
**PROPOSAL
For A
Service Station
Structural Adjustment Fund**



***THE
ENVIRONMENTAL CLEAN-UP FUND***

VICTORIAN AUTOMOBILE CHAMBER OF COMMERCE

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VACC

Service Station Structural Adjustment Fund

A Fund to help reduce adverse environmental impact from service stations, particularly on closure or change of use

BACKGROUND

At the beginning of 1999, there were approximately 8000 service stations operating throughout Australia. This is less than half the number which was operating in 1980. Between 1800 and 2000 service stations are currently operating in Victoria. These numbers reflect a growing rationalisation of the retail sales sector within the industry, and it is highly likely that proposed deregulation of the industry will accelerate the rate at which service stations are closed and/or transferred to new owners.

Although accurate figures are not available, sources within the site assessment and clean-up industry suggest that, at any time, approximately one underground tank in three is leaking sufficiently to cause soil and even groundwater contamination. Certainly, service stations are high on the generic lists of potentially contaminated sites which are issued by Environment Protection Authorities (EPAs) throughout not only Australia, but the world. Even if confined within the boundaries of a site, the type of contamination usually associated with retail motor fuel operations can have serious adverse effects on both human health and the environment. Off-site plumes of contamination frequently occur, and are a major cause for concern to EPA's. Similarly, EPA policy nation-wide is that unused underground tanks should be removed, even if they have been properly decommissioned.

With the growing rationalisation within the industry, and the burgeoning pressure to re-use the land for other purposes, the contamination associated with service stations will need to be addressed with increasing urgency. Yet there is still widespread ignorance of the full ramifications of service station contamination, and frequently liability for the management and clean-up of contamination is transferred from one owner to the next by contractual arrangements, rather than by physical action on the site.

Part of the difficulty with service station contamination is that assessment and clean-up costs are not only significant, but also frequently hard to fix and quantify in advance. This makes the redevelopment of service station sites potentially a high-risk venture. Indeed, it is now widely accepted that for many sites, the cost of contamination assessment and clean-up may exceed the realisable value of the site by several-fold. This is particularly the case in the country, where property values are lower and the demand for land for sensitive uses is not so great. Thus not only is there a real risk that such sites, with their attendant environmental problems, will be abandoned, but the proprietors will face real hardship, and will be unable to capitalise on what they had imagined was a sound investment for their retirement or their future.

Recognising the potential for deregulation of the motor fuel retailing industry to increase the number of service station sites that are "retired", the Senate Committee on Rural and Regional Affairs and Transport Legislation, chaired by Senator Winston Crane and known as the Crane Committee, has recommended

"...that the Government investigate the establishment of a structural adjustment fund", for the purpose of assisting in site remediation and thereby enhance the economic benefit of the site to the owner, or to compensate the owner / operator for the loss of the capital asset and investment on exit from the industry."

(Crane Committee Report, Recommendation Three, May 1999)

As an organisation representing the interests of a wide range of businesses involved in the retail automotive sector, the Victorian Automobile Chamber of Commerce (VACC) endorses the concept of such a structural adjustment fund. The VACC also recognises that such a fund would present a significant opportunity to redress some of the environmental damage associated historically with the retail motor fuel sector. This document is intended to present suggestions as to how such a fund might operate, and to explore the features of the fund which should desirably be included.

THE SCALE OF THE PROBLEM

There are in fact two potential problem areas - sites which will be retired from the industry and put to some other use, and sites which will continue to be used as retail fuel outlets but will transfer ownership. While it is the former category which has been the focus of the Crane Report, both categories present similar needs in terms of environmental impact, and the VACC is of the view that the ability to deal with both will greatly enhance the usefulness and ultimate benefit of the fund.

"Retiring" sites

VACC considers that the majority of sites that will be retired from the industry will come from the sector known in Australian Institute of Petroleum statistics as **"distributor supplied with various ownership"**. These account for roughly half the service stations nation-wide - about 3900. Perhaps one third of these, ie **1300**, will be retired in the next five years. This figure could be augmented by a further **500 - 700** sites if several of the major refiners act on their suggestion that they may withdraw from direct retailing. Overall, perhaps **2000 sites nationally**, or some 500 sites in Victoria, are likely to be retired over the next five years.

These figures are decidedly rubbery, but they are confirmed to some extent by an analysis of the situation in Victoria. Of all service stations in Victoria, Australian Bureau of Statistics figures suggest that perhaps 35% are rural, or at least located outside the Melbourne metropolitan area. Information provided by VACC members suggests that there will be proportionally more service stations retired from rural areas than from greater Melbourne (reflecting the potentially greater profitability of metropolitan sites generally).

Therefore, if perhaps 40% of rural sites and 20% of metropolitan sites in Victoria are retired within the next five years, this amounts to about 550 sites (ie 40% of 665 plus 20% of 1250), roughly in keeping with the number projected from national figures.

“Transferring” Sites

Under normal circumstances, it is estimated that approximately 2% of all active service stations change ownership and/or franchisee annually. However, if the major refiners quit their retail sites to concentrate on refining, a further major pool of sites will change ownership. Nationally, AIP figures indicate that the major refiners own approximately 3200 sites. Allowing for perhaps 700 sites to be retired from the industry (see above), this suggests that about 2500 continuing sites could come on to the market. Overall, as indicated in Table 2, below, perhaps **2850 sites** (570 p.a) could change ownership over the next five years.

Scope and costs of environmental work required:

Regardless of whether it is to continue as a service station or be retired and put to some other (usually more sensitive) use, any site in either of the categories above should undergo a contamination assessment which conforms to the *Guidelines for Assessing Service Station Sites*, published by the NSW EPA. Although it is difficult to define a "typical" service station site, and the site contamination assessment industry vigorously resists using a standard schedule of fees, costs for a service station site assessment usually fall within the range \$8000 - \$12000. An independent audit by an accredited auditor, to satisfy due diligence or planning requirements, will typically cost a further \$5000 - \$8000. Thus the typical range of costs for a sound site assessment is in the range **\$8000 - \$20,000**, depending on whether a statutory audit is required or not.

Where clean-up is required, either in response to an EPA directive or when the site is to be retired and put to another, more sensitive use, the costs vary enormously. Costs will depend, amongst other things, on such factors as the extent and nature of the contamination, the site geology, soil type and hydrogeology, and the site's location and prospective use. Costs well in excess of \$300,000 can be common for even quite small sites with serious contamination problems.

Nevertheless, there is one class of cost which is relatively predictable for retired sites - the cost of removing tanks. Excavating and removing a tank costs between \$1000 and \$2500, depending more or less on the tank size and condition (tanks in usable condition are frequently sold to help defray the cost of removal). There can be further costs of up to \$2500 per tank to remove and dispose of any contaminated soil surrounding the tank, and verify that the excavation faces are clean. Disposal costs can be considerably greater in country areas, which do not have landfills licensed to accept contaminated soil. Thus a clean-up involving simply the removal of two 24,000 L tanks, for example, would cost of the order of **\$9000 - \$10,000**, assuming the contamination was restricted to the tank pit itself. There would be additional costs involved in backfilling the excavation with clean fill. For the sake of this evaluation, it is therefore reasonable to assume a median cost of approximately \$25,000 to assess a typical site, remove the tanks and obtain

sign-off from an auditor. This implies that the **annual median, national cost of retiring sites from the industry will be of the order of \$9.75 million**. However, experience suggests that it would be prudent to allow **approximately three times** this figure, if all sites in need of clean-up are addressed, and brought to the highest applicable standard. (This will depend on the proposed use and sensitivity of the site, and its location, amongst other things.) By a similar logic, **as summarised in Table 1 below**, the **annual median, national cost** of ensuring that all transferring sites receive adequate environmental overview would amount to **\$7,980,000** (ie 570 x 14000), although in this case a contingency of **fifty percent** should provide an adequate buffer against unexpected costs.

Thus, the **national** cost of ensuring proper environmental measures are taken with respect to the retirement and transfer of services stations is estimated to be of the order of **\$42 million annually for five years**.

However, it is recognised that the major refiners will continue to meet their obligations in this regard, as they have in the past. As shown in Table 1, costs to the refiners on a similar basis would amount to about half the total national figure, ie \$21 million annually.

The remaining group of "independently owned" sites clearly represent the greater problem, since major sources of funding may not be available to them. As recognised implicitly in the Crane Report, it is this group which should form the focus and emphasis of any structural adjustment fund. As envisaged by VACC and summarised in Table 1, such a Fund would ideally have access to about **\$21 million annually for five years, to focus on independently-owned sites**.

Lesser amounts could be put to useful ends, but some compromises with respect to the number and type of sites dealt with, and/or the level of clean-up or assessment involved, would be necessary. It must be remembered that little reliable information on the actual cost of assessing and cleaning up service station sites in Australia exists. EPA's do not seek such information, and tend to regard issues such as cost as not being their responsibility. The major refiners have significant collective experience of the environmental issues associated with the divestment of sites, but generally refuse to divulge information such as cost. Further, any cost data they *did* provide would be misleading, because the scope of the investigations and clean-ups sponsored by the refiners is typically different from that required for planning or even third-party due diligence purposes.

SALIENT FEATURES OF THE VACC STRUCTURAL ADJUSTMENT FUND

Fundamentally, it is envisaged that the fund would greatly reduce the actual and potential adverse impact of service stations on the environment. It would do this by ensuring that sufficient funds were available to allow all aspects of a service station's environmental performance to be properly assessed and, if necessary, cleaned up.

Just how the funds would be disbursed remains an open question, and may vary from site to site. Options include

- loans in various forms (no interest, low interest, fixed or variable rate, etc),
- funded buy-outs (in which the fund actually purchases the site at an equitable price, and then recoups its investment by cleaning-up the site and selling it at an improved price for more sensitive use), and
- cash grants

Although final details are still being developed (see following pages), the following elements are likely to be incorporated in some form:

- a Vision and Mission Statement to guide the overall operation of the fund
- protocols and criteria for identifying and prioritising sites which are eligible for support by the fund
- protocols, criteria and standards for the assessment, clean-up and validation of service station sites
- review mechanisms, designed to ensure that:
 - (i) proposed assessments are adequate for the task;
 - (ii) proposed clean-ups meet the goals set, and
 - (iii) the level of clearance is appropriate to the value and potential use of the site.

To these ends, panels of industry experts from relevant fields will be accredited and made available through VACC to the sponsors of each site assessment or clean-up

[Clearly, much will hinge on the fund having access to the highest level of expertise in such fields as property valuations, site assessment, site remediation, environmental audit and town planning, and great emphasis will be placed on the development of these accredited panels.]

- advisory services, skilled at advising prospective participants on the nature and scope of the environmental work required, on the options for assessment, clean-up and sign-off, on suitable service providers, and on the legal and contractual aspects of buying and selling contaminated sites
- an education and awareness programme, to promote to site owners and operators both the fund itself and the concepts of best practice in environmental management, pollution abatement and the prevention of contamination. This programme would also allow for the collection of feedback on the fund's performance from the community and the contaminated site industry.

Considerable thought is also being given to possible sources of funding (or seed funding). Fundamentally, VACC is of the view that any levy to provide quick funding must be applied evenly across society - not just to the domestic motorist or petrol purchaser, for example. Issues such as the legal standing of the fund, and its ability to own real estate, are yet to be addressed. Further, the legal and

regulatory framework in which the fund operates, and the powers and responsibilities of any officers, agents or employees of the fund, are yet to be determined.

Another long-term ambition of the fund is to support research into improved and more cost effective methods for assessing and remediating service station sites. Besides ensuring that the available funds have the greatest beneficial effect possible, this work in turn may lead to improved designs for service station underground systems. It should also lead to operating methods which will further minimise pollution overall. It is intended that CSIRO should become a major participant in this research.

Vision and Mission for the Fund

We believe it is essential that the proposed Fund have an articulated Vision and Mission Statement, if only to provide all interested parties with an overview of what the Fund aims to achieve, why and how. Such a Vision and Mission Statement is still being developed at VACC. However, some measure of where it is headed can be had from the emerging belief at VACC that the Fund should not necessarily be restricted just to sites independently owned / operated by VACC members (although, as discussed above, these sites should clearly be the Fund's major emphasis). Rather, it could be open to the owners / operators of any service station site which is to be retired from the industry. It is considered likely that the Fund could even assist with the management of sites which, while continuing as service stations, are known to be causing environmental problems.

Identifying and Prioritising Eligible Sites

The VACC's current position implies that the Fund could ideally address all sites being retired from the industry, and any other site known to be causing environmental problems (including groundwater contamination and off-site soil contamination plumes). Nevertheless, it is a truism that there are likely to be more sites requiring attention than can be handled by the available funds. Accordingly, the Fund will require a mechanism by which sites are given priority for access to the Fund. Further, if the Fund is not to be used for all sites regardless of whether they are known to require attention, some means of determining the eligibility of the site for support will be required. This issue is at least as complex as it appears, and also depends on such issues as how the Fund is financed, how the funds are managed and disbursed, and the community and environmental context of the site, amongst other things. The continuing willingness of the major refiners to pay their own costs in this regard will be important to the operation and coverage of the Fund.

Protocols, criteria and standards

This rather arcane area has the potential to have the greatest impact on the success of the Fund, and the efficiency with which its resources can be used. Currently, there is reasonable agreement nation-wide as to the criteria which should be met if a site is to be put to a particular type of use.

However, there is much less agreement on the level and extent of assessment required to determine a site's actual status. Issues such as the number and location of soil investigation bores, and the need for, number and location of groundwater bores, are rather contentious within the industry, and can have an enormous impact on costs.

The NSW EPA has set down explicit Guidelines for the Investigation of Service Station Sites, while the Victorian EPA has tended to allow the Environmental Auditor system to set the level of investigation on a case by case basis. This in turn can, and has, given rise to considerable differences in the approaches adopted, and the consequent costs. While the most conservative approach may be to adopt the NSW framework, it should be remembered that the NSW Guidelines were written without consideration of economic issues, for example. Further, the vast variety of soil types and underlying geology found in service station sites mitigates against an unduly prescriptive approach.

Review Mechanisms, Advisory Services and Education Programmes

It is another truism that few if any individuals can have a comprehensive understanding of all the issues involved in the retirement of any given service station site. Issues such as:

- the suitability and comprehensiveness of the environmental work undertaken to reveal the nature and extent of contamination,
- the "highest and best" use of the land to ensure best return for the owner/occupier, and
- liability and contractual matters in relation to the contamination and clean-up.

These are even more specialised than the usual issues confronted by the typical site owner/operator.

VACC sees one of the major functions of the Fund as being the provision of reliable advice in all the issues associated with service station retirement. After all, proper administration and operation of the Fund will require that the Fund itself have access to such advice, to ensure the most cost-effective disbursement of its resources. In particular, the Fund should be expected to be able to justify its actions - in relation to the valuation of a site, for example, or the scope of a clean-up required - by virtue of having acted on advice that is recognised as highly expert and independent. Thus VACC envisages that the Fund could assess, appoint and support accredited, independent panels of experts in relevant fields.

Widespread anecdotal evidence suggests that most retiring owners / operators would not only welcome good advice, but desperately need it. Provided any conflict of interest issues were overcome, it should be possible for these panels also to provide high calibre advice to applicants for Fund assistance. Although many models for the operation of these panels can be put forward, ultimately VACC expects that the experts therein would be paid for their services, directly or indirectly, from the Fund.

One other element of VACC's emerging vision for this Fund is that it should address service stations into the foreseeable future. Accordingly, we believe that it will be highly desirable, indeed essential, for the practice of service station operation to improve with respect to the environment. To this end it will be necessary to improve the accessibility, reach and effectiveness of education programmes for owners / operators, particularly in such areas as pollution avoidance, tank maintenance and leak monitoring, forecourt management, waste minimisation and disposal, and even energy management. If this educational element of the Fund is adopted, it is possible that participation in one or more of the training programmes will become a pre-requisite to access to the Fund itself.

It will be apparent from the above that much of the scope and detail of the proposed Environmental Structural Adjustment Fund is yet to be finalised. Nevertheless, we believe the Fund as outlined, even at this early stage, stands to make major beneficial impacts on Australian society and our environment, and is therefore worthy of widespread support.

Table 1
SUMMARY of CALCULATIONS:
ESTIMATES for the SIZE of the STRUCTURAL ADJUSTMENT FUND
(see following page for explanatory notes)

	Independents	Refiner	Total
TOTAL SITES	4,810	3,200	8,010
RETIRING SITES			
Number retiring			
Annually	260	140	400
Over 5 years	1,300 ¹	700	2,000
Costs to Retire			
Median cost per site	\$25,000		
∴ Annual cost (\$ million)	6.25	3.5	9.75
∴ 5 year cost (\$ million)	31.25	52.5	48.75
Allowing 300% contingency	\$75,000		
∴ Annual cost (\$ million)	19.5	10.5	30
∴ 5 year cost (\$ million)	97.5	52.5	150
TRANSFERRING SITES			
Number transferring			
Annually	70 ²	500	570
Over 5 years	350	2,500	2,850
Costs to Transfer			
Median cost per site	\$14,000		
∴ Annual cost (\$ million)	1.0	7.0	8.0
∴ 5 year cost (\$ million)	5.0	35.0	40.0
Allowing 50% contingency	\$21,000		
∴ Annual cost (\$ million)	1.5	10.5	12.0
∴ 5 year cost (\$ million)	7.5	52.5	60.0
TOTAL PROJECTED COSTS			
Annual - buffered (\$ million)	20.5	21.0	42.0
5 year - buffered (\$ million)	105.0	105.0	210.0

1: One third of 3,900 distributor-supplied sites (see page 2)

2: 2% of 3,500 remaining active sites (see Item 4 in Table 2, below)

Table 2
SUMMARY of CALCULATIONS:
ESTIMATES NUMBERS of SITES in VARIOUS CATEGORIES

Item	Data	Source	Value
1	Total number of service station sites.	Australian Bureau of Statistics (to 9/98)	8010 (say 8000)
2	Less sites retired over next five years	Estimate - see page 2	2000
3	Less sites likely to be transferred from major producers	Estimate based on AIP figures	2500
4	Sub-total: remaining pool of active sites	<i>Item 1- Sum(Item2+3)</i>	3500
5	Proportion of these transferring over next five years	Estimate 10% (2% pa) based on industry information	350
6	Total number of sites transferring over next five years	<i>Item 3 + Item 5</i>	2850
7	Number of sites likely to transfer per annum	<i>Item 6 ÷ 5</i>	570