



LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON FUEL PRICING

(Reference: [Inquiry into fuel pricing in the ACT](#))

Members:

MS T CHEYNE (Chair)
MR M PARTON (Deputy Chair)
MR A WALL

PROOF TRANSCRIPT OF EVIDENCE

CANBERRA

THURSDAY, 28 MARCH 2019

This is a **PROOF TRANSCRIPT** that is subject to suggested corrections by members and witnesses. The **FINAL TRANSCRIPT** will replace this transcript within 20 working days from the hearing date, subject to the receipt of corrections from members and witnesses.

Secretary to the committee:
Mr A Snedden (Ph: 620 50199)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

WITNESSES

DOBINSON, MR GARY , Director, Fuel Prices and Market Analysis, Australian Competition and Consumer Commission	61
SCHRODER, MR MATTHEW , General Manager, Infrastructure and Transport, Access and Pricing, Australian Competition and Consumer Commission.....	61

Privilege statement

The Assembly has authorised the recording, broadcasting and re-broadcasting of these proceedings.

All witnesses making submissions or giving evidence to committees of the Legislative Assembly for the ACT are protected by parliamentary privilege.

“Parliamentary privilege” means the special rights and immunities which belong to the Assembly, its committees and its members. These rights and immunities enable committees to operate effectively, and enable those involved in committee processes to do so without obstruction, or fear of prosecution.

Witnesses must tell the truth: giving false or misleading evidence will be treated as a serious matter, and may be considered a contempt of the Assembly.

While the committee prefers to hear all evidence in public, it may take evidence in-camera if requested. Confidential evidence will be recorded and kept securely. It is within the power of the committee at a later date to publish or present all or part of that evidence to the Assembly; but any decision to publish or present in-camera evidence will not be taken without consulting with the person who gave the evidence.

Amended 20 May 2013

SCHRODER, MR MATTHEW, General Manager, Infrastructure and Transport, Access and Pricing, Australian Competition and Consumer Commission

DOBINSON, MR GARY, Director, Fuel Prices and Market Analysis, Australian Competition and Consumer Commission

THE CHAIR: I declare open this third public hearing of the Select Committee on Fuel Pricing in its inquiry into the matters referred to the select committee by the Legislative Assembly on 14 February 2019. The proceedings are public, are being recorded by Hansard for transcription purposes and are being webstreamed and broadcast live.

I remind witnesses of the protections and obligations entailed by parliamentary privilege and draw your attention to the privilege statement on the table. Can you confirm for the record that you have understood the privilege implications of the statement?

Mr Dobinson: I have.

Mr Schroder: I have.

THE CHAIR: Thank you. Do you have an opening statement?

Mr Schroder: I have a very brief opening statement and then we can go to questions. Firstly, thank you for the opportunity to speak to the Assembly. We would like to try to assist the Assembly however we can. We are also helping the ACT's Independent Competition and Regulatory Commission by providing them with some advice, based on our experience, for the inquiry they are doing.

As you probably will be aware—but just for the record—the ACCC's role in fuel is that we do not set the price of retail fuel. We do not have any impact on the price in that way, just as we do not set the price for apples. We do, however, have a formal role that we were directed by the minister to undertake in monitoring and analysis and then reporting on prices, costs and profits of the petroleum industry. So in that capacity we put out reports on various markets.

We have done some market studies before. We regularly report on prices across the nation, including in Canberra but also in Yass and Goulburn and other areas in the region. There are about 190 regions that we look at and regularly report on the prices in those areas. Our role is primarily a monitoring role. We are trying to provide transparency to consumers and improve public awareness about how the markets work, to give some confidence to consumers that the markets are working or provide reasons for why they may not be working as well as they should be.

In addition we have our responsibilities under our act, which prevents anti-competitive behaviour. So if there was evidence of anti-competitive behaviour, companies acting in a cartel or abusing their market power, we would be very interested in that and we could potentially take court action against companies for that. But that is a general power that we have across all industries, not just the fuel industry. We have a specific monitoring role for fuel; the rest is our general competition powers.

PROOF

We are aware that Canberra prices are higher than we think they should be. We think this is unfair for Canberra consumers. You have to look at it over a longer term. I know recently prices have been significantly higher in Canberra than in some of the markets in the region and certainly than in Sydney, but there are fluctuations. They are irregular now, but the continuous price cycles in Sydney mean you cannot really compare on a particular day or a particular week prices in Sydney and prices in Canberra.

For example, yesterday prices in Canberra were actually lower than they were in Sydney, but that is because they are at a high point of the Sydney price cycle and Canberra does not have those same cycles. But over that longer period, the five-year period, there has usually been around a 7c differential between Canberra and the five largest cities.

Most of our analysis compares the smaller capitals to the five major capitals. We understand that there is a significant population difference between those, and the five largest cities generally have the cheapest fuel prices. But the average with Canberra is about 7c. I know it has been higher recently, but that is the average over the last five years.

Prices move around due to a number of factors. One is that it is an international commodity, and consumers are not exposed to international commodity prices like they are with petrol prices. The price of a coffee does not change much when the coffee bean prices go up 30 per cent, but the price of petrol does.

The main driver for changes in the price of petrol over the medium term, rather than the day-to-day changes, is the fundamental in the market, which is the international price of petrol. We generally price out of Singapore and that determines, largely, the imported price into Australia. In addition, there is both excise tax and GST, and overall that accounts for 80 to 85 per cent of the price that the retailer sells fuel to customers at.

What we are talking about is the other margin, and that margin in Canberra is higher than it is in Sydney or Melbourne or Adelaide or Brisbane, or Perth for that matter. It is not higher than many regional towns, but it is significantly higher than those capital cities. Over the past 10 years Canberra has actually generally had lower retail petrol prices than Hobart and Darwin but, again, higher than the five largest cities.

Over 10 years of doing this analysis in the markets we have found four main reasons why prices in smaller cities are higher than they are in larger cities and, for that matter, between regions as well. Prices do not always go with population size, but that is often a determinant of it because that is a determinant of the amount of competition in the market. Obviously if you are looking at Oodnadatta, which has one or two petrol stations, that is going to be significantly higher than a place that has a lot of fuel retailers. But it does not always go with population.

The first and probably most important factor is the level of local competition. The next factor is the volumes sold and, therefore, whether there are economies of scale. There are a whole bunch of set costs. Your site is a set cost. You have to have at least

PROOF

one operator at the service station. If you are selling a lot of volumes of fuel you might put on more staff, but you have to have at least one. Even if you only sell 10 litres while you are open, you have to have that one member of staff. So the higher volumes of fuel lead to economies of scale.

Distance and location are factors. Based on our analysis of what we know, the additional transport costs to Canberra as opposed to Sydney would be about 2.5c to 3c a litre. I realise a couple of companies have mentioned that as well. That is consistent with what we have found in other markets in terms of distance and costs. So there are those factors.

Other location factors come into it as well. One of them that is pertinent to Canberra is that Canberra is not on a major freeway or highway. Yass is on a highway, Goulburn is on a highway, Albury-Wodonga is on a highway and even Wagga is on a highway. When you are on a highway you are often trying to attract consumers that are not necessarily living in your town but are moving through and have the choice of other petrol stations. That is not the case in Canberra. Canberra is a destination in itself, but it is not on the Hume Highway or other highways. That is another thing in location factors to take into account.

Finally, the impact of non-fuel sales is a factor. Many companies make much more profit on the margins—we have seen this from their own books—on soft drinks and glossy magazines, which are much higher. If your main market is about selling doughnuts and pies and things like that, you are willing to put up with a lower margin than you are if you are mainly about selling fuel. That comes into the location factors as well. If you are getting a lot of people through, you want them to buy their food if they are on a road trip or something and so you are willing to offer a lower price. Again, Canberra is not on a transit line; people are not moving through Canberra. It is an origin/destination sort of place.

They are the main four points that determine the differentials in prices between big cities and smaller cities but also between cities and towns of the same sort of size. I will mention two more points. To unpack the local competition factors a little bit, the nature of the Canberra market is that there is a large dominance by the major players and less of the price discounting independents.

In Canberra I think Coles Express has 26 per cent of the retail sites, but it would have a significantly greater share of the volumes of sales. Coles and Woolworths, because they are aligned with the supermarkets and because of the nature of their locations and the shopper discounts, across the board have significantly higher volumes on their sites. They have 26 per cent of the market and they are the largest player and they would have most likely a significantly higher share of the market.

THE CHAIR: Do you know what that is?

Mr Schroder: I do not know what the volume share of the market in Canberra is.

THE CHAIR: And there is no way to find that out?

Mr Schroder: Yes. I think the ICRC would be looking at that as part of their review.

PROOF

The way you find it out is to ask for the volume data. But we have found in our market studies and the like that they have a significantly higher volume relative to the number of sites.

THE CHAIR: So you expect it would be the same here?

Mr Schroder: Absolutely. They have 26 per cent of the sites, and that is much higher than anywhere else. That is one factor. I think our chairman might have been slightly misquoted in the media where they said that that was “the factor”. He said it is one of the factors, one of the key factors, but it is not the only factor.

Coles has recently had a policy of pricing quite high, and they have been significantly over the market. We released a report recently that showed prices by brand, and Coles was the most expensive brand in the market. The cheapest brands in the market were the big discounters, and these are the ones Canberra does not have many of. It has one Metro, and Metro is one of the ones mentioned. There are also companies like Budget and Speedway in Sydney that are aggressive competitors and have lower prices, but they do not really have a presence in the Canberra market. So it is not just that Coles Express is there.

The final thing I will mention—Gary might want to add to this—is the geography of Canberra and where the service stations are located. The most competitive area of Sydney is that sort of western Sydney area. If you are on Canberra Road you can see five petrol stations. You will see their signposts as you go along and you can choose the cheapest one as you are going. It also gives them incentive to compete with each other.

When I lived in Canberra my local service station was in Garran. It no longer exists. You had to go through two concentric circles to get to the Garran service station if you were coming from Hindmarsh Drive or Yamba Drive, so people would not go across there by accident. They are not on major thoroughfares, so there is not as much of an incentive for them to discount their price to draw people in because they will not necessarily see it. The other service stations are not concerned about competing with their price because they are not visible, necessarily. Even when they are visible, they are difficult to get to or they take more time because it is not a matter of seeing those three prices as you are driving along and you can go to this one, this one or this one. That geography goes to one of our suggestions about transparency.

Mr Dobinson: In some of the other locations we have looked at, independents have said, “We would like to enter into a market, but we can’t because of planning restrictions,” or “Getting planning approval will take a long time.” I do not know if that is an issue here as well. It has been suggested in some of the other submissions that it is, but I note that it is not solely an issue in Canberra; it is also an issue in some of the other places we have looked at.

MR PARTON: Some of the mid-range cities?

Mr Dobinson: This was a couple of Victorian towns where somebody was saying, “We’d like to open up a site,” but it was taking them a while to do it. All the admin costs were starting to suggest that they were not going to do that.

Mr Schroder: There are legitimate decisions as to why you have to regulate planning and the like. We are not saying that it should be helter-skelter, but one of the things to take into account is how easy it is for one of the independents to set up. The major players have big legal teams. They are used to doing this; on a day-to-day basis they are getting planning for all their different sites. That may be a bigger cost for the smaller independent players

THE CHAIR: That was a very helpful opening statement. I am sure we have a lot of questions among us. I saw Mr Parton writing furiously. When the inquiry was established, the Chief Minister drew particular attention—you have touched on this—to the fact that the ACCC had previously turned down ACT government requests to investigate the ACT petrol market. In doing so, I think the ACCC cited another four investigations in regional cities, as you have touched on, and said that the ACCC understood why Canberra prices are as high as they are, based on those. What are the key findings that you have learned from those other investigations?

Mr Schroder: I should say that we do monitor Canberra prices. Our quarterly reports have Canberra prices in them and compare Canberra prices to the major cities and the regional players. But this is more about what we have termed a deep dive.

THE CHAIR: Exactly, yes.

Mr Schroder: We undertook four of these market studies, three of which were in cities between 100,000 and half a million people, which is Canberra's sort of size. The very large cities have a lot of competition. You know why Oodnadatta is super high: there is one petrol station or perhaps two. I should not pick on Oodnadatta.

THE CHAIR: It is a fun word to say.

Mr Schroder: It is small. However, three of our four market studies were in cities of the size of 100,000 to 500,000 people, which is the same as Canberra. There was also one at one of the regional capitals, Darwin. So this was Darwin, Launceston and Cairns, which are all in that population range, and then Armidale, which is smaller. When we were looking at Cairns, we were comparing to Brisbane. So we also did a small one on Brisbane, but that sort of came out of our having to get a comparison with Cairns. We got the data for Brisbane; we did a Darwin report as well. But it is those four regional studies.

What we found from those were the four major factors that I mentioned: competition, volumes, location and the like. We knew the retail price and we knew pretty much the wholesale price. A fairly good proxy for wholesale price is the terminal gate price. We knew the transport costs as well, roughly, because there is a rough formula per hundred kilometres or whatever else. But we knew some actuals as well.

What that leaves—once you include the international price, the transport price, GST, excise et cetera—is what we call gross indicative retail differences. What that is, basically, is the difference between the wholesale price, taxes and the like, and the retail price. That is two components. That is the retail costs and retail margins. So you do not know whether these companies are making a lot of money at retail or whether

they have extremely high costs. Either could be plausible. Without actually going to the books of the company, you do not really know those.

Through those market studies, what we found conclusively from the books of the companies was that the main differential for the very high prices that were in Darwin at the time—those Darwin prices were significantly higher than Canberra was, compared to its peer group and close cities—was mainly retail profits. Retail profits were multiples in Darwin of what they were in Adelaide. So basically the profitability of the sites in Darwin was very high.

We also found that in Launceston. It was slightly more nuanced in Launceston in that transportation was a little higher and costs were a little higher. Again, in Cairns it was mostly the retail margins. Darwin was the first study, because Darwin was the most stand-out at the time, particularly. It was the most stand-out city that had extremely high prices that could not be explained by factors of location, population and retail presence. When we looked at that, we found out that that was largely because of the retail margins.

When we did Launceston, we found a very similar thing. When we did Armidale, we found a very similar thing again. So you start thinking, “Is this a good use of taxpayers’ money to continue doing these when we are finding the same sort of thing?” So while we have been monitoring Canberra prices, the reason we have not done any more of these market studies is that we were finding the same sort of things. While we are not experts on the Canberra market, there are many of these things—I mean, the players are the same. There is Metro and there is United, but mostly there are Coles, Woolworths, Caltex, BP and the like.

We know how these markets operate, the mid-size cities in Australia. We know the sorts of factors that bring in competition and that do not bring in competition. Largely, it is about having more than one price discounting player in the market. That is a large difference. The absence of that, for whatever reason—I mentioned some of those around location and the like—leads to less competition, higher retail prices and a higher retail profitability, profit per site. We found that consistently through those reports. We have had a number of jurisdictions in a number of different areas—local mayors and the like—ask for some additional market studies. But the problem is that we would probably find the same sorts of things.

THE CHAIR: Are there any characteristics of the Canberra market that are unique to Canberra, or at least more prevalent in Canberra, than elsewhere? You have touched on location.

Mr Schroder: Yes.

THE CHAIR: Are there other cities that have location issues like we do? We have heard in other hearings about consumer behaviour, that Canberrans do not really shop around. Is that also related to location?

Mr Schroder: Canberra is unique in some ways. It is the largest inland city. Coastal cities tend to have cheaper transport costs because you ship fuel in. In Cairns, the fuel can be shipped in there. It is shipped directly into Darwin. In Hobart it the same sort

of thing. That does add cost to it, because it is coming into Sydney and being trucked down, and trucking is more expensive than shipping. So one of the things is that for its size, it is the only city inland.

Another one is where the sites are. Again, it is the dispersion of sites—the sites being outside of the arterial roads. If I were to drive from the New South Wales border down in through the highway and then down Northbourne Avenue and along Adelaide Avenue, I could get to Woden before I saw a petrol sign. I might see that Mobil is around the corner or something, but I would not see a petrol sign with petrol prices on it. That is very rare.

If you are going to a similar sized city—for example, Wollongong—as you are coming towards the town you will see a bunch of petrol stations. It is the same with Newcastle. They are a similar sort of size. That is an unusual element of Canberra. Again, there is a question of amenity versus efficiency of the petrol markets and competition in the petrol markets. I accept that. I am not saying that Canberra should change the planning laws because of that. But I think that is a unique factor in Canberra.

When I first moved to Canberra, it surprised me. I did not know much about this and I was looking for a service station. It was really difficult to find a service station until I understood that they are in the town centres. You will have a little town centre and it will have a dry cleaner, a small IGA or something, a newsagent—if the newsagent has not retired and moved to Batemans Bay—and a little petrol station. Once you know that, you can find them, but I was not going to the Garran one and the Mawson one and the Hughes one and the Curtin one.

MR PARTON: So it is no real surprise to you that a bunch of them have closed over the years.

Mr Schroder: No, that is no surprise at all. I would have thought that there would have been some consolidation anyway.

MR PARTON: Yes.

Mr Schroder: I think that in 1970 we had 20,000 service stations. We now have 7,000, something like that.

MR PARTON: Is that right?

Mr Schroder: Yes.

MR PARTON: 20,000 to 7,000?

Mr Schroder: Yes, but think of the nature of service stations. You used to have a little service station with a couple of pumps, and they did mechanics for cars. Cars are much more efficient now and a lot of the work cannot be done by a service station, for a bunch of reasons. I will not go into that. But the nature of service stations has changed. They have now become large retail centres. So part of their market is about attracting a lot of people.

That might be the redemption of shopper docket for the supermarkets and the like. That might be 7-Eleven selling doughnuts, Slurpees and whatever. They have become more local convenience centres. You can buy a gift voucher if you need a gift for someone there. You can top up your shopping locally—buy bread and the like. It is far more than it used to be. In 1970 there was Golden Fleece. It would perhaps sell greasy pies—maybe not—and whatever else. Or the local Bob's garage would have one workshop. He would work on any car because he was gifted. People would bring their car in and that would, in effect, subsidise the petrol. All that has largely changed.

Added to that, in Canberra the location of those service stations is hidden away. So they serve a relatively small market. As costs evolve and as efficiencies evolve for the bigger players, the garage service station—I think it was an independently owned Mobil service station—closes down. A number of those places have closed down. No, that is not a surprise to me.

THE CHAIR: Before we go to Mr Parton's substantive, are there any other unique characteristics in the Canberra market, apart from consumer behaviour, locations—

Mr Schroder: Real estate is more expensive in Canberra than for cities of this sort of size. Again, there are reasons for that.

MR PARTON: We have noticed.

Mr Schroder: You would probably know them more than I would. Again, that is unique. That would add to the cost of doing business in Canberra for a service station as well.

MR PARTON: I want to touch on the regional market studies you mentioned—Darwin, Launceston, Armidale and Cairns. This inquiry is dealing with perception and reality. The perception from so many people in this market is that they are paying more for petrol because the operator is making more profit. Based on those small market studies and on the statement you made referring to why you did not do a similar market study in Canberra—that being that you were of the belief it would throw up the same result as the last four—can we assume that that perception is actually correct?

Mr Schroder: Yes, to some extent.

MR PARTON: That we are paying more at the pump because operators are making more profit here?

Mr Schroder: Yes, that would be a likely outcome. Part of it is higher costs. Part of the issue over the last few months was the very high rise in international oil prices, when prices came up—and Canberra does not come down as quickly as the major markets do. I realise Canberra consumers would be annoyed at that, and I can completely understand that. But setting aside the last few months and looking at it over the years, you are probably talking about 7c, with the freight being 2.5c to 3c. There would be a bit about the higher land and rent prices and the like in Canberra and maybe a bit to do with the lower volumes for service stations, so less economies

of scale. But, based on our studies, part of it would be that Canberra consumers are paying more for petrol because retailers are making more in Canberra.

MR PARTON: I ran a business before I came here, and I ran a business to make money. How much money did I want to make? As much as I possibly could. So when it came to pricing the services I was selling I would price them as high as I believed I could. Is that not all we are seeing in markets like Darwin and Cairns and Canberra? Because there are not aggressive rebels in this market, retailers will price their product as high as they possibly can, and the market allows them to price them at this level so they do?

Mr Schroder: The short answer is yes. None of what we saw in any of our regional studies was evidence of a breach of our act. It was not anti-competitive conduct in breach of our act.

MR PARTON: It is just the market?

Mr Schroder: Yes; it is the market dynamics. We are a commission that is for the consumers and we think it is unfortunate that consumers are not getting the very best price they could. In one sense a Canberra consumer is paying more than they should. If it was very competitive they would pay a lower price, so, yes, that is true. But you are right; these are for-profit businesses. The ACCC is a competition regulator. If we find breaches in that we will deal with it, but this is the market setting a price.

MR PARTON: I could not find the exact part in your submission where you talked about the fact that, for the most part, sites that are doing higher volumes are more likely to have lower prices because of economies of scale that are created by those high volumes. But you have also suggested that the operator that has 26 per cent of this market is by all accounts probably doing quite high volumes and that is not translating to lower prices.

Mr Schroder: It is on the public record that Coles Express has lost significant volume since it undertook its pricing strategy. There is dispute over what is causing that pricing strategy. That has played out in the media, and I will not go there. It used to be that Coles would match the market. Both Woolworths and Coles matched the market, pretty much. There was a change and, for whatever reason, Coles priced at the high end of the market. Our analysis shows that it was one of the very highest, the highest of the majors.

It has lost significant volume since it has been doing that, but it has some parts of the market that are somewhat protected from those higher prices because they are getting the discount. So they could afford to be 3c to 3.5c out of the market, with a 4c discount, compared to someone who does not have that discount. There are also fuel cards that that can be used at Coles Express, and the people using those are not price sensitive, so they would still go there. There are still parts of the market that Coles can get, even when being above the market. But it is on the public record that Coles has had reduction in its volumes because its prices have been higher.

MR PARTON: The shopper docket and card discounts have not helped consumers in the end, have they?

Mr Schroder: The shopper docket is mixed. The ACCC was concerned about shopper dockets when they were very large and when they were being funded by non-fuel convenience sales. At one stage the concern was that the supermarkets were subsidising the shopper dockets with supermarket sales and you were getting massive reductions—well more than 4c, and often 8c, but even more than that on special promotions and the like.

There was no way that companies other than Coles and Woolworths were going to be able to compete with that, so we had some concerns over market structure with that. There was an agreement that led to them being limited to 4c unless they were funded from the shop itself. I hope that answers the question about the shopper dockets.

In terms of the fuel cards, that is an individual decision for government agencies or the private sector or whatever else. But the people on fuel cards are less price sensitive.

MR WALL: Have any of your studies measured what proportion of business for fuel retailers is on fuel cards or fleet cards? Is the ACT on par with everywhere else or is it slightly higher?

Mr Schroder: I do not have those figures.

Mr Dobinson: No, we have not done that.

MR WALL: You touch on it in your submission, and a number of other submissions and witnesses thus far have highlighted the fact that Sydney and Melbourne markets have a fairly robust price cycle, whereas that does not exist in the ACT. What are the main drivers for that cycle in those capitals and what is causing it not to occur here?

Mr Schroder: Right. Generally price cycles do not occur outside of the five major cities. Where they do, in almost every case they are on the outer limits of those cities. There often are price cycles in Geelong, but Geelong is very close to Melbourne and people are commuting between them and the link between service stations is pretty close. Gosford on the Central Coast, near Sydney, has price cycles and there are a few other places. The only one I can think of off the top of my head that is not within 200 kilometres of a major city is Geraldton in Western Australia, north of Perth. Generally speaking, outside the five major cities, other cities do not have those price cycles.

MR PARTON: But Geraldton has price cycles?

Mr Schroder: Geraldton has price cycles.

MR PARTON: Why?

Mr Schroder: We do not know.

Mr Dobinson: Last November we put out a report on petrol price cycles in Australia. Basically, it concluded that there are a number of features of locations with cycles. It

is in our submission. We say it depends on a large number of petrol retail sites within a location, lower market concentration—so a number of players—and a large number of independent petrol retailers. If you just looked at Canberra you would say there are not a huge number of retailers. There is certainly a high concentration—the five major brands accounts for 91 per cent of retail sites—and there are not a large number of independent players.

MR WALL: So we have all the factors.

Mr Dobinson: Yes. So if you looked at those factors and asked how they compare in Canberra, well, they do not. It is just interesting to know that Canberra had price cycles about six or seven years ago. They were broadly similar to the ones in Sydney; I do not know that they were quite the same. But then about six years ago they diminished and from then you have had no cycles.

MR WALL: Are you aware of anything that changed in the market at that point? Was it the growing dominance of Woolworths and Coles in the marketplace?

Mr Dobinson: I think it was more the fact that a number of retailers pulled out. Mobil sold its sites to 7-Eleven, after being knocked back in selling them to Caltex. There may be something in that. Petrol markets are one of those difficult things where you cannot immediately say what caused something and be specific. It is often subtle. It may be over time. It may be a number of factors occurring at the same time or just over time.

The number of sites went down, and it may also be that one or two people who used to price more competitively went out of the market. So you might have had greater concentration, combined with the lack of people who used to price vigorously. That may have been enough to make a cycling market into a non-cycling market.

In terms of Geraldton, we looked at that in the report that we came out with in November. What it seemed to be was that Geraldton did not have cycles and then a Coles Express opened in Geraldton. The pricing used by Coles Express in Geraldton was similar to what they were pricing in Perth. Perth has cycles, so Coles Express started to have a cyclical price. Over time the rest of the market decided: “Yeah, we’ll go down that route as well,” so that is how they got a cycle.

MR PARTON: And what is Geraldton’s population now? Is it 60,000 now?

Mr Schroder: I think it would be a little less than that, but that sort of magnitude. I should just make the point that it may not be the price cycles themselves that lead to the lower prices; it might be that the elements that trigger price cycles, particularly the downward part of the price cycle—the defection from the high price and the discounting regionally—are the things that lead to the lower prices. It may be that it is not the price cycles themselves; it is having those discounters in the market.

MR WALL: It is obviously quicker to fall rather than have a gradual contraction.

Mr Schroder: We certainly find that, but, again, you would expect the larger markets to fall more quickly whether they had price cycles or not. It is true, and it may just be

correlation rather than causation, that the markets with price cycles tend to fall more quickly. But they tend to be the bigger ones.

THE CHAIR: And to fall more.

Mr Schroder: Yes, the larger markets almost always fall—

THE CHAIR: So does that explain the lag here? Is it because we are a smaller market?

Mr Schroder: Yes, that is part of it. Canberra does have significantly longer lags in response to international changes in fuel prices than Sydney, Melbourne and Adelaide.

THE CHAIR: Because we are a small market. So is it because of the volume?

Mr Schroder: Partly it is about volume and partly it is about the local competition.

THE CHAIR: What can we do to decrease that lag or increase that local competition?

Mr Schroder: Given that there are two components to this—there are some higher costs and what we believe are higher margins—your own ICRC will be able to give definitive figures. But there are two components. On a cost basis, one of them would be about trying to make sure that the planning rules are not too restrictive and do not favour bigger players against smaller players. If that were the case, that could reduce some costs.

Anything that reduces the cost for the retailers generally will reduce the cost of petrol, because they will be able to compete at a lower level and make profits. On the margin side, to try to get more competition in there, one of them would be to have more visible price signs. Again, I am talking about the Canterbury Road version; you can actually see the price signs. I understand that that does not look particularly attractive. I understand that, and there is a trade-off between amenity and the like, having petrol stations that you go past. It is much nicer to have beautiful trees and the like. I completely understand that. That is a trade-off that the people of the ACT, through their representatives—

THE CHAIR: We have had a billboards inquiry.

Mr Schroder: Sure. Again, that is one of the ways that could lead to some more competition. Another way is other transparency measures. What we did find, particularly in the Armidale and Cairns regional studies, was that there were low priced players in the market that were not getting picked up and people were not aware of them. So there are a number of sites that are available. There are commercial sites now that are data driven by the big players providing the data to them. Some of them are done by users phoning in or using the app and putting prices in and the like. But they have not always been as comprehensive and timely as consumers would want.

In Armidale, before the New South Wales government brought in fuel transparency in

New South Wales, there was the Beardy Street Servo, which was an independent. I think it was Liberty branded. That retailer had prices sometimes 6c, 7c or 8c lower than the market. The people of Armidale were concerned, and rightly concerned, that smaller cities like Glen Innes had lower prices than them. There was 2c or 3c difference. But within Armidale itself there was this player that was significantly lower than that again. But he was not on a main street. He was off the main drag and he did not appear on the websites. So we sent people to Armidale. They found this guy and looked at the prices. We could not get transparency about that through the websites and the apps that were around at the time. The same thing happened in Cairns.

MR PARTON: But why could you not get transparency? Are you suggesting that the website and the apps are favouring the major players?

Mr Schroder: I would not categorise it as favouring the major players. But MotorMouth, which is Informed Sources, is set up by information that is from the supermarkets, the major oil companies, the 7-Elevens. So it is the big players that share that information. It largely draws off that information. They collect some information manually. But the vast majority of the data they collect is from the big players. So the nature of that is that it will skew towards the big players.

MR WALL: Yes. I looked at it yesterday and noticed that the BP service station, which is my closest local one, was not on the MotorMouth app.

Mr Schroder: Right.

THE CHAIR: Yes.

MR WALL: But 7-Eleven, Caltex, Woolworths—

Mr Schroder: So that might be a BP—

THE CHAIR: There was a question on notice to them about who their clients are. They went away to think about whether they could tell us—

Mr Schroder: I think that is on the public record, is it not—who their clients are?

Mr Dobinson: It used to be. When we took a court case against Informed Sources, we knew that Coles, Woolworths, BP, Caltex and 7-Eleven were all participants in their pricing arrangements.

THE CHAIR: Right.

Mr Dobinson: I am not sure that that has changed.

THE CHAIR: Informed Sources said to us that they think Canberra is well serviced by petrol pricing apps. What is your view?

Mr Schroder: It is serviced by petrol pricing apps. It is not comprehensively served by petrol pricing apps. We tried to find the price of the United petrol station. United is

often one of these independent discounters.

MR PARTON: Yes.

Mr Schroder: In Melbourne it is one of the lowest priced—when we did the price by brand. We tried to find the price of that. That was not available. Last week the Metro service station out at Fyshwick was not available. I think it is today. I think there is PetrolSpy here as well. Again, that is a user app. It depends on the frequency with which users put in the information. I think with some of them, the price was 14 hours or more old. So that is not really today's price, anyway. If there have been price changes, that is not really effective. Again, the ACCC is agnostic about how these are provided—whether they are provided by government, whether they are provided privately, whether they are done by data survey, whether they are done by user input and whatever else.

THE CHAIR: But we are not comprehensively serviced in the ACT. It could be better.

Mr Schroder: I have not found a site that has all of your stations in the ACT on it. And we tried a few times.

MR PARTON: Without wanting to put words in your mouth, is it any great surprise to you that Informed Sources said, “No, there is no need whatsoever for FuelWatch”?

Mr Schroder: Informed Sources serve their clients and their customers, who tend to be the larger retailers. They do provide a service through MotorMouth and that is useful. But it is not fully comprehensive.

THE CHAIR: Is there any jurisdiction you can point to where there is something that is more comprehensive?

Mr Schroder: Yes, the New South Wales system is fully comprehensive. It has all the sites, which is really important in New South Wales because they have this string of independents—the Metros, the Speedways, the Budgets; they are all on it.

MR PARTON: Yes.

Mr Schroder: And they are all on it in real time.

Mr Dobinson: I just add that MotorMouth in New South Wales is therefore fully comprehensive because it obtains its data from the fuel chain website.

Mr Schroder: It draws from the New South Wales site.

MR PARTON: Right.

Mr Schroder: Yes.

Mr Dobinson: So sometimes people think, “If I look in New South Wales MotorMouth is totally comprehensive,” which is true. But, as Matt said, if you look in

PROOF

Victoria you will find that a lot of United sites, a lot of the cheaper ones, which are not subscribers to the Informed Sources service, are not included in that app or website.

MR PARTON: Right.

THE CHAIR: That is extremely helpful; thank you.

MR WALL: Can I take it to the next step and see if you have an opinion on the Western Australian FuelWatch scheme? We have had a non-committal response from one witness and another response which said it probably had an inverse effect on prices. Has the ACCC done any assessment of the impact of the requirement to notify prices a day prior to trade and have them locked in?

Mr Schroder: We have not done extensive analysis on the Western Australian scheme. It is very different, in that you have the 24-hour rule—the prices are set and they move. So this is different to a transparency scheme. New South Wales has a transparency scheme. The Northern Territory basically use the same software. New South Wales cooperated and gave it the software, so the Northern Territory does that and has that system. Queensland is trying a different system; Informed Sources is operating the system in Queensland. There is not one in Victoria, Tasmania or South Australia at the moment.

Some academic papers have looked at the Western Australian system. One of the things you need to be careful of when looking at academic papers—or when some of the players who have their own interests are saying that these schemes tend to make prices higher—is that they are comparing us to Chile or Germany or some other countries that do not have the information shared by the major players.

In the Australian market and in the ACT market already, the major players—the Woolworths and BPs and Caltexes of the world—are sharing this information in near real time. So that is already in there. The academic paper on Chile and the OECD paper are looking at places where there was no information sharing, and they are moving to an information-sharing system that consumers can see but retailers can see as well.

In the system we already have in Australia, where we do not have the government schemes, the major players already exchange that information and have that information. You are giving that to consumers, and it is a different starting point to the one that the academic papers are taking. I just give that caution on Australia's circumstances. They are different to the other jurisdictions. Again, we have not done that analysis.

The fact that Western Australia has a weekly cycle is not indicative of the effect of WA FuelWatch. Up until a few years ago you had regular weekly cycles in Sydney and Melbourne—the so-called cheap Tuesdays. That happened for years and was in the absence of anything like that. At that time Western Australia did not have weekly cycles. It had two-weekly cycles or something like that. That has swung around now. Because that did not happen under FuelWatch and because it happened in the east, where they did not have FuelWatch, and then it did not happen in the west, I do not

think that that effect can be put down solely to FuelWatch.

Mr Dobinson: You also need to think about what effect the FuelWatch system in Western Australia has. When there is a cycle you have total certainty about what prices are going to be today and what they will be tomorrow in the afternoon. You also know they are not going to change. Prices go up on a Tuesday pretty regularly in Perth, so most people, if they are price sensitive, buy it on a Monday.

The price cycle paper we put out last year noted that in 2016, if you looked at volumes over the week for the year, 26 per cent was actually bought on Monday. If you think it was just averaged out, then it would be 14 per cent. That is significantly higher than any other day of the week. It used to be like that in the eastern capitals when they also had weekly cycles. In that paper we looked at 2009-16. The advantage of FuelWatch, if you have a cycling market, is that it enables price sensitive consumers to totally lock in the cheap price.

MR PARTON: It has been suggested to us, though, that one of the downsides of locking it in for 24 hours is that when you have a genuinely disruptive retailer it is slightly more difficult for them to disrupt.

Mr Schroder: I think that is true. We do not have a definitive view on whether WA FuelWatch leads to higher or lower prices. It certainly leads to more certainty. But you are right—if you are an active discounter you cannot discount during the day. You cannot start cutting the price in the day; you are locked in for the day. So there are pros and cons to the Western Australia system. It is very different from saying that transparency for consumers, and empowering local communities and consumers, is beneficial. That means consumers can see prices and go for the cheapest prices. It rewards the discounters and potentially leads to lower prices overall throughout the city. That is a very clear argument that is able to be made.

The Western Australian thing brings up a number of different issues, some of which are better for competition and some of which are worse for competition. It provides more certainty, but it may impact on some of the discounters as well. While we are very supportive of having comprehensive, timely information available for consumers, we are more circumspect on the Western Australian FuelWatch scheme.

MR PARTON: On a number of occasions in the submission, and today, you have touched on populations in various markets and the differences that they may have on prices in those markets. But I distinctly remember, I think it was in Informed Sources' evidence, that they talked about the number of consumers per service station across the market and that our number was actually quite similar to Sydney's. I think one was 6,000 per outlet and one was 7,000 per outlet. I cannot remember which was higher.

Irrespective of the total population, suppose you have the same ratio of service stations to customers. We are quite a spread-out city; I have not seen any figures about average kilometres driven in cars between Canberra residents and Sydney residents, but I dare say there would be a high chance that ours would be higher. I guess my question is: when we get to those population arguments, to me it does not match up; it does not make any sense.

Mr Schroder: I think you also have to look at population density from another point of view, which is the density of the retail sites. Are the retail sites close to each other? Sydney is a much more densely populated centre. It means that, even if there is the same number of service stations per capita, you have a lot more service stations a lot closer, where they can compete with each other.

MR PARTON: Again, that factor where all the prices are—

Mr Schroder: Yes. I could not speak to the amount of travelling that Canberrans do relative to people in Sydney.

MR PARTON: No, but you also mentioned—it has come up in previous hearings—that we are not on the way to anything. We do not get the highway traffic. We do not get people who are driving and looking for a lower price. I dare say that it is highly unlikely that this would be a recommendation in the committee, but if we built a highway to Melbourne, just straight over the hills, and people all of a sudden started coming through here to get to Melbourne, do you think the prices would come down?

Mr Schroder: It is very hypothetical. Just hypothetically, if there was a road from Sydney to Melbourne that went through Canberra, I think the Canberra prices would be lower, yes, because at the margins there would be service stations that would be set up here to attract the highway traffic.

You would then be competing not just amongst the service stations in Canberra but with the service stations in Goulburn, the service stations in Albury and the service stations wherever else. A tank of fuel in modern, efficient cars lasts for hours and hours. It lasts hundreds of kilometres. So your choice when you are going from Sydney to Melbourne is not, “I have to get it at Sydney and then I have to go another 100 kilometres to get fuel, and get fuel and get fuel.” It may be one fuel stop.

So where do you go? Maybe Albury, because Albury is the cheapest along the way. Maybe it is; maybe it is not. If Canberra was on that line—again, hypothetically—there would probably be some retailers. What we see is that the towns and cities that are on the major arterial roads, highways, freeways and the like, do tend to have lower prices because part of that is attracting that transitory market. Again, Canberra is a big city. So it is not quite like Goulburn trying to attract that market.

MR PARTON: Or Oodnadatta, for argument’s sake, just pulling one out of the sky.

Mr Schroder: Yes. Oodnadatta is not even down the track. That is not huge—

THE CHAIR: I guess this partially explains lots of commentary over the summer period. It was from people travelling and seeing price differences. But that is exactly the point you are getting at, is it not?

Mr Schroder: Yes.

THE CHAIR: Because they were on arterial roads.

Mr Schroder: Yes, they were heading up the coast towards Sydney.

THE CHAIR: And stopping on the way. They were not travelling out to, for example, West Wyalong.

Mr Schroder: Yes.

THE CHAIR: On that, are you aware of any small towns that have lower prices than Canberra, in this broader region, that are not on arterial roads?

Mr Schroder: That are not on arterial roads?

THE CHAIR: Because that will be the sticker. If there are, then how do we explain that?

Mr Schroder: Yes. None that come to mind. But you could well get that. I could easily see the circumstances where you would have that, which are that there is a local retailer in town that is more about selling coffee, pies and things like that and has a cheap price for petrol so that people stop in there, get their petrol and buy their pies and cakes.

MR PARTON: Smaller rent; mum and dad business.

Mr Schroder: So you could easily do that.

THE CHAIR: And particularly if the town does not have a Coles.

Mr Schroder: Yes. They would have low real estate prices.

THE CHAIR: Competing with the IGA.

Mr Schroder: They could probably employ locals far cheaper than you would employ people in Canberra.

THE CHAIR: Right.

Mr Schroder: As long as it was the legal minimal wage. They are trying to sell their pies and they want people to buy there. So you could see that happening, and it could be cheaper than Canberra. There are none of them that I can think of here. But we do find there are anomalous towns. You find that a person is referred to as the petrol angel because that person provides particularly cheap petrol in that town. But it is maybe not the main business that they have.

THE CHAIR: We had quite a bit of commentary about South Coast towns that are less transit towns but more destinations for Canberrans. They had cheaper prices than in the ACT. Is that because the retailers in those towns knew that there would be a big population jump and then a jump in terms of volume sold there?

Mr Schroder: If you are talking about Tathra, Merimbula, Eden or whatever, often those people are going down from Sydney or up from Melbourne. They are going

PROOF

through multiple towns to go to those points. So they are competing. They are not just competing with their particular town. They are competing with the destination points along the way.

THE CHAIR: Yes, even if they are destinations in themselves—

Mr Schroder: Yes.

THE CHAIR: they are also transit points.

Mr Schroder: If you are going from Canberra to Eden, you are passing through Merimbula. So an Eden retailer that is sophisticated would probably have their mind on Merimbula prices as well, but they also might have their mind on the Mallacoota prices, because the people from Melbourne are perhaps coming up that way. Yes, this is the competition in the market. You have to take into account your competitors. Your competitors may well be 200 kilometres away if there is a lot of transitory traffic. Canberra does not have a lot of transitory traffic.

MR WALL: On that, wouldn't the same factor that is applying in Canberra apply elsewhere? When you are in Mallacoota, you do not know what the Merimbula and Eden prices are.

Mr Schroder: When you are in Mallacoota you do know the price in Eden, because they are on the New South Wales FuelCheck site.

MR WALL: Some of the reports we have had thus far have indicated that you are getting definitely less than two per cent of the market actually using those apps.

Mr Schroder: I agree, but—

Mr Dobinson: If it is in New South Wales, it is totally available on the website.

MR WALL: I know, but their usage of those apps is significantly lower than the number of—

Mr Schroder: We have done our own surveys, but there have been other surveys around. There are lots of consumers that are not particularly price sensitive. That is absolutely true.

MR WALL: Okay.

Mr Schroder: But what you are competing for are those ones that are price sensitive. Those people are more likely to use the apps. The apps are of most value to the people who are price sensitive, because they are the ones who are going to use them. They provide the greatest utility for saving a few bucks on fuel. But it is not everyone.

THE CHAIR: ACAPMA said that even with the introduction of the scheme in WA people are not buying on the cheapest day.

Mr Schroder: Not everyone is buying on the cheapest day. But the cheapest day is

the most popular day.

THE CHAIR: They said that, while Monday is the cheapest day, one in five buy on the Monday but four in five do not.

Mr Schroder: That is true. It still says that Monday is the most popular day to buy fuel.

THE CHAIR: Because it is not out of seven?

Mr Schroder: Yes; that is right. So you would expect 14-plus per cent each day.

MR PARTON: But 26 per cent was the Monday figure.

Mr Schroder: So if 26 per cent are buying on Monday that is significantly more than you would expect by a random distribution of the days. It is true that over 50 per cent do not buy on that day, but people run out of fuel. The people that are price sensitive can definitely use that, and the figures show that a significant proportion of them are definitely using it. But, again, if I am on a fuel card, if I do not care, that is fine and I will buy on another day. Or if I am running out of fuel I am not going to wait until the Monday.

MR PARTON: Or you just do not drive many kilometres and you fill up whenever you fill up.

Mr Schroder: That is right; yes. So there will be those sort of things. But it is true that a significant proportion of the people are choosing that.

Mr Dobinson: ACAPMA were also talking about the number of motorists. We were talking about the volume of petrol sold. So there is a slight difference in that context.

THE CHAIR: Yes; we need to be comparing like with like.

MR PARTON: Your figure was volume of petrol sold?

Mr Dobinson: That is right.

MR PARTON: So that 26 per cent could actually be a higher number of consumers, because if you are focused on getting your petrol on a Monday and you already have three-quarters of a tank you are only putting a quarter in?

Mr Dobinson: That is right.

THE CHAIR: Or the inverse—it could be a lower number who have got massive tanks.

Mr Dobinson: That is right. I am just making the point that we were talking about slightly different things.

THE CHAIR: Yes. Thank you for pointing that out.

Mr Dobinson: The other thing to note is that it is a weekly cycle, so you have a couple of days when it is high and a couple of days when it is low. You will have one day which, depending on where your average is, can be above the average price, so you might have four out of seven above or you could have four out of seven below. That middle day is quite close, so we did some analysis and looked at our numbers. We got 60 per cent below the average price, but that is because that middle day was about 0.2 of a per cent below. In some ways the average price does not matter over the week because they are not saving over the week; they are actually saving the 30c a litre by buying at the bottom price rather than at the top price.

THE CHAIR: Are there unintended consequences of greater price transparency? Informed Sources were at least implying, if not saying outright, that independent retailers might be less likely to come into a transparent market because others will pay attention to what they are doing and just follow suit.

Mr Schroder: There can be, but that is offset by the fact that their reduced prices are known more widely to consumers as well. It may reduce the time in which they are significantly below the market and getting that volumetric effect, but on the other hand more people will know about their reduced prices, so they are probably going to get a higher volumetric effect. It is a combination of two competing factors, if you like.

THE CHAIR: To expand on what you were talking about in terms of price transparency measures like billboards and apps, is there anything else that we can do to increase price transparency?

Mr Schroder: One thing you could do is promote the cheaper priced players in Canberra. We have suggested to some of the country towns that the local radio station or the local newspaper or whatever it is promotes those cheaper players—for example, “In Canberra today the cheapest fuel is found at these four retailers.” Firstly, people will get that information and maybe go to those retailers and, secondly, it rewards the retailers that are giving Canberrans a good deal.

MR PARTON: It is interesting because, again, you are talking about another free market in terms of commercial media. Although it would be wonderful to let consumers know, those particular commercial outlets would probably want some cash for it.

Mr Schroder: Yes; that is right. They would need to be paid by whoever for that. It is a public benefit or whatever else, so it is in the public interest to pay for it. Alternatively, it may be in the interests of some commercial operators—this already happens a bit—to put those out because people are interested in them. People might listen in to the news because they want to get the cheaper prices.

MR PARTON: Yes, sort of like the traffic services that exist.

Mr Schroder: That is right. Again, it is about trying to maximise the transparency because markets were better when consumers had that transparency. Against that is the concern that the retailers would have that transparency as well and could use that.

But, again, I say that you already have that to a very large extent.

MR PARTON: That is a very important statement you just made—that markets work better with transparency. That is certainly the view of the ACCC.

Mr Schroder: Yes.

MR PARTON: One of you mentioned earlier the fact that we see cycles for international commodities based on price. Why does it not have the same effect on coffee?

Mr Schroder: The cost of the coffee bean is a very small part of the retail price; you take into account the labour, the seating space, the milk, the cup, the electricity and all that sort of thing. The cost of the coffee in a cappuccino that costs \$4 would not even be 25c. The international price for the beans would be less than that. They might buy it for that, but it would be less. In that case, even doubling that price does not lead to much more for a \$4 coffee. Half of the price of petrol is the international price, so if that doubles that is a really significant increase in the price.

MR PARTON: The coffee retail markets tend to be quite competitive as well, don't they?

Mr Schroder: They do.

THE CHAIR: Do we get a sense of when international prices look like they are going to start going up?

Mr Schroder: I would never speculate on oil prices. No, and the best people in the world get it wrong all the time. It is like trying to speculate on the value of the dollar.

THE CHAIR: I just want to rule out that there is nothing that can be done: "Hey, things look like they are getting a bit shaky and you probably need to think about where you are spending your money."

Mr Schroder: One of the big ways is geopolitical risk. If you can determine when there is going to be heightened geopolitical risk, that would be one of the ways. No, I think it is extremely difficult. We have looked at oil prices. We have had experts in and talked to them. They get it wrong as much as anyone. It is also the value of the commodity in Australian dollars. You also have to look at the exchange rate. Again, forecasting exchange rates is incredibly difficult as well.

THE CHAIR: Yes. So there are genuinely a whole lot of things affecting the price. Even if we built a big ocean down to the ACT to ship fuel here or we had big arterial roads here and we gave up heaps of land for independent retailers, between international commodity costs and the Australian dollar—

Mr Schroder: With all that sort of stuff, you might save 7c on where the prices are, relative to the other markets. That would be it. There are a number of things that are out of the influence of any government—maybe with the exception of the governments in OPEC, and that is the cartel. We cannot do anything about it because

it is a bunch of governments overseas. But that is the cartel and that does impact on ACT consumers, as it does on all Australian consumers, and that is really unfair.

THE CHAIR: I know that we have touched on it throughout, but just for the record, so that we have it here when I am looking at the *Hansard* later, what are the things that we cannot influence or that are totally outside of any Australian government's influence?

Mr Schroder: The international price of oil, and therefore the international price of petrol, is the major one. Transport costs: again, given geography and that sort of stuff, the ACT will have a higher transport cost than somewhere that can ship it in. As it stands at the moment, ocean shipping is much cheaper per kilometre than road shipping—whether it is road or rail; I mean surface shipping.

THE CHAIR: It is probably not worth building a canal down to the ACT?

Mr Schroder: If you want to get there—

MR PARTON: While we are building the highway to Melbourne.

THE CHAIR: That is right.

Mr Schroder: River barges are not as efficient as supertankers. Those are the things that are outside the influence of government.

Mr Dobinson: The excise and GST—clearly that is outside the remit of the ACT government, but the commonwealth could choose to do something.

THE CHAIR: Yes, I think that is not very well known. It is probably something that we all need to be better at saying. Constitutionally, state and territory governments cannot charge an excise tax. People are constantly saying, "It is the ACT government that is gouging us," but that is not the case.

Mr Schroder: No.

THE CHAIR: Please confirm that it is not the case, so that it is not just me saying that.

Mr Schroder: No, it is certainly not the case that the fuel excise or the GST are imposed by the ACT government. Those things are outside the ACT government. The international prices are outside the Australian government's influence, really. The things that you can influence are the way that the market works in terms of the level of transparency, in planning laws that may be restrictive and in the cost base around the ACT so that the independents are able to come in and then change that level of competition.

MR WALL: There have been attempts by ACT governments of various incarnations to attract those heavy discounters, low cost retailers to the ACT. There have been instances where that has succeeded. They have opened up new service stations under their branding. But, as the years went on, ultimately the two dominant players

eventually seized control. Are there things that can be done at our level of government, from your experience in the sector, to keep them here?

Mr Schroder: They will stay here as long as they are making decent money.

MR WALL: Yes.

Mr Schroder: The capitalist ethic. In terms of preventing them from behaving like the other incumbents that are in the market and that sort of stuff, we have seen markets where the discounters in other markets move into the market, they are discounting for a while and then they cease to discount because they do not need to.

MR WALL: Yes.

Mr Schroder: This again comes to transparency, reward and promoting the discounters. If they do not get the volumetric rewards for discounting, they are not going to continue to discount.

MR PARTON: No.

Mr Schroder: If ACT motorists cannot see what the prices are and go to the cheapest players and reward the cheapest players, they will not continue to discount. They will either put their prices up to match the other ones or they might move out of the market.

MR WALL: Yes, because they are going to get it in one of two ways. It is either by turnover or by margin.

Mr Schroder: That is right.

MR PARTON: Disruptive retailing is exhausting, isn't it? It is not an easy thing to do. My father was a disruptive retailer. That is what he did. He did so until he was bought out on both occasions.

Mr Schroder: It can be a lucrative strategy.

MR PARTON: Yes, it was. He made a lot of money out of it. But it was very difficult because if you are selling stuff cheaper than they are, you have to sell more of it. You have to go harder. I guess what I am saying, as a follow-up to Mr Wall's question, is that you cannot actually legislate for retail courage, can you? You can do what is possible to do to allow another player to come into the market, but ultimately once they are here they will do what the market allows them to do.

Mr Schroder: Yes. I am not an expert on disruptive retailing. I have not been involved in disruptive retailing, but effectively the market dynamics will determine the behaviour of the players in the market.

MR WALL: This is a hypothetical. The ACT government controls a number of levers, including land release, planning and rate settings. How would the ACCC perceive it if the government sought to attract a number of discounting operators to the territory through incentives like payroll tax exemptions or rates exemptions that were not

available to all players?

Mr Schroder: I will not speak on behalf of the ACCC on that. You would probably be balancing the encouragement of new entrants, which would provide competition, against the distortion of the market by providing an incentive to particular players. But I would not be able to make a comment.

MR PARTON: There is a widespread perception that the ACCC has failed in this space.

Mr Schroder: In fuel?

MR PARTON: In fuel, yes. You must come across it.

Mr Schroder: Sure.

MR PARTON: When people talk to us about it they refer to the ACCC as a toothless tiger.

Mr Schroder: I have heard that term before.

MR PARTON: I think they have this perception that Mr Sims can rock up to service stations with a baseball bat and demand, “If you don’t sell fuel at this price I’ll break your fingers.” How do you respond to that sort of criticism?

Mr Schroder: Firstly, yes, that is a very common perception. It is slightly less common now than it was a few years ago, but it is still quite common. I think it is a misunderstanding of our role. Our role is not about running service stations and setting the price of petrol; our role is about making sure illegal anti-competitive behaviour is not going on—cartels, price fixing et cetera. In addition, it is about monitoring and reporting on the markets. It is not about us actively making competition. We do not set up service stations. We do not run service stations or whatever.

I understand that consumers are suffering budgetary constraints. They are seeing prices that are much higher and often it is unfair. They are paying much higher prices than they are in other cities. I completely understand and sympathise with that; no-one one wants to pay prices higher than they should and higher than other markets. But, again, it is a misunderstanding of the ACCC’s position.

We are pro-competitive in the sense that we try to prevent anti-competitive behaviour. We are also providing some information into the market through our monitoring and analysis and reporting. That is our role in fuel. The role of the ACCC is a bit misunderstood in this area. We hear those kinds of things, and the way we try to deal with it is by explaining our role.

Petrol is a grudge purchase and it is such a high-profile thing. People see it on the signs and people buy it all the time and see it as a utility-like product. If someone buys a really nice bottle of wine, they think, “I’m really looking forward to drinking that on Friday, so I don’t mind paying whatever the price is for it.” No-one buys a

PROOF

tank of fuel and goes, “I can’t wait to burn that over the next week.” It is a product with a high price and a variable price because of the exposure to commodities, and in some cities the price cycles.

We understand the dynamics behind it and why consumers are concerned about it. We are concerned about it too because it is a significant part of people’s budget. We want to make sure that the markets work, but each market has different dynamics and we are not in there to restructure the economy in that way.

THE CHAIR: Do you have any concerns about the ACT’s planning or zoning laws in that they restrict competition in any way?

Mr Schroder: I am not aware of any specific concerns with it, but it would be worth looking at it to make sure there are not any inadvertent obstacles. Since we are talking about the value of those smaller independents and independent chains, they may be disproportionately affected by some things that the bigger players are very easily able to deal with. There may be some inadvertent things, but I am not aware of any specifics.

THE CHAIR: Thank you very much for appearing today and giving us so much of your time. It has been very helpful. When available, a proof transcript will be forwarded to you to check that there are no substantive or typographical errors. It will also be placed on the committee website. I now close the hearing.

The committee adjourned at 3.24 pm