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Bontaro Pty.Ltd. ABN 929 459 00656
T/a
Caltex Cobb & Co. Roadhouse
Warrego Highway
Jondaryan Q4403

Mr. Rob Hansen
Research Director
Impact of Petrol Pricing Select Committee
Parliament House
Brisbane Q4000

Dear Sir,

Re: Retail Petrol Pricing in Qld.

Please find attd. our submission on retail fuel pricing in Qld.

Yours faithfully

B.A.Arthur
Director

Executive Summary

Our privately owned company has been retailing fuel and food in Qld. for the past twenty five years. During this time there have been major changes in the way fuel is priced, both wholesale and retail. The profitability of the fuel retailing segment of our business continues to get worse and worse.

It is our opinion that the ACCC needs more legislative powers to control the oil majors, it needs more teeth to force oil companies to be more transparent with fuel pricing and we need a single wholesale price for fuel at the terminal gate. The ACCC has approved huge fuel pricing cartels for Coles and Woolworths who now retail Shell and Caltex fuel below cost. The retail price of this fuel is not only subsidized by Qld. Govt. but also by the profits from grocery retailing. This situation cannot be matched by other fuel retailers in the marketplace because of their inability to privately subsidize retail fuel prices.

The Federal Govt. continues to collect huge revenues from escalating fuel prices by collecting:

38.14 c/l excise

plus

10% GST on the excise component of the fuel price

plus

10% GST on the retail price of fuel

The Federal Govt. should stand by its 2000 election promise when introducing the GST: "There will be no tax on a tax".

Submission

We intend to comment on your terms of reference in turn.....some comments will be short and to the point and other comments , on terms which are of major concern to us, will be longer.

2 (a) Consider the extent to which current petrol price increases the competitiveness of alternative fuel sources such as E10.

The increased use of E10 is a valuable alternative fuel source which reduces our dependence on overseas fuel supplies and is environmentally friendly. We are currently selling approx. 11,000 l/m E10 from our retail outlet at Jondaryan. Major concerns from motorists appear to be whether it will effect their vehicles performance or adversely effect their vehicles engine.

As with any retail commodity, a major selling factor is the price. If we cannot purchase E10 at a price lower than ULP, we cannot retail the product at a lower price. This currently is the case at our facility. This fact will be covered more thoroughly under item 2 (b).

2(b) Identify the economic and financial consequences of current fuel prices to Regional and Outer Metropolitan areas.

Fuel Pricing

The chaotic state of Qld's. fuel pricing is mainly caused by the following factors:

- Marked difference in wholesale fuel price discounts from BP and Caltex depending upon who is purchasing the fuel and in what quantity
- Different wholesale/dealer distribution networks put in place by the majors
- Differing freight costs affecting the landed price of fuel

- Control of fuel prices at huge numbers of retail outlets now owned by oil companies, supermarket chains and oil company dealers
- Large difference in Gross Profit margins set on wholesale prices at different locations and different sites
- Competition offered by independently branded retail fuel outlets

We would like to further define this issue for the inquiry:

We are a Tier III independently owned Caltex branded site. To maintain this marketing image we must purchase Caltex fuel from the local Caltex Distributor in Toowoomba. We cannot purchase Caltex fuel from any other source as we are designated to be in the Toowoomba Caltex dealers network. We must take Caltex Starcards and comply with a strict set of site image guidelines. During the course of recent investigations to try and obtain cheaper fuel from another supplier (not Caltex), we have found the following:

- We can purchase Caltex fuel from an independent supplier cheaper than Caltex fuel from the Caltex dealer
- Caltex have a Terminal Gate Price (TGP)
- Caltex have a daily Caltex Reference Price (CRP) . This is a different price from TGP.
- Caltex Dealers obtain a further discount off the CRP price
- Caltex has a different price to all of the above which it uses as a benchmark to supply its vast network of service stations. The oil company can notify its company owned sites to vary the retail price at any time, any day of the week, anywhere in Qld., to increase its litreage/market share and numerous other reasons
- Caltex have a different wholesale fuel price for unbranded, independent fuel wholesalers

These are the main reasons for such large price fluctuations in both metropolitan and regional areas. The governing factors are still the Singapore Import Parity Indicators and the exchange rate of the A\$. Combine this with all of the above factors and we have a recipe for chaotic fuel pricing. We receive DAILY price fluctuations on all fuel products

and because of such a low fuel margin, we need to constantly monitor our board prices to make sure we are not selling fuel at a loss.

We think some of the above factors could at least be minimized if the ACCC were to enforce transparent daily oil pricing from the majors.

How much more stable would prices be if the majors were also required to have a single Daily Terminal Gate Price available to all wholesalers?

GP Margins

The general public have the perception that service station owners are reaping huge profits from high fuel prices.

We are often asked “When are you people going to drop the price of fuel?”

Nothing could be further from reality.

We have just completed an economic analysis which shows that our fixed and variable costs for retailing a litre of fuel range from 1.174 c/l to 1.784 c/l depending upon methods of customer payment. (full details are available).

On Wed. 9th Nov., 2005 our purchase price and retail price cf. to our competition was as follows:

ULP

Purchase Price inc. GST from Caltex Dist.	115.30 c/l
Less GST tax credit (10.48 c/l)	104.82
Less QFSS subsidy & FFS (9.354 c/l)	95.466
Plus retail margin	3.45
Cost Price plus 3.45 c/l margin	98.916
Plus GST	9.89
Retail Price to Public	108.80 c/l

N.B. On this day we are making a GP of 3.45 c/l or 3.61%. From this we need to subtract our fixed costs av. 1.479 c/l leaving a GP of 1.97 c/l or 2.06%.

Compare this retail price to our competition on that day:

BP Charlton (Toowoomba)	105.9 c/l
Independent Unbranded at Kingsthorpe	107.9 c/l
Shell Bridge St. Toowoomba	105.9 c/l (less 4c/l with Coles dockt.)
Caltex Wilsonton Shopping Centre	105.9 c/l (less 4c/l with Woolworths dockt.)

To retail fuel at 105.9 on that day, we would obviously be selling fuel at a loss.

In addition to this , we have spent \$165,000 in infrastructure and compliance costs to make a very low GP of 2.06% on fuel sales.

This situation is similar to that occurring throughout most of the year in this area and in many privately owned fuel retail operations in Qld.

We realize that we have not strictly adhered to your terms of reference (2(b)) but it is virtually impossible for retailers to reduce fuel prices unless some major restructuring to wholesale fuel prices is carried out.

2 ©

Identify practical ways that consumers can reduce fuel bills

- Buy subsidized fuel from Coles and Woolworths
- Pick a day early in the week to buy fuel
- Buy a smaller car
- Buy a manual car
- Buy a petrol electric car
- Fit an LPG conversion
- Use Premium or E10
- Don't use a lead foot
- Don't use the car, walk instead
- Wait for the exchange rate to improve
- Wait two weeks after barrel prices come down
- Drive slowly
- Do not drive 20 km to 50 km around all the fuel stations to save 1.0 c/l
- Do not try and fill vehicle quickly and waste expensive fuel by splashing

2(d)

Consider the extent to which recent fuel increases could be moderated through enhanced domestic competition.....

Fuel retailers in Qld. do not want any more competition. It would not be possible to remain solvent if privately owned fuel outlets were to further discount a loss making operation.

As stated under item 2(b), the ACCC needs more powers to control the oil majors. This existing situation with Coles and Woolworths must contravene their own regulations regarding the creation of monopolies.

Q2(e)

Examine whether Qld. receives its fair share of road funding.

We are not qualified to comment on this term of reference.

Q2(f)

Identify the capacity and benefits of the Federal Govt. reducing fuel excise to ameliorate the impact of high fuel prices.....

We consider that this is one area which could bring some marginal relief to high fuel prices. The Federal Govt. did state in its 2000 electoral platform that there would be no taxes on taxes. Yet , with fuel pricing, this is exactly the situation. They have a 10% GST on 38.14 c/l excise duty or a GST of 3.814 cents on a tax. This effectively adds a further 41.954 cents to a litre of fuel. Further pressure should be brought to bear on Mr. Costello to drop the GST on fuel excise.

Q2(g)

Identify whether Qld. motorists are receiving the full benefit of the 8.354 c/l subsidy and examine the efficiency of administration for the bulk end user scheme.

As may be seen under our GP analysis of the profit on a litre of ULP, we are reducing our retail prices by 8.354 c/l plus 1.0 c/l zone allowance from the Federal Govt.

Somehow or other , we still have to find a way to reduce our losses on retailing fuel.

After discounting our buy price by 9.354 c/l , we are adding a margin of only 3.45 c/l to stay somewhere near the competition. At the end of the day, we are making a profit of 1.97 c/l and giving the public a discount of 9.354 c/l.

We are happy with the way the scheme is being administered , in that subsidies are paid 30 days in advance. We would like to see the subsidy set at a minimal level of say 8.354 c/l plus have the subsidy calculated on a percentage of retail fuel prices in times of high prices so that the retailer can obtain a reasonable profit margin to stay viable. We would like to add that large volumes of QFSS monies are currently being paid to oil company owned retail sites and large dealer network owned sites.

We hope that this submission has been of some assistance to the enquiry.

B.A.Arthur A.A.P.I.

Director Bontaro Pty.Ltd.