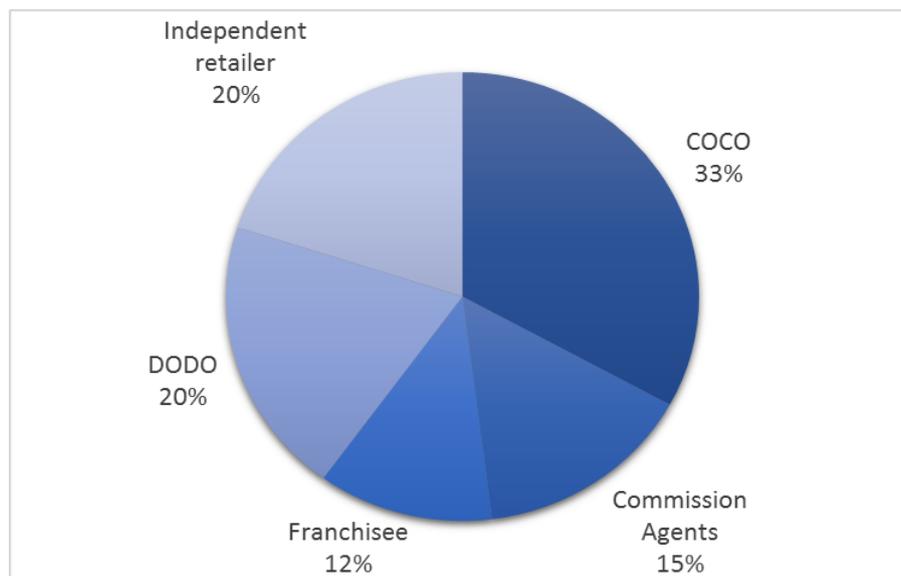


Figure A: The business operation of Australia's 6400 retail fuel outlets can be broadly classified five key groups according to the nature of their business operating model (ACCC 2014)

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).

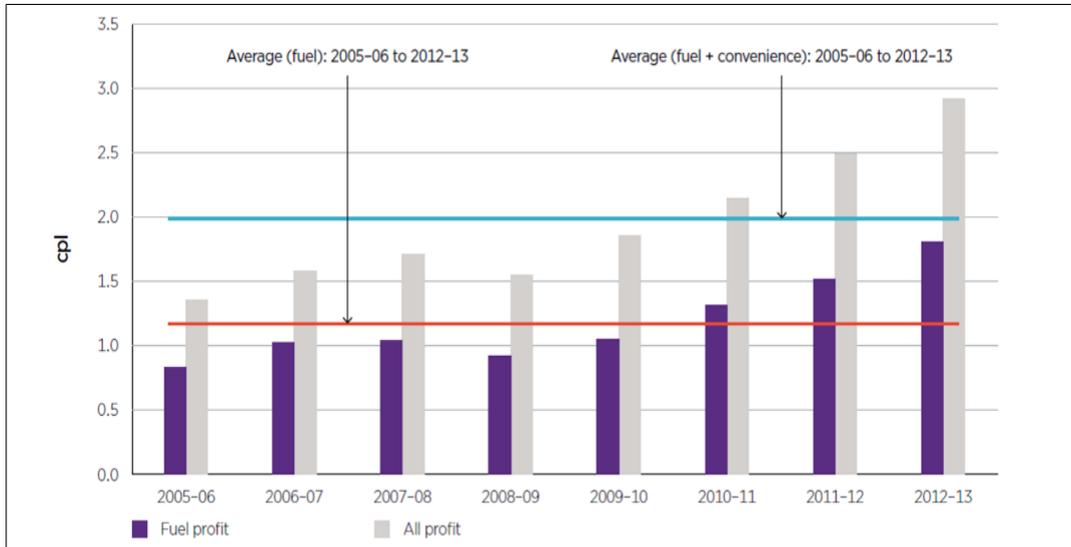


Figure B: Retail industry averaged just 2cpl in the 8-year period ending 30 June 2015 (ACCC 2014)

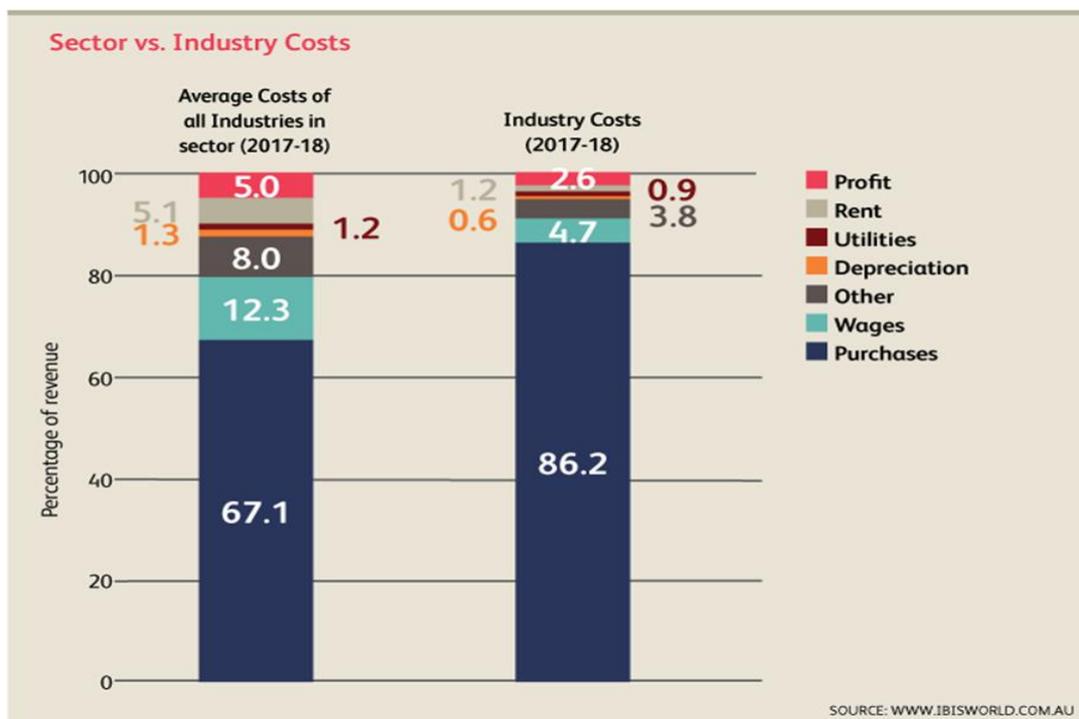


Figure C: Contrary to assertions made by media and political commentators, the gross profit margins earned by fuel retailers were roughly half the all-industry average in 2018 at just 2.6% of total revenues (IBIS World 2018)

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).

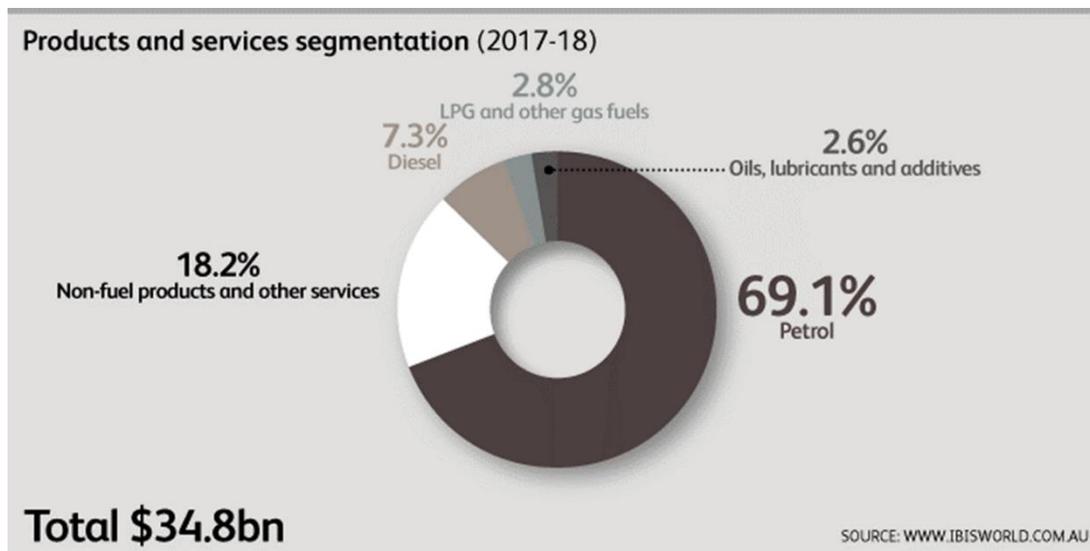


Figure D: Annual revenue from fuel sales in FY18 accounted for an average of 79% of all revenue earned by fuel retail businesses, with the remaining 21% generated from sales of convenience products/services (IBIS World 2018)

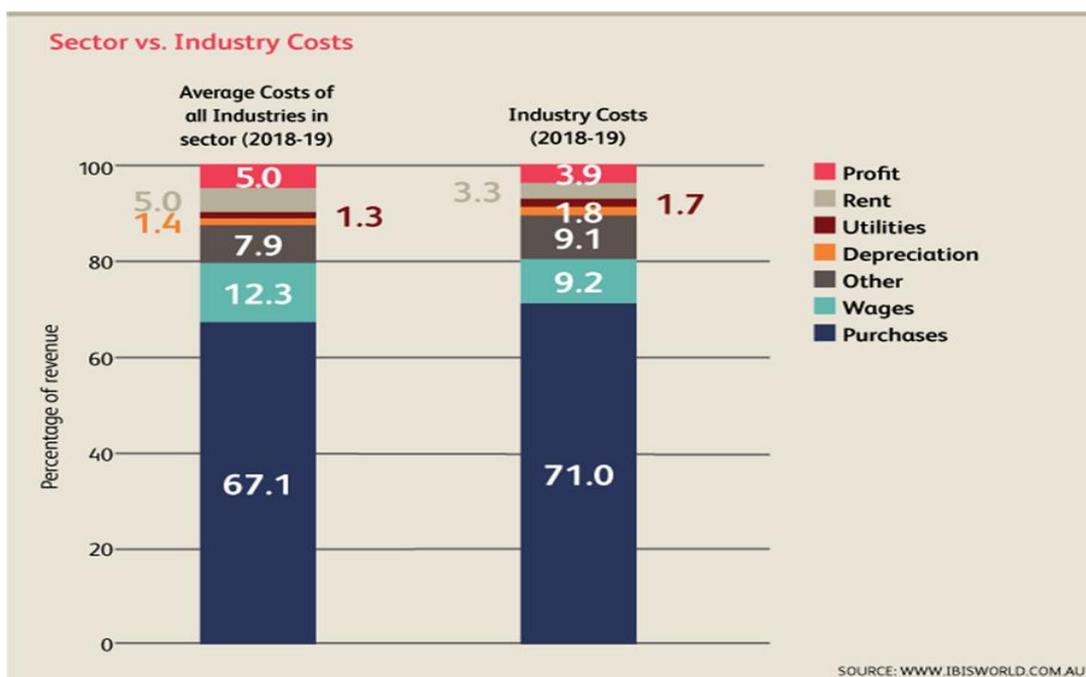


Figure E: Annual revenue from non-fuel sales in FY18 accounted generated a gross profit of 3.9% which was 50% higher than for fuel sales, thereby reducing pressure on cost recovery from fuel sales alone (IBIS World 2018)

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).

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.

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

Historically, politicians and other industry commentators have pointed to the high cost of fuel in Australia and the degree to which these input costs could be impeding economic growth relative to other world economies. This 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 third and fifth lowest

(respectively) of all OECD economies in the December 2019 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/publications/australian-petroleum-statistics-2019>).

It therefore follows that the Australian retail fuel market – including the South Australian market - 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.

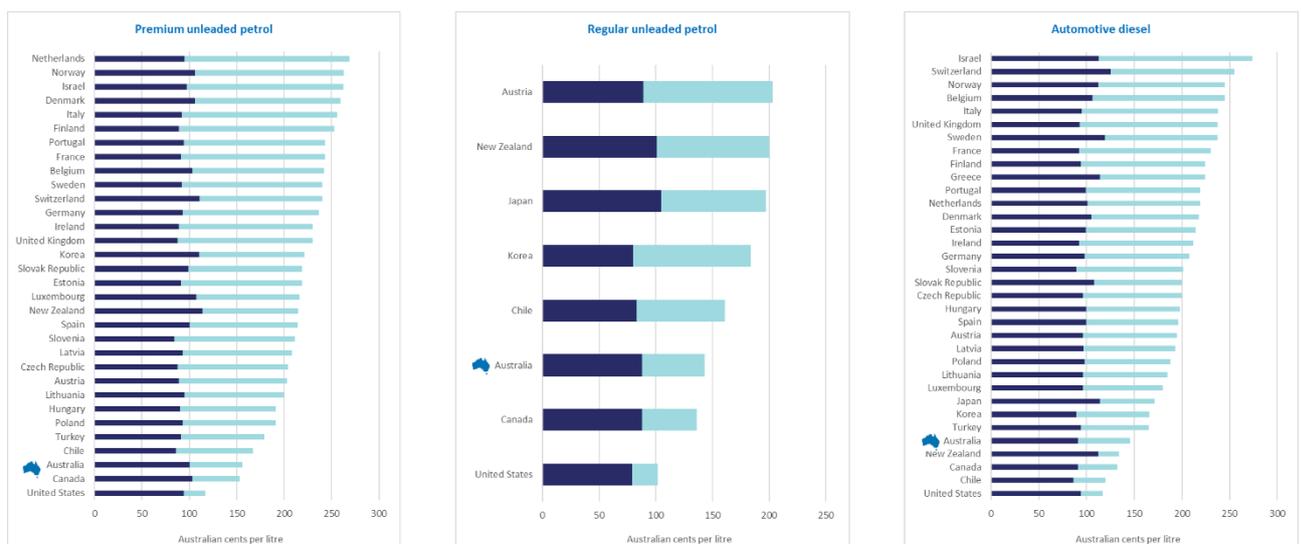


Figure F: The Australian average price of petrol and diesel were third and fifth lowest (respectively) of all OECD economies during the December 2019 Quarter.

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.

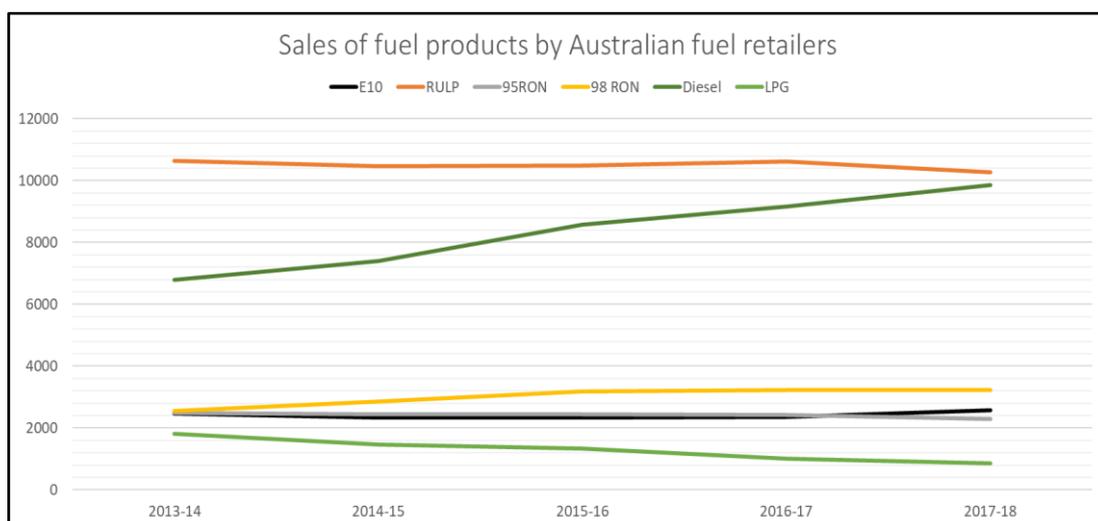


Figure G: Retail sales of fuel products over the last 5 years has been largely flat or declining except for diesel and 98RON petrol.

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 *2019 Monitor of Fuel Consumer Attitudes* that revealed that 1 in 2 consumers were truly ‘price sensitive’ (<https://acapmag.com.au/wp-content/uploads/2019/11/ACAPMA-2019-National-Monitor-of-Fuel-Consumer-Attitudes-V1.0.pdf>) – 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 support 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).

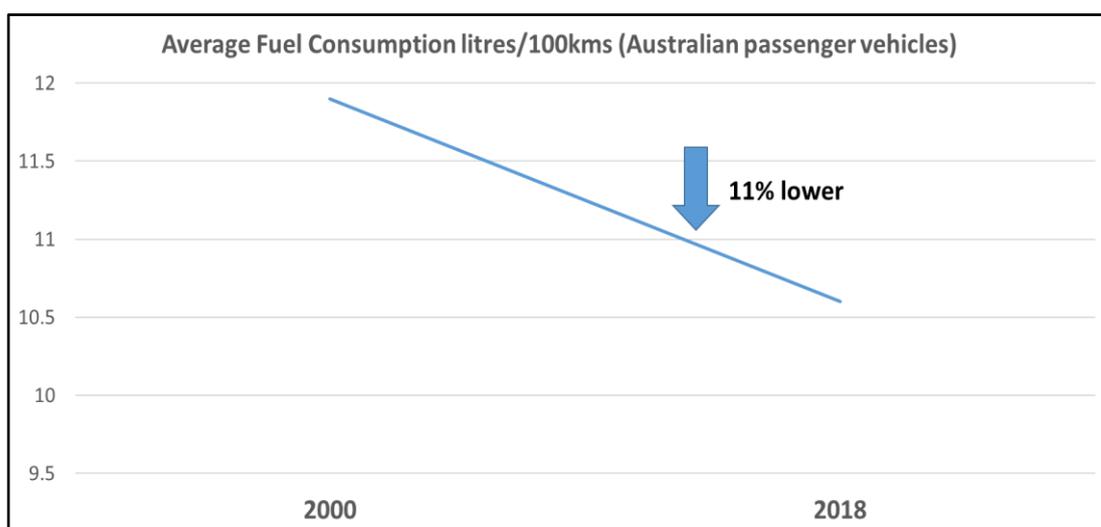


Figure H: The efficiency of the national light vehicle fleet is improving and will likely improve further in coming years

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 South Australia

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 each 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).

It generally follows that the smaller a market is, the lower the intensity of fuel retail competition, as evidenced by the fact that average petrol prices in Canberra, Darwin and Hobart trend higher than cities like Brisbane, Sydney and Melbourne. Interestingly, the much smaller Adelaide retail market exhibits similar fuel price tendencies to those experienced in the larger capital city markets of Brisbane, Melbourne and Sydney (See Figure J).

It is suggested that much of this added competition dynamic can be attributed to the presence of a relatively large independent fuel retailer that has a significant presence in the market (i.e. On the Run), providing strong competition for the larger national fuel retailers that have a significant presence in the Adelaide market but are also able to leverage their national scale.

One of the key characteristics of this competitive market, however, is price volatility over time (as shown in Figure J) together with substantial variation between prices offered by individual fuel retailers at any given point in time (refer https://www.accc.gov.au/system/files/1577RPT_Petrol%20Industry%20Report_FA.pdf). Such price variance can be difficult to navigate for consumers that are highly price sensitive

and consequently, real time price reporting can be advantageous to consumers in such markets (e.g. Adelaide, Brisbane, Perth, Melbourne and Sydney).

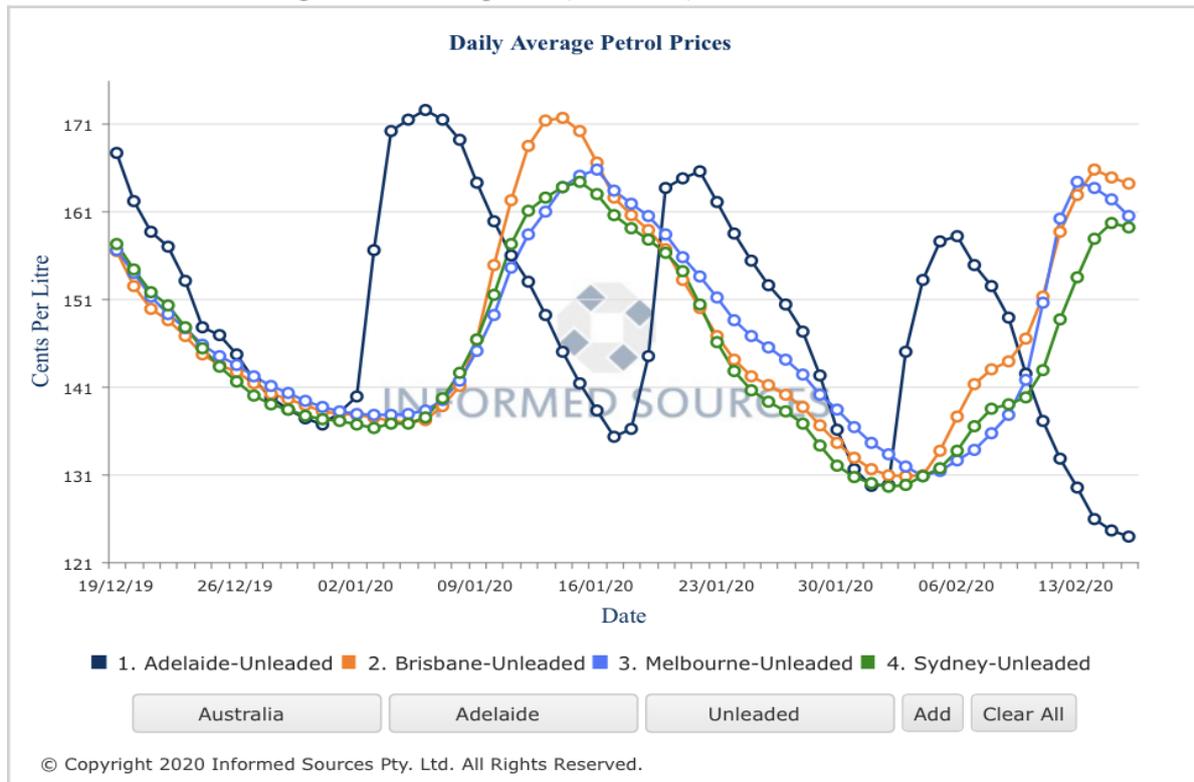


Figure J: Despite being a relatively small market, the Adelaide retail fuel market exhibits the same competitive dynamic that exists in the larger capital city markets of Brisbane, Melbourne and Sydney. This competitive dynamic introduces a degree of price volatility which – when coupled with daily price variance between individual fuel retailers – can create price navigation difficulty for price sensitive consumers.

5 Regulatory and legislative responses to fuel prices

ACAPMA notes that a key aspect of the Terms of Reference of the SA Productivity Commission review is general in nature, with emphasis placed on opportunities to improve fuel price transparency.

ACAPMA understands that the South Australian 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 SA 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 Adelaide has been the suggestion that motorists are unaware of the substantial differences in prices between fuel retailers in Adelaide. This assertion has been stridently advanced by the RAASA without any qualitative or quantitative evidence.

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 South Australia 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*.

If the SA 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. 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 SA market – where fuel prices are market determined -risks significant unintended consequences, with a significant risk of increasing fuel prices average fuel prices for SA motorists.

Within this context, ACAPMA notes suggestions made by some commentators that the SA Government should consider the merits of adopting the WA Fuel Watch Initiative in South Australia.

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

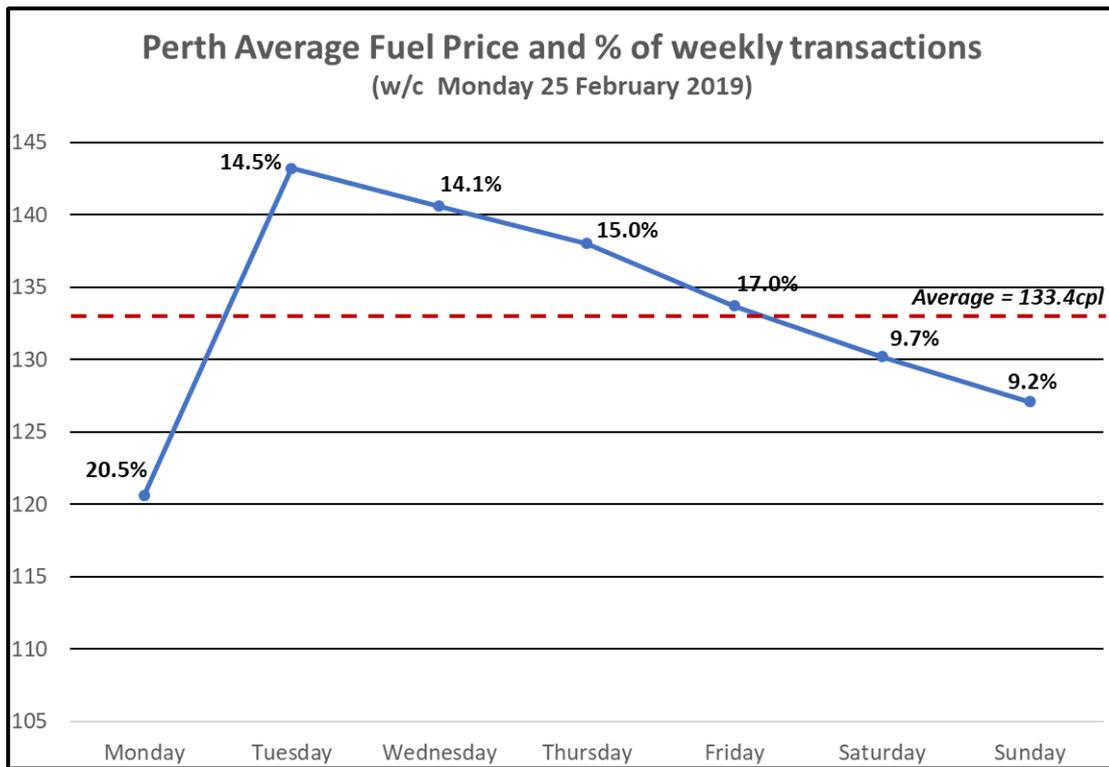


Figure J: The operation of the WA Fuel Price Regulation has resulted in more people buying fuel above the average price (60%) than below the average price (40%)

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 may be true.

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 SA 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.

Adelaide has a highly competitive market with a significant presence of independently operated fuel sites (i.e. non-major fuel companies), with the market exhibiting similar market price behaviours to those demonstrated in the bigger markets of Sydney, Melbourne and Brisbane.

This competitive tension means that there is a significant degree of price volatility and daily variance in the Greater Adelaide Retail Fuels Market, potentially providing justification for the introduction of real-time fuel price reporting laws as have been introduced in other Australian State/Territory jurisdictions (i.e. NSW, NT and QLD).

While ACAPMA has no major concerns with the introduction of real-time fuel price reporting laws in South Australia, such laws should seek to take advantage of the large volume of price information that is already provided by the industry to the marketplace utilising a model similar to the fuel price reporting laws that have been introduced in Queensland.

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:

Suite 3, Level 7, 3 Spring Street
Sydney, NSW, 2000
P | 1300 160 270
M | 0447 444 011
E | markm@acapma.com.au