



Service Station Association Ltd.

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

Dear Sir,

Re: FuelWatch

Thank you for providing the Service Station Association with the opportunity to make a submission on the FuelWatch Bill. The SSA, on behalf of its members, has taken a keen interest in this initiative and believes that the many issues raised require careful consideration.

In a general sense, the SSA supports any measure that will result in a net tangible benefit to consumers, provided that it does not adversely affect the industry, nor lead to intentional or unintentional discrimination against individual participants. In terms of FuelWatch, the SSA believes that support for the initiative is incumbent upon a thorough due diligence approach and satisfactory provisions applied to the Bill to alleviate any adverse findings and/or shortcomings that might arise from this process.

Our specific comments on the points raised in your letter of 27 June 2008 are as follows:

1. The SSA is unable to comment on the potential pricing benefits that consumers may gain from FuelWatch. We will rely on an independent and transparent analysis of the operation in Western Australia before we can make any comment. However, we endorse the aspect of FuelWatch that requires service stations to notify the ACCC their opening price for the following day as this will enable consumers to be better informed.
2. We remain concerned that the cost of compliance will fall more heavily on single site service stations compared to those that are a part of a network where the network owner sets the price. The requirement represents an additional piece of Government red tape that interferes with the small business owner's efforts to focus on the important aspects of his/her business. This proposal is in direct opposition to other State and Federal initiatives aimed at reducing red tape. Any additional equipment costs incurred by industry should be compensated.

3. The SSA's main concern is FuelWatch's restrictions on the ability of service station operators to react to the actions of other competitors. While we would prefer that the current situation of unrestricted price movements remain, we can see merit in the proposed conditions and restrictions on price increases. However, we believe that there needs to be an opportunity for intraday price reductions to protect single site independents against intentional or unintentional predatory pricing by other competitors.
4. Single site independents will be required to make an important pricing decision every day. Common sense dictates that they can't get it right every time. Some days they will be below the market, some days OK, and some days above the market. It's the latter circumstance that could be damaging to these operators. Successful service operators need to get the balance right between sales volumes and sales margins to achieve the necessary fuel and shop sales profit objectives. Fundamental to this exercise is the ability to fine tune posted petrol prices to achieve the optimum mix. In the eastern states, the many years of intense competition have achieved optimum trading conditions with many site closures in recent times testifying to the fact that there is no longer any "fat" left in the system.
5. Single site independents have to compete in the same market place as network operators. Network operators have the luxury of spreading the next day's pricing risk over a large number of sites so that the consequences of "not getting it right" are less. In addition, we understand that in Western Australia, many networks leave at least one of their outlets at the low point of the cycle on the day that the rest of the network goes up. The nearby independent is then so far out of the market that the damage to business is immense. The SSA believes, that in situations like these, the independent must have the flexibility to make an intraday price reduction to remain competitive. The SSA is not able to contemplate support for FuelWatch while single site independents remain vulnerable.
6. The SSA does not agree with the proposition that including a provision for intraday price reductions would result in a scenario of all sites opening at a high price and then reducing during the day only as required. The east coast industry has been free to operate this way for the last twenty years or so and hasn't, so we see no evidence that it would change its behaviour under an amended FuelWatch arrangement. In any event, the Bill provides for changes after one years' operation, so such a restriction could be imposed then, should actual market reaction require it.
7. Notwithstanding the above, there are also a significant number of small throughput service stations that will become financially precarious if their ability to be reactive is restricted. The SSA therefore proposes that service stations with small throughputs be exempted from FuelWatch. The SSA proposes that the threshold for compliance should be set at above 3.5 ML per year of petrol sales. This is a figure widely used by the industry, both here and overseas for such a purpose and we believe it to be appropriate. These businesses typically see petrol as a secondary business activity and in support of the dominant retail business on the site. These are not the sites that lead the industry on pricing issues nor that are used by consumers as petrol price benchmarks. They should be spared the need to engage in more red tape bureaucracy.
8. The SSA believes that there are many significant differences between the Western Australian and the East Coast markets and that these differences need to be fully examined in an independent and transparent manner to determine the likely benefit to consumers before any decision to proceed is taken. The SSA doubts whether any advantages would accrue to east coast consumers from the FuelWatch proposal.

We trust you find the above comments of benefit. However, we are available to discuss any aspect of our submission or of the proposal in general as required, and at your convenience.

Yours faithfully,

Ron Bowden