



Motor Trades Association of Australia

Mr Rob Hansen
Research Director
Impact of Petrol Pricing Select Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Mr Hansen

The Motor Trades Association of Australia (MTAA) welcomes the opportunity to make a submission to the Impact of Petrol Pricing Select Committee Inquiry into petrol pricing in Queensland.

MTAA is the peak national representative organisation for the retail, service and repair sector of the Australian automotive industry. As part of its representative role, the Association represents the interests of a wide range of service station operators throughout Australia, including single site franchisees, multi-site franchisees, commission agents, branded independents and unbranded independents. MTAA therefore has a strong interest in some of the issues that the Select Committee is examining as part of its current inquiry into petrol pricing.

As you may no doubt be aware, there are a broad range of factors which influence the price of petrol in Australia, including the level of supply and demand internationally, the Australian dollar exchange rate, and the level of domestic competition (at both the refiner and retailer levels). In this submission, MTAA intends to focus on the impact that the level of competition in both the wholesale and retail petroleum markets has on the retail price of petrol.

Proposals for encouraging price competition in the retail petroleum market

The level of competition in the retail petroleum market is strong, not as strong as it was and declining, with Australian motorists having long enjoyed some of the lowest petrol prices (both before and after taxation) in the world. Those low prices have, in MTAA's view, been delivered by a regulatory environment which provides for a diversity of competitors and, more importantly, a competitive and strong independent sector which drives price competition in the market. As Mr Thomas Parry noted in his Inquiry into Fuel Prices in the Northern Territory, '[e]xperience in Australia and overseas suggests that the key to increased price competition in the petroleum market is not government regulation or subsidies but the spread of effective independent operators.'¹

MTAA considers therefore that the maintenance of a strong independent sector is crucial to ensuring that the level of competition in the retail petroleum market remains high. The Association notes that the continuation of a strong competitive environment will be of benefit to motorists as it

¹ Parry, T (2004) Inquiry into Fuel Prices in the Northern Territory, p.29.

will likely place downwards pressure on petrol prices which will in turn help to moderate any future increase in petrol prices. Despite the important role that the independent sector plays in encouraging competition and moderating price rises, the continued existence of the sector is under threat from supply issues, increasing vertical and horizontal integration and the emergence of the two major supermarket operators as significant participants in the retail petroleum market.

Supply issues pose a significant threat to the independent sector as operators need to secure access to a wholesale supply of fuel if they are to continue to operate in the retail petroleum market. It is also very important that the wholesale supply secured by an operator is competitively priced or the operator will be unable to offer consumers retail prices which are sufficiently competitive to attract their custom. In addition, the lack of a competitively priced wholesale supply of fuel will hinder the ability of an operator to lead the market in terms of price competition. Both of those factors will likely have a detrimental impact on the viability of the operator and the level of competition in the market.

MTAA understands that the joint ventures between Coles and Shell; and Woolworths and Caltex have also affected the availability of supply, as demand from those joint ventures has reduced the supply of fuel from Australia's two largest refiners, Caltex and Shell, which is available to independent operators at the wholesale and retail levels. It is MTAA's understanding that some independent operators have experienced difficulties in securing access to supply as a result. MTAA also notes that the progressive tightening of Australia's fuel standards may further exacerbate those difficulties, as the standards may limit the ability of independent wholesalers and retailers to import alternative supplies of refined fuels from overseas; at least in the short to medium term.

MTAA notes that difficulties associated with access to supply are of particular concern to operators in rural and regional areas, as their lower fuel volumes may make supplying those operators a less attractive proposition for wholesale fuel suppliers. If those operators cannot secure access to supply, they will have to close and that is likely to have a significant impact on the local community in which those service stations are located, as residents may be forced to travel significant distances to refuel vehicles. The level of competition in some rural and regional areas is also likely to be lower than that in metropolitan and more highly populated areas and the departure of an operator from the market is therefore likely to have a more marked impact on the level of competition and on the level of retail petrol prices.

Access to a competitively priced wholesale supply of fuel is therefore an important issue for the independent sector and one which is critical to its continued existence. It determines the ability of an operator to offer customers a reasonably attractive retail price and to meet or lead price competition in the market. In light of the important role that the independent sector fulfils in relation to price competition, MTAA believes that measures designed to assist independent operators to secure access to such a supply of fuel would help to enhance the level of competition in the retail petroleum market and that in turn would help ensure that consumers have access to the lowest possible priced fuel.

MTAA also considers that the introduction of nationally consistent measures designed to increase transparency in the wholesale petroleum market would encourage increased competition in that market. At present, the wholesale pricing structure in place in the market is not transparent, as it allows suppliers to discount the price at the terminal gate. MTAA is concerned that discounting before the terminal gate reduces transparency and that it may provide suppliers with the opportunity to manipulate or influence competitive outcomes at the retail level. MTAA therefore considers that the introduction of a "true" terminal gate price would help to improve the level of transparency in both the wholesale and retail markets and reduce the potential for anticompetitive behaviour to

occur. MTAA notes however that the introduction of transparent TGP regime will be of little effect unless operators can secure access to supply.

Issues of transparency in pricing and their impact on the level of competition are also of importance due to the increasing vertical integration that is occurring in the retail petroleum market. Vertical integration enables a supplier to exercise a greater degree of control over the retail petroleum market and may also provide the supplier with the opportunity to manipulate its wholesale and retail prices in order to achieve a desired outcome at the retail level. Such an outcome may reduce competition and, as the number of competitors in the market falls, result in higher retail prices in the longer term. In light of this, MTAA considers it very important that the wholesale pricing structure is transparent.

The emergence of the two major supermarket companies as major players in the retail petroleum market also poses a significant threat to the level of competition in retail petroleum market. The joint ventures already have over fifty per cent of the market in terms of volume and are likely to continue grow their market share. While MTAA does not oppose the entry of the major supermarket companies into the retail petroleum market, the Association is concerned about the increasing dominance of the two joint ventures and the implications that such dominance has for the level of competition in the market. MTAA also notes that the supermarket companies have the ability to use their retail grocery operations to cross-subsidise their fuel retailing activities and consequently, to drive more efficient and effective competitors, both large and small, from the retail petroleum market. As such, MTAA believes that the move towards a duopoly in petrol retailing is unlikely to encourage price competition in the market and will, in the Association's view, be likely to result in higher retail petrol prices over the longer term.

MTAA notes that as more independent operators leave the market, the level of competition in the industry is likely to diminish and the competitive pricing pressure on market participants will subside. In those circumstances, it is unrealistic to assume that the remaining market participants, as profit driven entities, will not seek to raise prices and improve their profitability. MTAA therefore believes that the maintenance of a strong independent sector will help to encourage price competition.

The Association also considers that a regulatory framework which delivers a diversity of competitors and discourages anticompetitive conduct is also an important component of a competitive retail petroleum market. At present, the retail petroleum retailing sector is regulated, at a federal level, by the *Petroleum Retail Marketing Sites Act 1980* (Cth) ('the Sites Act') and the *Petroleum Retail Marketing Franchise Act 1980* (Cth) ('the Franchise Act'). Those Acts place restrictions on the number of sites that the major oil companies (BP, Caltex, Mobil and Shell) can own and operate directly and also regulate the franchise relationship between the oil majors and their franchisees.

While MTAA acknowledges that those Acts have not kept pace with developments in the market and that the Sites Act has, to a significant extent, been circumvented by the major oil companies, the Association considers that those Acts have assisted competition by ensuring that there is a diversity of competitors in the market and by limiting the ability of the major oil companies to vertically integrate their operations. Australian motorists currently enjoy some of the lowest petrol prices (before and after taxation) in the world, which suggests that the current regulatory framework has delivered positive outcomes for Australian motorists in the form of lower prices and a competitive retail petroleum market.

As you may be aware, the Australian Government is proposing to repeal those Acts and to replace them with a mandatory code of conduct for the oil industry ('the Oilcode'). While the Association is not opposed to reform of the oil industry and accepts that the regulatory framework governing the oil industry needs to be updated to reflect the fundamental structural changes which have occurred recently, it is deeply concerned that the Oilcode, as currently drafted, will not address those fundamental structural changes or provide a framework which will ensure that the current level of competition in the retail petroleum market will continue in the longer term. In particular, the Association considers that the regulation governing the retail petroleum sector must, if it is to secure a competitive environment and ensure that customers pay the lowest prices possible for their fuel, provide for the maintenance of a strong independent sector and a diversity of competitors and address the issues of cross-subsidisation and the increasing vertical integration of the industry.

MTAA considers that effective competition laws will also assist to deter anticompetitive behaviour in the oil industry and encourage price competition. In particular, it is important that competition laws deal effectively with anticompetitive behaviour such as predatory pricing, as that will help to ensure that larger market players cannot use their power in the petroleum retailing sector or any other market to force other more efficient competitors, both large and small, out of the retail petroleum market. At the moment, the misuse of market power provisions of the *Trade Practices Act 1974* (Cth) are ineffective in dealing with such behaviour and the most recent High Court cases dealing with section 46 have reinforced those inadequacies.

In relation to that issue, MTAA notes that at a briefing on section 46 organised by the Commonwealth Department of the Environment and the Heritage, the Department's own legal advisor admitted that the section did not adequately address predatory pricing and that the Australian Government's proposed amendments to the section would not address those shortcomings. Without an effective section 46, the Australian Competition and Consumer Commission (ACCC) is powerless to stop market participants from engaging in predatory pricing or other forms of behaviour which constitute a misuse of their market power. The Association therefore believes that section 46 must be amended to ensure that the ACCC has adequate statutory powers to stop market participants misusing their market power and engaging in anticompetitive behaviour such as predatory pricing.

In light of the above comments, MTAA believes that there are a number of measures which could be adopted by the Australian and Queensland Governments to address concerns about the future level of competition in the retail petroleum industry. The adoption of those measures would also help to moderate future increases in petrol prices by ensuring that the competitive constraints which currently limit the ability of operators to increase retail prices do not disappear.

Tips for reducing petrol costs

MTAA notes also that there are a number of practical ways in which consumers can reduce their petrol bills, including:

- servicing their cars regularly;
- checking their tyre pressure regularly and ensuring that the tyre pressure is within the manufacturer's specifications;
- avoiding sharp acceleration or deceleration;
- removing roof racks and any excess equipment (for example, golf clubs) when they are not required;
- switching the key to the "accessory" position or, if the car is an automatic, putting the car in "park" if they are stuck in traffic for a prolonged period of time; and

- using their car's air-conditioning sparingly.

The above fuel conservation techniques are covered in more detail in a media release issued by one of MTAA's Member bodies, the Victorian Automobile Chamber of Commerce, and a copy of the relevant media release is attached for your information. MTAA is also aware that other organisations have developed fact sheets for consumers which deal with this issue and a copy of a fact sheet prepared by NRMA Motoring and Services, *Ten Ways to Save on Petrol*, is also attached for your information. We have also attached a brochure explaining in detail our concerns over measures proposed by the Commonwealth to change the structure of the petroleum market.

I trust that these comments have been of assistance in your consideration of this matter.

Yours sincerely



MICHAEL DELANEY
Executive Director

11 November 2005

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'Free' fuel... available to smart drivers

Tuesday September 27, 2005

By adopting just a few simple fuel conservation practices, motorists can use less fuel - as much as 20% less. That means for every four kilometres travelled, the next kilometre is free (and thus saving up to one fill in five).

"Motorists would be surprised by how much money they can save by simply driving to conserve fuel," VACC Executive Director David Purchase said.

"Of course, most of us are aware of this; we know that our cars 'chew up the juice' when we drive with a 'lead foot' on the accelerator."

So, how much is the average driver spending on fuel?

A motorist covering the average 20,000 kilometres annually, achieving a fuel consumption average of 12 litres per 100 kilometres (a consumption figure achieved by most medium family cars), and buying fuel at an average pump price of \$1.30, will spend \$3,120 per year on petrol.

The same motorist doing 20,000 kilometres annually, but, driving for fuel conservation and achieving an average 9.5 litres per 100 kilometres, will spend \$2,470 per year when buying at the same pump price of \$1.30 - a saving of \$650. (Enough to cover annual registration costs, a new TV or return tickets for two to the Gold Coast.)

"The following well-known fuel conservation practices can help stop fuel bills burning a hole in your pocket," Mr Purchase said.

- Keep your car maintained and tuned. The better your car runs, the more efficiently it burns fuel.
- Check tyre pressures regularly - at least every third or fourth fill. Under-inflated tyres reduce fuel efficiency and also shorten the life of your tyres.
- Watch your speed. Cars use twenty to twenty-five percent more fuel at 115kph hour than at 90kph. The difference in arrival time on a 300 kilometre journey travelling at a steady 90kph rather than 100kph is just twenty minutes.
- Drive steadily: look ahead and adjust your speed to avoid having to accelerate sharply or brake heavily. It is simple physics, getting the mass of a car moving or stopping quickly requires significantly more energy than smooth and steady acceleration and deceleration.
- Remove your roof racks when they are not in use. Roof racks create "drag" that increases the 'effort' of pushing through the air, and dramatically increases fuel consumption.
- Lighten up; extra weight burns fuel. Remove all unnecessary 'stuff' from your car.
- Don't sit in stalled traffic with the engine running; if you expect to be held up for some minutes, turn your engine off.
- Use your air-conditioner sparingly. The air-conditioner can reduce your fuel efficiency by as much as twenty percent. (However, driving with the windows open at high speeds also reduces fuel economy by as much as ten percent. Air-con? Or windows partially down? Use your judgement.)
- Plot your journeys (and your shopping). Avoid making multiple separate trips to the supermarket or milk bar - why not walk if close by?
- Modern cars are far more efficient than older models. If you are upgrading, look for a car with good fuel efficiency. Modern hybrids, for instance, run 'on the smell of a rag' and drive like any other car.

"If we always drove as if we were skimming home on a near empty tank, we'd be astonished by the fuel savings," VACC Executive Director David Purchase said.



TEN WAYS TO SAVE ON PETROL

1. **Shop Around:** Check out www.mynrma.com.au/petrolwatch for the cheapest daily petrol in Sydney.
2. **Refuel when prices are low:** not when your tank is empty.
3. **Fill up early:** Petrol is usually cheapest to buy on Monday and early Tuesday. Save more than \$200 a year by buying petrol early in the week.
4. **Avoid hard acceleration and braking:** Flow with the traffic - smooth driving can reduce fuel consumption by up to 30 per cent. Don't rest your left foot on the brake of an automatic vehicle - the extra drag increases fuel consumption by five per cent.
5. **Watch your speed:** By travelling at 90 km/h rather than 110 km/h on multi-lane roads you can reduce fuel consumption by 10 per cent or more.
6. **Lighten the load:** Take off roof-racks and bullbars if they're not needed. Remove golf clubs or tools if you're not using them – and reduce fuel consumption by up to 5 per cent. Keep your tyre pressure towards the top of the manufacturer's recommended range.
7. **Switch off:** When stuck in traffic for any length of time turn the key to the "accessory" position (not to "off") and if an automatic transmission, shift to "park". Vehicles fitted with engine-off as standard typically reduce fuel consumption in urban areas by up to 15 per cent.
8. **Open the windows:** When the weather is fine, switch-off the air-conditioning. This reduces fuel consumption by up to 10 per cent in urban driving.
9. **Shop smart:** take advantage of a range of shopper docket schemes where available.
10. **Service your car regularly:** blocked air filters can increase fuel consumption significantly.