PRODUCTIVITY COMMISSION ENQUIRY

IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

SUBMISSION BY BP AUSTRALIA

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1. Introduction

BP Australia is a major petroleum refiner and marketer in Australia. BP has refineries at Kwinana near Perth and Bulwer Island at the mouth of the Brisbane River. The approximate annual production of these two refineries is 51 million barrels and 27, 300 million barrels of product respectively.

BP currently has about 650 BP branded sites in Australia (excluding the BP Distributor supplied sites). Of these approximately 340 are franchised and the remaining are operated by private dealers.

The Inquiry Issues paper invites comments on other issues including -"Is there a lack of competition in some areas of the distribution of food and petroleum products that could be addressed through National Competition Policy? (NCP)".

This submission addresses this question only in respect of petroleum products and aims to do this by the following:

- describing the petroleum market in country Australia;
- addressing the market issues;
- advising of changes occurring in the market, including legislative changes; and
- examining whether petroleum products shall come within NCP reform.

The submission concludes that there is no need to apply NCP reforms to the petroleum industry.

2. Petrol retail market in Australia

2. (a) General

During the last 15 years the number of petrol retail market players has changed significantly. The number of major market players declined from 9 to 4. However, over the last 5 years three significant Independents - Woolworths, Liberty and Burmah have entered the market, and a fourth, Gull, has substantially expanded its operations. There are several reasons for Independents' entry and their success. These include low barriers to market entry, cheaper imported oil products from Asia, no restrictions for imports, and unlike the majors, lack of legislative impediments.

In July, 1998, to overcome various concerns about the market, the Federal Government introduced a regulatory reform package involving:

1) Removal of Australian Competition and Consumer Commission (ACCC) wholesale price surveillance. However, the ACCC will continue to monitor "hot spots" at both wholesale and retail level. This became effective from 1 August 1998.
2) The implementation of open access to fuel terminals for all customers who meet certain criteria. These criteria include purchasing on a contracted, cash and full tankerload basis and meeting health, safety and environment (HSE) requirements.
3) The opening up of horizontal arrangements (e.g. refinery product exchange) to all players.
4) Greater transparency in the calculation of the Terminal Gate Pricing (TGP).
5) Price monitoring of 100 country towns by Informed Sources, an independent company, in conjunction with the Australian Automobile Association (AAA) and the Australian Institute of Petroleum (AIP).
6) A stronger, broader and legally binding Oilcode setting out a code of conduct within the industry.
7) Repeal of the Petroleum Retail Marketing Sites Act (Sites Act) and Petroleum Retail Marketing Franchise Act (Franchise Act).

The last two points are currently being considered within Parliament. All the other aspects have been implemented or are in the process of being implemented. They are aimed at achieving greater efficiency and equity, fairness, lower prices for rural consumers and price transparency. The industry has also trended away from vertical integration, with different players emerging in wholesale markets, terminal supplies, transport and retailing (each a distinct business).

2. (b) Metropolitan markets

The metropolitan markets are characterised by low prices (Australia enjoys amongst the lowest pre-tax prices for petrol in the OECD), fierce competition and significant price cycles. The entry of the Independents - who are both efficient and favoured by non-legislative coverage-has increased the competition.

In metropolitan areas BP operates mostly via franchise operations in markets which can be described as fiercely competitive with a large number of retail sites, huge pump throughputs depending on the site location, bigger variety of associated services, car washes, convenience shops, etc. Petrol sales to franchisees and other customers are several times larger than in country areas.

2. (c) Rural markets

The market in rural Australia is one of the most difficult markets logistically to supply, given its big size and relatively small population. Notwithstanding this, the industry supplies the markets efficiently, safely, competitively, and in an environmentally responsible manner.

The method of supply is typically to supply via distributors and depots to regional areas. BP operates almost completely through its 30 regional distributors who generally arrange transport from the metropolitan terminals to the provincial depots and then distribute the product to service stations, farmers, major commercial buyers and to other customers in the region. Most of them are privately owned. BP has only a partial equity in 9 of them. BP intends to remain a substantial supplier at the wholesale level.

A problem in rural Australia is the higher than capital city petrol prices. The higher price is due to lower throughputs at the retail service station requiring much higher margin for the private operator to survive. It is also due to transportation and holding costs at regional depots.

The high retail margins/low throughput issue is being addressed through competition - such as the entry of Woolworths into regional markets - and through some rationalisation (i.e. closure of service stations). While rationalisation has occurred in the cities, it has not occurred to the same extent in rural areas of Australia.

But there is also investment occurring in rural Australia. BP is improving its services through a mixture of technology and investments. As an example, one of the BP rural distributors, Leahy Petroleum has a programme of a complete rebuild of 2 sites at a cost of A$2.3m, upgrade of the existing offer (carwash, shop) at 2 other sites at a cost of A$0.85m and installation of LPG tanks at 10 sites at A$0.7m. The sites have had their trading hours extended with one site offering a 24hr service.

BP has also invested about A$2m in a replacement programme for Driveway Card Acceptors (DCA) which allows customers in rural Australia a 24hr access to fuel via card. BP is significantly investing in E-Commerce which will improve the information access to distribution.

3. Rural market issues and current legislation

There are several market issues for rural petroleum product supply in Australia. These are:

- Higher metropolitan-country price differentials for petrol - as discussed above
- Large number of service stations on a per capita basis and likely significant reduction of this number
- Impact of such reduction in terms of employment, competition and supply

Large number of service stations and their likely reduction

One of the key elements to efficiency is industry rationalisation. In the last 20 years the number of the retail sites in Australia dropped from 20,000 to 8,000. Sixty four (64) per cent of the operating now sites are individually owned (mainly in country Australia). The retail sites' number will further reduce in the next few years.

It is not possible to keep the number of the retail sites high and reduce rural petrol prices at the same time. Reduced prices will occur as a result of the combination of greater competition, facilitated by reform-rationalisation, and some new investments.

Rationalisation sees oil companies and Independents upgrade some of the existing sites, sell or close those which are considered to be less profitable and provide better services at the upgraded stations (longer operating hours, convenience shops, car wash etc.).

Competition between the companies for more customers, higher pump throughputs is strong and at the end of the day the customer benefits and enjoys the competitive outcome. Ultimately, it is the Customer that decides which site will survive and which one will go.

Impact of reduction in terms of employment, competition and supply

For BP, the sites' number reduction will mean fewer service stations with much bigger throughput volume sales and better offers. It will mean less terminals and other facilities to reduce transportation and distribution costs. But it will also mean that the nature of improved services and employment opportunities become greater at the resultant larger sites and terminals.

There will also be a big change in employment opportunities as the type of employment in a modern franchise and distributorship is completely different to what it was several years ago. The level of IT knowledge required, HSSE skills, merchandising skills and other experience means that these businesses can offer career development for young people who want to remain in rural areas. Many distributors now have graduates and/or are assisting people to further their education - something that would have been rare when these businesses were much smaller and less effective.

4. Should petroleum products come within the NCP reforms?

There are several points to consider here:

- The petroleum products are not monopoly supplied. There are at least 4 suppliers who deliver their petroleum products to most regions and markets of Australia, no matter how remote those markets are. The NCP reforms, as we understand them, apply to monopolies and the petroleum industry does not fall within this.
- The NCP reforms, as embodied in Part IIIA of the Trade Practices Act applies to infrastructure rather than commodities. Petroleum products infrastructure does not come within the definition in the Act.
- The Government commitments, aimed at encouraging competition, will mean that there is no need for NCP reforms to occur. These commitments include terminal access, sharing of terminals and so on, and will in effect facilitate directly the aims of the NCP reforms.
- There is a fluidity in the market and there are many private dealers and distributors in rural Australia. Generally distributors have medium term agreements with oil companies. Once these terminate, they can either stay or move to another. Similarly, private station dealers may elect to buy from another distributor or oil company once a supply contract is concluded.
- The method of transport is also generally open from the terminal. Many of our distributors arrange their own transport.
- Rationalisation of the industry and its deregulation has been under way for several years and ACCC has been specifically authorised to monitor prices in 'hot spots' including country towns to ensure competition takes place.
- The Sites and Franchise Acts repeal, if passed, will open further the competition potential and thus the potential growth of Independents and other market players.
- Rural petrol prices while higher than in the metropolitan areas compare favourably with the equivalent prices overseas.
- The number of retail service stations in rural Australia will reduce, but:

  - the consumer will still have access to plenty of service stations,
  - impact of sites closures will be offset by investments in the new markets
  - competition will be maintained by the increased openness of the markets,
  - petrol prices will fall and this will not only help consumers but also help the economy of the rural sector
  - ultimately whether a site closes will depend on the consumer's preference

5. Conclusion

There is no need for the NCP reforms to apply to petroleum. The package of reforms already in place is aimed at maximising competition in the sector to the consumer's benefit and will achieve the objectives of the NCP.