TRANSCRIPT

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into fuel prices in regional Victoria

Melbourne — 13 November 2017

Members

Mr Nazih Elasmar — Chair
Ms Dee Ryall — Deputy Chair
Mr Jeff Bourman
Mr Peter Crisp
Mrs Christine Fyffe
Ms Jane Garrett
Mr Cesar Melhem

Witnesses

Mr Ron Anderson, Managing Director,
Mr Robert Anderson, Director, and
Mr Peter Anderson, Director, APCO Service Stations.

The CHAIR — Welcome to this public hearing of 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 to make your statement or whatever you are going to provide to the Committee. Welcome.

Mr Robert ANDERSON — I will lead off and just make a brief summary of our submission. Firstly, I thank the Committee for the opportunity to present at this hearing. It is much appreciated. No doubt you have read the submission. We expect hopefully to open up to questions. We would love more so to have questions about it.

Visual presentation.

Mr Robert ANDERSON — To start off, I did present a slide of presentations. I am not going to go through those photographs. It is just that we refer in our submissions on occasions to the investment and the facilities and the independent retailer we are today, and it is pertinent to our operation and our business model, to the success of our business, and it allows us then to be able to be more competitive. So if the Committee has time to just look at those images, it will maybe help you to appreciate and understand that.

We have presented much of our cost of doing business and also our retail margins. We believe what we bring to the table will be an independent voice, a retailer, and also a two-sided story. We often get the one-sided story in the media from, I suppose, some of the motor authorities and the ACCC sometimes in regard to criticism of our retail margins, so we have presented in annexures B and C our cost of doing business right back to 2002.

I have updated you with annexure B; I just thought that would be worthwhile. That is being handed out to you. It is just showing you that the cost of doing business for APCO since 2015 is, as illustrated in cents per litre, over 10 cents. In fact in the last quarter the cost of doing business was 11.21 cents per litre for our business to operate.

I also note for that quarter the retail margins did spike, you will see, at 13.12 cents for the 2017 period, which is the highest retail margin we have experienced; there is no doubt about that. However, in the last quarter that has reduced down to 11.64 cents. So the ACCC ought to be happy about that, I suppose, because margins have come off a little bit, and there is an explanation for that.

But also on our cost of doing business we would like the Committee just to note that the cost of an independent retailer is sometimes not all represented in there. We are a family trust business, so our records of cost of doing business may not be indicative of what the commercial realities of some of the headleases are because of our family business trust and set-up.

I have also provided the Committee with some recent headleases of other parties—BP, 7-Eleven and others—and the leases are in excess of $400 000, in fact an average of $400 000; I think it was $464 000 per annum to headlease a site. So our cost of doing business that we have given to the Committee we believe is probably understated in fact because of those reasons.

The point here is that if we need those sorts of margins to operate, 11.21 cents per litre, we would suggest any other retailer smaller or larger than us that wants to survive in this market probably needs such sorts of margins as well. Our view is that margins probably need to increase, not actually necessarily decline. We do not want a further squeeze on that.

The ACCC refers to 2002. That is why we have gone back. They always refer back to 2002. In the 2002 period there were a lot of unscrupulous operators in the market blending fuel, excise-free fuel, and that led to unprecedented levels of discounted fuel in the marketplace, in fact down to discounted deep levels of 5 to 7 cents, and a lot of the independents, a lot of the market went broke. And whilst those margins of about 7 cents a litre are often referred to by the ACCC, we say it is completely unrealistic and unfair, in today's market and with things changing, that we have gone down to those sorts of levels.

Mr Peter ANDERSON — I just wanted to butt in there for a moment, Rob, sorry. We are talking about ethanol that was being blended. The governments were not paying any attention to us complaining about it at the time in 2002. Nothing was being done about it. Eventually it happened. There was ethanol being blended 10, 15, 20 per cent; and we also had toluol or toluene, whatever you want to call it. It was the same thing: it was an unleaded fuel, it was a paint thinner, it was coming in through Sydney in large amounts. Nobody was paying any attention to it, and this went on for a number of years. It finally all got shut down with pressure from people like ourselves and other companies talking to the government. So 2002 is completely unjustified by the ACCC. They can't draw comparisons to it.

Mr Robert ANDERSON — So it was fixed, thankfully, but we just referred to that period—it is important. The supermarket shopper dockets, as we say in our submission, and we talk a lot about that, we believe they are anti-competitive and they are preventing true and transparent competition on the board price. We are shooting ourselves in the foot by being here and telling you that the shopper dockets system has inflated our retail margins. They have inflated our retail margins. If you remove the shopper docket, you will see a fairer competitive market. The independent retailer will be re-incentivised to chase a fuel discount docket. We cannot get those customers with 4 cents-a-litre discount dockets in their pockets, and then they go to Coles and Woolies servos, buy $1 milk and $1 bread and get another 4 cents off so it is 8 cents. So it is very hard to compete.

We do appreciate the ACCC have got a tough job to do. It is a complex market, and to filter through and decipher what is the truth in this, what should the margin be and what should the cost be is very difficult. We applaud that they actually did intervene a couple of years ago and stop the 10 cents, 20 cents, 37 cents-a-litre discount dockets that were prevalent, and that annihilated the market. Certainly independents like us would not be here today, I can really say that, if they had not intervened because there is just no place for an independent in a market like that with such predatory and anti-competitive pricing. The BP acquisition of Woolies, and what the ACCC does about that, is going to be really interesting. But if you suddenly increase the market share by up to 40 per cent and the additional spread of BP with the Woolies chain offer of 4 cents off, I think that is going to be really, really quite damaging for retailers.

The discriminatory nature of the shopper docket—we have also talked about that. It does alienate a lot of older people that do not drive, disabled people and pensioners in the community. We know that the grocery prices have subsidised the petrol prices for years and years and years—the discount dockets. These people are being discriminated against. I am sure Ron, my father, will want to talk about that.

One final point I am going to make is at appendix A we talk about the average board prices. We have heard this morning about the apps and how do we monitor board prices and retail board prices. You will see in our submission, particularly at appendix A, that where we sit in Victoria—in up to 15 regional markets in Victoria we are represented and in most of those markets we are 1 to 3 cents below the average board prices in the metropolitan market, and that is really interesting.

We question where the average board prices come from. There are monitoring authorities and there are all sorts of apps to give that price information, but when we compare our APCO metro prices that actually the customers pay, because customers do buy the cheaper fuel—the mid to lower range of the price cycle. If we compare our average price that the customer paid, we are 3 to 4 to 8 cent cheaper than the metropolitan Melbourne prices that are being advertised out in the media. The ACCC use them to say—they are surmising from average board prices that that must be what our margin is. That is just not simply the case because 65 per cent of people are buying in the mid to low range. They are not buying at the top end; they are buying at the mid to low end.

You cannot surmise that the ACCC says, 'Well, for instance, in a 24-hour period APCO went to $1.60 a litre for 22 hours'. And then we went to $1 a litre for 2 hours. The ACCC, on average board price, surmise that the average board price was $1.30. Fair enough—$1.60 for 22 hours and we were then at $1 so that is a $1.30 average price. Let us say the cost of fuel is $1.10. The ACCC infer then that, at a cost of $1.10 and an average price of $1.30, we make 20 cents per litre margin. That is just ridiculous. We did not make 20 cents. We sold no fuel at $1.60. We would have sold thousands of litres at $1, so of course we did not make 20 cents a litre. It is what the customer purchases and when at what price that is important.

The CHAIR — Just on this one. Can you put the price you like or is there a limit for it?

Mr Robert ANDERSON — Any price we like.

Mr Peter ANDERSON — We are very competitive in the market.

Mr Robert ANDERSON — So I am happy to, unless my father or people want to add to …

Mr Ron ANDERSON — I have been in this game since 1962. But I can say this: I reckon I put the first price boards out in Melbourne when I was a retail rep for the Vacuum Oil Company. It has always been our intent as a company to put out the best prices that we can there. I know that I put those boards out there, and I know that I got a pat on the back from the company because I fixed up a couple of little old curvy servos. But what I have found in my years in this industry—which are 55—is regulation has never done anything for this industry. I go back to when Cain brought it in many, many years ago. He brought in a 4-cent limit on what you could make. In those days I was buying 5.75 or 5.95 below the gate price because I was an independent and I had started out and people were seeking your volume. I was making 10 cents a litre then. Some of the nonsense that we hear about the prices disappoints me, but I know this: probably, as Robert has said, the discount docket—how we ever survived it I do not know, but we have got our service stations better, we do other things and now we rely enormously on our stores. We have actually gone to IGA X-press in our stores, so we are competing with the supermarkets, but we have proven over the time—the discrimination of that docket is a disgrace.

With great respect to the ACCC, they destroyed the oil industry. History shows it. You do not have to look hard—you have a list of the people that are there. Look at the majors that have gone. Shell and Mobil now are only wholesalers, and they are only licensed to have those names there. You were speaking about refineries. We have got two of the worst refineries in the world. They are on 100 000 barrels a day maximum, both of them. The new refineries do a million barrels a day. Australia is in a critical position for supply—you were making a point earlier, and I listened to it—and I have been saying that to people for ages. Australia would be broke and gone if we did not get product in from overseas—30 per cent from Bass Strait. We can look at all of these things.

We need to do something about our refineries, and to anybody who thinks we do not need a new refinery in this country, we should be shutting down those two and the government should be talking to all the oil companies about going in together and building a new refinery. We will still need refined product in 50 years' time, because what are the submarines going to run on? What do the aeroplanes run on? What do our trucks run on? Sure, we will get to electric cars, but the reality is that electric cars are not going to have any effect for so many years. I guess that is it.

The other thing that has really an enormous effect, and Robert raised it, is service stations today. I do not think an oil company has built a service station—maybe one or two—in Australia. They have all been done by investors and developers. The developers do them, then they rent them out—well, here is one here; they rented it out to Woolworths at $644 000 per annum. They buy that. There is a disaster waiting to happen out there today because they have all been capitalised on the rent of the service stations. Woolworths have sold a business for $1.8 billion, or they are going to sell it. It is not a bad profit over the 20-odd years plus that they have been in the business where they have had nothing, even if they did not make a cracker over the years. And why are they getting out?

I think these are the issues that come there. When you capitalise something on rents you are going to have a problem. Woolworths have sold a business, that is all they have sold, and whoever buys them—BP—are going to pay those massive rents for those service stations that they have bought, and these rents have all now been built in. I guess we are coming back to it there. Anyway, that is the issue from my point of view.

The CHAIR — That is important.

Mr MELHEM — Just on that point, how would you address the rent issue? You talked about staying away from regulation, and I agree, but how would you address that problem? The cost of making fuel is about 95 per cent before it gets to you, and then the 5 per cent margin you play with unless you are negotiate a good price with a supplier this week and you might get a 3, 4 or 5 per cent discount over everyone else. How do you address that? Do you sort of say you do not have a—what is the answer there?

Mr Peter ANDERSON — The market is going to have to have a correction in due course. You cannot …

Mr Ron ANDERSON — It is a disaster waiting to happen, I will tell you now, because what are they going to do when Woolworths sell out to BP? Suddenly this lease comes back up and they say, 'We are not going to pay you that anymore'. What is going to happen? You are going to see an enormous fallback. I have been predicting that for a long time—for a number of years now. Most of the people that are in the finance business accept that, and they have suddenly woken up to it. But if it stays built in, it just becomes part of the market, and that is your problem. The developer makes big money because he rents it out. Then the investor buys it, and he thinks he is going to get his 4 per cent because they are a blue chip tenant. But what will happen in the long term? And this is why APCO has survived, because we have never leased anything.

Mr Robert ANDERSON — We own all our facilities, and that has allowed us to be able to put investment into there and to have some skin and a stake in the game, rather than just headleasing and you are not in control of your destiny. These headleases are going to have to be passed on to the customer, and they will increase the cost.

In regard to apps, it is the same thing. I make one point: I know there has been a lot of conversation about apps, but we are in regional Victoria and Albury, and that is our third-most expensive market. Wodonga is across the bridge, and it is 3 cents a litre cheaper. So much for FuelCheck and the reliance of that too. I agree with the idea of empowering the consumer—inform them, educate them, enforce regulations on retailers which are going to be an impost on cost. It forces us to change prices at different times. We tell our competitors about it when we change our prices. That is against the grain of what an independent does. If the government forces us to put our prices up, which they have done in New South Wales, guess what? We actually know what the competitor's price is, so we are able as an independent to react faster and better just by sitting here with the phone. I do not have to get in my car, and I do not have to get price information anymore.

Mr MELHEM — You do not have to consult the board.

Mr Robert ANDERSON — It is the greatest legal price-fixing arrangement there is.

Mr MELHEM — Your big brother has got the attention now.

Mr Peter ANDERSON — GasBuddy is available here in Victoria. I can give you the price of any centre at the present moment you want. It is available. The customer actually puts the fuel prices into this fuel app. It is done daily. I use it. I look at it to find out what is going on, because I have got franchisees in Bendigo, Mildura, as an example. I can have a look to see that the price has not gone up. If I see the price has gone up, I am on the phone to the franchisee saying, 'Go and have a look at the prices around town'. I did not have access to that before. Thank you very much—congratulations to the New South Wales Government for giving the retailers a great price-fixing tool. I can keep an eye on my franchisee in Albury—like that. So be careful what you do with that, because you are going to get my pricing information out.

The other thing I just quickly wanted to mention was an article that appeared in the *Geelong Advertiser*. I would just like to warn you about any information or pricing information you get from any of the motoring groups. This article is so misleading that the Australian Automobile Association should hang their heads in shame. Let us look at it quickly. The Geelong average price was 127 cents. The motoring body—the Australian Automobile Association—reported that it was 129.2. But let us have a look going back to 1 August at the top of the price cycle. We were at 136.5; at the end of the month we were at 115.9. A price cycle, you will hear, will run anywhere between six and eight weeks in the metropolitan market, Geelong being part of that. So the press release they put out was misleading.

What is even more concerning and even more misleading is the fact that they state that 123.8 is the average in Bendigo. Bendigo was 115.4 at APCO. Now I will go on to Ballarat. The *Geelong Advertiser*, from the press release, says it was 123.7. The Ballarat average at APCO was 117.9. As you can see, the other two towns—both Bairnsdale and Wodonga—are a little bit cheaper again. Be careful about what information you receive and how it is done, particularly with price cycles and those things on average prices, because as you know, you can make the numbers look like anything. Just be careful. It is very, very misleading.

Mr Robert ANDERSON — The board price information, that is our concern. It is frustrating, because the board price, as I made the point before, is not necessary. You cannot infer from an average board price what the retail margins are, and the ACCC, the NRMA and the RACV are continually all saying, 'Look at average board prices', but that is not actually what our customers are buying at. You can clearly see that, because 7 or 8 cents a litre — our own Melbourne prices are below the average board prices that are being quoted. Now, I do not know whether that is coming from MotorMouth or some sort of price-monitoring system, but wherever they are getting this data, it is flawed, and it is misleading. We have represented to the ACCC on this a few times, and they do not really want to listen to us because we have got two sides of the argument here. We have got, ‘Yes, there are retail margins, but the cost of doing business is not easy today’. We have represented 200 or 300 per cent costs in the last 10 years as a retailer.

The CHAIR — Thank you for that. We have got a few questions to ask. Tell me, what is the difference between pricing decisions for unleaded, diesel and LPG?

Mr Robert ANDERSON — In our submission we have used ULP as our benchmark pricing, because they are the terms we have always indicated. But sorry, the question …

The CHAIR — What is the difference between pricing decisions?

Mr Robert ANDERSON — Pricing positions?

Mr Ron ANDERSON — The pricing in the market—what we get out of the market. We have a look at what the markets are: Bendigo, Ballarat—whichever individuals markets they are. As Robert said, we operate in 13. So we look at what the market is doing and then price accordingly.

The CHAIR — And what are the main reasons for the differences in fuel prices between regional locations and between regional Victoria and Melbourne?

Mr Robert ANDERSON — Well, we have clearly shown in our submission that our prices in regional Victoria on most occasions are cheaper than the average metro prices that have been quoted.

Mr MELHEM — Why?

Mr Robert ANDERSON — We are competitive; we are an independent. We have got bigger facilities, I suppose, so we are volumetric. It is a volume game. The more fuel we sell, the more we can afford to lower our prices, I suppose. So if we build good facilities, we have got franchisees and a support model we have to provide them. That is what the convenience store does. It allows us to drive the fuel sales further, I suppose.

Mr MELHEM — Just on that, are you sort of saying that you are attracting more people coming into the store because you have got a mini supermarket? Does that include a reasonable price on your groceries, for example, and the supermarket stuff? So you are not sort of reducing your margin there to attract more people? You talked about Shell Express, for example, where you buy milk for the same price as when you go to a Coles supermarket, and you have got sort of an alliance with the independent grocery. So are you saying a model like this could actually help drive the cost down?

Mr Robert ANDERSON — We are not using the basket to drive fuel discounts. We are actually providing facilities. As customers come in, have something to eat and a coffee and do their emergency top up, we have got IGA Express and IGA in many of our locations. So it is a destination point. People have another reason to come to us. If we did not do that, we would not be in the business today. We would not have survived if we did not have an extensive retail offer. But that extensive retail offer comes at a cost. It comes at a cost of providing equipment, supporting our franchisee in the business and so on. We need that business to grow. Certainly the drawcard is fuel, and we do use that as a vehicle to drive customers into the store.

Mr Ron ANDERSON — I think it would be our preference also—when you go to a town like Bendigo, where we sit middle of the road, we never go up. So when Melbourne hits 139.9 or 142.9, Bendigo is still 121–122. So they get a consistent price, and we get a consistent price. We have had to live with the price cycle, and in the end you just accept that you have got to live with it. In a price cycle you go from an extreme high where not a lot of people buy. I think I saw figures just recently where I think 28 per cent of our fuel is sold at the highest price and the other 70 per cent is sold—actually, strangely enough, 38 per cent in the centre of the market and 32 per cent at the bottom. So you have got that, but you have got to live with these extreme highs because that is the way the price cycle works. You make nothing, and you go down to cost. I go back to the years where we were not only at cost, but I can still remember selling against Woolworths and they were 13 cents below what I could buy it for from the refinery.

This discount docket has been extraordinary, and yet we have survived this because we changed what we did and the way that we operated. I try to sort of explain to people—I have got the two prices here, and I do not know whether you would realise it, but the last price in October for us to buy unleaded, ULP, from Mobil was

110.9. On the 10th it was 115.98. Petrol has gone up over 5 cents a litre in the last 10 days. It is as simple as that. That is the barrel, and it is the dollar. The dollar has fallen—the barrel, it has an effect. But we have to live with this. We change our price every day. Our price changes. That is one of our price lists, which is confidential to us because that is our buying prices.

We deal with two companies, Mobil and Shell—both independents that can walk out of this country at any time they feel like it. They do not own anything. They lease. How long before Coles sells out? Why have Woolworths sold out? Not because they were making money. This is why I think the docket has had its day. I think if you want competition, you can decide and put enough pressure on the ACCC, and I know it is difficult for them. They have had to live with decisions that were made 25 years ago. It is not easy. They have brought restrictions in. They have limited it to 4 cents, but they have still found their way to get it to 8 cents. We have lived with that, but why are Coles now sitting 8–10 cents over the market? I cannot answer that. Why? Because the people are still going in there to get their 8 cents off, and we are selling at that price but they are using a docket to do it. I have spoken for years about the discrimination, and I have been at it and at it but I can never get answers. They will not answer the question. Even the ACCC will not answer that question. 'We don't agree with some of your comments'. I have had it twice come to me, and I wrote back and said, 'Would you please tell me which comments you don't agree with?'. But anyway, that is my fill. I have said that. You are right to be very concerned about supply in Australia. We are in a very dangerous position. We do not have supply, and we badly need a new refinery.

Mr MELHEM — On that point, abolishing, for example, the shopper docket, the discount, what …

Mr Ron ANDERSON — You put the price on the board.

Mr MELHEM — Sorry?

Mr Ron ANDERSON — They have to attract people into their servo with the board, the price. It will drop the board price. I will tell you …

Mr MELHEM — Let us say that has been abolished. What impact will that have in real life on the price of fuel and diesel, particularly in regional areas?

Mr Ron ANDERSON — I do not think it is going to have a lot. This is all over really 1 or 2 cents. That is what you are talking about. If you get down …

Mr Robert ANDERSON — Coles and Woolies …

Mr Ron ANDERSON — You will not help regional areas much.

Mr Robert ANDERSON — Coles and Woolies, though, having said that, with their 30 per cent or 40 per cent, whatever their docket redemption is, they do attract a discount docket customer—the 4-cent brigade, we call them. They have trained those customers really well. They do not really look at board prices anymore. They just assume the 4 cents, the 6 cents, the 8 cents—a perceived saving. And there is a big, big, big percentage of the market that do that.

Yes, I say probably that with regional prices I think you will see a reflection in the board price because you are giving an incentive for potential retailers like us to say, 'You know what? They don't have the docket anymore. I'm going to go after that customer. Pete dropped the prices. Let's go get them. We can pick up 20–30 per cent'. There is no point dropping board prices if we cannot pick up volume. The more we sell, the more we can reduce prices, but if we sell less, what is the point of dropping the price 4 cents or 3, of chasing that discount customer? That was what was taken away from us by the discount docket many, many years ago, and it did annihilate the independent market. It did.

There is a list that we provided in the submission. Hundreds of independent sites have gone out of the market because of Coles and Woolies' centralisation and monopoly on the market. They have ripped and raped and pillaged it, and now they are getting out of it and they are going to make billions of dollars. It is ridiculous, but it has happened, and the ACCC needs to show some leadership. I think the government, hopefully, with inquiries like this, will make a leadership decision and think, 'You know what? These dockets aren't helping the customer'. It is perception; it is not reality.

Mr MELHEM — It is really eliminating or reducing competition. That is basically the whole point you are making.

Mr Robert ANDERSON — Yes, it is.

Mr Peter ANDERSON — Destroyed it ages ago. I am just going to say, because Peter is here, that in the Mildura market on the app we have already got APCO sitting at 124.3. When I walk out of here, I am going to be ringing my franchisee and asking them to do a drive around town to give me the prices just to confirm. We are looking at 129.9 being the next cheapest price, and with prices, as you have heard, going up, we are going to be looking to raise our price. Thanks to the app—I have got access to the app—I am able to increase my prices very quickly. On one hand you want to try to give it to the consumer; on the other hand you are delivering it to us as well.

Mr Robert ANDERSON — It stabilises prices. There is a lot of criticism about the price cycle, but the more these sorts of things come in, it stabilises the price, and that is probably what we have seen in Albury and Wodonga. I do not know; it is a much more volatile market there, and it is 3 cents cheaper than Albury. It should not be.

Mr Peter ANDERSON — You are looking at 139.9 being the dearest in Mildura as we speak, and that was as of 34 minutes ago.

The CHAIR — We do not have any further questions. Any last comments you want to make?

Mr Robert ANDERSON — Could I just emphasise retail board prices. Maybe that is something to talk to the ACCC and the other motoring bodies about—where retail board prices come from. We do not think it is our information. When they are reporting these, what we call, inflated retail board prices and then inferring that retailers like us are gouging, unnecessarily profiteering. Because look at the average board price: that has nothing—very little—to do with the actual cost that the customer pays. It is really important.

The CHAIR — Ron, Robert and Peter, thank you on behalf of the Committee for your time and your contribution. Thank you very much.

Mr Peter ANDERSON — Thank you very much.

Mr Robert ANDERSON — Thank you very much for the opportunity.

Witnesses withdrew.