

# THE TRUE FACTS ON PETROL COSTS

We understand that petrol is a grudge purchase and that prices for the average worker are reaching a level that impacts heavily on income. Margins on fuel over the past few years have remained static or in many areas have declined. APCO endeavors to always maintain as fair a price as competition allows; and we if possible try to keep prices from fluctuating where possible.

## WHAT ARE THE PROBLEMS – EXCISE GOUGING

The price of fuel is always political as the governments of the day try to shift the pressure of pricing to the Oil Companies. Do you know that the Government collects 38 cents per litre excise on every purchase? Add to that on today's price a further 13cpl in GST. That is a total of 51cpl. A recent announcement by Caltex revealed a profit of \$400 million which equated to 1.5cpl. Hardly a rip off when the Government collects \$280 million for every cent of excise (that figure was given to me by John Howard at a luncheon in November). It represents a total of \$10.64 billion. Add to that a further 3.64 billion in GST and you can understand why the Government tries to shift the blame. A media release by Family First Party asked for a 10cpl cut in excise and apparently the Prime Minister at the time costed it as 2.8 billion.

**Suggestion** - John Howard and Kevin Rudd during the election promised \$31 billion in tax cuts. Based on those estimates it will only cost \$10.64 billion to remove the excise of 38cpl. Analyze the promised tax cuts of \$31 billion and ask yourself how much of that will end up in your pocket if you have to spend it on petrol. Would it not be more equitable and fairer to all taxpayers to remove the excise? It would be a tax reduction that did not distinguish between rich and poor. There should be cost savings in many areas with a flow on into the economy reducing inflation. It also removes the inequity of a tax on a tax something that is intolerable to any taxpayer.

## THE SUPERMARKET EFFECT

The prostitution of petrol by the supermarkets has had a massive effect on the price of fuel and there is no longer any real competition on the boards. Regardless of the price APCO posts we are immediately matched and the docket system places us in an uncompetitive position. It is now the position that no one knows whether we are paying too much for petrol, groceries or liquor. Having been in this business for over 40 years and an intimate knowledge of the margins on fuel there is no doubt that all areas have been inflated to cover the cost of the discount docket. There has been an extraordinary loss of the independents in the market particularly the small ones. They were always the price movers and more competitive because of lower costs resulting in smaller margins. We believe that over 50% of independents have left the market or been taken over by the supermarkets. The ACCC are well aware of this impact as it was continually referred to during the recent petrol enquiry and its relationship to the discount docket. The facts now show that the two supermarket chains now control more than 60% of the retail market in a period of less than 10 years. The discount docket has not only affected the oil industry but is also hastening the demise of small competitors in many other areas. Anyone who has the impression that the Oil Companies make huge profits retailing fuel in this country should ask the question as to why did Shell get rid of all its sites to Coles or Caltex pass most of its sites to Safeway. Certainly not because they were profitable. Also ask yourself has the discount docket benefited anyone. The continual uproar about oil prices does not indicate any level of satisfaction with the petrol customer. The other question that should be asked is whether the discount docket is third line forcing or by its impact anti-competitive.

**Suggestion** - At the same time as removing the excise the discount docket should be banned resulting in honest competition on the boards. At the very least if the ACCC or Government is embarrassed for allowing it in the first place it should be capped at an absolute maximum at 4cpl. As an independent we would be able to live with that; Offers of 10cpl and 20cpl off petrol are not recoverable in the price of fuel and must result in higher prices somewhere else to recover the cost.

## **THE WORLD PRICES – ECONOMIC EFFECTS**

The impact of the world economy the cost of a barrel of crude and the value of the Australian dollar play a huge part in the price of fuel. For the sake of the exercise an increase of \$1 in the price of crude equates to about 1cpl in the price of fuel. A movement of 1 cent in the value of the Australian dollar also reflects about 1cpl. In the last say 4 years the cost of a barrel of crude has risen from about \$40 to \$110. Fortunately the Australian dollar has risen during the same period from below 50c to approx. 95c negating some of the impact. I would not presume to make any suggestion as to how this could be changed as it always seems to be out of the hands of Governments and the people. The ACCC endeavors to monitor the gate prices of the Oil Companies maintaining political pressure on their prices and the adjustments made to the Singapore price. It is not easy with the daily changes to the barrel and the dollar Even as of today and listening to Graeme Samuels make comment on 3 aw (17/3/08) it would appear that some anomalies in prices at the gate from time to time would not be noticeable on the price board. There are countless other factors which can influence the gate price and surely we do live in a free enterprise society. My experience confirms that any anomalies seem to correct themselves within a short time.

## **THE RETAIL PRICE CYCLE**

The price cycle is the biggest complaint and constantly upsets the customer. With the media and the government using this constantly as an excuse to attack the oil companies for ripping off the public, lets remember that the supermarkets now control 60% of the retail market. As a retailer we also are criticized when we have no power to control the price. THE FACTS At the bottom of the market we are always below operating cost and often below the cost of product. Obviously at the top of the market these losses have to be recovered; as a result it would be fair to say the market highs are extreme. How this could be controlled is unsure without some type of control under predatory conduct. As these laws are vague and difficult to prove the only solution would be to introduce a regulation that prohibited selling below cost. I believe the immediate effect of such a law would reduce the extreme highs that occur and have an effect of stabilizing the board price. The false premise that prices go up before holiday weekends is a media beat up. Board prices react EVERY week regardless under the stupid price cycle. We only need to look at many other industries such as hotels motels airlines etc that do move prices at holiday times that receive no criticism while the poor old retailer of fuel is falsely accused of profiteering when we only follow a marketing strategy stupid as it may be. LETS NOT FORGET AS Graeme Samuels has pointed many times that at the bottom of the cycle customers can purchase product at the retailers cost. Assuming that they purchase at both ends of the cycle they therefore buy at an average price which would probably occur if the cycle did not exist.

**Suggestion** - We certainly believe that as do many countries in the world that it should be against the law to sell below cost. This strategy can be used selectively against small business and is anti competitive.

APCO a family company will always strive to give the public the best possible price subject to the competition and our ability to make a fair and reasonable profit that ensures our continuity in the Industry while hopefully continuing to expand our chain of Service Stations. The above comments are we believe without prejudice. We do live in a free enterprise society but we can always improve the rules of competition.

We hope if you are interested you let us know or have any queries. Maybe its time to tell a new Government that they have the opportunity to do something which will impact on the livelihood of each of us.

If you agree or disagree we would welcome your opinion.