

TRANSCRIPT

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into fuel prices in regional Victoria

Melbourne — 13 November 2017

Members

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Ms Dee Ryall — Deputy Chair

Mr Jeff Bourman

Mr Peter Crisp

Mrs Christine Fyffe

Ms Jane Garrett

Mr Cesar Melhem

Witnesses

Mr Nick Ferris, Commercial Manager, and

Mr Chris Huth, Regional manager, Asia Pacific, Informed Sources.

The CHAIR — Good afternoon. Allow me to read the formalities before we start. 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 invite you to make your statement and then allow us some time to ask questions, but please state your name before you start for the Hansard record.

Mr FERRIS — Mr Chairman, thank you for the opportunity to appear before the Committee for this inquiry. My name is Nick Ferris. I am Informed Sources’ Commercial Manager for Asia Pacific. My colleague to my right is Mr Chris Huth, our Regional Manager for Asia Pacific. Informed Sources operates Australia’s leading fuel price monitoring services and can assist the Committee through our data and our understanding of how the fuel industry operates.

Prices in regional towns may be above or below Melbourne on average. There may also be substantial price differences between towns, and these differences may vary over time. Fundamentally there are two reasons why prices differ—that is, costs and local competition. Costs may vary a lot between sites depending on their location, capital costs and operating structure, but nonetheless it is easy enough to understand and quantify if you have the accounting data. It is more difficult, however, to quantify the effect of competition on price. Regional markets with lower populations and fewer service stations tend to have lower competitive intensity compared to metropolitan areas. In these markets, retailers are less inclined to cut their prices to try to increase throughput, and our submission discusses the concept of ‘price stickiness’ in some detail.

There is a great deal of information freely available to help motorists make the best purchase decisions. Most of Victoria is covered free of charge to consumers by existing fuel price apps and websites. Information available to motorists includes individual site prices, price maps, buy recommendations and price-cycle graphs.

Regulation of fuel price transparency would not reduce fuel prices. Costly regulation would duplicate the kind of information that is already available free of charge to motorists, as we have seen the New South Wales, Western Australia and now in the Northern Territory. This Committee will no doubt hear differently from organisations who stand to gain commercially from free access to data that they would normally have to pay for.

There are, however, measures that government can take to put downward pressure on fuel prices. For any action to be effective, fuel markets need to be addressed at the local level. In our submission we outline a number of options that the Victorian Government should consider, including, firstly, encourage new market entrants through new policies which make it easier for petrol retail businesses to open. The effect that price discounters can have on a market when they open is dramatic. Secondly, encourage local community groups to play an active role in monitoring fuel prices and communicating good deals on fuel throughout their local communities. Thirdly, promote existing fuel pricing apps and encourage innovation in this space.

There is nothing to support the assertion that regulated fuel price transparency schemes lead to greater competition and lower prices. A professor of competition law at Oxford University presented a paper to the June 2007 OECD competition committee meeting citing studies of Chile, Germany and Western Australia where fuel prices increased following the introduction of transparency regulation. FuelCheck was implemented in New South Wales in August 2006 and fuel prices have not dropped; in fact we have seen an increase in average regional fuel prices. The New South Wales Government, in our view, has kicked an own goal, because they have implemented a scheme which facilitates tacit collusion amongst the retailers.

Economic theory supports the view of competition regulators and academics that such collusion results in higher prices for motorists at the pump. The problems with regulation are discussed at length in the Informed Sources submission. We would be happy to discuss any of these matters or any other issues you may wish to ask.

The CHAIR — Chris, would you like to anything?

Mr HUTH — No, just a correction. I think Nick said that the FuelWatch scheme has been in place since 2006; that should have been 2016.

Mr FERRIS — My apologies.

The CHAIR — Current fuel price apps do not include prices for all service stations and can sometimes be out of date. How can we improve fuel price transparency without introducing mandatory reporting?

Mr FERRIS — Certainly some fuel prices on some apps may be older than others, I can only speak on behalf of MotorMouth, which is a subsidiary of Informed Sources. Our fuel prices on the MotorMouth app are updated every 15 minutes. In terms of increasing transparency, we would certainly counsel against the government intervening and creating regulation. The main reason we do that is because, as we have seen in other jurisdictions and I mentioned in my opening remarks, in Western Australia, Germany and Chile and now in New South Wales there has been an increase in fuel prices in some instances. We believe if there is an increase in transparency—that is, 100 per cent coverage of mandatory price reporting—it will take risk out of the market, and that risk will no doubt increase fuel prices in Victoria.

Mr CRISP — We are talking about the New South Wales FuelCheck scheme, and I think in your introduction you made it very clear how the scheme has affected New South Wales. I presume you meant that covered regional New South Wales as well. I will move on to some of your comments around the problems with the New South Wales FuelCheck scheme. We just need you to put some detail around the systematic misreporting of prices and inadequate compliance program and the misrepresentation of the scheme's usage by New South Wales Fair Trading.

Mr FERRIS — We employ drivers to manually collect fuel prices throughout Australia. We recently conducted a study in New South Wales, and in particular in Sydney, where our drivers collected fuel prices and we compared those against prices displayed on FuelCheck. What we found in some instances were retailers consistently misreporting prices. There was one retailer in particular—a minor branded retailer—that in 49 per cent of instances that we observed was misreporting fuel prices. I think what is interesting to note is that of those 49 per cent of instances that were misreported, in all of those instances the price on FuelCheck was actually above the price that the retailer was selling it for.

The CHAIR — In your submission you recommend that local communities actively monitor fuel prices or establish buying groups. Has this kind of local action been used before for fuel or other consumer goods, and how did it work?

Mr FERRIS — Certainly buying groups are not new. It is not a practice common within the fuel retailing industry. Chris, correct me if I am wrong, but I believe News Limited may have a few years ago with their big switch program?

Mr HUTH — Correct, yes.

Mr FERRIS — They tried to implement an initiative similar to that.

Mr HUTH — They did a group buy amongst members, where I think you made a commitment to buy \$50 worth of fuel. The group then went to various refiners and said, 'For this much fuel, what can we get?'. I think that was quite successful, but they have done that once. Just on that as well, I can also confirm that while it did not go ahead, we had a local group in Townsville. Was it Rotary? Can you remember?

Mr FERRIS — I do not believe it was any formal club; it was more just a community group.

Mr HUTH — So a community group in Townsville that approached us about taking on the crowdsourcing aspect of the MotorMouth application to get additional information for the Townsville market.

Mr CRISP — On the ACCC's regional benchmark price, your submission recommends the ACCC set regional fuel price benchmarks. How would this work, and would there be a different benchmark for different Victorian regions? Just how would you propose that would work?

Mr FERRIS — Obviously the mechanics of such a thing would need to be seriously worked through and considered. But ultimately what we would suggest is, if the ACCC were to adopt such an initiative, that they take into consideration non-price factors as well. I heard earlier, prior to us, the AIP testimony about transportation costs. That would be an example of one element that should be considered. But certainly non-price factors—that is, local competition—need to be considered in such a benchmarking program.

Mr CRISP — Building from there too, the other element you have got is that competition is not as strong in regional areas. So what could the Victorian Government do to encourage the entry of new participants into the retail fuel market in regional Victoria?

Mr FERRIS — The Leader of the Opposition in the Northern Territory Parliament earlier this year outlined a couple of initiatives. I am not saying whether these are the right initiatives or not, but certainly the initiatives that that particular member came up with were to make prime land available and also to reduce the amount of red tape that fuel retailers need to inevitably jump through in order to establish a new service station. From what I understand, it costs retailers a lot of money to create and establish a new service station. If the government is able to streamline that process to make it more attractive for retailers, and in particular discount retailers, to establish in the market, we believe that that would have a dramatic impact on lowering regional fuel prices.

The CHAIR — In your submission you mention that the Tasmanian Government subsidises fuel price collection. Can you explain how this system works and how well it functions?

Mr HUTH — Effectively the Tasmanian Government, as I think Nathan from the AIP was mentioning earlier, are working with GasBuddy and with the RACT. So they have made some funds available to GasBuddy. I must admit I am not 100 per cent sure exactly how GasBuddy is going to utilise that. Is it going to be for additional publicity to get people behind the scheme? How are they going to adjust the system to make that work? But obviously it was designed to drive the community to add additional pricing into that GasBuddy application to get greater coverage across the region.

The CHAIR — We have no further questions. Is there anything you would like to add?

Mr HUTH — Yes, just quickly. One of Nick's points before was also about innovation, and certainly leading in from where Nathan left off in regard to innovation, I think one of the things that we have put forward in the submission is this 100 per cent pricing can cause these unintended consequences. We have seen that with some of these independents who are misrepresenting their prices on the websites. It is curious that they are putting a lower price than what is on FuelCheck. The only reason that we can see that that would happen is because they are protective of their competitive advantage, and that competitive advantage is that if they can be at that price and not have other people match that price it means that you do not get in this vicious cycle where one of two things could happen. One of those is that long term it could get to a point where it is uneconomic and those independents can no longer function; and the other part of it is that those independents, particularly in regional areas, are no longer going to discount because if they discount and they get followed, they then have to discount deeper and, as Nathan said, you have to spread those costs across your volume. So as soon as you discount further, you are no longer recovering on the volume you have got, and so what are you going to do? You are going to put your prices back up again. It is going to have a levelling effect, either immediately by them not discounting anymore or by ultimately potentially getting driven out of the market.

That is a segue into the innovation piece. When it is regulated and you need 100 per cent of this pricing published all the time, particularly by government, government obviously is going to be of the view that that data needs to be published and readily available to all, and that does mean that it is readily available to retailers as well.

If you have a look at GasBuddy and if you have a look at MotorMouth, I can certainly speak from the MotorMouth point of view. As a commercial entity, it is very important for us to protect our intellectual property. In line with the undertakings that we took with the ACCC in May 2016, one of the allowances in there is for the protection of the data from commercial entities. While we have to do everything in our power to make the data available to consumers free of charge so they can make informed decisions about where and when to buy, there is that ability in there for us to protect the data against commercial leakage. I think that is a really key difference between a private data provider providing these services and government providing these services. We think that a key fundamental in this process is: how do you get the data to consumers without it getting to retailers? Because once the retailers have got it, that is when you find the unintended consequences. Just leading in from Nick's piece about innovation being another way in which this can work, I think you are going to get far more innovation out of commercial entities than you necessarily will out of government.

Mr CRISP — I am going to have to ponder that for a while.

Mr HUTH — There is a lot of information there.

Mr CRISP — I appreciate you are protecting the privacy. I just have not worked out how you going to do it.

Mr HUTH — We would be more than happy to wax lyrical on some of those things if the time comes that you would like to do that.

The CHAIR — If you have no more to add, I would like on behalf of the Committee to thank you for your time and your contribution.

Mr FERRIS — Thanks very much for the opportunity.

Witnesses withdrew.