



EG Group Acquisition of Caltex Retail Sites

RACT Submission to ACCC

March 2020

The Royal Automobile Club of Tasmania

RACT enjoys a trusted position and extensive market penetration in the community. More than 200,000 Tasmanians are RACT members.

Formed in 1923, RACT is an apolitical and independent transport, infrastructure, road safety, tourism and mobility advocate.

It is committed to supporting and furthering the interests of Tasmanians and does this through a comprehensive program of consultation, education, awareness and public advocacy.

RACT is represented in a number of stakeholder reference organisations in Tasmania and undertakes liaison with government and other groups. It also has three regional advocacy committees which are made up of local volunteers and other relevant stakeholders.

RACT's advocacy activity is defined by a series of public policy documents developed and endorsed by RACT's Advocacy Committee and Board.

These policies have been informed by history, experience, statistical analysis, consultation, industry knowledge and, most importantly, our members.

Nationally, RACT is a constituent member of the Australian Automobile Association (AAA) which represents some 8 million Australian motorists.

Internationally, RACT has joined with other Australian motoring organisations as a member of the Fédération Internationale de l'Automobile (FIA) to work on road safety and related issues at a global level.

EG Group Acquisition of Caltex Retail Sites

Background and evidence

The Royal Automobile Club of Tasmania (RACT) is providing this submission to the Australian Competition Consumer Commission (ACCC) as feedback in relation to the proposed acquisition of Caltex's network of retail service station sites by EG Group.

RACT is the peak automobile organisation in Tasmania providing advocacy support for more than 200,000 members.

The ACCC would be aware that the cost of fuel in Tasmania has been a significant issue for a number of years.

Tasmanian fuel prices

According to the ACCC's latest report on the Australian petroleum market (released in March), Hobart's average unleaded petrol price for December was 157.1 cents per litre (cpl).

This was the highest of all capital cities, ahead of second placed Adelaide (153.4cpl) and third placed Brisbane (151.2cpl). Hobart's prices were also well above the average for the five largest cities (Sydney, Melbourne, Brisbane, Adelaide and Perth), which was 149.3cpl.

Regionally, Launceston and Queenstown recorded average prices of 155cpl in December, while Campbell Town, Ulverstone and New Norfolk averaged 152cpl and North West Coast centres recorded between 146 and 151cpl.

Sorell also recorded 151 cpl while Huonville averaged 147 cpl. These were among the highest of all regional Australian centres.

The ACCC report, which used Hobart's terminal gate prices as a proxy for Launceston's TGPs, showed a disparity of almost 20 cents between the wholesale and retail price in December. This was much higher than the five largest cities, which recorded a disparity of just 15 cpl.

Motorist spend

Additionally, the AAA's Transport Affordability Index has also consistently found that Hobart is Australia's most expensive capital city in terms of fuel prices, with drivers spending \$80 per week as of December 2019. This was ahead of Sydney (\$78), Brisbane (\$76) and Melbourne (\$75)

The Index has also consistently found that Launceston is one of Australia's most expensive regional cities relating to fuel, with drivers spending \$90 per week as of December 2019. This was third, behind Bunbury (\$95) and Geelong (\$92).

The AAA report also shows that fuel is the second highest weekly expense of both Hobart and Launceston households, behind car loan repayments at \$123 a week in each city.

RACT action

Furthermore, RACT believes the disparity between Hobart's TGP and average retail price is an unacceptable cost imposed on Tasmanian motorists.

In March, the Tasmania's TGP dropped to below 100 cpl for unleaded fuel, while prices remained close to 150 cpl – a margin of almost 50 cpl. For diesel, the TGP was around 110 cpl and the retail around 155 cpl - a margin of 45 cpl.

RACT believes an acceptable margin is 14 cpl. This significant disparity has resulted in Tasmanian motorists over-paying in excess of \$4.8 million for fuel in so far during March.

This is why RACT is calling on the Tasmanian Government to adopt the NSW Government's Fuel Check model, which makes it compulsory for fuel retailers to report their prices on a website.

This initiative will allow motorists to access fuel prices online and purchase fuel at the cheapest locations. It will also prevent retailers from unfairly increasing prices, holding them to account.

To support this initiative RACT created an online petition which has attracted approximately 10,000 signatures.

The Proposed Acquisition

The effect of the Proposed Acquisition would be:

- For EG to effectively acquire Caltex's convenience retail business, which includes its retail service stations and associated property and the Caltex Star Card program.
- For Caltex shareholders to receive securities in a separate and independent entity listed on the ASX (Ampol) which will own the remaining assets of Caltex, including the existing fuel and infrastructure business, which includes the existing fuel and infrastructure business and offshore sourcing and supply activities.

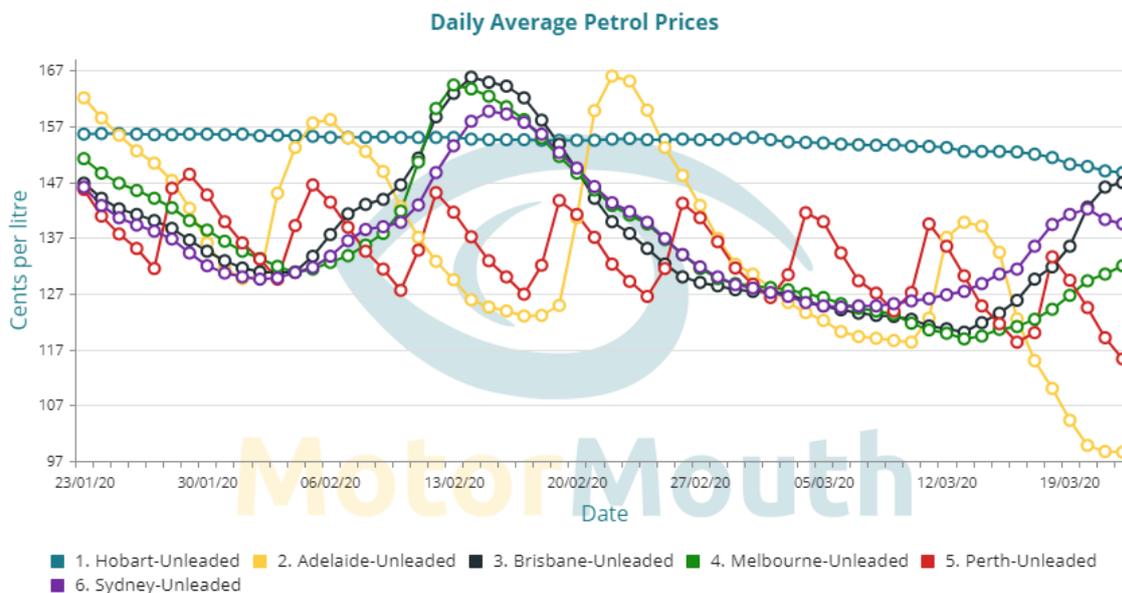
Competition between Fuel Retailers

Closeness of competition

As noted in the introduction, Tasmanian fuel prices have consistently been higher than national capital city counterparts and other regional locations of a similar size. Tasmanian fuel prices do not operate on a fuel cycle with prices remaining consistent.

The table below from MotorMouth shows daily fuel price averages across Australian capital cities. It indicates price of fuel in Hobart has remained virtually unchanged between January and March 2020, with a slight drop in the third week of March. However, all other cities have experienced significant drops in price during that time.

Furthermore, the table also indicates that Hobart's price remains the most expensive across all major capital cities at 148.7 cpl.



The ACCC's 2016 report into fuel prices in Launceston indicated that prices had been significantly higher than in the five largest cities in Australia and that the difference has increased in the years leading up to the report, although that difference narrowed with increased competitive pressure from United.

The report goes on to say that increased price competition and transparency are the way forward with the following steps required:

- Promotion of discount schemes that enhance price competition.
- Providing current retail prices to motorists, including through new apps.
- Regular publication of GIRDs and benchmarking against other locations.
- Continued monitoring by the ACCC of future merger activity in the Launceston petrol market.

Noting the above, RACT believes that the ACCC needs to pay particular attention to the impact of this acquisition on the Launceston and greater Tasmanian fuel markets.

When considering that EG Group maintains co-branded Caltex Woolworths retail services stations, its proposed acquisition of Caltex retail sites would create a retail monopoly for EG Group.

RACT is unable to acquire more up to date data from the ACCC on Tasmanian retail sites. However, based on an approximate search on Google, there are approximately 120 Caltex and Caltex Woolworths sites in Tasmania. It is unclear how many private operators this includes.

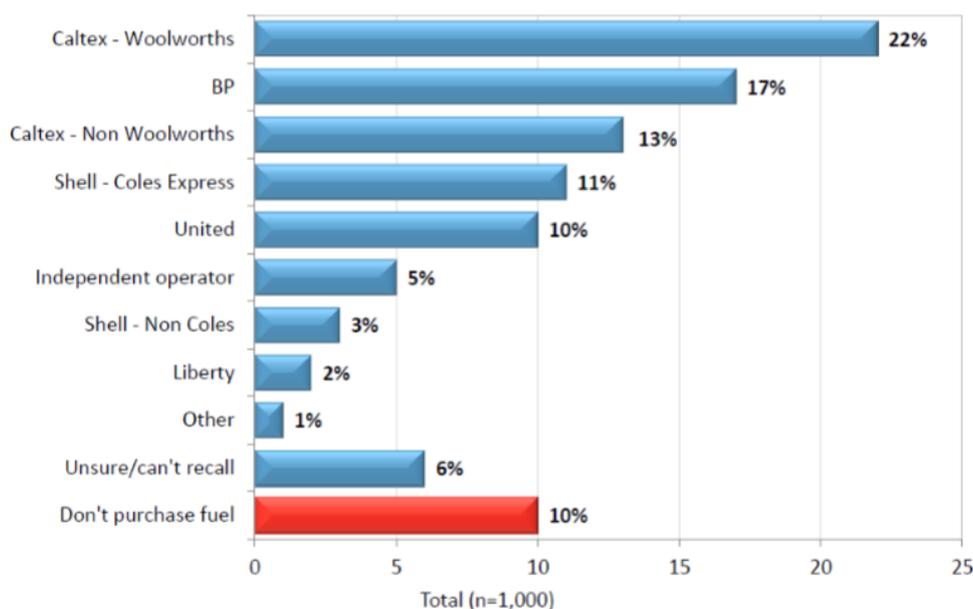
If EG Group were to monopolise these retail sites, then price competition would be impacted. This could prevent the reduction of or even increase prices, impacting the consumer.

Petrol buying behaviour

In December 2015 RACT undertook research to understand the nature of fuel purchases in Tasmania. The research, as shown in the table on the next page, found:

1. More than one fifth of respondents (22%) indicated that they predominantly purchase their fuel at Caltex-Woolworths petrol stations. This was the highest total.
2. Just over one tenth (13%) of respondents predominantly purchase fuel at Caltex, the third highest total.
3. There was no significant brand purchasing differences across the three main regions of Tasmania (South, North and North East and North West).
4. Half (50%) of respondents who purchase fuel use fuel rewards, with Woolworths Shopper docket being the most used at 30% of respondents. 5. Fuel rewards are used more often where combined annual household income is under \$80,000.
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**Chart 1 – Where Respondents Predominantly Purchase Their Fuel
(Percentage of respondents)***



Furthermore, RACT's 2019 member survey revealed that close to 50% of those surveyed use 91 unleaded fuel. The primary reasons for people using this fuel included 91 octane being the vehicle's mandatory fuel type (29%) and cost (28%).

Fuel discount schemes

The Tasmanian motoring public has limited options available to select fuel based on price due to the closeness of pricing within the market and the absence of fuel cycles. However, what is evident is that consumers utilise discount vouchers.

The ACCC report into fuel prices in Launceston indicated that while supermarket chains make up only a quarter of the retail market in Launceston, they represent over half of all petrol sold to motorists in Launceston.

The report indicates that the high sales volumes are likely due to motorists taking advantage of the shopper docket discounts.

Furthermore, RACT introduced a 6 cent per litre discount for its members through United in March 2016. During 2018-19, 104,000 members used this service, saving \$3.6 million.

Behaviour change

While the RACT and United fuel discount partnership shows evidence of a change in behaviour due to price, it is also known that location, convenience and fuel branding also play a part in the purchase decision of motorists.

In particular perceived fuel quality impacts the decision of some RACT members with a number of members advising they utilise name brand providers over lower fuel prices to ensure certainty of perceived quality. Older members also advise that they utilise outlets where driveway service is provided.

However, the success of the RACT and United partnership indicates that where the price is of a reasonable lower value, motorists will shop around.

Local Competition

Local retail markets

This proposed acquisition will impact some locations across Tasmania quite significantly. For example in the southern suburb of Howrah, there are two Caltex sites EG Group would stand to acquire, along with their existing Caltex Woolworths site. These are split between Clarence Street and Howrah Road.

EG Group's three sites would be in competition with just one United site and a Shell site. Therefore, the proposed acquisition would certainly result in decreased competition in Howrah, with only two other retail options for motorists.



Clarence Street and Howrah Road, Howrah

A similar situation exists on Main Road Glenorchy in southern Tasmania. Here, there is one Caltex site and one Caltex Woolworths site. In this instance, the proposed acquisition will result in only one other station generating competition, being Coles Express.



Main Road, Glenorchy

Regular Retail Price Cycles

Tasmania does not experience fuel price cycles.

Other Potential Competition Issues

Barriers to entry

As indicated in the ACCC's report into fuel prices in Launceston, petrol retail sites are not increasing. In Launceston, they have actually decreased.

While the report does not indicate whether there are barriers to entry, it does indicate that there have been no new greenfield sites or any proposed greenfield sites in Launceston.

The size and scale of the Tasmanian market, as well as larger retailers likely having already taken prime sites, creates some barriers to the entry of new players whose preference would be to acquire known sites in high density areas.

Summary

Tasmanian fuel prices have long been a source of contention for Tasmanian motorists with average fuel prices being higher than the national average on a consistent basis.

The ACCC report into Launceston fuel prices highlighted the high cost of petrol in Tasmania is a consequence of lack of competition, which should be addressed by:

- Promotion of discount schemes that enhance price competition.
- Providing current retail prices to motorists, including through new apps.
- Regular publication of GIRDs and benchmarking against other locations.
- Continued monitoring by the ACCC of future merger activity in the Launceston petrol market.

Tasmania needs more competition, not less, to reduce fuel prices. As indicated in this submission, 35% of Tasmanian motorists use Caltex and Caltex Woolworth sites.

If EG Group was to acquire all these sites, competition would be reduced and Tasmanians would be impacted. The impact would be particularly felt in locations where there currently exists only one or two other competitors.

There are a number of examples where only a Caltex and a Caltex Woolworths site exists in the one Tasmanian suburb, including the aforementioned Howrah and Glenorchy sites in southern Tasmania.

Tasmanian motorists have shown that they do purchase fuel based on price, hence the large number taking up fuel discount schemes. However, the lack of competition in the market has seen these largely ineffective in changing the fuel price in Tasmania.

Overall, RACT is concerned that the proposed acquisition will significantly impact on competition within the Tasmanian market, a market that has experienced high fuel prices for an extended period of time.