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

THURSDAY, 9 MAY 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

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Amended 20 May 2013

The committee met at 11.04 am.

PRIBYL, MS EDWINA, External Communications and Government Relations Manager, Viva Energy Australia
GRAY, MS JENNIFER, Business Manager, Reseller Markets, Viva Energy Australia

THE CHAIR: Good morning, everyone, and welcome. I declare open this seventh public hearing of the Select Committee on Fuel Pricing inquiry into the matters referred to it 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 also remind witnesses of the protections and obligations that parliamentary privilege entails and draw your attention to the pink privilege statements which are set out on the table.

I welcome our first witnesses today, Edwina Pribyl and Jennifer Gray from Viva Energy. Could you please confirm for the record that you understand the privilege implications of the statement in front of you?

Ms Pribyl: Yes, I do.

Ms Gray: Yes, I do.

THE CHAIR: Would you like to make an opening statement?

Ms Pribyl: Yes. I would like to firstly thank the committee for providing Viva Energy with the opportunity to appear today. Before we head into your questions, I would like to provide a brief overview of Viva Energy and our business operations both in Australia and more specifically in the ACT. For general background—and this is probably something you are quite aware of—Viva Energy is a leading energy company on the ASX200. We were listed last year on the stock exchange and we supply around a quarter of Australia's energy needs.

Our company was originally formed following the purchase of Shell's downstream business in Australia in 2014, which covers the refining, commercial and retail fuel service station businesses. We are the exclusive licensee of the Shell brand in Australia and supply fuel to more than 1,250 service stations nationally, as well as to a range of commercial and wholesale customers. In Canberra we supply fuel to and, from 1 March 2019, set the retail price at 15 Coles Express operated service stations.

Viva Energy is a truly national supply chain, with a refinery in Geelong in Victoria which supplies around 40 per cent of our needs and around 10 per cent of Australia's fuel requirements. Fuel is stored and delivered via a network of more than 20 terminals across the country and over 50 airports and airfields. For the ACT, the nearest distribution terminal is our Clyde terminal, which is in Parramatta, in western Sydney.

In 2003, then as Shell, we established an alliance with Coles Express, who became the operators of our main service station network sites. At the time this innovative arrangement brought to the market a leading fuel and convenience offer backed by well-known brands. That alliance has proven to be hugely successful over more than 15 years.

As at 6 February this year, however, we announced to the market that we had agreed with Coles to extend the alliance through to 2029 and that Viva Energy would now take on full responsibility for retail pricing and marketing at the Coles Express service stations, while Coles will remain responsible for operating the stores and providing a leading convenience offer at 710 sites across the country. In that announcement to the market on 6 February we stated that the deal will allow Viva Energy to provide a more consistent fuel offer across the Shell-branded network, improve competitiveness and better optimise our extensive nationwide supply chain and refining businesses. As you can appreciate, it is quite early days in that new arrangement and at the minute we are really taking our time to analyse each market to assess the competitive factors in each of those markets.

As you would have seen in our submission, and given the timing of the inquiry, we primarily cover the build-up of the wholesale or terminal gate price relevant to the ACT. Therefore, our comments today, given the recent announcement and new arrangement with Coles, will be limited mainly to wholesale pricing. We will be able to provide some commentary on the Canberra market in terms of transport and site lease costs and what we have observed in the two months since we have been in control of retail pricing.

There will of course be information that we are unable to share today due to commercial sensitivities or because they relate to Coles Express historical operations. But we aim to be as transparent as possible and will take on notice any specific questions we are unable to answer today. We would now be happy to take your questions.

THE CHAIR: You may have seen yesterday that the ICRC produced a draft report with some findings, in particular that the ICRC has been able to ascertain what margins companies are operating on in the ACT. Are you able to explain why Viva Energy's sites—and I appreciate that some of this is historical but I think it is still true today—are consistently higher than elsewhere in the ACT and neighbouring cities?

Ms Gray: I can make an attempt, yes. We did not provide the information. The information was provided by Coles Express and, to the best of my knowledge, we have not seen that information. They were operating the sites at the time the information was provided. We are obviously somewhat limited in our ability to comment on that.

We know that petrol prices are less likely to move in a very volatile cycle than you would see in somewhere like the New South Wales market, which I think it has been compared to, and we know that the costs to deliver fuel into this market are typically more expensive than in the New South Wales market as well. There are a range of factors that will determine the profitability of a site in any given location, including operating costs, opening hours, rental, the cost of moving the fuel there and the overall competitiveness of the market. It would be a combination of those factors that would see the difference in profitability of the site.

THE CHAIR: Is it more expensive to do business here than it is to do business in Queanbeyan or Goulburn?

Ms Gray: There will certainly be variation across the market and, if you look at the typical variable costs within the operation of a service station, rental will be different—and obviously rents will differ depending on the location and the size of the facility across the market—and transport costs will vary. They are typically 60 per cent driven by the number of hours that the driver would need to get to that site. Depending on where you are, you would expect to see some differentiation.

THE CHAIR: I guess the thing for us with transport costs is that those cities are pretty close; it is almost negligible in terms of the extra effort to get to Canberra, as opposed to getting to Queanbeyan. When we hear the argument that transport cost is a major factor, that is fine. Why is there such a massive difference between the two cities?

Ms Gray: As a generalisation, you may not be sending the same kind of vehicle to every site and there are differences between the types of vehicle you can send to a site as well. You will see variations from site to site, depending on the capacity of the tanks under the ground or the product at the site and the relative sales at the site. That can be a factor that varies from site to site as well. But that would be true within any city. There is a variation.

THE CHAIR: The ICRC stated that the ACT market lends itself to less competitive supply contracts. Is that a statement that you would agree with?

Ms Pribyl: With retailers? Is that the implication?

THE CHAIR: Yes.

Ms Pribyl: We have obviously an alliance agreement with Coles which is commercially confidential, and there are a range of factors within that contract, as opposed to just fuel supply, that make up that contract. That is probably the extent that we can really talk about that.

Ms Gray: I can maybe add a little. We sell fuel from our terminal gate in Sydney to the independents, including some of the independents that are present in this market, and there is absolutely no difference in how we would sell to them to sale into Sydney or to sale into Canberra. They remove it from the terminal gate at the same price. There is no difference.

THE CHAIR: That is helpful to know, given that there are not many independents in this market. I suppose you cannot reveal who they are, but we could make a guess.

Ms Pribyl: And they do not buy solely from us either, to be clear.

Ms Gray: They tend to look for those spot prices and buy when the price is agreeable to them.

MR PARTON: I want to follow up on some of the questioning from Ms Cheyne. In regard to the ICRC report, I am getting the indication that you have not seen that. Have you seen it?

Ms Gray: We have seen the report.

Ms Pribyl: We have seen the report.

Ms Gray: I think the comment was that Coles Express provided the data. We have not seen that data that they provided to that report.

MR PARTON: So they did find that Canberra service stations, as Ms Cheyne pointed out, were making nearly double the profit of those in nearby regional towns. Again, it sort of seems to take away from that transport cost argument. Your outlets, by and large, are charging even more than most—at the upper end of the pricing here. When we spoke to the Chief Minister yesterday, on quite a number of occasions he described it as gouging. I am going to ask you straight out: would you characterise the pricing practices in this market as you guys gouging the Canberra market or not?

Ms Pribyl: Obviously, we cannot talk on behalf of how Coles have priced in the past, so we have—

MR PARTON: No, I am talking about now.

Ms Pribyl: got two months of experience.

MR PARTON: Yes.

Ms Pribyl: Just driving around the Canberra market this morning, we did observe that some of the Coles Express sites were slightly above some of the competitors, but I do not have that insight into what might be driving that particular offering at that site in terms of what is available on site, what fuels are available, what competition is around, what lease costs are there. So there is probably a lot more detail to it.

MR PARTON: All right; can I make it broader, then? You indicated in your opening statement that you were taking some time to analyse the competitiveness of each market, because it is a new chapter.

Ms Pribyl: Yes.

MR PARTON: How do you intend to respond to rebel independent retailers in other markets? When you spoke about analysing the markets, that was the only measure that you mentioned in your opening statement. I am sure there are other measures that you analyse, but you homed in on: "We are going to analyse the competitiveness of the market." Why do you specifically analyse the competitiveness of individual markets? How do you intend to respond to rebel retailers who are seeking to distort the market?

Ms Pribyl: Sorry, I said we would analyse the competitors in the market, not the competitiveness of the market.

MR PARTON: Right.

Ms Pribyl: Sorry if I said that. Can I have that corrected?

MR PARTON: Probably my mistake.

Ms Pribyl: No, that is okay. Yes, so I guess—now I have lost my—sorry, can you repeat the question?

MR PARTON: I guess I am trying to find out how you intend to respond to robust independents who are distorting the market and, as such, affecting the profitability of your outlets.

Ms Pribyl: I guess there are a number of ways that sites can be competitive. One of those is actually on the price board, which is obviously a very easy means for consumers to assess where you are pricing against your competitors. But also within our plans is to do more below the line offers—deals, whether it is through flybuys. Obviously, consumers have access to Coles shopper dockets, which offer a 4c per litre discount. Often all of those offers can be stacked; so you do not just get one or the other. You can build them up to get quite a substantial discount. So I guess that price boards—

MR PARTON: And you see that very much as your battleground, that that is the area where you want to fight that war—the additional products and the additional offers.

Ms Pribyl: Yes. We have an absolute intention that we would like to increase our volumes, and obviously that comes with being more competitive. But, as I have mentioned, it is not just about what is on our price board.

MR PARTON: Right.

Ms Pribyl: And we acknowledge that today in observing the Canberra market there is a differential. But I guess that if consumers are accessing some of those offers, which are quite easy to access, whether it is through flybuys deals, shopper dockets—we did a deal with carsales.com which provides additional benefits for six million members across Australia—consumers do have the opportunity not just to get what is on the price board but often to get a much bigger discount.

MR WALL: What proportion of transactions through your sites would have consumers using the 4c Coles docket voucher?

Ms Pribyl: We actually do not have that exact number. That is a Coles Express piece of information, but historically I think it has sat between 20 and 30 per cent of consumers.

MR PARTON: Is that all?

MR WALL: To what extent does the use of those dockets then influence the daily price board on your sites?

Ms Pribyl: It does not, because Coles offer that shopper docket discount. That is not a Viva Energy offer.

MR WALL: That is not Viva Energy?

Ms Pribyl: They are very separate, yes.

MR WALL: So Coles are still responsible for the pricing of their sites?

Ms Pribyl: No, we are setting the retail price, but Coles offer that discount and they pay for that discount. We would pay for other offers that we offer through—

MR WALL: Can you explain that commercial arrangement? If a customer walks in and buys 100 litres of fuel and gets the 4c discount, which is $4—

Ms Pribyl: Yes.

MR WALL: off whatever the bowser price is, Coles then pays Viva for that service?

Ms Pribyl: Coles would take the payment at the terminal, yes. When we take the funds from them for the fuel that has been sold, we would not refund them for that discount, yes.

MR WALL: Right.

Ms Pribyl: So we would refund them for $96 or they would refund us the $96, not $100.

MR WALL: Okay.

Ms Pribyl: Unless they are—

Ms Gray: Yes, they are quite separate deals.

Ms Pribyl: Yes, that is a cost of Coles marketing.

Ms Gray: But other offers we may choose to put into the market or put to consumers, whether it is through the carsales deal or perhaps flybuys offers, would be at Viva Energy's cost.

MR WALL: Yes. Why do you choose to enter into offering those sorts of schemes, such as your flybuys, other rewards points or whatever other cross-marketing it might be, as opposed to focusing on a lower daily board price to attract consumers in?

Ms Pribyl: I guess all of those offers are about loyalty, which is—maybe I am just stating the obvious. We know that fuel purchasing can be quite a discretionary purchase. It can be a grudge purchase. It can be one of convenience. So I guess through loyalty programs, if there are ways—

MR WALL: It is also an essential purchase for many people.

Ms Pribyl: Yes. Sorry, I did not cover every purchase. But I guess if you can lock consumers into their loyalty by providing offers which allow a discount then that can sort of keep them coming back to your store.

THE CHAIR: Reflecting on some of Mr Parton's questions, you mentioned that you are looking at the markets and competitors in terms of what the pricing strategy is perhaps going to be into the future. I appreciate that the arrangement has only just changed at the start of March. When Informed Sources appeared before us, they said that the indications were that Viva was going to take a more competitive approach. When will we start to see that in the ACT? When are we going to start to benefit of this new approach?

Ms Pribyl: Look, when we announced that to the market, our CEO was on record as saying that it is not going to happen overnight. I think our volume aspirations were over a number of years. We know the team are working really hard to have a look at each of the individual markets, what competitors are around those markets, what fuel they sell, because that can sort of vary if you are a big diesel site versus a big petrol site.

THE CHAIR: So you take the view that to get to your volume aspirations you will have to lower prices?

Ms Pribyl: Be more competitive, I think is the—

THE CHAIR: Be more competitive, sure.

Ms Pribyl: Yes, that is certainly our intent. We are absolutely on the public record as wanting to provide, I think, a more consistent offering for consumers so that they know what to expect when they come to a site but also to be more competitive.

THE CHAIR: What do you mean by that?

Ms Pribyl: In the history of the alliance, what started off as something that offered a discount was quite new in the market. We know, and it is on the public record, that Coles's pricing then started to escalate. So what we want consumers to know is that when they come to a Shell Coles Express site there will be a more consistent offering in store and also a competitive offer on the board.

THE CHAIR: Right. What has been a source of frustration for Canberrans is that you might live in Belconnen and the Coles in Belconnen might be five cents dearer than the Coles in Tuggeranong but you are not prepared to travel that distance. Are you suggesting that if I ring up my friend Mr Parton and say, "What's the price down in Tuggeranong today?" when I am in Belconnen, it is more likely that we are going to see consistent price offerings in a region?

Ms Pribyl: Yes. I think we have even observed that this morning.

Ms Gray: Interestingly, this morning our sites are priced identically throughout

Canberra for 91.

THE CHAIR: Well, fascinatingly, every site in Canberra today is offering a very competitive price. I wonder why. Is it because of the ICRC report and page 1 reporting from the *Canberra Times*?

MR PARTON: Or is it just your clout? When you guys come to town, do they just put on a good show?

Ms Pribyl: You are being very generous, Mr Parton.

THE CHAIR: You mentioned that this morning you have been driving around. We have had quite a bit of commentary about transparency of prices. Even the ICRC have said they think that your price boards not being in prominent locations and service stations not being in prominent locations themselves—you have to drive to it, essentially, to see the price—is having an impact. Yet the ACCC and Informed Sources, people with a bit of skin in the game, have said that they think we have enough apps and enough transparency for Canberrans to make an informed decision about where to purchase their fuel. I want to touch on the fact that you said you were driving around this morning.

Ms Pribyl: Yes, and we actually struggled at times to find where the service stations were. I went to university in Canberra and am here quite regularly, and really throughout this process it has genuinely occurred to me that you just do not see service stations in Canberra as you do in the bigger metro locations. Obviously there have been some planning regulations that have made that seemingly a unique feature of this market. Even in Fyshwick, which I think is meant to be one of the more competitive markets, we genuinely had to seek out, through the GPS, where those sites were.

THE CHAIR: You drove around to look for the sites, instead of using an app?

Ms Pribyl: We used an app to find the sites.

Ms Gray: I googled on the way an app, and we found an app which certainly included the Costco price, the Metro price and Caltex Woolworths.

MR PARTON: Can you remember which one it was? Which one did you go with?

Ms Gray: Petrol Spy. They seemed to have a very good range of prices and they seemed to have been updated within the last three to four hours. We drove around to look at the facilities, to look at the plot size, to look at the type of offering on the site and to see where they were located, because that obviously makes it—

THE CHAIR: And whether you can sell more fuel at the site to meet your volume aspirations, maybe.

Ms Gray: You can always sell more fuel at a site, to a point.

THE CHAIR: Yes, sure. Well, Costco cannot. That is why they are putting in more services, I guess.

MR PARTON: What struck you? You mentioned some of the things that struck you in terms of the idiosyncrasies of this market. But what else struck you in terms of comparisons between here and the larger cities?

Ms Pribyl: Some of the characterisations that were, I think, in the ACAPMA report and also the ICRC report—maybe the fact that people drive more. Seventy-five per cent of people drive to work, as opposed to other means. Perhaps they do not have public transport options. So maybe cars are more of a necessity. Perhaps because they think: "I know I have to use my car, so I have to fill up," they are not as attuned to competitive pricing.

Apart from that, there is the geographic location. In major metro centres you often have two or sometimes three on a major corner of roads where you can eyeball a service station and see when they are making price adjustments, and you can seek to match those. But there did not seem to be many sites that we drove past today where you had direct line of sight or that were necessarily even in direct comparison in terms of facilities or location. The Metro site is very much just a canopy and a couple of pumps. It did not look like much of a shop offering, versus our site that we drove past in Fyshwick, which had a fast food offering, a much bigger convenience range and a much nicer forecourt and a number of other factors.

MR PARTON: Does it strike you as an odd market in comparison to others because of those differences?

Ms Pribyl: I do not know whether I would say odd—just different.

MR PARTON: The Chief Minister, in a public hearing yesterday, openly suggested that he was not ruling out the government here intervening in the price of petrol. We are assuming that he means setting a maximum price, as determined by where the terminal gate price was at the time. I am wondering how Viva responds to that suggestion. It is a bit out there, isn't it? What is the response from Viva on that?

Ms Pribyl: We are subject to lots of regulations in our industry. Health, safety, environmental, the oil code—there are a number of different regulations we are already abiding by. But it would be quite unprecedented to do that in a marketplace. And, while there are unique features about different markets, there have been many reports that still indicate that Australia does have competitively priced fuel, particularly compared to OECD nations. Without actually understanding how that sort of regulation would operate and what sort of margin would be available for the market, we probably cannot make any specific comments.

MR PARTON: But it is quite a radical suggestion, is it not? You make the comparison to other OECD countries, but the reality is that when I fill up my petrol tank I cannot do it in Norway or New Zealand; I can only do it here. So for most consumers those comparisons are completely irrelevant. Given the choice of the government intervening in the price of petrol and setting out a maximum level, based on the terminal gate price, or outlets just pricing more competitively of their own free will, which would you go with?

Ms Pribyl: I think that leaving an open and competitive market would always be preferable.

Ms Gray: It is worth remembering that every reseller of fuel sets their own terminal gate price. Ours is not the same as United's, is not the same as BP's, is not the same as Mobil's, so it is very interesting to talk about selling something off a terminal gate price.

MR PARTON: It would have complications.

MR WALL: But in a market that is an island inside a larger market, New South Wales, you would be very hard-pressed to have a different terminal gate price for stations based in the ACT compared to those across the border in New South Wales.

Ms Pribyl: We do not publish a terminal gate price. A terminal gate price is published at a seaboard terminal or an inland depot, generally. All of Canberra purchases from New South Wales, so for us they would be purchasing off our Sydney terminal gate price.

MR WALL: Correct.

Ms Pribyl: So we publish—

MR WALL: But if the government intervened in the market and implemented a retail margin based on the terminal gate price, you would be forced then to change the terminal gate price for all New South Wales to find a way around it?

Ms Gray: No.

Ms Pribyl: No.

Ms Gray: We earn less margin in ACT than in New South Wales because the terminal gate—

MR WALL: But the suggestion was that being a vertical businesses you set your own terminal gate price?

Ms Pribyl: Yes.

MR WALL: You would find other ways to claw the margin back?

Ms Gray: Sorry, that was not the suggestion I was intending to make. What I was saying was that if you set, for instance, a 10c a litre margin over a terminal gate price, that would give you a different answer depending on who was importing the fuel because the starting terminal gate prices are not identical.

MR WALL: What impact would a 2c per litre reduction in board price on a monthly average have over your margins? From the report, that is about the extent of discrepancy that is being highlighted in the surrounding regional markets such as down the coast, Wagga, Goulburn, Yass, compared to what is being retailed in the ACT.

Ms Pribyl: We probably do not have that detail to hand. Perhaps if we can take that request on notice.

MR WALL: That would be appreciated.

Ms Gray: I was just going to add that I know that we have looked at comparable rental costs for Canberra sites versus, for instance, comparable sites in Wollongong, Newcastle, Sydney. On average they are seven per cent more expensive within our portfolio.

MR WALL: Sites in the ACT are seven per cent more expensive?

Ms Gray: Yes.

MR PARTON: And that is a factor, is it not?

Ms Pribyl: Yes, of course.

MR PARTON: That is a genuine factor?

Ms Pribyl: Yes.

Ms Gray: That is a genuine factor.

MR WALL: Is that just the property costs or is that other—

Ms Gray: That would be our straight lease costs. It would not include your land tax or council rates or power—all those operating costs. That is just straight underlying lease costs that we see.

MR WALL: Land tax rates are then additional to that seven per cent?

Ms Gray: To that differential, yes.

MR WALL: Have you done an assessment on how that weighs up?

Ms Gray: I have not, sorry.

MR WALL: What proportion of your sites in the ACT are company owned versus leased via a commercial arrangement?

Ms Gray: We do not own the freehold on any of our sites. However, a number of them are owned by Viva Energy Retail Investment Trust. We have a separate retail investment trust and a number of them are owned by that trust, but very much on an arm's-length commercial basis.

THE CHAIR: NRMA has put up a pretty hard sell for us to have a fuel price check scheme. WA, which we have visited and had a chat to a range of people there, has also put on the hard sell that their system is the best. It would be really helpful for us to hear how those systems and mandatory reporting, and in the WA case the locking in of prices, work from a retailer perspective and if there have been any costs to doing business of unintended consequences from those schemes being introduced.

Ms Gray: Thinking about the WA scheme, I think the biggest challenge for a retailer with that system is that you are guessing what a competitive price will be in the market the next day and if you are not competitive you then have no opportunity to adjust for a 24-hour period. We obviously deal with a number of independent retailers who operate under the Shell brand. We have a dealer-owned network as well. That can effectively put you out of the market for a day. I think that is quite challenging for them.

If they get the price wrong, typically what you would see is that then they would very quickly figure out, “Nobody is turning up to my site,” and they would adjust that price so that it was in line with the competitors in their market, and it precludes you having the opportunity to do that.

THE CHAIR: Would you be more in favour of a scheme like they have in Austria where the maximum price is locked in? You say, “My highest price today will be $1.40,” but you can lower it as many times as you want throughout the day?

Ms Gray: To be honest, I do not think we have had any exposure to that scheme in Australia. I do not have an opinion. But it would certainly address the concern that we have certainly heard from our independent retailers, yes.

THE CHAIR: What about New South Wales? What is that like in terms of how every time the price changes you have to report it again? How does that work from a retailer perspective? Is it costly or time consuming to have to put in that effort? There has been an argument that that scheme is better because you can change the fuel price as much as you want. But we have also heard evidence that retailers are not actually doing that. I am wondering if they are not doing that because it is just annoying or there is no point.

Ms Gray: I think New South Wales is probably one of the most volatile retail markets in Australia. Historically it always has been in terms of the frequency of the price change. And I think it is worth remembering that many of the service stations will only have one or two people on site at any given time and they can be serving 80 to 100 people an hour. I think it is an extra burden on them to need to make that call in real time and at the cost of serving their customers as efficiently as they can. That may well be why people are not able to do it.

There is also absolutely no doubt that it is a very high-turnover industry. The number of staff who will tend these sites and the additional training requirement on those staff who are serving customers and making sure those facilities are safe at all times as well is clearly an impost on the retailer. They may be some of the reasons why they are not always seeing those changes—and in real time, if you like.

THE CHAIR: For you as a business, if we were only looking at two options—one of them was the New South Wales scheme, and one of them was the WA scheme—which one would be better for you?

Ms Gray: I guess because we have got experience working in both those environments—they are both known quantities to us—it really is a decision with the ACT government about which one they deem is going to add the best value to your consumers.

MR PARTON: This question is on a slightly different tangent, but I think it is genuinely related. I keep referring to the Chief Minister like I am one of his big fans, but the Chief Minister yesterday spoke of the fact that we are trying to deal with a market which we do not think is serving the community well. However, he made the point that we may be trying to deal with it for only a short period of time. I want to get some sense from you guys as to how your company is making the transition, which is apparently inevitable, to a much larger number of electric vehicles on the road and how that is going to impact on what you do and how you do it.

Ms Pribyl: Interesting question. Certainly, EVs are absolutely coming. They represent quite a small percentage of the market at the minute but obviously more models are becoming available, more recharging infrastructure is becoming available, battery technology is improving. We know that the New South Wales government has put out an expression of interest recently around more recharging infrastructure.

We are actually really quite excited about those opportunities into the future. I think you know that having such a large national footprint provides a fantastic opportunity for us to get involved in those other forms of technologies, whether it is electric vehicle recharging, whether it is hydrogen. We already sell biofuels. I genuinely think that all of those things are going to be part of that future energy mix. We are really excited where that is all going to head.

MR PARTON: This is probably not something on which you really want to make a public statement. However, I am wondering whether you get a sense that the predictions of the explosion in the number of electric vehicles over the next decade are a little exaggerated. Perhaps you do believe that your traditional business model is going to remain your prime business for longer than Bill Shorten thinks it will be.

Ms Pribyl: I think you can read any number of reports, from *ClimateWorks* through to reports from lots of the consultants. They all have slightly different versions of when electric vehicles will take on a critical mass. I cannot think of the number that we had in our prospectus; so I do not want to quote a specific number right now.

However, Viva Energy has really developed quite a diverse business so that we are not just exposed to gasoline, which EVs tend to displace. We have a large commercial business that is predominantly diesel. We have a big aviation business. We have a refining business. I guess for a company like ours, it is that diversification which provides some protection from new technologies coming and also taking a positive view of that. If we see those sorts of things coming, how can we as a business really be involved and be getting involved in servicing that side of the market?

MR PARTON: In respect of that diversification that you speak of, I would like to lead you back to the core of this committee's discussions. The overarching perception that I have is that that diversification that you speak of for your company is one of the things that enables you to be not as competitive on the price boards as many consumers would like you to be. How would you respond to that?

Ms Pribyl: Look, certainly in respect of a terminal gate price, that particular price is predominantly made up of international prices. We are exposed to that both through our refining business and international refining margins. Because we are a net importer of fuels, we are obviously exposed to international prices on that aspect as well. If you accept that between 85 per cent and 90 per cent of end retail prices are those international prices and taxes, which are not in our control, then I do not think that we are taking advantage of that diversification and integration within the market.

MR PARTON: Yet if there were, for argument's sake, two more robust independent retailers in different locations in Canberra—not just out in the airport-Fyshwick precinct, but one down south and one out to the west—it would, I am assuming, instantly change the way you price petrol in this market. Would you agree or not?

Ms Pribyl: I do not have a crystal ball about what might happen, but independents coming into markets have been shown to drive more competitive behaviour. But I guess we have independents in Canberra and that maybe has not necessarily continued.

MR PARTON: Caltex, when they appeared before us, suggested that they embrace competition; they welcome independents; they love to see them there, which seemed like a load of rubbish to me. Would you go as far as to echo those thoughts from Caltex?

Ms Pribyl: I guess we just accept that independents are part of the market. We have seen much more—

MR PARTON: But you would rather there were not?

Ms Pribyl: Pardon?

MR PARTON: But you would rather they were not?

Ms Pribyl: I never—I would not say that, no.

Ms Gray: The only thing I would add to that is that, with the exception of a notable couple, they are all supplied by us. We supply a not insignificant amount of fuel into those independent service stations. So they do actually form also an important part of our wholesale business.

MR PARTON: I guess it then begs the question, not so much in markets like this one, but in Sydney, in Perth and in some others that if it is the same fuel, how are they able to consistently sell it cheaper than you do when they bought it from you, anyway.

Ms Gray: It is not necessarily the same fuel. There are often additives. Certainly at our branded service stations there are additives added to the fuel. So there is an additional benefit often in that space.

THE CHAIR: Are you able to expand on that? Are you saying that the fuel is of a higher quality at—

Ms Gray: The same—so we would add, as we do under licence from Shell—they provide us with additives that are injected into the fuel when it is put into the trucks that provide additional benefits to the motorists. For diesel, it could be anti-foaming; it could be faster filling; for our main grade fuels, it is around an additional fuel economy formulation.

Ms Pribyl: So things like detergents and things that remove grime from the engine and those sorts of things. V-Power, which is our premium 98 offering, has much more, and different, additives than perhaps 91-grade fuel.

THE CHAIR: Are all of those additives a justification for the difference in price, though? I think Mr Parton is making a good point. To the average consumer, if different sites are all buying from the same place and one is a little more sparkly, really the prices—they all have the same transport costs, all have similar land tax, rates, whatever costs in the market. Therefore, should not the prices be a little more similar to each other or similar to those players who are cheaper in the market?

Ms Pribyl: I think part of it would also come down to different operating models that they might choose, different staffing levels. There may be a number of factors that may lead them to be able to sell at a cheaper price. Perhaps they are just after more volume at a cheaper price, which gives them similar retail profitability.

MR WALL: Could you talk us through the process that the business goes through in deciding whether to acquire an existing site or to look at land for a new site?

Ms Pribyl: Yes, the majority of the network obviously is our alliance with Coles Express. We do work closely with them to evaluate where there might be white spots, I think is the right term—where you might have a bit of a gap in the market.

MR WALL: Is that a gap in the market for fuel retailing generally or a gap in the market as far as your brand is concerned?

Ms Pribyl: As far as our brand would be concerned because often, particularly for our fleet card offering, you want to have a good coverage of our network to enable people who have our fleet card to fill up. If they are attracted to things like the shopper docket or if they are members of flybuys, they want to be able to find a site with our branding and those sorts of offerings onsite.

Generally, that sort of network development is done in conjunction with the Coles Express sites. But we also, as Jen explained, have relationships with owner-dealer sites. They own and operate the site. We have the supply arrangement with them and they can use the Shell brand. We may also seek to offer a contract to a site like that to fill a gap.

MR WALL: As far as acquiring land to develop the new site, would it be done by the same process?

Ms Gray: We typically do it through a developer. Somebody who was developing a service station facility would come to us and say, "Here is an opportunity. It could be branded Shell." That is typically how we do it. We do not tend to go and source land and develop sites ourselves—

MR WALL: So industry approaches you—

Ms Gray: Correct.

MR WALL: to gauge interest. What is the negotiation or how does that proposal normally come? I am guessing that if a developer comes to Viva looking for a Shell-branded site, they are going to your competitors as well. Does it essentially end up as an option or what?

Ms Gray: I think there are as many different models as there are developers. I think, depending on where the sites are located, it can be very different as well. Large motorway sites tend to go through a different sort of tender and submission process versus perhaps a private developer. They can offer to multiple people. It would depend on the type of facility and how attractive that was to us. But, no, it does not tend to go through—sorry, if it goes through an auction process, I do not think we see that—

MR WALL: Not in a formal "stand in a room and raise your hand" sense but essentially a bidding process between buying parties is—

Ms Gray: There are a number of developers who do a large number of developments and are talking to all the potential tenants for those developments. You tend to hear where there are properties on the market and then you can make those inquiries about them.

MR WALL: And how do you find the ACT as a marketplace currently? Is the view to expand? Are there barriers or hurdles to growing your offering in the ACT?

Ms Gray: The feedback from our network development department is that it is significantly harder to develop here. The land is much more tightly held than it would be in other locations—Sydney metro might be a good example—and then obviously where those opportunities arise they are much more sought after. I think we are seeing that in the rent cost to a degree as well. The scarcity of sites in the market means that the rental is higher.

MR WALL: Higher yield?

Ms Gray: Yes.

Ms Pribyl: I think the last site we opened in the ACT was in 2007. Yes, it has been quite a while since we developed a new site in the ACT.

Ms Gray: That being said, the coverage in the market is that we have 15 sites. You would need more.

THE CHAIR: It is not small.

Ms Gray: You would need to have the right opportunity to expand on that for practical purposes.

MR WALL: I am keen to get your perspective. We have heard from other operators that they are finding the ACT quite a restrictive market to enter into as far as acquiring sites and—

Ms Pribyl: I do not know whether we have had very recent experience of looking at particular opportunities. You might know that, Jen. But we can ask that specific question if there is some more detail you would like from us.

THE CHAIR: Yes, that would be great.

MR WALL: That would be great.

THE CHAIR: Are there any other factors that we have not covered today? I think Canberrans really want to know why fuel prices in the ACT are high. Like it or not, the Coles-branded service stations are mentioned all the time, whether in barbecue commentary or in the media or by the ACCC chairman. Are there any other factors that really explain why the prices of the Coles-branded service stations are higher, which we have not covered today?

Ms Pribyl: No. I think we have covered some of the points that we made in the submission around perhaps some lease costs and transport costs. But I accept that transport costs to Queanbeyan are going to be reasonably similar, assuming they are using the same truck and the same underground storage and those sorts of things. But I guess a lot of this for us is looking back at Coles operating the sites and setting the price. I guess what we are thinking about is looking forward and hoping to grow that retail business, to grow our volume and provide that more consistent and competitive offer into all those sites across the country.

THE CHAIR: Do you think that the ACT market is a good first place to start, given the commentary, given the focus on it at the moment?

Ms Pribyl: It is as good a place as any.

MR WALL: My understanding is that Shell, in its various incarnations, were the last brand to freight fuel into Canberra via rail. Why is that not an option anymore? I would have thought that utilising the facilities that were in Fyshwick—bulk storage and only being a short distance for truck haulage—would have had its advantages.

Ms Gray: I do not think the rail cart loading facilities exist any longer at our terminal in New South Wales, in Sydney, and certainly our depot here has been decommissioned.

Ms Pribyl: Yes.

Ms Gray: I can also tell you that we still have a couple of locations where we service inland terminals via rail. We still rail fuel from Esperance to Kalgoorlie, for instance. But we have just stopped moving fuel by rail from Townsville to Mount Isa, which was the other place we did it. The rolling stock was getting very old. And in general we were more frequently going directly to the end customer with a full load of fuel. It is an extra leg cheaper to do it via truck than it was to move it via rail and then run secondary inland distribution and deliver out to site. I cannot say exactly that that is the case for Canberra but I can say that that is what we have seen in some of our other operations where we are moving away from rail. And the demand on the rail for other activities as well is part of that.

MR WALL: I am just wondering if you are able to maybe do a similar exercise and do a comparison of what the additional land costs in the ACT are compared to what other similar sites in New South Wales would be. You mentioned there is about a seven per cent differential.

Ms Gray: Fully costed with land tax?

MR WALL: Yes, fully costed with land tax and rates, that would be good.

Ms Pribyl: Yes, we can provide that information.

Ms Gray: You want lease costs, land tax—what was the other?

Ms Pribyl: Council rates would be the other typical one.

MR WALL: Yes, council rates. Rates and land tax have been amalgamated in the ACT but not in New South Wales.

Ms Gray: Anything else that you want?

THE CHAIR: Are you asking for the whole range for the whole of the ACT on average?

Ms Gray: On average or just average across the 15 sites?

MR WALL: On average is probably suitable for this exercise.

THE CHAIR: I would be really interested to know if there are regions in Canberra that require higher lease payments. You said that they are generally higher but the ICRC report says that north Canberra is higher.

Ms Gray: I think the challenge there is that you then end up that your lease costs will be a function of plot size. They could be a function of the facility on the plot.

MR WALL: It is difficult to prepare?

Ms Gray: Which is why we look for comparable sites in New South Wales. I can guarantee that, with regard to the Metro we saw this morning in Fyshwick, my lease costs are significantly higher sitting on a main road with a large facility than an old, revitalised depot front.

Ms Pribyl: But if you had comparable sites in mind though, perhaps we could provide that comparison.

Ms Gray: Yes.

Ms Pribyl: Or we could go back to our data and see if—

MR WALL: Fyshwick would be a great example if you could, because you have got two sites in Fyshwick. You have got Newcastle Street and—

Ms Gray: Yes.

Ms Pribyl: Yes.

MR WALL: I am trying to think of the name of the other street that you are on.

Ms Pribyl: We saw them both this morning.

Ms Gray: Yes.

MR WALL: They are similar-sized sites. Both are on relatively main roads. The Newcastle stretch has probably got a slightly higher traffic volume. Even if you could just do a comparison on those two? It is only one of the few instances where you have got two in the same suburb.

THE CHAIR: I think you have two in Belconnen.

MR WALL: Belconnen also.

Ms Gray: Yes, we have got Belconnen and Belconnen town centre.

THE CHAIR: You have got one off Lathlain Street and one on Cohen Street, I think.

Ms Gray: I have not got their addresses here but we have certainly got two in Belconnen.

THE CHAIR: For those two locations, that would be helpful, if that is possible.

Ms Pribyl: Yes.

Ms Gray: Across those three segments—the lease, land tax and council rates—or just purely the—

MR WALL: I guess the comparison of the lease and council rates is more across jurisdictions to see whether you generally have a higher operating cost in the ACT versus across the border. But even within the marketplace, what varies on those two sites?

Ms Pribyl: Yes.

Ms Gray: Yes.

THE CHAIR: You are done as well. Thank you very much for appearing today. I think you have answered some of the burning questions that we had. When available, a proof transcript will be forwarded to you to provide an opportunity to check it and suggest any corrections, whether they are minor or substantive. I think that you took just now but also previously a few questions on notice. And generally answers are required to us within five days of the proof transcript coming to you. That is in a little while as well. It is longer than five days from today.

Ms Gray: Yes.

THE CHAIR: Thank you very much for appearing today.

Hearing suspended from 12.01 to 2.04 pm.

FORD, MR CLAYTON, General Manager, Corporate Affairs, 7-Eleven
McCARTHY, MR PAUL, General Manager, Fuel and OHS, 7-Eleven

THE CHAIR: Thank you very much for agreeing to speak with us today. You should have been sent a privilege statement. It will be helpful for us to know that you have read it and understood the implications contained within it.

Mr Ford: We both received that statement and understand it.

THE CHAIR: Excellent. Before we go to questions, do you have an opening statement?

Mr Ford: I would like to make a brief statement.

THE CHAIR: Please go ahead.

Mr Ford: Thank you for the opportunity to appear before the committee today. We apologise for being unable to join you in person but appreciate the opportunity to contribute to your deliberations. 7-Eleven welcomes the committee's inquiry around the work of the Independent Competition and Regulatory Commission and is pleased to be able to contribute to both processes. We note the release of the ICRC's draft report yesterday. While we are yet to fully digest the report, we note that many of its key findings are in line with the positions in our submissions to this inquiry.

7-Eleven operates almost 700 stores across Queensland, New South Wales, the ACT, Victoria and Western Australia. Of these, 537 are fuel stores, making us the largest independent fuel retailer, with nearly 11 per cent market share nationally. 7-Eleven is a relative newcomer to the ACT market, with our first branded store opening in September 2011 following our takeover of the Mobil retail network. That takeover included eight stores. We have since established one new store on a greenfield site in late 2014 at Casey, giving us nine stores in total, about 15 per cent of the ACT total.

It is important to point out that retailers operate under different models. We operate a predominantly franchise model, with every store in the ACT owned and operated by a franchisee. Our franchise model is different to most, in that we share the gross profit with a franchisee, rather than turnover, ensuring our focus is firmly on the profitability of our franchisees. Our model is also different in that 7-Eleven covers many of the largest expenses borne by franchisees in other systems, including fit-out costs, building rents and outgoings, transport costs, equipment purchase and maintenance, utilities, advertising and in-store promotion. The only large costs that remain for a franchisee are the costs of labour and the costs of stock purchased for their store.

The franchisee does not pay for the fuel or set fuel prices. 7-Eleven purchases the fuel and we set prices, as we have visibility of the entire market and can respond quickly to price changes to remain competitive in the market and deliver value to our customers. The franchisee receives a commission per litre sold at their store, regardless of the pump price of the fuel. In essence, our franchisees benefit with greater volume of fuel sales rather than retail margins.

I placed the importance there on outlining briefly how our business operates. I would also like to draw the committee's attention to an announcement earlier this week that, for the second year running, 7-Eleven has won the Canstar petrol and service stations "Most Satisfied Customers" award for the second year in a row.

MR PARTON: Well done.

Mr Ford: Thank you. For the second year in a row we are the only brand to be rated five stars for overall customer satisfaction by almost 3,000 motorists surveyed. We received top marks for appearance and cleanliness, service, convenience and range of items.

The survey highlighted some other observations about consumer behaviour. These are national results. The drivers of satisfaction are first and foremost appearance and cleanliness, followed by the price of petrol, then followed by service, with convenience coming fourth. Interestingly, 34 per cent of our customers in the survey said they would fill up at the same service station, regardless of price, compared to 30 per cent for the overall market. It was encouraging to learn that 30 per cent of our customers have a phone app that allows them to track fuel prices in their area compared to 19 per cent of the overall market.

The 7-Eleven fuel app is unique in that you can check fuel prices at all 7-Eleven stores, then compare prices at your five nearest stores, select the cheapest price and lock it in. You can then redeem that price at any 7-Eleven store in the country for a period of seven days. If a consumer used this app in conjunction with something like MotorMouth, they would have complete price visibility across Canberra and the ability to lock in a lower 7-Eleven price for the week ahead. Since the launch of the fuel app in March 2016, the average saving per use is $4.37, or 11.6 cents a litre. Customers nationally have saved over $11.4 million dollars in that time.

The overall uptake of our fuel app has been extremely encouraging, with over 1.7 million downloads nationally, although take-up in the ACT appears to be significantly lower than in other markets. We encourage ACT motorists to take advantage of the app to help find and lock in the lower price, and of course access the freebies and merchandise promotions regularly on offer.

Thank you for the opportunity. We would be happy to take your questions.

THE CHAIR: Thank you very much. That was a very helpful opening statement to learn how your business model works. The ICRC report has obviously attracted a lot of attention in the past 24 hours or so since it was released. We heard from Viva Energy this morning. I want to ask about a specific example I have in front of me right now. The 7-Eleven store in Giralang appears to be selling unleaded 91 fuel at the moment for about 147.9. Yet at Karabar, which is about 20 kilometres away, fuel is 5c cheaper at 142.9. I completely appreciate—we have heard this from other retailers—that there are significant transport costs involved in getting fuel to Canberra and that is why prices might be higher than in Sydney. But when there is such a small difference in distance between Giralang and Karabar, how can this price differential be explained?

Mr McCarthy: I think the short answer is that we price stores at an individual local store level. You have to consider the situation at each of those locations.

THE CHAIR: What would be particular about the ACT market today? Right across Canberra, most stores—not just 7-Eleven—are pricing at around 147.9; so what would be the considerations? Why is the ACT market different?

Mr McCarthy: Yes, I think if you look at the ACT, there are five issues predominantly around the cost of doing business. One is the transport cost, which you alluded to. No doubt, that would be the same for the store at Karabar. The other factor would be the fuel additives that we have, particularly through the winter months, with respect to dealing with the cold climate and temperature.

The other three are perhaps unique to the ACT. One is the rental costs that we incur for the sites within the Canberra network. Add to that land and construction costs, which get reflected in our leasing costs, and other maintenance and labour that we incur in servicing in Canberra business.

THE CHAIR: I guess that on that reasoning, Giralang should always be more expensive than Karabar, if genuinely the cost of doing business on a day-to-day basis here is correct. But sometimes Giralang is much cheaper than Karabar. Often it is one of the cheapest stations in the ACT, and sometimes comparable to the Costco price. Aside from the cost of doing business, what other reasons are influencing the price of fuel there?

Mr McCarthy: Yes, as you say, aside from the cost of doing business, I suppose the approach we take—you can talk to any of our stores across the country—is a philosophical point of view of trying to find and deliver a competitive price to consumers, one that reflects, as my colleague Mr Ford mentioned in his opening in respect of the Canstar award, a really sharp and attractive value proposition to the local consumers in those particular areas.

THE CHAIR: Does the offering that you provide in store help offset when you do want to be a leader or perhaps even a loss leader in the ACT market?

Mr McCarthy: I think there are a couple of things of note on that front. As I said, we operate fuel and merchandise parts of our business. They are quite distinct, independent P and Ls, if you will. As I said, there is a very common value proposition that we want to deliver to consumers. I think that is again just reflected in the Canstar award, as my colleague outlined. As to whether there is any cross-subsidisation or other combinations, the short answer is no. We have not looked at that with any sophistication necessarily.

MR PARTON: While that first series of questions was being asked, I was having a look at your 7-Eleven phone app. I think I misinterpreted when you first spoke. What you are saying is that the app will find the best 7-Eleven price in a certain area and you can lock that in for whichever 7-Eleven outlet you go to; is that correct?

Mr Ford: Yes, so what the app enables you to do is that it has our real-time pricing for all of our stores across the country, continually updated. So you can look at any store through that app. Then, using the functionality, using your geolocation, it will search for the lowest 7-Eleven price from the nearest five 7-Eleven service stations that are near you. You can choose to lock that in. You can lock in any grade of petrol that you choose and you can lock it in for up to a certain number of litres that you choose to lock in. Then you can redeem that at any 7-Eleven in the country over the next seven days.

MR PARTON: I note, based on my initial working of the app, that I am gathering you do not carry 95 at most outlets; is that correct?

Mr Ford: I do not have that detail, sorry.

MR PARTON: Alright. I searched specifically for a best price on 95. Because obviously there is a bunch of Canberra outlets that are not carrying it, my nearest five 7-Elevens included Goulburn. So it went extremely far and wide to search for that price. You mentioned briefly some of the uptake of that and some of the uptake of people actually locking in the price. It must have been a bit scary to put it up first, because what if they all did it.

Mr Ford: It is a world-leading technology. It is a world-leading app. We are obviously extremely proud of what it has achieved since launch. I think 1.7 million downloads is an extraordinary success. It goes to, as my colleague Mr McCarthy was saying earlier, our being all about really trying to find a great value proposition for our customers. We believe that this fuel app is another way in which we can deliver that, both through the chance to lock in the cheaper fuel and through the range of offers on our merchandise, in respect of which there are regularly free items and promotional discounts available through the app. We have seen consumers save $11.4 million through the use of this app over three years, which we think is a fantastic outcome for our customers.

MR PARTON: Mr Ford, I commend you for this. I had not come across this. I was not aware of it and I think it is great. But my question to you is this: if you are saying to consumers, "We are prepared to offer this cheaper price to you if you get on the app and lock it in from whatever outlet is around you," why do you not just offer that price across your brands in that local area? Why is it not just the price on the board?

Mr Ford: I think different businesses have got different models. Other retail businesses have got other means of attracting customers by way of periodic promotions, discounts and different depths and frequencies. This is a particular model which we have chosen. It is working for us. It is resonating with our consumers. If you look back, part of the genesis of the app was: how could we compete with the major supermarkets and their shopper dockets? We do not have the ability to access that. I guess a similar question could be put to the supermarkets: if you are offering a price through your dockets why do you not offer it on the board? That is part of the genesis behind the app.

MR WALL: You touched in your submission and briefly mentioned then additives that are put into your fuels as a cost component. What, on a cent per litre basis, do those additives contribute to the retail price?

Mr McCarthy: Unfortunately that is confidential. I am happy to provide that to the appropriate channels given—

MR WALL: We have heard this information from a number of retailers. It seems that every brand is doing it. Are you able to, even just in vague terms, give us an indication? I am not asking for the specific number. But is it 1c, 2c, half a cent, 10c?

Mr McCarthy: I would suggest it is more towards the latter and equates to tens of thousands of dollars in costs across the year.

MR WALL: The latter is: close to 10c a litre?

Mr McCarthy: More towards that range.

MR WALL: And that is added to all fuels?

Mr McCarthy: I do not have the technical details, sorry, but whatever it is to not have the fuel freeze through winter.

MR WALL: My understanding, through a quick Google search, is that fuel does not freeze until about minus 60. It does not get to that in Canberra. And if it is not to fuel, I understand diesel—

Mr McCarthy: Diesel maybe.

MR WALL: And is it a case that Alpine diesel is being supplied in Canberra as a standard course of business?

Mr McCarthy: We get supplied that advertised product at a particular terminal in the Sydney region.

MR WALL: And that is what is being distributed in the ACT?

Mr McCarthy: Correct.

MR WALL: You mention that you operate on a commission model for your franchisees on a cents per litre basis, regardless of what the daily price is. Likewise, are you able to give the committee an indication of roughly what the extent of that commission would be? My understanding is that it probably varies from franchise to franchise.

Mr McCarthy: It is consistent across the business as part of our franchise agreement. And it is 1½c per litre.

MR WALL: The ICRC report that has been released, which we are all trying to digest given its late release yesterday, touches on different brands having a different proportion of retail sales versus fuel sales making up their retail margins. Given that 7-Eleven generally has a more competitive fuel price on a daily basis in the ACT compared to some of the other brands, what portion of your margin is derived from the fuel sales versus the convenience line offerings which generally your sites have quite an extensive offer?

Mr Ford: The mix is something which is confidential to us. And just to build on a point my colleague mentioned before, the fuel margin that we pay to our franchisees is 1½ c with the rest of the fuel profit, if you will, being attributable to us as the franchisor, with the gross profit of the merchandise offer being split with that franchisee. The mix of outcomes and positions is very different with us compared to others in this regard for Canberra.

MR WALL: And is the retail split on the convenience lines a 50/50 split? How is that normally structured?

Mr Ford: For the first half a million of gross profit it is split 50/50. Between half a million and a million the franchisee earns 47 per cent and 7-Eleven 53. And then from amounts above a million dollars it is split 44 franchisee, 56 7-Eleven. It is a tiered arrangement.

MR WALL: The reason for the line of questioning is that we have heard from a number of groups that the margins on the convenience lines and the profitability of the site selling those convenience lines have an impact on how they price their fuel on a daily basis. You are currently one of the market leaders, I would imagine, in the convenience line offerings on your forecourts. I was curious to see how that side of the business was being structured and how that part of the franchise model operated. Thank you gentlemen.

Mr Ford: No worries.

THE CHAIR: We have spent quite a bit of time hearing about the New South Wales and the WA schemes. We have been to WA to learn more about how their scheme operates. It would be really helpful for us if you could talk us through your views on those schemes and whether they have had any unintended consequences, if it is a burden to participate in those schemes or if they have influenced or affected your behaviour in setting prices?

Mr Ford: I think the short answer is that we are happy to participate in what the arrangements are in any of the states, and that is even for the guys who are operating them. But what I said before was that irrespective of the scheme we will always be looking to deliver what we think is our competitors' price and offer a value proposition to the customers.

I will make an observation on Western Australia, which just by its construct does limit flexibility to respond if we do not get it right on a particular day. But that is not the situation in New South Wales and how it operates. If we had the price wrong under a WA-type model then effectively we were out of the market for a day. That obviously has impacts not just for us but for our franchisees in terms of volume through their store.

MR PARTON: We heard this this morning from Viva. Is it too much to say that you are out of the market for a day if indeed, in that scenario, you do have someone close by who has put up a lower price? We all know that there is a large section of the market that does not purchase on price. You are not out of the market for a day, are you? You are just perhaps going to lose a section of buyers on that day.

Mr Ford: I think you are correct in your observations. But the mix of those consumers really depends on the individual markets for individual stores. So it just depends on the local conditions.

THE CHAIR: With New South Wales, one of the apparent benefits of that scheme is that you can change your prices any time you want throughout the day but you still have to report it. We heard evidence earlier today that even though that is available to stores in New South Wales, sometimes it is not actually happening very often—due to smaller numbers of staff or simply that it is a bit of a frustration to have to constantly report it if you are changing it—and so the responsiveness of the market is not there as much as it is being talked up to us. Has that been your experience, particularly given your franchisee model?

Mr Ford: As I outlined, we set the prices centrally. They are linked and so automatically reported through our app in live time. That is how we can work with any of those arrangements that are in place in different states. Obviously different retailers operate under different models. There may be that type of burden for smaller operators where they are changing their prices and then needing to report it through different mechanisms.

Mr McCarthy: In our case, at head office level, as my colleague said, we control the prices here through our central system, which feeds the price forward at an individual price. That same system is then linked up to the government—that is, for New South Wales, being fuel checked for fair trading on an automatic basis.

THE CHAIR: So it is not really a burden to change the prices?

Mr McCarthy: Not for us, no.

THE CHAIR: It has been suggested to us that if we pursued a WA-type model we could go a step further and require that the same brand lock in the same price so that, for example, if you set your price for the day it would not be a different price in north Canberra to south Canberra, so that anywhere you went to a 7-Eleven store you would be getting the same deal. But that seems to be a bit of an extension of your app in some ways. Do you have any comments on that?

Mr Ford: Even though the ACT market is smaller than some of the capitals, there are still sub-markets that operate within it. The committee has heard quite a bit about the Fyshwick and airport region. I think what you are proposing there would potentially be challenging and restrict the operation more of those sub-markets in being able to respond and deliver value in the different regions.

Mr McCarthy: We do look at local area pricing. For each of those individual local stores in any part of the country, including the Canberra region, those sites have different volume levels, have different cost structures, particularly around the leases, and are quite varied from site to site. So that would have an interesting impact, I think, on individual store profitability.

THE CHAIR: Are you able to expand on what you see as the sub-regions within the ACT? You mentioned the Fyshwick/Majura area. Are there others?

Mr Ford: In the Braddon area you have four competing stations within fairly close proximity. I understand there is quite a region around north Canberra. Then there is the Fyshwick/airport area that we talked about.

Mr McCarthy: And in the south we have two sites, one in Mawson and one in Erindale.

THE CHAIR: Are there some sub-regions in the ACT where the costs of doing business are greater for you, such as leasing costs, and therefore the price is always going to be a bit more expensive there?

Mr Ford: It is hard for us to comment. Of our nine sites, five are in the north and north-west. The rest are in Braddon, Fyshwick, Mawson and Erindale. It is hard to comment, with single-site operations in those regions, as to whether they are representative, unfortunately.

MR PARTON: You touched on individual store profitability. I want to get us back to the basics of why we are even speaking in the first place. This committee was put together because there is a widespread perception that the market is not actually serving the community here. There is a perception of—and indeed the Chief Minister, when he spoke to us yesterday, on a number of occasions used the word—gouging. He suggested that fuel outlets were gouging consumers. Now the ICRC has found that Canberra service stations are making nearly double the profit of those in nearby regional towns. Could you respond to the suggestion from the Chief Minister that service stations are gouging Canberra consumers? Would you suggest that that is correct?

Mr Ford: On the ICRC draft report and the finding, as we have noted, obviously we are all still digesting that. But we only operate one store in the surrounding areas that were examined by the commission, so it is difficult for us to draw any real, meaningful comparisons regionally to the ACT, from our perspective.

The commission does note the higher volume in Canberra than in the regional areas as a key reason for some of the differential, which would also be our limited experience. But, as per our submission, there are factors unique to the ACT that are probably also impacting some of that competition. You have the historical restriction of the location of service stations to small local shopping centres. There are fewer independents as a proportion of the retail market compared to the rest of Australia.

There are the transport costs that come with the ACT not having a port, a refinery or a storage, as well as the costs of doing business, which we have gone over—the land and construction costs, leasing costs, transport costs and maintenance costs that we referred to. So I think there are a number of factors that are contributing to the challenge that you outlined.

Mr McCarthy: I compare the profitability of our stores in Canberra versus the one you mentioned before in Karabar and another we have in a regional location, at Goulburn. Those regional locations are falling in a consistent manner with, if not slightly below, our Canberra stores. More broadly I would say the profitability we have experienced in Canberra is not inconsistent with the Sydney market or any other market around the country.

THE CHAIR: Are Canberrans less price sensitive? Sometimes there is commentary that, on average, we have some higher wages here. There has been evidence given to the committee that Canberrans really value convenience rather than shopping around. Compared to the behaviour you see in other markets, is that a potential reason?

Mr Ford: It is probably difficult for us to give any great insights into that. In line with that, similar suggestions with the concept of fleet cars have also been raised. That is only a very small part of our business, so we do not have a lot of insights there. Interestingly, as I mentioned in my opening statement, the research that came through in relation to the Canstar award was that price was only the second driver of overall satisfaction nationally, with appearance and cleanliness being the first drivers.

Mr McCarthy: I think the other factor too, hearing some of the other submissions, is the notion of volume per capita. I think the other factor to bear in mind is that, on the data we have seen, obviously the average commute and distance travelled, which we think is actually the more relevant metric, are well below other cities, because you do not have traffic and do not have the distance. That also features in the relative cost of fuel within household budgets and wallets.

MR WALL: Can you expand on that? Are you suggesting that because, on average, compared to other major cities, Canberrans commute less distance or spend less time commuting they are using less fuel? Therefore, they are less price sensitive? Is that the suggestion?

Mr Ford: If you look at the volumes in our store they typically would be below what we have experienced in the New South Wales market. If you go back three or four years, it was certainly a lot less. As to drawing the conclusion between that and the individual driving habits and sensitivities, that is not data we have got, so it is hard to actually be definitive about that.

MR WALL: But your sales volumes here are slightly lower than you would see in a correlating store in, say, Sydney?

Mr Ford: By and large, on average, yes.

THE CHAIR: We received some data from OPIS last week or the week before that was really helpful. I think that it has been reflected in the ICRC report. It is that fuel prices have really been peaking in the ACT in the last financial year. We were able to see where the terminal gate price was increasing and what the Canberra retail price was compared with Sydney over a period of time. In late 2018 we saw that the terminal gate price was increasing up to about October. It then sharply fell. As a result, the retail price fell sharply in Sydney but the retail price did not fall sharply in Canberra. I think it is fair to say that it was a slow fall that took over two months.

Even then, it was not as significant a fall. Are you able to give us an insight into why the Sydney market would have fallen in line with the terminal gate price but the Canberra market did not?

Mr Ford: I think the short answer is that we cannot explain that. I must admit, having only stepped into this role at the start of January, it occurred before my time. But I would say that when we look at pricing it is always in reference to trying to land that competitive price in those local markets. Call us a price-taker, if you will. We do not have an explanation, I am sorry. But I think that a factor would be the intense competition around Sydney compared to, as we have touched on, the factors here—fewer independents, the location of service stations, the reduced visibility of price boards. Some of those contribute to perhaps slightly less competition in the ACT market.

MR PARTON: I am going to refer again to the Chief Minister's appearance at this inquiry yesterday. He suggested that there was serious consideration given to the government intervening in the price of petrol here, following on from that ICRC report. I guess that what he was suggesting is some sort of cap on price, which we are assuming—we do not know; we did not get this information from him—would be some sort of cap relative to the terminal gate price. How does that grab you as a concept, gentlemen?

Mr Ford: I will make two comments. Our preference is for open markets. I do not think we would consider any market around the country, Canberra included, to be uncompetitive. In fact, we find them to be very competitive. I think we respond to that competition appropriately and our customers are voting with their feet and satisfied.

MR PARTON: It seems on the face of it to be quite a radical response, does it not?

Mr Ford: I would think, without having done the due work on it, that it would seem potentially challenging or problematic to implement. It is difficult to foresee the unintended consequences that might come from that and the impact that it could have on profitability on a site-by-site basis and the flow-on impacts to the franchisees. I think what we would be saying is that the more we can encourage an open and competitive market via different mechanisms, this would be preferable to trying to come in and cap or intervene in pricing.

MR PARTON: Yes, I would agree totally. I guess I would say, as an aside, that this committee and, in essence, the government here, through the appearance of the Chief Minister yesterday, is certainly sending a strong signal to the market that there is the potential for radical intervention. I think we would much prefer that the market just magically became more competitive.

Mr Ford: Yes, we would not disagree with that. As for policy, that is a matter for the government However, the ICRC have noted that the market is constantly changing and there are likely changes coming in the market—they are even upon us now—and that over the short term that may further drive that competition.

THE CHAIR: In your view, what are those changes?

Mr Ford: They go to different ownerships and different players in the market, as referenced in the ICRC report, and I think even people who have given evidence to this inquiry previously. So we would be anticipating further competition within the market.

THE CHAIR: I think there is probably a view among Canberrans that the change in ownership with Coles and Viva and EG and Woolworths—particularly with Viva—was some two months ago and changes have not been seen yet. That is probably more a comment than a question, but if Viva wanted to send a signal that it was going to be more competitive, I think we would have expected it to happen by now.

MR WALL: I have a couple of questions. In your submission you touch on significant cost discrepancies between operating in the ACT compared to other communities or capitals in Australia. In your submission you touched on land acquisition and construction costs and the leasing costs, and that detail is helpful. Is there a discrepancy? I imagine that most of the leasing arrangements on your sites would cover outgoings such as land tax and rates.

Mr Ford: You are correct.

MR WALL: How do those in the ACT compare to like sites in, say, Sydney?

Mr Ford: In terms of land and construction costs, generally we would be finding them around 2½ per cent more expensive in the ACT. In terms of leasing costs, they are about 12 per cent above regional New South Wales and about 20 per cent above metropolitan Sydney.

MR PARTON: Really?

Mr Ford: We are a growing business, we are pleased to say. Over the last couple of years and looking forward, we have been opening roughly 30 sites nationally per year. But since entering the ACT market in 2011 when we acquired the eight sites, we have opened only the one new site in late 2014. I think that just goes to show that we find it challenging, we find it difficult, to make the numbers stack up when you take into account some of those costs.

MR WALL: Is it the cost of acquiring the land? Is it the cost of building works? Where does the transaction fall down?

Mr Ford: We work through developers and, yes, developers identify potential opportunities and come to us with what those costs would be, so we pay those through the leasing costs. But it is the acquisition, it is the construction, which then drives the higher leasing costs. We have had a look at or been offered a couple of opportunities even within the last 12 months within the ACT market where, as I said earlier, we have just not been able to put the business case together to be able to support that investment.

MR WALL: I am guessing one of your competitors has been able to make those numbers add up for those sites that have been offered. What is the driver then between your business model and theirs that makes it a viable proposition for them and also for you?

Mr Ford: I am not sure whether those sites have gone ahead or whether others have taken those up or not.

MR WALL: On a broader basis, though, what would give the majors such as Coles, Shell or a Woolworths Caltex the ability to go into one of those sites at the expense of, if not 7-Eleven, a smaller retailer? Is it just simply the ability to cross-subsidise through their portfolios or is there more to it than that?

Mr Ford: I think, as I touched on in my opening comments, different retailers operate very different structures. You know, ours being a franchise model, it is a particular structure with particular costs. Being a 24-hour business also entails particular costs for all of our sites when you look at the security requirements and the utilities—the heating and the lights and running all the equipment 24/7. Different businesses would have different cost structures and therefore would be looking for different returns on sites.

Mr McCarthy: I think that it is hard to comment on other models and economics. Going back to our Canstar rating, we do have a particular offer and that has a particular cost structure that goes with it. We cannot really comment on their model.

THE CHAIR: In your submission you really pushed the notion of informed customer choice and suggested that the ACT government should be undertaking an information campaign so that people better understand fuel market pricing information and the apps and websites that are available to people. I think that, in some respects, the Assembly is holding an information campaign by the nature of this inquiry and the media coverage of it. Are you able to expand on what sorts of issues you would envisage an information campaign could cover?

Mr Ford: We touched on one of the factors: unique to the ACT is the reduced visibility even of the service stations that are there. Therefore, the price board has quite a different scenario to some other markets where you may have two or three service stations opposite each other on main thoroughfares, and you may pass three or four price boards on your way to or from your destination. That really just helps to drive that awareness of varied prices and competition.

Our app is one app. There are others out there that offer a broad market view. The beauty of them is that they are available, they are in the palm of your hand or on your desktop and you can look at those and make informed choices before you leave home or the office. As we have seen in other markets, and even just through the usage of our own app, they can really drive some positive outcomes for consumers when they are adopted and can help people to make those informed choices. I think that the more that can be done to encourage motorists to take advantage of the inflation that is there, virtually, perhaps not on the roadside, then that can help drive both better value for the consumers and competition as well.

THE CHAIR: I think one of the things that have certainly been playing on my mind, though, is that you might look at your app once in the morning and see that a site is cheaper and plan to go past there and then when you actually do go past it in the afternoon it might not actually be the cheapest anymore or the price for it has risen, so the consumer is not necessarily getting the greatest benefit from using that unless the price is locked in for the day.

Mr Ford: Yes. That frustration is exactly why we have that functionality available via the 7-Eleven app. When you find that price you can lock it in and that is yours to use for any time over the next seven days.

THE CHAIR: I had a question I was going to ask but it has slipped my mind. I will probably have to send you my question as a question on notice. It will come back to me, I am sure, as soon as I hang up the phone. Thank you very much for appearing today, virtually. It has been very helpful to hear your perspective as a retailer and your views about what is happening in the Canberra market. I think you did take some questions on notice. The responses to those will be required within five days of you receiving a proof transcript—not five days from today but five days from you receiving the transcript. When you receive the transcript you will also have an opportunity to make any corrections of or clarifications to statements that you made. On behalf of the committee, thank you very much for appearing today.

Mr Ford: Thank you. We had not noted any questions that we had taken on notice, but we will review the *Hansard* and if there are we will reply to you. If that question does come back into your mind then we will be happy to address that as well.

THE CHAIR: Much appreciated.

BARRETT, MR PAUL, Chief Executive Officer, Australian Institute of Petroleum
GNIEL, MR PETER, General Manager, Policy, Australian Institute of Petroleum

THE CHAIR: Thank you very much for taking the time to appear today. I want to check that you have read and acknowledge the implications contained within the pink privilege statement.

Mr Barrett: Yes.

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

Mr Barrett: Yes, thank you.

THE CHAIR: Please go ahead.

Mr Barrett: Thanks very much for the opportunity to appear before the committee today. We appreciate that fuel pricing is an issue of intense interest in the community, not just here in Canberra but all over the country. From time to time, depending on what different markets are doing at any particular time, it becomes quite sensitive in those markets. The last real deep dive and extreme interest was in Brisbane. We were doing a similar thing up in Queensland after the ACCC released a report and a contention that Brisbane prices were 1c higher than those in the other east coast capitals.

MR WALL: We would envy that position.

Mr Barrett: It was very different, as we will get to. Today I appear on behalf of the Australian Institute of Petroleum and its member companies. We are the national industry association representing Australia's downstream petroleum industry. Our core members are BP Australia, Caltex Australia, Mobil Oil Australia and Viva Energy Australia. The governance of AIP, the AIP board, is the CEOs of Caltex and Viva, the country chair of BP Australia, the regional refining manager for APAC of ExxonMobil, and me. We work on a consensus-based approach. So any time you see an AIP employee, it has been agreed at the highest levels of those companies.

Over the last decade, AIP member companies have invested more than $10 billion to maintain the reliability and efficiency of the fuel supply system and to meet Australian fuel quality standards. This investment has been in their refineries, their terminals, pipelines and other supporting infrastructure, as well as in retail. While each of them are large players in the Australian market, their presences and therefore their business models differ quite markedly. For example, Caltex and BP are fully integrated refiner-importer wholesalers and retailers. In contrast, Mobil does not have any retail sites and instead supplies fuel to other retailers, predominantly 7-Eleven and branded independents.

A really key point is that, while all of these organisations are trusted Australian brands, just because you see that brand on any particular site does not necessarily mean it is operated by that company. There are a variety of business models where those companies do not set the price on the forecourt. There are company owned company operators, which we call COCOs, there are franchise and commission agent arrangements and there are independents. This provides for, in our view, a great deal of competition within the marketplace.

We have always asserted that the Australian fuels market is highly competitive. No other industry in this country has the visibility of its prices and offerings and has more daily reporting or media. Nor have they had as many government inquiries. I think we are up to 48 in the last 20 years. I have certainly done this a number of times.

Nowhere else will you see similar levels of transparency. About 10 years ago we decided that we were going to lift our level of transparency and started publishing the pricing report, of which you have a copy. Every Monday we collect all the relevant data, collate it and send it to what we hope is the inbox of every federal and state politician, every bureaucrat who has something to do with fuel and any other interested party. CommSec use our data for their commentary on fuel prices. Our pricing data is also used by the ABS, Treasury, the Reserve Bank and the Office of the Chief Economist.

We are very proud of the information we use to inform customers. As I said, we brought copies of the pricing report along with us today. If you wish to subscribe to it, simply send us an email at aip.com.au. We spend a great deal of money on this, about $200,000 a year, and we have never sought to have cost recovery on it. We think it is a very valuable service but it is in our interest to be transparent, we believe.

It is important to put in context the influence of the retail sector in terms of the overall price paid by consumers. The retail price is 85 to 90 per cent determined by the terminal gate price, TGP. Given that we are a net importer of petroleum products, refiners are compelled to price their local manufactured products to be competitive with fuel imports from our regional market, Asia. We report two crude markets: the Tapis crude oil market, which is Malaysian crude, and the dated Brent crude market, which is really the global standard for crude pricing, as well as the refined product price, which is called MOPS95. That stands for mean of Platts Singapore. Everything keys off that Singaporean price under an import parity price, IPP, basis.

The import parity price, or the landed cost of refined fuel to import terminals around Australia, includes the refinery benchmark of the fuel; the quality premium for Australian fuel quality standards, which differ slightly from those specified in Singapore; freight; the exchange rate; and wharfage and insurance and loss costs. This is all in a lot of detail on the AIP website, where you will find a lot of fact sheets and other material.

The wholesale cost, known as the terminal gate price, is typically the import parity price as well as wholesaling costs to store and handle the fuel once it arrives in Australia and prior to its distribution to the domestic market. That is important for the Canberra context. TGPs will also include taxes, fuel excise, GST and a small wholesale profit margin. While excise is fixed, the GST will move up and down commensurate with the price of fuel, obviously. The wholesale price typically represents, as I said, 85 to 90 per cent of the final price paid by consumers, the retail price.

A very important characteristic, which we persuaded the ACCC of, is the lags within the fuel market. This applies particularly to regional pricing. There are typically one to two weeks lag between the mean of Platts Singapore price changes and local TGP changes. Then there are a range of lags of changes in TGP prices out to regional areas. We will no doubt take some questioning on that.

One thing we always try to get committees to understand is that there is no point in looking at point estimates in the pricing system. You need to look at it over time. But there is a very high correlation, and this is detailed in our pricing report, between the international price and the wholesale price. We report TGPs across Australia on a daily basis. The reporting of TGP is also required by the federal oil code legislation. Canberra's retail prices are most closely linked to Sydney TGPs. We also publish a range of average fuel prices: weekly average, monthly average and that sort of thing.

Retail prices include the TGP as well as all the costs of getting the fuel from the terminal to the motorist. Most of the fuel in Australia is now delivered ex-terminal directly to site but there is still a remaining depot network, largely in remoter areas. You will know that out at Fyshwick, next to Harvey Norman, you have the three old terminals that were the Canberra distribution system and Hill petroleum, which is now an ExxonMobil distributor. But all the fuel in Canberra is delivered directly from the Sydney terminals in Banksmeadow and Parramatta.

Mr Gniel: Predominantly.

Mr Barrett: Predominantly. Occasionally, if there are supply issues, it will come from Victoria—but very occasionally. The ACCC has consistently found that fuel prices are generally higher and more stable in regional locations compared to metro areas due to four key factors: lower fuel volumes sold by the regional retailers, the market's location and population, lower convenience store sales and a lower level of local competition. The influence of these factors varies greatly between locations, leading to material differences in retail prices between regional areas. There are also, as I mentioned, differing lags to retail prices, as there are with international prices.

As you have heard throughout these hearings, the ACT fuel market is influenced by all these factors to varying degrees. Furthermore, there are a range of additional unique factors in Canberra that also influence retail pricing. There is the dispersed location of petrol stations, the majority of which are away from major routes. I was reflecting on this. When I was a kid growing up in Mawson every suburb in the Woden Valley had a service station. Now you really just have Mawson and Phillip. The market has changed very much.

There are very few clustered and collocated sites. We have also seen development and planning challenges and limited opportunities for sites to be constructed in Canberra. I personally have been extraordinarily surprised that the service station site at Molonglo has taken so long to be developed. It seems like we have been talking about it for 10 years. I might be wrong about that, but that is what it feels like.

MR PARTON: Close to it.

Mr Barrett: Close to it, is it? Yes, okay. There are greater transport and distribution costs. Ultimately, this is our key message. There is no single factor that fully explains the local market prices or the differences. We also, as I said, highlight the dangers of conducting analysis or providing price comparisons at a specific point in time.

A further confusing factor—and I think this is something that you guys will grapple with, because everyone else has—is the existence of price cycles in the capital cities. They differ across the capital cities, both in length and amplitude. We argue that they are symptomatic of an ultra-competitive market. The absence of price cycles means there is, by definition, in our view, less competition in that market, but it does not mean that there is no competition or insufficient competition in that marketplace.

The nature of the cycle is such that there have been many times when Canberra prices have been cheaper than Sydney and other times when prices have been higher. If you look on the front of the pricing report from last week, you will see that there was a 2c difference between Sydney and Canberra, but at least Perth and Hobart, for example, were considerably higher than Canberra.

You will also see that there are significant daily differences within and across Canberra. We expect to answer some questions about this from you about the ICRC report, which treated Sydney as a homogenous market, which it is certainly not; it is a series of subregional markets—all the capital cities are. Probably the only one that approaches a homogenous market is Melbourne, because it is one big, flat bowl. You can basically get out and see the prices quite easily.

Many areas have prices aligned with Canberra, despite the differences in transport costs. As we caution, it important to look at that trend. Again, this is why we provide market information and fact sheets: to best equip consumers in their purchasing decisions. I and my colleague are happy to take any questions of any nature that you care to ask us.

THE CHAIR: Thank you for that. Taking your point about looking at trends and prices over time, we received some information from OPIS last week or the week before about what happened in the six-month period to the end of last year with the terminal gate price: that it was climbing up until the end of October and then fell very sharply.

Mr Barrett: Yes.

THE CHAIR: The Sydney prices also fell very sharply at the same time. There was a delay of a few days, but then it fell sharply. In Canberra they stayed steady for about another month and then started to decline, but there was nowhere near the sharp decline experienced in Sydney. Are you able to help enlighten us?

Mr Barrett: I will talk about some general factors. Broadly, what you describe is the lived experience. I did a lot of media around this at the time. A lot of the anomalies that happen in the pricing system happen when there are rapid changes in international prices. Yes, we did see quite a dramatic increase. We had reports at the time of record retail margins across Australia.

We are in the process of analysing that. It goes to a couple of problems that we are having with the ACCC around the analysis they are doing here, particularly that commentary of record retail margins, which we believe is really a data anomaly caused by the lags in the system. So MOPS went up. It took one to two weeks to translate into TGP, but over the same time you also had that lift because of the basic wholesale structure and then you had a lift in the price cycle as well. That is what gave us those so-called record prices. I cannot answer specifically about the month and the timing around TGP not translating into Canberra retail prices, but I can say that there is a lag of about two weeks or so for the TGP prices in Canberra. That is correct?

Mr Gniel: Two to three weeks, yes.

Mr Barrett: Two to three weeks. A month seems a bit long to me. I would probably have to look at the data and see what the data is telling me.

THE CHAIR: Would you be able to do that for us?

Mr Barrett: Yes, sure.

THE CHAIR: I am happy to send you this, but I suspect you have it.

Mr Barrett: Yes. Everything we do is based on "it is what it is; let's get the data, agree the data and see what explanations we can come up with for that behaviour". Yes, happy to do that. Pete?

Mr Gniel: Yes, I will chase that up. To illustrate: as that global price goes up and there is the price cycle in those other markets, particularly Sydney in this case, you get this massive widening. But what we had in that period, from recollection, is that it then tipped—the price cycle went the other way. If you look at the charts on that, you see that it then almost went into negative margins. Meanwhile, Canberra is running effectively straight through the middle of that and taking away a lot of that volatility.

As I think you have heard repeatedly, you get some benefit that goes with the price level, depending on whether you are at the bottom of the cycle and whether you are not. For Canberra, it is sort of going straight through the middle of it. I have had people say, "We would love to have the cycle," and I have had people say to me, "I hate the cycle. We just want stability in prices."

Mr Barrett: I suspect that there would have been a similar experience in Canberra to other regional areas. I do not know that and I will have a look at that as well.

MR PARTON: It is difficult to get away from a perception when we look at that graph, which I know you do not have in front of you. When you look at the lag in the fall of prices here as compared to the more competitive markets, it is difficult to get away from the perception that the reason for our lag is that the market is not as competitive and it is not as price sensitive, which probably go hand in hand.

Mr Barrett: We came to a conclusion in the econometric work that we did. We sought to have a common-sense explanation. We got the data. We got a consultant here in Canberra to run it for us and actually prove that there was a lag in the regional areas. We then asked that guy to posit a couple of explanations for why that may be.

Certainly for the really far-flung regional areas, it was cost plus pricing. The volumes were a lot lower in those areas. This person has bought a load of fuel at a very high price and they are not going to bring down their price until they have got rid of all that fuel that they bought at a very high price.

Sydney sites will turn over daily; they will get daily deliveries. The sites in regional areas will go three or four weeks sometimes, even longer. The proof is in the pudding on that one. When we do fuel quality standards changes, to ensure that every drop of fuel in the marketplace is turned over so that there is no older fuel, we allow for a minimum of a three-month window.

MR PARTON: Really?

Mr Barrett: When we went to 10ppm sulphur diesel, we changed it three months beforehand. There is a little difference between gasoline and diesel, but that is pretty much our standard operating procedure for changes in fuel standards.

MR PARTON: Yet when it comes to volume, it has been interesting. People have suggested to us, "Oh yeah, it's Canberra's higher prices because you're selling lower volumes," but I am sure it was Caltex that conceded to us that the volumes at the Canberra outlets are quite high and that, when you do a straight—and I know this does not always translate to volumes—per capita per service station analysis, based on that pure number, there should be higher volumes in Canberra than in Sydney. We have more consumers per capita of service station than is the case in Sydney.

Mr Gniel: I have seen what ICRC have said in their report. I obviously have not gone through it in enough detail. But, yes, they have looked at the volumes and they think they are relatively high.

MR PARTON: It is difficult for the wider city to move away from the perception that it is not a competitive market, it is not all that price sensitive, that we are just being gouged and that this is basically business doing what business does: "I've got a business, and if I've a product and I want to sell it, I'll sell it for the highest price that I can possibly get for it." Why would you not do that if you were selling petrol?

Mr Gniel: It is obviously an open market; why wouldn't you? It is all of these factors combined. The ICRC have put together a 100-page or thereabouts report. They have highlighted that there are a whole range of different models. This is not just within the ACT but also the surrounding towns. They have done a homogenous version of Sydney; they have tried to do that.

They have shown that, yes, okay, there are potentially higher volumes in Canberra. Again, they are taking that across the market, not every site. But, at the same time, the ACT seems to do significantly lower sales in the convenience side. On the fuel side that essentially means that you have to have this delicate balancing act between ensuring that you are getting sufficient volume, because you have got a much narrower revenue stream than perhaps some of the ones around you, but not setting your price too high so that you then lose your volume.

We know that gasoline in Australia is pretty flat. Demand is not really competitive, so you are all effectively trying to compete for that same volume. They then say, "If you look at all of those surrounding towns, we are talking somewhere between 1c and 1.7c, in terms of the difference of the net margin as they have applied it."

MR WALL: Yes, it is 80 per cent of the 1.7c.

Mr Gniel: Eighty per cent of that. But the ICRC also says that it is highly volatile in terms of that. That is largely going to be down to this difference between the retail, the convenience sale if you like, and the fuel sale. It is a really delicate balancing act. You have these different models, all essentially trying to do the same thing of balancing those things out. To end up within about a cent is not really the wild swings that I think people are suggesting.

Mr Barrett: There are another couple of things in addition to that about what the ICRC did or did not do: they did not consider the discount offerings. I think this committee heard from Costco that certainly they were cross-subsidising their fuel offer out of the store. There are some explanations for isolated incidents, I guess. They said something about Metro too.

Mr Gniel: It might be 6c or thereabouts, from memory.

Mr Barrett: There are offers of cheaper fuel out there. People do not seem to be availing themselves of it. There are price apps and all that sort of stuff. We have never supported the public apps because we think that the market is well provided for by private sector providers. MotorMouth is mainly in Canberra, but there are others called GasBuddy and Petrol Spy. There are a range of others.

MR PARTON: There are some holes in them, though, aren't there? You mentioned MotorMouth.

Mr Barrett: There are indeed. The companies have done some research. How many people are price sensitive? We figure it is about 20 per cent. That amount becomes more volatile over time, depending on where the price point is. We have hypothesised that people buy petrol on a budget basis, so they will allocate money: "I'm going to spend $100 a week and that's it." When I start going, "Christ, it's at $1.60!" and I know I will be using 60 litres of fuel a week or whatever I will be using, I really look around for a cheaper price or—we saw this when the price went really high—people, even though their cars still require premium, will drop back to unleaded petrol again. The grade shifting in this is also important.

MR WALL: Mr Barrett, I want to touch on a comment you made earlier that there are a variety of ownership structures or operating structures that provide competition in the market, from company owned and operated franchises to licensed sites and the like. How do you respond to the statement that, whilst there might be competition in the ownership structures, when the prices are set centrally, as they are for most brands—we had Viva earlier in today and 7-Eleven just prior to you, who also centrally set prices—despite the diversity of ownership structures, there are really only a few players as far as pricing goes.

Mr Barrett: Caltex are transitioning out of their franchise model. As far as I am aware, in a lot of the franchise agreements Caltex had, it was the site owner who had the responsibility. That is changing because of the wage theft issues that Caltex was subjected to by some rogue operators. In Viva's case, they are also transitioning from Coles setting the price to Viva setting the price.

MR WALL: Yes, but does that not then reduce competition? Wouldn't fewer price setters—one per brand, essentially, as opposed to the individual site level—result in a reduction in competition?

Mr Barrett: This is the great debate about whether independents do or do not lead to lower prices. The explanation has been put forward that not as many independents means higher prices. The observed counterfactual to that is that Hobart has a greater number of independents and it has higher prices.

MR PARTON: Why? What is going on in Hobart?

Mr Gniel: Darwin.

Mr Barrett: Darwin.

Mr Gniel: The Northern Territory has something like 75 per cent of the market—the independents.

MR WALL: I was going to ask about that. In here it shows the terminal gate prices. The terminal gate price in those two cities is phenomenally higher than it is in Sydney. Geographically, Darwin in particular is much closer to the source of origin.

Mr Barrett: The margins are higher in Hobart and Darwin, for much the same reasons as we have explained here for Canberra.

MR WALL: Is it because the fixed costs are so high and the volumes are smaller?

Mr Barrett: Yes. That is one of the contributing factors.

MR WALL: Yes, okay.

Mr Gniel: Again, you can never try to pin it down to one factor. There are all of these things. I know I sound a bit like a broken record.

MR WALL: No, no.

Mr Gniel: It really is. The local market factors are really important. One company might be setting the price across a number of sites, but it is competing against those other brands in those local markets. You have seen the ICRC show that there are differences in north Canberra, Gungahlin and Tuggeranong. All of these sites operate effectively as individual businesses, albeit under a brand. But if they are not viable in their own right and they are not maintaining sufficient volumes then they are not going to be competitive and they will not survive. Paul referred to the ACT, where we had lots and lots of little sites in suburban pockets that were not sustainable. It is that viability question. You cannot say, “That’s a Coles site,” or “That’s a Caltex site,” and assume they are all the same. They all operate with their own different dynamics.

MR WALL: So you have to draw a circle around the geographic area?

Mr Gniel: It depends.

Mr Barrett: I am loathe to do argument by anecdote, but because we both live in Canberra I will. I will break my rule. My deputy lives in Chapman. He regularly curses the fact that he is subject to the Cooleman Court service station.

MR WALL: The sole station in the region?

Mr Barrett: Yes, the only station in the creek, whereas we used to have Holder, Fisher and Chapman.

Mr Gniel: Waramanga had one. Every suburb had one.

Mr Barrett: Yes. We have gone from seven or eight servos down to one service station, so people have to leave the creek to get their fuel if they want an alternative. We thought it would be considered very much a priority for the ACT government to get that Molonglo site up and running quickly.

MR PARTON: I am fascinated with the whole Hobart thing and the fact that there is such a proliferation of independents that are not doing what we instantly think independents will do. Is it just that it is one thing to be an independent but it is another to be a price-leading independent and they just have different business models?

Mr Barrett: Each of these businesses have different strategies, and this is what drives the price cycle. Volume drives the price cycle. The ACCC did a study on price cycles last year, but the last time we had a big public discussion about it was when the Rudd government tried to bring in a system very similar to the Western Australian FuelWatch system, where you have to post your prices the day before and you are then not allowed to change them. We argued that because you lacked intraday competition it would be less advantageous to the public to have that system. Then it was battles of experts and everyone lawyered up with econometricians. We had Sinclair Davidson concluding that Perth prices were actually a cent and a half higher because of their regulation.

MR PARTON: And yet they were adamant in their discussion with us that they could point to a number of independent outlets that would not be in existence and would be swallowed up without FuelWatch.

Mr Barrett: Yes, I know.

Mr Gniel: I do not think we would be in a position to argue with them. I guess the point is that there are differing fuel offerings; there are different prices in the market. The beauty of Canberra is that everybody knows where they are. In the case of Perth it is a much bigger market and the opportunities are available to purchase that fuel.

MR PARTON: You guys mentioned MotorMouth. United at Kambah is always the cheapest in Tuggeranong but is not on MotorMouth.

Mr Gniel: Yes, but they have the opportunity. You would obviously have to talk to MotorMouth—I guess you have. I do not know if you put that question to them.

THE CHAIR: No, they were the first witnesses who appeared, so we have learnt a lot since.

Mr Gniel: Yes. We know they have commercial arrangements with some companies, but they also have the capacity for anybody who wants to upload their prices into MotorMouth to do so. We had the Victorian regional pricing review 18 months to two years ago, and there was pretty strong advocacy from all of the independents that they did not want their prices published.

MR PARTON: Really?

Mr Gniel: Yes, it was really interesting. I guess they see their advantage is to have that nimbleness to be able to move if they see an opportunity. It is certainly worth having a conversation with those guys as to why.

Mr Barrett: When we had the debate in New South Wales about a government-provided price mechanism, we said it was not necessary and we objected to spending $20 million on a Victor Dominello vanity project. However, once we spent the money and we systemised it all, we went, "Oh, well, we may as well have it." When Queensland came along and wanted to do their own government one we said, "Be sure you learn the mistakes from New South Wales. Please use existing data." They did and we just went, "Okay. Fair enough."

Mr Gniel: Yes, and that seems to be functioning pretty well. Obviously it has only been running for six months, but to announce it and get it up and running in three months and for it to have been effectively pretty solid by Easter I think is a pretty good effort.

Mr Barrett: New South Wales claims there has been some difference in pricing behaviour. I am not so sure about that. We have not reviewed it as yet; I am sure at some point we will. But we argue there would not be any appreciable difference. In fact, Griffith University said it actually went backwards in terms of the pricing.

Mr Gniel: Yes. Griffith University said there was probably equal or marginal benefit in metro areas but that in regional areas the price went a little bit higher, if anything. This was one of the things that Queensland had to think about because that was going to be an even bigger issue beyond the south-east corner in Queensland than it was here. The question for the ACT is: is there sufficient scale versus the cost, particularly to government, of setting up such a scheme, and if you were to roll into New South Wales how would you go about doing that?

THE CHAIR: Did companies pass on the costs of setting up the New South Wales scheme to consumers?

Mr Barrett: In the scheme of things it was fairly minor but, again, we do not like having people interfere in our market when we do not see any benefit to our customers. I would have to answer yes, but the cost was infinitesimal compared to the overall cost of running the system.

Mr Gniel: I think there was a bit of cost in New South Wales because it was new. There was a real battle around how real is real time. It will cost you a lot more to try and get closer and closer and closer to real-time changes. Our member companies are fiercely protective of their brands and their reputation. They want to know that if they are posting a price and that price has been posted somewhere it actually is the price. In Queensland—again, lived experience—it was a little bit easier to do that transition. Queensland adopted a model where they understood how it was reported. Where you have existing systems it is not so bad.

It gets really difficult with older service stations where you do not necessarily have the same kinds of electronic price boards and so forth. You have to line up changes on the board with changes at the bowser to make sure customers are not disadvantaged. When you add a third element—the online reporting—that can have some challenges to make sure you get that timing right. We do not want customers seeing one price and—

MR WALL: How have they structured it in New South Wales? Is there an order sequence, be it price board, website, pump or the other way around?

Mr Gniel: I think we would have to go away and confirm with the companies. But there is something specific about when you change the board—

Mr Barrett: I am pretty sure some sort of guideline is issued by Fair Trading to say how you go about it.

MR WALL: So board first if it is going up, and bowser first if it is going down?

Mr Barrett: Yes, something like that.

MR WALL: What is the time lag they are operating on currently?

Mr Gniel: We aim for 15—

Mr Barrett: It has improved substantially from the start. Originally, because it was centrally collected and we wanted to minimise costs, obviously, we wanted to do it and just feed it into a central data feed.

Mr Gniel: Yes.

Mr Barrett: It was about 45 minutes. That was the original one. Since then we have further systemised it and we are aiming for 15 minutes.

Mr Gniel: Fifteen minutes, yes. Then again, Queensland had recognised that you are going to get potential breaks in the system; so if you can achieve it within 30 minutes, that is considered to be real time.

THE CHAIR: Does that then impact, with the New South Wales scheme, on intraday trading? I think that when the NRMA appeared before us, they really pushed the New South Wales scheme because of intraday trading and allowing the companies to remain competitive—if they looked around and said, “We have stuffed up the price today.”

Mr Barrett: Yes.

THE CHAIR: They said that that is a benefit compared to the WA scheme. We have heard from people who have appeared today that they feel they are effectively locked out of business for 24 hours. But when we went to WA they said, “We have been looking at the New South Wales scheme and there actually is not much intraday trading at all.” Is that your experience and do you think the amount of intraday trading has changed in New South Wales? In different markets is there more intraday trading than in others? What is happening in New South Wales?

Mr Barrett: I will start and then you come in.

Mr Gniel: All right.

Mr Barrett: This is a very interesting story. When the Informed Sources-ACCC undertaking was done with Coles and Woolworths, we had a very close look at all the Informed Sources data and the nature of each of the cycles within each of the capital cities. They are very, very different. The Sydney cycle was about 1½ weeks at that stage. It is now about three. Its length and amplitude have gone up.

What that means in net terms we are not quite sure yet because we have not sat down and analysed it. But you see behaviour within the price cycle where somebody will attempt lift somewhere in the cycle and people will not follow. They will leave it for a couple of hours. They will see it go up. It is a pretty immediate impact; right? They go, “There’s no-one on the forecourt,” or “What’s going on?” They will dial up the app and see that no-one has followed. So they will drop their price back down again.

MR WALL: It is a bit of a fishing expedition.

Mr Barrett: You see that quite frequently, actually, where people are trying to test, to break out of the cycle. Really, when it gets to the bottom they are losing money on every drop of fuel they are selling. Also, people recognise that the cycle is going to go up, so they start rushing to the cheaper fuel that they are effectively getting for below cost. So that is what brings the cycle to an end. People just shoot it up.

It also happens that that higher point will move around as well, particularly if you also have underlying wholesale movements occurring within the market. So it will not go up plus 14. If you have had the TGP go up, it will not go up—if the regular is plus 14, it may go up plus 18 in anticipation of that TPG coming through, and a new cycle will be created. It is not as regular as people think it is. It is pretty regular and that accords with economic theory and Edgeworth cycles. But there are variations over the cycle.

Mr Gniel: Essentially, I was going to say that I wish I had enough time in the day to monitor daily pricing, but we do not, unfortunately. I guess the short answer is, yes, you do see it play out in the cycle. Whether it happens as much in a market like Canberra—

MR PARTON: That is the thing. We can talk all we like transparency, apps, real time and everything else—

Mr Gniel: Yes.

MR PARTON: but unless there is another price disrupter somewhere in our market—for example, Costco—is there any point?

Mr Gniel: Maybe, but again you have to come to this whole overall market volume question. There has to be available volume, available demand, in the market. You can say, "I am going to set up a site." But what sort of site are you going to set up? Where are you going to set that up, because they are going to have to steal volume.

MR PARTON: Yes.

Mr Gniel: You may get a benefit. For example, you might set something up in Gungahlin. But it may have an impact elsewhere. It might be that the volume is just not there. That is why big markets like Sydney and whatever are able to have that. It is because there is sufficient volume across the market. But there is no doubt; sites shut down in Sydney and so forth all the time. We are talking about, what, 58 sites in Canberra? Doing it on a percentage basis of adding another site, I do not know how that plays out.

MR WALL: One site is a two per cent increase, which is a reasonable dilution.

Mr Gniel: That is right, yes. And it is not a cheap place. Land is not cheap in Canberra. If you are going to invest, you have to have sufficient confidence that you are going to be able to capture that volume, sustain it and get a reasonable rate of return. Each one of those is a little bit competitive within themselves for the business.

I go back to that point about the ICRC report. I think it did a really good job of highlighting all of the factors but also recognising that there is just so much complexity in all of these models and in all of the local markets. It is very difficult to say, "We think it is competition, but we do not really know."

MR PARTON: Honest assessment: do you think this inquiry is a bit of an over-reaction? Do you think that the market in Canberra is relatively well served? I do not know.

Mr Barrett: We believe it is competitive. It is not as competitive as some capital city markets, that is for sure. But that is a feature of regional markets. I would also make the point that this is a pretty dynamic marketplace. You have a whole bunch of disruption just around the corner. With the fall over of the BP acquisition and of Woolworths, you now have Euro Garage coming in and taking over the Woolworths sites. They have a very different business model than really we have ever seen here in

Australia. Caltex has tried. It has gone on the convenience route, as has BP. But they have taken it to a whole other level in Europe and Britain.

Their behaviour in the marketplace is going to be interesting. As I mentioned, Caltex are in the throes of transition. You would have heard this from Caltex. They are essentially subsuming all their franchisees because of those wage theft issues by those franchisees. I know, having had long chats to Julian Segal, the managing director, that he was absolutely furious about it. That is why they have taken the actions they have.

You have the realignment of the Viva-Coles relationship. The pricing now becomes Viva's domain. We even have United coming into Canberra. That Caltex station was a Caltex franchisee, from memory. I am pretty sure it was. So it is a very dynamic market and there are a number of developments.

MR WALL: There was a swap for another site with United. Caltex has turned into a United and the United has turned into a Caltex.

Mr Barrett: Right.

MR PARTON: Is that the Kambah one? That was a Woolworths Caltex.

MR WALL: Kambah was a Caltex and Fyshwick was a United and now is a Caltex.

MR PARTON: It was weird.

MR WALL: Yes, weird.

Mr Gniel: I guess the other thing I would add in answer to your question is that while it may be uncomfortable for some of us to be sitting here having a conservation, anything that gets more information out to people to actually understand it and to understand that it is a very complex business and a competitive business, I think is a good thing.

Mr Barrett: We accept it as a fact of life. It takes up a fair bit of our time from time to time. It is not really pleasant being screamed at in the media, I must say. Having to do a lot of media for days on end is rather inconvenient, but that is the nature of this job. That is the nature of this market. People are extremely sensitive about fuel pricing. Worldwide they are sensitive about fuel pricing, but we here in Australia have turned it into a national sport.

MR WALL: I think it is also one of the few commodities that we buy that is largely determined by international prices and it fluctuates on a daily basis when we have to buy it, which is a source of confusion for most people. If bread and milk did the same, I think we would have the same discussion about them.

Mr Gniel: Yes, if you had a big 20-foot-high sign out the front of the supermarket flashing your daily changing price, I imagine that it would be a very different discussion. But fuel, nobody gets excited about fuel. They have to get it to get somewhere. I do not mean that anyone gets excited about milk, bottles of water or—

Mr Barrett: It is a grudge purchase, right.

Mr Gniel: Yes, but we get it. So anything that helps in getting that information out—look, we do our best to get as much information out there as we can, as you have seen. It was really interesting. You probably saw the group that emerged out of Queensland around fuel. They called it a fuel strike, which has then become fuel freedom fighters or something like that.

MR WALL: Is this the boycott?

Mr Gniel: Yes, it was. It was quite hot for quite a while. It still lives on. But one of the members got really excited. They found a whole bunch of pricing data that showed prices in regions, what was happening globally and whatever. They were pointing to our site. I thought, "Excellent! We are doing something right."

Mr Barrett: About 18 months ago, two years ago, we took it to a new level. There are interactive graphs. There is all sorts of stuff on the site to make it more user friendly. We are doing our level best to aid transparency. Certainly, it is not real-time pricing or anything else but it is there for everyone to see what has happened. They can draw their own conclusions about such things as whether markets are competitive.

THE CHAIR: We heard from 7-Eleven. I think they said in their submission that fuel in the ACT requires certain additives to it to stop it from freezing and that that is quite expensive?

MR WALL: Yes.

THE CHAIR: Did they say that it adds something like 10c?

MR WALL: They were suggesting that the cost of additives could be as high as in the realm of 10c a litre.

THE CHAIR: Is that true?

Mr Barrett: Yes. There are two aspects to that. One is that general diesel sales will require a cold flow additive. That is just in general elevated areas in Australia in winter—so anything that goes to zero or below—because at those temperatures the diesel will wax and will not be operable. I always tell the story that on the property we used to have pull the tractor out in the sun and leave it sitting there until about 11 o'clock so that the waxing would melt again. So the cold flow additives will be required.

We had an issue with alpine diesel. That is a whole other thing. These additives are only effective down to about minus 10, from memory. Don't hold me to that, but it is about that level. Then you have to go to a whole other additive. I could not tell you offhand what the cost was. We used to cut it with heating oil, but we were supplying that under a waiver from the department of the environment. But we decided that that was not a good policy and also we were getting some freezing, some waxing, in Cooma, so we moved to an alpine additive. I have no reason to doubt that it would be considerable, because you have to mix it in at fairly high dose rates.

MR WALL: But as far as standard petroleum goes, there is not—

Mr Barrett: There are additives.

MR WALL: I guess the additives are more of the cleaning type.

Mr Barrett: They are added in at generally less than one per cent, typically. I do not want to be held to that sort of a number because it just depends.

MR WALL: No, that is fine.

Mr Barrett: All your premium products will have detergents in them. Do you know the little BP piranha ads? That is what that is referring to. But diesel will generally have cold flow additive in it in winter time just because of the supply chain. It is not segregated. We have had this issue in Queensland. We said to them that we had cold flow issues with some of the biodiesel up there. They responded, "What do you mean? We are down on the coast." We go, "Hang on a minute; Queensland is a little bigger than just down on the coast. Up in Toowoomba you will get waxing."

MR WALL: What you are saying is that that particular additive would not necessarily create a distortion in the Canberra market because it is an additive across the board.

Mr Gniel: No, it is not.

Mr Barrett: There are two cases here. One is winter grade normal diesel and the other one is alpine diesel.

MR WALL: But the winter grade diesel would be supplied from the terminal.

Mr Barrett: Yes.

MR WALL: So whether you are in Sydney, Tamworth or here, you would be getting it.

Mr Gniel: It is how it gets blended, though.

Mr Barrett: The additive will be injected at the gantry at the terminal.

MR WALL: As it is loaded into the truck?

Mr Gniel: Yes, and then that tanker will go off to market. Essentially, they have a pool of tanks. As the tanker sits in, it comes under the gantry. As they load, they inject, in line into that tanker. It is then fit for purpose for the market that it is servicing. It would be worth going to a terminal and having a look; industrial tourism.

Mr Barrett: We were going to do this later in the day, but if you wish to see a refinery—probably you would have to go to Melbourne for that; there are no refineries in Sydney anymore—or you wish to tour a terminal and see the operation of it, we are more than happy to arrange it.

MR PARTON: I reckon we probably would have.

MR WALL: We were in Melbourne just a couple of weeks ago.

MR PARTON: Yes, but I cannot see it now.

THE CHAIR: No, we probably spent our travel budget when we went to Perth, but it was via Melbourne, which was incredibly useful. We got things out of it that we never would have got, but it was expensive.

Mr Barrett: For gasoline too, there are also summer and winter grade gasolines.

THE CHAIR: Okay.

Mr Barrett: What that does allow you to do is to blend more of the volatile product in wintertime. You can blend more of the volatile products into it because you will not get the evaporative emissions that you get in summertime.

MR WALL: It would be remiss of us not to ask for the institute's perspective on the Chief Minister's comments from yesterday in terms of the ICRC's report and whether or not a retail margin regulation needs to be brought in.

Mr Barrett: It would probably come as no surprise to you that we do not support regulation of the retail market.

MR PARTON: No way—really?

Mr Barrett: In fact, I have spent the last 20 years removing what was actually there. People do not readily recognise that we had pricing regulation in Australia for petrol under the good old prices justification tribunal. We also had various state-based regulation as well. Victoria had a thing called a landed import parity price. It did not require you to actually match that price. But the way it was legislated was that it gave the minister some powers to ask a lot of follow-up questions and generally make your life quite painful.

The market was fully deregulated, from a commonwealth point of view, in 1988. We had the oil code come in in 2005. It took us another couple of years to clean up all the price regulation that was sitting in state governments in various bits of legislation. Other than the oil code, which only requires us to publish the TPG, that is the probably the only price regulation. That is not really price regulation at all.

MR WALL: Price transparency, I guess.

Mr Barrett: Yes. We do not support price regulation. Our experience with it globally is that it has a lot of unintended consequences. We think the best outcome for people who believe that they have competition issues is to address those directly with whatever it is that is causing those competition issues. In Darwin they believed that there was not enough diversity in the marketplace, enough volume of sellers. So they set aside a piece of land. They ended up putting it out to tender. I cannot remember who they ended up getting in there. That is how they addressed it.

MR WALL: Yes.

MR PARTON: And was that successful?

Mr Barrett: We have not analysed it. It was for a while. Certainly, we saw Darwin prices go down. I do not know whether that is still the case.

Mr Gniel: The ACCC, in one of their regional reports, suggested the attraction of a site. I think in Cairns, it introduced some change in price. But whether that has been long term and sustained, I do not know. Again, it is that whole question of bringing someone in; they are going to compete vigorously for volume, establish the volume and then say, "Now I have got to actually get a return."

Mr Barrett: Yes, because you have to ask yourself the question, as here in Canberra: will one site really change the structure of the marketplace? That is a question for policymakers to grapple with, not me.

MR WALL: I guess the airport example shows it does when they are open but only for those across the road.

Mr Gniel: Yes, but also if you are a member. You have to remember, it is not a public site.

MR WALL: There is a $60 barrier.

Mr Gniel: It is pay to play. As you have heard, it is heavily cross-subsidised, and the ACCC has not allowed any of the other players in the market to do any kind of cross-subsidising.

MR WALL: It is happening at a smaller level with the convenience offerings in most stations, but Costco is just doing it on much grander scale with a full-line supermarket as opposed to Cokes and Magnums.

Mr Gniel: That is right.

Mr Barrett: So by unintended consequences you could see some sort of price regulation very much advantaging those with a big convenience offer. These things are notoriously hard to get right.

Mr Gniel: The convenience one is a real challenge in Canberra compared to some of the surrounding towns. We all know that in Canberra you can bomb into the service station, fill up and your supermarket or whatever is either straight across the road or it takes you another minute to get to.

MR WALL: Drive off the forecourt, go around the corner and you are in the Woolworths car park.

Mr Gniel: Yes, whereas in somewhere like Sydney I have to take on Parramatta Road, or whatever it is, so that dynamic is really different. If you think about the coast or any of the highway sites where you are going somewhere, you are going to stop and you are going to get whatever you need.

Mr Barrett: The kids are hassling you.

Mr Gniel: Yes they are. This is why it all plays out a little bit differently. Canberra is unique like that. That is why I love it.

Mr Barrett: But it does have the same characteristics as other regional markets, so it is not a wild outlier by any means.

THE CHAIR: Thank you very much for appearing today. We gave you a little bit of homework for us in terms of that market analysis, which will be fantastic and very helpful. Generally we require responses to what you have taken on notice within five days of receiving the proof transcript, and that will be a few days away. We will now adjourn the hearing.

The committee adjourned at 4.07 pm.