



PARLIAMENT OF VICTORIA

Economic, Education, Jobs and Skills
Committee

Inquiry into fuel prices in regional Victoria

Parliament of Victoria
Economic, Education, Jobs and Skills Committee

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Committee functions

The Economic, Education, Jobs and Skills Committee is constituted under section 8 of the *Parliamentary Committees Act 2003* (Vic).

The Committee's functions are to inquire into, consider and report to the Parliament on any proposal, matter or thing concerned with:

- a. economic development, industrial affairs or infrastructure
- b. the provision of services to new urban regions
- c. the development or expansion of new urban regions
- d. education or training.

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This report is available on the Committee's website.

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Terms of reference

Inquiry into fuel prices in regional Victoria

Received from the Legislative Council on 14 September 2016:

That, pursuant to section 36 of the *Parliamentary Committees Act 2003*, this House requires the Economic, Education, Jobs and Skills Committee to inquire into, consider and report on, no later than 1 October 2017, fuel prices in regional Victoria including, but not limited to —

1. examining pricing methodology for unleaded, diesel and LPG fuels in regional Victoria;
2. examination of why significant pricing discrepancies occur in some regional communities when compared to metropolitan areas and many other regional communities;
3. consideration of best practice approaches and initiatives in other Australian states and territories, with a view of reducing fuel prices;
4. examining technology and tools that may enable motorists to compare fuel prices;
5. considering the experience and pricing impact upon families, businesses and industry; and
6. examining regulatory and legislative barriers that may influence fuel prices.

The reporting date was extended to 31 March 2018 by resolution of the Legislative Council on 6 September 2017.

Chair's foreword

Fuel is an essential item for most families and businesses and high prices can be frustrating. Regional Victorians feel the impact of high fuel prices even more because they travel long distances to access services and they have fewer options of where to purchase fuel compared with Melbourne residents.

During this Inquiry, the Economic, Education, Jobs and Skills Committee received evidence from regional residents, business groups and local governments identifying fuel pricing inconsistencies in their area compared with other locations. While the difference between average petrol prices in regional Victoria and Melbourne has narrowed in recent years, there still exist pockets in regional Victoria where prices are unusually high or remain fixed for long periods.

The evidence indicates that inconsistencies in fuel pricing between locations are due to local market factors and lags in price changes due to lower stock turnovers. The level of competition and the presence of independent fuel discounters within a town can significantly affect fuel prices. The individual characteristics of each regional fuel market make it difficult for the Victorian Government to implement measures that could reduce fuel prices across all regions.

The Victorian Government is also limited in its ability to influence fuel prices because international benchmark prices and Australian Government taxes make up most of the price at the pump. The Committee therefore focused on how to stimulate competition between service stations, such as the use of fuel price comparison apps and websites.

Consumers can search for the best deal using fuel price apps, but these are not always complete or up to date. Several interstate governments have introduced mandatory fuel price reporting to improve price transparency, but the Committee did not receive convincing evidence that these schemes have reduced fuel prices. There were also doubts about whether these schemes could deliver cheaper fuel in regional areas.

The Committee supports the use of fuel price apps to improve the information available to regional Victorians when choosing when and where to purchase fuel. It also favours other measures to stimulate competition in regional fuel markets such as reviewing planning policies to encourage the entry of new independent retailers or fuel discounters.

On behalf of the Committee, I thank the individuals, regional councils, local business groups and industry bodies who wrote submissions and attended public hearings. The Committee greatly appreciates the time and effort of all who contributed their views and experiences during the Inquiry.

I also extend my gratitude to the Committee's Deputy Chair, Ms Dee Ryall MP, and my fellow Committee members, Mr Jeff Bourman MLC, Mr Peter Crisp MP, Mrs Christine Fyffe MP, Hon. Jane Garrett MP and Mr Cesar Melhem MLC for their hard work throughout the Inquiry.

The Committee also thanks the Committee's Secretariat, Ms Kerryn Riseley, Dr Marianna Stylianou and Ms Janelle Spielvogel, for their professionalism and assistance.

A handwritten signature in blue ink, appearing to read 'Nazih Elasmr', written in a cursive style.

Nazih Elasmr MLC
Chair

Executive summary

The Inquiry's terms of reference asked the Committee to investigate fuel pricing discrepancies between regional locations and between Melbourne and regional Victoria. The Committee was also asked to consider the impact of fuel prices on regional communities and businesses, interstate best practices to reduce fuel prices and fuel price comparison tools.

Retail fuel prices consist of several components including the international benchmark price, Australian Government taxes and wholesale and retail costs. The Victorian Government has limited power to influence retail fuel prices, so the Committee's main focus was on methods for consumers to compare fuel prices and interstate initiatives to reduce prices such as mandatory fuel price reporting.

The Australian Competition and Consumer Commission (ACCC) monitors fuel prices in metropolitan and regional Australian locations. It has found that the difference between the average petrol price in regional Victoria and Melbourne has narrowed in recent years. However, large price differences exist between some Victorian regions due to local market factors such as competition intensity and business operating structures. High fuel prices can have a significant impact on regional residents because they rely heavily on fuel to access services, work and education opportunities. High fuel prices also increase business operating costs, which can discourage business owners from investing, growing their operations or employing more staff.

In its regional market studies, the ACCC found that the level of competition in a regional market is a major determinant of retail fuel prices. Regional areas typically have less competition and lower sales volumes so they do not have fuel price cycles and prices remain stable for long periods. Fuel price comparison applications (apps) and websites can encourage competition between service stations by enabling motorists to make informed decisions about when and where to purchase fuel. These comparison tools rely on pricing information from private data collectors or crowdsourced data from motorists.

Existing fuel price comparison tools are not able to provide complete or timely data for all Victorian service stations. Three interstate governments, namely New South Wales, Western Australia and the Northern Territory, have implemented mandatory fuel price reporting schemes in order to provide full transparency. Under these schemes, all fuel retailers must report their fuel prices to a government agency that publishes this information online or on an app for consumers to access.

There is no evidence that mandatory fuel price reporting has reduced fuel prices in the jurisdictions where it operates. Complete price transparency across a market discourages fuel retailers from discounting because competitors can see their prices instantly and match them. Fuel discounters especially lose their competitive advantage and tend to be more conservative with their prices. The

Committee found that mandatory reporting is unlikely to reduce fuel prices in regional Victoria due to the small number of competing service stations within reasonable travelling distance.

While complete price transparency may inhibit competition, the Committee is in favour of improving the fuel price information available to regional consumers, especially where information is lacking or not up to date. The Committee recommends improving public awareness of currently available fuel price apps and supporting the Royal Automobile Club of Victoria's efforts to improve fuel price coverage on its app using prices submitted by club members.

The ACCC regional market studies also found the presence of a fuel discount in a regional market helps to keep prices competitive. Therefore, the Committee recommends the Victorian and local governments encourage the entry of fuel discounters into regional markets by reviewing relevant planning policies.

Each regional fuel market has distinct characteristics that influence fuel prices such as the level of local competition, its proximity to major highways, the volume of sales and the business operating structures of individual service stations. The differences between regional fuel markets limit the ability to develop policy that will address pricing issues across each Victorian region. However, competition between service stations should be encouraged through the greater use of fuel price comparison apps and the entry of fuel discounters into markets with low competition.

Glossary

ACAPMA	Australasian Convenience and Petroleum Marketers Association, the national peak body for the petroleum distribution and retail industry.
ACCC	Australian Competition and Consumer Commission, an independent Australian Government authority that promotes competition and fair trading and enforces the <i>Competition and Consumer Act 2010</i> (Cth) and other legislation. It regularly monitors fuel prices in metropolitan and regional Australia.
APCO	APCO Service Stations, an independent petrol retailer based in Geelong that operates 25 franchised service stations throughout Victoria and Albury.
App	Application, a computer program designed to run on a mobile digital device such as a smartphone, tablet or watch.
AIP	Australian Institute of Petroleum, the key representative body of Australia's petroleum industry.
cpl	Cents per litre, a unit price for fuel.
FuelCheck	The mandatory fuel price reporting scheme operating in New South Wales where all fuel retailers report their current prices, which are published online for consumers to access.
Fuel excise	An Australian Government commodity-based tax on fuel and petroleum products.
FuelWatch	The mandatory fuel price reporting scheme operating in Western Australia where all fuel retailers notify FuelWatch of their prices for the following day, which are fixed for 24 hours from 6 am. FuelWatch publishes the prices on its website daily.
GasBuddy	A community-based fuel price app, which compiles fuel price information provided by users and allows users to search for cheap fuel.
GST	Goods and services tax, an Australian Government tax of 10% on most supplies of goods and services consumed in Australia.
Informed Sources	A data collection company that collects and reports fuel price data across Australia.
International benchmark price	The daily international market price for petrol, diesel and LPG. In Australia, the relevant prices are Singapore Mogas 95 unleaded (petrol), Singapore Gasoil 10 parts per million sulphur (diesel) and the Saudi Contract prices for propane and butane (LPG).
LPG	Liquefied petroleum gas, a mixture of propane and butane gases pressurised to form a liquid and used as fuel for heating, cooking and running vehicles.
Mandatory fuel price reporting	The compulsory reporting of fuel prices by retailers to a government authority.
MotorMouth	A fuel price comparison website and app that is a fully owned subsidiary of Informed Sources.
MyFuel NT	The mandatory fuel price reporting scheme operating in the Northern Territory where all fuel retailers report their current prices, which are published on an app for consumers to access.
NRMA	National Roads and Motorists' Association, Australia's largest member organisation providing motoring, mobility and tourism services to members in New South Wales and the Australian Capital Territory.
OECD	Organisation for Economic Co-operation and Development, the international organisation that provides independent and evidence-based analysis to help improve the economic and social wellbeing of citizens in its 35 member countries and globally.
Petrol price cycle	The movement of retail petrol prices in a regular pattern where prices steadily go down, rise sharply and then steadily fall again. The length of a petrol price cycle varies from cycle to cycle.

Glossary

RACV	Royal Automobile Club of Victoria, the peak motoring body in Victoria representing over 2.1 million members.
Tacit collusion	When competitors agree on a pricing strategy without expressly communicating with each other.
TGP	Terminal Gate Price, the wholesale fuel price.
VFF	Victorian Farmers Federation, an organisation representing the interests of Victoria's agricultural producers.

Findings

Chapter 2 Exploring fuel pricing discrepancies

- FINDING 1:** The difference between average petrol prices in regional Victoria and Melbourne has dropped in recent years and was less than 1 cpl in 2016–17. 11
- FINDING 2:** A major determinant of retail fuel prices is local market competition. Regional areas typically have less competition, which drives up fuel prices.. . . . 13
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- FINDING 7:** Fuel discounters lose their competitive advantage under mandatory fuel price reporting because their competitors can see their prices instantly and match them. 35
- FINDING 8:** There is no evidence that mandatory fuel price reporting schemes in Australia and overseas have reduced fuel prices. 37
- FINDING 9:** It is unlikely that mandatory fuel price reporting would reduce prices in regional Victoria due to the small number of competing service stations. 40
- FINDING 10:** Planning restrictions may hinder the entry of new service stations to a regional market, which may limit competition. 44

Recommendations

Chapter 3 Improving fuel price transparency

RECOMMENDATION 1: The Victorian Government conduct a public awareness campaign in regional Victoria to encourage the use of fuel price apps. 42

RECOMMENDATION 2: The Victorian Government support the Royal Automobile Club of Victoria’s efforts to improve the coverage of fuel prices on its app through crowdsourced data. 42

RECOMMENDATION 3: The Victorian Government and local governments review planning policies to encourage the entry of new service stations to regional fuel markets with low competition. 44

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On 14 September 2016, the Parliament of Victoria's Legislative Council gave the Economic, Education, Jobs and Skills Committee terms of reference to conduct an inquiry into fuel prices in regional Victoria. The terms of reference asked the Committee to investigate fuel-pricing discrepancies between Melbourne and regional Victoria as well as between regional Victorian locations. The Committee was also required to consider interstate initiatives to reduce fuel prices and ways to increase price transparency.

Fuel prices in regional areas can often be higher than in capital cities and can take longer to move up or down due to lower stock turnover. Other factors that affect regional fuel prices are the level of local competition, the location of service stations and the volume of convenience sales. Differences in competition levels and sales volumes between regional towns can create large pricing discrepancies that do not reflect a town's distance from petroleum refineries.

Throughout the Inquiry, residents, local councils and business groups in regional Victoria informed the Committee of high local fuel prices and price discrepancies between service stations. They also conveyed the impact fuel prices had on their cost of living and business operating expenses. Several stakeholders requested greater pricing transparency and recommended that Victoria implement a mandatory fuel price reporting scheme similar to those adopted in some interstate jurisdictions.

A large proportion of the components that make up retail fuel prices, such as the international benchmark price and Australian Government taxes, are beyond the Victorian Government's control. In its investigations, the Committee considered approaches implemented interstate to ease the burden of fuel prices. The recommendations in this report aim to improve pricing transparency for Victorian consumers so they can make informed decisions about when and where to purchase fuel.

1.1 Background

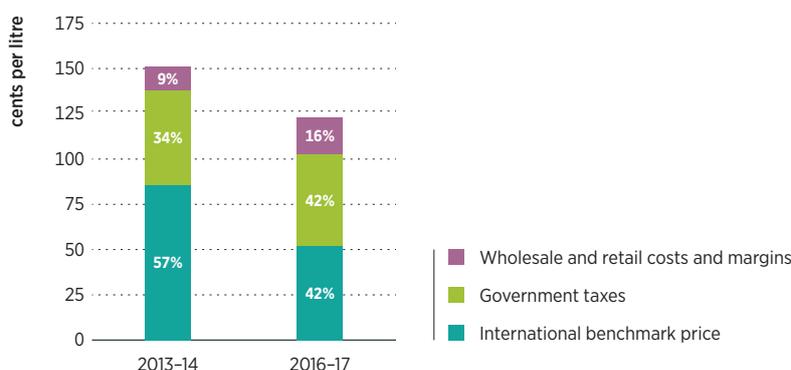
1.1.1 Retail fuel prices are made up of several components

Several elements contribute to Australian retail fuel prices such as international benchmark prices, the value of the Australian dollar, local competition between retail outlets and pricing decisions of wholesalers and retailers. The largest component of retail fuel prices is usually the international benchmark price, which for unleaded petrol and diesel are the Singapore prices and for liquefied

petroleum gas (LPG) the Saudi Contract price. It can take about two weeks for metropolitan retail prices to reflect changes in international benchmark prices, and even longer for regional prices.¹

Australian retail fuel prices include goods and services tax (GST) and an Australian Government excise. Since 1 August 2017, the fuel excise has been 40.3 cents per litre (cpl) for unleaded petrol and diesel, and 13.2 cpl for LPG.² Since the GST and excise stay constant, the percentage of the retail price that is due to government taxes changes as prices fluctuate. For example, as shown in Figure 1.1, the national average petrol price in the 2016–17 financial year was 123 cpl, of which 42% was the international benchmark price, 42% government taxes and 16% wholesale and retail costs and margins.³ In comparison, government taxes comprised 34% of the national average petrol price in the 2013–14 financial year.⁴ The lower percentage is because the international benchmark price was higher in 2013–14 and it therefore contributed more to the overall price.

Figure 1.1 Retail petrol price components, national average, 2013–14 and 2016–17



Sources: Australian Institute of Petroleum, *Facts about the Australian retail fuels market and prices*; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017*, 3.

The breakdown of petrol price components also shows that only a small proportion of the price is within the control of local petrol retailers since they cannot change the international benchmark price or government taxes.

Chapter 2 provides further detail about the factors that influence fuel pricing.

1 Australian Competition and Consumer Commission, *About fuel prices*, <www.accc.gov.au/consumers/petrol-diesel-lpg/about-fuel-prices#petrol-price-cycles>, viewed 11 July 2017.

2 Australian Taxation Office, *Excise rates for fuel* (2017), <www.ato.gov.au/Business/Excise-and-excise-equivalent-goods/Fuel-excise/Excise-rates-for-fuel>, viewed 6 September 2017.

3 Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017* (2017), 3.

4 Australian Institute of Petroleum, *Facts about the Australian retail fuels market and prices*, <www.aip.com.au/pricing/facts/Facts_About_the_Australian_Retail_Fuels_Market_and_Prices.htm>, viewed 6 September 2017.

1.1.2 The ACCC regularly monitors and reports on fuel prices

The Australian Competition and Consumer Commission (ACCC) monitors the retail prices of unleaded petrol, diesel and LPG in all Australian capital cities and about 190 regional locations. It receives its data from FUELtrac, an independent fuel consultancy. The ACCC is required to report on the Australian petroleum market quarterly to the Commonwealth Minister for Small Business, who issued a ministerial direction to the ACCC in 2014 to do so under section 95ZE of the *Competition and Consumer Act 2010* (Cth).

The ACCC reports present fuel price movements in capital cities and regional areas, and discuss other developments in the petroleum industry. The ACCC also conducts market studies of particular regional locations to investigate why petrol prices are higher in these areas. The ACCC has conducted petrol market studies for Cairns (2017), Armidale (2016), Launceston (2016) and Darwin (2015). As an example, the ACCC conducted the Cairns study to investigate why retail petrol prices in Cairns were consistently higher than prices in Brisbane and Australia's five largest cities, and why the difference had increased substantially since 2012–13.⁵

The ACCC monitors fuel prices in 32 regional Victorian locations. Data from the ACCC show in June, September and December 2016 and March 2017, average petrol prices in regional Victoria were lower than average prices in Melbourne. Table 1.1 shows the price differential between average petrol prices in regional Victoria and Melbourne from 2015 to 2017. A negative price differential indicates that regional prices were lower than Melbourne prices.

Table 1.1 Average petrol price differentials between Victorian regional locations and Melbourne, 2015 to 2017

Month	2015 cpl	2016 cpl	2017 cpl
March	0.2	1.2	-1.2
June	-2.5	-3.6	0.7
September	2.9	-0.1	1.7
December	3.3	-2.9	n.a.
Year	3.2	1.8	n.a.

Note: n.a. = not available

Sources: Australian Competition and Consumer Commission, *Report on the Australian petroleum market: September quarter 2017*, 21; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017*, 23; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: March quarter 2017* (2017), 21; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: September quarter 2016* (2016), 21; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: March quarter 2016* (2016), 20; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: September quarter 2015* (2015), 14; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: March quarter 2015* (2015), 14.

⁵ Australian Competition and Consumer Commission, *Report on the Cairns petrol market* (2017), 8.

The average petrol price differentials between Melbourne and regional Victorian locations during the 2016–17 financial year were uneven across the state, ranging from -3.0 cpl in Bairnsdale to 6.5 cpl in Mansfield.⁶ The differentials do not appear to be related to distance and transportation costs. For example, the 2016–17 differentials in three adjacent Gippsland locations were: 1.6 cpl in Moe, 0.5 cpl in Morwell and 1.8 cpl in Traralgon. The lowest price differential was in Morwell, which is located between Moe and Traralgon on the Princes Highway.⁷

On average, price variations between Melbourne and regional Victoria are not as high as variations between regional and metropolitan locations elsewhere in Australia. For example, the aggregate petrol price in regional New South Wales in 2016–17 was on average 8.2 cpl higher than the Sydney price, whereas in Victoria, the regional price was 0.7 cpl higher than the Melbourne price.⁸ Figure 1.2 shows the average differentials between the aggregate regional price and the capital city price of each state and the Northern Territory for the 2016–17 financial year.

Figure 1.2 Average differential between aggregate regional and capital city petrol prices, 2016–17



Source: Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017*, 22–25.

Nationally, the average differential between aggregate petrol prices in regional locations and prices in Australia’s five largest cities during the 2016–17 financial year was 5.4 cpl.⁹ This differential varied each month from a low of 0.8 cpl in December 2016 to a high of 9.4 cpl in August 2016.¹⁰ The highest differential between a regional location and Australia’s five largest cities in 2016–17 was 25.5 cpl observed in Eucla, Western Australia (situated 11 kilometres from the South Australian border on the Australian National Highway) and the lowest was -4.6 cpl in Clare, South Australia (136 kilometres north of Adelaide).¹¹

In addition to monitoring regional fuel prices, the ACCC also considers the effect of changes in outlet ownership on competition and investigates further if it identifies a concern about fuel prices in a regional location.

⁶ Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017*, 42–43.

⁷ *ibid.*, 43.

⁸ *ibid.*, 22–23.

⁹ *ibid.*, 21.

¹⁰ *ibid.*

¹¹ *ibid.*, 39–43.

1.1.3 Many Australian governments have tried to reduce fuel prices

The ability to compare fuel prices can assist motorists to find the cheapest service station in their area. Several fuel price monitoring websites and applications exist, but their comprehensiveness and accuracy vary, as explained in Chapter 3. Some governments in Australia have implemented, or have considered implementing, mandatory fuel price monitoring due to concerns about the lack of transparency around fuel pricing. The aim of these mandatory reporting schemes is to encourage competition between service stations and ultimately lower fuel prices. These initiatives are discussed below in chronological order.

Western Australian Government

In January 2001, the Western Australian (WA) Government introduced its FuelWatch scheme in response to recommendations made by a WA parliamentary select committee that reported on the pricing of petroleum products in October 2000. At 2 pm each day WA fuel retailers must notify FuelWatch of their prices for the next day, which are fixed for 24 hours from 6 am. FuelWatch then publishes these fuel prices on its website at 2:30 pm. Failure of retailers to provide notification of the next day's price attracts an infringement penalty of \$4000. The WA Department of Mines, Industry Regulation and Safety administers the scheme.

Australian Government

The Australian Government proposed a national FuelWatch scheme based on the WA model in 2008. However, legislation to implement the scheme was defeated in the Senate. Critics of the national FuelWatch scheme suggested that limiting the ability of retailers to change prices to once per day would reduce competition. They argued that the scheme could make it harder for new retailers to enter the market, increase the market power of existing retailers and disadvantage motorists who purchase petrol at the low point of the price cycle.¹²

New South Wales Government

The New South Wales (NSW) Government introduced its mandatory fuel price reporting scheme, FuelCheck, in 2016. All fuel retailers in NSW must report their current prices to FuelCheck and these prices are published live on the FuelCheck website. Consumers can access FuelCheck via smartphones, tablets, desktop computers and laptops, and they can search for the best deal by location, price, fuel type and brand.¹³

¹² Sinclair Davidson, 'Secret econometric business: watching FuelWatch and the ACCC' (2008) 15(4) *Agenda*, 5–18, 17.

¹³ New South Wales Fair Trading, *Frequently asked questions—FuelCheck* (2017), <www.fairtrading.nsw.gov.au/ftw/Consumers/Buying_goods/Petrol/Frequently_asked_questions_FuelCheck.page?>, viewed 17 July 2017.

NSW Fair Trading administers the scheme. All service station operators must register with FuelCheck and ensure that their prices on FuelCheck match their price board at all times. Consumers are encouraged to report price discrepancies to NSW Fair Trading, which can issue service station operators with a fine of \$550 for non-compliance.¹⁴

Northern Territory Government

In 2015, the ACCC conducted a market study of fuel prices in Darwin in response to the higher prices there compared with interstate. This followed a summit convened by the Northern Territory (NT) Government in 2014 to investigate why petrol prices in Darwin were about 27 cpl higher than in other capital cities.¹⁵ The ACCC found that the relative lack of competition in Darwin enabled retailers to increase their margins and profits. It recommended steps to increase price transparency and promote competition such as providing motorists with current retail prices.¹⁶

The NT Government introduced mandatory reporting of fuel prices in November 2017. NT Consumer Affairs manages the scheme, named MyFuel NT. Similar to the NSW FuelCheck scheme, fuel retailers are required to report their current fuel prices to MyFuel NT, which publishes the data in real time for motorists to access via an app.¹⁷

1.2 Scope of the inquiry

1.2.1 What was the Committee asked to consider?

The terms of reference for this Inquiry required the Committee to investigate fuel prices in regional Victoria. The Committee was asked to consider:

- fuel pricing discrepancies between service stations in regional locations and those in Melbourne or other regional areas
- the impact of regional fuel prices on families, businesses and industry
- pricing methodology and the influence of regulations and legislation on fuel pricing
- interstate best practice initiatives to reduce fuel prices
- tools and technologies that enable motorists to compare fuel prices.

¹⁴ New South Wales Fair Trading, *FuelCheck for service stations* (2017), <www.fairtrading.nsw.gov.au/ftw/About_us/Online_services/FuelCheck/FuelCheck_for_service_stations.page?>, viewed 17 July 2017.

¹⁵ James Purtill, 'Explainer: why is the consumer competition watchdog investigating Darwin fuel prices?', *ABC News*, 11 March 2015, <www.abc.net.au/news/2015-03-10/accc-consumer-competition-watchdog-investigate-darwin-fuel-price/6292958>, viewed 17 July 2017.

¹⁶ Australian Competition and Consumer Commission, *Report on the Darwin petrol market* (2015), 2–3.

¹⁷ Northern Territory Department of Treasury and Finance, *Northern Territory implementation of MyFuel NT: mandatory retail fuel price reporting scheme* (2017), 2.

1.2.2 What did the Committee examine?

Some of the Inquiry's terms of reference have been examined in other contexts. For example, other inquiries and ACCC reports have extensively covered fuel-pricing methodology, the reasons for pricing discrepancies between regional and metropolitan areas, and the regulatory and legislative barriers that influence fuel prices. Since the Victorian Government has limited power to influence retail fuel prices, the Committee focused more on interstate best practice initiatives to reduce fuel prices, methods for consumers to compare fuel prices, and the impact on communities, businesses and industry. In particular, the Committee investigated the effect that interstate mandatory fuel price reporting schemes have had on regional fuel prices.

1.3 Inquiry process

The Committee called for public submissions to this Inquiry in August 2017. Advertisements appeared in *The Age*, *The Weekly Times*, seven regional newspapers and on Facebook. The seven regional newspapers were *The Border Mail*, *The Ballarat Courier*, *Bendigo Advertiser*, *Latrobe Valley Express*, *Shepparton News*, *Sunraysia Daily* and *The Warrnambool Standard*. The Committee also arranged for notice of the subsequent public hearings to be included in the Parliament of Victoria's Twitter feed and Facebook news feed.

The Committee Chair wrote directly to over 120 key stakeholders inviting submissions to the Inquiry. These stakeholders included fuel retailers, fuel industry bodies, business associations, fuel price monitoring groups, local governments in regional Victoria, and state and federal government departments.

The Committee received 37 submissions. Appendix 1 lists the stakeholders who made a submission.

The Committee held one day of public hearings in Melbourne in November 2017. Appendix 2 lists the witnesses who gave evidence to the Committee at the public hearings.

1.4 Report outline

This report consists of four chapters:

- This chapter, Chapter 1, introduces the Inquiry by outlining the Inquiry's context, scope and process.
- Chapter 2 examines pricing discrepancies between locations and discusses the impact high fuel prices have on regional communities and businesses.
- Chapter 3 outlines and considers the merits of fuel price comparison tools and interstate initiatives to try to reduce fuel prices.
- Chapter 4 provides a short conclusion to the report.

In recent years, the difference between average fuel prices in Melbourne and regional Victoria has narrowed. However, there are locations in Victoria that exhibit much higher fuel prices than nearby locations or Melbourne. High fuel prices, where they exist, can have a large impact on regional communities and businesses.

The first section of this chapter examines the factors that influence fuel prices and explains the reasons for inconsistencies between locations. The second section considers the impact of high fuel prices on regional businesses and communities.

2.1 Pricing inconsistencies exist between locations

The Committee heard that regional residents are frustrated by fuel price inconsistencies they have come across in their local area and in other parts of the state including Melbourne. Data from the Australian Competition and Consumer Commission (ACCC), which monitors fuel prices in 32 regional Victorian locations, confirms that some towns are more expensive than others. However, the overall difference between the average fuel price in Melbourne and regional Victoria has fallen in the past two years. In 2016–17, the average difference was 0.7 cents per litre (cpl).¹⁸ Table 2.1 lists the differential between average petrol prices in Melbourne and regional Victorian locations from 2013–14 to 2016–17. The differential between Melbourne and all regional Victorian locations has fallen since 2014–15.

The Australian Institute of Petroleum (AIP), the key representative body of Australia's petroleum industry, has reached similar conclusions in its analysis. It found in recent years, average fuel prices in regional Victoria have approached Melbourne prices, as shown in Table 2.2. Whether measured on a daily or weekly basis, the proportion of time average fuel prices have been cheaper in regional Victoria compared with Melbourne has improved in the past two years and significantly so over the past five years.¹⁹

¹⁸ Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017* (2017), 23.

¹⁹ Australian Institute of Petroleum, *Submission 33*, 21.

Table 2.1 Average petrol price differential between Melbourne and regional Victorian locations, 2013–14 to 2016–17

Location	Differential (cents per litre)			
	2013–14	2014–15	2015–16	2016–17
Ararat	0.9	0.1	-1.6	0.7
Bairnsdale	-2.3	-2.2	-4.5	-3.0
Ballarat	-0.2	-1.0	-3.3	-1.0
Benalla	5.6	8.5	5.6	2.7
Bendigo	-1.9	-2.9	-0.7	1.5
Cobram	4.2	5.3	2.0	2.0
Colac	5.2	7.4	4.3	-0.1
Corryong	8.8	12.1	9.6	n.a.
Echuca	2.3	5.1	1.9	-1.1
Euroa	5.0	3.2	4.3	2.5
Geelong	-2.2	-1.7	-1.7	0.2
Hamilton	4.7	7.6	6.2	2.0
Horsham	5.0	8.7	6.7	2.4
Koo Wee Rup	n.a.	n.a.	0.0	0.1
Kyabram	5.2	4.9	2.4	2.0
Lakes Entrance	2.4	8.6	3.9	1.1
Leongatha	6.0	6.1	4.1	3.6
Mansfield	n.a.	n.a.	6.7	6.5
Mildura	4.9	5.8	2.7	2.3
Moe	1.2	4.3	0.9	1.6
Morwell	3.3	5.0	3.1	0.5
Portland	1.6	2.3	3.5	0.9
Sale	3.8	3.5	5.2	2.0
Seymour	-0.1	1.0	0.7	1.8
Shepparton	4.5	4.5	-0.5	0.6
Swan Hill	8.6	8.6	5.7	2.4
Traralgon	2.9	2.9	2.7	1.8
Wallan	-1.8	-1.8	-1.5	0.9
Wangaratta	6.2	3.0	-2.4	0.5
Warrnambool	0.3	0.9	1.0	0.9
Wonthaggi	n.a.	n.a.	3.7	3.4
Wodonga	2.5	4.0	-1.9	0.4
Yarrawonga	2.6	7.3	0.9	1.7
All regional Victorian locations	4.4	5.7	3.0	0.7

Note: n.a. = not available

Sources: Australian Competition and Consumer Commission, *Monitoring of the Australian petroleum industry: report of the ACCC into the prices, costs and profits of unleaded petrol in Australia* (2014), 8; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2015* (2015), 17, 29–30; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2016* (2016), 19, 38–39; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017* (2017), 23, 42–43.

Table 2.2 Percentage of days and weeks when the average regional Victorian petrol price was lower than the average Melbourne price, 2012 to 2017

	Days (%)	Weeks (%)
2017 (to 3 September)	52	50
September 2015 to September 2017	48	46
September 2012 to September 2017	36	34

Source: Australian Institute of Petroleum, *Submission 33*, 21–22.

According to AIP, the daily average regional petrol price between January and September 2017 was lower than the average Melbourne price for over half the time.²⁰

FINDING 1: The difference between average petrol prices in regional Victoria and Melbourne has dropped in recent years and was less than 1 cpl in 2016–17.

However, local market factors, such as differences in local competition levels and business operating structures, will always create price differences between and within towns. The factors that affect fuel prices and the reasons behind pricing inconsistencies are discussed below.

2.1.1 Multiple factors influence fuel prices

Many factors influence retail fuel prices, including international benchmark prices, wholesale and retail market decisions and the business model of each service station. In regional areas, additional factors have an impact on fuel prices, such as lower fuel turnover, service station location and fewer convenience store sales. Another factor that determines retail fuel prices is the level of competition faced by each service station. In regional areas, the level of competition is typically lower than in capital cities. These factors are considered in detail below.

Fuel prices react to international, wholesale and retail market factors

Market sectors at three points in the supply chain determine the final retail fuel price. These are the international, wholesale and retail market sectors.

International market prices reflect supply and demand factors in the global market. Australia's regional market is the Asia Pacific market and its benchmark price for petrol is Singapore Mogas 95 unleaded. The benchmark price for diesel is Singapore Gasoil 10 parts per million sulphur and for LPG the Saudi Contract prices for butane and propane. It can take about two weeks for retail fuel prices to reflect changes in international benchmark prices in Australian cities and even longer in regional areas.²¹

²⁰ *ibid.*, 2.

²¹ Australian Competition and Consumer Commission, *About fuel prices*, <www.accc.gov.au/consumers/petrol-diesel-lpg/about-fuel-prices#petrol-price-cycles> viewed 11 July 2017.

International benchmark prices are quoted in United States dollars so movements in the exchange rate between the Australian dollar and United States dollar affect fuel prices.²² However, retail fuel prices will not always mimic changes in the exchange rate because the benchmark price and other local factors may also change at the same time and have an opposing effect.²³

Depending on its expense, the international benchmark price usually makes up most of the retail fuel price, as outlined in Chapter 1. Australian Government taxes make up the next largest component and they generally stay stable. Wholesale and retail market factors determine the remaining share of the fuel price, which is relatively small.

Australia's spot wholesale fuel price, known as the Terminal Gate Price (TGP), includes the costs of:

- the international benchmark price
- quality premium for Australian fuel standards
- freight
- exchange rate
- wharfage, insurance and loss
- storage and handling
- fuel excise and GST
- wholesale profit margin.²⁴

About 95% of the TGP consists of the international benchmark price, freight costs and taxes.²⁵ TGPs are transparent as wholesalers publish them online regularly and they closely match international benchmark prices when averaged out.²⁶

The TGP accounts for about 95% of the retail price of fuel. The remaining 5% covers the cost of transport, administration, marketing and service station operation (including wages, rent and utilities), as well as a profit margin.²⁷

In its quarterly reports, the ACCC has stated that retailers' margins in real terms have been at record high levels lately. At the same time, the ACCC acknowledged that in recent years the industry has faced greater compliance costs particularly in states such as New South Wales and Queensland that have introduced new environmental standards.²⁸ These standards include vapour recovery legislation and an ethanol mandate, which requires large fuel retailers to sell a minimum percentage of ethanol-blended fuels. However, the ACCC believes that the increase in margins exceeds these compliance costs.²⁹

22 Australian Institute of Petroleum, *Submission 33*, 12.

23 Australian Competition and Consumer Commission, *About fuel prices*.

24 Australian Institute of Petroleum, *Submission 33*, 13.

25 Viva Energy Australia, *Submission 23*, 2.

26 *ibid*, 3; Australian Institute of Petroleum, *Submission 33*, 14.

27 Australian Institute of Petroleum, *Submission 33*, 14.

28 Australian Competition and Consumer Commission, *Submission 27*, 11.

29 *ibid*, 12.

Local competition has a big impact on fuel prices

Industry bodies attribute differences in retail fuel prices between service stations to local market factors such as price cycles and the level of competition.³⁰ In areas where there is little competition between service stations, fuel prices tend to be higher and more stable. The ACCC's Cairns market study published in 2017 found that a lack of competition in the local petrol market led to Cairns prices being significantly higher than prices in Brisbane and Australia's five largest cities. In contrast, fuel prices in Innisfail, which is located nearby and has fewer service stations, were cheaper following the entry of a discount fuel retailer into the market.³¹ The ACCC concluded:

If competition among retailers in Cairns was more effective, the ACCC would expect retail petrol prices and margins in the future to be in the region of 4–5 cpl lower than the current levels.³²

In its 2015 report on the Darwin market study, the ACCC also reached a similar conclusion. It found Darwin had significantly higher prices than the five largest cities and was on average 5 cpl dearer than Katherine, which has a smaller population and is located more remotely. It identified that the departure of independent fuel retailers and the subsequent consolidation of the retail market led to four retailers setting the price for most of the petrol sold in Darwin. Without a discount service station in the market, fuel retailers were able to increase their profits by raising prices.³³

Similar patterns are likely occurring in Victoria. For example, Sale resident Mrs Yvonne Martin, commented:

Fuel prices in Sale are consistently ten cents a litre more than in Bairnsdale which is approximately 70 kilometres further east of Sale. I would like to know why, if as we are told, that transportation costs are the reason regional petrol prices are higher than metropolitan prices this can be the case ... We have independent petrol stations here but they are all owned by the same group unlike in Bairnsdale. There is only ever a one cent difference, if any, in all the local prices giving the consumer a choice only of purchase location not a choice of price.³⁴

Due to their smaller size, regional towns often have fewer service stations. If the town lacks a fuel discounter or has weak competition, fuel prices will stabilise at a high level.

FINDING 2: A major determinant of retail fuel prices is local market competition. Regional areas typically have less competition, which drives up fuel prices.

³⁰ Australian Institute of Petroleum, *Submission 33*, 14; Informed Sources, *Submission 29*, 6.

³¹ Australian Competition and Consumer Commission, *Submission 27*, 2.

³² Australian Competition and Consumer Commission, *Report on the Cairns petrol market* (2017), 1.

³³ Australian Competition and Consumer Commission, *Report on the Darwin petrol market* (2015), 1.

³⁴ Mrs Yvonne Martin, *Submission 21*, 1.

Fuel price cycles only occur in areas of high competition

Price cycles occur in locations where there is a lot of competition, such as in Melbourne. Service stations reduce fuel prices in an attempt to undercut each other, until the discounting becomes unsustainable because they are operating at a very low profit margin or at a loss. At this point, some service stations will significantly increase their price and other service stations will follow. In the past, price cycles were as short as one week but now they can last up to eight weeks.³⁵

Most regional towns do not experience price cycles due to a lack of competition.³⁶ Regional residents also noted this in their submissions to the Inquiry. For example, Mrs Belinda Rocka, a resident of Colac, stated:

Colac fuel price is consistently high. It is always 5 to 10 cents dearer than Geelong and Melbourne. The biggest issue though is that there is no cheap day ... When I lived in Melbourne, Tuesday or Wednesday was always a cheaper day to buy fuel but Colac does not have that cheaper day ever.³⁷

Some regional towns that have high volumes of traffic and local competition do follow a price cycle. For example, the Royal Automobile Club of Victoria (RACV) noted that towns on the Hume Highway such as Seymour, Wallan and Wangaratta exhibit price cycling behaviour, although the peak to trough variations are not as wide as those seen in Melbourne.³⁸ However, where there is no competition, prices remain stable, such as in Horsham. Despite its location on the main route between Melbourne and Adelaide, unleaded petrol prices in Horsham have remained at 129.9 cpl for at least the 12 months leading up to September 2017.³⁹

APCO Service Stations (APCO), an independent petrol retailer based in Geelong that operates 25 franchised service stations, acknowledged fuel price cycles rarely exist in regional towns. However, while regional customers do not get to buy at the low end of the cycle, APCO stated they usually pay a fair average price at all times.⁴⁰

FINDING 3: The lack of a price cycle in many regional towns results in regional motorists missing the opportunity to purchase fuel at very low prices but at the same time, they are less likely to pay the high prices that occur at the peak of the cycle.

Other factors specific to regional areas can raise prices

Many regional service stations operate in different business environments to capital city service stations. Smaller populations and lower traffic numbers in regional areas can lead to lower volumes of fuel and convenience store sales.

³⁵ Royal Automotive Club of Victoria, *Submission 18*, 3.

³⁶ *ibid.*

³⁷ Mrs Belinda Rocka, *Submission 22*, 1.

³⁸ Royal Automotive Club of Victoria, *Submission 18*, 5–6.

³⁹ Horsham Rural City Council, *Submission 26*, 3.

⁴⁰ APCO Service Stations, *Submission 37*, 2.

A service station's location in relation to major roads can also affect its sales numbers and turnover. As explained by Mr Wal Setkiewicz, Senior Policy Adviser, Economics at the National Roads and Motorists' Association:

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.⁴¹

To break even, service stations with lower turnovers may need to increase their margins to cover costs, earn a return on capital investment and make a profit.⁴²

AIP provided data to highlight the differences between regional and capital city service stations. For example, the average customer base per service station in regional Australia is about 2000 people compared with 4000 to 5000 people in metropolitan locations.⁴³ In terms of turnover, a regional service station typically has a delivery of one petrol tanker every one to three weeks compared with a delivery of one or more tankers per day at a capital city service station.⁴⁴

Since regional service stations sell lower volumes of fuel, they have higher operating costs per litre. For example, in its 2014–15 study of the Armidale fuel market, the ACCC found the operating costs for ethanol-blend fuel E10 was 3 cpl higher in Armidale than in Sydney.⁴⁵ The Australasian Convenience and Petroleum Marketers Association (ACAPMA), the national peak body for the petroleum distribution and retail industry, has compared operating costs for service stations in different geographical regions. According to its analysis, a service station in a small rural town usually needs to make an average of 23 cpl in a financial year to break even, whereas a metropolitan freeway site only needs to earn 10 cpl to break even.⁴⁶

Lower volumes of convenience store sales in regional service stations can also result in higher fuel prices as service station operators recover costs through fuel sales. Mr Matthew Schroder, General Manager, Infrastructure and Transport at the ACCC, stated:

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.⁴⁷

⁴¹ Mr Wal Setkiewicz, Senior Policy Adviser, Economics, National Roads and Motorists' Association, *Transcript of evidence*, Melbourne, 13 November 2017, 12.

⁴² Rural City of Wangaratta, *Submission 16*, 1; Australian Competition and Consumer Commission, *Report on the Cairns petrol market*, 3.

⁴³ Australian Institute of Petroleum, *Submission 33*, 18.

⁴⁴ *ibid*, 20.

⁴⁵ Australian Competition and Consumer Commission, *Submission 27*, 2.

⁴⁶ Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 2.

⁴⁷ Mr Matthew Schroder, General Manager, Infrastructure and Transport, Access and Pricing Branch, Australian Competition and Consumer Commission, *Transcript of evidence*, Melbourne, 13 November 2017, 42.

For example, the ACCC's 2014–15 study of the Launceston market found that average convenience store revenue per site was about \$610 000 less than sites in Adelaide (the capital city the ACCC chose as a comparator).⁴⁸

In addition to a service station's location on a major road, its proximity to the state's fuel distribution terminals can also have an impact on fuel prices. For example, service stations located far from a terminal may have to purchase their petrol from a distributor who sources the petrol from a storage depot.⁴⁹ The cost of storage and double handling can increase fuel prices as retailers try to recover these costs.⁵⁰ Freight costs can also be higher for regional service stations. In its four regional market studies, the ACCC found that freight costs for regional service stations were in the range of 1–4 cpl.⁵¹

The business model determines who sets fuel prices at each site

According to Informed Sources, which collects fuel prices from major fuel retailers, each service station's operating and ownership model determines how fuel prices are set. For example, Woolworths and Coles Express service stations have their prices set by their parent companies. Caltex and BP set prices for their company-operated and commission agent sites, but at their independently-owned or dealer-operated branded sites, individual site owners set the prices. Similarly, United Petroleum, 7-Eleven, APCO and Liberty branded service stations may be company operated, franchised or independently owned, affecting how prices are set at each site. Therefore, pricing at each site needs to be considered individually because it depends on each site's business model and local competition.⁵²

ACAPMA estimates that large fuel companies and supermarket chains own and operate 32% of retail fuel sites in Victoria. Companies such as 7-Eleven and United Petroleum own 19% via contractual agreements with commission agents, and 49% of Victorian service stations are independently owned and operated. About half of the independently owned and operated sites trade under a major oil company brand.⁵³

Horsham Rural City Council asked service stations in Horsham how they determined their fuel prices. They responded that their parent companies set their prices. The parent companies used pricing information available online to monitor prices and adjusted them accordingly, notifying the service stations via email.⁵⁴

⁴⁸ Australian Competition and Consumer Commission, *Submission 27*, 2.

⁴⁹ Senate Standing Committee on Economics, *Petrol prices in Australia* (2006), 22.

⁵⁰ Australian Institute of Petroleum, *Submission 33*, 20.

⁵¹ Australian Competition and Consumer Commission, *Submission 27*, 2.

⁵² Informed Sources, *Submission 29*, 2; Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 13.

⁵³ Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 12.

⁵⁴ Horsham Rural City Council, *Submission 26*, 1.

Similar factors apply to diesel and LPG but to a different extent

While most of the factors described above apply to all types of fuel, some characteristics of diesel and LPG create distinct market differences. In general, service stations sell lower volumes of diesel and LPG compared with petrol, so prices tend to be more stable.

As with petrol, the TGP makes up 95% of the retail diesel price. Only a small proportion of diesel in the Australian fuel market is sold to private motorists. Commercial or industrial customers purchase three quarters of the diesel used in Australia via long-term contracts. Of the 25% sold through retail outlets, most is sold to account customers. Due to the lower volumes of diesel sold compared with petrol, diesel prices remain relatively stable and service station operators do not aggressively discount prices to attract customers.⁵⁵ In addition, discounting is less likely because diesel users tend to be less price sensitive than petrol users, as most vehicles that run on diesel are typically European cars, sport utility vehicles (SUVs) and commercial vehicles.⁵⁶

LPG prices are also less volatile than petrol prices due to lower volumes of sales, and they tend to be higher in regional areas than in Melbourne. According to data obtained by the RACV, regional Victorian motorists pay on average 10.5% more for LPG than Melbourne motorists. The RACV also found through a member survey that 5.4% of regional motorists use LPG as their primary fuel. It went on to suggest that lower LPG turnover may make retailers increase prices so they can cover overheads and make a profit.⁵⁷

Certain characteristics of LPG add to overhead costs and reduced margins for retailers. For example, LPG is a gas at room temperature and changes into liquid when it is compressed. It therefore needs to be transported and stored in a pressurised tank, which increases costs.⁵⁸ In addition, the demand for heating in the northern hemisphere can affect LPG supply and therefore the international benchmark price.⁵⁹

2.1.2 Why are there inconsistencies in fuel prices?

Large inconsistencies in fuel prices between regional towns or between Melbourne and regional Victoria can be a product of local market factors or at times, invalid comparisons. These issues are discussed below.

⁵⁵ Australian Institute of Petroleum, *Submission 33*, 17.

⁵⁶ Australian Competition and Consumer Commission, *Quarterly report on the Australian petroleum industry: February 2015* (2015), 22.

⁵⁷ Royal Automotive Club of Victoria, *Submission 18*, 9.

⁵⁸ Government of Western Australia, Department of Mines, Industry Regulation and Safety, *Submission 30*, 6.

⁵⁹ Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017*, 38.

Some comparisons are misleading

Several stakeholders informed the Committee that it is inaccurate to compare spot fuel prices between locations because this comparison does not take into account price cycles and time lags due to differences in fuel turnover. This is especially the case when comparing prices in Melbourne with those in regional areas, where the lag in price changes can be as long as several weeks.⁶⁰ For example, the lag time in Melbourne for the retail price to reflect the TGP is four days, whereas the price lag in regional Victoria ranges between five and 26 days, with an average of 15 days.⁶¹ Reasons for price lags at regional service stations include:

- the time required to clear old stock due to lower volumes of fuel sales, which can be up to a few weeks
- multiple steps in the supply chain if the service station purchases its fuel from a distributor who sources it from a storage depot.⁶²

ACAPMA agreed with the ACCC that a valid comparison can only be made between average fuel prices over a 12-month period.⁶³

Comparing Melbourne prices with regional prices at the high or low points of the Melbourne price cycle is also inaccurate. According to the ACCC, the difference between the high and low points of the Melbourne price cycle can vary by 25–30 cpl, so it is not meaningful to compare more stable regional prices with Melbourne prices at the low point of the cycle.⁶⁴ Mr Mark McKenzie, Chief Executive Officer of ACAPMA, agreed stating:

the price cycles vary. So if I wanted to play games, if I was a motoring organisation and I wanted to actually criticise petrol price, I would make commentary at the high point of the cycle. If I am in the industry and I want to justify what my position actually looks like, I make commentary at the low point of the cycle, which is why the ACCC focuses on the average.⁶⁵

Local market factors play a large role in price setting at each site

Informed Sources analysed fuel prices in Melbourne and regional Victoria between 15 January and 10 March 2017. Its analysis found that the major influences on retail fuel prices are market composition and the level of local competition. Population size had virtually no effect on retail fuel prices and transportation costs had a very small impact.⁶⁶

⁶⁰ Government of Western Australia, *Submission 30*, 6.

⁶¹ Australian Institute of Petroleum, *Submission 33*, 20.

⁶² *ibid.*

⁶³ Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 2.

⁶⁴ Australian Competition and Consumer Commission, *Submission 27*, 1.

⁶⁵ Mr Mark McKenzie, Chief Executive Officer, Australasian Convenience and Petroleum Marketers Association, *Transcript of evidence*, Melbourne, 13 November 2017, 24.

⁶⁶ Informed Sources, *Victorian regional fuel price inquiry: briefing paper #2*, supplementary evidence received 11 May 2017, 2.

Informed Sources added that fuel prices could differ widely between sites because individual service stations have varying costs they need to recover. For example, a family-run site may have lower wage costs, an old site may have higher repair and maintenance costs, and a site with a large convenience store might have higher overhead costs. Capital costs such as equipment upgrades, preventative maintenance and land purchase can also vary between service stations.⁶⁷

As mentioned in Section 2.1.1, the ACCC also identified the level of local competition as a key influence on fuel prices in its regional market studies. It noted that the absence of a price discounter in the area could lead to consistently high prices. Informed Sources also noted that fuel prices fall following the entry of an aggressive price discounter into a local market. For example, Costco Northlakes in Brisbane opened in April 2014 and since then the average petrol price in Northlakes and the surrounding suburbs has been between 2 and 8 cpl cheaper than the average Brisbane price.⁶⁸

FINDING 4: Price lags and local market factors, such as the level of competition, are the main causes of fuel price inconsistencies between regional towns and between Melbourne and regional Victoria.

2.1.3 Greater public awareness of fuel pricing factors will assist understanding

The evidence presented to the Committee shows that there are multiple factors that influence fuel prices in regional areas and there is a general lack of understanding among the public about how these factors interplay. Because of these multiple influences, there is no simple answer to explain all fuel pricing inconsistencies across Victoria. Pricing at each service station depends on the distinct market in which each operates. As explained by Mr McKenzie from ACAPMA:

there is no such thing as a homogenous fuel market. It seems to be a proposition that we buy fuel out of Singapore and that because it comes at the same price it should be the same price at the pump, whereas what we tend to see is like any market. You have got a whole series of discrete submarkets that operate like a patchwork quilt, each of them with their own characteristics in terms of population intensity, each with their own characteristics in terms of market volumes, that will all have a bearing on the types of businesses that actually operate. So the nature of competition within each of these varies, and as a result you will see variance in price.⁶⁹

He added:

This is a key issue that we struggle to get across and communicate as an industry, and I would be the first to say we have not done it very well over the last 10–12 years.⁷⁰

⁶⁷ Informed Sources, *Submission 29*, 5.

⁶⁸ *ibid.*, 18.

⁶⁹ Mr Mark McKenzie, *Transcript of evidence*, 23.

⁷⁰ *ibid.*

Industry stakeholders acknowledged that the public's understanding of the multiple factors that influence fuel prices could be improved; however, the best way to do this was unclear. The Chief Executive Officer of Horsham Rural City Council, Mr Peter Brown, said:

it is a difficult thing to do because for most people we do not really care how things are priced; we just want them to be priced fairly. So I do not know that there is a great deal more we can do. I think the fact that perhaps the fuel companies now have to report, the pricing information online has been useful.⁷¹

Several stakeholders publish information about fuel pricing on their websites, including AIP, the ACCC and automobile clubs, but members of the public may not be aware of this information. Mr Nathan Dickens, Deputy Chief Executive Officer of AIP, said:

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.⁷²

AIP recently updated its website and provides consumers with a range of pricing tools to monitor international, wholesale and retail prices.⁷³ It publishes price and trend data on a daily and weekly basis, and Mr Dickens suggested that the public be directed to AIP's website. Mr Schroder from the ACCC also mentioned the ACCC's reports that are available online, but acknowledged that the public are unlikely to take the time to read them:

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 ...⁷⁴

There is a lot of information available online to explain fuel pricing discrepancies; however, the public may be unaware or unlikely to access it. Automobile clubs such as the RACV are well placed to undertake a public awareness campaign explaining the factors influencing fuel prices and encouraging members and the wider public to access available pricing data.

71 Mr Peter Brown, Chief Executive Officer, Horsham Rural City Council, *Transcript of evidence*, Melbourne, 13 November 2017, 50.

72 Mr Nathan Dickens, Deputy Chief Executive Officer, Australian Institute of Petroleum, *Transcript of evidence*, Melbourne, 13 November 2017, 31.

73 Australian Institute of Petroleum, *We are the peak representative body of Australia's downstream petroleum industry* (2017), <<http://www.aip.com.au/>> viewed 20 December 2017.

74 Mr Matthew Schroder, *Transcript of evidence*, 45.

2.2 High fuel prices affect regional businesses and communities

On average, fuel prices in regional Victoria were similar to average Melbourne prices in 2016–17. However, some regional towns continue to experience higher than average prices due to the factors discussed in Section 2.1. Since regional residents are often required to travel long distances for work, education or leisure purposes, the price of fuel has a substantial impact on their cost of living. Fuel prices also affect businesses' operating costs, which can curb expenditure, investment and recruitment. If businesses curtail their operations and residents spend less or do not take up work or education opportunities, there will be an adverse effect on the local economy.

2.2.1 Some businesses have changed the way they operate

Business groups informed the Committee of the impact high fuel prices have on how businesses operate and plan their future directions and investment.⁷⁵ Fuel prices can be a significant cost for businesses, especially in certain industries. In November 2016, the Mind Your Own Business (MYOB) Business Monitor survey of 1003 Australian small and medium business owners found that 23% believed fuel prices would exert an extreme amount or quite a lot of pressure on their business over the next 12 months.⁷⁶ The corresponding proportion in February 2014 was 35%.⁷⁷

More than one-third (37%) of rural Australian business owners also expected fuel prices to cause an extreme amount or quite a lot of pressure on their business in the next year.⁷⁸ The industries that were most likely to report fuel prices as a key pressure point in November 2016 were transport, postal and warehousing (43%) and agribusiness (42%).

The Victorian Farmers Federation (VFF), which represents the interests of Victoria's farmers, highlighted that the agricultural industry heavily relies on fuel due to the growth in large-scale crop farming, use of harvesting machinery and transport of produce to domestic and international markets.⁷⁹ Fuel can be one of the largest costs for farmers, which makes them vulnerable to price rises. Farmers are also less able to pass on higher costs to end-consumers compared with other industries.⁸⁰

75 For example, Geelong Chamber of Commerce, *Submission 31*, 2; Mr David Jochinke, President, Victorian Farmers Federation, *Transcript of evidence*, Melbourne, 13 November 2017, 3–4.

76 MYOB Limited, *MYOB Business Monitor: the voice of Australian business owners and managers, December 2016 report* (2016), 8.

77 MYOB Limited, *MYOB Business Monitor: the voice of Australian business owners and managers, October 2015 report* (2015), 9.

78 MYOB Limited, *MYOB Business Monitor: the voice of Australian business owners and managers, December 2016 report*, 8–9.

79 Victorian Farmers Federation, *Submission 36*, 1.

80 *ibid.*

Mr David Jochinke, President of the VFF, explained how high fuel prices affect farmers and the wider regional economy:

In agriculture we find that unfortunately we are in the position of being mainly commodities. Those commodities do not allow us to shift that price onto the consumer or to be able to give any price indication of the costs that we do incur—fuel being one of the set costs just because of the distance that we have got to move our product. We have got to absorb any increase or fluctuation in the fuel prices ... That impact on profitability is one of the key drivers in a lot of regional areas. Agriculture is the major employer. Agriculture is the major economy, and that leads to employment. That leads to the other aspects of what makes society as we know it in regional areas operate. If agriculture is productive—if agriculture flourishes—we see that knock on right through the community.⁸¹

Some larger industries in regional Victoria are also disadvantaged because they have to purchase wholesale fuel from a regional storage depot rather than buying directly from a refinery at a cheaper price.⁸²

The high cost of freight discourages local businesses from investing, growing their operations and employing more staff.⁸³ The Committee heard some businesses have changed their mode of operation due to higher fuel costs. The Geelong Chamber of Commerce gave the example of a technology equipment business that is ordering surplus parts it may never sell in a bulk order to avoid paying additional delivery charges for smaller, more frequent orders.⁸⁴ In addition, a January 2016 council survey of businesses in Horsham found that some of them purposely bought fuel in Ararat and Stawell because fuel there was about 15 cpl cheaper than in Horsham.⁸⁵

The Committee heard farmers are also changing their operations to counteract higher fuel prices. Mr Jochinke stated:

We are seeing very much on the fertiliser side of agriculture people buying bigger facilities to hold product when the prices are cheaper. We are now seeing that similarly in fuel—people buying larger tanks so that when the price is right they can purchase larger amounts.⁸⁶

Colac Otway Shire, which reported consistently high fuel prices, argued that a lack of competition in the region resulted in higher business operating costs and increased prices for consumer goods. It stated:

Businesses have growing costs and find it increasingly difficult to remain competitive. The 0.10c to 0.15c per litre higher cost of fuel in the region is then passed onto the customer, and many of these are struggling to make ends meet ...

⁸¹ Mr David Jochinke, *Transcript of evidence*, 2.

⁸² Rural City of Wangaratta, *Submission 16*, 2.

⁸³ City of Greater Geelong, *Submission 11*, 1; Geelong Chamber of Commerce, *Submission 31*, 1.

⁸⁴ Geelong Chamber of Commerce, *Submission 31*, 2.

⁸⁵ Horsham Rural City Council, *Submission 26*, 3.

⁸⁶ Mr David Jochinke, *Transcript of evidence*, 5.

The community, business and industry need a 'fair go' when it comes to fuel prices. The lack of genuine competition in the area results in prices staying static across all providers.⁸⁷

Several regional councils also commented that high fuel prices could threaten local tourism if visitors reduce the length of their stay or limit their spending in the region due to the cost of fuel.⁸⁸ For example, the City of Greater Geelong stated:

high costs of fuel reduces the amount of discretionary income available for holidays and the attendance of sporting and cultural events. The visitor economy in our municipality is a growth sector that generates \$796 million into the local economy and that sustains 4794 jobs. Domestic tourism is the major driver of the visitor economy in Greater Geelong thus the high cost of fuel prices has the potential to stagnate the sector ...⁸⁹

Therefore, high fuel prices not only have a direct impact on business operations, but also an indirect effect on regional economies.

2.2.2 Regional residents are vulnerable due to limited transport options

Regional residents who made a submission to the Inquiry also noted the lack of competition in Horsham and other towns such as Colac, which has stabilised prices at a higher level than those in nearby towns.⁹⁰ For example, Mr Mark Naish from Central Victoria claimed:

It is not unusual for the price of LPG in Kyneton to be up to 15 c/l higher than city prices, and up to 10 c/l higher than Bendigo prices, or, for that matter, surrounding large towns (Ballarat, Swan Hill, Daylesford for example). There is also very little variation over time, unlike variations in city areas ... There also seems to be no competition between the two service stations even though they are sited opposite each other ... it does seem odd that 1) both service stations display the same prices all the time and 2) there has been very little movement in fuel prices over the past 5 years or more. As a consequence of this, I simply refuse to fill my vehicles from either petrol/LPG stations in Kyneton, preferring to fill when opportunity presents itself at other service stations.⁹¹

Mr Brown from Horsham Rural City Council also highlighted the consistency of Horsham's prices despite the town's location on the Western Highway and the presence of eight service stations. He said:

Horsham is quite well placed. You would have a high volume of sales; it is on the Western Highway, a very highly trafficked route. It has got eight outlets. A number of those are on the highway and a number of them have got associated convenience

⁸⁷ Colac Otway Shire, *Submission 19*, 2.

⁸⁸ City of Greater Geelong, *Submission 11*, 1; Colac Otway Shire, *Submission 19*, 2.

⁸⁹ City of Greater Geelong, *Submission 11*, 1.

⁹⁰ Name withheld, *Submission 2*, 1; Mr W.F. Stannard, *Submission 20*, 1; Mrs Belinda Rocka, *Submission 22*, 1; Mr Robert Newell, *Submission 35*, 1.

⁹¹ Mr Mark Naish, *Submission 1*, 1.

store sales, which would ensure that there are other profits to be made from the service station. So we are at best, I would say, bemused by why Horsham's prices seem to be consistently set at one level, which up until now has been 129.9 cents per litre. That seems to sit there day in, day out for all the operators throughout the year. Just recently a couple of outlets have moved it up to \$1.39, but significantly no-one has moved it down below \$1.29.⁹²

Some residents were frustrated that prices in their region were up to 30 cpl higher than prices in Melbourne.⁹³ Other regional residents identified discrepancies where prices in one town were significantly higher than in a nearby town.⁹⁴ For example, several submissions highlighted that fuel prices in Bairnsdale were regularly cheaper than prices in other Gippsland towns, despite Bairnsdale's location further away from Victoria's petroleum refineries.⁹⁵

The ACCC also found that average prices in Bairnsdale were cheaper than prices in other Gippsland towns and in Melbourne. Table 2.3 shows that in the 2016–17 financial year, the average price differential between petrol in Bairnsdale and Melbourne was -3.0 cpl, indicating that Bairnsdale was 3 cpl cheaper on average than Melbourne. On the other hand, other Gippsland towns monitored by the ACCC had higher prices on average than Melbourne.

Table 2.3 Average petrol price differential between Melbourne and Gippsland towns, 2016–17

Location	Differential (cpl)
Bairnsdale	-3.0
Lakes Entrance	1.1
Leongatha	3.6
Moe	1.6
Morwell	0.5
Sale	2.0
Traralgon	1.8
Wonthaggi	3.4

Source: Source: Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017*, 42–43.

High fuel prices place a strain on household finances and limit discretionary spending. For example, a new resident of South Gippsland claimed higher fuel prices in the region compared with prices in Melbourne were putting a strain on his family's budget. He stated:

⁹² Mr Peter Brown, *Transcript of evidence*, 48.

⁹³ Mrs Jessica V.D. Clarke, *Submission 3*, 1; Mr Aaron Ridding, *Submission 5*, 1; Mrs Sarah Bubb-Dempster, *Submission 8*, 1; Mr Stephen Koci, *Submission 13*, 1; Mr Tony Grasso, *Submission 14*, 1; Ms Lynne Miller, *Submission 25*, 1.

⁹⁴ Mrs Mary Missen, *Submission 9*, 1; Mr Paul Goujon, *Submission 12*, 1; Mr Stephen Koci, *Submission 13*, 2; Ms Lynne Miller, *Submission 25*, 1; Mr Robert Newell, *Submission 35*, 1.

⁹⁵ Mr Gary Roberts, *Submission 6*, 1; Mr Gary Davis, *Submission 7*, 1; Mrs Enid Kay, *Submission 17*, 1; Mrs Yvonne Martin, *Submission 21*, 1; Ms Lynne Miller, *Submission 25*, 1.

We have a young family and it is hard to make ends meet without these extra costs. I would go as far as to say if we knew what we know now about fuel prices we would have reconsidered moving to South Gippsland.⁹⁶

Mr Brown from Horsham Rural City Council explained the impact on the local economy if residents spend less due to high fuel prices:

It translates in that our local economy is not as efficient because of it. It means that people have less disposable income and so their purchasing is less, and that flows through to business. You would imagine that as a consequence of that there would be people not fulfilling their potential to employ people in business.⁹⁷

Mr Brown added that higher fuel prices have a greater effect on regional residents because they have to travel long distances:

We live 300 kilometres from Melbourne. People do travel considerable distances to work, to go to appointments—to hospital appointments or medical appointments—and just to live our day-to-day lives. It makes it very expensive for people in rural Victoria. So it has a considerable effect on us. I do not have any empirical data about what the additional cost of that is, but certainly if we have got high fuel prices and we travel and consume a lot more fuel than people in larger communities, then it does have a big effect on people.⁹⁸

Some submissions noted that fuel prices have a greater impact on residents of regional Victoria because public transport is not as readily available there as in Melbourne.⁹⁹ The Rural City of Wangaratta stated that the only option for over 65% of its employed residents was to drive to work.¹⁰⁰ It added:

There are few alternatives in country areas for families in rural communities. Fuel is a significant and necessary cost to families, businesses and industry. The average rural family spends many hours a week driving to work, school, sports and operating farm machinery. This also has a contributing effect on student's difficulties in commuting to educational facilities in [the] region, leading to the two extremes of either dropping out of education or relocation to metropolitan cities for further opportunities ...¹⁰¹

Even when public transport is available in regional areas, services can be unreliable prompting residents to drive instead.¹⁰² Mr Eric Siegers, Economic Development Coordinator at the Rural City of Wangaratta, said when:

public transport is not available for students to take a bus, say across to Shepparton to do some specific studies in health care or to go to Wodonga to the college there for some of the construction training, they do have higher costs of fuel to get to their

⁹⁶ Mr Stephen Koci, *Submission 13*, 1–2.

⁹⁷ Mr Peter Brown, *Transcript of evidence*, 49.

⁹⁸ *ibid.*

⁹⁹ Mrs Jessica V.D. Clarke, *Submission 3*, 1; Mrs Sarah Bubb-Dempster, *Submission 8*, 1; Mr Aaron Ridding, *Submission 5*, 1; Rural City of Wangaratta, *Submission 16*, 2.

¹⁰⁰ Rural City of Wangaratta, *Submission 16*, 1.

¹⁰¹ *ibid.*, 2.

¹⁰² *ibid.*

education. For someone on a student income it is difficult to actually afford that. The higher prices obviously are again symptomatic of the fact that the lack of availability of services is as much an issue as is the price of the fuel itself.¹⁰³

Local businesses and the local economy are adversely affected when residents limit their spending due to high fuel prices. Similarly, if regional residents limit their earning capacity by deciding against driving longer distances to access better work and education opportunities, this will also have a harmful impact on the local economy.

FINDING 5: High fuel prices in some regional areas increase business expenses and residents' cost of living, which ultimately has an adverse effect on the local economy.

¹⁰³ Mr Eric Siegers, Economic Development Coordinator, Rural City of Wangaratta, *Transcript of evidence*, Melbourne, 13 November 2017, 53.

3

Improving fuel price transparency

Providing consumers with fuel price data helps them to make informed decisions about when and where to purchase fuel. Consumers can use applications (apps) and websites to monitor fuel prices, but these tools are not always complete or up to date. Another strategy used interstate to improve transparency is mandatory fuel price reporting, which involves service station operators reporting their fuel prices to a government agency that publishes the prices online. This chapter considers ways of improving fuel price transparency for consumers and increasing competition with the aim of lowering fuel prices in regional Victoria.

3.1 Fuel price transparency helps consumers make informed choices

The Australian Competition and Consumer Commission (ACCC), which monitors Australian fuel prices, supports the provision of price data to the public so motorists can make informed decisions about fuel purchases. It found through its regional market studies that greater fuel price transparency encourages motorists to seek out cheaper prices. This behaviour might also lead to a reduction in fuel prices if service station operators discount fuel to attract customers.¹⁰⁴

Other stakeholders, including automobile clubs also supported fuel price transparency.¹⁰⁵ The Victorian Farmers Federation (VFF), which represents the interests of Victoria's farmers, argued that better pricing information would help regional consumers and farmers access cheaper prices. Mr David Jochinke, President of the VFF, stated:

The price difference between, say, Warracknabeal, Horsham and Ararat is quite stark. For a consumer to make an informed decision—and this is just in the community sense—can save them significant amounts of money ... When you start talking large volumes, which we do consume in agriculture—and that margin can be a profitable or a break-even decision—we are talking thousands of dollars per decision that you make around that as a farmer, let alone then the consumer and what that means for the whole community. Having a clear understanding of where prices are, not only within town, then hopefully gives the community better options.¹⁰⁶

¹⁰⁴ Mr Matthew Schroder, General Manager, Infrastructure and Transport, Access and Pricing Branch, Australian Competition and Consumer Commission, *Transcript of evidence*, Melbourne, 13 November 2017, 43.

¹⁰⁵ Mr Wal Setkiewicz, Senior Policy Adviser, Economics, National Roads and Motorists' Association, *Transcript of evidence*, Melbourne, 13 November 2017, 10; Royal Automotive Club of Victoria, *Submission 18*, 12.

¹⁰⁶ Mr David Jochinke, President, Victorian Farmers Federation, *Transcript of evidence*, Melbourne, 13 November 2017, 3–4.

Mr Jochinke stated that price transparency was important in regional areas because there was not enough competition to bring down prices. Better pricing information would at least help farmers and regional residents make better choices.¹⁰⁷ He added:

At the end of the day we cannot engineer the competition, but we can ensure that in comparative terms across the towns, across the region, the pressure is put on [service stations]. Once again, because of the amount of fuel we consume we cannot have every town with seven outlets, but we can make sure that those outlets are spot-on in pricing.¹⁰⁸

While the ACCC believes that fuel price transparency will benefit consumers, it does not advocate a method to achieve this. Mr Matthew Schroder, General Manager, Infrastructure and Transport at the ACCC, stated that it is up to governments to decide whether to rely on commercial operators or mandatory reporting schemes to provide pricing information to consumers.¹⁰⁹

3.2 Several options exist for consumers to compare fuel prices

There are several fuel price monitoring websites and apps available for motorists to compare prices and search for the best deal. Their comprehensiveness and accuracy vary depending on who runs the app and who reports the prices. Examples of fuel price monitoring websites and apps are discussed below.

3.2.1 Industry apps and websites

Fuel retailers are involved in a number of price comparison tools available to consumers. MotorMouth is a private data provider that reports fuel prices for about 4500 service stations across Australia on its web and app platforms. Informed Sources, a data collection company, owns MotorMouth and sources prices from fuel retailers that subscribe to its service, individual service station operators, app users and publically available data in Western Australia (WA) and New South Wales (NSW). It updates price data every 15 minutes.¹¹⁰ Comparethemarket.com.au uses MotorMouth data for its online fuel comparison service.

Some fuel retailers have their own app, such as the Woolworths Fuel App, which was launched in August 2011 and enables consumers to compare prices at multiple Caltex Woolworths service stations. In February 2016, 7-Eleven also introduced an app that provides users with fuel prices at all its sites.¹¹¹

¹⁰⁷ *ibid*, 3.

¹⁰⁸ *ibid*, 6.

¹⁰⁹ Mr Matthew Schroder, *Transcript of evidence*, 43.

¹¹⁰ Informed Sources, *Submission 29*, 16.

¹¹¹ Australian Competition and Consumer Commission, *Submission 27*, 2.

App developers are also trialling new offerings, such as Voyager Technologies' plan to allow retailers to promote product and service specials on their app.¹¹² This will help smaller retailers in particular because they are unable to compete with larger retailers on price.

3.2.2 Crowdsourcing apps

There are several fuel price monitoring apps in Australia that rely on data submitted by users when they come across fuel prices. Some examples are Fuel Map, GasBuddy and Petrol Spy. A significant limitation of these apps is that they rely on app users to submit and update data, so the prices may be neither current nor complete for all service stations.

GasBuddy, which started operating in March 2016, also collects data from commercial fleet card partnerships, government websites using mandatory fuel price reporting and individual service stations that choose to self-report.¹¹³

3.2.3 Automobile club websites and tools

Automobile clubs such as the Royal Automobile Club of Victoria (RACV), the Royal Automobile Club of Queensland and the Royal Automobile Association of South Australia provide some fuel price information on their websites. In Victoria, the RACV uses Informed Sources' data to provide price bands for service stations across the state on an interactive map on its website and mobile app. The RACV website also discloses the day's highest, lowest and average prices for each fuel type in Victoria, and indicates whether it is a good day to buy fuel. Historical retail and wholesale pricing data is also available for the previous week and month.¹¹⁴

3.2.4 Not all comparison tools are comprehensive or timely

None of the consumer apps or websites run by private data providers have complete and up-to-date information for all service stations. Crowdsourcing apps rely on user input and apps that use Informed Sources' data do not cover all service stations. In its regional market studies, the ACCC found that despite the prevalence of fuel pricing apps and websites, many small, cheaper independent service stations are not covered.¹¹⁵ If consumers are unaware of cheaper prices, there is no pressure on nearby retailers to discount prices. For example, the ACCC's study of the Cairns market found most fuel retailers were selling fuel at about the same price, but two smaller independents were consistently about 10 cents per litre (cpl) cheaper. The ACCC found that the available apps often did not list these independents or were reporting prices that were out of date.¹¹⁶

¹¹² Voyager Technologies International, *Submission 4*, 1.

¹¹³ Royal Automotive Club of Victoria, *Submission 18*, 12.

¹¹⁴ *ibid.*, 10.

¹¹⁵ Australian Competition and Consumer Commission, *Submission 27*, 11.

¹¹⁶ *ibid.*

Pricing information is also limited on websites and apps that use Informed Sources' data. In 2007, the ACCC undertook a petrol inquiry, which found that Informed Sources only revealed real-time fuel price data to its subscribers. This allowed major petrol retailers to exchange information and possibly use this information to make pricing decisions. The ACCC took Informed Sources and several of its major subscribers to court in August 2014, alleging that its service could limit competition in the market. In December 2015, the ACCC resolved the proceedings with Informed Sources and petrol retailers BP, Caltex, Woolworths and 7-Eleven. The retailers undertook to provide greater transparency and Informed Sources undertook to provide consumers with the same data it provides its subscribers. Coles Express decided to withdraw from the Informed Sources service.¹¹⁷

Following this ruling, Informed Sources provides price data for 7-Eleven, BP, Caltex and Woolworths service stations, but not for Coles Express, United and many independent service stations. In addition, service stations that are not owned by fuel companies, such as BP AA sites, are not covered. The RACV, which uses Informed Sources' data, explained that its price information service is therefore incomplete. For example, it only receives price data for about 400 of the almost 700 sites in the Greater Melbourne area.¹¹⁸

Informed Sources also restricts how its prices are reported, so the RACV website can only use a 5 cpl price band to show prices at each site. This is to prevent actual price data being freely available to retailers on the website. The RACV app is able to provide specific prices at each service station because users are tracked using their mobile phone number and limited to 30 price requests per week. A future update to the RACV app will allow its members to submit and view prices for service stations not covered by Informed Sources' data.¹¹⁹

While acknowledging that its price information is incomplete, Informed Sources argued that there is enough data available for consumers to make informed decisions. It stated:

Most of the market however is covered free of charge to consumers by existing services and this information, which shows individual sites and area maps, provides benchmark information by which prices can be assessed. With motorists knowing what is happening across the majority of the market, if they pass a price that is not displayed on MotorMouth or another app, they know immediately whether or not it is a good deal.¹²⁰

FINDING 6: Existing fuel price apps and websites do not provide complete or timely information for all Victorian service stations.

¹¹⁷ *ibid.*, 7.

¹¹⁸ Royal Automotive Club of Victoria, *Submission 18*, 10.

¹¹⁹ *ibid.*, 11.

¹²⁰ Informed Sources, *Submission 29*, 11.

3.3 Mandatory fuel price reporting is one strategy to improve transparency

To address the incompleteness of current fuel pricing apps and websites, some Australian jurisdictions have introduced mandatory fuel price reporting schemes. These schemes require all service station operators to report their fuel prices to a government agency that publishes the prices online or via an app for consumers to access. Several submissions supported the introduction of mandatory fuel price reporting in Victoria.¹²¹ This section describes how interstate mandatory reporting schemes operate and considers their impact on fuel prices.

3.3.1 How does mandatory reporting work interstate?

Mandatory fuel price reporting schemes operate in WA, NSW and the Northern Territory (NT). WA was the first Australian state to introduce a scheme in 2001. The NSW and NT schemes are more recent and began operating in 2016 and 2017 respectively.

Western Australia has 24-hour fixed pricing

Public access to fixed daily fuel prices forms the basis of the WA scheme named FuelWatch, which started operating in January 2001. The WA Government introduced FuelWatch in response to recommendations made by a WA parliamentary select committee that reported on the pricing of petroleum products in October 2000. Under the scheme, fuel prices are fixed for 24 hours beginning at 6 am daily. WA fuel retailers are required to notify FuelWatch by 2 pm each day of their prices for the next day. The infringement penalty for failing to provide notification of the next day's price is \$4000. The Consumer Protection Division of the Department of Mines, Industry Regulation and Safety administers the scheme.¹²²

FuelWatch publishes fuel prices for the following day on its website at 2:30 pm and sends customised pricing reports to media outlets. Subscribers to FuelWatch also receive a free email each day at 2:30 pm with a list of fuel prices for that day and the next. In addition, the public can enquire about fuel prices over the phone.¹²³ FuelWatch has desktop and mobile websites that allow users to search for cheap prices. The desktop version also includes historical prices, a trip planner, scrolling news and price trend charts.¹²⁴

121 For example, Royal Automotive Club of Victoria, *Submission 18*, 12; Geelong Chamber of Commerce, *Submission 31*, 2; Victorian Farmers Federation, *Submission 36*, 4.

122 Government of Western Australia, Department of Mines, Industry Regulation and Safety, *Submission 30*, 2.

123 *ibid.*, 3.

124 *ibid.*

Most WA consumers access FuelWatch on their smartphones using the mobile website. In the first half of 2017, the FuelWatch websites recorded 17.6 million hits and 780 000 visits per month.¹²⁵ Visits are sessions of continuous activity on a website, whereas hits are requests to a web server. Multiple hits are made when loading a single web page.

New South Wales service stations have to report prices in real time

The NSW Government introduced mandatory fuel price reporting on 24 August 2016 to provide consumers with real-time price information. Fuel retailers in NSW must report their current prices to NSW Fair Trading, which publishes the prices on the FuelCheck website. All service station operators must register with FuelCheck and ensure that their prices on FuelCheck match their price board at all times. They are able to submit their prices via the website or using the NSW Government's web application programming interface, OneGov.¹²⁶

NSW Fair Trading administers the scheme and encourages consumers to report price discrepancies, which can attract a fine of \$550 for non-compliant retailers.¹²⁷ Between its launch and 16 March 2017, NSW Fair Trading received 1190 notifications of price mismatches between FuelCheck and service station price boards. Between 4 November 2016 and 16 March 2017, there was an average of three verified mismatch notifications per day.¹²⁸ The initial cost of setting up FuelCheck was \$300 000 and the ongoing costs of supporting the FuelCheck web infrastructure is \$64 000 per year.¹²⁹

FuelCheck is accessible from smartphones, tablets, desktop computers and laptops. Consumers can search for the best deal by location, price, fuel type or brand. They can also use FuelCheck to get directions to any NSW service station and submit a complaint to NSW Fair Trading if the pump price does not match the published price.¹³⁰

The RACV reports that the FuelCheck website has had over 2 million hits and about 13 000 daily users in the year it has been operating.¹³¹ According to Informed Sources, this equates to a small proportion of hits relative to the number of fuel purchases per year in NSW. A crude calculation suggests only 1% of fills have used FuelCheck if NSW motorists consume 10 billion litres of fuel each year and the average fill is 50 litres.¹³² This also assumes that each hit is for a separate purchase of fuel and does not include retailers using the site to check competitors' prices.

125 *ibid.*, 4.

126 New South Wales Fair Trading, *FuelCheck for service stations* (2017), <www.fairtrading.nsw.gov.au/ftw/About_us/Online_services/FuelCheck/FuelCheck_for_service_stations.page?>, viewed 17 July 2017.

127 *ibid.*

128 Hon. Matt Kean MP, Minister for Innovation and Better Regulation, response to question from Ms Yasmin Catley MP received 30 March 2017, 3943.

129 *ibid.*, 3942.

130 Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017* (2017), 7.

131 Royal Automotive Club of Victoria, *Submission 18*, 11.

132 Informed Sources, *Submission 29*, 11.

The National Roads and Motorists' Association (NRMA), which represents 2.6 million members in NSW and the Australian Capital Territory, campaigned for the introduction of full price transparency in the retail fuel market. It now uses FuelCheck data in its app, which members can use to access real-time fuel prices. The NRMA app has been downloaded about 430 000 times and receives 14 000 daily views.¹³³

The Northern Territory has adopted the New South Wales scheme

In November 2017, the NT Government introduced a mandatory fuel price reporting scheme named MyFuel NT. NT Consumer Affairs manages the scheme, which operates in the same way as the NSW FuelCheck scheme. Fuel retailers report their fuel prices to NT Consumer Affairs, which publishes the data on an app in real time.¹³⁴

3.3.2 Mandatory reporting schemes have not reduced fuel prices

The theory behind providing consumers with complete fuel price transparency is to encourage competition between service stations and ultimately achieve fair pricing.¹³⁵ However, the available evidence suggests that fuel prices have not fallen in jurisdictions that have introduced mandatory fuel price reporting, and in some cases, prices have stabilised at higher levels. The following sections consider the impact of mandatory fuel price reporting on competition, fuel prices and business operating costs.

Retailers are less likely to aggressively discount under mandatory reporting

Evidence from stakeholders and studies of the Australian and international mandatory schemes have shown that retailers are less competitive when there is complete fuel price transparency in a retail market. Competition has reduced in WA, Germany and Chile where these schemes operate, and stakeholders indicated that a similar outcome may occur in NSW and the NT.

For example, WA's fixed price scheme reduces competition by restricting the ability of retailers to change prices throughout the day. The ACCC found that the 24-hour price commitment under the FuelWatch scheme could make retailers more conservative with their prices to avoid undercutting more than they need to.¹³⁶ APCO Service Stations (APCO), an independent petrol retailer based in Geelong that operates 25 franchised service stations, confirmed this behaviour in its submission:

¹³³ National Roads and Motorists' Association, *Submission 34*, 5; Royal Automotive Club of Victoria, *Submission 18*, 11.

¹³⁴ Northern Territory Department of Treasury and Finance, *Northern Territory implementation of MyFuel NT: mandatory retail fuel price reporting scheme (2017)*, 2.

¹³⁵ Royal Automotive Club of Victoria, *Submission 18*, 1.

¹³⁶ Australian Competition and Consumer Commission, *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol (2007)*, 248.

Because of the 24-hour price set rule, the discount petrol seller is adversely impacted if they get the price wrong and spend the day (24 hours) uncompetitive in their local market, which would be devastating for an Independent. As a result of the 24-hour price rule under Fuelwatch APCO (and any discount retailer) when setting retail prices would do so less aggressively and “play it safe” which, would result in a levelling of prices at the pump. Hence, the motorist will pay more for their fuel.¹³⁷

APCO added that this behaviour would eventually lead to a stabilisation of fuel prices:

Unfortunately, under schemes such as in WA and in NSW ... fuel prices would remain very stable and would most likely increase over a period due to a lack of competitive ‘spirit’ amongst retailers because no retailer could establish a long term competitive advantage or discount reputation by dropping their board prices. Retailers will err on the side of caution when considering their option of dropping fuel prices.¹³⁸

A 2017 report on price collusion for the Organisation for Economic Co-operation and Development (OECD) briefly considered the impact of Western Australia’s FuelWatch scheme on fuel prices. It also found that decreasing the frequency at which retailers can adjust their prices could prevent retailers from discounting throughout the day to match competitors. It suggested an alternative of allowing retailers to decrease prices immediately but setting a time lag for price increases.¹³⁹

APCO warned that providing consumers with complete price transparency across all service stations also gives this information to retailers, which discourages aggressive discounting. APCO argued:

These approved schemes to force retailers to post their price changes on a web site for all other retailers to see (and customers) provide an ‘easier’ environment for retailers to check each other’s prices; in fact, they are alerted instantly to any price fluctuations and therefore can react immediately. The only agenda to drop a fuel price is to gain a competitive advantage to chase more market share. If APCO cannot gain a competitive advantage by dropping prices (as our competitors will immediately know) then we have lost the best advantage we have. So, such schemes and ‘technology tools’ forcing us to ‘tell our competitors’ what we have just done in the market is a MAJOR disincentive for us to even bother dropping prices.¹⁴⁰

APCO does not provide its prices to private data providers such as Informed Sources in order to retain its competitive advantage for at least some time, which could last hours or days. Larger retailers are only be able to discover APCO’s prices by physically scouting the market.¹⁴¹

¹³⁷ APCO Service Stations, *Submission 37*, 8.

¹³⁸ *ibid.*

¹³⁹ Ariel Ezrachi and Maurice E. Stucke, *Algorithmic collusion: problems and counter-measures*, report for OECD Competition Committee (2017), 28–29.

¹⁴⁰ APCO Service Stations, *Submission 37*, 7.

¹⁴¹ *ibid.*, 9.

Informed Sources found unusual behaviour among some fuel retailers in NSW, which also appears to confirm that mandatory reporting undermines the competitive advantage of discounters. Mr Nick Ferris, Commercial Manager, Asia Pacific, stated that Informed Sources' drivers who collect fuel prices have found some retailers consistently report higher prices to FuelCheck than what they are selling fuel at:

There was one retailer in particular—a minor branded retailer—that in 49 per cent of instances that we observed was misreporting fuel prices ... in all of those instances the price on FuelCheck was actually above the price that the retailer was selling it for.¹⁴²

Informed Sources' Regional Manager, Asia Pacific, Mr Chris Huth, added:

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.¹⁴³

FINDING 7: Fuel discounters lose their competitive advantage under mandatory fuel price reporting because their competitors can see their prices instantly and match them.

One of APCO's Directors, Mr Peter Anderson, told the Committee that APCO already uses fuel price apps to monitor Victorian prices and adjust their prices accordingly. For example:

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 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.¹⁴⁴

The OECD paper on competition also warned that transparency schemes may discourage discounting. The authors stated:

with each firm tapping into its rivals' real-time pricing, no petrol station likely profits by discounting. Given the velocity with which the pricing algorithms can adjust, petrol stations will less likely develop among its customers a reputation as a price discounter. Accordingly, the competitors will have even less incentive to discount. We can see that even in markets where tacit collusion should be unlikely given the number of significant competitors (such as five in Germany and six in Perth), an app that was meant to promote price competition could end up undermining it.¹⁴⁵

¹⁴² Mr Nick Ferris, Commercial Manager, Asia Pacific, Informed Sources, *Transcript of evidence*, Melbourne, 13 November 2017, 38.

¹⁴³ Mr Chris Huth, Regional Manager, Asia Pacific, Informed Sources, *Transcript of evidence*, Melbourne, 13 November 2017, 39.

¹⁴⁴ Mr Peter Anderson, Director, APCO Service Stations, *Transcript of evidence*, Melbourne, 13 November 2017, 21.

¹⁴⁵ Ezrachi and Stucke, *Algorithmic collusion: problems and counter-measures*, 9.

The authors argued that complete price transparency increases the risk of tacit collusion, especially when the same product is sold across a concentrated market and there is little customer loyalty.¹⁴⁶ Tacit collusion is when competitors agree on a strategy without talking to one another. In the case of fuel pricing, this could involve retailers noticing that a competitor has lifted prices and then price matching or retailers discounting no more than the level needed to undercut their competition.

Mr Schroder from the ACCC responded that while the prices of smaller retailers are more transparent under a mandatory scheme,

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.¹⁴⁷

There is no evidence that fuel prices have fallen following mandatory reporting

The RACV and the NRMA informed the Committee that the relative average unleaded petrol price in Sydney has fallen between 1.3 to 2.6 cpl since the introduction of FuelCheck.¹⁴⁸ However, the fall is likely to be due to more complete data collection. Mr Wal Setkiewicz, Senior Policy Adviser, Economics at the NRMA, stated:

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.¹⁴⁹

APCO Director, Mr Robert Anderson, argued that fuel prices in regional NSW are higher than Victoria based on prices at APCO sites in Albury and Wodonga. He stated that Albury is APCO's third-most expensive market and that petrol is on average 3 cpl cheaper across the border in Wodonga.¹⁵⁰

The Australasian Convenience and Petroleum Marketers Association (ACAPMA), the national peak body for the petroleum distribution and retail industry, stated there is no evidence to support that fuel price transparency schemes reduce fuel prices.¹⁵¹ ACAPMA's Chief Executive Officer, Mr Mark McKenzie, said there is no clear indication it has had any impact on fuel prices:

¹⁴⁶ *ibid*, 2.

¹⁴⁷ Mr Matthew Schroder, *Transcript of evidence*, 44.

¹⁴⁸ Royal Automotive Club of Victoria, *Submission 18*, 11; National Roads and Motorists' Association, *Submission 34*, 6.

¹⁴⁹ Mr Wal Setkiewicz, *Transcript of evidence*, 10–11.

¹⁵⁰ Mr Robert Anderson, Director, APCO Service Stations, *Transcript of evidence*, Melbourne, 13 November 2017, 18.

¹⁵¹ Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 2–3.

FuelCheck has not lowered prices; what it has done is capture more data where it has been a weighted influence of the discounters, which has suggested that there is a lower average price. But in everything we have seen we see no evidence from the 18 months that it has lowered price. We also see no evidence that has actually increased price. Effectively if you have a look at the experience to date it is delivering an open finding for us.¹⁵²

ACAPMA noted that in WA, FuelWatch has led to the creation of a regular weekly fuel discounting cycle in Perth that Australian capital cities do not experience. The weekly price cycle peaks on Tuesdays and prices are cheapest on Mondays. However, there is no evidence that fuel prices have fallen in Western Australia since the introduction of FuelWatch.¹⁵³ The RACV also agrees that FuelWatch has not led to cheaper fuel prices in WA compared with other states and does not support the introduction of a similar 24-hour pricing scheme in Victoria.¹⁵⁴

The OECD paper on competition, which looked at fuel price transparency in Chile and Germany as well as WA, found that retail margins and fuel prices have increased following the introduction of mandatory fuel price reporting.¹⁵⁵ Chile introduced a mandatory fuel price reporting scheme in February 2012 that requires retailers to post real-time prices on a government website. Retail margins in Chile increased by 10% on average following the introduction of the scheme. However, the ACCC stated that most of the increases were in regions where consumers used the website the least.¹⁵⁶

In 2013, Germany introduced a scheme where fuel retailers report price changes in real time to the German Market Transparency Unit for Fuel run by the Bundeskartellamt, Germany's competition authority. The Unit does not make the price data public, but consumer information services can request the prices and publish them. Following the scheme's introduction, fuel prices in Germany rose by 1.2–3.3 euro cents per litre for petrol and about 2 euro cents per litre for diesel.¹⁵⁷

FINDING 8: There is no evidence that mandatory fuel price reporting schemes in Australia and overseas have reduced fuel prices.

Compliance costs could be passed on to motorists

Several stakeholders argued that the costs to service stations to comply with mandatory fuel price reporting could be substantial. For example, the Australian Institute of Petroleum (AIP), the key representative body of Australia's petroleum industry, stated that its members are concerned about the added compliance

¹⁵² Mr Mark McKenzie, Chief Executive Officer, Australasian Convenience and Petroleum Marketers Association, *Transcript of evidence*, Melbourne, 13 November 2017, 26.

¹⁵³ Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 19.

¹⁵⁴ Royal Automotive Club of Victoria, *Submission 18*, 12.

¹⁵⁵ Ezrachi and Stucke, *Algorithmic collusion: problems and counter-measures*, 7–8.

¹⁵⁶ Australian Competition and Consumer Commission, *Submission 27*, 9.

¹⁵⁷ Ezrachi and Stucke, *Algorithmic collusion: problems and counter-measures*, 8.

costs of a mandatory scheme.¹⁵⁸ It said that the NSW FuelCheck scheme ‘required significant investment from fuel retailers that required modifications to corporate pricing and reporting systems to meet the “real-time” requirement.’¹⁵⁹

APCO claimed that if mandatory reporting was introduced in Victoria it would have to employ additional resources to report prices and monitor franchisee compliance.¹⁶⁰ APCO and Informed Sources stated that small fuel retailers will eventually pass on added operating costs to motorists.¹⁶¹ In contrast, larger retailers ‘can more easily absorb these costs into their networks and most likely already have these systems in place’.¹⁶²

ACAPMA analysed the impact of added compliance costs to service stations on retail fuel prices. It found that every \$50 000 increase in compliance costs could add between 1.4 and 2.5 cpl at a regional site and between -0.3 and 1.3 cpl at a metropolitan site.¹⁶³ However, Mr McKenzie from ACAPMA stated:

FuelCheck itself has brought some costs, although I would say it is probably relatively minimal. I suppose it might be very odd to me to say, representing the industry, that really the issue for us with FuelCheck is not cost, because predominantly what you are able to do is remove the spotters that you used to use—someone who was actually employed on a part-time basis to run around service stations and check that my price was actually competitive. Now I have got an app set up by government which gives me real-time prices that will alert me every time someone changes prices. So in fact, while there is the cost of set up, the ongoing costs actually means that largely it is a neutral benefit for me.¹⁶⁴

The ACCC added that it is difficult to measure compliance costs because they vary between service stations depending on sales volumes, business structures and the relevant environmental standard obligations.¹⁶⁵

3.3.3 Mandatory reporting will have little impact on regional fuel prices

Regional councils were not convinced that mandatory fuel price reporting, or improved fuel price transparency in general, would reduce prices in regional areas. For example, Colac Otway Shire and the Rural City of Wangaratta noted that in some towns, all service stations are priced the same so comparison tools will not help residents to locate cheaper prices.¹⁶⁶ Even if prices were cheaper in a nearby town, it is not always viable for some residents to drive there for cheaper fuel. Mr Eric Siegers, Economic Development Coordinator at the Rural City of Wangaratta, stated:

¹⁵⁸ Australian Institute of Petroleum, *Submission 33*, 4.

¹⁵⁹ *ibid*, 25.

¹⁶⁰ APCO Service Stations, *Submission 37*, 10.

¹⁶¹ *ibid*; Informed Sources, *Submission 29*, iii.

¹⁶² APCO Service Stations, *Submission 37*, 10.

¹⁶³ Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 18.

¹⁶⁴ Mr Mark McKenzie, *Transcript of evidence*, 26–27.

¹⁶⁵ Mr Matthew Schroder, *Transcript of evidence*, 44.

¹⁶⁶ Colac Otway Shire, *Submission 19*, 2; Rural City of Wangaratta, *Submission 16*, 2.

The app in the city is a great idea, because you have got any number of retail outlets just down the road. For someone living in Melbourne going 10 kilometres, we have opened up an opportunity of at least 20 to 30 stations being in that radius. You do not have that here in the city of Wangaratta, for instance. In the city of Wangaratta we have got, I think, four petrol stations and probably not another one until you get to Myrtleford, which is outside the rural city. Then I do not think there is actually one down in Moyhu, and then you get across to Benalla. So an app that tells you prices are cheaper in Benalla, unless it is, you know, a dollar cheaper, probably will not actually trigger any sort of interest because for, you know, 10 cents, I will use that up in the petrol driving over there and then back.¹⁶⁷

However, not all stakeholders agreed that regional residents would not travel for cheaper prices. The RACV stated fuel price apps could enable regional residents to ‘plan fuel purchases on the times they leave their local town and buy from cheaper nearby towns.’¹⁶⁸ Mr Jochinke from the VFF added:

it would be extremely rare, unless somebody lives in a very major regional town, for them not to travel to towns for sporting events, travel to towns for education or even social functions, so their choice between purchasing it from one location or another is quite a viable option for them to choose between, ‘Do I buy it down the road or do I buy it where I am at the moment?’. There is competition not only within the location but then also because we do travel vast, different distances.¹⁶⁹

Mr Peter Brown, Chief Executive Officer of Horsham Rural City Council, was not convinced that a mandatory scheme would improve fuel prices in his region. He said:

I always think that more information is better. More information that people have to make economics decisions is important. Whether such an app would take off, I guess it depends largely on the New South Wales experience. If there has been some success there, then I guess we would support it. But in introducing anything that is mandatory you introduce another layer of regulation of some sort or another. We need to be really careful to balance the costs of such an imposition with the benefits that might flow. I am probably sitting on the fence a bit, but I suspect that it would not make a great deal of difference.¹⁷⁰

Price data from NSW do not show that FuelCheck has reduced fuel prices in regional areas. Mr Setkiewicz stated that the NRMA has been unable to evaluate the impact of FuelCheck in regional areas due to the quality of its price data in regional NSW.¹⁷¹ According to Informed Sources, regional NSW prices may have increased since the introduction of FuelCheck. Its analysis found the average price gap between Sydney and regional NSW increased by 1 cpl since FuelCheck was implemented. Since Sydney prices have not fallen when benchmarked against the Terminal Gate Price, Informed Sources argued that regional prices

¹⁶⁷ Mr Eric Siegers, Economic Development Coordinator, Rural City of Wangaratta, *Transcript of evidence*, Melbourne, 13 November 2017, 54.

¹⁶⁸ Royal Automotive Club of Victoria, *Submission 18*, 3.

¹⁶⁹ Mr David Jochinke, *Transcript of evidence*, 5.

¹⁷⁰ Mr Peter Brown, Chief Executive Officer, Horsham Rural City Council, *Transcript of evidence*, Melbourne, 13 November 2017, 50.

¹⁷¹ Mr Wal Setkiewicz, *Transcript of evidence*, 11.

must have increased by 1 cpl on average.¹⁷² ACCC analysis shows that the average price differential between Sydney and regional NSW increased from 5.6 cpl in 2015–16 to 8.2 cpl in 2016–17.¹⁷³

The Committee was also informed that some residents in rural areas have limited internet access, which reduces the effectiveness of fuel price apps.¹⁷⁴ Even in metropolitan areas, the percentage of people who proactively use apps to compare prices is quite small. According to Informed Sources, only ‘a few percent of the total motorist population’ use price data.¹⁷⁵ ACAPMA research also shows that most motorists do not proactively search for pricing information, and 60% purchase their fuel from the same few service stations.¹⁷⁶

ACAPMA’s national consumer research also shows that motorists tend to choose service stations based on the total site offering, that is, petrol and convenience products, rather than just price.¹⁷⁷ ACAPMA found that this applied equally to regional and metropolitan motorists.¹⁷⁸ The research showed that in 2017, 40% of motorists nominated price as the key factor for choosing where to purchase fuel compared with 60% in 2015. Mr McKenzie explained these statistics by saying:

one of the reasons that we have seen a decline in price sensitivity has been we have gone through a pretty constant period of oil prices in the last 18 months, so as a result we have not seen as much of the volatility. I am not for a minute going to say that is a long-term trend, but in the last 12 months we have certainly seen a change.¹⁷⁹

Mr Nathan Dickens, Deputy Chief Executive Officer of AIP, added that it is too early to evaluate FuelCheck’s effect on fuel prices:

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.¹⁸⁰

FINDING 9: It is unlikely that mandatory fuel price reporting would reduce prices in regional Victoria due to the small number of competing service stations.

172 Informed Sources, *Submission 29*, i.

173 Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2016* (2016), 18; Australian Competition and Consumer Commission, *Report on the Australian petroleum market: June quarter 2017*, 22.

174 Rural City of Wangaratta, *Submission 16*, 2.

175 Informed Sources, *Submission 29*, 3.

176 *ibid.*, 4.

177 Australasian Convenience and Petroleum Marketers Association, *Submission 32*, 2.

178 Mr Mark McKenzie, *Transcript of evidence*, 26.

179 *ibid.*, 25.

180 Mr Nathan Dickens, Deputy Chief Executive Officer, Australian Institute of Petroleum, *Transcript of evidence*, Melbourne, 13 November 2017, 33.

3.4 Other ways to improve transparency and competition

While complete fuel price transparency through mandatory fuel price reporting has not been shown to reduce fuel prices, the Committee does see the benefit of improving price information for consumers and encouraging competition. Stakeholders presented other strategies for improving fuel price transparency and competition and these are discussed below.

3.4.1 Governments can encourage the use of comparison apps

The ACCC identified that instead of mandatory fuel price reporting, some state governments have encouraged the use of existing fuel price apps.¹⁸¹ For example, in March 2017, the Tasmanian Government provided the Royal Automobile Club of Tasmania with a one-off grant of \$60 000 to create a crowdsourced fuel price app in partnership with app developer GasBuddy.¹⁸² Mr Peter Gniel, General Manager Policy at AIP, stated that the Tasmanian 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.¹⁸³

The app relies on users to update prices, so the data may not be comprehensive or up to date but it will improve the quality of data coverage for consumers.

The RACV intends to introduce a crowdsourcing functionality in its app to allow members to upload fuel prices they come across.¹⁸⁴ The ACCC also suggested that the RACV should encourage members to use fuel price apps and push for cheaper fuel prices. Mr Schroder stated:

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.¹⁸⁵

Mr Schroder also highlighted the value of local media campaigns to encourage motorists to shop around for cheaper fuel. In addition to providing consumers with price information, for service stations:

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.¹⁸⁶

¹⁸¹ Mr Matthew Schroder, *Transcript of evidence*, 43.

¹⁸² Australian Competition and Consumer Commission, *Submission 27*, 3.

¹⁸³ Mr Peter Gniel, General Manager Policy, Australian Institute of Petroleum, *Transcript of evidence*, Melbourne, 13 November 2017, 35.

¹⁸⁴ Royal Automotive Club of Victoria, *Submission 18*, 11.

¹⁸⁵ Mr Matthew Schroder, *Transcript of evidence*, 45.

¹⁸⁶ *ibid*, 46.

The Committee believes that greater use of third-party apps are the best means to improve fuel price transparency in Victoria because it allows smaller independents to retain their competitive advantage. Crowdsourcing apps in particular should be encouraged because they will improve the coverage of fuel prices in regional Victoria.

RECOMMENDATION 1: The Victorian Government conduct a public awareness campaign in regional Victoria to encourage the use of fuel price apps.

RECOMMENDATION 2: The Victorian Government support the Royal Automobile Club of Victoria's efforts to improve the coverage of fuel prices on its app through crowdsourced data.

3.4.2 Community buying groups and retailers could put pressure on competitors

Communities in regional areas could establish buying groups to purchase fuel at a cheaper price. The Big Petrol Switch campaign in 2014 was a national campaign to gain a 5.66% discount from BP service stations. Consumers registered on the campaign website to aggregate at least \$1 million worth of buying power to unlock the group discount, which they received by purchasing discount fuel cards.¹⁸⁷

Gippsland resident, Mr Stephen Koci, recommended that the Victorian Government promote community-owned service stations as a way to increase competition.¹⁸⁸ While several stakeholders such as AIP and the NRMA warned that community groups may not have the management capability or experience to set up a community-owned service station, some regional Victorian towns have established one.¹⁸⁹

For example, the Kaniva Community Roadhouse was established in 2005 after the only service station in town was decommissioned in 2004. The town of Kaniva is situated in western Victoria 40 kilometres from Nhill on the Western Highway and is the last town before the South Australian border. The service station's closure meant Kaniva's residents had to travel to the nearest outlet in Nhill to purchase fuel. In response, two hundred Kaniva residents pledged \$280 000 and formed a trading cooperative, which reopened the service station as a community enterprise in May 2005.¹⁹⁰

The town of Yackandandah in northeast Victoria also set up a community-owned service station when the town's only petrol station closed in 2002. Residents formed the Yackandandah Community Development Company Pty Ltd (YCDCo) and raised \$412 100 through the offer of shares. Along with a Victorian Government contribution through Indigo Shire Council, YCDCo built a new

¹⁸⁷ One Big Switch, *Big Petrol Switch Offer FAQs* (2014), <www.onebigswitch.com.au/campaigns/the-big-petrol-switch/big-petrol-switch-faq>, viewed 15 December 2017.

¹⁸⁸ Mr Stephen Koci, *Submission 13*, 1.

¹⁸⁹ Mr Mark McKenzie, *Transcript of evidence*, 29; Mr Wal Setkiewicz, *Transcript of evidence*, 12.

¹⁹⁰ Co-operative Development Services Ltd, *Community buyout case study: Kaniva Community Co-operative Ltd*, <www.coopdevelopment.org.au/kanivacoop.html>, viewed 15 December 2017.

service station that began trading in December 2003.¹⁹¹ Financial results have been positive, with the station earning an annual revenue of about \$4 million and an annual surplus of \$90 000 or more between 2012–13 and 2016–17.¹⁹²

While community-owned service stations may not sell fuel at cheaper prices, they can counteract the loss of service stations in regional Victoria, which reduces competition. Mr Brown from Horsham Rural City Council noted that other Victorian towns are also at risk of losing their service station, especially following Environment Protection Authority rulings that prohibit bowsers on the street.¹⁹³ He suggested that local communities in this situation be supported to set up community-owned service stations:

I think the smaller towns where fuel services are at risk, then assistance for the local community to set up cooperatives and to take over the provision of fuel would be very important ... any assistance that is able to be given in terms of how you set up such cooperatives and how you manage them and any, I guess, financial assistance from the Victorian Government would [be] really important.¹⁹⁴

Mr Jochinke from the VFF agreed that community-owned service stations can be successful and should be supported:

The issue there is ensuring that those wholesalers once again are getting access to competitive terminal prices, that they can then also get a good competitive transport price as well to supply those service stations. So because you are an independent, presumably that can lock you out of either a deal through certain suppliers and/or your ability to get good trading terms as well. We do encourage such initiatives. We think that communities generally understand what communities need. Therefore anything that we can do to empower them is a good step.¹⁹⁵

3.4.3 New entrants in regional markets can encourage competition

The entry of a new fuel retailer, especially a discounter, into a regional market can lead to lower fuel prices.¹⁹⁶ However, setting up a new service station can be costly and burdensome due to local planning policies and environmental standards. Mr Dickens from AIP explained:

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.¹⁹⁷

191 Yackandandah Community Development Company, *History*, <www.yackandandah.com/ycdco/AboutUs.html>, viewed 15 December 2017.

192 Yackandandah Community Development Company, *Annual reports*, <ycdco.com.au/shareholders/annual-reports/>, viewed 15 December 2017.

193 Mr Peter Brown, *Transcript of evidence*, 49.

194 *ibid*, 50.

195 Mr David Jochinke, *Transcript of evidence*, 8.

196 Government of Western Australia, *Submission 30*, 6.

197 Mr Nathan Dickens, *Transcript of evidence*, 32.

Mr Ferris from Informed Sources added:

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.¹⁹⁸

Stakeholders suggested ways to encourage new market entrants such as setting aside land for service stations, removing planning restrictions and providing incentives or subsidies to new independent retailers.¹⁹⁹ For example, Mr Schroder from the ACCC suggested:

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.²⁰⁰

Mr Setkiewicz from the NRMA added that local or state governments could target independent retailers:

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.²⁰¹

Some planning restrictions may hinder fuel retailers from establishing a service station on land that would attract high volumes of traffic. For example, a service station in a Rural Living Zone, which is a residential zone outside of a township, must not have direct access to a rural freeway and must either adjoin a commercial or industrial zone or have access to a road in a Road Zone.²⁰² Local councils may also have planning restrictions that discourage the development of new service stations.

FINDING 10: Planning restrictions may hinder the entry of new service stations to a regional market, which may limit competition.

RECOMMENDATION 3: The Victorian Government and local governments review planning policies to encourage the entry of new service stations to regional fuel markets with low competition.

¹⁹⁸ Mr Nick Ferris, *Transcript of evidence*, 39.

¹⁹⁹ Informed Sources, *Submission 29*, 18; Australian Competition and Consumer Commission, *Report on the Cairns petrol market* (2017), 6.

²⁰⁰ Mr Matthew Schroder, *Transcript of evidence*, 43.

²⁰¹ Mr Wal Setkiewicz, *Transcript of evidence*, 12.

²⁰² Department of Environment, Land, Water and Planning, *Victoria Planning Provision 35.03 Rural Living Zone* (2017), <planningschemes.dpcd.vic.gov.au/schemes/vpps/35_03.pdf>, viewed 15 December 2017.

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Concluding remarks

Fuel prices are an important issue for regional residents because they have to travel long distances to access services, work or education, and their other options such as public transport are limited. While the difference between fuel prices in regional Victoria and Melbourne has narrowed in recent years, fuel prices in some regional Victorian locations are unusually high or remain constant for many months. High fuel prices can put pressure on residents' living expenses and businesses' operating costs.

It is difficult for the Victorian Government to develop policies that address high fuel prices in some parts of regional Victoria because each regional fuel market has its own discrete characteristics and will respond differently. In addition, most components of the retail fuel price such as international benchmark prices and Australian Government taxes are beyond the Victorian Government's control. Pricing in a particular town depends on the level of local competition and each service station's sales volumes, business model and location. Therefore, there is no blanket measure the Victorian Government can implement to eliminate price discrepancies between regional locations and between Melbourne and regional Victoria.

Websites and applications (apps) that allow consumers to compare fuel prices can assist them to make informed decisions about when and where to purchase fuel. These comparison tools may not be as useful for regional motorists as for Melbourne motorists because there are fewer service stations within a reasonable travelling distance. However, the ability for regional motorists to compare prices helps to make service stations more accountable for their pricing.

Price data on existing apps and websites are not always comprehensive or timely. Some states such as Western Australia and New South Wales have implemented mandatory fuel price reporting to address this issue. However, there is no evidence that mandatory schemes have reduced fuel prices in the areas they have been introduced. Indeed research suggests that mandated transparency schemes, where there is full transparency across the market, discourage fuel retailers from discounting and can stifle competition.

Therefore, the Committee recommends encouraging competition within towns by improving fuel price transparency through existing apps and fostering the entry of new independent retailers. It also supports improving public awareness of the multiple factors that influence how fuel prices are determined.

**Adopted by the Economic, Education, Jobs and Skills Committee
55 St Andrews Place, East Melbourne
6 February 2018**

Appendix 1

List of submissions

Submission no.	Individual or organisation	Date received
1	Mr Mark Naish	9 August 2017
2	Name withheld	10 August 2017
3	Mrs Jessica V.D. Clarke	10 August 2017
4	Voyager Technologies International	4 July 2017
5	Mr Aaron Ridding	11 August 2017
6	Mr Gary Roberts	12 August 2017
7	Mr Gary Davis	13 August 2017
8	Mrs Sarah Bubb-Dempster	14 August 2017
9	Mrs Mary Missen	14 August 2017
10	Mr Jonathan Aitken	15 August 2017
11	City of Greater Geelong	16 August 2017
12	Mr Paul Goujon	17 August 2017
13	Mr Stephen Koci	17 August 2017
14	Mr Tony Grasso	23 August 2017
15	Ms Brenda Coughlan	24 August 2017
16	Rural City of Wangaratta	30 August 2017
17	Mrs Enid Kay	3 September 2017
18	Royal Automotive Club of Victoria (RACV)	4 September 2017
19	Colac Otway Shire	5 September 2017
20	Mr W.F. Stannard	6 September 2017
21	Mrs Yvonne Martin	10 September 2017
22	Mrs Belinda Rocka	18 September 2017
23	Viva Energy Australia	19 September 2017
24	Confidential	19 September 2017
25	Ms Lynne Miller	19 September 2017
26	Horsham Rural City Council	21 September 2017
27	Australian Competition and Consumer Commission (ACCC)	21 September 2017
28	Mr Kyle Nicholas	21 September 2017
29	Informed Sources	22 September 2017
30	Government of Western Australia, Department of Mines, Industry Regulation and Safety	22 September 2017
31	Geelong Chamber of Commerce	22 September 2017
32	Australasian Convenience and Petroleum Marketers Association (ACAPMA)	23 September 2017
33	Australian Institute of Petroleum (AIP)	23 September 2017

Submission no.	Individual or organisation	Date received
34	National Roads and Motorists' Association (NRMA)	29 September 2017
35	Mr Robert Newell	1 October 2017
36	Victorian Farmers Federation (VFF)	2 October 2017
37	APCO Service Stations	3 October 2017

Appendix 2

List of witnesses

13 November 2017, Melbourne

Name	Position	Organisation
Mr David Jochinke	President	Victorian Farmers Federation (VFF)
Ms Annabel Mactier	Project and Policy Officer	
Mr Wal Setkiewicz	Senior Policy Adviser, Economics	National Roads and Motorists' Association (NRMA)
Ms Carlita Warren	Senior Manager, Policy and Research	
Mr Robert Anderson	Director	APCO Service Stations
Mr Peter Anderson	Director	
Mr Ron Anderson	Managing Director	
Mr Mark McKenzie	Chief Executive Officer	Australasian Convenience and Petroleum Marketers Association (ACAPMA)
Mr Nathan Dickens	Deputy Chief Executive Officer	Australian Institute of Petroleum (AIP)
Mr Peter Gniel	General Manager Policy	
Mr Nick Ferris	Commercial Manager, Asia Pacific	Informed Sources
Mr Chris Huth	Regional Manager, Asia Pacific	
Mr Matthew Schroder	General Manager, Infrastructure and Transport, Access and Pricing Branch	Australian Competition and Consumer Commission (ACCC)
Mr Gary Dobinson	Director, Fuel Prices and Market Analysis	
Mr Peter Brown	Chief Executive Officer	Horsham Rural City Council
Mr Eric Siegers	Economic Development Coordinator	Rural City of Wangaratta

Bibliography

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