

TRANSCRIPT

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into fuel prices in regional Victoria

Melbourne — 13 November 2017

Members

Mr Nazih Elasmr — Chair

Ms Dee Ryall — Deputy Chair

Mr Jeff Bourman

Mr Peter Crisp

Mrs Christine Fyffe

Ms Jane Garrett

Mr Cesar Melhem

Witnesses

Mr Matthew Schroder, General Manager, Infrastructure and Transport, Access and Pricing Branch, and
Mr Gary Dobinson, Director, Fuel Prices and Market Analysis, Australian Competition and Consumer
Commission.

The CHAIR — 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 now invite you to make your statement and then allow us some time to ask questions. Please state your name for the Hansard record before you start.

Mr SCHRODER — Matthew Schroder, General Manager at the ACCC.

Mr DOBINSON — Gary Dobinson, Director at the ACCC.

Mr SCHRODER — I will keep our opening statement fairly brief because we did provide a short written summary, and we are happy to answer any questions you have. I think I would just start by saying the ACCC has had the role of monitoring the petrol industry for the last 10 years. We undertook an inquiry report in 2007, and since then under a number of revolving directions from the federal government we have looked at prices, costs and profits in the petroleum industry. So that is where we are coming from on this. In addition to the general provisions of the Competition and Consumer Act, we have a specific direction to look at the fuel industry.

In terms of regional prices across Australia, including in Victoria, the things that we have found that have determined retail prices are: the level of local competition in the industry and in the particular market and the regional town or community; the level of fuel sold; the market’s location, so the distance it is from the metropolitan area, from the source of import or refinery; and the level of non-fuel sales. If I unpack that a little bit more, I think the most important one is the level of local market competition. Markets tend to be defined by the area that someone is willing to go to purchase that product, and alternative retail providers in that area. Generally in regional Australia they are communities that are independent, so usually they will buy the fuel within that community. That does not always happen, but that generally happens, and so that is the sort of level that we are looking at. It tends to be that the larger the market the more retail providers there are and therefore the more competition there is. That does not always happen, and we can go into some examples later, if you want, from Victoria. But generally speaking the larger markets have more competition and therefore have lower prices. It is why capital cities, by and large, have lower prices than regional markets.

Another factor which determines the price of petrol in regional markets and in metropolitan markets is the volume of fuel sales. If you have higher fuel sales, then you have greater economies of scale. There are a whole bunch of fixed costs such as the site rental and a certain amount of labour—you have to have at least one person manning the site—and those sorts of costs are reduced per litre when you have high volumes. So again regional markets tend to have lower volumes than metropolitan areas. As I said, the market’s location is a factor. Obviously the further you are from your source of fuel the higher the transport costs are, but there are also factors like whether you are on a freeway or not. So Wodonga is a fair way from Melbourne but it is on the Hume Highway and so has a degree of through traffic. The freeway does not go through Wodonga, but it is very close. There are elements of that—that if you are on a major highway, you may well have more volumes and will be more competitive than you otherwise would be.

The final thing is non-fuel sales. What our analysis has shown is that where you can get high convenience store sales—there are much higher margins for soft drinks, glossy magazines, ice creams and the like—and the more sales of those you have the more competitive you are able to be with your fuel sales. For some businesses, and I am sure some of them have mentioned it to you, selling fuel is often not the way they make their money. They sell fuel to get people in the door and then they sell them the higher margin goods that are in the store. And so again we have found that convenience store sales are usually significantly higher in metropolitan areas than they are in regional areas. Again that is mitigated somewhat if you are on a highway or in a high-traffic area.

So basically those are the things that we have seen both in terms of our ongoing monitoring and when we have done specific market studies into regional markets. We have done very deep dives into Armidale, Cairns, Darwin and Launceston, and whilst those have not been in Victoria, I think a lot of the conclusions

about those and the analysis we did is very pertinent to regional markets in Victoria. I will leave it at that and hand over to you for questions.

The CHAIR — Thank you, Matthew. Gary, would you like to add anything or will we go straight to questions?

Mr DOBINSON — Let us go straight to questions.

The CHAIR — Fuel price apps and websites in Victoria are not always timely or comprehensive. How can price transparency be improved without government intervention such as the New South Wales FuelCheck scheme?

Mr SCHRODER — Firstly, yes, I would agree. Our findings have been that the sites that are out there often will not have very good coverage in regional markets, so when we did the Cairns report, for example, the two lowest price retailers in Cairns were not on most of the major sites that were available there. Some of the sites are very good in metropolitan areas. Some of the sites are very good in certain markets, but there can be a lack of comprehensiveness and timeliness for a number of the apps that are out there. To a degree that may improve with people's familiarity with the websites. For some of them the information is provided by users and as they accumulate more users there will be more timely and more comprehensive information.

If they were of a mind to, as a policy decision the government could pay a private provider to provide that information. The ACCC is agnostic about how the information is provided. We do think that transparency for consumers does benefit those consumers. We have mentioned that in our reports. It has been one of the findings of our regional market studies, but again the way that that is done is a policy issue for government and what they are trying to achieve. But we think that the main value of a pricing app or a pricing system on a website or whatever else is that it empowers local communities to seek out the lowest prices. That may be in a nearby town or community, and so they know that they are going to be going shopping in that community in the next few days. They know that their prices are significantly lower and they will go there. And so what it does is it empowers those people to seek out the lower prices. There is a secondary impact that it might have in that by doing that and by rewarding the discounters and effectively penalising the high-priced companies they will bring their prices down.

The CHAIR — Improving local competition, how can the Victorian Government increase competition and encourage new entrants to the retail fuel market?

Mr SCHRODER — The first thing would be to do no harm. So if there are any impediments around land planning or regulatory impacts, then reducing those or diminishing those would be an advantage. You would not want to put any barriers in the way of new entrants. In some cases we have heard—this is not specific to Victoria—that it is very hard to get prime sites for land for new service stations. So that will be one of the things: to not prevent competition. Obviously anything that adds to the cost base of the retailer could have an impact on prices so any regulatory conditions—again this is a consideration for the government—but those prices can be passed on to consumers if they are impacting on the retailers. The final thing is the transparency issue. How could the Victorian Government do that? Well, there are a number of options on that. Several jurisdictions have their own bespoke systems that are provided by government. Others have relied on the apps that are out there. You could encourage the apps there; you could have that information provided to other providers—third parties—to provide that if the government was not going to be providing that information.

Mr CRISP — I am going to build a little more on some of the work you talked about in regard to transparency. Some of those fuel retailers claimed that they were disadvantaged by greater price transparency because major chains can see their discounts and match their prices immediately. What is the ACCC's view on that disadvantage? You also talked a little about the usefulness of that transparency in regional areas. Again I am interested in a little more detail on how the ACCC sees the usefulness of that in a regional context.

Mr SCHRODER — Just starting with your first point, we are not starting from a point in Victoria where there is no price information available to retailers. So there is a quite comprehensive system, which you would be aware of from the previous speaker, Informed Sources, which does collect information from major retailers and provides that information amongst those retailers, so that does already exist.

Is it the case that smaller players will have their prices made more transparent by, to give an example, the system that is in New South Wales? Yes, that would be the case, but there are two sides to that. One is that maybe they cannot hide a discounted price but the other side of it is that the consumers can see that discounted price. That potentially has two effects. It means that, one, the consumers go to that place and get that cheaper price; and, two, it encourages others to match that price. So again, looking at the example that we have had in Armidale, there was a retailer there, the Beardy Street service station, which almost always was a number of cents below the market and yet, because it was not on the main roads and was not in the centre of town, it was not necessarily seen. It was not highly transparent or anything like that. Potentially a system that enables that player to be on the system will enable consumers to have a choice, and a cheaper choice in that case, and potentially put pressure on the other players.

Again, when we looked at Cairns, the two cheapest players in the market were not available on MotorMouth, which is provided by Informed Sources, as it often does not have the smaller players on it and did not have timely information under some of the apps, again relatively low-volume places and yet they were often 10 cents cheaper than the market. So again, having that information available to consumers would enable them to make the choice and take that cheaper fuel and empower those consumers and potentially have an impact on the market as well.

Mr CRISP — Something that was mentioned in previous evidence is the ACCC looking at retail margins and not taking into account the rising compliance costs within the industry. So I am inviting you to make some comment on when you are doing that retail work how you factor in or do not factor in the compliance costs to the retailer margins.

Mr SCHRODER — We specifically mention the compliance costs in our work, so we have often said that there have been increases in compliance costs. We make it very clear in our reports when we are talking about margins that these are gross margins. We in fact often use the term GIRDs—gross indicative retail difference. That is a gross margin. It includes a cost component and a profit component, and again we make that very clear in our reports. We would accept entirely that costs have gone up for retailers over the years. If you are talking over the 10 years, yes, real estate prices have gone up, labour prices have gone up, energy prices have gone up—there is no doubt there. So, no, we do not claim that their cost base has not gone up or that regulatory costs have not gone up. Again, not specific to Victoria, we agree that those costs have gone up, so I do not know that there is an issue there.

Mr CRISP — Does the ACCC separate out state-by-state compliance costs or whether compliance costs are uniform across the state?

Mr SCHRODER — No is the answer to that. One of the problems with compliance costs is that they are not uniform, so they are not a thing that you can have an average for in Victoria. It depends on the volume of the business, the structure of the business, whether you are already selling biofuels and then a biofuel mandate comes in. Do you have vapour recovery systems in place or do you need to put them in? Do you already have price signs that are variable or not? There is not an easy way to work out what that cost would be as a broad state thing. You could look at a case study of an individual service station, but because also the stations are different in everything—capital structure, location, volumes et cetera—there is not an easy way to measure the general compliance cost there. We have asked industry to provide us with information on that, but as yet industry have not been able to provide us the sort of information that would enable us to undertake that analysis. What we have mentioned in our report is that there are compliance costs and you need to take those into account, and that impacts on the GIRDs, on the gross margins, but we have not as yet been able to ...

The CHAIR — The Committee has received submissions from members of the public, and they indicate that they are unaware of all the factors that influence regional fuel prices. How can we improve the public's understanding of fuel pricing?

Mr SCHRODER — One of the ways is to get them to look at our reports.

The CHAIR — That is a good one to start with.

Mr SCHRODER — Yes. All the things that I am saying are available in our reports and they are on the website. But look, I agree. People have busy lives, and they are not looking for government reports or statutory authority reports on fuel markets and the like. People see high prices and they are annoyed by them, and that is understandable. Fuel is an important component of people's lives, and they are in areas where they do not have a lot of choices and are under financial stress. We completely understand that and are sympathetic to that.

But I think it is important to try and get down to what is really causing these higher prices. That is what our regional studies were about—working out what there is a lot of noise around. Is it compliance costs? Is it distance costs? Is it the wholesale costs? Is it supplier costs and whatever else? In the four regional markets that we did in four different jurisdictions, we found that the majority of the differential between those very high price markets and the lower price markets was retail profit, and I can say that for those four markets because we did actually look at their cost base. We had their books, we had their financial accounts, and we could see what the break-up was. We actually put a break-up into our reports that had what was wholesale prices, what was their costs and what was their profitability and other factors in that area. In those cases, for those four markets, we were able to say that this was not just about high compliance costs or anything; this was high retail profits.

Mr CRISP — Regional studies: in doing your work in regional Victoria how do you select a location to go and do your modelling?

Mr SCHRODER — It depends if you are talking about for an enforcement investigation, to see if there is a cartel or something like that. Most of the time that comes from complaints where people have some form of evidence. Going down the path of actually doing an investigation is a legal process that ends up having to go through the court, so that really has to be evidence based.

In terms of the regional studies that we undertook, what we were looking at were markets where the price was significantly higher than you would presume and that our econometric analysis would suggest from factors such as the size of the town, its distance from the refineries, the number of retail sites et cetera. We chose Darwin because it had prices significantly higher, as in over 20 cents higher, than one would expect from its size and location, so it was those sort of factors.

Mr CRISP — Perchance you would not happen to have looked at Horsham in Victoria, would you?

Mr SCHRODER — We do look at prices in Horsham. We do a quarterly analysis of over 190 sites, and Horsham is one of those, but we did not do a full market study where we sought out the books from the companies on those. As I mentioned, we did those on former cities, but I think that provides fairly strong evidence for what drives those prices, including in regional Australia.

Mr CRISP — The reason for that is that Horsham are going to present a little later.

The CHAIR — How can we encourage the public to use the apps for fuel prices, and the website?

Mr SCHRODER — I think there is a role for motoring organisations like the RACV. The RACV has a significant membership base in Victoria, including in regional Victoria. Their membership would be able to use that information to try and get lower prices. I think that is a good force multiplier, if you like. I think that local media is valuable in that.

There have been campaigns. There was a campaign in Darwin. That was around the time of the fuel inquiry that occurred in Darwin, which was about trying to encourage people to shop around and just see where the prices are. I think transparency would work best when it is about empowering the local communities and when the local radio station looks at that information and puts it out there and says, ‘Hey, people of Horsham’—or the people of wherever you are, probably larger towns, Mildura or Shepparton or wherever—‘these are the cheapest prices we can see at the moment; these are the three cheapest in town’, or whatever. Again, it is information for the consumers so they can get those cheaper prices, but also it is an incentive to be on that list and bring your price down to match those prices. I think local communities and local media would be, again, another force multiplier, along with the RACV.

The CHAIR — Is there anything further? I have no further questions, unless you want to tell us something—or are you happy?

Mr SCHRODER — I do not think there is anything more to add.

The CHAIR — In that case, on behalf of the Committee I would like to thank you for your time and contribution.

Mr SCHRODER — Thank you very much. I am happy to answer any further questions.

Witnesses withdrew.