

4th August 2006

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

Dear Sir/Madam

SENATE PETROL PRICE ENQUIRY

Thank you for this opportunity and your time, I am an independent service station operator in Queensland. My service station is branded with one of the majors and I purchase all fuel by the tanker load from this oil company at its posted TGP price. I then set my retail price based on surrounding competitor's prices.

It is my opinion that the **TGP** and **Retail Prices** of automotive **petrol** and **Diesel** sold in Australia should be set by the government.

Once the appropriate formulas had been agreed it would be very easy to administer.

TGP

The oil companies have a formula for setting the TGP price but they then make secret adjustments depending upon whom they are selling to. Let's get rid of these secret adjustments so everyone can buy at the same price.

RETAIL

I would suggest the formula for setting the metropolitan retail price to be something along the lines of "TGP + 2% + 4cpl + appropriate freight". TGP would be adjusted once or twice per week.

Setting the country/remote location retail prices needs to have other factors included, fuel is a volume product, the less volume sold – the more margin needed. There are also extra operating costs in remote locations.

This solution would take all the politics and scaremongering out of fuel plus stop the ridiculous weekly price cycles that we presently experience in the major cities. The public's anxiety over petrol prices is used by a number of organisations to further their own causes. These organisations include motoring bodies, the news media and all the political parties.

There is also an entire industry that reports on only the retail prices of fuel. This industry has staff employed with the sole purpose of driving around and monitoring price boards. They have PR departments that regularly put out press releases. To keep this fuel reporting industry relevant a lot of these press releases are misleading and designed to always keep the public in a state of anxiety over fuel prices.

Let's get rid of all this extra expense, nonsense and hysteria.

I realise the incumbent federal government has a policy of letting market forces determined prices but the general public are now convinced that the price of fuel is one of the most important issues in their life and it is perceived that market forces can no longer be relied upon to set a fair market price for fuel. I believe the circumstances behind setting up this inquiry support that fact.

Fuel Discount Shopper Dockets.

Fuel Discount Shopper Dockets should also be prohibited. They do not serve the general public at all. There is not one cent saved, the cost is simply shifted. While some customers do save money on their total fuel purchase when using a Shopper Docket those savings **without exception** are paid for by the general public through their every day purchases. That means everyone including pensioners and the disadvantaged are paying towards subsidising the driving public's fuel regardless if they themselves drive or not. All the shopper dockets schemes cost money to operate and most of the schemes run by independent companies are operated to make a profit; in other words instead of the public saving money with Shopper Dockets they are in fact paying more for their fuel, the cost is hidden in there everyday purchases. In some cases the public are coerced in to making extra purchases just to qualify for the Shopper Docket.

How did I arrive at the RETAIL formula?

Costs need to be covered; profits have to be made. I think 7 cpl is the real average city margin in the industry now. Even the submission from the Victorian Government supports this. They quote the average difference between retail and posted TGP is around 4 cpl. When taking into account that all the oil companies major customers buy at least 2 cpl better than posted TGP; that makes a margin of 6 cpl.

The weekly cycle

Why is there a weekly cycle? I don't bloody know. What happens is we start with a margin of around 13-15 cpl and drop to nothing through the week. Because the fuel is sold at an operating loss at the bottom of the cycle, I guess it has to go up above a reasonable sell price to recoup the losses. I don't blame the public for being confused because it has got me stumped as well.

From media reports I believe this inquiry was set up because fuel cycled up just before a recent long weekend. This is just one example of the scaremongering that I previously referred to. That particular week the fuel price cycle was no different than the previous weeks or the following weeks. Additionally, more fuel is sold to industry than to the general public regardless of long weekends or not. If the fuel cycle timing was designed to take advantage of extra volume then it would always cycle up at the start of the working week.

Regards
Michael Carr

