

Industry fears Federal Government Oil Code will push petrol prices beyond \$2.00 per litre - And push independent service stations to extinction

The repeal of the *Petroleum Retail Sites Marketing Act 1980* and also the *Petroleum Retail Marketing Franchise Act 1980*, and their replacement with a new flawed Oil Code, as proposed by Minister MacFarlane and the Federal Government, will inevitably result in higher petrol prices for the Australian community.

“Make no mistake, this proposed Oil Code will deliver the Australian market into the arms of the oil companies and the Coles/Woolworths big business duopoly,” VACC Executive Director David Purchase said.

“It will decimate the independent sector, and motorists in rural and regional Victoria, in particular, will be hardest hit.

“While it professes to improve competition in the sector, its effect, in concentrating the market into powerful oil company interests, will be the reverse,” Mr Purchase said.

Here’s how this will happen:

The proposed Code does not guarantee a ‘pristine Terminal Gate Price (TGP)’ as requested by all peak industry bodies representing medium and small business service station operators.

But it does allow oil companies to own and operate as many sites as they like.

And it does allow oil company refiners to discount the TGP to their own network and to branded partners, while denying discounted product to independents who will pay a higher Terminal Gate Price.

No doubt, while there is an independent sector to drive from the market, there will be a short term benefit to motorists through the passing on of the discounted TGP.

Independents, denied equitable access to discounted product (even when purchasing collectively), will not be able to compete and be forced to close.

Once the oil companies and their powerful partners have rid the market of competition, then they can – and will – do what they like with pump prices.

“The new Oil Code will allow total vertical control of the market by oil companies: from base resource, to the refinery, to the petrol station, to the tank – they’ll control every part of it.

“If discounting of the TGP is to be permitted for bulk purchases, then it must be transparent. Independents, purchasing collectively, must also have equitable access to discounted product.

“In this, consumers might take warning from words in the Minister’s own Explanatory Memorandum (Petroleum Retail Legislation Repeal Bill 2006): “Indeed, **the ACCC found that, in general, it is the independent chains rather than the oil majors or their franchisees that lead market prices down.**”

“They might also take warning from the price gouging currently occurring while the rising barrel price provides a smoke-screen for the oil companies to lift margins. They are enjoying record profits while Australians are being bled at the pump. Caltex has gone from being in the doldrums to one of Australia’s most profitable companies in little more than 18 months.

“And consumers might wish to pause for one moment and ask themselves: do they want to give complete market domination to the oil companies?”

“When have consumers ever benefited from concentration of market power?”

“As the two-airline policy showed, putting the market in the hands of two or three powerful interests diminishes competition and pushes prices up,” Mr Purchase said.

“So, motorists, and the Government, have to decide: do they want an independent sector or not. If they don’t, if they want independents forced out of business, then go ahead with this legislation.

“When this legislation goes through, oil companies will be given carte blanche to trample the independent sector to extinction. **It will be a disaster for all Australians and for regional communities in particular.**

“But someone please wake up the National Party. They have clearly been asleep while this legislation is being slipped through,” Mr Purchase said.

Ends.

More information, contact David Purchase on 9829 1105 or mobile 0438 417 416

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Attached: additional notes, comments – *Sites Act 1980; Franchise Act 1980, TGP.*

Petroleum Retail Sites Marketing Act 1980

- Limited the number of retail sites that the oil majors (refiner/marketers) could own, lease and operate;
- Did not apply to supermarket petrol retailers
- Its objective was to limit price setting activities by vertically integrated majors

Comment:

- The proposed Oil Code allows total vertical control of the market by the oil majors - from base resource, to the refinery, to the petrol station, to the pump, to motorists' fuel tanks
- The proposed Oil Code does not limit the number of retail sites the oil majors may own, lease and operate

Petroleum Retail Marketing Franchise Act 1980

- Set out minimum terms and conditions for franchise agreements in the petroleum industry
- Unique to the industry, it sat apart from the Franchise Code
- Its aim was to provide a level of certainty in franchise agreements and to balance the negotiating power of small businesses with oil companies
- Allowed franchisees to determine pump prices

Comment:

- The benefits of the new franchise terms in the proposed Oil Code will become increasingly immaterial as oil companies and their supermarket partners gain domination of the market

Terminal Gate Price (TGP)

- Price at which wholesale suppliers (oil majors in the main) are prepared to sell full tanker loads (35,000 litres) on a spot basis
- Operates inconsistently across jurisdictions. WA and Vic mandate a set formula; in other states the TGP is based on a formula applied to Singapore price benchmarks (TAPIS)
- Under current arrangements, and oil company jiggery-pokery, the TGP can obscure the actual cost of fuel on a cents per litre basis

Comment:

- No provision under the proposed Code for a 'pristine' TGP
- It does not allow independents equitable access to discounted product for volume purchases
- Inequitable access to discounted product will allow oil companies, with vertical control of the market, to drive independents out of business
- No transparency on discount structures. (Independents purchasing collectively should have equitable access to discounted product.)
- Regional communities (where most independent operators are based) will suffer most from an uncompetitive TGP price to independents