

TRANSCRIPT

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into fuel prices in regional Victoria

Melbourne — 13 November 2017

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Witnesses

Ms Carlita Warren, Senior Manager, Policy and Research, and

Mr Wal Setkiewicz, Senior Policy Adviser, Economics, National Roads and Motorists' Association (*via teleconference*).

The CHAIR — Good morning. Allow me to go through the proceedings before you give us your statement and we go on with questions. Welcome to the public hearing for the Economic, Education, Jobs and Skills Committee's Inquiry into fuel prices in regional Victoria. All evidence taken at this hearing is protected by parliamentary privilege. Any comments you make outside the hearing are not afforded such privilege. Hansard is recording today's proceedings. We will provide a proof version of the Hansard transcript so you can correct any typographical errors. I would like to invite you now to present, but before you start can you please say your name for the Hansard record and then we will go on with our questions? Thank you. You are welcome.

Ms WARREN — No worries. So it is Carlita Warren. I am the Senior Manager of Policy and Research at the NRMA.

Mr SETKIEWICZ — Wal Setkiewicz, Senior Economic Adviser, NRMA.

The CHAIR — Welcome, thank you. You may start now. I do not know who is going to lead, but we are happy to listen.

Mr SETKIEWICZ — Just to preface with a few remarks, thank you for the opportunity to respond to your letter asking for comment on the petrol prices in regional areas. Our submission was basically provided as an information package for you guys to have a look. Obviously we cannot comment specifically on what is happening in the Victorian fuel market, but obviously we can offer what is happening in the New South Wales fuel market. Our submission basically just sets out what are the issues that have caused price differences between metropolitan and regional areas, and we then break it down between regular unleaded, diesel and LPG fuel. Then we make commentary at the end about the use of FuelCheck, the NRMA's price app. At the end of our submission, we have a list of average prices across about 54 or 55 locations in the New South Wales market. As I say, information is provided for you guys to go through. Carlita, do you have anything else to say?

Ms WARREN — No. I think for us I guess, from our club's perspective, one of the biggest things that we have long advocated for is making sure that there is price transparency, not only for members but for the general public, so that they can make an informed choice and decision about where they may decide to buy fuel and also what the differences and the cost savings may be for them in making those decisions. A lot of our comments have come from our own experience across here in New South Wales. Hopefully that has some sort of benefit to you in your deliberations, but it is to sort of highlight what we have experienced across here in making sure that people have access to appropriate information.

The CHAIR — Thank you. On price transparency, what were the main drivers of the NRMA's campaign to introduce real-time fuel price reporting?

Mr SETKIEWICZ — Our basic premise is we wanted real-time information available to our members so they could actually go and search on their iPhone what the cheapest price is and go and get that. We always wanted real price transparency and that information to be available to our members in their hands so that they can make an informed decision as to where to buy fuel.

Ms WARREN — Obviously Wal can speak a little bit more in terms of the differences between the metropolitan and the regional areas, but there is more price fluctuation that happens in metropolitan areas. That price fluctuation can be anywhere between, I am guessing ...

Mr SETKIEWICZ — Up to 30 cents.

Ms WARREN — Up to 30 cents difference. When you consider that sometimes the car is the main mode of people getting around for work and for leisure, we recognise that there are probably some cost savings to be had by our members by providing them with that information. The regional market—obviously Wal can speak to it a little bit more—is different in terms of the price differential that you will see, and the market in terms of the price movements is probably not as staggered as what you will see in the metropolitan areas. But at the same time, by providing transparency over what prices exist in that market, there are still savings to be had.

The CHAIR — In your submission you state that the prices in Sydney have fallen since the introduction of the FuelCheck scheme. What has been the impact of the scheme on regional prices?

Mr SETKIEWICZ — I will make two statements. One, it has fallen in the Sydney market, and basically it has fallen because there are more prices in the system which are reported compared to the previous system.

Under the old arrangement I think it was about 450 prices reported. With the new system it is in the order of 650 sites. The other real difference is that the new system actually captures a lot of the non-aligned independent service stations, and they tend to be on average cheaper than the majors like BP, Caltex, Caltex Woolworths, Coles Express et cetera. In the regional areas we still do not have the same level of detail to be able to evaluate before and after FuelCheck being reintroduced. My databases give me a lot of information for metropolitan areas. For the regional areas we only get sort of day-to-day averages, so it is a bit harder to compare under the two systems.

The other thing to basically notice is that the reality is there have been very small changes in the sort of overall price movements in regional areas. I think, as I alluded to in the submission, regional prices tend to be very stable and they only tend to move in line with movements in the international crude oil market, and the impacts of the foreign exchange have an impact on that. It can take anything from five to six weeks for changes at the international level to flow through to regional centres.

Mr CRISP — I am interested in the effectiveness of FuelCheck. Some stakeholders have argued that mandatory reporting increases prices because retailers are reluctant to discount when greater price transparency destroys their competitive advantages. What are your thoughts on this?

Mr SETKIEWICZ — We asked for FuelCheck to become available because basically we want to increase the amount of information that our members have at their disposal to make an informed decision. I cannot comment on the commentary that the fuel app has increased prices, because I do not see any evidence that actually supports or refutes that comment.

Mr CRISP — Thank you. One of the thoughts was that there might be reluctance to offer the best price because everyone else will come down to it, so perhaps you are better off to go for a stable day rather than an aggressive day. Have you seen any evidence of that?

Mr SETKIEWICZ — From my knowledge of Sydney-based prices, the independents, which are the cheaper brands in our market, their behaviour to me really has not changed much before and after. I am still seeing our major independent chains—like Metro Petroleum, Speedway Petroleum and Budget Petrol—are still as aggressive as they were under the old regime. So I do not see that the FuelCheck has actually made a difference to pricing behaviour. At the end of the day prices still move in accordance with international dynamics, as I said before, the crude oil price and the changes in the impact of the Australian dollar movement against the US.

Ms GARRETT — In terms of funding for the app, how is it funded and what is the cost of it? Do you have that info?

Mr SETKIEWICZ — I do not have that information available to me. The New South Wales Government ...

Ms GARRETT — Manages that.

Mr SETKIEWICZ — obviously put the thing together.

Ms WARREN — There are probably two processes. Obviously there was a process that went through the New South Wales Parliament in terms of getting access to the data, and therefore the New South Wales Government has infrastructure around being able to collect that information. We then as a third party get access to that, and then we have development costs on our side for the app which sits with a division within the NRMA. So the two costs are obviously split, and there is one for us as an organisation as well as the government in terms of providing some of that infrastructure. But from what I understand that infrastructure has been in place and seems relatively cost-effective to run.

Ms GARRETT — Are you able to share the costs to your organisation, or is that in-confidence?

Ms WARREN — I would have to go back and check with our marketing division and take their advice.

Ms GARRETT — Thank you.

Ms WARREN — No worries.

Mr MELHEM — If I take you to appendix 2 in your submission, it talks about the average diesel price by location in 2017 today, sort of starting off with minus 2 per cent or 2 cents per litre and as high as 9.8 per cents per litre in Parkes. So do I draw the conclusion that transport is the main factor and/or competition? But would it be fair to say that transport could be the biggest factor in terms of the difference in what people pay in Parkes, for example—9.8 cents per litre more than Sydney?

Mr SETKIEWICZ — Yes, it does depend on transport. It also depends on local competition. I think what you need to understand is that each of these locations have their own market dynamics. You need to have a look at each area on its own to see—for argument’s sake, with Orange you need to look at what makes up the Orange market and then compare it to the Parkes market. You also need to understand who the competitors are in that area. So there may be oil majors like BP, Caltex or Woolworths. There may be no independents there, or vice versa there may be independents in the town that are offering more aggressive competition. So there are a number of factors, and they all need to be sort of examined to understand why the price differences are what they are.

Mr MELHEM — I am trying to work out, for example, what a state government can do to address that issue. It is very complex, as you said. It is more between competition and transport costs, but probably more competition, or a lack of, is one of the reasons.

Mr SETKIEWICZ — It also depends on location—where that town resides. If it is on a major highway, there is more chance of competition. There is more volume sold. But if you go to some of the outlying areas, there is less of that. The other thing you have got to be mindful of is that you need to have a look at who the players are and what their business model is. How do they run their business? Is it just a petrol station, or is it a major which has obviously built up its service station—it has a convenience outlet attached to it, it may have a workshop attached to it? All those factors need to be taken into account when trying to look at what the price differentials are between various towns.

Mr MELHEM — So what is the fix to address the price difference?

Mr SETKIEWICZ — There is no easy fix to address the price difference because, as I said before, each of these locations have their own specific market dynamics. You need to understand what those dynamics are and what they mean in terms of the way local people price. There is no easy solution to give you an answer about how to fix it, because you cannot.

The CHAIR — One regional resident suggested that the Victorian Government promote the establishment of community-owned service stations. What are your views on the idea, and how useful would it be for reducing fuel prices in regional Victoria?

Mr SETKIEWICZ — That is an interesting question. I think the first thing you need to understand is what is the cost of running a petrol station. You also need to understand that it is one thing to buy a petrol station, but you still have got to source your fuel from a wholesaler. The dynamics of just buying the station and being more price aggressive is not that simple. The oil industry is a conglomerate of three or four different stages. You have got the refiners, you have got the movement into the ports here—the transport—and then you have got the refining here, you have got the distribution and transport components. That all happens before you get to the retail side of the business. So buying a retail service station to become more price aggressive or competitive sounds simple, but it is not; it is quite difficult, and there are a lot of factors in play that you need to consider before you actually make that purchase.

The CHAIR — So what can the Victorian Government do to increase competition between fuel retailers or to encourage new entrants into the market?

Mr SETKIEWICZ — In new locations where service stations are being proposed to be built, maybe the government could say, ‘Listen, we want to give, say, non-aligned majors first crack at buying locations for service stations in regional areas’. That could be a planning tool to get the cheaper independents to be involved more in the market. It is a hard call, and it is a difficult question to answer, but if you can encourage more independents to set up businesses, then that will give you a good chance to be more competitive.

Mr CRISP — I would like to go a little further with the FuelCheck discussion as well. There have been some reports of misreporting prices to FuelCheck and that the compliance program is inadequate. Has this been a significant issue, and how is non-compliance managed in New South Wales?

Mr SETKIEWICZ — Okay. There are a couple of things I want to say to you. First, the Department of Finance obviously manages the FuelCheck process. If you need to talk in more specifics about what happened in that market, you would probably be better off talking to them. My understanding is that they do random audits of service stations across New South Wales. They will pick on particular areas every now and then and they will see what is happening or what is not happening. The other area which they look at is obviously when prices are reported, because they have got a database up. They have got over 2000 sites in New South Wales. When those sites do not change from day to day, a trigger is reached I think every seven or 14 days to make them aware that that price has not moved. There are some internal audit mechanisms built in to allow the department to observe what is happening out in the market.

Mr CRISP — And still with FuelCheck, Wal, what challenges were encountered when FuelCheck was introduced, and what can Victoria learn from the implementation of the New South Wales scheme?

Mr SETKIEWICZ — I think one of the challenges of implementing FuelCheck was obviously the industry as such felt that it was not a good thing for them to actually have to report their prices, and you expect that to happen with them. I think also the challenge is to actually get something up and running. Obviously you need support of various lobby groups. We were quite supportive of the New South Wales Government in putting this up. We are quite prepared to even go further and look at possible enhancements to the system.

Mr CRISP — Thank you. If there were enhancements, how is the cost of that shared? Is it with the Department of Finance, or is there an industry contribution?

Mr SETKIEWICZ — I cannot answer that question at this point ...

Ms WARREN — I think from our perspective I guess it would come down to if we need to make enhancements to our app—and obviously we are currently in the process of having a look at how we may enhance the app—a conversation would obviously happen with the New South Wales Government as to whether or not the data we currently receive is appropriate for that process. If not, then we would have to have a discussion around what is the value-add and whether that value-add is specifically to the NRMA or it can be widely distributed through their FuelCheck website? The New South Wales Government also has its own app now as well, so it is whether or not the government would see benefit in further developing the data or the database that is there, whether or not there is going to be a substantial kickback from I guess the operators, who actually have to provide the information, and whether or not that is going to increase their costs in terms of data reporting. But then the other side from us would be what sort of costs would be involved in augmenting our app and is it of benefit to the business to do that?

Mr SETKIEWICZ — I was going to reiterate that point.

The CHAIR — Is there anything you would like to add that we did not cover? We have no further questions to you.

Mr SETKIEWICZ — No.

The CHAIR — If not, I would like to on behalf of the Committee thank you for your time and contribution. Thank you very much.

Ms WARREN — We appreciate it. Thank you so much.

Mr SETKIEWICZ — Thank you.

Witnesses withdrew.