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The Secretary
Senate Economics Legislation Committee
Suite SG.64
Parliament House
CANBERRA ACT 2600

Dear Sir,

Inquiry into the Price of Petrol in Australia
Supplementary Submission

Further to the public hearing that I attended in Queensland yesterday, there are a number of matters arising from that hearing that I felt warranted further explanation. They are as follows.

1. Senator Stephens asked a number of questions regarding the nature of the pricing and financial support that underpins the relationship between franchisee and franchisor. Whilst my submission dated 21st July 2006 attempts to describe this relationship, there may be a need for additional clarification.

   The base situation that I have described is a transfer price from franchisor (oil company) to franchisee that reflects that oil company's target wholesale price to its own network. In these circumstances, the franchisee is free to set whatever retail margin he/she desires as being optimal for the business. In line with standard free market strategies, most businesses price their products at the highest level that they believe the market will bear. In metro areas, that margin ("natural margin") is between 3 and 4 cpl. In regional areas it can be higher again. In these situations, there is no financial assistance provided to the franchisee by the franchisor.

   However, in all metro areas, the pricing tactics of independents drives the retail price lower and the transfer pricing policies of the franchisor mean that the franchisee is unable to match the lower retail prices of the independents and remain financially viable. In these circumstances, the franchisor agrees to provide financial support to the franchisee to enable him/her to remain competitive on price without incurring financial stress. In these circumstances, the franchisor determines the franchisor's selling price and gross margin. In other words, the provision of the financial support is conditional upon the franchisee setting a retail price that is determined by the franchisor. The average gross margin for supported franchisees is in the order of 3 cpl.

In this way, the franchisor (oil company) minimises the amount of discount it has to feed into the market to meet its sales volume targets.

In addition to "price support" financial assistance provided to franchisees, some franchisors provide business profitability support to some franchisees in certain circumstances. The provision of this financial assistance is a recognition that not all service stations are profitable businesses in their own right and in isolation, and often occurs when the contribution of the non fuel commercial activities underperforms versus industry benchmarks. It is often the case that if a site qualifies for profitability support over an extended period of time, it will eventually be exited from the franchisor's network and either be decommissioned or sold to an independent operator with the franchisor's interest in the site being confined to a supply agreement.

Independents of course do not receive financial assistance from their suppliers and have to survive and/or prosper on the basis of their business expertise.

2. Senator Chapman asked me if I was satisfied with the transparency of terminal gate pricing, to which I answered that I was. However, I believe that further comment on the issue of transparency of transfer pricing may be of interest to the Committee.

   It is the view of the SSA that very little volume is actually sold at published TGP's so the transparency of the published TGP's is of little relevance. In the case of the supermarkets for example, there is no transparency in the transfer prices between Shell and Coles, and between Caltex and Woolworths. Similarly, there is no transparency in the transfer prices in situations where the oil companies operate their own sites or operate commission agency agreements. There is also no transparency in franchisor to franchisee transfer pricing. Finally there is no transparency of supply contracts between the oil companies and the large wholesalers and independent operators as volume discounts are often negotiated on an individual basis that remain commercial in confidence. Therefore, the role that the current TGP system has in contributing to total transparency and to ongoing competition is questionable to say the least.

   It is also extremely obvious that a single site independent operator purchasing fuel from an oil company at the posted TGP is at a severe disadvantage in the market place because the majority if his/her competitors are sourcing their product at a substantial, high volume driven, discount. The continued concentration of market power into the hand of fewer larger players will only exacerbate this problem

I trust the Committee find s this additional information of use and I would also like to take this opportunity to thank the Committee for granting the Service Station Association the opportunity to appear before it.

Yours faithfully,

Ron Bowden
Chief Executive Officer