

Dobinson, Gary

From: Dobinson, Gary
Sent: Tuesday, 14 February 2012 2:01 PM
To: Pearson, Mark; Dimasi, Joe; Schroder, Matthew
Cc: Nalder, Tess; Taylor, Kerry (Office of the CEO); Benny, Rhys; Viglianti, Renato; O'Neill, James; Fleckhammer, Cain; Xu, Tony; Nandha, Imroze; Wang, Yak; Fleming, Richard; Gregson, Scott
Subject: RE: Comments on AAA report [SEC=IN-CONFIDENCE]
Security Classification: IN-CONFIDENCE

Following circulation of this note, Mark and Joe had a couple of questions. These are answered below:

Do we have instances of an 8.0 cpl discount starting and price cycle margins going down?

The short answer is yes we do.

Coles Express and Woolworths introduced an 8.0 cpl shopper docket arrangement on 21 July 2011.

In the price cycle following this date there was a reduction in margins in Melbourne (by 0.5 cpl – from 7.0 cpl to 6.5 cpl); Adelaide (by 1.8 cpl - from 5.9 cpl to 4.1 cpl) and in Perth (by 0.6 cpl – from 7.5 cpl to 6.9 cpl).

In the other two cities there were increases in margins: in Sydney by 1.3 cpl (from 6.5 cpl to 7.8 cpl) and in Brisbane by 0.9 cpl (from 8.7 cpl to 9.6 cpl).

Across all five cities there was an overall decrease in margins by 0.1 cpl.

In the brief it notes that: in all cities, the price cycles with the highest margins occurred prior to November 2011 when the 8.0 cpl shopper docket scheme was operating. When did these high margins occur?

Sydney

In Sydney, the highest price cycle margin after 1 November 2011 was 9.4 cpl in the cycle beginning 17 November.

There were 5 price cycles with margins higher than that in the period before November. The highest was 11.2 cpl in the cycle beginning on 21 May.

Melbourne

In Melbourne, the highest price cycle margin after 1 November 2011 was 10.0 cpl in the cycle beginning 16 November.

There was 1 price cycle with a margin higher than that in the period before November. This was 11.1 cpl in the cycle beginning on 21 May.

Brisbane

In Brisbane, the highest price cycle margin after 1 November 2011 was 13.4 cpl in the cycle beginning 16 November.

There was 1 price cycle with a margin equal to that in the period before November. This was the preceding price cycle beginning on 24 October.

Adelaide

In Adelaide, the highest price cycle margin after 1 November 2011 was 10.0 cpl in the cycle beginning 17 November.

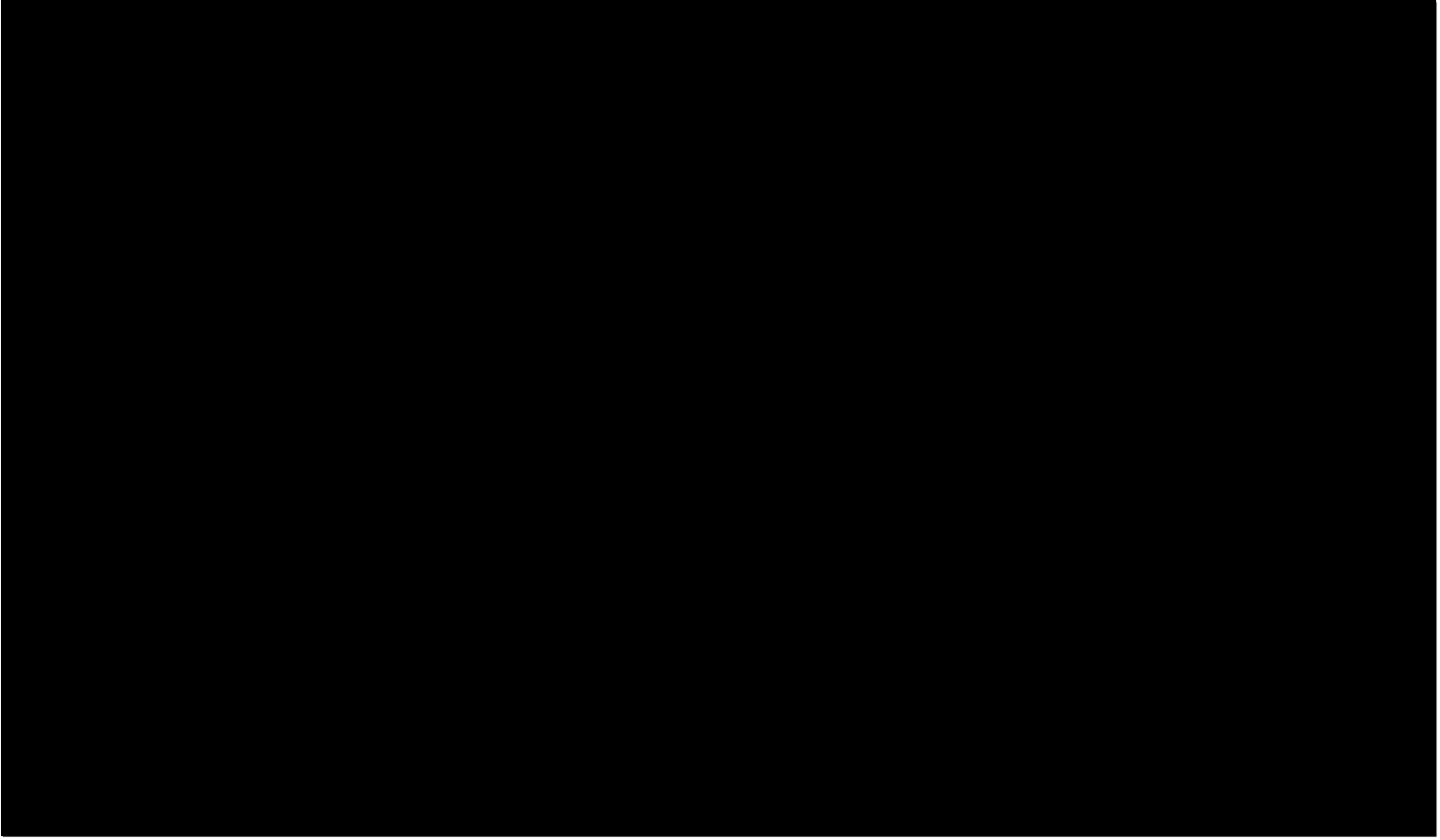
There were 4 price cycles with a margin higher than that in the period before November. The highest was 12.1 cpl in the cycle beginning on 14 May.

Perth

In Perth, the highest price cycle margin after 1 November 2011 was 10.6 cpl in the cycle beginning 17 November.

There was 1 price cycle with a margin higher to that in the period before November. This was 10.9 cpl in the price cycle beginning on 27 October.

Gary



Comments on AAA media release that fuel prices and margins have been higher as a result of 8.0 cpl shopper docket discounts

Gross margins

- AAA claim that fuel prices and margins (ie the difference between retail price and wholesale prices) have been higher since November 2011 following the introduction of 8.0 cpl shopper docket discount schemes by the supermarket.
- Margins are volatile and vary significantly on a weekly and monthly basis.
 - For example, in Adelaide the average monthly margin in 2010-11 ranged from a low of 2.9 cpl in March 2011 to a high of 9.4 cpl in May 2011.
- Margins were relatively high during November and December 2011.
 - Average margins across the five largest cities (Sydney, Melbourne Brisbane Adelaide and Perth) were 10.2 cpl in November 2011 and 8.9 cpl in December 2011.
 - In the 2010-11 financial year average margins across the five largest cities were 7.6 cpl.
- Margins were relatively low in the period prior to November 2011, which exaggerates the increase in margins after then.
- In January 2012 margins across the five largest cities decreased to 7.0 cpl – lower than the average over the last two financial years.
- Given this volatility it is appropriate to look at margins on a longer term basis
 - Margins in 2011-12 to the end of January (7.9 cpl) are broadly the same as in 2010-11 (7.6 cpl).
 - As a proportion of retail prices, margins are lower in 2011-12 to date (5.6%) than in 2010-11 (5.8%).
- We have analysed gross indicative margins for each price cycle in the five largest cities from the beginning of 2011.
- In all cities, the price cycles with the highest margins occurred prior to November 2011 when the 8.0 cpl shopper docket scheme was operating.

Price cycles

- AAA note that the duration of price cycles increased from 10 to 11 days on average in late 2011.
- This is correct. However, the duration of price cycles has been increasing since mid-2010 (when the average duration was seven days).
 - This increase in the duration of the price cycle was highlighted in the 2010 and 2011 ACCC petrol monitoring reports.
 - It is unlikely to be linked to an increase in the shopper docket discount.

- Price cycles in the five largest cities are primarily led up by BP and Caltex. The supermarkets tend to follow the price increase.
- A comparison of the retail prices of the supermarkets relative to the market average price in the five largest cities indicates that they have been largely the same before and after November 2011.
 - On average across the five cities, there was an increase of 0.3 cpl in the average price of the supermarkets compared with the market average price in the period since November 2011.

Fuel Group
14 February 2012