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08 July 2008

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Hawkins,

Re: Inquiry into National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008

Thank you for inviting 7-Eleven Stores Pty Ltd (7-Eleven) the opportunity to provide its view on the proposed national Fuelwatch scheme (**Fuelwatch**).

7-Eleven is **opposed** to a Fuelwatch based on the Western Australian model for the following reasons:

1. Fuelwatch will be anticompetitive regulation

Fuelwatch will prohibit fuel retailers from reacting to price competition in their local market. It will penalise retailers for decreasing prices if they get their advanced nominated price wrong and find themselves uncompetitive. Given that during the course of a normal weekly cycle the price is going down on six days out of seven, it makes no sense to impose a regulation prohibiting retailers from being able to further reducing their prices within a 24 hour period to the benefit of the consumer.

2. Fuelwatch disadvantages the majority of consumers that purchase fuel at the bottom of the cycle

The majority of consumers are attuned to the weekly price cycle which provides them with the opportunity to purchase fuel at, or near, cost price at the bottom of the cycle. The introduction of Fuelwatch will likely result in less frequent discounting at the bottom of the cycle, which will in turn further disadvantage price sensitive consumers.

The ANOP Research Services Pty Ltd report commissioned by the ACCC found that motorists are well attuned to the weekly price cycle, with over 80% of respondents stating they are aware of the weekly price cycle while 88% of

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respondents highlighted Monday, Tuesday and Wednesday as the cheapest days.

3. Fuelwatch will not deliver the retail savings the government has promised

We believe Fuelwatch is an unnecessary regulation of what is already an extremely competitive market. The competitiveness of the downstream petroleum industry has been confirmed by the ACCC in their inquiry into the price of unleaded petrol released in December 2007 where they found that:

'Retail margins appear to be small. The gross indicative retail margin on average across the five largest metropolitan cities over the last four years is 4.2 cpl. Retail margins have remained broadly constant over that period, although they have increased slightly in the last 2 years. Low margins may have led to some rationalisation of the industry with the closure of uneconomic sites.'

The ACCC report found that retail fuel margins had increased from 3.9cpl in 2003/04 to 4.4cpl in 2006/07; an increase of only 0.5cpl. However, in gross profit percentage terms, retail margins on fuel have actually fallen from 4.32% to 3.62% due to the increased wholesale cost resulting from rising world oil prices.

Over the same period, tax has increased from 46.4cpl to 49.2cpl, representing an increase of 2.8cpl. This means that the tax component of the fuel price has increased over the period 5.6 times that of retail margin increase. This is highlighted in the following table:

	2003/04	2004/05	2005/06	2006/07
Retail average	90.3cpl	100.6cpl	121.1cpl	121.6cpl
Retail Margin	3.9	3.4	3.8	4.4
Excise & GST	46.4	47.3	49.2	49.2
Wholesale Margin	4.3	5.3	7.4	8.1
Gasoline Crack	6.1	3.0	4.2	3.7
Tapis Crude	29.6	41.6	56.6	56.1

Source: ACCC report December 2007

Once the ACCC analyses the 2007/08 financial year it will find that retail margin may have improved marginally from a cent per litre perspective while the government would have received a windfall in additional GST.

This data aims to highlight to the Senate Committee that the retail margin is minimal in relation to the other components of the fuel price and that there is no opportunity to compound it further through Fuelwatch.

4. Fuelwatch will place additional pressure on the independent sector of the market

Independent fuel operators have already suffered considerable volume decline since the introduction of the major supermarket shopper docket discount

schemes. Any further compression of margin, as promised under Fuelwatch will surely see further rationalisation of the independent sector which will eventually lead to a lessening of competition.

Already 29% of supermarket shopper docket customers surveyed have been found not to be checking prices at other stations before redeeming their docket. Once they have a docket in their hand their purchase decision has already been made. If independents are unable to respond to supermarket price movements quickly this will undoubtedly see more consumers move away from the independent sector. Under Fuelwatch a day's lag time would effectively be forced on independents wishing to match those who lead the price down.

Independents will also be disadvantaged by not having geographically spread networks to spread their risk across whilst nominating advanced prices.

5. Fuelwatch will be costly to implement and administer and the money could be better spent on more worthwhile initiatives

The monitoring and distribution of fuel prices by the ACCC for all fuel retailers for all product grades nationally on a daily basis is obviously a huge task which will come at a considerable expense.

7-Eleven argues that this money could be better spent by extending the ethanol grant scheme which will provide fuel retailers with the opportunity to introduce an E10 grade at 3.0cpl saving to the consumer over regular unleaded.

In closing 7-Eleven is most concerned about the prevailing misconception that there is available profit compressibility at retail. With many fuel retailers such 7-Eleven making only 1 to 1.5cpl net, the prediction that retail prices will drop by 2.0 to 5cpl under Fuelwatch is ridiculous or, if true, would retire all independents from the market which will ultimately end up driving up prices and lessening competition.

7-Eleven thanks the committee for the opportunity to express its view on Fuelwatch. We also hope that the Senate Committee will see through the political and emotional aspects of the fuel pricing arguments put forward in various media and focus on the fact that Australian consumers are getting a competitive fuel price from Australian fuel retailers and that further regulation at a retail level is not required.

Yours sincerely,



John Pettit
National Fuel Manager
7-Eleven Stores Pty. Ltd.