



23 February 2010

The Hon Mathias Cormann Senator
Chair
Senate Select Committee on Fuel and Energy
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Senator Cormann,

Please accept this letter as the submission to the Senate Select Committee on Fuel and Energy by the Australasian Convenience and Petroleum Marketers Association (ACAPMA).

ACAPMA is a petrol industry advocate representing 91 member businesses and the more than 2500 fuel retail sites, that members either own and operate directly or deliver fuel to under contract. ACAPMA members are typically small-to-medium sized businesses in regional Australia. Collectively, they handle around 14 billion litres of petroleum products – 75% of which is delivered in rural and regional areas. ACAPMA membership comprises a group of substantial businesses with important roles in their communities.

ACAPMA members operate as one or both of the following categories:

1. Petroleum distributor – transporter and wholesaler, involved in a diverse range of petroleum-related activities, including operation of inland fuel storage depots, road tanker fleets and aviation refuelling locations. Distributors supply a broad spectrum of businesses – primary producers, commercial and industrial, aviation, and mining – as well as fuel retailers.
2. Petrol convenience retailer – operates service stations, convenience stores, truck stops and related business, such as car washes. Petrol convenience retail outlets vary from the traditional service station with a mechanical workshop to large convenience stores offering a full range of products. Petrol convenience retailers may operate under their own independent brand or that of a major oil company. They could be a large multisite operator controlling a network of locations or a small business with one or two service stations.

We are pleased to be given the opportunity to provide comment to the Select Committee on Fuel and Energy. By addressing specific points within the terms of reference, we hope to address the concerns of ACAPMA members, ie impacts on the independent fuel retailer.

I look forward to attending the hearings on 26 February 2010 to discuss these and other petroleum issues with the members of the committee.

Yours sincerely

Nic Moulis
General Manager

Encls: Comments on issues raised in the Select Committee on Fuel and Energy Terms of Reference

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**ACAPMA's views on issues raised in
Terms of Reference of the Select Committee on Fuel and Energy:**

- ***a. the impact of higher petroleum, diesel and gas prices***

ACAPMA contends that the words 'higher' or 'lower' without context are emotive and add nothing to a constructive debate about the fuel industry.

What the Parliament should concern itself with is the impact on families and small business in rural and regional Australia if these businesses did not exist. Repeatedly, reviews have indicated that the fuel industry in Australia earns slim margins at best, even tighter in rural and regional areas. The board price is a fine balance between margin and volume, ancillary business, distribution costs, population and competition. Get this wrong and the operator is out of business.

It is the broader context of what these businesses provide to the fabric of the community that should concern the Select Committee. In the past year, ACAPMA has been working with Victorian communities that now clearly understand what these businesses contributed to their community, now that they are without a local service station.

- ***b. the role and activities of the Petrol Commissioner, including whether the Petrol Commissioner reduces the price of petrol***

Since the ACCC appointed the Petrol Commissioner there has been a change in the ACCC's interaction with the industry. The level of communication specific to the fuel industry has increased, making ACAPMA members aware of their duties in compliance with the relevant *Acts* and *Codes*. The ACCC's commitment to report important information about the operation of the fuel industry, including the price, costs and profit of unleaded petrol, has assisted governments, industry and the public understand the value of the industry to Australians.

ACAPMA believes that it is not in the Petrol Commissioner's capacity to reduce the price of petrol. We understand the role is to police the behaviour of participants in the industry as measured against the *Trade Practise Act* and, more recently, *Oilcode*. By assessing behaviour in terms of its public detriment verses public benefit, the Petrol Commissioner can make sure that, in the short and long term, the fuel industry remains competitive. The outcomes of this would include consumers receiving the most competitive price available.

- ***c. the operation of the domestic petroleum, diesel and gas markets, including the fostering of maximum competition and provision of consumer information***

Changes in competition in the Australian market have coincided with a paradigm shift in the way fuel distribution and retail businesses are owned and operated. As well, there has been a shift in the operation of the petroleum industry from the perspective of importing and refining. While the operation of the market has led to flexible and responsive businesses that fiercely compete for the customer's patronage, there is room for improvement in addressing the main impediment to competition, a lack of transparency.

The ACCC has recognised and ACAPMA concurs, that the main determining factor of the retail board price is the wholesale price paid for the product by the retailer. Only after this is taken into account can competition in an area be considered. While regulations have encouraged unprecedented transparency at the retail end of the market – with the mandating of price boards – a lack of similar transparency at the terminal gate creates confusion. Consumers can see and compare retail prices, and even understand the main consideration in setting a price, but cannot follow that understanding back to the terminal gate. From the consumer's perspective, they have ready and constant access to crude oil prices and to retail prices via a price board, but 'who gets what' between the ground and the car is a mystery to even the most informed consumer.

- ***d. impact of an emission trading scheme on the fuel and energy industry***

ACAPMA members believe distributors and retailers in the fuel industry are price-takers, in that the influence we have on the makeup of our buying price from refiner marketers or importers is marginal. We could suggest that the entire Australian fuel market consists of price-takers, as the prices of crude oil and refined product are based on international benchmarks. It is a concern of ours that any scheme which has the potential to increase the cost of production will make local refiners/marketers uncompetitive in global markets. Any scheme that distorts the process of production or importation of refined product, through either increased cost or compliance, will affect local jobs and investment as well as adversely disturbing Australia's 'energy security'.

Even though the Australian Government has indicated that the fuel industry would be exempt of any carbon charge, the emission trading scheme could still have a cost impact on the fuel market. The production of items that would be consumed by businesses in the fuel industry (eg motor vehicles, truck tyres and uniforms) may have the potential to increase under the scheme. Any increase in the cost of operation of a business will eventually make its way to the consumer, in the case of fuel this will be at the board price.

- ***e. the existing set of state government regulatory powers as they relate to petroleum, diesel and gas products***

Current state legislation for the fuel industry requires compliance with various environmental protection, dangerous goods and storage guidelines. New South Wales is the leader in this area with legislation that now also requires stage 2 vapour recovery. Both Queensland and NSW are introducing mandated biofuel blends.

The problem for ACAPMA members, especially those that market across borders, is that state governments have different regulations covering the same purpose. This lack of consistency, not only creates difficulties in achieving compliance, but it also means the cost to operate is sometimes very different between states.

- ***f. taxation arrangements on fuel and energy products***

It has always been a concern for ACAPMA members that the GST is in effect a 'tax on a tax'. This is because the final price sees, the 10% GST calculated on a price that already includes the 38.143 cents excise, taking the tax component to over 44 cents per litre. This anomaly is something that we hoped is to be addressed in the latest tax review.

Some changes required of operators to comply with changes to regulation will require operators to replace equipment and infrastructure that has not reached the end of its useful life. ACAPMA believes that a program of accelerated depreciation be considered for these purchases to help businesses making these decisions recoup their investment at a faster rate. This would also provide an incentive to operators and their lenders/financiers.

Whilst ACAPMA does not believe that mandates are a positive way to encourage the development of alternate energy, we do believe that excise rebates are encouraging investment in alternates. As we have stated the implementation of alternate fuels requires new investment and time, to both implement and recoup. We would encourage the Select Committee to be mindful of what impact the removal of excise rebates could have. Even though the existence of these rebates may have been lengthy in political terms, in commercial terms implementation, at retail especially, is scant. Even LPG, probably the longest serving alternate, has limited representation. A review of the phase out period to 2015, including moves to discourage the mandating of alternate fuels, should be considered.

- ***g. the role of alternative fuels to petroleum and diesel***

ACAPMA agrees that Australia should embrace the search for alternative transport energy. It should be efficient in production and use, clean and flexible. This requires a prudent policy approach that seeks to keep as many options open as possible, in particular the potential for, albeit unpredictable, technological change.

State mandates, a blunt instrument that supports one product over another, are having a contrary impact on alternate fuels. Not only are mandates skewing investment decisions towards first generation ethanol production – using grain, sugar cane and the like – they also force depot and service station operators to make major investment decisions in short time frames. This will lead to a slowdown in all alternate fuel development, including second generation ethanol development using biomass. The mandates create confusion for consumers, with operators at various stages of implementation of the changes. This is highlighted in Queensland, where consumer groups are complaining that some service stations no longer sell regular unleaded. This forces the consumer to pay a 12 cents per litre premium, at a minimum, to purchase fuel that does not contain ethanol.

Mandates should also be a concern for the Australian Government, as the excise rebate on alternate fuels is a federally funded scheme. While the Australian Government looks for prudent ways to contain the budget deficit, current state legislation in New South Wales and Queensland alone will increase the excise rebate bill from \$75 million to over \$270 million per year, based on 2009 volume data.

- ***h. the domestic oil/gas exploration and refinement industry***

With the closure of the Mobil refinery at Port Stanvac in South Australia in 2003, there are currently seven (7) refineries and about 26 seaboard terminals in Australia. Even with extensive upgrades since the 1950s and 60s (when these refineries were built), they are still small compared to new refineries in the Asian region (8000 million litres per annum capacity versus 70 000 ML pa). Even with these facilities working at best practice, over 30% of the refined petrol sold in Australia is now being sourced internationally. The days of excess local refined volume being dumped cheaply on the local spot market are long gone.

These figures alone would suggest that Australia has become dependent on international fuel supply. Couple this with the fact that 80% of our current crude oil requirements are coming from overseas, and it is clear that international factors are the direct influence on the price of petrol in Australia.

Supply, but more importantly, storage capacity, terminal throughput and days coverage are now the important factors in making sure there is fuel available. South Australia can be used as an example of what is happening with supply. Since the closure of Port Stanvac, the state has become reliant on imports with over 100 ships required per year. However, major oil companies are stretching out the distance between ships – less ships, larger cargos – in an attempt to reduce costs. Therefore, shipping delays now cause regular shortages.