

## **Key Points – Submission to Qld Parliamentary Inquiry**

### **Background**

- Woolworths sells petrol and diesel at service stations under the joint Caltex-Woolworths banner in Queensland
- Today there are 94 service stations under the joint banner in Qld. Of these 65 are controlled and run by Woolworths and there are a further 29 stations that are operated by Caltex or its franchisees under an alliance arrangements. Woolworths owns and sells the fuel and sets the pump price of petrol and diesel at this entire group of sites.
- Today (including the alliance sites) there are 67 sites located in metro-Brisbane, Gold Coast and Sunshine Coast and a further 27 sites in Regional areas.

### **How Woolworths Influences / Sets Pump Prices for Petrol & Diesel**

- Our policy for setting pump prices of petrol and diesel at both Woolworths & Caltex-Woolworths alliance service stations is to match the lowest prices of nominated competitors in the local market which are typically within a 3km radius of our site.
- We conduct frequent checks of our competitors pump prices in the local area to ensure that our customers are getting the lowest prices in the area.
- In addition to the lowest pump prices there is a further discount for Woolworth's customers who have purchased more than \$30 worth of goods at our Supermarkets or Big W stores. This initiative was initiated in 1997 by Woolworths in Australia and today upwards of a million customers are enjoying this benefit every week. This scheme has enthusiastic support of the overwhelming proportion of the Australian consumer. Further the ACCC examined the "shopper docket" arrangements in 2003 and confirmed that it is a substantial benefit to consumers in a highly competitive retail market. (Refer ACCC Booklet "Understanding Petrol Pricing in Australia" August 2005.)

### **Recent Trends in Petrol prices / Cyclical Fluctuations in Petrol Prices**

- the ACCC Booklet referred to above provides a detailed outline of the factors which impact petrol prices in Australia.
- the steep increases in Petrol prices experienced in 2005 has been, in the main, due to a sharp increase in international prices of refined liquid fuels which in the case of the most commonly used Singapore price marker (MOPS 95 gasoline) increased from US\$ 55/bbl to US \$ 90/bbl over a period of three months earlier this year.

- While Woolworths does not have in-house expertise in the supply/demand balances for hydro-carbons around the globe, we understand that steep increase in demand for energy in China and India combined with inadequate refining capacity, further exacerbated by the hurricanes in the US, have led to steep increases in world fuel prices.
- On the other hand as international refined oil prices have declined so have retail prices. For instance in Brisbane, petrol prices which peaked at nearly \$1.30 per litre in September this year, have been below \$1.00 per litre in recent days.

### **Price Cycles in Metropolitan Areas, Difference in Prices between Service stations and City/Regional price differences**

- The ACCC August 2005 Booklet provides comprehensive answers to the above matters and there is little we can add to the discussion.

### **Diesel vs Petrol Prices**

- the key reason for the difference in the posted price of diesel and petrol is the difference in cost price of these products to Woolworths which we understand reflects similar differences in international price of these fuels and the premium payable for meeting Australian quality specification.
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### **Impacts of Regulatory Reforms in W.A.**

In Western Australia, under legislative changes introduced some years ago, each fuel retailer in designated areas such as Perth is required to advise Fuel Watch, a government body, by 2pm (Perth time), prices by site by product that the retailer intends to post for the following day. The price cannot be varied from that advised to Fuel Watch at anytime on the following day.

In our view this system stymies competition in that retailers cannot match lower prices posted by their competitors on the day. As a result, motorists are forced to travel longer distances to find the cheapest fuel or alternatively buy at higher prices.

### **Structure of the Fuel Industry & its Impact on Competition**

We believe that at the retail level, price competition in metropolitan and major regional markets is intense and vigorous, driven in the main by the very large number of service stations and the many players operating in those markets. In smaller rural markets, whilst competition is less intense, this represents an “effect” rather than cause. That is, the size of the market determines how many service stations can be economically viable. Nevertheless, in our view, in the rural markets that we participate in, price competition has increased significantly since our entry and consumers in those markets have benefited from having Woolworths fuel outlet in their towns.

With respect to service station closures, we believe that this is a world wide trend which is driven by the need to become more efficient, lower unit costs and deliver cheaper fuel prices to the consumer. Further, despite significant reduction in site numbers over the last 3 decades, competition has remained vigorous and new players such as our selves have entered the retail fuels markets. We believe that this will remain the case in the foreseeable future.

## **Conclusion**

The flow on effects of the volatility in international crude oil and refined product prices has been and will continue to be the major factor in determining petrol and diesel pump prices in Australia.

The highly competitive nature of the retail petrol market in Australia ensures that there is no price exploitation at the petrol pump and that the benefits to consumers of the Woolworths discount offer over 8 years ago has been a substantial contributor to the competitive pricing which has occurred during this time.

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