

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 Nathan Dickens, Deputy Chief Executive Officer, and

Mr Peter Gniel, General Manager, Policy, Australian Institute of Petroleum.

The CHAIR — Good afternoon. Welcome to the public hearing of the Economic, Education, Jobs and Skills Committee 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 transcript so that you can correct any typographical errors. I would like to invite you to make a statement, but before you start please state your name and then give us some time to ask some questions.

Mr DICKENS — Thank you, Chair, and thank you for the opportunity to appear before the Committee today. I am Nathan Dickens. I am the Deputy CEO of the Australian Institute of Petroleum. My colleague Peter Gniel is our General Manager Policy. As you would be aware from our submission, AIP is the peak representative body for Australia's downstream petroleum industry and our core members are Mobil, BP, Caltex and Viva Energy Australia, the exclusive licensee of the Shell brand here in Australia. Each AIP member company operates a major oil refinery and has a range of bulk fuel facilities around the coastline of Australia. Two members, BP and Caltex, also operate a network of retail sites. While these four brands are highly visible to consumers, the ACCC will confirm with you later that these companies directly operate only a relatively small share of retail sites across Australia.

AIP and its members are committed to assisting governments and consumers understand the fuels market, and we are also committed to a transparent market with strong competition, and that is at the heart of this inquiry. This commitment is demonstrated by our major investment in publishing extensive market data and information so governments and consumers can actively monitor the market and make well-informed decisions. Fundamentally the Australian fuels market, as you have already heard, is highly competitive and transparent, as recognised in numerous government reviews and by the ACCC, and expert agencies like the International Energy Agency.

In relation to wholesale fuel supplied to the Australian market, either from our local refineries or from imported supply, the ACCC has consistently confirmed the direct link between domestic wholesale prices and international prices. The relevant international price plus shipping rates to get it here and local government taxes applied once it is here represent around 95 per cent of the wholesale price, called terminal gate prices or TGPs. Every day AIP publishes international prices relevant to our market and TGPs at seaboards and terminals all around Australia so the flowthrough of international prices to the domestic market can be monitored and easily observed by anyone who cares to look.

There is no major difference between Melbourne wholesale TGPs and the wholesale prices in other major capital cities—none. However, once fuel leaves the terminal or the refinery, where TGPs apply, retail prices vary greatly across metropolitan and regional areas, as you well know. Retail prices comprise the TGP plus all the costs of getting fuel from the terminal or refinery to the motorist, and that includes transport and storage costs, marketing and service station operating costs like energy, utilities, wages and rent that ACAPMA told you about in the previous testimony. The ability to cover those costs depends on local area factors and competition. The ACCC has consistently found that fuel prices are generally higher and more stable in regional areas compared to metro areas due to four factors: lower fuel volumes sold by regional retailers, which you have heard about; the market's location and population base; lower convenience store sales; and a lower level of competition.

The influence of these factors varies greatly between locations, leading to material differences in retail prices between regional areas. However, there was no doubt that lower fuel volumes and lower convenience store sales, which typically attract a higher margin, mean that regional fuel retailers are more heavily reliant on fuel sales to remain profitable.

Fuel prices at regional locations are also more stable due to the general absence of a discounting cycle common in most major capital cities. This typically means that regional motorists do not pay the high price at the top of the cycle nor the low price at the bottom of the cycle. Price comparisons are often made between stable regional prices at the bottom of the cycle in capital cities, which can be misleading. For this reason AIP and the ACCC always recommend that regional retail prices should be analysed over longer time periods for better comparisons and also to allow for the natural time lag as fuel moves through the supply chain.

The AIP's submission provides a simple long-term analysis for the Committee members which shows that the average regional Victoria retail petrol price is closer to the Melbourne average price than it has been for years and has been lower than the average Melbourne retail price half of the time. Now, despite this narrowing of this

city–country price differential that the ACCC has reported on, wide price differences across regional centres still exist due to the local market factors that I and others have outlined. These market and business realities need to be considered in any assessment of the regional Victorian market as well as the existing transparency at every level of the fuel supply chain through to the price boards at the service station sites themselves. This transparency also includes the rapidly expanding provision of pricing information and technology services to assist consumers. Innovation by direct industry participants—i.e., operators in the market and third-party service providers like Informed Sources and GasBuddy—have enabled consumers to identify the lowest pump price in their local area, alongside also providing them a range of other services that motorists value. It is expected that the range and coverage of these services will expand over time to meet new customer and consumer demand, given their rapid rise and evolution over the last 12 to 18 months.

Given this market background and more recent developments, we really wish to understand what market failure the Committee members see in the Victorian regional fuels market and how any government initiatives that might be considered will address this and also provide a net community benefit. This is particularly important given the rapidly rising costs of doing business across the whole fuel supply chain, particularly in relation to rising energy costs and increasing regulatory burdens which are challenging business ongoing viability. Thank you again for the opportunity to appear. We are obviously delighted to take any questions you might have, Chair.

The CHAIR — Thank you. Would you like to add anything, Peter, or are you happy to answer questions?

Mr GNIEL — No, I am right. I am happy for questions.

The CHAIR — On price transparency, RACV and regional residents have asked for greater fuel price transparency because price monitoring apps and websites do not cover all service stations or are not updated regularly. What is the best way to improve transparency?

Mr DICKENS — Obviously we have stated said quite clearly our support of market transparency and giving consumers the tools to be able to make well-informed decisions. They have transparency immediately available at the forecourt, but we are well aware that provision of some services has not extended beyond those areas where there is a prevalence and a wide range of retail sites, which fundamentally justifies a price comparison service. You want to have a range of service station sites to be able to pinpoint the cheapest price in that location. But as I noted in my opening remarks, our general expectation, given the rapid growth and evolution of those services in the last, literally, 12 months, you could reasonably expect that if consumers and government demand services in certain regional locations, then there will be some incentive for the private providers that I mentioned to meet that consumer demand.

The CHAIR — In your submission you mentioned that local competition influences regional fuel prices. What can the Victorian Government do to increase competition between fuel retailers or encourage new entrants to the market?

Mr DICKENS — It is a perennial problem and question that is asked by all levels of government, particularly in more remote and regional areas. The difficulty is, short of government owning and operating retail sites in those markets, the incentives and the business drivers need to be there for operators to come in and establish sustainable businesses on commercial and market terms. It is very difficult. But certainly from the Institute's perspective the increasing regulatory and compliance costs associated with a range of regulations governing the operation of retail sites do create barriers which are increasing to future proposals to set up in certain sites. It is well known it is a high-volume, low-margin business, and where costs are increasing—which you have heard extensively about in previous testimony—that creates a very difficult business model for a new entrant to go into, unless they have a superior offering to that market where they can compete, vis-a-vis the incumbents.

But that is the direction in which retail petrol is going. There is significant innovation that we can be excited about, but it is no longer about selling fuel and some newspapers; it is about: what is the complete range of services that are both economic and demanded by the local customer base that I can bring into my facility and drive the profitability of this business?

Mr CRISP — On the effectiveness of the New South Wales FuelCheck scheme—I am asking these questions around that scheme—the NRMA claims that since the introduction of the FuelCheck scheme, Sydney

prices have been the lowest in any of the capital cities. I am seeking a response or observations on that and also whether it has had an impact or whether it would, in your view, be a valuable tool in regional areas.

Mr DICKENS — I will make some headline points, and my colleague can talk to you about some of the details. Fundamentally I think that scheme is in a very juvenile state of its development, and I would strongly encourage all observers of that scheme to wait until there is some reasonable evidence base to perform robust analysis of its impact on the market. I think any comments about its impact to date I would strongly caution about. It is early days in its development, and I think to justify an intervention in a market you will want a decent time series to be able to assess whether that is something that Victoria should readily adopt. I think that is my general counsel, and I am yet to—we have not certainly performed any analysis of its impact in the market because it has only been in operation a very limited amount of time. But my colleague is more familiar with it.

Mr GNIEL — Yes. There are a few issues to unpack, and obviously it is early to try and make an assessment. The first goes back to Nathan's first comment around what was the market failure that was trying to be solved there, and to our minds that has not yet been clearly demonstrated. The second, from a company point of view and indeed from the government point of view, is the benefit versus the cost. Clearly there was cost to government but also cost to all of the operators in the market, and that cost impact will vary depending on who you are—the sophistication of your operation, how many sites you are reporting, your IT systems et cetera.

The other big issue to be cognisant of is managing the risk, essentially. For our members—where compliance is king; there is a very strong mentality—it would come as no surprise that they need to essentially centralise and manage that risk, which means trying to line up your prices on the board, on the bowser and into the electronic price board all at the same time. If you can imagine trying to do that across hundreds of sites, that is a big challenge.

On the other side, for government, government needs to ensure that not only does it build a system that is suitably robust but needs to continue to maintain that system on an ongoing basis, which again is not a costless exercise. We have seen a number of examples where the FuelCheck system in New South Wales has had a number of IT issues, where they needed to have brought the system down. You do need to find a way to manage that risk. I think the short of it is that it is too early to assess, but you do need to be cognisant of all those issues.

Mr CRISP — Thank you for that. I want to get a little more information—and your opening address was very good—around the main drivers that have increased the operating costs for fuel retailers over the last five years. Are there any differences between the metro setting and the regional setting in how those increased costs are impacting?

Mr DICKENS — The simple answer is we do not have access to that sort of information. It crosses the commercial divide and it is a territory that we do not go into, which is why we rely heavily on ACCC analysis. Under their formal directions given to them by government and under law, they extract considerable data and information from the major participants in the Australian fuels market. If they cannot be relied on, given the truckloads of information and data they are given to make assessments around costs, then we are in difficult territory.

What they have said publicly, which is a slightly different conclusion in terms of how it is framed relative to the previous testimony, is that operating costs are higher in country areas on a cents per litre basis. That is across the board. There is no doubt that there are some cost advantages in regional areas and there are some cost advantages in metro areas. But fundamentally, because of the low volume, the principal reason why retailers in regional areas need to rely on fuel to underpin their profitability is that even if costs were identical, they would be higher on a cents per litre basis in a regional area vis-a-vis a metro area. And the ACCC will, I am sure, take you through that in some detail.

Mr MELHEM — Just on that point, the price at the gate is exactly the same in every capital city. You have said that. So the real ...

Mr DICKENS — Well, not exactly the same, but no material difference.

Mr MELHEM — Yes. Then the real difference in costs for country and regional areas is really two things: one is the transport cost and how far you are from that depot; two is the turnover, which is your fixed infrastructure cost. Are they the two main factors?

Mr DICKENS — I think the one you are missing out on there that certainly our friends in ACAPMA outlined is that you cannot underestimate the ability to have a wider range of offerings at the service station site ...

Mr MELHEM — Yes.

Mr DICKENS — because fundamentally what the ACCC analysis shows is the margins on a Mars bar are significantly in excess of the margins for a full tank of fuel. So for you to be able to make that business profitable if you are fully reliant on fuel, then you have got to meet all the costs we have outlined basically from your fuel sales.

Mr MELHEM — Or the other way is if there is a lower margin on the Mars bar and the more groceries you can offer, you could have more people in and more volume as well replacing your typical supermarket in regional towns. Would that work as well?

Mr DICKENS — Yes, but this is the great challenge at each site, to get the balance right, because if his fuel price is not competitive vis-a-vis the other retailers operating in the region, they will not actually come into the shop to begin with. So it is no good having cheap Mars bars if your fuel is not price competitive and you are not driving that traffic through your site.

Mr MELHEM — Well, that would be the main attraction to go in. The shopper docket—have you got any view on that? I know your members are heavily involved in doing arrangements with the Woolworths of the world and Coles and so forth about the shopper docket. Is that something you reckon is sustainable long term? Has it been a good model?

Mr DICKENS — There is no doubt, based on research that the ACCC and others have published, that consumers certainly like shopper dockets. We as an industry are always happy to meet the needs of our customers. But the ACCC took a view in relation to shopper dockets, and ACAPMA outlined some of the reasons for that and sought undertakings from the relevant shopper docket providers in the Australian market that they would only offer shopper dockets up to a certain level because they were worried about excessive shopper docket discounts reducing competition in relevant markets. That is a matter you should explore, rightly so, with the ACCC, because there are legal underpinnings around shopper docket arrangements in the Australian market.

Mr MELHEM — I think your members can take some responsibility for that as well, in using their market share to basically ...

Mr DICKENS — Our members have ...

Mr MELHEM — put pressure on the others. I am not saying it is a good thing or a bad thing. I am just making a point.

Mr DICKENS — We do not actually have shopper docket schemes. We have reward programs at different levels offering different levels of services, but the shopper dockets in question were particularly focused on Woolworths and on Coles, which are the supermarkets and not AIP member companies.

The CHAIR — To improve the fuel price transparency, in your submission you mentioned the Tasmanian Government has partnered with RACT and GasBuddy. How does this work and should Victoria do the same?

Mr DICKENS — I will defer to Peter. I was not aware that the scheme is actually up and operational as yet. If it is, it has not been in existence for more than a heartbeat.

We would not get in the way or seek to give government advice on the different arrangements that they might enter into that are in the interests of regional Victorian motorists or capital city motorists. I think our advice would be that there are a range of expert organisations out there and market participants operating innovative programs that seem to be significantly more used than government-based schemes. As someone sitting back

observing, it would be quite natural to try and leverage expertise that is available in the market, see whether it fits the requirements of this Committee, of the Victorian Government and of your regional consumers, and try to deliver any scheme where a market failure has been demonstrated that requires a scheme to deliver value for money for any initiative that the government should contemplate.

There would be a range of suitable and appropriate models that could be contemplated. If the government has got an interest, it should engage those parties about what they may be able to offer to address any government requirements.

The CHAIR — Thank you. Peter, would you like to add anything?

Mr GNIEL — I also think that is exactly the point. It was not that we were supporting the Tasmanian approach, but it was one of the platforms that were out there. Government had clearly considered something like New South Wales' FuelCheck and, on balance, believed that a partnership with the motoring body and an existing market player was a preferable cost-benefit outcome for Tasmanian fuel users.

Mr DICKENS — I think that is probably our core advice to the Committee. It is quite exciting, the developments and evolution of these platforms that have come to market in a very, very short amount of time. They are very widely used by consumers, the private applications that have been developed. So our counsel would be that at such a juvenile state of development it would make infinite sense to wait until there is significantly more experience with the schemes that have already been announced for you guys to be able to leverage any best practice approach that may be available.

The CHAIR — Submissions from members of the public indicate that they are not aware of how much local competition influences fuel prices. What can be done to improve the public's understanding of the factors that affect fuel prices?

Mr DICKENS — I can only speak from AIP's perspective and from my member companies' perspective. We invest very, very significant resources in publishing not only a wide range of daily market data across all market segments in Australia, as of Friday last week AIP launched a new website with a whole range of new material that will be much more easily digested by the community and a range of pricing tools to enable them in the locations that we cover in regional Victoria to be able to see exactly where they are on any given day. I think we take our commitment to transparency and consumer education exceptionally seriously, and it is a core AIP priority. So encourage them to visit our website. We are constantly appearing at these committees and elsewhere to try and outline the core facts on how the market operates. I think that leads to better quality information in the public's mind and enables consumers to make better quality decisions.

The CHAIR — That is a good way to end up. On behalf of the Committee, I would like to thank you all for your time and your contribution.

Mr DICKENS — Thank you, Chair.

Witnesses withdrew.