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

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 18 MARCH 2019

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

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

The committee met at 2.03 pm.

MCKENZIE, **MR MARK**, Chief Executive Officer, Australasian Convenience and Petroleum Marketers Association (ACAPMA)

THE CHAIR: I declare open the second public hearing of the Select Committee on Fuel Pricing in its inquiry into the matters referred to it by the Legislative Assembly on 14 February 2019. These 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 that parliamentary privilege entails and draw your attention to the privilege statement on the table. I welcome today's first witness, Mr Mark McKenzie, representing the Australasian Convenience and Petroleum Marketers Association. Could you confirm for the record that you understand the privilege implications of the statement?

Mr McKenzie: I do, madam chair.

THE CHAIR: Mr McKenzie, do you have an opening statement?

Mr McKenzie: Yes. I am the CEO of the Australasian Convenience and Petroleum Marketers Association, which is the national peak employer body. We operate under federal industrial relations as the representative in that area for fuel wholesalers and fuel retailers—basically, all businesses in the supply chain between refinery gate and pump. We do not represent the explorers or the refiners in the country.

Thank you for the opportunity to present. One of the things we sought to do was to provide a fairly detailed response. As an industry we tend to lament the fact that a lot of the conversation about petrol prices tends to occur in 20 and 30-second grabs in news, rather than taking a detailed look at the operation of the market. It was in that spirit that we filed our submission.

I state at the outset that our members and their associate businesses—dealer businesses—represent about 75 per cent of the businesses that retail fuel in the country and about 92 per cent of the wholesale of fuel in the country. Having said that, we are not an absolute consensus organisation. We operate within a highly varied market with a number of different businesses that will have different responses to the terms of reference that you have.

As a result, we try to reflect an average, if there is such a thing, of what is going on in the market, with a view to trying to talk about some of the trends that are there. I draw your attention to the fact that some of our members would have very different views—not wholly opposed per se but perhaps a different emphasis on some of the issues we will talk through.

I want to open with four key points, and the first is just that: that there is no such thing as a homogenous national market. What we basically have is a whole series of local area or submarkets, and we in the industry or the ACCC or the government tend to cluster them all together and create averages to try to make some sense of the way the market operates. Within that context, some of the things that occur in diving into these explanations will come down when you look at the behaviour of the submarkets rather than the aggregate market that we all tend to talk about. I am happy to probe some questions on that a little later on.

Prices really vary between the markets as a result of the interplay of a whole series of factors. I have noticed some of the press that has gone on in recent times. I have been on the Richard Perno show on the ABC. There seems to be a tendency at the moment in the debate to try to find a single factor. But this is a free and open market where prices are determined by the market. That means the consumer attributes of affluence, propensity to travel and ability to travel, as well as supply side factors in terms of market structure and the various businesses that are operating will have an impact on the behaviour of that individual market. In that context, these markets tend to operate in very different ways. I will touch on that a little bit in a moment.

There are some obvious sources of cost which we have identified in our submission that are very different in the ACT. There are a couple of areas where we could say the distribution premiums—the cost of hauling fuel down to this market—are higher than they are in Sydney and Melbourne, which have their own terminal storage facilities. That is an urban task. In the ACT that is a significant factor.

The lease costs, for some reason, in this territory are higher than any other market in terms of average for our industry. They average about 12 per cent relative to regional New South Wales. If we look at places like Queanbeyan and Goulburn and look at comparisons there, that is one of the key sources. But they are not the sole explanation. If you look at the ACCC work done in the past, the average of Canberra’s variances tended to be somewhere between 12 and 15 cents per litre over the last four or five years. The two factors of a distribution premium of about three cents a litre and the additional lease cost, which probably adds about 0.4 of a cent a litre, do not provide the explanation for that full variance.

The key factor we would suggest as an influence here is that the structure of this market does not have the tension in it that exists in other markets. I notice that the ACCC submission has summarised that really neatly by saying that in the ACT there are five big brands. In those brands I include 7-Eleven, because 7-Eleven is a very big player. We tend to not talk about it; we talk about it as an independent. They do price differently to the other four.

But if I look at this market relative to other markets, those five brands account for 92 per cent of the sites here, whereas in other capital cities that figure can be as low as 62 to 65 per cent. The average of the five big capital cities is 70. So we have a situation here where we are quite skewed towards the bigger major players, and they have a different market proposition. Within that context, our submission seeks to bust the myth that all service stations are the same. These are not community service businesses where they all run with the same costs. About 85 or 90 per cent of the cost we pay at the pump is due to tax and the global oil price. The other 10 to 15 per cent varies largely because the global price will move up and down, so relative to fixed cost you get this variance. But within that context each of the service stations operates with very different models.

We have tried to clarify that for you in our submission by saying there are three groups: there is a heavy discounter, and here in the ACT you have really only got two of those: Metro, operating at Fyshwick, and Costco, operating at Majura Park. Interestingly, they are latecomers to the market, but they had to operate with leases where they could not get in to the main area of Canberra. They have had to operate around the fringe. I am happy to probe into some of those reasons. Then we have a group of what I call value providers. The discounters effectively work on a premise that, "My only way of attracting you to my service station is to discount my fuel as much as possible and then I supplement my business by using chips, chocs and drinks." It is like a no-frills version of a service station that caters to a certain market.

Then we have the value providers that sit in the middle, such as 7-Eleven and United. They are priced slightly below the bigger guys but their model is premised on, "I'm still going to use a competitive fuel price proposition, but I'm actually going to have an expanded range of convenience offerings." The whole model of their structure is quite different to the company-owned operations, which we will talk about in a minute, so they have slightly different costs, which means they can absorb greater discounts. But they tend to operate in the middle of the market.

The ACCC, I notice, in its submission has tended to group the heavy discounters and the value players together. Part of that is okay, but I suggest that you might want to split that up to really understand the nature of the dynamic, because the presence of the very heavy discounters can draw the market and increase the volatility by creating the swings that we see in other capital markets. Then you have the majors. There is a tendency there to say, "Well, because I'm big I'm actually going to charge more than everybody else." That is not really the way the business proposition works. They look to go after those consumers that are looking for a broad range of offerings. They are looking for a premium fuel product.

If you look at the figures of the Office of the Chief Economist, the premium product is the fastest growing product in the industry across the country. We have 91 and 95, the two cheaper ones, declining in real terms over the last five years, and 98 is growing. That is a complete contradiction in terms of people saying that we have a price sensitive market when we see motorists voting with their feet on the premium products. There are some reasons for that and we can touch on that in a minute.

Within that context, we have given you a breakdown. What you see in this market is that we are fairly heavily skewed towards the major providers. That is a historic pattern. It has largely occurred as a result of the fact that the ones in the market have been in the market for a long time. Most of the other markets have changed as the bigger companies have sold service stations. We have seen the introduction of out-of-industry capital from super funds and VC funds that have gone into the smaller, more agile businesses. That has not happened in the ACT.

One of the reasons—but not the only reason—we put that down to is the decisions of successive ACT governments to preclude or prevent the operation of these sorts of facilities on major roads. It is not so much about increasing the fuel volume because the volume that I get at an ACT service station is pretty much on a par with what I would get elsewhere, but the opportunity for me to sell convenience goods and supplement my business, which is about 20 per cent of my revenue and about 40 per cent of my profit, is greatly lost if I am not on a high traffic corridor.

If I am just talking about fuel, yes, absolutely you are at a point here where you would question that. But what our businesses are seeking to do at the moment in the wake of fairly flat demand is to diversify their businesses. So those that can supplement their income with convenience revenue, which has a two for one profit return versus the selling of fuel, will tend to have a greater capacity to discount.

The last point I want to leave you with is the folly of quoting petrol prices at any point in time. When we look at Canberra's petrol prices today they run from 131.7 to 145.9. The average is currently $1.39. So within that context Canberra is at a low of 131 and a high of 145.9. If I pull apart the Sydney market, because I have a lot of the higher value priced service stations there, the current average is $1.42. So you would say Sydney and Canberra at the moment are three cents different. Most of that could probably be explained by the distribution margin that we talked about before.

But if I pull apart the Sydney market and look at the four major markets, in the north the price is 142.9 to 151; in the east it is 149 to 151; in the south-west it is 119 to 149; and in the north-west it is 127 to 151. Within that context Canberra actually looks pretty competitive. The reason you get the lower average in Sydney is the drag created by the south-west and the north-west markets bringing the average down. But if I were to look at the attributes of Canberra in terms of household wealth and affluence, they are more akin to the lower north shore and parts of the eastern suburbs of Sydney. On that basis, these look to be about the right level.

THE CHAIR: That is from today.

Mr McKenzie: Yes.

THE CHAIR: Do you have access to data on what the areas of similar demographic, like the north and the east, look like over time, compared to our prices over time?

Mr McKenzie: I do not have it here today, but I can certainly give it to you, because we have that information.

THE CHAIR: Could you?

Mr McKenzie: Yes. What I did in identifying this is to find that they pretty well mirror what is going on in Canberra.

THE CHAIR: It is very helpful to hear about what the market looks like today, but if there was anything over a longer period of time that you could show us—

Mr McKenzie: Certainly. If we take spot prices—if we were quoted in the media and I was going up against you in the media—on 19 February, mid-February, Canberra was the highest in the country at $1.42, with an average in Sydney of $1.39. Sorry, it was not the highest in the country; Brisbane pipped you. On 4 March, two weeks ago, we were the highest in the country. Canberra stayed at $1.42; Sydney was at $1.27; Brisbane, Melbourne and Perth were all sitting around $1.30; Adelaide was at $1.25; and Hobart was at $1.41. Today Canberra is at $1.42. That is its average. Sydney is at

$1.39, Brisbane $1.52, Melbourne $1.32, Adelaide $1.46 and Hobart $1.41.

One of the games that are played in this market is that when they make comparisons between markets, people tend to be very quiet when the price in the capital city swings high as part of the petrol cycle, when we are pretty close and there is not a lot of difference between markets, and they make a lot of noise when we have gone through the discount cycle at the bottom of the market, where the capital city prices can drop by about 18c a litre over time. It drops because of this market tension that we are talking about. Canberra does not have a petrol cycle. It stays average because of the structure of the market.

So we get to a point where our industry has typically tended to stay out of these conversations in the media around individual petrol prices and tended to focus on the longer term trends. That is why what we sought to do in that report was to lay some of that out for you and say, “Look, there are some differences here, there are some structural issues around the market, but on the whole there is nothing untoward going on here.” In fact, the Canberra market is behaving very similarly to what the ACCC investigation showed us with the deep-dive market studies in places like Launceston, Cairns, Darwin, Brisbane and Armidale.

THE CHAIR: Thank you very much. I presume you heard, or at least saw the reporting from when Informed Sources appeared before us on Thursday. Like you, they had quite a bit of discussion about independent retailers and the lack thereof, and also about not putting retailers on major through roads and that being potentially a source of the problem.

Mr McKenzie: One of the sources.

THE CHAIR: Yes, a source. But I note that in your submission you said you think that, because the market is changing, even if we were to say, “Yes, here’s this prime bit of land, right on this highway and we are setting it aside for an independent retailer,” we might still struggle to attract one because of the changes overall in how fuel is being treated. Can you expand on that a bit?

Mr McKenzie: I go back to my statement that we represent all retailers. Some of my discount retailers would say, “Great. Go for it. Open it up. I’d love to get in the market.” But the reality sitting behind this is something we did not probe much in the submission because we thought this was really a determination for you. Let’s just say we went through the process of making the site available and doing it in a high-volume corridor. Looking at what has happened in Fyshwick with Metro and what has happened in Majura Park not just with Costco but also with Caltex and Woolworths responding to that issue, on the face of it you can get quite good behaviour. The issue for our market, though, is that it is reaching maturity.

Looking at fuel sales around the country, what has been happening is that the fuel efficiency of vehicles has improved significantly and, subject to some legislation being considered on the hill now, may become more improved. We have seen about a 12 per cent improvement in fuel efficiency, from 11.6 litres per 100 kilometres to 10.9. Within that context, what is now happening is that, while we are still replacing and adding vehicles to the fleet, in terms of petrol—not diesel—the growth over the last five years has been flat. In fact, we see more and more of our market exposed to these higher fuel efficiency vehicles that are running as hybrids. Then, effectively, we expect it to slightly decline, which is very consistent with what happened in North American and European markets.

That creates a challenge. If you as a government create an opportunity for me as a dynamic independent retailer to come in there, I am not going to be able to capture market share in terms of growth of market. What I am going to have to do is to come in and steal a share from the other providers, and my only mechanism for doing that as an independent is by price. They are effectively going to come in as the heavy discounters we talked about before. I see a real tension here for an ACT government, because if you release a site you want to maximise the return you are going to get for it but you may price it to a point where it is never going to work for a fuel retailer at a discount level, with their low-cost model, to be able to amortise that high price. So you have got to find a way somehow to give it to the discounter at a low price without distorting the market.

THE CHAIR: Like finding prime land that we somehow do not want.

Mr McKenzie: Absolutely. There is no easy market fix, because you have that issue and then you have to make sure that you have a retailer who is playing a long game in terms of saying, "I'll get into the market. I'll have significant capital to be able to discount over time so that I can build my volume up to the point where my business becomes viable." That is a hard play in a mature market.

One of the things we have highlighted here in terms of the industry at the moment is that we are seeing the growth of service stations but it tends to occur on the outer fringes of our capital cities. We have seen a bit in Gungahlin but, in the main, the number of sites in the ACT has declined over the last 20 years. We have dropped by about 18 sites, if I remember correctly. Within that context, you are not talking about a market where the industry is champing at the bit to get more retailers in.

MR PARTON: I would not mind talking about fleet fuel cards. One of the things that we got to discuss with Informed Sources was that, although we have not seen any actual evidence of this, our belief is that this market could well be distorted by the level of fleet card usage and that, because there are a bunch of public servants driving around who are not actually paying for their fuel and price is of no consequence to them whatsoever, this is potentially affecting the market. What are your thoughts on that theory?

Mr McKenzie: I think that is certainly a factor and a consideration. Because of the number of major retailers you have got there, they actually will tender very hard for government contracts, whether they be ACT government or federal government departments, for the supply of fuel. That fuel card business is a valuable part of the business because you effectively have got a suite of customers that you can maintain over a period. Here in the ACT, because you have significant employment in the public service and the competition that exists in that market, fuel cards will definitely be a factor in buying patterns. I have got a fuel card, I generally go to that same service station. I am not price sensitive.

MR PARTON: No, of course you aren't. I guess the other question there—and I am tipping it is a question you might not be able to answer—is: you talked about the competition to secure that business from whichever chain it is, whichever company. I just wonder what discounts are being offered. There has got to be a contract with those companies who enter into the fuel card purchases. What discount are they getting for giving their business to the retail sellers? Is the rest of Canberra, the non-cardholders, paying the price for that deal?

Mr McKenzie: To be honest, I have never thought of that as a dynamic.

MR PARTON: Neither had I, until today.

Mr McKenzie: But I suppose there are two elements to that. That market, in terms of the wholesale or the card market, is actually fairly competitive. As you know, what happens effectively is: I have a card, I do not pay the board price necessarily. What I am doing is paying an average over that month. So I need to keep my price fairly competitive, maybe not in terms of the existing contract, but if I am then going to renew in the future—because the view will always be, as a fuel retailer, once I have got that contract, to keep it in the future—I am going to want to keep my price pretty keen throughout that entire process.

It would seem to be a bit illogical to then be saying, "I will actually keep my retail price fairly high," because that then has an impact on your card price. It is an average on-the-board price over that period. Therefore, your price is going to track higher.

But the other key element obviously—and it is just the nature of the market—is: if my retail business is still fairly significant, within those markets there will be a whole lot of other players. What you will tend to find is that one person will have that contract with a government or a government department; three will not. So you would expect that what would happen is that, if I then kept a high retail price going, I would get absolutely skinned by the others, in terms of charging a lower retail price in the future. That is my first thought about it. I suppose the key thing here is: we are not privy to the contract prices and individual plans.

MR PARTON: The point I would make in response to your evidence there is that you are basing that suggestion on what is the traditional model for pricing petrol re the fleet card. There may be some that are not running that model, not running an average price for the fuel card.

Mr McKenzie: Possibly.

MR PARTON: Is it possible that they have negotiated a completely different price for fuel cards?

Mr McKenzie: I suppose that is possible. That would be very interesting in a highly competitive, low-margin, high-volume industry.

MR PARTON: Would that not add weight to that theory that was run past me that potentially the discount that has been negotiated by the fuel card company is what the rest of us consumers are paying for?

Mr McKenzie: My first reaction to that would be to say, "I don't think the fuel card use here is any higher than in any other capital city."

MR PARTON: Really?

Mr McKenzie: Yes, because you are talking about government. But you have very little industry and business. If I look at places like south-western Sydney, I have got large enterprises, transport companies, corporate companies that will actually work on a fuel card basis as well. Even with a large volume of tradies, if they are a single tradie with an ABN, they will have a fuel card.

MR WALL: Their negotiating power, though, as an SME is not as strong for getting a month-average price. I speak from my experience in that space. We ran a fleet of about 15 cars.

Mr McKenzie: I concede that.

MR WALL: We got driveway price on the accounting cycle. We were not big enough to negotiate a month average, whereas particular fleet and government contracts here would have that power.

Mr McKenzie: I still would push back on that. Certainly, you are right; it is a small business—and I happen to also be the chair of the Council of Small Business Organisations of Australia—and you have got less leverage than a bigger business. But the bigger corporates would have the same leverage as government. And you are at a level here of saying. "I have got significant numbers of those in my market." I would have to have a look at the data, and that is perhaps something that you could look at in terms of talking to the retailers. I know Joe Dimasi is doing some work here. But my understanding here is that Canberra's use of fuel cards is on a par with other cities.

MR PARTON: Can I take you back to a comment you made in your opening statement. You suggested the lease costs—and I know that you qualified that this was having a 0.4 per cent effect on the price—are higher here in Canberra than in any other market. Is that really the case, that it is more expensive to run a petrol station here, just in terms of lease cost, than anywhere else in the country?

Mr McKenzie: Yes, on average. What you are doing here is talking about a small market with a high land cost. So you have got to be a little careful here. If I go and compare that with the lower north shore or the eastern suburbs, that is not the case at all. But if I take the metropolitan-wide average I am getting the low land areas.

The other thing that is skewing it is that, because a lot of Canberra service stations are located in suburban centres, you are effectively riding on the back of the urban residential land cost—the premium that comes with it. I am not running industrial sites along highways and roads that actually bring with them a lower cost per square metre. Effectively, they are noise exposed, they are traffic sensitive and they are pollution sensitive.

What you have actually got here is always a case of—and I qualify this by saying at the outset that you have averages—a very small group of 56 to 58 service stations. I compare them across other markets, with their incredible diversity in land prices, and yes, you will get that influence. If I compare it with the lower north shore and the eastern suburbs, then, no, it is simply not the case. But if I compare it to Queanbeyan it is 12 per cent higher, which is part of the reason why you are seeing prices over the border being a little cheaper.

MR WALL: I have two separate questions. Firstly, in your opening statement you said that pricing in a competitive market such as this is down to the affluence, the ability to travel and the likelihood of travel of the consumer. What do your association and your members see in the Canberra market in that space? Obviously affluence is quite high compared to many other markets. But is there a likelihood to travel?

Mr McKenzie: We would not talk about it as affluence. Do not take it that I say that we look at the ABS data and Canberra has the highest household income, therefore we say, "Let's put the price up at that level." What you do as a service station is that you keep playing around with your price until you get enough volume. "I have got my costs associated with running a business." Typically, for Canberra, they are going to be somewhere between 12c and 14c a litre before I make any profit.

MR WALL: That is building and wages—

Mr McKenzie: Yes, purely fuel.

MR WALL: Turning the lights on?

Mr McKenzie: I have no supplement coming from convenience revenue at the moment. That is just purely fuel. That is why it varies according to different markets. Within that context, then, I might say, "I've got to sell 3.5 million or 3.6 million litres of fuel—20 per cent diesel, 80 per cent petrol." What I will do is keep adjusting my price until I get that volume across my forecourt. I will do that on a daily basis or a weekly basis in terms of looking at the volatility in a market.

Within that context, the issue of affluence is not so much our behaviour; it is consumer behaviour. The issue then becomes: if you have a community that is very much at the lower socio-economic end then they are highly sensitive to fuel price and if I am 2c a litre higher than my competitor they are not going to reward me. They are going to go to the discounter. But if I have got a very affluent community, they are less sensitive to fuel price. My volume, or the foot traffic, is going to be less sensitive to my price variance relative to competitors.

It is interesting when you look at Canberra. I am a Canberran. I went to school here at Marist College and grew up in Curtin and Wanniassa. I was down here visiting the parents last week. In fact, down here Costco had 70 vehicles on the forecourt yesterday, Sunday, at 11 o'clock. They had eight aisles and they were six cars deep. You do not see that anywhere else in the country. If I looked at Woolworths, sitting across the way, its forecourt was full as well, as it was actually competing on price. Within that context we have a significant portion of Canberrans that are saying, "I'm going to vote with my feet." There are your price sensitive groups that are actually moving there.

On Friday night I filled up at the BP at Melrose Drive. It is at the higher end. It is a major. Its forecourt was full. We were in the fairly affluent Pearce, Torrens, Farrer area, and there were still a significant number of customers going there. There is nothing in it for me, as that service station, to drop the price to match Costco because my local market is just shopping in that area. They are not making the trip out to the airport.

MR WALL: They are not travelling.

Mr McKenzie: If Canberra was operating with a much lower household income I would expect that we would be queued up out onto the streets.

THE CHAIR: Would they, though? We were talking about that—would it be economical to do so for some people? The cost of them travelling might undercut any discount.

Mr McKenzie: Absolutely. I notice that there was a story in the *Canberra Times* yesterday about a business that was actually saying they were spending something like $650 a month on fuel. To me, that worked out to be about nine fills. If you brought the Canberra average down to the New South Wales average in that time, they would have saved $11 a week, $44 in a month, out of $650. So you are at a point here where sometimes the conversation about economics gets ludicrous. If you cannot run the business and get an extra vehicle on at $650 a month, are you going to be able to do it at $610? They are poking at the price. What we tend to find sometimes is that, given that the average fill at a service station is 50 litres, a 5c variance is $2.50. It is half a cup of coffee. For an affluent person, that is not enough to get them to travel half way across the city.

MR WALL: The value of their time does not stack up.

Mr McKenzie: That is right, because time is a valued commodity. Here in Canberra we have the highest household income in the country, at least the last time I looked at the ABS. At that level you are talking about a lower sensitivity, which means, as a discounter, I do not get as rewarded. If I can really bring my price down, I will bring some out there. But I am not getting the volume I would hope I would capture, which I might get in other markets with less affluence as an average across the market. At that level what we do constantly as businesses is keep adjusting to ensure that we have a profit level that we have got to maintain. We have got to cover our costs, and we will respond to the market signals that are actually coming in.

Canberra tends to be a pretty stable market, which is why you have the ACCC talking about a five-capital city average instead of an eight capital city average. As a Canberran I was always offended by that because Canberra is the capital. I suppose the key difference—and the reason they do it—is that the other markets, Darwin, Hobart and Canberra, do not have price cycles. If I were to put them in then in fact the average would look a whole lot higher.

MR WALL: The other one was that you mentioned 98 octane fuel is the largest growing segment. What is the cause of that? Can you explore that in some detail and then maybe touch on the use of ethanol-based fuels and why that is not cutting in?

Mr McKenzie: We think there are three drivers. It is very hard to give you an analytical response to this because at the moment we are still discovering why this is. It is a fairly new phenomenon. In fact, there are probably four. The companies are actually marketing this proprietary product pretty hard. It does provide additional boost. You are getting more out of that fuel over time. They have all got different claims in the market. I am not going to pick one over the other for the sake of not getting pinged by that member. But that is the first issue.

MR WALL: Or a reality one?

Mr McKenzie: Yes. The second issue is that in states like New South Wales and Queensland, being forced to accommodate E10, typically what I have had to do is swap a product out. So you are in a position here now where I have might have 91, 95 and 98 on the forecourt. What has been happening, largely because of the volume of the tanks and the way they are configured—I have got two premium and one unleaded product, a non-ethanol product—is that I drop a premium. Generally I am taking away the 95. I am putting E10 in there. A premium purchaser will not buy E10. Either they will go down to 91 or they will go up. What we think is actually happening in those two states—and they are quite big states—is that they are having a bit of an influence on the national figures.

The other key factor is one that is being debated at the moment. This is somewhat contentious. There is an argument. You have probably heard various federal politicians talking about Australia having the dirtiest fuel in the world, which is absolute nonsense. I will just put you straight here and now. We have a composition, though, where we allow a higher sulphur content in our fuel than a number of other economies. There has been an argument put forward by the automotive industry that, as we get more and more vehicles coming in from markets like Europe and North America that are not tolerant—their emissions system is not tolerant to that sulphur—those people have to actually purchase premium product. If you have those cars, when you open up the filler cap, you will actually see that it says "95 RON or higher". That is largely because of the sulphur content in the lower, 91.

I think it is a matter on the public record that the federal government department of the environment have been working on a new fuel quality standard and are in the throes of finalising that. They are out for consultation now on what that looks like. That might address the sulphur issue. I suppose in markets like Canberra, because you have high affluence, you have more of these vehicles coming into the fleet. That is possibly a reason why you are seeing some of that climb as well.

Going back to my opening statement, it is likely to be the combined influence of all of those factors, rather than any one in that space. The change to unleaded having lower sulphur may or may not change that pattern, because the other thing we are seeing—I go back to the improved fuel efficiency—is that typically what I do as a household is that I have a spend that I put on fuel. If I am getting more fuel-efficient vehicles, we are finding that, instead of them capturing that saving, they step up the product. They have still got the same spend.

Interestingly, when we got to the very high economic cost late last year—because we had all sorts of people threatening to boycott forecourts because we had prices climbing here, $1.80, $1.85, when we had that shortage in demand—it was flowing through the forecourts. What we saw there was that once you got above about $1.70 for unleaded, these people stepped back a grade—98 went to 95, 95 went to 91—which is sort of suggesting to us that people have got in their mind a fixed spend and if they can buy premium product for that fixed spend they will. If they can't, they will step back.

MR WALL: Has more work like this been done to understand purchasing choice around ethanol-based fuels? Is there a quality issue with them or is it just a perceived quality issue? They are typically, I believe, 94, 95 octane.

Mr McKenzie: You have got to be a little careful with that.

MR WALL: I guess it depends on which manufacturer.

Mr McKenzie: I have to be a little careful here because we have been a staunch opponent of E10 mandates. We do not mind E10. We will sell fairy floss and put it in your cars if that is what people want. But mandating a market, forcing people down a certain line where you are imposing on me the costs to support that product because I cannot do it with current product—but I cannot force a customer to buy that product—then you have got to make sure that that consumer really understands that they want to take it.

This really boils down to the fact that when ethanol was first introduced it was not controlled in terms of proportion. We had blends of 25 and 30 per cent. We had stories in Melbourne and Sydney in particular of cars being scorched as a result of it because ethanol eats away the plastic components of a fuel system. So you had talkback radio at 3AW and 2GB filled with these stories. That has persisted. That perception has persisted.

In the research we have seen people say, "I steer away from it because it is less pure." There is a slight energy density change. The energy density I get out of ethanol is 25 gigajoules per litre. Petrol is 38. But because you are mixing it with such small blends, it is hard to notice that. You will hear all sorts of people make claims about how inefficient it is. In reality, if you ran it in a purely controlled lab, you would go three per cent further on 91 RON versus an E10 blend. But for most people, they are not going to pick that up. So it is really a perception issue.

What I would say here is: in New South Wales it was introduced in 2008. We have been at it for 10 years. We are just going backwards. The goal has been six per cent. We are now down at two per cent. The highest we ever got to was 3.1.

MR WALL: So the holding cost of that is now probably having an impact on the RON and the 98?

Mr McKenzie: Yes.

MR WALL: Because that is where the volume sales are and they have got to cover the cost of what is sitting in the tank?

Mr McKenzie: Yes. I would caution, for reasons I talked about before, that the two are directly linked. I think that is a factor. But I think the other factors will be the ones we talked about as well.

THE CHAIR: With fuel price monitoring and things like FuelWatch, you have some strong views about that which seem to echo a little what Informed Sources told us on Thursday. Are you able to expand on that and also on the fuel price reporting laws? Why do you recommend, if we did that, that Queensland has the better model?

Mr McKenzie: In terms of fuel price reporting, we as an industry do not have a problem with it. That is the first thing to say. We were a bit resistant to the New South Wales model because they went down the path of a certain model that brought in some costs in setting up the data algorithms and changing the IT systems to be able to report.

THE CHAIR: Was there a lack of consultation on that as well? Was it just kind of done?

Mr McKenzie: It was pushed through, really, in our view, to support the ethanol mandate. It was somewhat unpopular, so they thought, "If we push something through that keeps motorists happy in terms of transparency, they might link the two." That is a personal view that I have of the way it actually ran. They consulted, but it was pushed through pretty quickly. But there was consultation that occurred. It was about a third of the period of consultation that we saw in Queensland. The Northern Territory pushed it through very quickly, with little consultation at all.

With fuel price monitoring, and the idea that we will take fuel prices and make them transparent in real time in the digital space as well as the physical space, we do not have a problem with that. We do it now in the physical space, so we do not care if you do it in the digital space.

For Canberra, it is interesting if you look at MotorMouth and PetrolSpy. I spend a lot of time talking on Richard Perno's show on 2CC about petrol prices. I can get every price in the market by using those two apps in real time. Why would you spend government money on duplicating a system that is already in place? Maybe the sense of it is to spend a bit of time making people aware that they can actually use those tools.

The Queensland model was a bit different to Northern Territory and New South Wales in that it did not require the government to report the price. I put my price in to New South Wales. The government amass that information. They ensure compliance. They have an enforcement regime that sits in behind it. They have set up their own website, at significant expense, to make that information available.

What we said in Queensland was that, if your goal is to make it available, what you need to do is just make sure that you pick up all retailers, because not all fuel retailers report in those schemes. They wanted everybody to report, just like in New South

Wales and the Northern Territory. They introduced a law that required you to report, but that information came in to an aggregator, which in this case is Informed Sources. They aggregate and validate the information, because it has to be checked. People just think that it comes in and it is all okay, but you will get errors, keying errors and all sorts of things. If your government is sitting behind that, you need to make sure that you have validated those prices.

What happens is that that information is given back to the industry apps. There is no government app. There is no government management of a website or information. It goes back to the app. The government have just set up a law that said, "You must report." They enforce that law. After that, it is a case of the information being aggregated by a body that understands what they are doing. Informed Sources is certainly one of those; it is probably the best in the country at it. They then validate that information and it is provided free of charge to all of the app providers. That is the way the process actually works.

It also means that the enforcement burden is lower. We have had significant concerns with the operation in New South Wales, where there were no additional resources added to ensure that people were actually reporting. We have seen some errant or undesirable behaviour in the timing of reporting or non-reporting that has been reported by our own members regarding their competitors. So they are putting their prices in but they are not seeing their competitor put their price in, or they are reporting every change but their competitors are not doing that. It puts the onus on the government to check that. That cost is being under-reported, in our view.

I will summarise it on two levels. We have a strong preference for the Queensland scheme. It still meets the government objective but it minimises the expenditure and it minimises the enforcement burden. I would suggest that you would probably want to check that with the Queensland government. They did a lot of work in the lead-up by looking at New South Wales and the Northern Territory; they had the advantage of those models.

The second issue is that we do not have any opposition to these things. The only point I would stress is that, if they are advanced on the basis of saying that they are going to lower prices, we would simply say you are setting yourself up to fail. There is no evidence anywhere in the world that introducing fuel price reporting has lowered prices. There is an OECD report that suggests that because all of the competitors see everybody else's prices in real time they do not need to discount as heavily. If I can see your price, I am thinking, "I don't have the volume across my forecourts, so I've got to drop by 5c a litre." But if I can see your price in real time, I would only drop one or two below you. There was a suggestion by the OECD that that led to prices going up more than they would without a price system.

That is one view. I would tend also to listen to the ACCC's view that those are European and North American markets, where there is not a high level of transparency. Australia is a bit different. We run with a fairly neutral position. We do not think that they increase or lower prices. All they simply do is make it more visible. In the ACT, if you have a problem with market structure, it is not going to address prices; it will just make them more visible.

THE CHAIR: Yes. We have already kind of got that.

Mr McKenzie: Yes. The other thing that people do not often report is that New South Wales will tell you in their first 12 months of operation that they had two million unique visits. There were 148 million fills in that period. If I assume that every one of those only informed one fill—which might be wrong—then effectively it is less than 1.6 of one per cent utilisation. We are not seeing a market where everyone is jumping in there and making a decision on that basis. People make decisions on petrol stations due to convenience of location, range of convenience offering and convenience on their travel paths. Price is a factor, but in high socio-economic areas it is less of a factor.

I have made Andrew aware of the fact that we have been doing two significant pieces of research on fuel consumer attitudes, and we saw a reduced sensitivity to price between 2015 and 2017 nationally. We will be doing it again in 2019. We are seeing that people are increasingly looking at our service stations as a 21st century version of a corner store. In some cases we are now seeing people going to service stations three or four times a week. Only one of those is a fuel purchase.

THE CHAIR: Really?

Mr McKenzie: Yes, and that is in inner city areas. If you think about high density, people will go and get their milk and bread. Dog food is another big staple that people are going for, or they are grabbing a cold drink or a coffee.

MR WALL: I saw dog biscuits at a service station recently and thought it was the most peculiar thing to have stocked, but that explains it.

Mr McKenzie: Yes. It is really interesting. Our issue is that we are investing fairly heavily. Every major brand you look at is putting money into convenience and creating these shops. Some of it is working really well; with others it is not working really well because they still have very strong price-sensitive behaviour in those markets and they only think of me as a service station.

THE CHAIR: Is it right to say that some of these are subsidising any lower fuel prices by having more expensive bread, chocolates, chips or whatever? Even if you are seeking out the lower price, if you then go in and buy an ice cream, you probably just lost the $2 that you saved.

Mr McKenzie: That is right. It is interesting; we will see the discounters. You will go in there and you will save 5c a litre, which is $2.50 on an average fill, but you pay $4 for a bottle of water. If you had gone to a major station that charges you 5c a litre more, you pay $1 for the water. Your total purchase is actually lower at the site that had the higher fuel price. There are people that are starting to see that. Once again, it depends on the customer. If I just buy fuel from a service station, I am not going to go to a big one, but if I buy a range of things, for the reasons we talked about in terms of time sensitivity, I will go to one site.

MR WALL: Could I ask a supplementary on price reporting? That has been applied largely in capital cities, particularly, that have a price cycle. What would be the impact on a market such as the ACT, where we do not have those peaks and troughs?

Mr McKenzie: I think it would be nil. With respect to the reason we have it and that it is used in other cities, it would be an interesting test. Darwin is probably an interesting one. What we saw in Darwin was that we had two markets, Darwin and Palmerston, and they were priced independently of each other. Palmerston tended to be slightly below Darwin. When we went to FuelWatch—and this still has to be validated—anecdotally, we saw the Palmerston prices come up to match Darwin's, so the territory price actually went up.

That is the only market that was not price-cycle based. Real-time reporting works where you have that volatility in prices. In Canberra's area, as we talked about before, from 19 February to 17 March, the four weeks just gone, the average was 142, 142 and 142.4. If I look at Brisbane over the same time, it was 142, 130 and 152. The value of real-time fuel price reporting would work better in that market than it does in Canberra.

With respect to a Canberra benefit, if I was strongly price sensitive as a result of a change in my economic circumstances, I would not necessarily want to shop at the one I currently shop at, so I might need to find a site that is cheaper. I might use it once at that level and then go into that behaviour. I would struggle to see that you would get the same public utility or public good from an investment in that in Canberra.

The other key thing I will talk about, which came out very strongly in our submission, was FuelWatch. This is where I have a regulated mechanism. It is the only market in the country. We spent a bit of time in our report saying that if you look at the economies that regulate price—where the government determines the price—and you compare those to the ones that operate on a market decision basis, those that regulate price tend to be in the top quartile of pricing and those that operate in market determined are in the bottom quartile of pricing.

As we said here—this is not our data; this is federal government data—we are amongst the lowest. I think we were the fourth lowest in the OECD for petrol and diesel as at December 2018. Within that context, playing in a market with price, if you are already at the bottom, the question is: what are you going to do? You really want to understand that market.

If I look at what happens in WA, I have seen, to my mind, some pretty disingenuous reporting of that system. It is probably one of the only contentious things I will say. I will disagree with Rod Sims. He and I often have disagreements. There is an argument with respect to regulating prices in the way that they do. The way it works is that I have to lock in my price before midnight tonight, for tomorrow's price, so that no-one else actually sees it. Over time that has created a volatility where prices are going up and down. It tends to be the only market that works on a weekly cycle. Monday is always the cheapest day of the week; it jumps up on Tuesday.

What we did—and I have highlighted it in there—was to talk to a couple of our members. You cannot take it as a total market, but we said, "Give us an aggregate of what sorts of sales you get on each day of the week." We were interested in the proposition that the ACCC and the FuelWatch commissioner have put—that it really works because everybody buys on the cheapest day of the week. I have news for you: one in five buy on the Monday; four in five do not. If you look at how the volumes flow through the week, what you get is that 40 per cent of people in Perth buy below the average and 60 per cent buy above the average.

MR PARTON: Knowing full well all the time what the price will be?

Mr McKenzie: No, it is going up and down. Typically, the high point occurs on a Friday or Saturday. A lot of people buy at the end of the week; they are preparing to travel somewhere. People buy when it is convenient for them.

MR WALL: They get paid at the end of the week.

Mr McKenzie: With some of the comments that have been attributed here to some politicians and to the *Canberra Times*, I have to say to you: it is nonsense. I do not mind being held to account for that. If we look at behaviour in the market, not everybody is buying on a Monday, with nobody there on the other six days of the week. There is a real sense of being careful. The proposition is not wrong. If everybody bought on that cheapest day of the week, they would save a lot of money. The reality is that they do not. You then have to go back and say, "What was the public good of that regulation?" In effect, it looks like it is no different to having a market average—just continuing to operate in the way it is now.

MR PARTON: Although I am sure those consumers that regularly take advantage of that and purchase on the Monday think it is a wonderful thing. It could be that the fleet fuel cards are buying on Thursdays and Fridays. It could be the people with a lot of cash who are buying—

Mr McKenzie: We quarantined the cards out of this analysis. The other thing I would say to you is that Perth has a weekly cycle. If I look at Brisbane, Sydney and Melbourne, they have a four to five-weekly cycle. If you compare the number of days that are below the average, you do better in those cities than you do in the weekly cycle in Perth. You can do that just by tracking the shape of the curve. It is up to you what you do, obviously, but I would say to you that our experience is that it has not hurt us. In fact, there is really a question as to whether it has done anything at all, in terms of the practices, versus leaving it alone.

THE CHAIR: I have a question—I think the answer is no—about transport costs. I know that you talked about these on the radio as well. You said that that is really one of the key problems here. You said in your submission, too, that we do not have a terminal, we do not store fuel here, so it has to be transported and often quite quickly. Is there any way that haulage costs can be reduced at all?

Mr McKenzie: No, not really.

THE CHAIR: Is there any sort of regulatory measure or assistance that could affect that?

Mr McKenzie: This is a historical issue. To make a decision now to say, "Okay, we'll put a fuel terminal in at Fyshwick"—there used to be a small one at the end of the railway line there—then I have now got to amortise a fairly large cost in today's terms across the fuel. The argument is whether that is going to be self-defeating versus the premium you are currently paying for it to be transported down. I have not done that equation.

THE CHAIR: So it is just unfortunate and there is not much we can do.

Mr McKenzie: But really what you have here is no different to a lot of regional markets. We have to transport it. It is the most efficient way to move the fuel at the moment, versus doing something like having a pipeline that is built the entire way down. But then I would be paying significant costs as well. It is really just a factor of the shape of the delivery architecture and distribution system we have had. It is hard to see that you can do anything to resolve that now in what is effectively a fairly flat market.

MR PARTON: But it seems to have a bigger effect on our price than it does on Wagga's price, for argument's sake.

Mr McKenzie: No, I do not think so. We go back to the ABC interview I did last Thursday and some of the ways that that was quoted. Those country centres would be seeing the same premium, because they are also working on the basis of using a B-double to transport the fuel and—

THE CHAIR: Are they, though, then able to have a lower cost of market because they are selling at a higher volume because they are through cities?

Mr McKenzie: Some of them. But there are other factors at play here. When you think about it, their lease costs are lower. We have talked about that already in terms of the increase that comes. But there are other factors there. Look at a place like Queanbeyan. Queanbeyan is quite competitive in terms of price. Arguably what you would say is that it probably has one service station too many for its market. So what you have is those service stations competing for survival in a slow-burning game that is like musical chairs: eventually someone is going to fall off.

I saw some of the commentary in the media over Christmas saying that Moss Vale has a lower price. But Moss Vale is overserviced. Gunning had a lower price. But Gunning effectively tries to attract the highway traffic going between Yass and Goulburn, and the only way it can do it, to lure them off during holiday periods, is to really drop its price. If you go through in non-holiday periods, it returns to where it was. Each of these things comes back to my earlier comment about local markets, local attributes that the retailer will respond to.

THE CHAIR: Thank you for appearing today and for travelling.

Mr McKenzie: I have taken on notice to come back to you with a historical comparison with the north shore of Sydney. I will do that through the secretary.

THE CHAIR: That would be fantastic. Thank you very much for appearing.

HELYAR, MS SUSAN, Director, ACT Council of Social Service
BUCHANAN, MR GEOFF, Policy Officer, Research and Data, ACT Council of Social Service

THE CHAIR: Welcome to today's second witnesses, the representatives from the ACT Council of Social Service, Ms Susan Helyar and Mr Geoff Buchanan. I think you are old hats at this, but could you confirm for the record that you understand the pink privilege statement in front of you?

Ms Helyar: Yes.

Mr Buchanan: Yes.

THE CHAIR: Thank you very much for appearing today and for your submission. Would you like to make an opening statement?

Ms Helyar: Yes, I will.

THE CHAIR: Go ahead.

Ms Helyar: Canberra's high fuel prices are hitting low income households the hardest. Fuel pricing is fundamentally a cost of living issue. Transport is a significant and essential expense for households, and fuel makes up a considerable amount of the household transport costs in Canberra. Transport is also a social determinant of health. For example, transport disadvantage can exacerbate food insecurity and be a barrier to accessing health services.

Our cost of living analysis shows that transport is the third biggest cost for low income households in Canberra after housing and food. Low income households include those on income support, people in insecure low wage roles and people who want more hours of work but cannot get them. Compared to the average ACT household, low income households spend a greater proportion of their income on fuel so that they can take their kids to school, drive to work or job interviews, access health services and get groceries.

The volatile nature of fuel prices presents a challenge for these households that do not have enough income to cover sudden and substantial price increases in essential items. This in turn creates demand for community services like emergency relief, financial counselling and low income loan schemes where people are trying to balance with managing other expenses so that they can keep up with fuel costs.

Fuel prices rose by 15 per cent in Canberra over the past year and by 29 per cent over the past decade. This is higher than in any other Australian capital city. At the same time low income households have been put under more and more pressure as essential costs of living have increased whilst their income has stayed the same.

There has also been an increased cost for community organisations in running their fleet but also in terms of lower wage workers, many of whom might be in the home care system where they use their car, their own private car, to drive around and to conduct their work. They get just whatever the tax office rebate is, which does not take into account the high costs of fuel in this city. Fuel pricing is just one element that needs to be addressed as part of a comprehensive response to transport disadvantage in the ACT.

Our submission to the inquiry into fuel pricing identifies the need to improve the fairness and adequacy of transport-related concessions and to better understand transport costs and transport gaps so that people experiencing disadvantage in the ACT do not have their adversity worsened by transport costs. Thank you for the opportunity to present. We welcome your questions about our submission.

THE CHAIR: I appreciate that there are privacy issues, but a lot of the things that you have raised have come through in some of the submissions we received, particularly in our survey, where people have said—and I presume this is mostly low income households—that the cost of fuel, which is a necessity for them, is actually impacting on their ability to purchase other things that are really necessities, like mobile phone credit. Do you have some anecdotal evidence that you could give on that?

Ms Helyar: Yes. We would be happy to share some more material if it is useful, because we certainly have quotes from people that we have consulted on other matters that include conversations about transport. We can have a bit of a look at what is relevant from there. Just as a bit of context, we know that the lowest income households are spending six per cent of their disposable income on transport, and the highest income households spend just over two per cent—three times the amount of money.

We know that people are spending a high proportion on food. We know that people spend a high proportion on housing. These all accumulate. What people do is that they think about which are the bills that they can get help with, like energy bills. Are there ways that they can get assistance through emergency relief, where they can usually access food through emergency relief? People do not spend money on those bills so that they can keep their car on the road. We hear that people are going to emergency assistance services to just balance an unmanageable budget. People will be making decisions about which bits of their budget they seek help with because they know there are other bits of their budget that they cannot, that they need to be able to just keep paying cash for.

THE CHAIR: I very much appreciate your point as well about lower income households. It might be home care workers and potentially also shiftworkers in some cases. We have heard quite a bit of discussion that we could all go down to Costco. But (1) people are time poor and (2) is it really economical for people? Is that also what you are hearing?

Ms Helyar: We do not have any specific information on people's use or not of particular fuel suppliers, but I would note that it can take you 20 minutes or half an hour to get your vehicle fuelled at Costco.

THE CHAIR: Let alone travelling there, yes.

Ms Helyar: There is a barrier there that could be affecting people, but certainly we do not have any specific information about that, no.

MR PARTON: So much of this inquiry is about trying to figure out how the markets work. So much of this inquiry has been focused on the fact that the market does not actually seem to be serving consumers well here. Your submission, just from my reading of it, seems to basically say, “You know what? I don’t think the market is going to do what we would like it to do in this particular place.” Indeed, in our many conversations over many years I do not think you have ever trusted a market to do anything. But your submission basically says the market is not going to deliver lower prices. How can we cushion the people who can least afford these costs? Is that a simple summary of what you are saying?

Ms Helyar: I think that is a fair assessment. I am not into command economies, so please do not take that from my commentary. But I think we have ample evidence that the market is not delivering for people, particularly in the bottom 20 per cent income group in Canberra and largely for the bottom 40 per cent. We know why that is: it is because the market is skewed to the bulk of higher income households that operate in this city. I think that whatever happens with the market it is unlikely to deliver enough improvement to make enough of a difference to lower income households around, in this case, their transport costs for it to be sufficient on its own. We would argue that there is always a need for government intervention where the market is not meeting the needs of people in the community.

MR PARTON: Would that approach not effectively penalise the top 60 per cent even further for the higher fuel prices, in that they will have to continue to pay the higher fuel prices but they will have to subsidise those in the lower 40 per cent as well? There will be a double whammy for them.

Ms Helyar: I am not against the market being improved. If there are things that can be done to improve competition and to improve the price parity between us and across the border then that is a good thing. I guess I would just argue that I do not think that will be enough to make a sufficient difference.

MR PARTON: And it is not the space that you play in?

Ms Helyar: No. We are not experts on how to make competition policy work or not, but we know that in a number of markets—in financial services, in housing, in transport, in fuel prices—competition does not deliver for the kinds of households that we look to represent.

MR WALL: Just to follow the same line, the previous witness highlighted that in 2013, I think it was, there was an ACCC report that showed that the average profit margin for a fuel retailer—and this was national—was about 2c per litre and that was across both the fuel sales and also the convenience sales they make in their shops. The margins that these businesses are making are very small. For the segment of the Canberra community that you are talking about, even if we had the lowest of prices that we see in Sydney or Melbourne, they are still going to be faced with pretty much the same challenges as they are now, aren’t they?

Ms Helyar: I think what we would be really interested in is to have some modelling done on that and to have some distribution analysis done on a range of transport interventions but particularly an intervention on fuel price. It would be useful to understand better to what extent improvements in competition would make a difference. That graph in our submission that shows that the lowest income households are spending six per cent of their disposable income and the highest income households are spending two per cent—

MR WALL: That is a disingenuous way of reporting the statistics, though, because a higher income household has obviously got a larger proportion of disposable income. As a percentage of income, even if they are spending the same on fuel, that percentage is going to be vastly different. What are they actually spending though—

Ms Helyar: Yes, and what we actually know is that they spend a lot more on fuel; so they are actually using a lot more fuel and it is still—

MR WALL: Who is using more fuel?

Ms Helyar: The higher income households, because their expenditure is much higher. We put those two graphs together. They spend about double, but it is a third of their income.

THE CHAIR: But as a proportion, yes.

Ms Helyar: I am not saying high income households cannot spend their money on fuel. That is fine. What I am arguing is that the concessions program—

MR WALL: No, but to say that a lower income household spending six per cent of its income versus a high income household of two per cent is a fairly disingenuous way of representing the statistics. I think the amount spent is a better measure, rather than a—

Ms Helyar: No, because disposable income goes to whether you can afford to pay for your energy bills, whether you can afford to keep a roof over your head and whether you can afford to keep food on the table. That is why we present it in that—

MR WALL: Yes, but someone that earned a million dollars a year would be spending less than one per cent of their income on fuel. Obviously a person who is on a lower income is making very prudent choices around how they spend their money and every dollar they spend represents a larger percentage of their income than someone on a higher wage. I guess it is not giving a clear picture to the committee of their purchasing patterns and their purchasing choices. Yes, it represents a larger proportion of their income—that would be statistically true—because you are talking about a smaller quantum of funds to begin with. If a higher income household is spending double, that would lead to a logical choice. They are probably running two cars as opposed to having to choose to run one.

Ms Helyar: I think I was just reacting to it being disingenuous. I do not think it is disingenuous; I think it illustrates the issue in a way that makes sense for the lowest income households, rather than thinking about the averages, because that is one of the challenges we have. Even if we improve the situation for the average, unless we do something that makes a substantial difference for people in the lowest income households we will continue to complain. I guess this is our opportunity to talk to you about, beyond competition, where are the things that we think could make a substantial difference to the households we represent.

MR WALL: That then goes to the original point that, even if we are seeing the best prices in the country, those challenges are still going to exist for those households in the ACT.

MR PARTON: That is right, 85.9 per cent.

Ms Helyar: Which is why we have spoken about access to concessions being a critical component. We would like you to think about it as part of your overall response to this.

THE CHAIR: Are any fuel price concessions available at the moment?

Ms Helyar: No. We are talking about concessions for things like your licence and car registration, giving people a way to reduce their overall transport costs. If we recognise that fuel is going to continue to be a significant and disproportionate cost in those budgets, what are some other places where government could think about concessions? At the moment if you are over the age of 65 you get a concession for your registration, but if you are under the age of 65 and have a very low income you do not. We see that as an area where government could offer some support to the lower income households. Those working households do not have access to a healthcare card. That would help to balance out the disproportionate impact of fuel prices.

MR PARTON: Do you know off the top of your head the level of that concession for over 65s?

Ms Helyar: I think it is half.

MR PARTON: On your recommendation to undertake a study of transport costs and to what extent this involves reliance upon subprime loans, can I ask why that featured heavily in that recommendation?

Ms Helyar: Yes. That comes from our earlier work on transport which we did back in 2016. Some of the legal assistance services were saying to us that people were accessing the low documentation loans to pay things like their registration.

MR WALL: Can you define subprime loans?

Ms Helyar: Payday lenders. Then people end up in the legal system because they do not pay their registration and they get pinged and it is a $1,000 fine. Then you cannot pay your fine and then you are in it. So there is this kind of accumulation of adversities that come from some small problems in your budget.

MR PARTON: When the mathematics just do not work out.

Ms Helyar: Yes. I take your point, Mr Wall, that this may not be relevant to competition in fuel pricing, but we thought this was a good opportunity to say that if you are thinking about fuel pricing you need to think about the broader context in which fuel pricing is a problem for lower income households. That is why we have made reference to broader transport disadvantage, to the concessions and also to thinking about the other transport reforms happening in the city and for the committee to think about where there might be commentary in your report that could contribute to that.

MR WALL: You talked about the transport reforms, and one of those big reforms at the moment is the new bus timetable. It is slightly off topic, but it definitely affects the constituency you are here to represent. People in a lot of the outer suburbs are probably going to be further disadvantaged by less frequent transport routes. What is ACTCOSS's position on that, and what has been done to try to remedy those issues? If a bus is no longer an economical choice to commute to work or services, you are forced into a car and that, for many, is going to place even further pressure on an already tight budget.

Ms Helyar: Yes. We have been on record as saying we think there are risks in the transport reforms that people will be left stranded or in a worse position. We are working on some advice back to Transport Canberra at the moment about integrating things like the community transport system and on-demand transport so that it works for our constituency—people who often do not have access to a vehicle or have limited capacity to walk to bus stops.

THE CHAIR: I appreciate that you are representing the lower income households, but some of the feedback we have heard from the industry reps is that the ACT government's capacity to do much about the market is potentially limited. Even the price differential—according to some people but not all, and probably not according to most individuals—is that it is not actually that much per week for some people. Depending on how much you are fuelling up, it is only a few dollars each week. For some people that is an enormous proportion of their income, but for others it is less so.

Your suggestion of car registration being lowered for a lower income household is certainly something the ACT government could think of doing. I wonder if you want more of a sliding scale as well. That could be genuine market intervention but in another area that the revenue is being collected. It is probably not that helpful, though, because the private sector is not getting penalised, by any means.

Ms Helyar: We would certainly look to see improvements in the market. That would be a good outcome. If the ACT government can pull levers to make that happen then that would be valuable.

THE CHAIR: But it is still probably not going to be enough for the lower quintiles?

Ms Helyar: Yes. I think so. There are some people on very low incomes that are not eligible for concessions because they are in work. Especially if you are in a minimum wage job that only gives you 20 hours a week of work, you are in trouble financially because you may not be eligible for any of the concession arrangements. The ACT government did quite a lot of work on that with the 2011 report on looking at how ACT government revenue fees and charges might be amended to respond better to the groups that are not eligible for concessions.

THE CHAIR: We might have a look at that. In your experience, in terms of running a vehicle, is it the registration that comes up more than the cost of fuel because registration is a big hit?

Ms Helyar: It is a big cost in one block, yes.

Mr Buchanan: Yes. It goes back to Mr Wall's questions around the weight of that graph and what it represents to a certain extent. Particularly for low income households, when we look at the household expenditure survey data from 2015-16 for the ACT it shows two different types of households between the higher income and the lower income. For lower income households, fuel is the major transport/automotive cost, whereas for higher income households the purchase price of the car is the highest cost of operating a vehicle. Those differences between households are useful to be aware of and raise because for low income households the price of registration is a much higher proportion of their income. It is a balance between the volatility of fuel prices creating budgetary uncertainty within the households, plus these big hits that can create stress at that particular point in time.

There are particular challenges those households face throughout the period and at those times when they have to pay their registration. At those times they also face what has been referred to as a poverty premium in the sense that a lot of those households cannot afford to pay for a 12-month renewal of registration or for a five-year licence, so they miss out on the discounts that those people who have savings can afford to take up. In the end, they end up paying even more for some of those things. They might not be able to have the flexibility to shop around for their fuel or do those types of things that other households can. Again, the reason we highlight that is just to show that these households face very different challenges in managing their budget on a day-to-day and also on a month-to-month and year-to-year basis.

MR PARTON: Among the recommendations are that there should be an investigation into transport gaps for people experiencing social disadvantage. I know we have touched on that a little in this discussion already. But can you summarise that whole theory of investigating transport gaps? I understand that there is more coming from ACTCOSS on the timetable changes, but do you have a fear that those transport gaps will widen as a consequence of the new timetable release?

Ms Helyar: I do not think they will widen. What we have said consistently for many years is that mass transit does not fix the transport problems for many of the people we represent. We are very supportive of public transport. There is an imperative for the growth and improvement of public transport on a whole lot of grounds—social, economic, environmental. But for many people mass transit is not ever going to be their best option for transport. Mass transit on its own is not suitable.

We are talking about having a better understanding of who are the people who either do not have a vehicle or have to compromise on other costs to keep that vehicle going and how can government-funded transport respond to their needs better. They are the people for whom government-funded transport is the most important, but they are often either not using it now, so they do not get considered in the current planning, or their needs cannot be met by a mass transit system. So they are kind of marginalised.

The advice we are looking to put together is how to better integrate planning of the community transport and on-demand transport systems with the mass transit system so that they are considered as part of the whole system—instead of being marginalised and seen as being over there, as a separate thing that you do as a welfare service, rather than thinking of it as part of the broad public transport system, which may or may not be mass transit.

MR PARTON: But your belief is that, irrespective of how we consider that community transport sector, it will be relied upon more under the new timetable scenario?

Ms Helyar: It is hard to know until the timetable is operational, frankly. That is why we want to have a more comprehensive analysis—because we do not know who is not using it now.

MR PARTON: I can send you a bunch of emails.

Ms Helyar: But that is what I am saying—that we do not know who is not talking to us about it because they figure they are not part of the audience at the moment. So we need a different way of engaging with the community on their transport needs and transport planning.

MR WALL: I want to dig a little deeper on the concessions that are not given at the moment. You touched on people with a healthcare card that do not currently qualify for any discount. I just had a quick look at what the concession rates are on registration, and the only component that it impacts on is the registration fees, essentially the registration tax. But things like road user charge, road safety charge, CTP and then, as you mentioned, the quarterly or half yearly surcharges still apply. I am just trying to think about the registration renewal I recently looked at for my car. I think the registration component is only about $200 a year or thereabouts. Do not quote me on those numbers. But it was a small portion of the registration cost.

What would make a material difference in that space for people that are struggling to make ends meet? An age pensioner at the moment gets a 10 per cent discount on the registration component. You are talking about $20 to $30 on what is about a $1,000 bill for a year, depending on the type of vehicle that you are driving.

Ms Helyar: I think $20 or $30 is another day’s food on the table, and households value it.

MR WALL: That is less than 50c a week type of stuff.

Ms Helyar: I recognise that it will not solve all the poverty problems of the city, but I think it is important in terms of equity to give people with like incomes access to like concessions, to enable them to cope with the costs of living and not to rely on just the government healthcare card as the only criterion for access to a concession.

MR WALL: I think that is reasonable. Often someone who is on a low wage in casual employment is doing the right thing, for all intents and purposes, by trying to keep a job down, trying to contribute, but they get penalised at every turn for trying to do the right thing when, if they stayed at home, they would be eligible for a healthcare card, derive a benefit. For those who are able to contribute, it is not necessarily a good incentive.

What I was trying to get to is: what is something that would actually make a difference? Fifty cents a week is a very small difference. But when we are talking about a $1,000 a year bill, potentially higher if you are paying quarterly—and there are a lot of inflexible proportions of that—what would ACTCOSS see, anecdotally or as a personal view at this point, as a way of actually making a difference in that space?

Ms Helyar: I guess there are a few things: access to better wages, lift the Newstart allowance. There are a whole lot of things about people's base incomes being inadequate to the basic costs of living, not only in this city but in other places. Certainly what we would argue is that there are important things to be done about people's capacity to generate income and people's access to income support when they are not in a job. That is the first thing. But they are often commonwealth government responsibilities.

In terms of territory government responsibilities, we have talked about concessions—and not just for registration but for things like energy concessions and access to concessions to travel on the bus and other things that the ACT government have control over—to deal with those. The other issue, I guess, is also thinking about adequacy of resourcing to organisations that deliver support to these households—things like access to emergency assistance and no-interest loans. Those things can make an enormous difference to keeping households going through periods of adversity.

I think it is important to know that, at any one time, there are thousands of households accessing those services. At any one time there are, whatever it is, thousands of households on Newstart allowance. People cycle in and out. What we need is for people, when they are in difficult circumstances, to not get in such a bad state financially that they can never lift themselves out again—that is what is important—and to recognise that people come in and out of work. People come in and out of financial adversity. We need to have some protections in place through concessions.

We have also spoken about where we might go with the progressive fines programs. The $200 fine for speeding is a substantial impost on a low income household. It is not much in some households. In Finland they have made fines progressive so that it is a genuine sanction. There might be ways to do some quite politically difficult things.

MR WALL: I would also argue that it depends on what your commitments are as to whether $200 makes an impact.

Ms Helyar: Yes.

MR PARTON: Yes, and that is the other thing. That is always the other thing.

MR WALL: You may be a high income earner, but you have got higher commitments. $200 can have a similar impact on someone that might be earning $80,000 a year as it might have on someone that is earning $40,000 a year, depending on what their personal commitments are. I caution against progressive charges.

On loans—and you touched on that previously in answer to Mr Parton's question—the market obviously prices the risk of default on a loan with the interest rate. Those that are on a low income tend to be levied the highest risk of default and thus payday lenders and the like come in and, I am going to use the word, profiteer in that space. Do you think there is a role in that space that government can get involved in?

Ms Helyar: Yes.

MR WALL: A system in that space. It is not just the rego coming due. It is the mechanical breakdown. We typically see people that are at the lower end of our community driving the oldest vehicles.

Ms Helyar: People lose their jobs because their car broke down and they cannot fix it. I think payday lending is commonwealth legislation.

MR WALL: It is, yes.

Ms Helyar: But in terms of the ACT government, no-interest loans are incredibly valued by people and can often be a trigger for people connecting with financial counselling. Then they can get access to broader support. ActewAGL implemented a $100 voucher for people when the energy prices had a big jump last year. A $100 voucher on a massive energy bill is not necessarily substantial, but what it did trigger was people going and talking to the financial counsellors who were handing the vouchers out. In fact, some people ended up with their debt being waived because they had been eligible for concessions and no-one had noticed. That can get back-paid. Or people found out that they were in unconscionable arrangements with creditors and the financial counsellors could go in and argue for their interests and actually sort a bunch of things out.

For a relatively small cost, a few hundred dollars for a household, they can actually get a substantial change in their financial circumstances, not only with the no-interest loan that might help with an immediate high bill but also with access to a broader suite of services that they did not know were there or they did not know they were entitled to or they were too nervous to ask about.

MR WALL: As their financial literacy grows and they find out what other avenues are available—

Ms Helyar: It may not be their financial literacy; it is just their comfort in dealing with debt collectors. That is scary. If you have got someone on your side, that can make it a more manageable process. I think there is space there for access to small blocks of money that can help them cope. As Geoff was talking about, people's budgets operate differently when they are living on a low income and to have access to small amounts of money in the scheme of things can make a big difference.

THE CHAIR: How, practically, would it work?

Ms Helyar: The financial counsellors manage those with the energy providers. The ACT government have some and there are commonwealth ones. They have got systems in place to do it in terms of assessing people's eligibility and managing the repayment process.

MR WALL: But Centrelink also have a loan program, don't they?

Ms Helyar: Yes.

MR WALL: I am aware of it but not in detail.

Ms Helyar: They have an ability to kind of get a forward payment that you can then pay off over time. But we find it works best with the financial counsellors, for all those reasons I have said. You can get access to a whole bunch of advocacy and advice that you might not—

MR WALL: And it might not be the right solution for them, as well?

Ms Helyar: Yes; that is right. They can actually say yes or no—exactly.

THE CHAIR: How do low income households here, with our fuel prices here, compare to those in the other states and territories? Do you have—

Ms Helyar: I am not sure if we have done that in our cost-of-living analysis.

Mr Buchanan: Not recently, no.

Ms Helyar: We just focus on our own little patch, really.

Mr Buchanan: Yes.

THE CHAIR: I figured that. Yes. It would be interesting to know.

Ms Helyar: We do not have the comparative data about low income households in other places but you could look at HES, the household expenditure survey data. It is for the whole of the country and it breaks it down by state and territory. Geoff can talk a little about that. It is not just fuel costs but all other transport costs, and you could extract the fuels cost component out of that.

Mr Buchanan: Yes, and you can definitely do that by state, territory or by city as well, which might be a more useful comparator.

THE CHAIR: It will be especially interesting, I think, to see what it would look like compared to Hobart and Darwin that do not have price cycles either.

Ms Helyar: Yes. We know from when we did our 2016 research that Canberra was second only to Darwin in terms of transport costs. But I do not know to what extent that was fuel based. It might have been other factors as well. We were the second highest cost capital city to Darwin.

THE CHAIR: Which again points to: can we do more? Thank you very much for appearing today. We very much appreciate you taking the time to put in a submission and to answer our many questions. I do not think you took anything on notice.

Ms Helyar: No.

THE CHAIR: You are off the hook. When available, a proof transcript will be sent to you for you to check the record. On behalf of the committee, thank you very much for appearing today.

Ms Helyar: Thank you.

Mr Buchanan: Thank you.

The committee adjourned at 3.42 pm.